

Armour Energy Limited

11 September 2015

Binding Agreements Signed with American Energy for Upsized US\$130m Farm-out

9.9% Placement to American Energy at A\$0.20 per Share for A\$6.74m Additional Cash Payments of up to US\$23m to Armour

The Directors of Armour Energy Limited (Armour, the Company, ASX: AJQ) are pleased to announce that definitive binding agreements have now been signed with an Australian affiliate of American Energy Partners, LP (“American Energy”), for an expanded farm-out that will accelerate the exploration and development of Armour’s McArthur Basin oil and gas tenements in the Northern Territory of Australia. The binding agreements provide US\$130m in Phase One funding, and assist Armour to access up to US\$130m of debt funding for Phase Two appraisal and development, and provides Armour post-completion cash inflows of A\$39.5m. The Directors of Armour have made the American Energy agreements conditional on Armour shareholder approval.

Highlights:

- **Definitive Binding Agreements for the Letter of Intent announced on 20 August 2015 (“LOI”) executed with American Energy (“American Energy Transaction”).**
- **Farm-out and other terms now improved in the Definitive Binding Agreements:**
 - **21.5 million acres farm-in area now increased to 29.3m acres by addition of EP177 and EP178 (Northern Territory).**
 - **American Energy spend increased from US\$100m to US\$130m on Phase One over a maximum of 5 years for 75% working interest. Armour free carried 100%.**
 - **Cash payment to Armour increased from US\$11m to US\$13m on closing of the Farm-out Agreement with American Energy.**
 - **Armour to receive bonus payments of US\$3m on grant and transfer of interests in EP177 and EP178 to American Energy, in addition to US\$7m on grant of one million acres of production licences, or grant and transfer of farm-in interests in remaining Northern Territory tenements to American Energy.**
 - **Revised options package in Armour of 24 million (12m, 6m, 6m) options exercisable at 25c, 40c and 50c and expiring after 3 years, 5 years and 5 years respectively to be issued to American Energy on closing of the Farm-out Agreement subject to pro-rata adjustment.**
- **American Energy to assist Armour to access up to US\$130m of debt funding for Armour’s share of Phase Two appraisal and development costs.**

- **Placement of 33.7 million new shares at A\$0.20 per share to be made to American Energy, for cash proceeds to Armour of A\$6.74m. Placement to be settled 50% on Armour shareholder approval and 50% on closing of the Farm-out Agreement.**
- **Based on cash at 30 June 2015 of A\$8.5m, and after payments set out above, Armour’s pro-forma cash position would be A\$48.0m (or A\$33.7m before bonus payments) ⁽¹⁾**

Pursuant to the previous non-binding Letter of Intent (“LOI”) announced on 20 August 2015, Armour has today executed binding and definitive agreements with an affiliate of American Energy, based on terms that have been modified since the LOI was signed to increase the scope of the transaction (“Transaction Agreements”). The transaction is expected to accelerate the development of Armour’s Northern Territory tenements, and increases its cash position to fund the production start-up and development of its recently acquired Roma Shelf oil and gas project in the Surat Basin, Queensland.

The Transaction Agreements include Armour Farm-out Agreement, Operating Agreement, Armour Option Deed and Armour Share Subscription Agreement, and are all subject to Armour shareholder approval.

Key terms of the Transaction Agreements include:

- (i) American Energy will farm-in to all of the granted and pending tenements in the NT owned by Armour (as outlined within the blue border in **Figure 1**) (the “Farm-in Tenements”) covering approximately 29.3 million acres (increased from 21.5 million acres as a result of the addition of EP177 and EP178), of Armour’s dominant McArthur Basin tenement position. Armour will retain 100% ownership of all of its tenements in north west Queensland covering 5.1 million acres.
- (ii) American Energy will carry 100% of Armour’s share of expenditure during a single phase work program of US\$130million (increased from US\$100million) (“Phase One”), following which the parties will conduct operations governed by a Joint Operating Agreement .
- (iii) Armour will transfer a 75% working interest and operatorship in the Farm-in Tenements to American Energy, subject to adjustment if the program is not completed. Armour will reclaim operatorship if American Energy does not earn at least a 50.1% interest in the Farm-in Tenements.
- (iv) The design and implementation of the work program will be controlled by American Energy with consultation assistance by Armour, and will be designed to rapidly identify an area with the greatest likelihood of supporting an economic petroleum development over a production area of not less than 1 million acres.
- (v) American Energy will maintain the Farm-in Tenements in good standing.
- (vi) American Energy will pay Armour US\$13million in cash (increased from US\$11million) upon closing of the transaction and a further US\$3million on grant and transfer of interests in EP177 and EP178 to American Energy, in addition to US\$7million upon the earlier of the grant of production licences over at least 1 million acres, or grant and transfer of interests in pending tenements to American Energy (as previously agreed with American Energy in the LOI).

⁽¹⁾ At A\$/US\$ exchange rate of 0.70c

- (vii) Armour has agreed to issue the following unlisted options to American Energy as set out in Table 1, in replacement of the options announced previously on August 20th in the LOI:

Number	Exercise price per share	Option life
12,000,000	25c	3 years
6,000,000	40c	5 years
6,000,000	50c	5 years

Table 1: American Energy Options

The options numbers shall be adjusted upwards and the exercise price downwards on a pro-rata basis for any new issues of dilutive securities up until completion so that American Energy interests and costs remain proportionally the same.

- (viii) American Energy will nominate a Director to be appointed to the Armour Board upon settlement of the second tranche of the share placement.
- (ix) A placement of 33.7 million new ordinary shares at A\$0.20 per share will be made to American Energy, for cash proceeds to Armour of A\$6.74 million. The placement will be settled as to 50% on Armour shareholder approval, and 50% on closing of the Farm-out Agreement.
- (x) American Energy can withdraw in the event that there is a material adverse change prior to closing.
- (xi) American Energy will have control over the design and implementation of the work program while it holds a minimum working interest of 75%, with Armour acting in an advisory capacity in relation to the Phase One work program.
- (xii) Armour will second employees to American Energy to support the effective execution of the work program.

The closure of the **Farm-out Agreement** is subject to:

- FIRB Approval.
- Approval by Armour shareholders.
- Regulatory approval under the NT Petroleum Act.
- Due diligence to be satisfied within 120 days.
- The Australian affiliate of American Energy becoming registered for GST.
- No court orders or Government decisions in place prior to completion which materially affect the Transaction Agreements.
- Assignment of interest in Native Title Agreements to American Energy.
- Entry into the Option Deed and the Share Subscription agreement

Other than the due diligence condition, all other conditions must be satisfied within 180 days.

The closure of the **Armour Share Subscription Agreement** is subject to:

- Approval by Armour shareholders.
- Approval by Armour shareholders of the Armour Farm-out Agreement.

These conditions must be satisfied by 31 October 2015.

The closure of the **Armour Option Deed** is subject to:

- Approval by Armour shareholders.
- Completion of the Armour Farm-out Agreement.

These conditions must be satisfied by 31 October 2015.

Armour now proposes to commence preparation of meeting materials (including an Independent Expert Report) to convene a general meeting of Armour shareholders, to be held by 31 October 2015.

Nick Mather, Armour's Executive Chairman remarked on the agreement with American Energy:

"Armour is delighted to have reached this agreement with American Energy. The agreement provides Armour and its shareholders with the opportunity to take part in the upside in a very exciting and dominant position over an effectively untested Proterozoic frontier basin, the style of which has, in Oman and Russia, yielded billion barrel oil fields and multi trillion cubic feet gas fields. It's extraordinary that the McArthur Basin is not yet covered in wells. American Energy's vast experience and best-in-class capabilities and strategies make them the partner of choice. I'm confident that our shareholders will agree."

Armour Energy CEO, Robbert de Weijer said:

"We are pleased that we've reached this landmark agreement with American Energy. The funding which flows will be pivotal in the recommissioning and development of gas, condensate, LPG and oil resources in Armour's Roma Shelf project, and we fully expect additional discoveries and resource definition on a number of key targets. These projects, together with our project with American Energy, will provide tremendous opportunities for shareholders to partake in rapid growth in Armour."

American Energy CEO, Mr. Aubrey McClendon said:

"American Energy is very excited about this opportunity to work with Armour to develop this highly prospective and dominant position in the Northern Territory's McArthur Basin. Clearly Armour's board and management have a very strong track record in moving large frontier exploration areas into major oil and gas developments, and we are very pleased to become part of this strategy. We look forward to applying what we have learned in unconventional resource development in North America during the past 10 years in Australia, to building a long term project in the McArthur Basin, and to continuing good relationships with all stakeholders in Armour's exciting McArthur Basin project."



On behalf of the Board
Karl Schlobohm
Company Secretary



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About American Energy Partners

American Energy Partners, LP was founded by Aubrey K. McClendon in April 2013 to capitalize on opportunities available in unconventional resource plays in the U.S and internationally.

Previously, Mr McClendon was co-founder, chairman and CEO of Chesapeake Energy Corporation from 1989 until 2013. Under his leadership, Chesapeake grew from a start-up to the 2nd largest producer of natural gas and the 11th largest oil producer in the US. Under McClendon, the company was widely credited with leading the US energy oil and natural gas unconventional resource revolution.

Further information regarding American Energy is available on their website at www.americanenergypartners.com

About Armour Energy

Armour Energy is focused on the discovery and development of world class gas and associated liquids resources in an extensive and recently recognised hydrocarbon province in northern Australia. This region has only recently had its shale potential identified by Armour Energy. The domestic and global demand for gas, combined with the new shale extractive technologies and experienced personnel, provides Armour with an extraordinary opportunity to define and ultimately develop a new liquids rich gas province.

Armour Energy's permit areas are characterised by low population densities, cooperative stakeholders and aspects of the natural environment suited to the exploration and development of a future gas and liquids province. Armour places considerable importance on close liaison with traditional owners and all stakeholders.

Armour Energy is focusing on the exploration of the McArthur, South Nicholson and Georgina Basins in the Northern Territory and Queensland, and in the onshore Gippsland Basin in Victoria in joint venture with Lakes Oil, for gas and associated petroleum liquids.

Further information regarding Armour Energy Limited is available on Armour's website at www.armourenergy.com.au

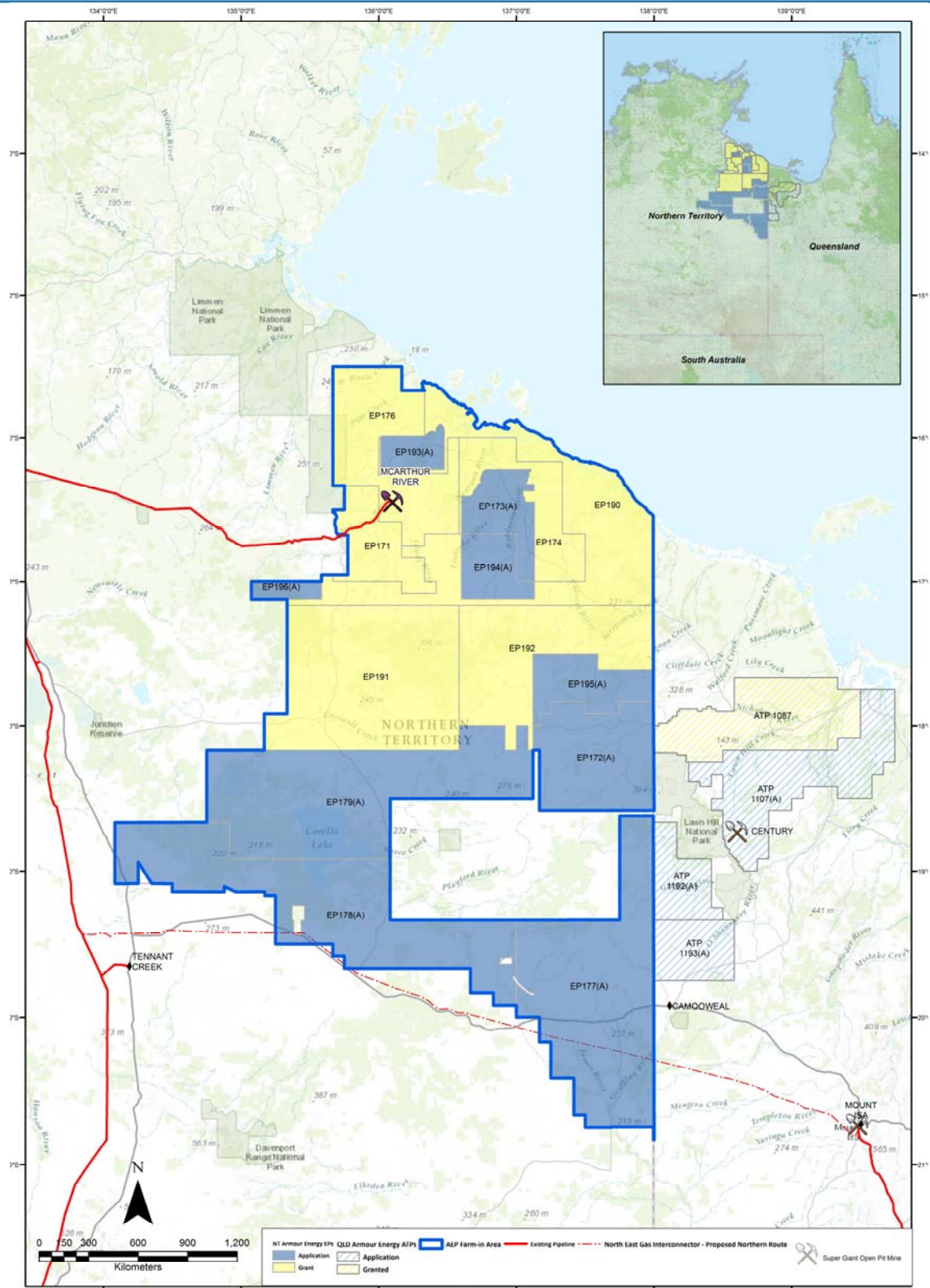


Figure 1: The Northern Territory Farm-in Tenements (granted and pending)