



# TARGET'S STATEMENT

of Armour Energy Limited ACN 141 198 414 in response to the Offer by WestSide Corporation Limited ACN 117 145 516, a Subsidiary of Landbridge Group Co., Ltd, to acquire all of your Shares in Armour Energy Limited

# REJECT

WestSide's Inadequate,  
Unsolicited and Opportunistic

# OFFER

Your Armour Energy Directors unanimously recommend that you **REJECT THE OFFER** by **DOING NOTHING** in relation to any document received from WestSide

**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.**  
It should be read in its entirety.

If you are in doubt about how to deal with this document, you should consult your legal, financial or other professional advisor immediately

Financial Adviser

Legal Adviser

**Morgans** IN ALLIANCE WITH  
 **CIMB**

  
**HopgoodGanim**  
LAWYERS

# IMPORTANT NOTICES

## Nature of this document

This Target's Statement is dated 7 October 2015 and is given under Part 6.5 Division 3 of the Corporations Act by Armour Energy Limited ACN 141 198 414 (**Armour Energy**) in response to the Replacement Bidder's Statement dated 14 September 2015 and Offer dated 22 September 2015 by WestSide Corporation Limited ACN 117 145 516 (**WestSide**) to acquire all of your Shares in Armour Energy.

A copy of this Target's Statement was lodged with ASIC and sent to ASX on 7 October 2015. Neither ASIC, ASX nor any of their officers take any responsibility for the content of this Target's Statement.

This Target's Statement and the Bidder's Statement contain important information. You should read both documents carefully and in their entirety.

## Investment Decision

This Target's Statement does not take into account the individual investment objectives, financial situation and particular needs of each Armour Energy Shareholder. You may wish to seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer for your Armour Energy Shares.

## Shareholder Information

If you have any questions in relation to the Offer, please call Armour Energy's information line on 1300 794 935 for callers within Australia or on +61 1300 794 935 for callers outside Australia. The information line will be open from Monday to Friday between 8.30am to 5.30pm (Sydney time). Announcements relating to the Offer can be obtained from Armour Energy's website [www.armourenergy.com.au](http://www.armourenergy.com.au)

## Interpretation

Terms used in this Target's Statement are defined in Section 19 of this document.

## Forward Looking Statements

This Target's Statement contains certain forward looking statements and statements of current intention. Such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which Armour Energy is involved as well as general economic conditions and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are

both normal and to be expected. None of Armour Energy, any of its officers, or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood in any forward looking statement, and you should not place undue reliance on these statements.

Forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

## Risk Factors

Shareholders should note that there are a number of risks attached to their investment in Armour Energy. Shareholders should also note that there are risks involved in accepting the WestSide Offer. Please refer to Section 11 for further information.

## Foreign Jurisdictions

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

## Maps and Diagrams

Any maps, diagrams, charts, graphs and tables contained in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in maps, diagrams, charts, graphs and tables is based on information available as at the date of this Target's Statement.

## Information about WestSide in this Target's Statement

Except where disclosed in this Target's Statement, the information about WestSide contained in this Target's Statement has been prepared by Armour Energy using publicly available information including the Bidder's Statement, which has not been independently verified. Accordingly, except to the extent required by law, Armour Energy does not assume responsibility for the accuracy or completeness of such information.

## Privacy

Armour Energy has collected your information from the register of Armour Energy Shareholders for the purpose of

providing you with this Target's Statement. The type of information Armour Energy has about you includes your name, contact details and information on your shareholding (as applicable) in Armour Energy. Without this information, Armour Energy would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the Armour Energy Share Registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by Armour Energy, please contact the Armour Energy Share Registry on 1300 554 474 (within Australia), or +61 1300 554 474 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday.

## Competent Persons Statement

Unless stated otherwise, any statements in this Target's Statement regarding reserves and resources are based on information and supporting documents compiled by Mr. Luke Titus, Chief Geologist, Armour Energy Limited. Mr. Titus' qualifications include a Bachelor of Science from Fort Lewis College, Durango, Colorado, USA and he is an active member of AAPG and SPE. He has over 17 years of relevant experience in both conventional and unconventional oil and gas exploration in various international hydrocarbon basins.

Mr. Titus has sufficient experience that is relevant to Armour Energy's reserves and resources to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules. Mr. Titus consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mr Titus:

- (a) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to his name.

Mr Titus confirms that he is not aware of any new information or data that materially affects the information included in this Target's Statement and that all material assumptions and technical parameters underpinning the estimates in the Target's Statement continue to apply and have not materially changed.

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# 4 REASONS TO REJECT THE OFFER

1

## THE OFFER OF A\$0.12 PER SHARE IS INADEQUATE

- The Offer does not reflect the full value of Armour Energy. The Offer Price is below the Independent Expert's range of \$0.22 to \$0.37 per Share,<sup>1</sup> who has declared that the Offer is **Not Fair and Not Reasonable**.
- The proposed equity investment by AEGP at \$0.20 per Share implies both a significant premium to the WestSide Offer Price and a valuation of A\$60.9 million<sup>2</sup> (while Shareholders retain control of Armour Energy, albeit with a reduced, but free carried, interest in the Northern Territory Tenements).
- The Offer was opportunistically timed following the sharp and dramatic fall in global energy prices.<sup>3</sup>
- The Offer does not take into account the 66% increase (34 Tscf to 57 Tscf) in Best Estimate Prospective Recoverable Gas Resources in respect of Armour Energy's northern Australian tenements (please see Section 8.10 for further information).<sup>4</sup>
- The Offer was made prior to Armour Energy's ASX announcement of 2 September 2015 regarding its proposed acquisition of the Roma Shelf Assets, which provides Armour Energy with assets with potential in the near term to produce oil and gas and generate cashflow. The Offer Price does not take into account the potential short and long term value of the Roma Shelf Assets.

2

## ARMOUR ENERGY IS WELL POSITIONED TO DELIVER VALUE TO OUR SHAREHOLDERS

- Armour Energy has a large, attractive, strategic and diverse portfolio of assets with significant growth potential.
- The proposed development of the NEGI Pipeline<sup>5</sup> will enable northern Australian gas resources to access highly prospective eastern Australian gas markets, potentially unlocking significant value in Armour Energy's substantial acreage.
- Should the acquisition of the Roma Shelf Assets complete, it will likely provide Armour Energy with access to oil and gas production and cashflow in the near term. The AEP Northern Territory Farm-Out further enables Shareholders to participate in any future upside of the projects and expected growth in the Australian gas market. The AEP Northern Territory Farm-Out also has the potential to significantly de-risk the funding of the exploration and development of these projects.
- Following the AEP Northern Territory Farm-Out, Armour Energy will be well funded with a maximum of A\$39.5 million in cash.<sup>6</sup>
- Armour Energy has an experienced Board and management team with the capability to realise the full potential of Armour Energy's assets.

1 See Section 2.1 of the Independent Expert's Report for further information. Based on the number of Shares on issue, this implies a value range of \$67 million to \$112 million.

2 Armour Energy's implied value of \$60.9 million is based on the placement of Shares to AEGP. It is calculated by reference to the total Shares on issue at the date of the Target's Statement (304,635,766) multiplied by \$0.20. This implied valuation should be read in conjunction with the Independent Expert's valuation. Given that Armour Energy has commissioned an Independent Expert's Report in relation to the Offer, Armour Energy does not consider it appropriate for the Directors to either adopt or otherwise reject this implied valuation, and instead, the implied valuation should be used by Shareholders as a useful but not infallible indicator of market sentiment. Both the WestSide Offer and the AEP Northern Territory Farm-Out are subject to conditions. The WestSide Conditions are summarised in section 7.4 of this Target's Statement. The conditions of the AEP Northern Territory Farm-Out are summarised in section 16.1 of this Target's Statement. Importantly, the AEP Northern Territory Farm-Out is subject to, amongst other matters, satisfactory due diligence being undertaken by AEGP and Shareholder approval for the transaction being obtained. AEGP has potentially 180 days in which to satisfy the majority of their conditions.

3 See Figures 1 and 2 in Section 1 of this Target's Statement, Source: Iress market data as at Wednesday 30 September 2015 in compliance with ASIC Class Order 07/429.

4 Source: Armour Energy ASX Announcement "Major Prospective Resources Upgrade - Northern Australia" released on ASX on 21 September 2015.

5 Source: [dcm.nt.gov.au/territory\\_economy/north\\_east\\_gas\\_interconnector](http://dcm.nt.gov.au/territory_economy/north_east_gas_interconnector) in compliance with ASIC Class Order 13/523.

6 This cash position comprises proceeds of A\$6.7 million from the placement of Shares to AEGP (on the assumption that no additional Shares are issued and no Options are exercised prior to this placement), US\$13 million from AEGP upon closing of the FOA, US\$3 million upon the grant, transfer and registration in the name of AEGP of a 75% interest in EPA 177 and EPA 178 (if such EPs are granted and transferred), and the bonus payment of US\$7 million upon the earlier of either the grant of one million acres of production licences in respect of EP171, EP176 and EP191 or the date on which EPA 172, EPA 173, EPA 179, EPA 193, EPA 195 and EPA 196 have been granted and a 75% interest has been transferred to AEGP and registered (this is a milestone based payment, which may or may not eventuate). This cash position assumes an AUD:USD conversion rate of 0.70. See Section 9 of this Target Statement for further information.

### 3

## WESTSIDE WANTS TO EXTRACT VALUE AT YOUR EXPENSE

- Under the AEP Northern Territory Farm-Out, Armour Energy Shareholders will retain their ownership of Armour Energy (although with a reduced, but free carried, interest in Armour Energy's Northern Territory Tenements), whereas under the WestSide Offer, Shareholders will lose the potential to benefit from any upside in Armour Energy. The Board believes that Shareholders are entitled to benefit from the value to be extracted from Armour Energy's assets through receiving a fair price for their Shares, which is not currently the case with the WestSide Offer.
- The Offer values Armour Energy at approximately A\$36.6 million and Shareholders would no longer control Armour Energy, whereas the AEP Northern Territory Farm-Out values Armour Energy (purely on the implied valuation following the subscription by AEGP of ~33.8 million new Shares at A\$0.20) at approximately A\$60.9 million and Shareholders would retain control of Armour Energy.<sup>7</sup>
- The AEP Northern Territory Farm-Out of the Northern Territory Tenements ascribes a farm-in value on the total expenditure, cash and bonus payments, of approximately A\$94 million. This value is **approximately 2.5 times the Westside Offer**.<sup>8</sup> The Independent Expert's Report provides a valuation range for the Northern Territory Tenements of \$54.2 million to \$101.2 million, with a preferred value of \$69.4 million.<sup>9</sup>
- Armour Energy estimates the replacement value of the surface infrastructure acquired from Origin Energy in the Roma Shelf Assets Acquisition to be approximately A\$250 million.<sup>10</sup> Given the timing of the AEP Northern Territory Farm-Out, the placement component of it attributes value to the Roma Shelf Assets Acquisition.
- The AEP Northern Territory Farm-Out is a significant and important technical endorsement of Armour Energy's assets. AEP is an American oil and gas company with a very strong track record in developing new oil and gas plays.
- WestSide overemphasizes the risks associated with Armour Energy in an effort to reduce the perceived value of Armour Energy.
- Armour Energy has significant strategic value to WestSide and other potential acquirers.
- WestSide's Offer is subject to several conditions – some of which WestSide considers have been breached. Given the statements made to the ASX by WestSide on 22 September 2015, it is uncertain whether the Offer will ever become unconditional. Please see Section 16.2 of this Target's Statement for further information on this point

### 4

## NO MATTER HOW YOU VOTE ON THE AEP NORTHERN TERRITORY FARM-OUT, WESTSIDE MAY STILL WITHDRAW THEIR OFFER

- The WestSide Offer includes a number of Conditions that need to be met before the Offer can proceed.
- Entry into the Definitive Agreements and the agreement to issue securities pursuant to them by Armour Energy has breached the Relevant Conditions of WestSide's Offer.
- On 22 September 2015, WestSide clarified its intentions (in a covering letter, and not by way of appropriate supplementary disclosure) to exercise its right to withdraw the Offer (or allow it to lapse) for breach of the Northern Territory Farm-Out Condition should the EGM occur prior to the close of the Offer Period and Armour Energy Shareholders vote in favour of the AEP Northern Territory Farm-Out. WestSide has also stated that it may exercise its right to withdraw the Offer (or allow it to lapse) earlier based on Armour Energy's entry into the Definitive Agreements.
- This has important implications for Armour Energy Shareholders. Armour Energy, in an attempt not to unduly frustrate WestSide's Offer, made the AEP Northern Territory Farm-Out conditional on Shareholder approval.

Notwithstanding this, **the current position of WestSide means that even if you vote against the AEP Northern Territory Farm-Out, WestSide may still withdraw its Offer.**

**To REJECT the Offer by WestSide, simply DO NOTHING**

<sup>7</sup> Refer to footnote 2.

<sup>8</sup> A\$94 million is calculated as total cash payments of US\$23 million (A\$32.8 million) and the implied value of Armour Energy's 25% interest in the Northern Territory Tenements (US\$43 million or A\$61.42 million) (based on the maximum US\$130 million expenditure by AEP to earn a 75% interest in the Northern Territory Tenements). This value assumes an AUD:USD conversion rate of 0.70. WestSide's Offer implies a market capitalisation of approximately A\$36.6 million for Armour Energy. This implied farm-in value of the AEP Northern Territory Farm-Out (**Farm-in Valuation**) should be read in conjunction with the Independent Expert's valuation. Given that Armour Energy has commissioned an Independent Expert's Report in relation to the Offer, Armour Energy does not consider it appropriate for the Directors to either adopt or otherwise reject the Farm-in Valuation, and instead, the Farm-in Valuation should be used by Shareholders as a useful but not infallible value proposition.

<sup>9</sup> Please see the Independent Expert's Report for further information.

<sup>10</sup> Source: Armour Energy ASX Announcement "Armour to Become Significant Producer via Roma Shelf Assets" released on ASX on 2 September 2015.

## CHAIRMAN'S LETTER



**Nicholas Mather**  
Executive Chairman

Dear fellow Armour Energy Shareholder

### TAKE NO ACTION AND REJECT WESTSIDE'S TAKEOVER OFFER

I am writing to you in response to the recent unsolicited, opportunistic, conditional takeover Offer announced by WestSide Corporation Limited (**WestSide** or **Bidder**) to acquire all of the Shares in Armour Energy.

This Target's Statement sets out your Directors' response to the Offer and contains their recommendation, reasons for that recommendation, and other important information you should consider when deciding whether to accept or reject the Offer.

As a Shareholder, you own part of a growing oil and gas company with a focus on the exploration of the McArthur, Isa Super, 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. Upon the completion of the Roma Shelf Assets Acquisition from Origin Energy Limited, Armour Energy also hopes to achieve near term production of gas and associated petroleum liquids.

**Your Board has carefully considered the Offer and believes that the Offer Price of \$0.12 per Share is inadequate and fails to recognise the inherent value of Armour Energy. Accordingly, your Board unanimously recommends that you REJECT THE OFFER.**

The Directors believe that you should **REJECT** the Offer because:

1. the Offer Price of \$0.12 per Share substantially undervalues Armour Energy. The Directors have formed this view on the basis of the Independent Expert's Report which concludes that the Offer is Not Fair and Not Reasonable and values Armour Energy in the range of \$0.22 to \$0.37 per Share;<sup>11</sup>
2. the timing of the Offer is opportunistic and comes following the sharp and dramatic fall in global energy prices;<sup>12</sup>
3. the WestSide Offer attributes NO VALUE to the proposed acquisition of the Roma Shelf Assets (which was announced following WestSide's Offer);
4. the AEP Northern Territory Farm-Out values Armour Energy substantially higher, on a non-controlling basis;<sup>13</sup>

5. the proposed equity investment by AEGP at \$0.20 per Share values Armour Energy at approximately A\$60.9 million (on a non-control basis)<sup>14</sup> and is a significant premium to the WestSide Offer which at \$0.12 per Share, values Armour Energy at \$36.6 million;
6. Armour Energy has a clear strategy which, as demonstrated through recent value enhancing transactions, is designed to maximise value for all Shareholders; and
7. the AEP Northern Territory Farm-Out is a significant and important technical endorsement of the importance and value of Armour Energy's assets in northern Australia.

For the reasons outlined above and elsewhere in this Target's Statement, we recommend that you **REJECT THE OFFER**.

Each of your Directors and certain Shareholders which in aggregate own or control approximately **29.51%** of the Shares outstanding, as at the date of this Target's Statement **DO NOT INTEND to accept WestSide's Offer** (however reserve the right to do so in the case of an increase in the Offer Price).

Your Board recommends that you read this Target's Statement in its entirety (including the Independent Expert's Report) and consider the Offer, having regard to your own personal risk profile, investment strategy and tax circumstances.

To **REJECT** the Offer you should simply **DO NOTHING** and take **NO ACTION** in relation to all documents sent to you by WestSide.

If you are in doubt as to whether to accept or reject the Offer, you should seek your own independent professional advice.

On behalf of all Directors of Armour Energy, I thank you for your continued support.

Yours faithfully

**Nicholas Mather**  
Chairman

<sup>11</sup> Refer to footnote 1.

<sup>12</sup> Refer footnote 3.

<sup>13</sup> Refer to footnotes 2, 6 and 8.

<sup>14</sup> Refer to footnote 2.



## YOUR DIRECTORS' RECOMMENDATION

After taking account of each of the matters described in this document, in particular the reasons to **REJECT** the Offer set out in Section 1, each of your Directors recommends that you **REJECT WestSide's Offer** and **TAKE NO ACTION**.

Details of the interest of your Directors' shareholdings are set out in Section 14.

## HOW TO REJECT WESTSIDE'S OFFER

To **REJECT** this inadequate Offer, **TAKE NO ACTION**. IGNORE ALL DOCUMENTS SENT TO YOU BY WESTSIDE.

You should read this Target's Statement in full before making any decision, including the detailed reasons why your Directors recommend to **REJECT** the WestSide Offer.

If you have any questions in relation to the Offer, please call Armour Energy's information line on 1300 794 935 for callers within Australia or on +61 1300 794 935 for callers outside Australia. The information line will be open from Monday to Friday between 8.30am to 5.30pm (Sydney time).

**If you accept the Offer, you will forfeit the opportunity to benefit if a third party makes a superior proposal. You will not be entitled to the benefit of a superior offer price from a third party if you have already accepted the Offer or have otherwise sold your Armour Shares.**

**Once you have accepted the opportunistic and inadequate WestSide Offer, other than in exceptional circumstances, you CANNOT withdraw your acceptance. Your Board recommends that you DO NOTHING in relation to any material sent to you by WestSide.**



# SECTION 1

## KEY REASONS TO REJECT THE OFFER



# SECTION 1

## KEY REASONS TO REJECT THE OFFER

### 1 THE OFFER OF \$0.12 PER SHARE IS INADEQUATE

The Directors believe that the Offer Price of A\$0.12 per Share is **inadequate and substantially undervalues the full underlying value of your Armour Energy Shares**. Accordingly, the Directors unanimously recommend that you **REJECT** the Offer by **DOING NOTHING**.

The Directors have formed this view on the basis of the Independent Expert's Report which concludes that the Offer is **Not Fair and Not Reasonable** and values Armour Energy in the range of \$0.22 to \$0.37 per Share.

Further explanation of the reasons for the Director's recommendation are set out below. Details of each Directors relevant interest in Armour Energy are set out in Section 14.

#### THE OFFER DOES NOT REFLECT THE FULL VALUE OF ARMOUR ENERGY

- The Directors consider that at \$0.12 per Share, the Offer fails to adequately reflect the attractiveness, strategic nature and intrinsic value of Armour Energy's portfolio of assets.
- Armour Energy, as recently demonstrated through the proposed Roma Shelf Assets Acquisition and the AEP Northern Territory Farm-Out (and related equity investment), has a clear strategy to grow your Company through maximising the value of its assets, de-risking future access to capital and developing a diversified and balanced portfolio of exploration, development and production opportunities in Australia.
- Following the AEP Northern Territory Farm-Out, the Directors consider that the Offer fails to appropriately value the established, strategic and diversified nature of Armour Energy's projects and the commercialisation opportunities of the proposed NEGI Pipeline development<sup>15</sup> linking Armour Energy's assets to Australian east coast gas markets which are expected to experience gas supply shortfalls in the coming years.<sup>16</sup>
- The AEP Northern Territory Farm-Out attributes a value on the total expenditure and cash and bonus payments of approximately A\$94 million. This value is approximately 2.5 times the Westside Offer.<sup>17</sup> The Independent Expert's Report provides a valuation range for the Northern Territory Tenements of \$54.2 million to \$101.2 million, with a preferred value of \$69.4 million.<sup>18</sup>

- The WestSide Offer values Armour Energy at approximately A\$36.6 million (with Shareholders losing control of Armour Energy following completion of the Offer), whereas the AEP Northern Territory Farm-Out values Armour Energy (purely on the implied valuation following the subscription by AEGP of ~33.8 million new Shares at A\$0.20) at approximately A\$60.9 million (with Shareholders retaining control of Armour Energy following completion of the AEP Northern Territory Farm-Out).<sup>19</sup>
- The Westside Offer (with the Original Bidder's Statement having been lodged on 31 August 2015) does not place any value on Armour Energy's proposed acquisition and recommissioning of the Roma Shelf Assets from Origin Energy Limited (as announced to the market by Armour Energy on 2 September 2015). The Board believes that the production assets and the resources to be acquired as part of the Roma Shelf Assets Acquisition will potentially transform Armour Energy into an explorer / producer with strong cash flow and further exploration upside. Armour Energy management estimates the replacement value of the surface infrastructure acquired to be approximately A\$250 million<sup>20</sup> (see Section 10 for further information in relation to the Roma Shelf Assets). The placement component of the AEP Northern Territory Farm-Out, at A\$0.20 per Share, attributes value to this acquisition.

#### THE OFFER IS SIGNIFICANTLY BELOW THE INDEPENDENT EXPERT'S VALUATION

The Directors have appointed an Independent Expert, BDO Corporate Finance (Qld) Limited, to opine on whether the Offer is fair and reasonable to Shareholders. It also includes a valuation range for Armour Energy Shares on a controlling interest basis.

BDO has engaged two technical experts RISC Operations Pty Ltd (**RISC**) and SRK Consulting (Australasia) Pty Ltd (**SRK**) to prepare separate technical reports for inclusion in the Independent Expert's Report, namely the RISC Independent Technical Specialist Report Roma Shelf Assets and the SRK Technical Assets Valuation of Armour Energy Limited Report.

The Independent Expert has assessed that the fair value of an Armour Energy Share on a control basis is in the range of \$0.22 to \$0.37 per Armour Energy Share.

The Independent Expert has concluded that the WestSide Offer is **Not Fair and Not Reasonable**.

The above summary of the key conclusions and opinion of the Independent Expert, and other references to the Independent Expert's Report in this Target's Statement, are qualified in their entirety by, and should be read in conjunction with, the full Independent Expert's Report which is set out in full in Annexure A of this Target's Statement.

15 Refer to footnote 5.

16 Refer to footnote 3.

17 Refer to footnote 8.

18 Please see the Independent Expert's Report for further information.

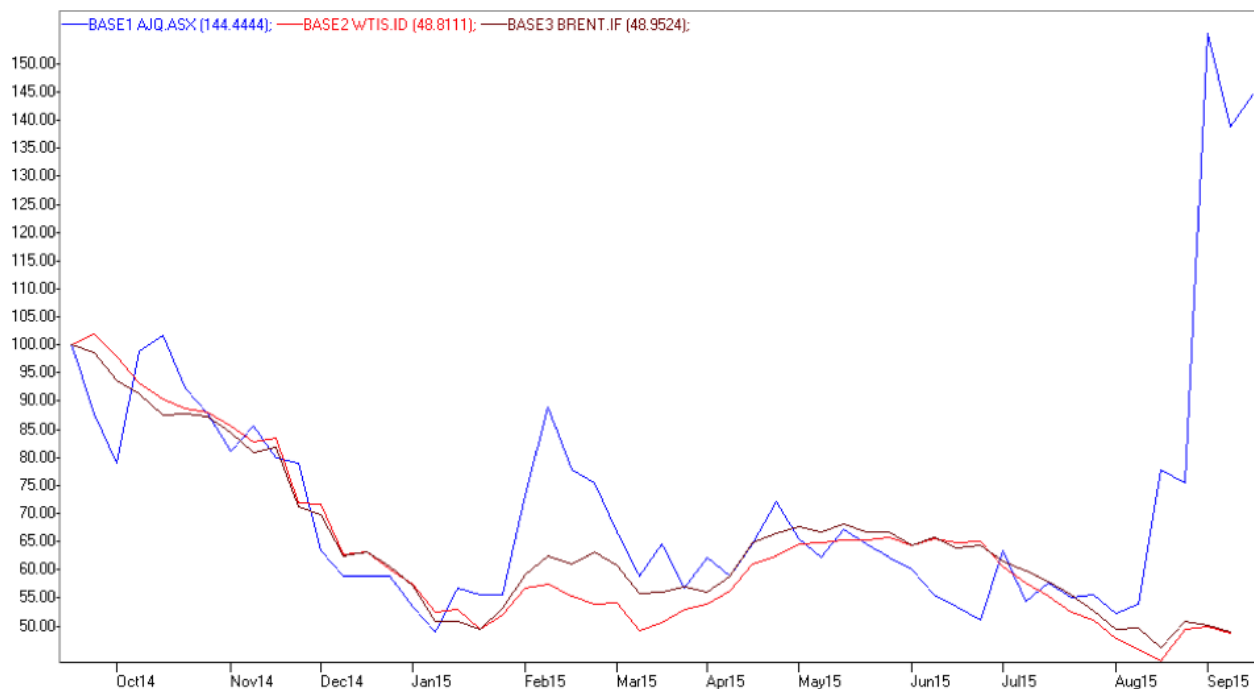
19 Refer to footnote 2.

20 Source: Armour Energy ASX Announcement "Armour to Become Significant Producer via Roma Shelf Assets" released on ASX on 2 September 2015.

## THE TIMING OF WESTSIDE'S OFFER IS HIGHLY OPPORTUNISTIC

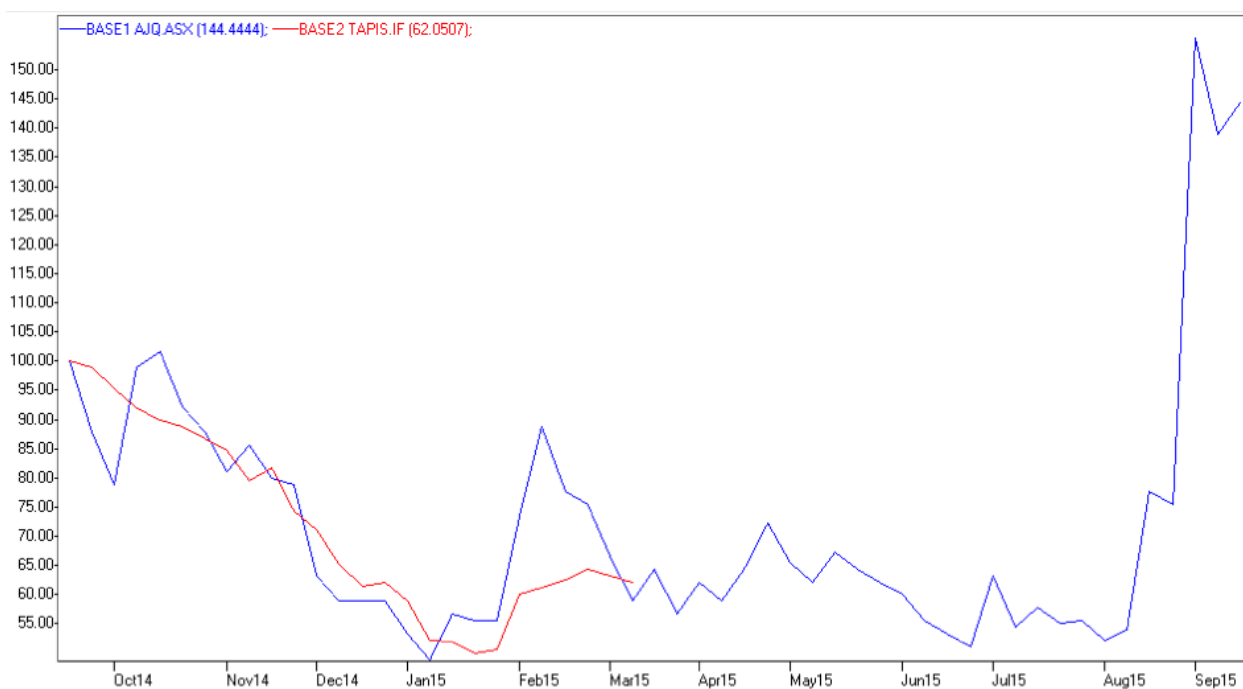
- The Offer comes following a tumultuous period in which oil prices have experienced a substantial and prolonged decline. The price of Brent Crude has fallen 63% from a high of US\$115 on 19 June 2014 to low of US\$42 on 24 August 2015, just one week before the opportunistic takeover Offer was announced.
- **As the Offer is in cash, if you accept the Offer you will crystallise the value of your investment in Armour Energy at the Offer Price. You will no longer have exposure to any recovery in energy markets or the improvement in valuations that may follow for listed oil and gas companies.**

Figure 1: Performance of Brent Crude, West Texas Intermediate and Armour Energy shares in the past 12 months



Source: Iress market data as at Wednesday 30 September 2015 in compliance with ASIC Class Order 07/429.

Figure 2: Performance of Tapis Crude and Armour Energy Shares in the past 12 months



Source: Iress market data as at Wednesday 30 September 2015 in compliance with ASIC Class Order 07/429.

## WESTSIDE'S OFFER DOES NOT RECOGNISE VALUE FOR THE ROMA SHELF ASSETS

- The Westside Offer (with the Original Bidder's Statement having been lodged on 31 August 2015) does not place any value on Armour Energy's potential acquisition of the Roma Shelf Assets from Origin Energy Limited and recommissioning of the production assets (as announced to the market by Armour on 2 September 2015).
- The Board believes that, should the transaction be completed, the production assets and the resources acquired as part of the Roma Shelf Asset Acquisition, will potentially transform Armour Energy into an explorer/producer with revenue streams strategically located near the Wallumbilla gas hub, Queensland.
- Armour Energy management estimates the replacement value of the surface infrastructure acquired to be approximately A\$250 million. The placement component of the AEP Northern Territory Farm-Out, at A\$0.20 per Share, attributes value to this acquisition (having been announced after the Offer).

## INTENTION OF YOUR DIRECTORS AND CERTAIN SHAREHOLDERS WHO CONTROL 29.51% OF THE SHARES IN ARMOUR ENERGY

Each of your Directors and Shareholders which in aggregate own or control approximately 29.51% of the Shares outstanding, as at the date of this Target's Statement, DO NOT INTEND to accept WestSide's Offer (however reserve the right to do so in the case of an increase in the Offer Price).<sup>21</sup>

Your Directors are unanimous in their view that WestSide's Offer does not reflect the value or quality of Armour Energy's assets, is opportunistic in its timing, and that Shareholders will receive greater value by Armour Energy remaining independent and implementing the existing strategic plan. Please see Section 4 for further information in respect of this.

**The Offer IS NOT GOOD ENOUGH for you to give away the tremendous value and potential of Armour Energy's assets.**

<sup>21</sup> See Section 6 of this Target's Statement for further information.

<sup>22</sup> Source: Armour Energy ASX Announcement "Major Prospective Resources Upgrade – Northern Australia" released on ASX on 21 September 2015.

<sup>23</sup> Refer to footnote 5.

<sup>24</sup> This cash comprises proceeds of US\$13 million from AEGP upon closing of the farm-out, US\$3 million upon the grant, transfer and registration in the name of AEGP,

## 2 ARMOUR ENERGY IS WELL POSITIONED TO DELIVER VALUE TO OUR SHAREHOLDERS

### ARMOUR ENERGY'S BOARD AND MANAGEMENT HAS A PROVEN TRACK RECORD OF DELIVERING ON ITS STRATEGY

- Armour Energy has an experienced Board and management team that has historically delivered significant value to Shareholders.
- Armour Energy has an existing, clear strategy for its business, which as demonstrated through the recently announced AEP Northern Territory Farm-Out and the proposed Roma Shelf Assets Acquisition, is designed to maximise value for all Shareholders. The Board believes that its strategy to create value for Shareholders is far superior to the Offer from WestSide for the reasons set out in this Target's Statement.
- Armour Energy's northern Australian assets represent one of the largest and most prospective Gas acreage positions in Australia, comprising exclusive rights over approximately 133,990km<sup>2</sup> of adjoined tenements and a large inventory of associated conventional and unconventional leads and prospects. Across the acreage, 4.9 Tscf of Best Estimate Prospective Recoverable Conventional Gas Resources and 52.1 Tscf of Best Estimate Prospective Recoverable Unconventional Gas Resources have been identified and third-party assessed (please see Section 8.10 of this Target's Statement for further information).<sup>22</sup> The development of the NEGI Pipeline<sup>23</sup> (should it proceed) would enable gas from this resource to be supplied to the eastern Australian gas market and likely expedite investment and development in the Northern Territory.
- It is the view of the Armour Energy Board that, subject to its completion, the recently announced AEP Northern Territory Farm-Out significantly reduces the risks associated with the development of this significant, and potentially world class, oil and gas province in northern Australia. It also enables Armour Energy Shareholders to retain a free carried exposure to the Northern Territory Tenements and retain 100% control of the adjoining and highly prospective north-west Queensland acreage covering 5.1 million acres. As part of the AEP Northern Territory Farm-Out, AEGP will carry 100% of Armour Energy's share of expenditure during Phase One of up to US\$130 million in exchange for a 75% working interest in the Northern Territory Tenements. AEGP will assist Armour Energy to access up to US\$130 million of debt funding for Armour Energy's share of the second phase appraisal and development costs. Furthermore, Armour Energy will be entitled to cash payments of up to US\$23 million (\$A32.8 million).<sup>24</sup> Further information about the AEP Northern Territory Farm-Out can be found in Sections 5, 9 and 16.1 of this Target's Statement.

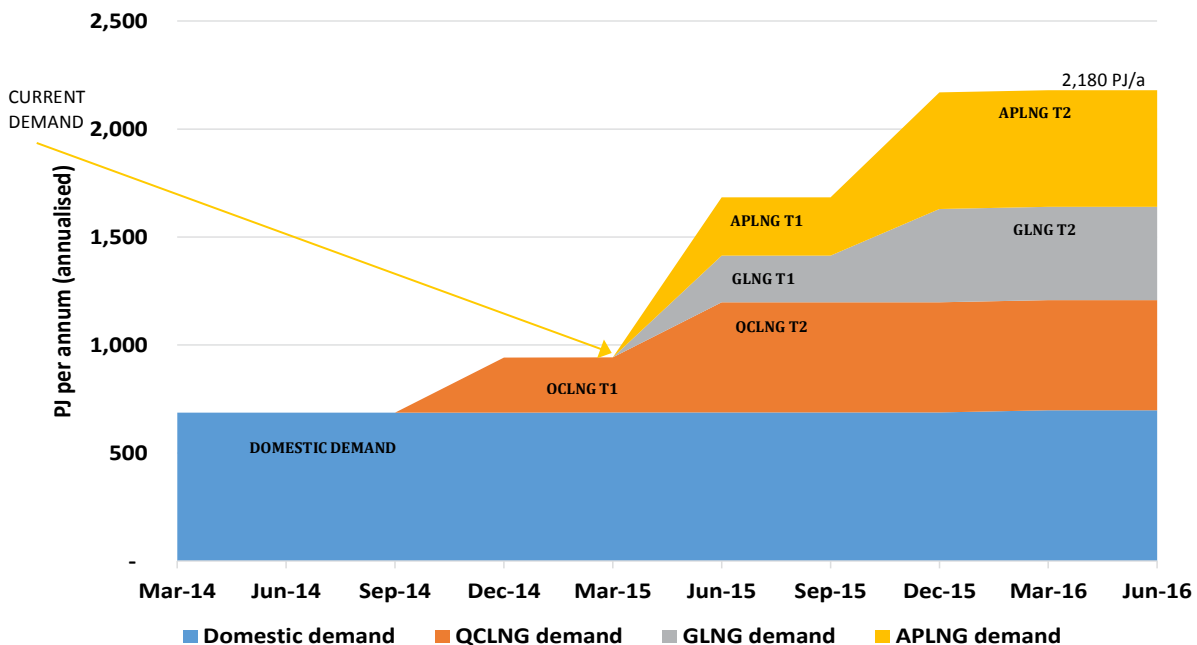
a 75% interest in EPA 177 and EPA 178 (if such EPs are granted and transferred), and the bonus payment of US\$7 million upon the earlier of either the grant of one million acres of production licences in respect of EP171, EP176 and EP191 or the date on which EPA 172, EPA 173, EPA 179, EPA 193, EPA 195 and EPA 196 have been granted and a 75% interest has been transferred to AEGP and registered (this is a milestone based payment, which may or may not eventuate). This cash position assumes an AUD:USD conversion rate of 0.70.

- Armour Energy is extremely well positioned to take advantage of future commercialisation opportunities from the proposed NEGI Pipeline<sup>25</sup> connecting the Northern Territory with the east coast of Australia which is expected to experience gas supply shortages in the coming years.
- On 2 September 2015, Armour Energy announced that it had entered into sale and purchase agreements to acquire the oil and gas interests of Origin Energy Limited at Roma in the Surat Basin, Queensland, for \$13 million (plus GST). The acquisition of the Roma Shelf Assets, should the transaction be completed, offers Armour Energy potential near-term opportunities to produce oil and gas and generate cashflow which would represent a potentially key source of funding for Armour Energy's overall growth strategy.
- Funding of the Roma Shelf Assets Acquisition will be from existing cash resources together with proposed debt financing.<sup>26</sup> The assets include the Newstead Field which is now used as an underground gas storage facility, including a current inventory of 2.3 PJ of gas,<sup>27</sup> available for immediate sale on recommissioning of the Kincora gas plant. The facility is capable of holding 7.5 PJ of gas<sup>28</sup> and Armour Energy intends to investigate management of this facility in order to maximise returns during periods of high gas demand

(See Section 10 of this Target's Statement for more information on the Roma Shelf Assets Acquisition).

- There is scope to significantly increase the underground gas storage capacity from other reservoirs.<sup>29</sup> Armour Energy believes the existing gas storage facility and the potential for further storage capacity opportunities provides an excellent business opportunity to participate in the gas trading business and take advantage of gas price fluctuations in the market.
- Armour Energy has a strategic shareholding of 18.89%<sup>30</sup> and has entered into agreements on three projects (and farmed-in to two exploration permits) with the ASX listed Lakes Oil, which provides it with exposure to gas and associated liquids in the onshore Gippsland Basin and Otway Basins, Victoria. This region has extensive infrastructure, which connects it to the eastern Australia gas network and growing domestic gas demand as east coast Australian LNG export facilities ramp-up. Shareholders should note that the Victorian Coalition Government has put a hold on new exploration licences and tenements for onshore gas, Hydraulic Fracturing and exploration drilling for onshore gas exploration in Victoria. Please see Section 11.2.3 of this Target's Statement for further information.

Figure 3: East coast demand outlook, where a significant shortfall is expected



25 Refer to footnote 5.

26 Source: Armour Energy ASX Announcement "Roma Shelf Funding Update" released on ASX on 11 September 2015, Armour Energy ASX Announcement "Execution of Binding Term Sheet with DGR Global" released on ASX on 30 September 2015, Armour Energy ASX Announcement "Clarification Statement re DGR Financing Facility" released on ASX on 30 September 2015 and Armour Energy ASX Announcement "Amendment to Binding Term Sheet with DGR Global" released on ASX on 1 October 2015.

27 Source: Armour Energy ASX Announcement "Armour to Become Significant Producer via Roma Shelf Assets" released on ASX on 2 September 2015.

28 Source: Armour Energy ASX Announcement "Armour to Become Significant Producer via Roma Shelf Assets" released on ASX on 2 September 2015.

29 Source: Armour Energy ASX Announcement "Armour to Become Significant Producer via Roma Shelf Assets" released on ASX on 2 September 2015.

30 Source: Lakes Oil ASX Announcement "Change in substantial holding from AJQ" released on ASX on 12 December 2014 in compliance with ASIC Class Order 13/521.



- Ripple Resources Pty Ltd was acquired in March 2013 from DGR Global Ltd, as a strategic move by Armour Energy to provide an overlap of mineral and gas tenure given the highly prospective nature of the Carpentaria Mineral Belt for lead, zinc, copper and other base metals. Furthermore, with Company geologists already undertaking desktop studies and field work in the region, the strategy provided an opportunity for low cost, dual exploration. Over the past two years, inspired by petroleum exploration techniques, Ripple Resources Pty Ltd has steadily expanded its potential exploration footprint within Armour Energy's overlapping petroleum tenure to over 20,000km<sup>2</sup>.

### WESTSIDE'S OFFER FAILS TO RECOGNISE THE STRATEGIC NATURE OF ARMOUR ENERGY'S ASSETS

- Armour Energy continues to hold an extensive tenement position, currently 100% owned (reducing in respect of the Northern Territory Tenements as a result of the AEP Northern Territory Farm-Out to 25%), over multiple basins defining a provincial position in the Northern Territory and Queensland. Structurally, the domestic east-Australian market for gas continues to head towards a near-term supply shortage
- Sensitivities surrounding development of known gas deposits closer to populated east coast regions are consistent with Armour Energy's strategy of holding a provincial position in a low-population region with anticipated access to domestic markets (via Mt Isa) or export markets (via the northern or eastern coasts).

### DO NOT let WestSide secure the tremendous upside potential in Armour Energy AT AN UNFAIR PRICE.

31 Refer to footnote 5.  
 32 Refer to footnote 2.  
 33 Refer to footnote 6.  
 34 Refer to footnote 8.

## 3 WESTSIDE WANTS TO EXTRACT VALUE AT YOUR EXPENSE

- The WestSide Offer values Armour Energy at approximately A\$36.6 million (on a control basis), whereas the AEP Northern Territory Farm-Out values Armour Energy (purely on the implied valuation following the subscription by American Energy of ~33.8 million new Shares at A\$0.20 each) at approximately A\$60.9 million (on a non-control basis).<sup>32</sup>
- The potential total amount of cash to be injected into Armour Energy as a result of proceeding with the AEP Northern Territory Farm-Out of A\$39.5 million<sup>33</sup> (for a share capital dilution of only 9.99% and together with the 75% farm-out of the Northern Territory Tenements), exceeds the total value of the WestSide Offer to acquire 100% of Armour Energy.
- The AEP Northern Territory Farm-Out in respect of the Northern Territory Tenements ascribes a value on the total expenditure, and cash and bonus payments, of approximately A\$94 million.<sup>34</sup> **This value is approximately 2.5 times the WestSide Offer.**<sup>35</sup> The Independent Expert's Report provides a valuation range for the Northern Territory Tenements of \$54.2 million to \$101.2 million, with a preferred value of \$69.4 million.<sup>36</sup>
- Armour Energy's tenements in the Northern Territory straddle the Daly Waters to McArthur River Gas Pipeline, with a number of gas leads and prospects within 60km of this pipeline. This provides Armour Energy with the opportunity to tap into existing infrastructure at low cost for a gas development to supply the regional Northern Territory market. Significantly larger volumes could be supplied into the eastern Australian market via the Northern Territory Government's proposed NEGI Pipeline,<sup>37</sup> which is nearing the selection of a preferred tenderer and pipeline route. This pipeline will enable the gas industry in the Northern Territory and Armour Energy in particular, to transport gas to the east coast for domestic use and or export. The NEGI

35 Refer to footnote 8.  
 36 Please see the Independent Expert's Report for further information.  
 37 Refer to footnote 5.

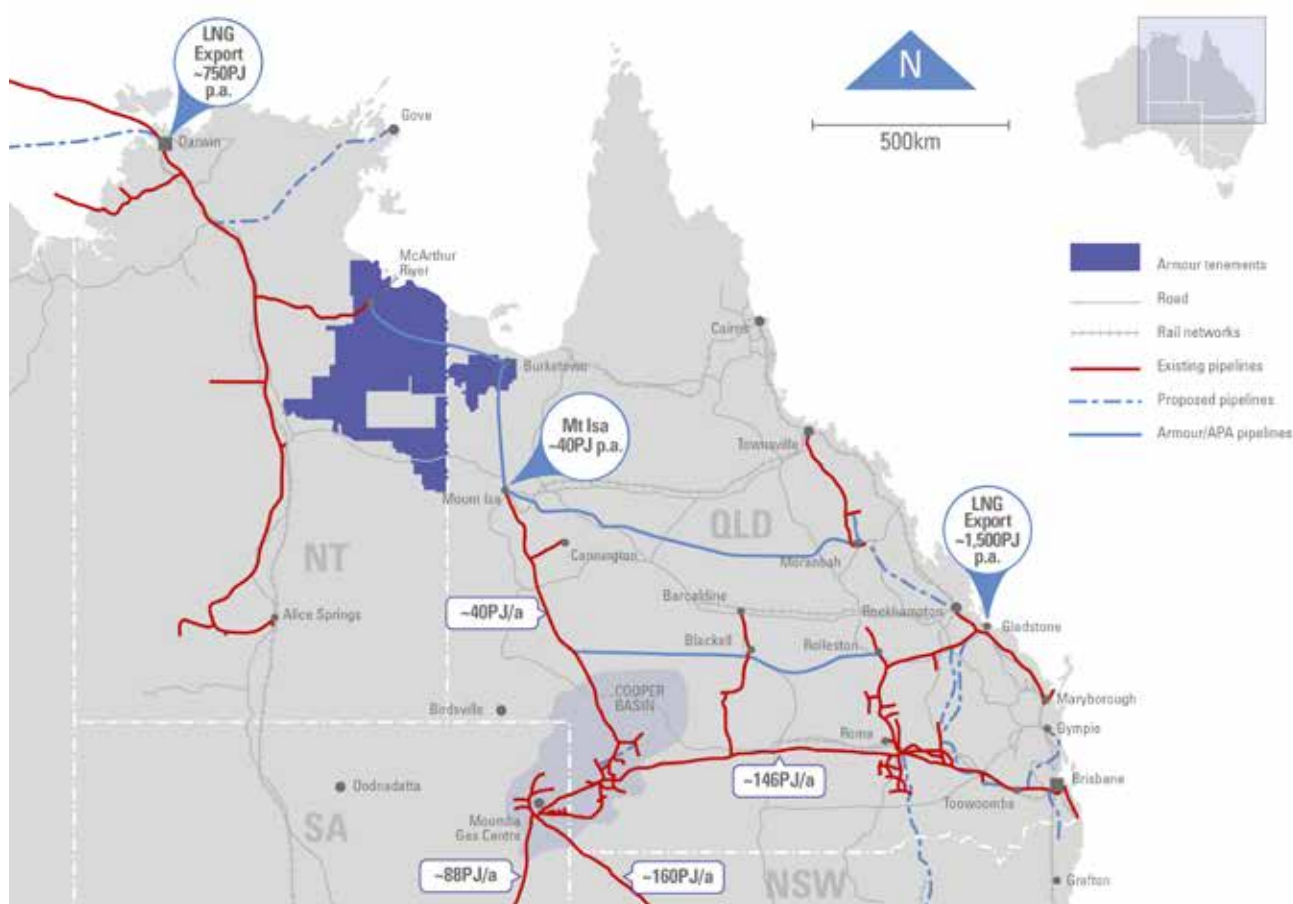
Pipeline has two alternative routes and Armour Energy anticipates that the northern route will be selected, if the pipeline proceeds, because it has much lower environmental impact and costs and will be quicker to develop. If adopted, the northern pipeline route is likely to traverse Armour Energy's tenement position (refer Figures 4 & 5) further strengthening Armour Energy's commercial position and value. Furthermore, monetisation opportunities exist through the Darwin LNG projects and or a new greenfield LNG project in the Gulf of Carpentaria.

- Armour Energy's tenements in the Northern Territory have the potential to be liquid rich (condensate) and have potential for oil.

Armour Energy is continuing to build on its agreement with the APA Group (ASX:APA)<sup>38</sup> to ultimately install gas pipelines to effect the delivery of gas to east coast domestic customers and Gladstone-based LNG facilities. In addition, Armour Energy has identified regional markets for gas in northern Australia.

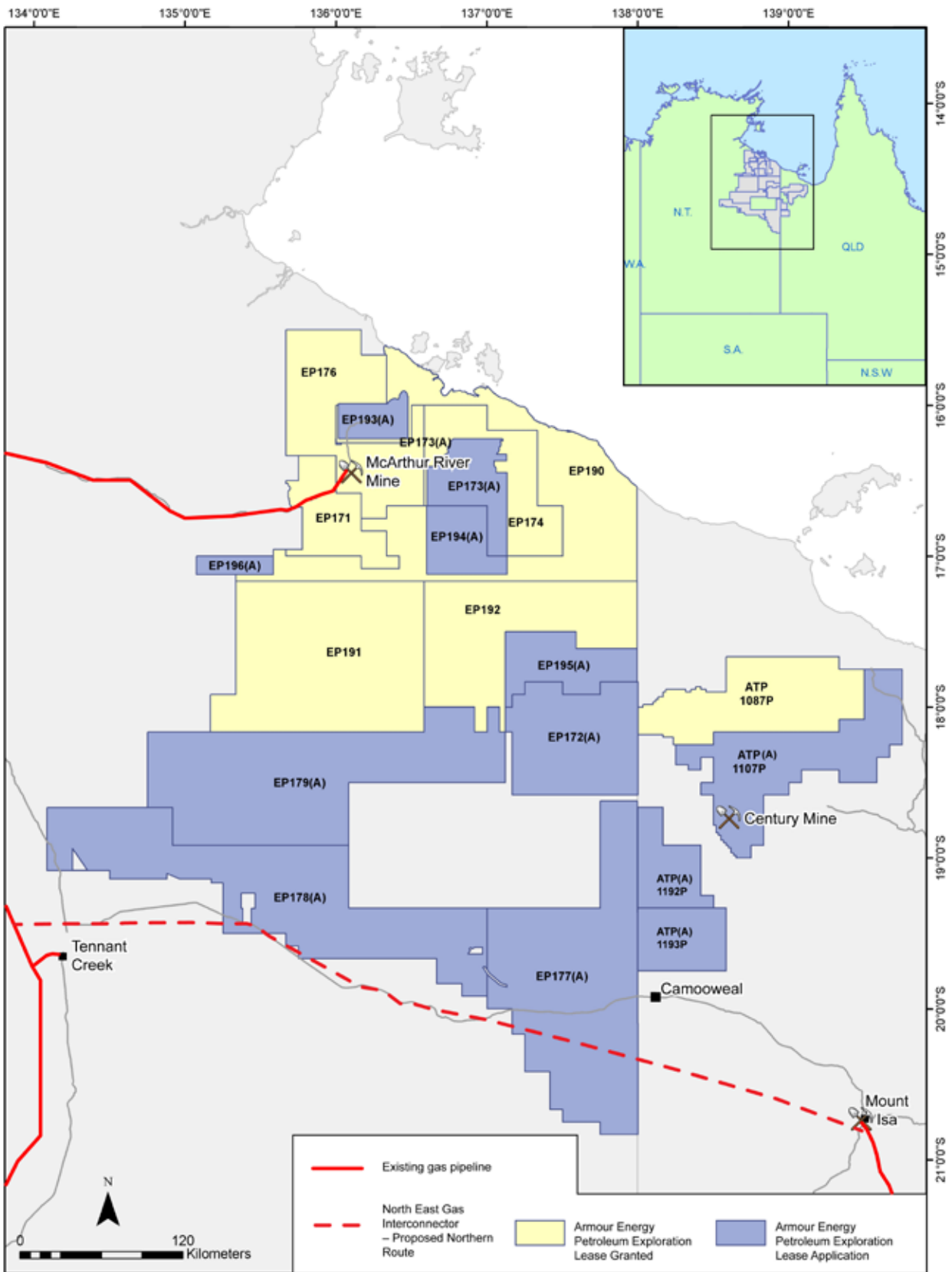
**Don't give up your Armour Energy Shares AT \$0.12 PER SHARE as it UNDERVALUES YOUR COMPANY.**

Figure 4: Short and long term monetisation routes



38 Source: APA Group ASX Announcement "Heads of Agreement with Armour Energy" released on ASX on 26 June 2013 in compliance with ASIC Class Order 07/429.

Figure 5: North East Gas Interconnector – location of proposed northern route, and Armour Energy’s new Queensland tenements



## WESTSIDE OVEREMPHASISES THE RISKS ASSOCIATED WITH ARMOUR ENERGY WHILST DISMISSING THE POTENTIAL RETURNS IN AN EFFORT TO REDUCE THE PERCEIVED VALUE OF THE COMPANY

- The Board believes that WestSide's assertions in relation to the uncertainty around Armour Energy's development plans and funding risks are overemphasised.
- As portrayed through the AEP Northern Territory Farm-Out, Armour Energy is delivering on its plan to further de-risk the assets and fund future developments of those assets. The AEP Northern Territory Farm-Out alone will deliver Armour Energy, subject to completion:
  - total cash payments of up to A\$32.8 million<sup>39</sup> (plus a further A\$6.7 million as a result of the placement of Shares to AEGP);
  - the commitment to spend up to US\$130 million on the Northern Territory Tenements over a 5 year period; and
  - assistance in procuring up to US\$130 million in debt for the second phase activities.
- WestSide's assertions about funding, development and operational risks have been used to justify the Offer of \$0.12, which undervalues Armour Energy. As noted above, the AEP Northern Territory Farm-Out is a funding transaction, and should it complete, will provide Armour Energy with a substantial cash injection. Additionally, Armour Energy has entered into a binding term sheet with DGR to provide up to \$15 million of funding pursuant to the Facility (see Section 10.4 for further information).

## ARMOUR ENERGY'S PORTFOLIO IS UNIQUE AND STRATEGICALLY IMPORTANT TO WESTSIDE

Armour Energy's portfolio is unique as its first mover advantage into the McArthur, Isa Super, South Nicholson and Georgina Basins in the Northern Territory and Queensland has led it to acquiring one of the largest Gas acreage positions in Australia, comprising exclusive rights over approximately 133,990km<sup>2</sup> of adjoined tenements and a large inventory of associated conventional and unconventional leads and prospects. To date, 4.9 Tscf of Best Estimate Prospective Recoverable Conventional Gas Resources and 52.1 Tscf of Best Estimate Prospective Recoverable Unconventional Gas Resources have been identified (please see Section 8.10 of this Target's Statement for further information).<sup>40</sup> The construction of the proposed NEGI Pipeline,<sup>41</sup> connecting the Northern Territory with the east coast of Australia, would enable Armour Energy's projects to access the economically attractive east coast Australian and export

markets, potentially unlocking significant value within Armour Energy. The recently announced acquisition of the Roma Shelf Assets is of strategic significance as it potentially provides Armour Energy with near term production and sales in the eastern Australia gas market.

The prospectivity of Armour Energy's McArthur, Isa Super, South Nicholson and Georgina Basin assets are of strategic value to WestSide given its relatively limited access to a prospective large scale gas resource from which to supply its gas customers. Additionally the Kincora Gas and LPG Plant and infrastructure strategically expands WestSide's Queensland gas position and infrastructure capabilities. If successful in acquiring Armour Energy, WestSide would have strategic assets located in both key Queensland gas provinces (the Surat and Bowen Basins), as well as having a very large, prospective acreage position in the Northern Territory.

## THE OFFER IS CONDITIONAL

- WestSide's Offer is subject to several Conditions, which makes it uncertain whether the Offer will ever become unconditional.
- This is an important consideration for Shareholders given that Armour Energy's entry into the Definitive Agreements to give effect to the Northern Territory Farm-Out has breached the Northern Territory Farm-Out Condition. Additionally, the agreement by Armour Energy to issue Shares and Options pursuant to the Definitive Agreements has also breached the Securities Condition. As a result of these breaches of the Relevant Conditions, WestSide has stated in its Bidder's Statement that it may withdraw its Offer. On 22 September 2015, WestSide announced (without providing the appropriate supplementary disclosure to Shareholders that Armour Energy would expect) that it intends to exercise its rights to withdraw the Offer (or allow it to lapse) for breach of the Northern Territory Farm-Out Condition should the EGM occur prior to the close of the Offer Period and Armour Energy Shareholders vote in favour of the proposal with AEP at that meeting. WestSide has also stated that it may exercise that right earlier based on the breach of the Northern Territory Farm-Out Condition. Shareholders should note that even if they vote against the AEP Northern Territory Farm-Out at the upcoming EGM, it is not certain whether the WestSide Offer will proceed. Further, unless WestSide waives reliance on the Relevant Conditions, it is likely that the Relevant Conditions of the WestSide Offer will not be satisfied.
- Shareholders should note that while the actions of Armour Energy referred to above have breached the Relevant Conditions of WestSide's Offer, the Directors of Armour have made the Definitive Agreements (and the agreement to issue securities pursuant to them) conditional on Shareholder

<sup>39</sup> Refer to footnote 24.

<sup>40</sup> Source: Armour Energy ASX Announcement "Major Prospective Resources Upgrade – Northern Australia" released on ASX on 21 September 2015.

<sup>41</sup> Refer to footnote 5.





approval so as to not unduly frustrate WestSide's Offer.

- Accordingly, Armour Energy Shareholders are now effectively being asked to choose between the WestSide Offer and the AEP Northern Territory Farm-Out.
- The Board of Armour Energy unanimously recommends the AEP Northern Territory Farm-Out to Shareholders (in the absence of a superior proposal) and advises that Shareholders should reject WestSide's current, inadequate bid. Shareholders should note that even if they vote against the AEP Northern Territory Farm-Out there is no guarantee that WestSide will proceed with its Offer.

### **THE CONDITIONS OF THE OFFER ARE DESIGNED TO FRUSTRATE ARMOUR ENERGY'S AEP NORTHERN TERRITORY FARM-OUT**

- As noted above, WestSide's Offer is conditional upon Armour Energy not entering into the AEP Northern Territory Farm-Out. Your Board believes the AEP Northern Territory Farm-Out delivers significant value and certainty to existing Shareholders. The commitment by AEP to spend up to US\$130 million over 5 years on the Northern Territory Tenements alone (in addition to the A\$32.8 million in cash and bonus payments to Armour Energy<sup>42</sup>) means your Company will be well positioned to continue realising value for its Shareholders, and maintain a material exposure to these assets.

**Reject the WestSide Offer so that you, rather than WestSide, can participate in Armour Energy's substantial growth prospects.**

42 Refer to footnote 24.



# SECTION 2

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WESTSIDE'S  
STATEMENTS  
ARE MISLEADING

## SECTION 2

### WESTSIDE'S STATEMENTS ARE MISLEADING

WestSide's Original Bidder's Statement previously contained a number of inaccurate or misleading statements. WestSide has, as a result of Armour Energy highlighting the deficiencies in its Original Bidder's Statement, supplemented its disclosure (to an extent) in a Replacement Bidder's Statement (lodged with ASIC on 14 September 2015 and despatched to Armour Energy Shareholders on 22 September 2015). However, Armour Energy is still of the opinion that the Replacement Bidder's Statement contains a number of inaccurate or misleading statements which WestSide has refused to amend or address (or which have otherwise become outdated following the occurrence of recent events). Armour Energy has set out these statements and its response below for the benefit of Armour Energy Shareholders below:

WESTSIDE CLAIM	ARMOUR ENERGY RESPONSE
<p><b><i>“WestSide has not made any decision in relation to the breach of the Relevant Conditions”</i></b></p>	<p>WestSide contends in its Replacement Bidder's Statement, that as at 14 September 2015, it had not made any decision in relation to the breaches of the Relevant Conditions, and that it reserved its right to take any action in relation to the Relevant Conditions, including to withdraw the Offer (or allow it to lapse).</p> <p>On 22 September 2015, WestSide clarified its intentions (in a covering letter, and not by way of appropriate supplementary disclosure) to exercise its right to withdraw the Offer (or allow it to lapse) for breach of the Northern Territory Farm-Out Condition should the EGM occur prior to the close of the Offer Period and Armour Energy Shareholders vote in favour of the AEP Northern Territory Farm-Out. WestSide has also stated that it may exercise its right to withdraw the Offer (or allow it to lapse) earlier based on the entry into the Definitive Agreements.</p> <p>This has important implications for Armour Energy Shareholders. Armour Energy, in an attempt not to unduly frustrate WestSide's Offer, made the AEP Northern Territory Farm-Out conditional on Shareholder approval. Notwithstanding this, the position of WestSide currently means that <b>even if you vote against the AEP Northern Territory Farm-Out, WestSide may still withdraw its Offer.</b></p> <p>In addition to this, given the fact that the EGM will be held on 30 October 2015 (after the close of the current Offer Period), Armour Energy believes that it is incumbent on WestSide to provide further clarification in respect of its position as to the Relevant Conditions.</p>
<p><b><i>“The Offer removes significant risks”</i></b></p>	<p>WestSide contends that Armour Energy is subject to significant financing risks. At the time of the Original WestSide Bidder's Statement, Armour Energy had entered into the LOI with AEP. Armour Energy considers that WestSide overemphasised the risk associated with Armour Energy at this time and that WestSide alluded that its offer was the only risk free alternative available to Armour Energy Shareholders.</p> <p>Since the Original Bidder's Statement and as announced to the ASX on 11 September 2015, 30 September 2015 and 1 October 2015,<sup>43</sup> Armour Energy has:</p> <ol style="list-style-type: none"> <li>1. entered into binding agreements (albeit subject to conditions, including Shareholder approval) with AEGP (please see Section 9 of this Target's Statement for further information); and</li> <li>2. entered into a binding terms sheet for a debt funding package of A\$15 million on commercial terms from its major shareholder, DGR Global Limited (see Section 10 of this Target's Statement for further information).</li> </ol> <p>Armour Energy believes that it is incumbent on WestSide to update its disclosure in its Bidder's Statement to take into account the above funding.</p> <p>The AEP Northern Territory Farm-Out provides further certainty of funding through the commitment to spend up to US\$130 million over 5 years, in addition to the maximum of approximately A\$39.5 million<sup>44</sup> in cash which Armour Energy may receive (inclusive of the funds received as a result of the placement of Shares to AEGP).</p> <p>The placement of Shares representing 9.99% of Armour Energy to AEP at A\$0.20 per Share further removes some of the alleged risks of further equity funding, as Armour Energy welcomes a large, well-funded partner to its shareholder register.</p>

<sup>43</sup> Source: Armour Energy ASX Announcement "Roma Shelf Funding Update" released on ASX on 11 September 2015, Armour Energy ASX Announcement "Execution of Binding Term Sheet with DGR Global" released on ASX on 30 September 2015, Armour Energy ASX Announcement "Clarification Statement re DGR Financing Facility" released on ASX on 30 September 2015 and Armour Energy ASX Announcement "Amendment to Binding Term Sheet with DGR Global" released on ASX on 1 October 2015.

<sup>44</sup> Refer to footnote 6.

**WESTSIDE CLAIM****ARMOUR ENERGY RESPONSE**

***“The Offer Price represents a SIGNIFICANT PREMIUM to recent trading levels”***

The Bidder's Statement contends that the Offer Price is at a premium to the Armour Energy Share price (closing price or VWAP, as applicable) at certain points in time. While these statements are factually correct, Armour Energy considers that they also have the potential to mislead Armour Energy Shareholders when read in context.

On 20 August 2015, Armour Energy announced its entry into the Letter Of Intent (**LOI**) with AEP. On the back of this announcement, approximately 4 million Armour Energy Shares were traded and the Share price increased from \$0.047 per Share to \$0.07 per Share.<sup>45</sup>

Given the LOI was announced seven Business Days prior to the opportunistic bid by WestSide, Armour Energy believes the premiums noted for the 1 month, 3 month, 6 month and 12 month VWAPs, although factually correct, are only of historical reference to Shareholders as they do not reflect the impact of the AEP Northern Territory Farm-Out to any material extent.

On 2 September 2015, Armour Energy announced the Roma Shelf Assets Acquisition. The WestSide Offer does not attribute any value to this.

***“Landbridge Group Co., Ltd has cash reserves in excess of the total consideration payable by WestSide under the Offer held in accounts in major commercial banks in China”***

WestSide has stated that all cash required to fund the WestSide Offer will be provided by funding from Landbridge Group Co., Limited.

Armour Energy believes that Shareholders should be provided sufficient information to assess a bidder's ability to perform its obligations under a bid.

Armour Energy believes that it is incumbent on WestSide to give full and frank disclosure around its external funding source.

This is especially the case given that:

1. Landbridge Group Co Limited is a private Chinese company which Armour Energy Shareholders are unlikely to be familiar with; and
2. Armour Energy Shareholders are unable to independently verify any of the statements made in respect of the financial standing of Landbridge Group Co., Limited.

We would consider, at a minimum, that WestSide should produce an accountant's certificate as to its ability to meet its obligations under the bid, or otherwise provide the full accounts of Landbridge Group Co., Limited.

WestSide has refused to supplement its disclosure in this regard, and Armour Energy Shareholders should be aware of the risk of WestSide (which is being entirely funded by Landbridge Group Co., Limited) not being able to fund the Offer.

<sup>45</sup> Source: Iress market data, as at Wednesday 30 September 2015 in compliance with ASIC Class Order 07/429.



# SECTION 3

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## FREQUENTLY ASKED QUESTIONS ABOUT THE OFFER

## SECTION 3

# FREQUENTLY ASKED QUESTIONS ABOUT THE OFFER

For the purposes of enabling you to understand some of the complex issues which arise during the process of a takeover, we have provided this question and answer guide. This section is not intended to address all issues that may be relevant to you. This section should be read together with the rest of this Target's Statement.

QUESTION	ANSWER	FURTHER INFORMATION
<b>3.1 What is this Target's Statement?</b>	This Target's Statement has been prepared by Armour Energy and provides Armour Energy's response to WestSide's Offer, including the recommendation of your Directors.	
<b>3.2 Who is the Bidder?</b>	WestSide Corporation Limited ACN 117 145 516, a Subsidiary of Landbridge Group Co., Ltd.	Section 12.2
<b>3.3 What is the Offer?</b>	<p>WestSide is offering to acquire all of your Armour Energy Shares for \$0.12 cash per Armour Energy Share on the terms and conditions set out in Appendix 1 and Appendix 2 of the Bidder's Statement.</p> <p>The Offer relates to Armour Energy Shares that exist as at 7.00pm (Sydney time) on 3 September 2015.</p> <p>The Offer also extends to all Armour Energy Shares that are issued between that date and the end of the Offer Period as a result of the exercise of Unlisted Armour Energy Options. However, WestSide is not offering to acquire any Unlisted Armour Energy Options.</p>	Section 7.2
<b>3.4 What are the Conditions of the Offer?</b>	<p>The Offer is subject to Conditions, which are set out in detail in Section 7.4 of this Target's Statement and more specifically Appendix 2 of the Bidder's Statement. In summary, the Conditions are:</p> <ol style="list-style-type: none"> <li>WestSide achieving at least 50.1% acceptances;</li> <li>the AEP Northern Territory Farm-Out not being entered into; and</li> <li>there being no prescribed occurrences.</li> </ol> <p>WestSide may choose to waive the Conditions in accordance with the Offer Terms. There can be no guarantee that they will do so.</p> <p>Armour Energy has breached the Relevant Conditions as a result of the entry into the AEP Northern Territory Farm-Out and the agreement to issue securities to AEGP. WestSide has in its Replacement Bidder's Statement reserved its rights to rely upon these breaches. Shareholders should be aware that there can be no guarantee that WestSide's Offer will not be withdrawn.</p>	Section 7.4
<b>3.5 What are my alternatives?</b>	<p>As an Armour Energy Shareholder, you have the following choices:</p> <ol style="list-style-type: none"> <li><b>REJECT THE OFFER BY DOING NOTHING</b> and remain an Armour Energy Shareholder, subject to your Shares not being compulsorily acquired by WestSide (see Section 13.6 for further information);</li> <li><b>Accept the Offer</b> for all of your Shares (see Section 13.3 for further information); or</li> <li><b>Sell your Armour Energy Shares on the ASX</b> at the prevailing market price (unless you have previously accepted the WestSide Offer and you have not validly withdrawn your acceptance) (see Section 13.7 for further information).</li> </ol> <p>When deciding what to do, you should carefully consider the Directors' recommendation and other important considerations in this Target's Statement.</p>	Sections 13.3, 13.6 and 13.7
<b>3.6 What do the Directors recommend?</b>	<p>Your Directors unanimously recommend that you <b>REJECT THE OFFER</b>.</p> <p>The reasons for this recommendation are set out in this Target's Statement.</p> <p>If there is a change in this recommendation or any other material developments in relation to the Offer, Armour Energy will lodge a supplementary target's statement.</p>	Section 4.3

QUESTION	ANSWER	FURTHER INFORMATION
<b>3.7 What are the intentions of major Shareholders?</b>	Each of your Directors, and certain Shareholders which in aggregate own or control approximately 29.51% of the Shares outstanding, as at the date of this Target's Statement DO NOT INTEND to accept WestSide's Offer (however reserve the right to do so in the case of an increase in the Offer Price). <sup>46</sup>	Section 5
<b>3.8 What does the Independent Expert conclude?</b>	The Independent Expert has concluded that the Offer is <b>Not Fair and Not Reasonable</b> . The Independent Expert's valuation range for Armour Energy was between \$0.22 and \$0.37 per Share.  The Independent Expert's Report accompanies this Target's Statement as Annexure A.	Annexure A
<b>3.9 If I accept the Offer, can I withdraw my acceptance?</b>	No. Under the Offer Terms, you cannot withdraw your acceptance unless a withdrawal right arises under the Corporations Act.  Such a withdrawal right will arise if, after you have accepted the Offer, WestSide varies the Offer in a way that postpones, for more than one month, the time when WestSide has to meet its obligations under the Offer, and at that time, the Offer is subject to one of the Conditions.	Sections 11.4.1 and 16.6
<b>3.10 Can WestSide vary the Offer?</b>	Yes, WestSide can vary the Offer by increasing the Offer Price, waiving the Conditions or extending the Offer Period. The Directors do not know if WestSide will vary its Offer. Any such variation will be announced to the ASX.	Section 7.8
<b>3.11 When does the Offer close?</b>	The Offer is scheduled to close at 7.00pm (Sydney time) on 23 October 2015 (unless extended or withdrawn). The Offer Period may also be automatically extended in certain circumstances.	Section 7.3
<b>3.12 What will happen if WestSide raises its Offer Price?</b>	WestSide has not declared the Offer Price final. WestSide may decide to increase the Offer Price. If this occurs, the Directors will carefully consider the revised Offer and advise Shareholders accordingly. There is no guarantee that WestSide will increase the Offer Price.  If you have already accepted the Offer, and WestSide subsequently increase the Offer Price, you are entitled to receive the higher price.	Section 7.8
<b>3.13 What happens if there is a superior offer?</b>	The Board believes the AEP Northern Territory Farm-Out is currently a superior proposal to the current WestSide Offer, for the reasons set out in Section 5 of this Target's Statement.  The Board will also consider the merits of any other offer.  If you have already accepted the WestSide Offer, you cannot participate in any other offer for your Shares if one is made, unless a withdrawal right is available (see Sections 11.4.1 and 16.6).  If you accept the WestSide Offer and WestSide subsequently increases its Offer Price, you are entitled to receive the higher price.	Sections 7.6, 11.4.1 and 16.6
<b>3.14 What happens if I do nothing?</b>	You will remain an Armour Energy Shareholder.  If WestSide acquires a relevant interest in at least 90% of the Armour Energy Shares and the Conditions are satisfied or waived, WestSide intends to proceed to compulsorily acquire your Armour Energy Shares. If this occurs, you will be paid the Offer Price at the conclusion of the compulsory acquisition process. See Section 16.7 for more details.  If WestSide acquires a relevant interest in the Armour Energy Shares between 50% and 90% of the Shares and the Offer becomes unconditional, you will be a minority Shareholder in Armour Energy. The implications of this are described in Section 16.4.	Section 16.7
<b>3.15 Can I be forced to sell my Armour Energy Shares?</b>	If WestSide acquires a relevant interest in at least 90% of the Armour Energy Shares issued, it will be entitled to compulsorily acquire the remaining Armour Energy Shares. Otherwise, you cannot be forced to sell your Armour Energy Shares.	Section 16.7

<sup>46</sup> See Section 4.5 and Section 6 of this Target's Statement for further information.

QUESTION	ANSWER	FURTHER INFORMATION
<b>3.16</b> <i>If I continue to hold my Shares, are there risks?</i>	Yes, Armour Energy is subject to a number of risks. These risks include (but are not limited to) those outlined in Section 11.	Section 11
<b>3.17</b> <i>How many Shares does WestSide hold in Armour Energy?</i>	WestSide has stated in its Bidder's Statement that (as at the date of that Bidder's Statement) it has no relevant interest or voting power in Armour Energy Shares (see Section 5.2 and 5.3 of the Bidder's Statement).  As at the date immediately before the first Offer was sent, WestSide has stated that it has no relevant interest or voting power in Armour Energy Shares (see Section 5.2 and 5.3 of the Bidder's Statement).	Sections 12.3 and 17.2
<b>3.18</b> <i>How do I accept the Offer?</i>	If you chose to accept the Offer, how you accept the Offer will depend on whether your Armour Energy Shares are in an Issuer Sponsored Holding or a CHESS Holding:  1. if you hold your Armour Energy Shares in an Issuer Sponsored Holding – signing and returning the Acceptance Form in the Bidder's Statement to the address indicated on the Acceptance Form before the end of the Offer Period; or  2. if you hold your Armour Energy Shares in a CHESS Holding – either:  i. signing and returning the Acceptance Form in the Bidder's Statement directly to your Broker or other Controlling Participant in sufficient time for the Offer to be accepted before the end of the Offer Period with instructions to initiate acceptance of the Offer on your behalf before the end of the Offer Period;  ii. instructing your Broker or other Controlling Participant to initiate acceptance of the Offer before the end of the Offer Period; or  iii. completing, signing and returning the Acceptance Form in accordance with the instructions on it and lodging it by returning it to the address indicated on the form so that your acceptance is received before 7:00pm on the second last Business Day of the Offer Period. This will authorise WestSide to instruct your Broker or other Controlling Participant to initiate acceptance of the Offer on your behalf;  3. if you are a Broker or an ASX Settlement Participant, to accept the Offer you must initiate acceptance in accordance with the requirements of the ASX Settlement Operating Rules before the end of the Offer Period; or  4. if some of your Armour Energy Shares are in an Issuer Sponsored Holding and some in a CHESS Holding, please read clause 4.3(d) of the Offer Terms in Appendix 1 of the Bidder's Statement for how to accept the Offer.  Details of how to accept the WestSide Offer are set out in clause 4 of the Offer Terms in Appendix 1 of WestSide's Bidder's Statement.	Sections 13.3 and 13.4
<b>3.19</b> <i>What happens if I accept the Offer?</i>	If you accept the WestSide Offer while it is still conditional, unless withdrawal rights are available, you will not be able to:  i. sell your Armour Energy Shares on ASX (that is, you will not be able to settle the trade using those Armour Energy Shares);  ii. sell your Armour Energy Shares to any other bidder that may make a takeover offer; and  iii. otherwise deal with you Armour Energy Shares while the Offer remains open.  If the Conditions of the Offer are not satisfied or waived and the Offer lapses, you will be free to deal with your Armour Energy Shares, even if you have accepted the Offer.	Sections 11.4.1, 13.3, 13.4 and 13.5



QUESTION	ANSWER	FURTHER INFORMATION
<b>3.20</b> <i>Can WestSide withdraw the Offer?</i>	Yes, but only in limited circumstances with the consent of ASIC see Clause 8 of Appendix 1 of the Offer Terms.	
<b>3.21</b> <i>Can I accept the Offer for only part of my Armour Energy Shares?</i>	No. You must accept the Offer in relation to all of your Armour Energy Shares.	Section 13.3
<b>3.22</b> <i>What are the tax implications of accepting the Offer?</i>	There may be tax implications from the sale of your Armour Energy Shares. Each Shareholder's position will be different. You should obtain independent advice from your professional advisor or tax advisor in this regard. Section 7 of the Bidder's Statement specifies possible tax implications for Armour Energy Shareholders arising from the Offer.	
<b>3.23</b> <i>Will I need to pay brokerage or stamp duty if I accept the Offer?</i>	The Bidder's Statement says that you do not pay brokerage or stamp duty if you accept the Offer. If you hold your Armour Energy Shares in a CHESS Holding or through another custodian arrangement, you should ask your broker or custodian if any fees or charges are payable in connection with acceptance of the Offer.	
<b>3.24</b> <i>What if I have other questions about the Offer?</i>	Please call Armour Energy's information line on 1300 794 935 for callers within Australia or on +61 1300 794 935 for callers outside Australia.	Section 13.8



# SECTION 4

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# DIRECTORS' RECOMMENDATION

## SECTION 4 DIRECTORS' RECOMMENDATION

### 4.1 SUMMARY OF THE WESTSIDE OFFER

WestSide is offering Armour Energy Shareholders \$0.12 cash per Armour Energy Share. The WestSide Offer is subject to a number of Conditions. These Conditions are set out in Appendix 2 of the Bidder's Statement and are summarised in Section 7.4 of this Target's Statement.

### 4.2 THE DIRECTORS

The following are Directors of Armour Energy as at the date of this Target's Statement:

- Nicholas Mather – Executive Chairman
- William Robert Stubbs – Non-Executive Director
- Roland Kingsbury Sleeman – Non-Executive Director
- Stephen Grant Bizzell – Non-Executive Director

Further details in respect of the Directors are set out in section 8.3 of this Target's Statement.

### 4.3 DIRECTORS' RECOMMENDATION

After taking into account each of the matters in this Target's Statement including the Independent Expert's Report and in the Bidder's Statement, each of your Directors recommends that you **REJECT** the Offer.

In considering whether to accept the Offer, your Directors encourage you to:

- read the whole of this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- consider the reasons for the Directors' recommendations noted in this Target's Statement; and
- obtain financial advice from your broker or financial advisor about the Offer and obtain taxation advice on the effect of accepting the Offer.

The interests of each Armour Energy Director in Armour Energy are set out in Section 14 of this Target's Statement.

Each of the above mentioned Directors recommends that you **REJECT** the Offer.

### 4.4 REASONS TO REJECT THE OFFER

The reasons that the Directors recommend that you reject the Offer are outlined in Section 1 of the Target's Statement entitled "KEY REASONS TO REJECT THE OFFER".

### 4.5 ARMOUR ENERGY DIRECTORS INTEND TO REJECT THE OFFER

As at the date of this Target's Statement, your Directors do not intend to accept the WestSide Offer at its current price (however reserve the right to do so in the case of an increase in the Offer Price).

Please see Section 6 below for further information and qualifications.





# SECTION 5

THE AEP NORTHERN  
TERRITORY FARM-  
OUT IS A REAL  
ALTERNATIVE TO  
DELIVER VALUE TO  
SHAREHOLDERS

## SECTION 5 THE AEP NORTHERN TERRITORY FARM-OUT IS A REAL ALTERNATIVE TO DELIVER VALUE TO SHAREHOLDERS

As part of the proposed AEP Northern Territory Farm-Out, AEP has agreed to subscribe for 9.99% of Armour Energy at \$0.20 per share (with 50% payable upon Shareholder approval and the balance at the closing of the FOA). The Offer does not reflect the full value of Armour Energy in light of the proposed equity investment by AEP at \$0.20 per Share.

While the AEP Northern Territory Farm-Out is conditional upon the satisfaction of a number of conditions precedent (such as Shareholder approval and satisfactory due diligence – See Section 16.1 for further information), the Directors believe that the WestSide Offer is also subject to risk. WestSide has not declared its intentions in respect of its Offer should Shareholders vote against the AEP Northern Territory Farm-Out. As a result of this, even if Shareholders vote against the AEP Northern Territory Farm-Out, there is no guarantee that WestSide will proceed with its Offer. Additionally, WestSide's Offer is subject to the Conditions and there is no guarantee that these Conditions will ever be satisfied or waived (as the case may be).

The proposed equity investment by AEP at \$0.20 per Share is a significant premium to the WestSide Offer Price and implies a valuation of A\$60.9 million.<sup>47</sup> Under the AEP Northern Territory Farm-Out, Shareholders retain control of Armour Energy (although Armour Energy will hold a reduced 25% interest in the Northern Territory Tenements, it will also be free carried for the duration of Phase One), whereas under the WestSide Offer, Shareholders will lose the potential to benefit from any upside in Armour Energy. The Board believes that Shareholders are entitled to benefit from the value to be extracted from Armour Energy's assets through receiving a fair price for their Shares, which is not currently the case with the WestSide Offer.

Following completion of the AEP Northern Territory Farm-Out, Armour Energy will receive a maximum of approximately A\$39.5 million in cash.<sup>48</sup>

The AEP Northern Territory Farm-Out to ascribes a farm-in value on the total expenditure, and cash and bonus payments, of approximately A\$94 million.<sup>49</sup> **This value is approximately 2.5 times the WestSide Offer.**<sup>50</sup> The Independent Expert's Report provides a valuation range for the Northern Territory Tenements of \$54.2 million to \$101.2 million, with a preferred value of \$69.4 million.<sup>51</sup>

The AEP Northern Territory Farm-Out is a significant and important technical endorsement of the importance of Armour Energy's assets. AEP is an American oil and gas company with a very strong track record in developing new oil and gas plays. The Directors consider the proposed equity investment by AEP to attribute value to the Roma Shelf Assets Acquisition, which is not attributed by the WestSide Offer.<sup>52</sup>



47 Refer to footnote 2.

48 Refer to footnote 6.

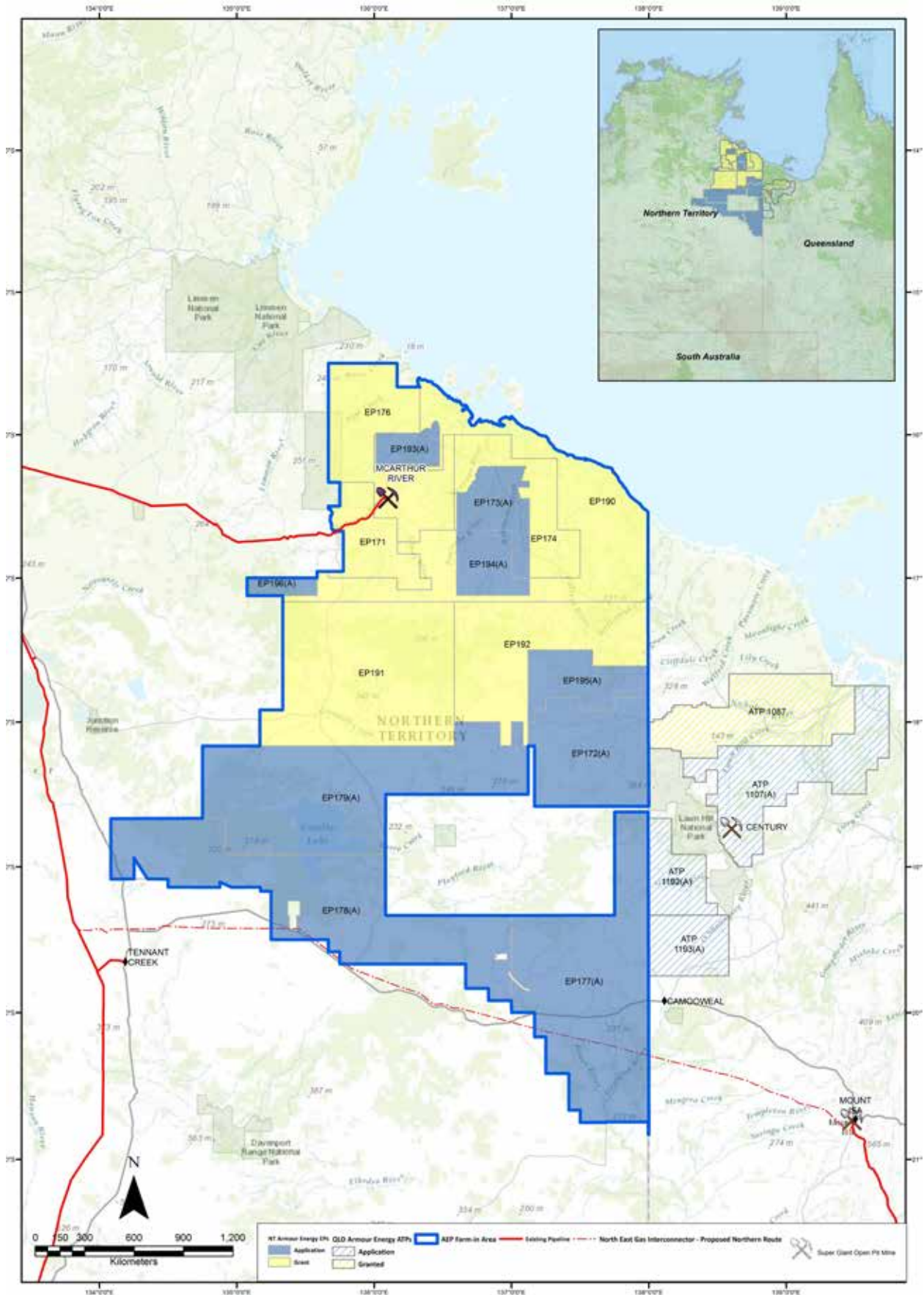
49 Refer to footnote 8.

50 Refer to footnote 8.

51 Please see the Independent Expert's Report for further information.

52 This is because the Roma Shelf Assets Acquisition was announced on 2 September 2015, after the WestSide Offer. The proposed equity investment by AEP was announced on 11 September 2015, after the announcement of the Roma Shelf Assets Acquisition.

Figure 6: The Northern Territory Farm-in Tenements (granted and pending)



A photograph of an industrial facility, likely a refinery or chemical plant, featuring a complex network of white pipes, metal walkways, and a tall distillation column in the background. The ground is reddish-brown dirt. A large, semi-transparent blue graphic element is visible in the top right corner.

# SECTION 6

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## INTENTION OF SELECT SHAREHOLDERS AND DIRECTORS

## SECTION 6

### INTENTION OF SELECT SHAREHOLDERS AND DIRECTORS

The following Directors and Shareholders which in aggregate own or control approximately 29.51% of the Shares outstanding, as at the date of this Target's Statement, **DO NOT INTEND to accept WestSide's Offer** (however reserve the right to do so in the case of an increase in the Offer Price).

SHAREHOLDERS	NUMBER OF SHARES HELD <sup>#</sup>	PERCENTAGE OF SHARES HELD
DGR Global Limited	75,050,000	24.64%
Jeremy Barlow	8,200,000	2.70%
Kathleen de Weijer	1,232,241	0.4%
<b>Sub-total</b>	<b>84,482,241</b>	<b>27.74%</b>

DIRECTORS	NUMBER OF SHARES HELD <sup>#</sup>	PERCENTAGE OF SHARES HELD
Nicholas Mather*	3,619,855	1.19%
William Robert Stubbs <sup>^</sup>	410,000	0.13%
Roland Kingsbury Sleeman	60,000	0.02%
Stephen Grant Bizzell	1,310,000	0.43%
<b>Sub-total</b>	<b>5,399,855</b>	<b>1.77%</b>

<b>TOTAL<sup>°</sup></b>	<b>89,882,096</b>	<b>29.51%<sup>*</sup></b>
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<sup>#</sup> Number of shares that the holder or Director (as the case may be) and their associated entities have a relevant interest in.

<sup>\*</sup> Mr Nicholas Mather is also the managing director and a substantial shareholder of DGR Global Limited. The shareholding of DGR Global Limited in Armour Energy is also set out in Section 6 of this Target's Statement.

<sup>^</sup> Mr William Robert Stubbs is the chairman of DGR Global Limited. The shareholding of DGR Global Limited in Armour Energy is also set out in Section 6 of this Target's Statement.

<sup>°</sup> Directors and Shareholders.

• Minor variations in calculations and aggregation occur as a result of rounding to two decimal places.





# SECTION 7

## KEY TERMS OF THE WESTSIDE OFFER

## SECTION 7 KEY TERMS OF THE WESTSIDE OFFER

### 7.1 HISTORY

On 31 August 2015, WestSide announced its intention to make an off-market takeover bid for all the ordinary Shares in Armour Energy. WestSide lodged its Original Bidder's Statement with ASIC and gave a copy to Armour Energy on the same day. On 14 September WestSide lodged its Replacement Bidder's Statement with ASIC and gave a copy to Armour Energy on the same day.

### 7.2 SUMMARY OF WESTSIDE OFFER

The WestSide Offer is to acquire all outstanding ordinary Shares of Armour Energy and any Rights attaching to the Shares for \$0.12 per Share on the terms and conditions set out Appendix 1 and Appendix 2 of the Bidder's Statement.

### 7.3 OFFER PERIOD

The WestSide Offer will remain open for acceptance until the Closing Date, unless extended under the Corporations Act or withdrawn with the written consent of ASIC under the Corporations Act.

If within the last 7 days of the Offer Period:

- (a) the Offer is varied to improve the consideration offered; or
- (b) WestSide's voting power in Armour Energy increases to more than 50%,

The Offer Period is automatically extended, so that it ends 14 days after the event referred to in Section 7.3(a) or 7.3(b) of this Target's Statement. WestSide must, in these circumstances, give Armour Energy and everyone who has not accepted the Offer, written notice that the extension has occurred within 3 days after that event.

### 7.4 CONDITIONS OF THE WESTSIDE OFFER

The WestSide Offer and any contract resulting from acceptance of the Offer is subject to fulfillment of the following conditions:

- (a) **(minimum ownership)** during, or at the end of, the Offer Period, the number of Armour Energy Shares in which WestSide and its associates together have relevant interests in is at least 50.1% of all Armour Energy Shares;
- (b) **(Northern Territory Farm-Out)** none of the following events occurs during the period from the Announcement Date to the end of the Offer Period:
  - (1) Armour Energy or an Armour Energy Subsidiary enters into, or announces that it has entered into, any binding agreement, arrangement or understanding with AEP or any person acting jointly or in concert with AEP, in connection with one or more companies, businesses or assets (or any legal, beneficial or economic interest or right in one or more companies, businesses or assets) of the Armour Energy Group (including, without limitation, in connection with the proposal announced by Armour Energy on 20 August 2015);

- (2) Armour Energy or an Armour Energy Subsidiary enters into, or announces that it has entered into, a transaction, or agrees to enter into a binding commitment to implement a transaction, that has the same economic effect as any of the things in paragraph (1); or
  - (3) Armour Energy or an Armour Energy Subsidiary resolves to do any of the things in paragraph (1) or (2); or
- (c) **(prescribed occurrences)** that during the period beginning on the Announcement Date and ending at the end of the Offer Period, none of the following events happen:
- (1) Armour Energy converts all or any of its Armour Energy Shares into a larger or smaller number of Armour Energy Shares;
  - (2) Armour Energy or an Armour Energy Subsidiary resolves to reduce its share capital in any way;
  - (3) Armour Energy or an Armour Energy Subsidiary:
    - (A) enters into a buy-back agreement; or
    - (B) resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act;
  - (4) Armour Energy or an Armour Energy Subsidiary issues shares, or grants an option over its Armour Energy Shares, or agrees to make such an issue or grant such an option;
  - (5) Armour Energy or an Armour Energy Subsidiary issues, or agrees to issue, convertible notes;
  - (6) Armour Energy or an Armour Energy Subsidiary disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
  - (7) Armour Energy or an Armour Energy Subsidiary charges, or agrees to charge, the whole, or a substantial part, of its business or property;
  - (8) Armour Energy or an Armour Energy Subsidiary resolves to be wound up;
  - (9) a liquidator or provisional liquidator of Armour Energy or of an Armour Energy Subsidiary is appointed;
  - (10) a court makes an order for the winding up of Armour Energy or of an Armour Energy Subsidiary;
  - (11) an administrator of Armour Energy, or of an Armour Energy Subsidiary, is appointed under section 436A, 436B or 436C of the Corporations Act;
  - (12) Armour Energy or an Armour Energy Subsidiary executes a deed of company arrangement; or
  - (13) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of Armour Energy or of an Armour Energy Subsidiary.

## 7.5 CONSEQUENCES IF CONDITIONS ARE NOT SATISFIED

If the Conditions are not satisfied or waived before the Offer closes, the Offer will lapse. This means that:

- (a) if you have accepted the WestSide Offer, your acceptance is void and you will continue to be an Armour Energy Shareholder, free to deal with your Armour Energy Shares; or
- (b) if you have not accepted the WestSide Offer, you continue to be an Armour Energy Shareholder and are free to deal with your Armour Energy Shares.

Please see Section 16.2 of this Target's Statement for further information surrounding Armour Energy's breach of the Relevant Conditions and the consequences of such breach.

## 7.6 EFFECT OF ACCEPTANCE

The effect of acceptance of the WestSide Offer is set out in Clause 7 of Appendix 1 of the Bidder's Statement. You should read those sections in full to understand the effect that acceptance will have on your ability to exercise the Rights attaching to your Armour Energy Shares and the representations and warranties which you give by accepting the WestSide Offer. In particular, if you accept the WestSide Offer, you will forfeit the opportunity to benefit from any superior offer made by another bidder for your Armour Energy Shares (subject to any withdrawal rights – see Section 16.6), if that offer were to eventuate. If you accept the WestSide Offer you will not be able to sell your Armour Energy Shares on ASX (that is, you will be unable to settle any subsequent sale of your Armour Energy Shares).

## 7.7 PAYMENT OF CONSIDERATION

WestSide has set out in Clause 5 of Appendix 1 of the Bidder's Statement, the timing of the payment of the consideration to holders of Armour Energy Shares who accept the WestSide Offer. In general terms, if you accept the WestSide Offer and the contract resulting from your acceptance of the Offer becomes unconditional, you will receive the consideration to which you are entitled under the WestSide Offer on or before the earlier of:

- (a) the 7th Business Day after the date the Offer is validly accepted by you, or if the Offer is subject to a Condition when accepted, by the 7th Business Day after the Offer or the contract resulting from your acceptance of the Offer becomes unconditional; and
- (b) the 7th Business Day after the end of the Offer Period.

## 7.8 CHANGES TO THE WESTSIDE OFFER

WestSide can vary the WestSide Offer by:

- (a) waiving the Conditions to the WestSide Offer;
- (b) extending the Offer Period; or
- (c) increasing the consideration offered under the WestSide Offer.

If you accept the WestSide Offer and WestSide subsequently increases its Offer Price, you are entitled to receive the higher price.

## 7.9 COMPULSORY ACQUISITION

WestSide has indicated in Section 4.4 of its Bidder's Statement that, if it is entitled to do so, it will proceed to compulsorily acquire all remaining Armour Energy Shares.

Under section 661A of the Corporations Act, WestSide is entitled to compulsorily acquire any Armour Energy Shares for which it has not received an acceptance of its Offer on the same terms as the Offer if, during or at the end of the Offer Period, WestSide and its associates have a relevant interest in at least 90% (by number) of Armour Energy Shares. The consideration per Armour Energy Share payable to Armour Energy Shareholders whose Shares are compulsorily acquired is the same as that payable under the WestSide Offer.

If WestSide is entitled to proceed to compulsory acquisition, it will have one month after the Offer Period to give compulsory acquisition notices to Armour Energy Shareholders who have not accepted the Offer. Armour Energy Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the Shareholders to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for the Armour Energy Shares.

## 7.10 NO OFFER FOR OPTIONS

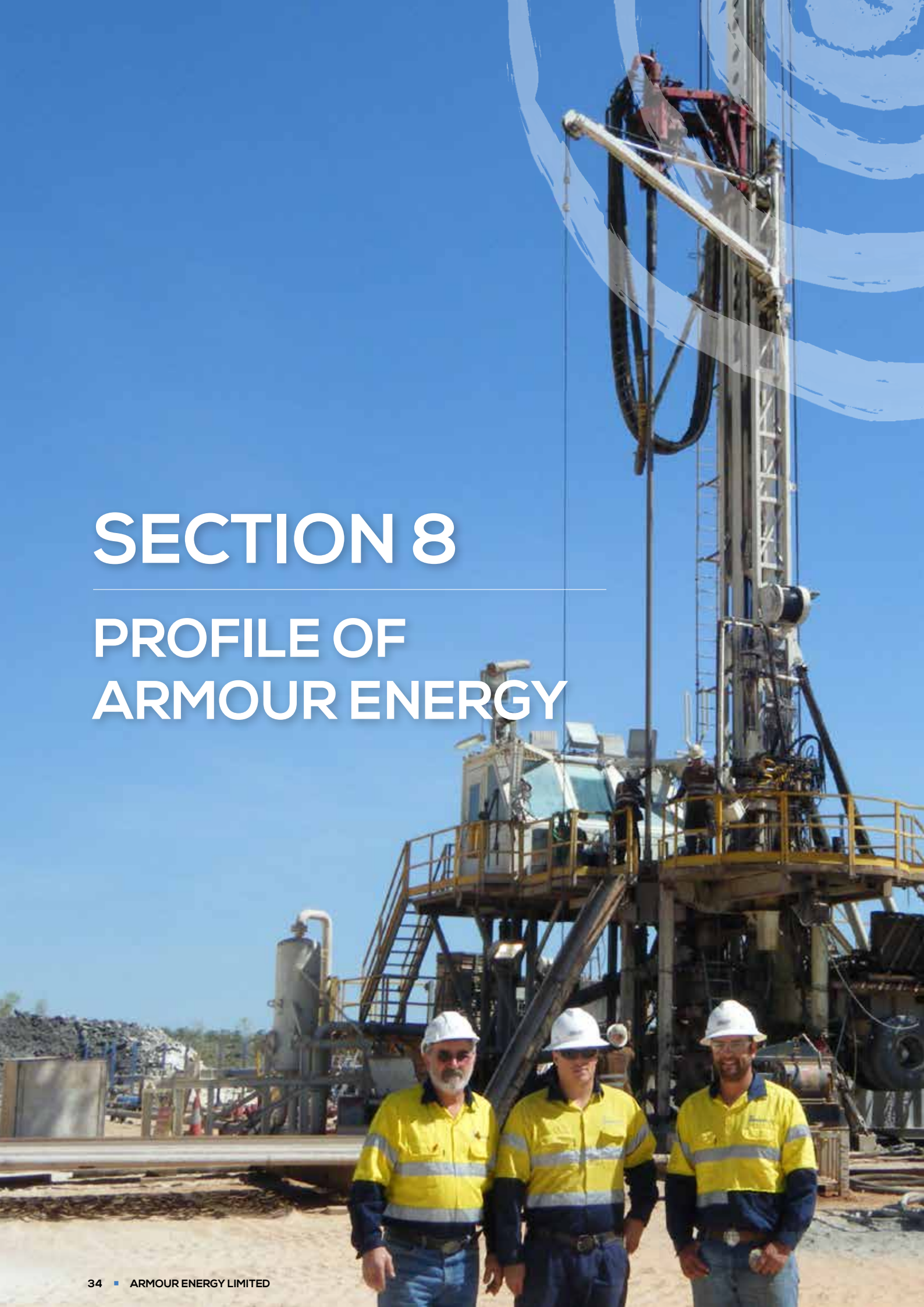
The WestSide Offer extends to all Armour Energy Shares that are issued during the period from the Register Date to the end of the Offer Period due to the exercise of the Options that are on issue at the Register Date. The WestSide Offer does not however extend to the Options.

WestSide has stated in its Bidder's Statement, that if it becomes entitled to do so under the Corporations Act, it intends to give notices to Armour Energy Optionholders to compulsorily acquire any outstanding Options in accordance with section 664C of the Corporations Act.

WestSide has also stated that if it is required to do so under section 663A of the Corporations Act, it intends to give notices to Armour Energy Optionholders offering to acquire their Options in accordance with section 663C of the Corporations Act.

Please see Section 4 of WestSide's Bidder's Statement for further information around WestSide's intentions.

Details of the Options on issue are set out in Section 17.1 of this Target's Statement.

The background of the page is a photograph of an oil drilling rig. The rig is a tall, complex structure with various pipes, ladders, and platforms. In the foreground, three men are standing side-by-side, looking towards the camera. They are wearing high-visibility yellow and blue work shirts, dark blue trousers, and white hard hats. The scene is set outdoors under a clear blue sky. The text 'SECTION 8' is positioned at the top left, followed by 'PROFILE OF ARMOUR ENERGY' below it, both in a large, white, sans-serif font. A thin white horizontal line is placed between the two lines of text. The overall composition is professional and industrial.

# SECTION 8

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## PROFILE OF ARMOUR ENERGY

## SECTION 8

# PROFILE OF ARMOUR ENERGY

### 8.1 INTRODUCTION

Armour Energy is a company limited by shares that is incorporated and domiciled in Australia. It was first established as a proprietary company on 18 December 2009 and is focused on the discovery and development of conventional and unconventional gas and associated liquids resources in Australia.

### 8.2 BUSINESS OVERVIEW

Armour Energy is focused on the discovery and development of world class gas and associated liquids resources in an extensive hydrocarbon province in northern Australia which was first discovered in the early 1990s. This region has only recently had its shale potential identified by Armour Energy.

Today's business environment with strong domestic and global demand for gas, domestic gas prices trending towards LNG netback, combined with proven and safe shale extraction technologies and world class personnel, provides Armour Energy with an extraordinary opportunity to define and ultimately develop a major new gas province.

Armour Energy's permit areas in northern Australia are characterised by low population densities, low social impact, cooperative stakeholders and a natural environment suited to the exploration and development of a major future hydrocarbon province.

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

Armour Energy will progress exploration of its 133,000 square kilometres (33 million acres) tenement area while maintaining a prudent approach to capital management, low-cost, high-value work programs and partnering on appropriate terms. Exploration will focus on staged de-risking of large unconventional gas and liquids plays while pursuing early cash flow opportunities.

The experienced Board of Armour Energy includes three past directors of Arrow Energy Ltd. Armour Energy's technical and commercial team includes a range of industry experts and seasoned professionals who have been selected to help transform Armour Energy into a significant gas exploration and development company.

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### 8.3 DIRECTORS



#### Executive Chairman

Nicholas Mather  
*BSc (Hons, Geol), MAusIMM*

Nicholas Mather's special area of experience and expertise is the generation of and entry into undervalued or unrecognised resource exploration opportunities. He has been involved in the junior resource sector at all levels for more than 25 years. In that time he has been instrumental in the delivery of major resource projects that have delivered significant gains to shareholders. As an investor, securing projects and financiers, leading exploration campaigns and managing emerging resource companies Mr Mather brings a wealth of valuable experience.

During the past three years Mr Mather has also served as a Director of the following listed companies:

- DGR Global Ltd\*
- Aus Tin Mining Limited\*
- Navaho Gold Ltd\*
- Lakes Oil NL\*
- SolGold plc, which is listed on the London Stock Exchange (AIM)\*
- IronRidge Resources Limited, which is listed on the London Stock Exchange (AIM)\*
- Bow Energy Ltd (resigned 11 January 2012)
- Orbis Gold Ltd (resigned 16 February 2015).

\* Current Directorships



**Non-Executive Director**

William (Bill) Stubbs  
*LLB*

Mr Stubbs is a lawyer of 35 years' experience and is currently the Chairman of DGR Global Ltd. He was the co-founder of the legal firm Stubbs Barbeler and has practiced extensively in the area of Commercial Law including Stock Exchange listings and all areas of mining law.

Mr Stubbs has held the position of Director of various public companies over the past 25 years in the mineral exploration and biotech fields. He is also the former Chairman of Alchemia Ltd and Bemax Resources NL which discovered and developed extensive mineral sands resources in the Murray Basin.

He was the founding Chairman of Arrow Energy NL which originally pioneered coal seam gas development in Queensland's Bowen and Surat Basins from 1998, and is now a world-wide coal seam gas company.

During the past three years Mr Stubbs has also served as a Director of the following listed companies:

- DGR Global Ltd\*
- Lakes Oil NL\*
- Coalbank Ltd (resigned 22 November 2013).

\* Current Directorships



**Non-Executive Director**

Roland Sleeman  
*BEng (Mech), MBA*

Roland Sleeman has 34 years' experience in oil and gas as well as utilities and infrastructure. Mr Sleeman has served in senior management roles, including with Eastern Star Gas Limited as Chief Commercial Officer and AGL as General Manager of the Goldfields Gas Pipeline.

Mr Sleeman has extensive engineering and business experience including negotiation of gas sales agreements that provided a foundation for development of the North West Shelf Project,

commercialisation of new gas and power station opportunities and management of major gas transmission pipeline infrastructure. Mr Sleeman has provided specialist commercial, regulatory and project development advice to both the public and private sectors.

Mr Sleeman has not served as a Director of any other listed company in the last three years.



**Non-Executive Director**

Stephen Bizzell  
*BComm, MAICD*

Stephen Bizzell is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd.

Mr Bizzell was previously an Executive Director of Arrow Energy Ltd from 1999 until its acquisition by Shell and Petro China for \$3.5 billion in August 2010. He was instrumental in Arrow Energy's corporate and commercial success and its growth from a junior explorer to a large integrated energy company. He was also previously a Non-Executive Director of Bow Energy Ltd prior to its takeover by Arrow Energy Pty Ltd for \$0.5 billion in January 2012. He has had further experience in the unconventional oil and gas sector as a Director of Dart Energy Ltd, Apollo Gas Ltd, Titan Energy Services Ltd and UIL Energy Ltd.

Mr Bizzell qualified as a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Tax division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 20 years' corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies.

He is also a Director of Queensland Treasury Corporation.

During the past three years Mr Bizzell has also served as a Director of the following listed companies:

- Bow Energy Ltd (resigned 11 January 2012)
- Hot Rock Ltd (resigned 14 August 2014)
- Dart Energy Ltd (resigned 26 November 2014)
- Diversa Ltd\*
- Renascor Resources Ltd\* (formerly Renaissance Uranium Ltd)
- Stanmore Coal Ltd\*
- Titan Energy Services Ltd\*
- Laneway Resources Limited\* (formerly Renison Consolidated Mines NL)
- UIL Energy Ltd\*.

\* Current Directorships

## 8.4 SUMMARY OF FINANCIAL INFORMATION

Set out below is an extract of Armour Energy's consolidated statement of financial position as at 30 June 2015 as contained in Armour Energy's Annual Report for 2015 which was announced to the ASX on 2 September 2015.

Armour Energy published its 2015 Annual Report on 2 September 2015. Since 30 June 2015, a number of material events have occurred (including the proposed Roma Shelf Assets Acquisition, the proposed AEP Northern Territory Farm-Out and the WestSide Offer).

The proposed Roma Shelf Assets Acquisition and the proposed AEP Northern Territory Farm-Out are conditional, and accordingly do not currently impact on the financial position of Armour Energy. Should they both complete, there will be a capital expenditure requirement in respect of the Roma Shelf Assets Acquisition (see Section 10.3 of this Target's Statement for further information), as well as an inflow of capital arising pursuant to the AEP Northern Territory Farm-Out (see Section 9 of this Target's Statement for further information). There can be no guarantee that these transactions will complete.

Armour Energy has also entered into a binding terms sheet with DGR in respect of the Facility on 30 September 2015.<sup>53</sup> Should the Facility complete, and the funds become available pursuant to it, Armour Energy expects to use the funds provided under the Facility as the consideration to fund the Roma Shelf Assets Acquisition. It may be the case that irrespective of the various potential capital inflow events, that Armour Energy may still require further capital, and Armour Energy will assess its need for such further capital and react accordingly dependent upon such a requirement arising.

Armour Energy's cash balance as at 30 June 2015 was \$8.5m. Armour Energy has expended funds as part of its usual operations.

For details of the notes to the accounts, please see Armour Energy's Annual Report for 2015 which can be located on the ASX website at [www.asx.com.au](http://www.asx.com.au) using Armour Energy's ASX code 'AJQ' or Armour Energy's website at [www.armourenergy.com.au](http://www.armourenergy.com.au).

	Notes	2015 \$	Restated 2014 \$
<b>Current assets</b>			
Cash and cash equivalents	8	8,533,160	6,474,941
Trade and other receivables	9	191,672	119,159
Other current assets	10	272,682	298,440
<b>Total current assets</b>		<b>8,997,514</b>	<b>6,892,540</b>
<b>Non-current assets</b>			
Other financial assets	11	5,241,972	7,406,817
Property, plant and equipment	12	116,393	170,309
Exploration and evaluation assets	13	55,156,524	60,428,432
Deferred tax assets	4	–	504,785
<b>Total non-current assets</b>		<b>60,514,889</b>	<b>68,510,343</b>
<b>Total assets</b>		<b>69,512,403</b>	<b>75,402,883</b>
<b>Current liabilities</b>			
Trade and other payables	14	898,025	634,241
Provision	15	74,379	53,828
<b>Total current liabilities</b>		<b>972,404</b>	<b>688,069</b>
<b>Non-current liabilities</b>			
Deferred tax liability	4	1,177,530	–
<b>Total non-current liabilities</b>		<b>1,177,530</b>	<b>–</b>
<b>Total liabilities</b>		<b>2,149,934</b>	<b>688,069</b>
<b>Net assets</b>		<b>67,362,469</b>	<b>74,714,814</b>
<b>Equity</b>			
Issued capital	16	83,880,979	83,709,877
Reserves	18	571,896	1,520,269
Accumulated losses		(17,090,406)	(10,515,331)
<b>Total equity attributable to owners of Armour Energy Ltd</b>		<b>67,362,469</b>	<b>74,714,814</b>

<sup>53</sup> Source: Armour Energy ASX Announcement "Roma Shelf Funding Update" released on ASX on 11 September 2015, Armour Energy ASX Announcement "Execution of Binding Term Sheet with DGR Global" released on ASX on 30 September 2015, Armour Energy ASX Announcement "Clarification Statement re DGR Financing Facility" released on ASX on 30 September 2015 and Armour Energy ASX Announcement "Amendment to Binding Term Sheet with DGR Global" released on ASX on 1 October 2015.

## 8.5 ISSUED CAPITAL

As at the date of this Target's Statement, Armour Energy's issued Share capital was 304,635,766 Shares (as disclosed in Armour Energy's 2015 Annual Report lodged with ASX on 2 September 2015).

## 8.6 SUBSTANTIAL HOLDERS

As at the date of this Target's Statement, the following entities (together with any of their associates) have a relevant interest in 5% or more of Armour Energy's Shares:

NAME	ARMOUR ENERGY SHARES	RELEVANT INTEREST IN SHARES (%)
DGR Global Limited <sup>54</sup>	75,050,000	24.64%
Och-Ziff Holding Corporations and Och-Ziff Capital Management Group LLC <sup>55</sup>	28,149,985	9.24%

<sup>54</sup> on behalf of themselves, OZ Management LP, OZ Management II LP and their controlled entities OZ Asia Master Fund, Ltd., OZ Enhance Master Fund, Ltd., Gordel Capital Limited, OZ ELS Master Fund, Ltd., OZ Master Fund, Ltd., OZ Eureka Fund, L.P, Goldman Sachs Profit Sharing Master Trust and OZ Global Special Investments Master Fund L.P.

## 8.7 PUBLICLY AVAILABLE INFORMATION

Armour Energy is a company listed on the ASX and is subject to periodic and continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. A substantial amount of information on Armour Energy is publicly available and may be accessed by referring to Armour Energy on [www.asx.com.au](http://www.asx.com.au) (ASX: AJQ).

## 8.8 FURTHER INFORMATION

For further information regarding Armour Energy, please refer to Armour Energy's 2015 Annual Report which can be located on the ASX website at [www.asx.com.au](http://www.asx.com.au) using Armour Energy's ASX code 'AJQ' or Armour Energy's website at [www.armourenergy.com.au](http://www.armourenergy.com.au).

## 8.9 OVERVIEW OF ASSETS

Armour Energy's interests in granted tenements are listed in the three tables below. In addition, Armour Energy has a number of permits under application. Please see the SRK Report for further information.

### (a) Northern Territory tenements

Asset	Name	Owner of Tenement	Armour Energy's Interest
EP 171	Abner Range	Armour Energy	100%
EP 174	Robinson River 2	Armour Energy	100%
EP 176	Ryans Bend	Armour Energy	100%
EP 190	Calvert	Armour Energy	100%
EP 191	Wallhollow	Armour Energy	100%
EP 192	Wollogorang	Armour Energy	100%
EL 30076	Kermit	Ripple Resources	100%
EL 30077	Gonzo	Ripple Resources	100%
EL 30078	Fozzie	Ripple Resources	100%
EL 30079	Scooter	Ripple Resources	100%
EL 30080	Miss Piggy	Ripple Resources	100%
EL 29837	Catfish Hole	Ripple Resources	100%
EL 29951	Eric Cartmen	Ripple Resources	100%
EL 29952	Kenny McCormick	Ripple Resources	100%
EL 29953	Secret Treasure	Ripple Resources	100%
EL 29954	Kyle Broflovski	Ripple Resources	100%
EL 29955	Stan Marsh	Ripple Resources	100%
EL 30494	Statler & Waldorf	Ripple Resources	100%
EL 30736		Ripple Resources	100%
EL 30737		Ripple Resources	100%
EL 30750		Ripple Resources	100%

<sup>54</sup> Source: Armour Energy ASX Announcement "Full Year Statutory Accounts (Relodged)" released on ASX on 15 September 2015.

<sup>55</sup> Source: Armour Energy ASX Announcement "Form 604 Notice of change of interests of substantial holder" released on ASX on 20 October 2014 and Armour Energy ASX Announcement "Full Year Statutory Accounts (Relodged)" released on ASX on 15 September 2015



Asset	Name	Owner of Tenement	Armour Energy's Interest
EL 30751		Ripple Resources	100%
EL 30752		Ripple Resources	100%
EL 30753		Ripple Resources	100%
EL 30774		Ripple Resources	100%
EL 30775		Ripple Resources	100%
EL 30776		Ripple Resources	100%

#### (b) Queensland tenements

Asset	Name	Owner of Tenement	Armour Energy's Interest
ATP 1087	South Nicholson	Armour Energy	100%
EPM 19833	Bowthorn	Ripple Resources	100%
EPM 19835	Shadforth East	Ripple Resources	100%
EPM 19836	Shadforth	Ripple Resources	100%
EPM 25410	Bowthorn – Extended	Ripple Resources	100%
EPM 25802	Walford East	Ripple Resources	100%
EPM 25504	Argyle Creek	Ripple Resources	100%
EPM 25505	Border	Ripple Resources	100%

#### (c) Victorian tenements

Armour Energy has an 18.89% shareholding in Lakes Oil.<sup>56</sup> Lakes Oil is an oil and gas explorer focused on the Otway and Gippsland Basins in Victoria. Armour Energy has entered into agreements on the three projects with Lakes Oil. Armour Energy's interest in the three projects is outlined in the table below.

Asset	Name	Owner of Tenement	Armour Energy's Interest
PEP 169	Moreys	Lakes Oil	51%
PEP 166	Holdgate	Lakes Oil	25%
PRL2		Lakes Oil	15% <sup>57</sup>

## 8.10 PROSPECTIVE RESOURCES

Armour Energy's Best Estimate Prospective Recoverable Gas Resources in northern Australia have increased from 34 Tscf to 57 Tscf, a 66% increase, as of September 2015.<sup>58</sup>

The update includes maiden gas Prospective Resources from the Tawallah Group Unconventional Reservoirs in the McArthur Basin of the Northern Territory, as first announced by Armour Energy on 29 April 2015, and the Riversleigh Shale located beneath the Lawn Hill Shale in ATP 1087, Queensland. In addition, a new combined inventory totalling 193 conventional leads and prospects in the Northern Territory can target 4.9 Tscf of Best Estimate Prospective Recoverable Gas Resources.<sup>59</sup>

Please see the SRK Report at page 18 for further information.

## 8.11 CONTINGENT RESOURCES

Armour Energy also has 35.5 Bscf 1C Contingent Recoverable Gas Resources, 160.4 Bscf 2C Contingent Recoverable Gas Resources and 374.2 Bscf 3C Contingent Recoverable Gas Resources, which have been independently assessed.<sup>60</sup>

Please see the SRK Report at page 19 for further information.

<sup>56</sup> Source: Lakes Oil ASX Announcement "Change in substantial holding from AIQ" released on ASX on 12 December 2014 in compliance with ASIC Class Order 07/429.

<sup>57</sup> Lakes Oil has a 100% interest in the PRL2, except for the Trifon and Gangell blocks where Lakes Oil has a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest. A successful exercise of the matching rights by Armour Energy would produce the following relevant interests (Lakes Oil, 85% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil would have a 42.5% interest and Jarden Corporation Australia Pty Ltd would have a 42.5% interests. Armour Energy would have a 15% interest in PRL2 subject to completing certain exploration expenditure). Source: Lakes Oil ASX Announcement "Quarterly Activities and Cash Flow Report - June 2015" released on ASX on 31 July 2015 in compliance with ASIC Class Order 13/521.

Beach Energy Limited and Somerton Energy (now Cooper Energy) withdrew from their farm-in agreement over PRL2 by which they could have earned a 50% interest in the permit by conducting certain expenditure up to the value of \$50 million, and Armour Energy had a period of 6 months to match the terminated farm-in agreement. Armour Energy sent Lakes Oil a letter exercising this matching right in relation to the farm-in agreement for PRL2. The matching right relates, amongst other things, to the phase 1 fracture stimulation of 2 wells incurring up to \$10 million of expenditure (subject to the Moratorium). As referred to above, the original farm-in agreement over PRL2 in respect of which Armour Energy has sought to match, also included a right to earn up to a 50% interest in PRL2. Lakes Oil disputes that Armour Energy has exercised that right to match. The parties have reserved their rights in this matter which is yet to be determined.

Additionally, Armour Energy has a 3 year option to acquire 50% of Lakes Oil's interests in the Trifon and Gangell blocks and a direct 25% interest in the remainder of PRL2 for a total payment of \$30 million. Option fees payable have a maximum lifetime value of \$0.6 million. The life of this option has been extended while the Moratorium is in place.

<sup>58</sup> Source: Armour Energy ASX Announcement "Major Prospective Resources Upgrade – Northern Australia" released on ASX on 21 September 2015.

<sup>59</sup> Source: Armour Energy ASX Announcement "Major Prospective Resources Upgrade – Northern Australia" released on ASX on 21 September 2015.

<sup>60</sup> Source: Armour Energy ASX Announcement "Independent Assessment of Contingent Resources Egilabria 2" released on ASX on 16 July 2014 and Armour Energy ASX Announcement "Independent Certification of NT Contingent Resources" released on ASX on 24 April 2013.



# SECTION 9

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## AEP NORTHERN TERRITORY FARM-OUT

## SECTION 9

### AEP NORTHERN TERRITORY FARM-OUT

As initially announced to the ASX on 20 August 2015 (in respect of the LOI), and subsequently on 11 September 2015 (in respect of the Definitive Agreements), Armour Energy and an Australian Affiliate of AEP (**AEGP**) have entered into the Definitive Agreements to give effect to the AEP Northern Territory Farm-Out (pursuant to which AEGP may acquire a 75% working interest and operatorship of Armour Energy's McArthur Basin oil and gas tenements in the Northern Territory).

Please see Section 16.1 for a summary of the Definitive Agreements. Shareholders should note that the AEP Northern Territory Farm-Out is conditional on a number of matters (including, amongst other matters, Armour Energy Shareholder approval and AEGP undertaking due diligence to its satisfaction). Shareholders should also be aware that the satisfaction of the majority of conditions of the FOA (on which a number of the other Definitive Agreements are also conditional upon) are not due until 9 March 2016 (being 180 days from the entry into the FOA). The due diligence condition is due by 9 January 2016 (being 120 days from the entry into the FOA). Armour Energy has no reason to believe as this point in time, that these conditions precedent will not be satisfied.

The entry into the Definitive Agreements (and the agreement to issue securities to AEGP pursuant to those agreements) has breached the Relevant Conditions of the WestSide Offer. Please see Section 16.2.2 in respect of the status of the Conditions as a result of the entry into the Definitive Agreements and the agreement to issue securities pursuant to the Definitive Agreements.

The AEP Northern Territory Farm-Out is summarised as follows:

- (a) AEGP will farm-in to all of the Northern Territory Tenements covering approximately 29.3 million acres of Armour Energy's McArthur Basin tenement position (Armour Energy will retain 100% of all of its tenements in north west Queensland covering approximately 5 million acres);
- (b) AEGP will carry 100% of Armour Energy's share of expenditure during Phase One, following which the parties will conduct operations governed by the OA;
- (c) Armour Energy will transfer a 75% working interest and operatorship in the Northern Territory Tenements to AEGP, subject to adjustment if the program is not completed. Armour Energy will reclaim operatorship if AEGP does not earn at least a 50.1% interest in the Northern Territory Tenements;
- (d) AEGP will maintain the Northern Territory Tenements in good standing;
- (e) AEGP will pay Armour Energy:
  - US\$13 million in cash upon closing of the transaction;
  - a further US\$3 million on grant and transfer of a 75% interest in EPA 177 and EPA 178 to AEGP; and

- a further US\$7 million upon the earlier of:
  - i. the date on which the grant of production licences over at least 1 million acres in respect of EP 171, EP 176 and EP 191; or
  - ii. the date on which EPA 172, EPA 173, EPA 179, EPA 193, EPA 195 and EPA 196 have been granted and a 75% interest has been transferred to AEGP and registered by NTDMME.
- (f) Armour Energy has agreed to issue 24 million unlisted Options to AEGP (set out below in further detail in section 16.1.3);
- (g) Armour Energy will place ~33.8 million new Shares<sup>61</sup> at A\$0.20 per Share to AEGP for total cash proceeds to Armour Energy of ~A\$6.7 million. Half of the placement will be settled on Shareholder approval (**Tranche 1**) and the remaining half will be settled on closing of the FOA (**Tranche 2**);
- (h) AEGP will nominate a Director to be appointed to the Armour Energy Board upon settlement of Tranche 2;
- (i) AEGP will have control over the design and implementation of the work program while it holds a minimum working interest of 75%, with Armour Energy acting in an advisory capacity in relation to the Phase One work program;
- (j) AEGP may seek to second Armour Energy employees to support the effective execution of the work program;
- (k) AEGP can withdraw in the event that there is a "material adverse effect" prior to closing, being an event, occurrence, matter or circumstance which individually or when in aggregate, would result in:
  - AEGP incurring additional costs, expenses or liabilities of more than US\$2 million; or
  - a reduction in the value of the existing permits, the permit applications, the pending permits (once granted) and associated assets (contracts, records and authorisations) by more than US\$2 million, but excluding any effects of:
    - movements in commodity prices or currency exchange rates;
    - adverse weather events;
    - operational risks associated with undertaking joint operations in accordance with Good Oilfield Practice;
    - the results or outcomes of joint operations; or
    - the availability of funding or financing for AEGP.
- (l) Once Phase One has ended, if Armour Energy is unable to obtain financing on fair market terms, AEGP will assist Armour Energy to obtain finance to fund its 25% share of all future capital expenditure to be spent on the Permits, up to a maximum amount of US\$130,000,000 (with such maximum depending on whether EPAs 177 and 178 are granted – if only one of those EPAs is granted, or if neither of those EPAs are granted, this maximum amount will be reduced to the relevant level of expenditure in Phase One).

<sup>61</sup> The maximum number of AEGP Shares which may be issued will be 35,763,095, if all 20,480,000 existing Armour Energy Options are exercised. If none of the existing Armour Energy Options are exercised, and no other Shares are issued prior to the date of issue of Tranche 1, the number of AEGP Shares to be issued will be ~33,810,813, with ~16,922,311 issued in Tranche 1 and ~16,888,502 issued under Tranche 2.



# SECTION 10

## ROMA SHELF ASSETS ACQUISITION

## SECTION 10 ROMA SHELF ASSETS ACQUISITION

### 10.1 GENERAL

On 2 September 2015, Armour Energy announced that it had executed agreements with Origin Energy Limited (**Origin**) to acquire petroleum resources, tenures, production and transportation infrastructure assets on the Roma Shelf in the Surat Basin in Queensland (**Roma Shelf Assets**).

More specifically, the tenements consisting of the Roma Shelf Assets are set out in the Roma Shelf Assets Table below.

The Roma Shelf Assets include the Kincora Gas and LPG Plant and Infrastructure, consisting of:

- 76 wells (of which 38 wells are proposed to be brought back on production);
- Gas, LPG and condensate processing and gas compression facilities at Kincora, south of Roma;
- a number of in field gas compression and stand alone oil gathering/processing facilities as well as inter-field pipelines;
- a dedicated pipeline from the Kincora Gas Plant to Wallumbilla connecting to the Roma to Brisbane Pipeline; and
- a gas storage facility with a capacity of 7.5 PJ, currently containing 2.3 PJ of sales gas.<sup>62</sup>

The Roma Shelf Assets encompass independently verified 2C resources of 28.3 PJ of sales gas, 294,400 barrels of condensate, 62,000 tonnes of LPG and 152,800 barrels of oil.<sup>63</sup>

### 10.2 CONDITIONS AND TIMING OF ROMA SHELF ASSETS ACQUISITION

There are nine sale and purchase agreements in respect of the Roma Shelf Assets Acquisition (please see the Roma Shelf Assets Table below in this regard) (**Roma Shelf Assets Agreements**).

The Roma Shelf Assets Agreements are conditional upon a number of conditions precedent being satisfied. The relevant conditions precedent are unique to each of the sale and purchase agreement (**SPA**) which make up the Roma Shelf Assets Agreements.

In aggregate, the relevant conditions precedent consist of:

- receiving notice from the Minister, that the Minister is likely to approve the transfer of registered interests in the relevant tenement to Armour Energy in accordance with the applicable petroleum legislation (**Indicative Approval**);

- confirmation from any relevant co-venturers holding a pre-emptive right under a joint operating agreement that:
  - the co-venturer waives its pre-emptive right; or
  - the period the co-venturer has to exercise its pre-emptive right has expired

(whichever is earlier) (**Pre-emptive Rights Waiver**);

- Origin, Armour Energy and each relevant co-venturer entering into a deed of assignment and assumption in respect of each relevant joint operating agreement (**Deed of Assignment and Assumption**);
- the resignation of Origin as operator under each relevant joint operating agreement and the appointment of a successor operator for the joint operating agreement (**Change of Operator**); and
- any necessary consents to Origin's transfer of its interest in the tenement (**Required Consent**).

A summary of the conditions precedent relevant to each specific tenement and SPA is set out below.

#### Roma Shelf Assets Table

Agreement	Tenements	Conditions precedent
SPA1	PL 28, PL 69, PL 89, PL 320, PL 11W, PL 12W, PL 11 Snake Creek East Exclusion Zone, PL 21, PL 22, PL 27, PL 71, PL 264	<ul style="list-style-type: none"> <li>▪ Pre-emptive Rights Waiver</li> <li>▪ Indicative Approval</li> <li>▪ Deed of Assignment and Assumption</li> <li>▪ Change of Operator</li> <li>▪ Required Consent from Australia Pacific LNG Pty Limited (<b>APLNG</b>) to the transfer of Origin's interest in PL 21, PL 22, PL 27, PL 71 and PL 264 to Armour Energy</li> </ul>
SPA 2	ATP 1190 (Weribone Pooling Area)	<ul style="list-style-type: none"> <li>▪ Pre-emptive Rights Waiver</li> <li>▪ Deed of Assignment and Assumption</li> <li>▪ Change of Operator</li> <li>▪ Required Consent from APLNG</li> </ul>
SPA 3	PL 30	<ul style="list-style-type: none"> <li>▪ Pre-emptive Rights Waiver</li> <li>▪ Indicative Approval</li> <li>▪ Deed of Assignment and Assumption</li> <li>▪ Change of Operator</li> </ul>
SPA 4	PL 512 (formerly PL 74)	<ul style="list-style-type: none"> <li>▪ Pre-emptive Rights Waiver</li> <li>▪ Indicative Approval</li> <li>▪ Deed of Assignment and Assumption</li> <li>▪ Change of Operator</li> </ul>

<sup>62</sup> Source: Armour Energy ASX Announcement "Armour to Become Significant Producer via Roma Shelf Assets" released on ASX on 2 September 2015.

<sup>63</sup> Please see section 8.4 of the RISC Report for further information.

Agreement	Tenements	Conditions precedent
SPA 5	PL 71 (Exploration)	<ul style="list-style-type: none"> <li>Pre-emptive Rights Waiver</li> <li>Deed of Assignment and Assumption</li> <li>Change of Operator</li> <li>Required Consent from APLNG to the transfer of Origin's interest in PL 71 (Exploration)</li> </ul>
SPA 6 <sup>64</sup>	ATP 647 (Block 2656)	<ul style="list-style-type: none"> <li>Pre-emptive Rights Waiver</li> <li>Deed of Assignment and Assumption</li> <li>Change of Operator</li> </ul>
SPA 7 <sup>65</sup>	PL 14, PL 53, PL 70, PL 511, PL 227, PPL 3, PPL 20, PPL 63	<ul style="list-style-type: none"> <li>Indicative Approval</li> <li>Required Consent from APLNG to the transfer of Origin's interests in PL 14 and PL 70</li> </ul>
SPA 8	ATP 754	<ul style="list-style-type: none"> <li>Pre-emptive Rights Waiver</li> <li>Indicative Approval</li> <li>Deed of Assignment and Assumption</li> <li>Change of Operator</li> </ul>
SPA 9	ATP 1190 (Bainbilla Block)	<ul style="list-style-type: none"> <li>Pre-emptive Rights Waiver</li> <li>Deed of Assignment and Assumption</li> </ul>

The Roma Shelf Assets Agreements for the Roma Shelf Assets Acquisition have been drafted so that each SPA may complete individually (that is, they are not inter-conditional upon completion of each other).

As the majority of the SPAs are conditional on factors outside of the control of Armour Energy and Origin, Armour Energy is unable to determine with any certainty when completion of the SPAs will actually occur. Armour Energy currently understands that it is likely that only one of the SPAs (SPA 7) will complete in the near future, with the rest of the SPAs completing progressively over the coming months.

All of the Roma Shelf Assets Agreements have a conditions date of 1 December 2015 (which may be extended). If the relevant condition precedents for a SPA are not satisfied or waived, Origin may terminate that relevant SPA.

### 10.3 ACQUISITION COSTS

Armour Energy must pay aggregate consideration of \$13 million (plus GST) to Origin for the Roma Shelf Assets. Of the \$13 million (plus GST), \$10 million (plus GST) will be paid in cash up front on completion (less the 10% deposit already paid), with the balance of \$3 million (plus GST) paid in deferred consideration in \$1 million (plus GST) tranches annually over three years from when gas sales first commence.

The Roma Shelf Assets Agreements have been drafted so that each sale and purchase agreement may complete individually. The consideration required to be paid on completion of each sale and purchase agreement is as follows:

Agreement	Purchase Price	Deposit	Amount payable on completion
SPA 1	\$1,807,367.49	\$180,736.75	\$1,626,630.74
SPA 2	\$10,000.00	\$1,000.00	\$9,000.00
SPA 3	\$81,908.56	\$8,190.86	\$73,717.70
SPA 4	\$195,458.98	\$19,545.90	\$175,913.08
SPA 5	\$500,000.00	\$50,000.00	\$450,000.00
SPA 6	\$2,000,000.00	\$200,000.00	\$1,800,000.00
SPA 7	\$5,655,264.97	\$565,526.50	\$5,089,738.47
SPA 8	\$500,000.00	\$50,000.00	\$450,000.00
SPA 9	\$250,000.00	\$25,000.00	\$225,000.00
<b>TOTAL</b>	<b>\$11,000,000.00</b>	<b>\$1,100,000.01</b>	<b>\$9,899,999.99</b>

The deferred consideration payments are to be made as follows:

- \$1,000,000 (plus GST) one year after the first gas sales from any of the Roma Shelf Assets (**First Gas**);
- \$1,000,000 (plus GST) two years after First Gas; and
- \$1,000,000 (plus GST) three years after First Gas.

#### Environmental bonds

Armour Energy must replace the financial assurance held by the Department of Environment and Heritage Protection and any bonds held by the Department of Natural Resources and Mines (**DNRM**) in respect of the Roma Shelf Assets (**Environmental Bonds**) no later than 10 business days after the completion date of each SPA.

Under the Roma Shelf Assets Agreements, Armour Energy must provide a total of approximately \$12,798,533.19 to the Queensland Government as replacement Environmental Bonds for the Roma Shelf Assets.

The Environmental Bonds required under each sale and purchase agreement are set out below:

Agreement	Amount
SPA 1	\$2,076,432.00
SPA 2	N/A
SPA 3	\$10,000.00
SPA 4	\$10,000.00
SPA 5	N/A <sup>66</sup>
SPA 6	N/A
SPA 7	\$10,690,101.19
SPA 8	\$12,000.00
SPA 9	N/A
<b>Total</b>	<b>\$12,798,533.19*</b>

\* This amount was the amount contained in the Roma Shelf Assets Agreements. Ultimately, the financial assurance required by DNRM pursuant to its approval of the tenement transfer could be more or less than this amount.

64 Additional conditions for ATP 647 relevant to an earlier farm-in agreement and joint operating agreement have already been fulfilled.

65 An additional condition for PPL3 (signing of PPL3 Management and Relocation Agreement) has already been fulfilled.

66 The financial assurance for PL 71 is already covered in SPA 1.

The complete list of Environmental Bonds to be replaced is as follows:

Petroleum Authority	Environmental Authority Number	Site Name	Purpose	Amount (\$)	Effective Date
PL 22	N/A	Surat – Waratah	DNRM	10,000.00	23/05/2005
PL 21	N/A	Surat – Balonne	DNRM	10,000.00	23/05/2005
PL 27	N/A	Surat – Newstead/Yarrab	DNRM	10,000.00	23/05/2005
PL 71	N/A	Surat – Parknook	DNRM	10,000.00	23/05/2005
PL 71	PEN100401209 (EPPG00342913)	Surat – Parknook	Required under EP Act	225,872.00	14/02/2012
PL 21, 22 and 27	PEN100395409 (EPPG00341413)	Surat – Balonne, New Royal, Newstead & Cogoon River	Required under EP Act	1,462,000.00	14/02/2012
PL 264	EPPG00248313	Emu Apple	Required under EP Act	348,560.00	13/05/2009
PL 30	N/A	Surat – Riverlea	DNRM	10,000.00	23/05/2005
PL 512 (previously PL 74)	N/A	Surat – Major	DNRM	10,000.00	23/05/2005
PL 14	N/A	Surat – Kincora	DNRM	10,000.00	23/05/2005
PL 53	N/A	Surat – Yambungle	DNRM	10,000.00	23/05/2005
PL 70	N/A	Surat – Berwick	DNRM	10,000.00	23/05/2005
PL 174	N/A	Surat – Myall Creek	DNRM	10,000.00	23/05/2005
PL 14, PL 53, PL 70 and PL 174	PEN100240608 (EPPG00694213)	Surat – Kincora	Required under EP Act	40,000.00	18/12/2012
PL 14, PL 53, PL 70 and PL 174	EPPG00694213	Surat – Kincora	Required under EP Act	10,481,401.19	13/11/2012
PL 227	EPPG00178813	Horseshoe	Required under EP Act	85,500.00	
PPL 63	PEN2003971610 (EPPG00402013)	Surat – Myall Creek – Beranga Pipeline	Required under EP Act	43,200.00	6/08/2010
ATP 754	N/A	Surat	DNRM	12,000.00	23/05/2005

## Minimum work commitments

Based on the information currently available to Armour Energy, Armour Energy believes that approximately \$12.4 million is required under earlier work programs and later development plans for the Roma Shelf Assets. This figure includes expenditures up to and including 2020. This figure is based on assumptions Armour Energy has made regarding DNRM's approval of various later development plans and the starting dates of particular commitments under these later development plans. Armour Energy has not confirmed what portion of these work program commitments have already been met in the period December 2014 to October 2015.

The costs of the earlier work programs and later development plans will be funded by existing cash, additional debt funding and free cash flows gathered from the operations.

## Recommissioning and start-up costs

Due to the mothballing procedures and ongoing preservation plan that Origin instituted when the Kincora plant was shut down, Armour Energy expects to restart the plant within the next 6-12 months at an estimated cost of \$5 million.<sup>67</sup>

## 10.4 FUNDING

### 10.4.1. BRIDGING FINANCE FACILITY

As announced on 11 September 2015, DGR Global Limited (DGR) has provided Armour Energy with access to up to a \$15 million debt financing package. On 30 September 2015 (and as amended on 1 October 2015), Armour Energy secured a commitment from DGR to provide up to \$15 million of funding if required to complete the purchase of the Roma Shelf Assets Acquisition (Facility).<sup>68</sup>

The Facility is unsecured. The interest rate is 22 per cent per annum but in the event the Facility becomes secured the rate reduces to 15 per cent per annum.

The term of the Facility is, on an unsecured basis, until 31 March 2016 (Maturity Date), but provision is made for Armour Energy to seek up to a 12 month extension if it is able to provide the following;

- (a) a first ranking security and mortgage over unsecured the Roma Shelf Assets and a fixed and floating charge over the assets of Armour Energy and subsidiaries and the assets of those subsidiaries;

- (b) the grant of a 0.5 per cent gross sales royalty over production from the Roma Shelf Assets;
- (c) the grant of 50,000,000 Options (which would be exercisable at 150% of Armour Energy's Share price immediately prior to grant, for a period of two years from the Maturity Date); and
- (d) a right to convert no more than 50% of any part of the drawn part of the Facility to Share equity in Armour Energy at any time, at 90% of the preceding 10 day volume weighted average in accordance with the provisions of the Corporations Act and ASX Listing Rules but subject to Armour Energy having a right if conversion is requested to repay the Facility early.

The Facility is subject to various conditions precedent including obtainment of Ministerial approvals for the transfer of the Roma Shelf Assets to Armour Energy.

In the event that Armour Energy grants security rights to another financier, DGR shall be given a right to seek a first ranking security.

Armour Energy has also agreed not to enter into other debt facilities without DGR's consent.

DGR is entitled to require repayment of the Facility provided in the event of a change in control of Armour Energy during the term of the Facility.

Armour Energy and DGR are currently in the process of finalising the terms sheet into definitive agreements reflecting the above summary.

### 10.4.2. ALTERNATIVE FUNDING

Further, Armour Energy advises that it has been actively pursuing a number of alternative funding options. A debt advisor has been appointed and expressions of interest have been received from multiple parties. Armour Energy is confident that it will be able to secure alternative funding well ahead of having to seek any extension of the Facility as outlined above.<sup>69</sup>

<sup>67</sup> Please see Section 7.2 of the RISC Report for further information.

<sup>68</sup> Source: Armour Energy ASX Announcement "Roma Shelf Funding Update" released on ASX on 11 September 2015, Armour Energy ASX Announcement "Execution of Binding Term Sheet with DGR Global" released on ASX on 30 September 2015, Armour Energy ASX Announcement "Clarification Statement re DGR Financing Facility" released on ASX on 30 September 2015 and Armour Energy ASX Announcement "Amendment to Binding Term Sheet with DGR Global" released on ASX on 1 October 2015.

<sup>69</sup> However, there can be no guarantee that alternative funding will be acquired. See Section 11.2.16 in relation to this.





# SECTION 11

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## ARMOUR ENERGY RISK FACTORS

# SECTION 11

## ARMOUR ENERGY

### RISK FACTORS

#### 11.1 INTRODUCTION

In deciding whether or not to accept the Offer, you should read the entire Target's Statement and the Bidder's Statement carefully.

Armour Energy is exposed to a number of key risks related to its specific business operations. Key risks are risks that the Directors and senior management of Armour Energy focus on when managing the business and which would have the potential, upon occurrence, to significantly affect Armour Energy and the value of investments in Armour Energy. An overview of these key risks is provided in Section 11.2 of this Target's Statement.

Armour Energy is also subject to general risks which are common to all investments in shares and are not specific to the business model and operations of Armour Energy. These include, for example, the volatility of share prices as a result of economic conditions, macroeconomic and fiscal decisions, currency movements and acts of terrorism or war. An overview of these general risks is provided in Section 11.3 of this Target's Statement.

There are also a number of risks that arise from the Offer. An overview of these risks is provided in Section 11.4 of this Target's Statement

The future performance of Armour Energy and the future investment performance of the Shares may be influenced by the key and general risks, and the risks that arise from the Offer. Shareholders should note that the occurrence or consequences of some of the risks described in this section of the Target's Statement are partially or completely outside the control of Armour Energy, its Directors and senior management. Prior to making any decision in respect of the Offer, Shareholders should consider the risk factors applicable to Armour Energy set out in this section, in addition to their own knowledge and enquiries.

The risks and uncertainties described below are not intended to be exhaustive. There may be additional risks and uncertainties that Armour Energy is unaware of, or that Armour Energy currently considers to be immaterial, which may affect Armour Energy. You should be aware that rejecting the Offer, in circumstances where WestSide does not acquire sufficient Armour Energy Shares to proceed to compulsory acquisition, may result in Armour Energy Shareholders being exposed to the following risks and uncertainties.

#### 11.2 KEY RISKS

Shareholders should be aware of the key risks specific to an investment in Armour Energy as described below.

##### 11.2.1. EXPLORATION AND DEVELOPMENT

The future value of Armour Energy will depend on its ability to find and develop gas and associated Liquids that are economically recoverable within Armour Energy's Queensland and Northern Territory tenements and the Lakes Farm-in Tenements. Hydrocarbon exploration and development is inherently highly speculative and involves a significant degree of risk. There can be no assurance that Armour Energy's planned exploration, appraisal and development activities will be successful. Even if gas and/or associated Liquids are identified, there is no guarantee that it will be economic to extract these resources or that there will be commercial opportunities available to monetise these resources. The proposed exploration and drilling program could experience cost overruns that reduce Armour Energy's ability to complete the planned exploration and drilling program in the time expected.

Gas and associated Liquids exploration may involve drilling operations and exploration activities which do not generate a positive return on investment. This may arise from dry wells, but also from wells that are productive but do not produce sufficient revenues to return a profit after accounting for drilling, operating and other associated costs. The production from successful wells may also be impacted by various operating conditions, including insufficient storage or transportation capacity, or other geological and mechanical conditions. In addition, managing drilling hazards or environmental damage and pollution caused by exploration and development operations could greatly increase the associated cost and profitability of individual wells.

##### 11.2.2. RESERVES AND RESOURCES

Accumulations of hydrocarbons will be classified according to the system designed by the Society of Petroleum Engineers through the Petroleum Resources Management System (**SPE-PRMS**) and in accordance with ASX guidelines.

The SPE-PRMS system is described in the following diagram, which shows the classifications with respect to a matrix of uncertainty and chance of commerciality. Whilst there are a multitude of pathways through this matrix from Prospective Resources to Contingent Resources and then to Reserves, the process is defined by the three (3) stages of exploration, appraisal and development.

Whilst 57 Tcsf in Best Estimate Prospective Recoverable Gas Resources, 35.5 Bscf 1C Contingent Recoverable Gas Resources, 160.4 Bscf 2C Contingent Recoverable Gas Resources and 374.2 Bscf 3C Contingent Recoverable Gas Resources have been independently assessed, these resources represent Best Estimates only and Armour Energy does not yet have any independently certified gas and/or associated Liquids Reserves in its granted exploration tenements.<sup>70</sup>

70 Source: Armour Energy ASX Announcement "Major Prospective Resources Upgrade – Northern Australia" released on ASX on 21 September 2015, ASX Announcement "Independent Assessment of Contingent Resources Egilabria 2" released on ASX on 16 July 2014 and Armour Energy ASX Announcement "Independent Certification of NT Contingent Resources" released on ASX on 24 April 2013.

Prospective Resources are those quantities of Petroleum which are estimated on a given date to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. However, Prospective Resources are undiscovered and as such carry significant exploration risk.

An exploration program will be undertaken by Armour Energy to discover these notional resources and reclassify them to Contingent Resources, which are those quantities of Petroleum estimated on a given date to be potentially recoverable from known accumulations but are not currently proven to be economic.

If the exploration program is successful in discovering sufficient quantities of Contingent Resources, an appraisal program will be undertaken to prove them commercially viable and thereby re-classify them as Reserves, which are those quantities of Petroleum anticipated to be economically recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

There is a different process for the conversion of resources to Reserves between conventional (high permeability) reservoirs and unconventional (low permeability) reservoirs. For conventional reservoirs this is done via relatively short term flow tests in the appraisal wells. For unconventional reservoirs which often contain much larger accumulations covering large areas, a number of longer term production pilots may be required to demonstrate commerciality and quantification of Reserves.

In general, estimates of economically recoverable gas and associated Liquids Reserves and resources are based upon a number of variable factors and assumptions, such as comparisons with production from other producing areas, the assumed effects

of regulation by governmental agencies, assumptions regarding future gas and associated Liquids prices and future operating costs, all of which may vary considerably from actual results. Actual production with respect to Reserves may vary from such estimates and such variances could be material.

Reserve and resource estimates are estimates only and no assurance can be given that any particular level of recovery from hydrocarbon Reserves will in fact be realised or that an identified hydrocarbon resource will ever qualify as commercially viable which can be legally and economically exploited.

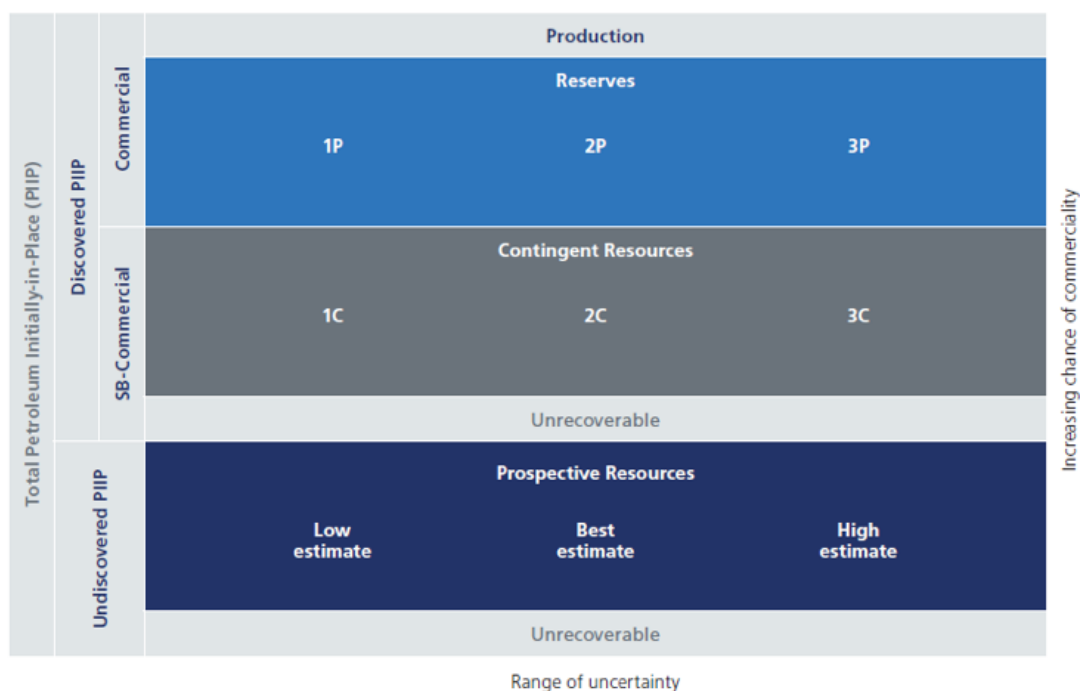
### 11.2.3. LAKES OIL INVESTMENT

Armour Energy is in joint venture with Lakes Oil N.L. in respect of the Lakes Farm-In Tenements, having a 51% interest in PEP 169, 25% interest in PEP 166 and a 15% interest in PRL2<sup>71</sup>, to explore for economically viable reserves of both conventional and unconventional natural gas and oil in the onshore Gippsland Basin in Victoria.

The Victorian Coalition Government currently has put a hold on new exploration licences and tenements for onshore gas, hydraulic fracturing and exploration drilling for onshore gas exploration in Victoria (**Moratorium**).

The Moratorium is expected to remain in place until the Victorian Government completes a parliamentary inquiry into onshore unconventional gas exploration and production (**Parliamentary Inquiry**) and the Government has responded. An interim report of the Parliamentary Inquiry has been published and the final report is expected to be completed by 1 December 2015.

## SPE-PRMS RESOURCES CLASSIFICATION SYSTEM



71 Refer to footnote 57.

The effect of the Moratorium on Armour Energy is that the operation of the Lakes Farm-In Tenements is restricted. In particular, drilling operations in respect of PEP 169, including the proposed Otway-1 vertical well have been put on hold awaiting Ministerial approvals and a lifting of the ban on onshore drilling in Victoria. Operational activities in PRL2 have been put on hold for the same reasons. There was also no operation activities in PEP 166 of the quarter ended 30 June 2015.

There is no guarantee that the Moratorium will be lifted or that any onshore natural gas exploration operations will be permitted on the Lakes Farm-In Tenements.

Armour Energy also has a strategic shareholding of 18.89%<sup>72</sup> with Lakes Oil. Lakes Oil has also been affected generally by the Moratorium, which has impacted on Lake's Oils ability to conduct onshore exploration activities on its further tenements in Victoria which inhibits the ability of Lakes Oil to explore for hydrocarbons in its onshore Victorian permits.

Notwithstanding the above, Armour Energy's investment in Lakes Oil should be considered speculative and there can be no guarantee that commercially recoverable quantities of oil or gas will be recovered in any exploration program. There can be no guarantee that Armour Energy's investment in Lakes Oil will result in any economic return for Armour Energy.

#### **11.2.4. JOINT VENTURE RISK**

Armour Energy participates in joint venture arrangements with Lakes Oil in respect of the Lakes Farm-In Tenements (and, should the AEP Northern Territory Farm-Out complete, in respect of the Northern Territory Tenements) and Armour Energy may enter into further joint ventures with third parties in the future. Although Armour Energy has sought, and will seek, to protect its interests, existing and future joint ventures necessarily involve special risks. Whether or not Armour Energy holds majority interests or maintains operational control in its joint ventures, its partners may have interests or goals that are inconsistent with, or opposed to those of Armour Energy and they may exercise rights to block actions that Armour Energy believes are in the best interest of Armour Energy or the joint venture. The joint venture partner may also be unable or unwilling to fulfil their obligations under the joint venture, such as contributing capital to expansion or maintenance projects.

Where projects and operations are controlled and managed by Armour Energy's joint venture partners, Armour Energy may provide expertise and advice, but it may have limited control with respect to compliance with its standards and objectives. Improper management or ineffective policies, procedures or controls could adversely affect the value of related non-managed projects and operations and, by association, damage Armour Energy's reputation, thereby harming Armour Energy's other operations and access to new assets.

While Armour Energy may seek contractual indemnities from any such partner, no assurance can be given that such indemnities would provide sufficient coverage in the event that a particular project did not meet Armour Energy's expectations.

#### **11.2.5. ENVIRONMENTAL REGULATIONS**

Gas and associated Liquids exploration, development and production generates potential environmental risks and is therefore subject to environmental regulation pursuant to a variety of State, Territory and Federal laws and regulations as well as its environmental obligations under the various native title agreements entered into in respect of a number of Armour Energy's granted EPs and ATPs (as well as similar agreements that may be required for the granting of pending EPs and ATPs). In particular, there are laws and regulations in place with respect to potential spills, contamination, releases and emission of substances related, or incidental to, the production of oil and natural gas. These laws and regulations set various standards regulating certain aspects of health and environmental quality and provide for penalties and other liabilities for the violation of such standards. In certain circumstances, these laws and regulations also create obligations to remediate current and former facilities and locations where operations are or were conducted. Compliance with the aforementioned laws and regulations can require significant expenditure and a breach may result in substantial financial liability on Armour Energy. These risks will be minimised by Armour Energy conducting its activities in an environmentally responsible manner, in accordance with applicable laws and regulations and where possible, by carrying appropriate insurance cover.

#### **11.2.6. OPERATIONAL**

Gas and associated Liquids exploration and development activities involve numerous operational risks, including encountering unusual or unexpected geological formations, mechanical breakdowns or failures, human errors and other unexpected events which occur in the process of drilling and operating gas and associated Liquids wells.

The occurrence of any of these risks could result in substantial financial losses to Armour Energy due to injury or loss of life, damage to or destruction of property, natural resources or equipment, environmental damage or pollution, clean-up responsibilities and regulatory investigation, amongst other factors. Damages occurring to third parties as a result of such risks may give rise to claims against Armour Energy which may not be covered fully by insurance or at all. Armour Energy's management has a large amount of experience (and track record) operating assets, especially Roger Cressey (COO) and Robbert de Weijer (CEO).

The Directors of Armour Energy will, to the best of their knowledge, experience and ability (in conjunction with senior management) endeavour to anticipate, identify and manage the risks inherent in the activities of Armour Energy, with the aim of eliminating, avoiding and mitigating the impact of risks on the performance of Armour Energy and its business operations. The ability of the Directors to do so may be affected by matters outside their control and no assurance can be given that the Directors of Armour Energy will be successful in these endeavours.

<sup>72</sup> Source: Lakes Oil ASX Announcement "Change in substantial holding from AIQ" released on ASX on 12 December 2014.

### 11.2.7. HYDRAULIC STIMULATION

Armour Energy intends to utilise horizontal drilling together with Hydraulic Stimulation technology in its exploration and development activities. The use of these drilling technologies is necessary for the production of commercial quantities of gas and associated Liquids from geological formations of the type that Armour Energy is targeting. The enactment of any new laws, regulations or requirements by any relevant government authority in respect of Hydraulic Stimulation could result in operational delays, increased operational costs and potential claims from a third party or governmental authority. Investors should note that Hydraulic Stimulation has been the subject of increased media scrutiny, in particular in the United States and more recently in Australia, due to concerns about its potential environmental impacts on land and underground water supply.

Restrictions on the use of Hydraulic Stimulation may reduce the amount of gas and associated Liquids Armour Energy can produce and may have a material impact on Armour Energy's business.

The Moratorium in Victoria includes a hold on approvals to conduct Hydraulic Stimulation in relation to onshore gas exploration operations in Victoria, which affects Armour Energy through the Lakes Farm-In Tenements onshore gas exploration operations. The Parliamentary Inquiry includes a consideration of the use and potential impacts of Hydraulic Stimulation technology in onshore unconventional gas operations in Victoria. The final report from the Parliamentary Inquiry is expected to be completed by 1 December 2015.

There is no guarantee that the Moratorium will be lifted or modified in a way that positively affects Armour Energy's business.

### 11.2.8. OPERATIONAL REGULATIONS

Armour Energy's gas and oil exploration and development activities and operations are focused on the Northern Territory, Queensland and Victoria and are subject to significant governmental oversight, regulation and control. In Australia, these operational regulations may vary between different States and Territories and are a result of differing governing bodies. Various levels of government (State, Territory, and those of the Commonwealth of Australia) have imposed rules and regulations that Armour Energy must comply with and which require Armour Energy to obtain and maintain certain licenses, authorisations and permits in respect of its exploration and development activities (collectively, Authorisations). The Authorisations, which are required by Armour Energy to carry out exploration and development, may not be granted or may be withdrawn or made subject to limitations.

Authorisations relate to, among other things, the protection of the environment, Aboriginal cultural heritage, native title rights, the protection of works and the public. Changes in government, government policies and legislation could have a material adverse affect on Armour Energy's business, financial condition, results of operations and prospects.

Although the Authorisations may be renewed following expiry or grant, there can be no assurance that such Authorisations will be renewed or granted on the same terms. There could also be delays in obtaining such Authorisations. If Armour Energy does not meet its work and/or expenditure obligations under its Authorisations, this may lead to the dilution of its interest in, or the loss of such Authorisations. Armour Energy cannot provide assurances that it will be able to obtain all necessary licences, Authorisations and permits.

### 11.2.9. PERMIT APPLICATIONS

Armour Energy has a number of EPAs that are currently being considered by various Government authorities. In order for exploration permits to be granted in respect of these EPAs, native title agreement and relevant environmental clearances may be required.

A number of the outstanding EPAs are over ALRA Land in the Northern Territory. Whilst Armour Energy is not aware of any reason why agreement would not be reached with the relevant Land Councils (acting on behalf of the traditional owners of the land) and traditional owners, no assurance can be given that Armour Energy will be successful in reaching agreement. There are strict time limits in respect of which Armour Energy must secure the relevant consent of the Land Councils. Should Armour Energy be unable to reach an agreement for an EP within the time period provided, such EP will not be granted to Armour Energy.

Armour Energy must also reach native title agreements with native title parties in respect of the EPAs which are not over ALRA Land, as well as ATP 1107, ATP 1192 and ATP 1193, though if an agreement is not reached in respect of these tenements, Armour Energy can refer the matter to arbitration.

The conduct of Armour Energy's operations and the steps involved in satisfying the EPAs involve compliance with numerous procedures and formalities. It is not always possible to comply with, or obtain waivers from, all such requirements and it is not always clear whether requirements have been properly completed, or whether it is possible or practical to obtain evidence of compliance. In some cases, failure to follow such requirements or obtain relevant evidence may call into question the validity of the actions taken. The final grant of the EPAs and ATPs involve the exercise of administrative functions (including discretion), which are beyond the control of Armour Energy.

Any failure of the EPAs or ATPs to be granted may have a material adverse effect on the ability of Armour Energy to explore for gas and associated Liquids in the areas comprised in those EPAs and ATPs.

### **11.2.10. AVAILABILITY OF DRILLING AND HYDRAULIC STIMULATION EQUIPMENT**

Armour Energy's gas and associated Liquids exploration and development activities are dependent on the availability of drilling rigs, services and related equipment in the area of its exploration permits. There can be no guarantee that there will be sufficient supply of such drilling rigs and equipment in certain areas which may result in delays to Armour Energy's planned exploration and development activities.

### **11.2.11. SEASONALITY AND WEATHER**

Access to and from a number of Armour Energy's exploration permits is limited due to seasonal weather conditions. A number of the permits are located in areas which typically experience high levels of precipitation during the summer months. During this time, Armour Energy will be unable to carry out drilling or significant operations on the relevant lands. Unexpected weather, such as significant amounts of precipitation occurring outside the mid-November to mid-May wet season, violent tropical storms or flooding may delay or adversely impact Armour Energy's drilling and operational activities.

### **11.2.12. NATIVE TITLE**

The effect of the Native Title Act is that existing and new permits held by Armour Energy and the Lakes Farm-in Tenements may be affected by native title claims and procedures. The requirements to comply with the Native Title Act has the potential to significantly delay the grant of exploration permits and other petroleum tenements in Australian jurisdictions.

In the case of EP 171, EP 174, EP 176, EP 190, EP 191, EP 192 and ATP 1087, Armour Energy has entered into native title agreements with the native title parties which has resulted in the grant of the permits.

Whilst Armour Energy has not undertaken the historical, legal or anthropological investigations at the date of this Target's Statement that would be required to form an opinion as to whether any existing or future claim for native title could be upheld over a particular parcel of land covered by the EPAs in the Northern Territory which are not covered by ALRA Landor by the ATPs, investigations to date reveal the existence of a number of native title claims. Armour Energy's present intention is to endeavour to secure similar agreements with the relevant native title parties. There is a potential risk that a satisfactory agreement cannot be reached with relevant native title parties in which case Armour Energy will need to comply with procedures under the Native Title Act in order to be granted its permit.

There is also potential risk that a determination could be made that native title exists in relation to land the subject of a tenement held or to be held by Armour Energy which may affect the operation of Armour Energy's business and developmental activities. In the event that it is determined that native title does exist or a native title claim is registered, Armour Energy may need to comply with procedures under the Native Title Act in order to carry out its operations or to be granted any additional rights, such as a production lease. Such procedures may take considerable time, involve the negotiation of significant agreements, involve a requirement to negotiate for access rights,

and require the payment of compensations to those persons holding or claiming native title in the land which is the subject of a tenement. The administration and determination of native title issues may have a material adverse impact on the position of Armour Energy and its business.

### **11.2.13. COMMERCIALISATION, INFRASTRUCTURE ACCESS AND CONTRACTUAL RISKS**

Armour Energy's potential future earnings, profitability, and growth are likely to be dependent upon Armour Energy being able to successfully implement some or all of its commercialisation plans. The ability for Armour Energy to do so is further dependent upon a number of factors, including matters which may be beyond the control of Armour Energy. For example, Armour Energy may not be successful in securing identified customers or market opportunities.

Armour Energy's ability to sell and market its natural gas and Liquids production will be negatively impacted should it be unable to secure adequate transportation and processing. Access will depend on the proximity and capacity of pipelines and processing facilities and infrastructure. Further, Armour Energy may be required to develop its own pipeline infrastructure or secure access to third party pipeline infrastructure in order to deliver gas and associated Liquids to key markets or customers.

Armour Energy entered into a non-binding heads of agreement with APA Group in June 2013, to work together to ultimately install gas pipelines to effect the delivery of up to 330 PJ per annum to Queensland customers and Gladstone based LNG producers.<sup>73</sup> The agreement and development of Armour Energy's own pipeline infrastructure is subject to a number of milestones, including certification by Armour Energy of sufficient gas resources, completion of gas sales contracts, and securing production licences and project development funding. While Armour Energy continues to build on its agreement with APA, there is no guarantee that Armour Energy will ultimately develop this pipeline. Access to third party infrastructure also cannot be guaranteed given that the pipelines may not be developed with an open access regime.

The Northern Territory Government is also proposing to install the NEGI Pipeline, connecting the Northern Territory and east coast gas networks. Currently, four proponents have been selected to progress to the final request for proposals stage, which it is expected to close at the end of 2015 with a successful proponent to be announced shortly thereafter. One proposed route is for a pipeline to traverse a northern route from Tennant Creek to Mt Isa (Northern Route), which may traverse Armour Energy's tenements and which may increase interest in these areas for future investment. However, there is also a competing proposal for a southern route from Alice Springs to Moomba. There is no guarantee that the Northern Route will be selected, or that the Northern Route will ultimately traverse Armour Energy's tenements.

Armour Energy is a party to various contracts, including drilling and native title contracts. Whilst Armour Energy will have various contractual rights in the event of non-compliance by a contracting party, no assurance can be given that all contracts to which Armour Energy is a party will be fully performed by all contracting parties. Additionally, no assurance can be

73 Source: APA Group ASX Announcement "Heads of Agreement with Armour Energy" released on ASX on 26 June 2013 in compliance with ASIC Class Order 13/521.

given that if a contracting party does not comply with any contractual provisions, Armour Energy will be successful in securing compliance. In the case of the native title agreements which resulted in the grant of a number of Armour Energy's EPs and ATPs, Armour Energy will need to negotiate a production agreement with the relevant native title parties (a framework for which was agreed in the relevant native title agreements) before it able to pursue production of gas and/or associated Liquids on those permits in the future. There is a risk that Armour Energy may not be able to reach such agreement, in which case Armour Energy may need to comply with procedures under the Native Title Act in order to carry out its operations.

#### **11.2.14. COMPETITION**

Gas and associated Liquids exploration is highly competitive in Australia. Armour Energy competes with numerous other gas and associated Liquids companies in the search for gas and associated Liquids reserves and resources. Competitors include gas and oil companies that have substantially greater financial resources, staff and facilities than those of Armour Energy. It is protected from competition on lands in which it holds exclusive exploration rights. However, Armour Energy may face competition for drilling and other services and skilled labour. Armour Energy may also face competition from competitors on lands in which it currently holds exploration rights, in the event that, as a condition of any permit held, it is required to partially relinquish certain parts of the permit. If Armour Energy elects to re-apply for these exploration rights, there is no guarantee that Armour Energy will be successful in its application against other competing offers.

#### **11.2.15. ADDITIONAL FINANCING**

Armour Energy has finite financial resources and as at 30 June 2015 had not generated revenues from operations. Armour Energy has sought to address its funding requirements to a degree through the AEP Northern Territory Farm-Out and the Facility provided by DGR. However, as set out in this Target's Statement, there is no guarantee that these two funding arrangements will ever become unconditional or ultimately eventuate and result in the provision of funding to Armour Energy. Shareholders should carefully consider the risk inherent in such funding arrangements, especially while they remain conditional. Beyond these two sources, Armour Energy will likely require additional financing in order to carry out its gas and associated Liquids exploration and development activities and farm-in activities. Armour Energy's ability to effectively implement its business strategy over time may depend in part on its ability to raise additional funds. There can be no assurance that any such equity or debt funding will be available to Armour Energy on favourable terms or at all. Failure to obtain appropriate financing on a timely basis could cause Armour Energy to have an impaired ability to expend the capital necessary to undertake or complete work programs, forfeit its exploration interests in certain properties, and reduce or terminate its operations entirely. If Armour Energy raises additional funds through the issue of equity securities, this may result in dilution to the existing shareholders and/or a change of control in Armour Energy.

#### **11.2.16. ROMA SHELF ASSETS ACQUISITION FUNDING**

Armour Energy has entered into a binding terms sheet with DGR to give effect to the Facility. It is the intention of Armour Energy to use the funds from the Facility as part consideration for the Roma Shelf Assets Acquisition. As a form of bridging finance, the terms of such a facility place onerous obligations on Armour Energy as to the interest rate payable and the various fees inherent in such a transaction. There are a number of conditions precedent to both the establishment of the Facility generally, as well as the drawdown of funds pursuant to the Facility. There can be no guarantee that the term sheet will give rise to any funds ultimately becoming available to Armour Energy. Additionally, there can be no guarantee that Armour Energy will be able to successfully develop the Roma Shelf Assets.

While Armour Energy is confident that it will be able to secure alternative funding well ahead of having to seek any extension of the Facility as outlined above, there can be no guarantee that this will occur.

#### **11.2.17. RELIANCE ON KEY PERSONNEL**

Armour Energy's future value will depend in part on the performance of its senior management and other key personnel. Armour Energy's progress in pursuing its exploration and evaluation programs within the time frames and within the costs structure as currently envisaged could be adversely influenced by the loss of existing key personnel. Whilst Armour Energy has taken steps to secure a number of senior management under fixed term agreements, the competition for qualified personnel in the oil and gas industry is notable and there can be no assurance that Armour Energy will be able to retain or hire all personnel necessary for the development and operation of its business. The impact of a loss of key employees would be dependent upon the quality and timing of the employee's replacement.

Although Armour Energy's key personnel have a considerable amount of experience and have previously been successful in their pursuits of acquiring, exploring and developing gas and associated Liquids projects, there is no guarantee or assurance that they will be successful in their future objectives.

#### **11.2.18. CULTURAL HERITAGE AND ABORIGINAL SITES OF SIGNIFICANCE**

Legislation in Australia and overseas typically allows for the protection of the cultural heritage of both Indigenous peoples and later settlers. Tenements and project areas may contain sites of significance, which would need to be avoided when carrying out field programs and project development.

In the native title agreements that Armour Energy has entered into in respect of a number of its EPs and ATPs, Armour Energy has agreed to a cultural heritage process with the Indigenous people in respect of those tenements which contains an agreed mechanism for managing cultural heritage.

On the applications for other tenements, Armour Energy proposes to implement a process of carrying out "cultural heritage clearance surveys" prior to conducting any exploration work that would cause a disturbance to the land surface.

Despite these measures, there remains a risk that sites of cultural significance that contain an economic hydrocarbon resource may exist. These would be inaccessible to Armour Energy.

### 11.2.19. STAKEHOLDER MANAGEMENT

Onshore gas and associated Liquids exploration is currently subject to increased public scrutiny in various States in Australia. Community engagement, or lack thereof, may have an impact on exploration and development, the grant of the EPAs and commercialisation opportunities for future discovered resources. As evidenced by the native title agreements entered into which resulted in the grant of a number of Armour Energy's EPs and ATPs, Armour Energy is placing significant focus on the establishment of strong relations with the relevant native title parties, Land Councils and land owners to mitigate risks in this area.

### 11.2.20. LAND ACCESS

Armour Energy requires land access in order to perform exploration and development activities. Access to land for exploration purposes can be affected by land ownership, including ALRA Land in the Northern Territory, private (freehold) land, pastoral lease and native title land or claims under the Native Title Act. Armour Energy may need to enter into compensation arrangements with landowners or occupiers for the impact on land by the proposed field activities. Armour Energy's operations may be adversely impacted or delayed in the event of a dispute with a land owner.

### 11.2.21. OPERATING HISTORY

Armour Energy was incorporated in 2009 and as at 30 June 2015 had not generated revenues from operations.

Armour Energy's business plan requires significant expenditure, particularly capital expenditure, during its gas and associated Liquids exploration phase. Any future revenue and profitability from Armour Energy's business will be dependent upon the successful exploration and development of its permits, and there can be no assurance that Armour Energy will generate revenues from its operations in the future.

### 11.2.22. OVERLAPPING TENURE

Armour Energy's granted tenements in the Northern Territory and the Lakes Farm-in Tenements are overlapped by various mineral exploration permits and mining leases. Where overlapping exploration permits and mining leases exist in the Northern Territory or Victoria there is no legislation which requires Armour Energy to attempt to negotiate an arrangement with the competing holders.

In respect of the ATPs in Queensland, a substantial portion of the application areas overlap with mining exploration permits for minerals (EPMs) and applications for EPMs. While there is no restriction on the grant of an ATP, in order for an ATP holder to carry out operations on the area of an existing EPM, it either must have an agreement with the EPM holder or its operations must not otherwise adversely affect the activities of the EPM holder. At the exploration stage, it is not expected that Armour Energy's activities will adversely affect the activities of an EPM holder.

There are restrictions under Queensland legislation on the granting of a petroleum production lease over the area of a mining lease or exploration permits for coal or mineral mining. Should a mining lease, exploration permit for coal or exploration permit for mineral mining exist or be granted over an area of the ATPs, Armour Energy may be unable to obtain a petroleum production lease over the area of the mining lease without the agreement of the mining lease holder or a preference decision of the Government of Queensland.

### 11.2.23. EXPLORATION EXPENDITURE COMMITMENTS

The terms of Armour Energy's granted tenements and the Lakes Farm-in Tenements include minimum expenditure requirements.

Whilst there is a risk that the terms of the permits may not be able to be complied with, Armour Energy intends to mitigate this risk by re-evaluating its exploration program and budget or considering other options including, where appropriate, surrendering parts of its permits in order to manage its minimum expenditure obligations.

### 11.2.24. AREAS OF RESTRICTION

A number of Armour Energy's EPAs and ATPs overlap with areas which are subject to restrictions which may prevent Armour Energy from carrying out operations on such lands. Such restricted areas include national parks, aboriginal community living areas and restricted areas (Queensland). The magnitude of the restricted areas within each of the EPAs, EPs and ATPs is relatively insignificant and unlikely to restrict Armour Energy's operations in a material manner. For example, approximately 10% of the area of EP 176 is overlapped by both a proposed national park and an aboriginal community area. However, Armour Energy has no plans to operate in the restricted areas, as these areas are not considered to be prospective for hydrocarbons.

### 11.2.25. STRATEGIC CROPPING LAND

Under the Strategic Cropping Land Act 2011 (Qld), if land is confirmed as Strategic Cropping Land (SCL) within a Strategic Cropping Protection Area, a project cannot proceed where the project is likely to have permanent impacts on the SCL. Where 'exceptional circumstances' can be established, the project may proceed but all efforts must still be made to avoid and minimise any temporary or permanent impacts on the SCL and to mitigate any permanent impacts.

If land is confirmed as SCL within a Strategic Cropping Management Area, the land must be assessed for a history of cropping. If the land is considered to have a history of cropping, the project must avoid, or minimise as much as possible, any temporary or permanent impacts on the SCL. Where this is not possible, permanent impacts must be mitigated. If Armour Energy secures any permits which are within a Strategic Cropping Protection Area, there is a risk that Armour Energy's activities on such permit will be impacted.



### 11.2.26. EXPLORATION MAPS AND DIAGRAMS

Armour Energy has commissioned and produced numerous diagrams and maps in this Target's Statement to help identify and describe the tenements and the targets sought by Armour Energy on those tenements. Maps and diagrams should only be considered an indication of the current intention of the Directors in relation to targets and potential areas for exploration and drilling, which may change.

### 11.2.27. CLIMATE CHANGE

The potential impact from climate change, both physical and as a result of new related legislation and regulation, may have an adverse impact on Armour Energy's operations or financial performance. Increased regulation of greenhouse gas emissions could adversely affect Armour Energy's costs of operations. Regulatory change by governments in response to greenhouse gas emissions may represent increased costs to Armour Energy impacting on its profitability. Increasing regulation of greenhouse gas emissions, including the re-introduction of the carbon tax legislation, would likely raise energy costs and costs of production.

## 11.3 GENERAL RISKS

Shareholders should be aware of the general risks in an investment in Armour Energy as described below.

### 11.3.1. SHARE MARKET CONDITIONS

There are general risks associated with any investment in the share market. The price of Armour Energy Shares on the ASX may rise and fall depending on a range of factors beyond Armour Energy's control and which are unrelated to Armour Energy's financial performance. This may result in the price for Armour Energy Shares declining. Generally, applicable factors which may affect the market price of shares include general movements in Australian and international stock markets, changes in interest rates, exchange rates and inflation rates, together with domestic and international economic conditions and outlook, investor perceptions and sentiment, material announcements in respect of an entity's business or operations, changes in government policy, commodity supply and demand, government taxation and royalties, as well as geo-political instability, including war, global hostilities and acts of terrorism.

No assurances can be given as to the price that Armour Energy Shares will trade.

### 11.3.2. LIQUIDITY RISK

There is no guarantee that there will be an ongoing liquid market for Armour Energy Shares. Accordingly, there is a risk that, should the market for Armour Energy Shares become illiquid, Armour Energy Shareholders and Armour Energy Optionholders will be unable to realise their investment in Armour Energy.

### 11.3.3. VOLATILITY OF GAS AND LIQUIDS PRICES

Armour Energy's possible future revenues will be derived mainly from the sale of gas and/or associated Liquids. Consequently, Armour Energy's potential future earnings, profitability, and growth are likely to be closely related to the price of gas and associated Liquids. Gas and/or associated Liquids prices may substantially impact the economics of projects and, hence, on

exploration and development programs.

Historically, gas and associated Liquids prices have fluctuated and are affected by numerous factors beyond the control of Armour Energy, including but not limited to the global supply of and demand for gas and associated Liquids, expectations with respect to the rate of inflation, the exchange rates of the US dollar to other currencies, interest rates, weather conditions, the price and availability of alternative fuels, government regulation and sanctions, economic conditions in Australia and abroad, the actions of the Organisation of the Petroleum Exporting Countries (**OPEC**), political stability in the Middle East and elsewhere and a variety of additional factors beyond the control of Armour Energy.

The aggregate effect of these factors on gas and/or associated Liquids prices is impossible to predict.

Armour Energy could receive a lower price for the sale of associated Liquids than the prevailing price for oil at the time of any future production, depending on the agreed pricing terms in relation to any Liquids produced.

Any substantial and extended decline in the market price of gas and associated Liquids could have an adverse effect on Armour Energy's future revenues, profitability, cash flow from operations, carrying value of future reserves and borrowing capacity amongst other factors. If the market price of gas and associated Liquids sold by Armour Energy were to fall below the cost of production and remain at such a level for any sustained period, Armour Energy would experience losses and could have to curtail or suspend some or all of its proposed activities. In such circumstances, Armour Energy would also have to assess the economic impact of any sustained lower commodity prices on the recoverability of existing reserves.

### 11.3.4. WARS, TERRORISM AND NATURAL DISASTERS

Events may occur within or outside of Australia that could adversely impact the market for gas and/or associated Liquids, the operations of Armour Energy or any of its suppliers, service providers and customers including war, acts of terrorism, civil disturbance, political intervention and natural activities such as earthquakes, floods, fire and poor weather.

### 11.3.5. LEGISLATIVE CHANGE

Oil and gas companies (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. Changes in government regulations and policies may adversely affect the financial performance or the current and proposed operations generally of Armour Energy.

Armour Energy is aware of the following areas of legislative uncertainty in Queensland:

- Queensland's State Government is presently undertaking a program to harmonise its resources legislation framework via the introduction of the *Mineral and Energy Resources (Common Provisions) Act 2014 (Qld) (MERCPA)* and the *Mineral and Energy Resources (Common Provisions) Regulation 2015 (Qld) (MERCPR)*. The MERCPA has been passed but has not yet commenced, whilst the State Government is in consultation with stakeholders regarding the MERCPR.

- Queensland has also recently passed the *Regional Planning Interests Act 2014 (Qld)*, which identifies and protects areas of Queensland that are of “regional interest”.
- Queensland’s previous State Government repealed the *Wild Rivers Act 2005 (Qld)*, which placed approval obligations on proponents conducting activities near free-flowing rivers and other areas of strategic environmental significance. The current Government has indicated that it will reintroduce similar legislation.

Other than as set out in this Target’s Statement, Armour Energy is not aware of any other current or proposed material changes in relevant regulations or policy.

#### **11.3.6. CURRENCY EXCHANGE RATE**

The revenues, earnings, assets and liabilities of Armour Energy may be exposed adversely to exchange rate fluctuations. If Armour Energy achieves commercial production, the revenue from its products may be denominated in Australian dollars or foreign currency. As a result, fluctuations in exchange rates could result in unanticipated and material fluctuations in the financial results of Armour Energy.

#### **11.3.7. LABOUR**

Armour Energy will require skilled labour workers and engineers in order to operate its activities. Industrial disruptions, work stoppages and accidents in the course of Armour Energy’s operations could result in losses and delays, which may adversely affect profitability.

#### **11.3.8. INSURANCE ARRANGEMENTS**

Gas and associated Liquids exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fires, explosions, blowouts, gas releases and spills which could result in property or environmental damage and personal injury. If any injuries or accidents occur, this could have adverse financial implications for Armour Energy, including legal claims and potential delays or stoppages.

Armour Energy intends to ensure that insurance is maintained in accordance with industry practice and having regard to the nature of activities being conducted. No assurance however, can be given that Armour Energy will be able to obtain such insurance coverage at reasonable rates or that any coverage it arranges will be adequate and available to cover any potential claims.

#### **11.3.9. UNFORSEEN EXPENSES**

Whilst Armour Energy is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses or increases to existing expenditure plans were subsequently incurred, the expenditure proposals of Armour Energy may be adversely affected.

#### **11.3.10. CONTRACTUAL ARRANGEMENTS**

Armour Energy has entered into various contracts and agreements which are important to the future of its business. Any failure by counterparties to perform under those contracts and agreements may have a material adverse effect on Armour Energy and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action.

## **11.4 RISK FACTORS THAT ARISE FROM THE OFFER**

### **11.4.1. LIMITED WITHDRAWAL RIGHTS**

Armour Energy Shareholders will have limited withdrawal rights with respect to the Offer, which means that a decision to accept the Offer may be irrevocable.

Once you have accepted the Offer, you have only a limited right to withdraw your acceptance of the Offer. Under the Corporations Act, if after you have accepted the Offer and whilst it remains subject to the Conditions, the Offer is varied (such as by an extension of the Offer Period) so as to postpone for more than one month the time when WestSide must meet its obligations under the Offer, you will be able to withdraw your acceptance. Otherwise, you will be unable to withdraw your acceptance of the Offer even if the market value of Armour Energy Shares varies significantly from their value on the date of your acceptance of the Offer or a third party makes a takeover offer for Armour Energy.

### **11.4.2. POSSIBLE DECREASE IN ARMOUR ENERGY SHARE PRICE**

The Directors cannot predict whether the Share price for Armour Energy Shares would increase or decrease in the absence of the Offer and movements in the Share price may be caused by other considerations.

The latest Share price for Armour Energy Shares can be obtained from [www.asx.com.au](http://www.asx.com.au) using the code “AJQ”.

### **11.4.3. TAXATION RISKS**

The tax consequences and risks of the Offer depend upon the specific circumstances of each Armour Energy Shareholder.

Section 7 of the Bidder’s Statement specifies possible tax implications for Armour Energy Shareholders arising from the Offer. This is not a complete or authoritative statement of the potential tax implications for each Armour Energy Shareholder.

Income tax and CGT liabilities of each Armour Energy Shareholder will depend upon the individual circumstances of each such Shareholder. Armour Energy Shareholders should obtain their own professional taxation advice regarding the applicable law in respect of the Offer and neither Armour Energy nor any of its officers or advisors accepts any responsibility or liability in respect of any statement given in relation to tax liability or any actual tax liability which may arise.

### **11.4.4. LESS THAN 90 PERCENT OWNERSHIP**

There exists a risk that the final level of ownership acquired by WestSide is less than 90%, which could have an impact on WestSide’s intentions regarding Armour Energy (refer to Section 15 of this Target’s Statement). This impact could have a material adverse effect on Armour Energy.

If you require further information in relation to the risks associated with refusing or accepting the Offer, please contact your professional advisor.

A large yellow and red drilling rig is mounted on a truck at an industrial site. The rig is tall and complex, with various pipes, cables, and mechanical components. The truck is parked on a dirt surface, and there are other industrial structures and equipment in the background. The sky is dark and cloudy, suggesting an overcast day. The overall scene is industrial and focused on heavy machinery.

# SECTION 12

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# ABOUT WESTSIDE

## SECTION 12 ABOUT WESTSIDE

### 12.1 DISCLAIMER

The following information about WestSide has been prepared by Armour Energy using publicly available information, including information in the Bidder's Statement, and has not been independently verified. Accordingly, Armour Energy does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of this information.

The information on WestSide in this Target's Statement should not be considered comprehensive. Please refer to the Bidder's Statement for further information in respect of WestSide.

### 12.2 OVERVIEW OF WESTSIDE AND ITS PRINCIPAL ACTIVITIES

WestSide is a Brisbane-based gas producer with gas production, significant reserves and exploration interests in Queensland. It currently has three joint venture projects in Queensland.

WestSide was listed on ASX between 10 January 2007 and 18 September 2014, when it was delisted following its acquisition (through an off-market takeover) by Landbridge Energy Australia Pty Ltd ACN 168 060 366, a subsidiary of the Chinese Landbridge Group Co., Ltd.

Section 2 of the Bidder's Statement provides background information regarding WestSide.

For further information regarding WestSide, refer to its website at [www.westsidecorporation.com](http://www.westsidecorporation.com).

### 12.3 WESTSIDE'S INTEREST IN ARMOUR ENERGY

WestSide has stated in its Bidder's Statement that (as at the date of that Bidder's Statement) it has no relevant interest or voting power in Armour Energy Shares. As at the date immediately before the first Offer was sent, WestSide has stated that it has no relevant interest or voting power of in Armour Energy Shares.





# SECTION 13

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## WESTSIDE OFFER

## SECTION 13 WESTSIDE'S OFFER

### 13.1 ASSESSMENT OF THE OFFER

Before making a decision whether to accept or reject WestSide's Offer for your Armour Energy Shares, you should read this Target's Statement carefully and seek independent financial and taxation advice.

Shareholders should also consider the risks associated with the Offer which are set out in Section 11 of this Target's Statement.

### 13.2 DIRECTORS' RECOMMENDATION

The unanimous recommendation of the Armour Energy Directors is to **REJECT** the Offer. Further details of the recommendation of the Directors are set out in Section 4 of this Target's Statement.

### 13.3 ACCEPTING THE OFFER

If you wish to accept the Offer you must follow the instructions set out in Clause 4 of Appendix 1 of the Bidder's Statement.

In summary:

- (a) if your Armour Energy Shares are held in an Issuer Sponsored Holding – you must complete and sign the Acceptance Form enclosed with the Bidder's Statement and return it together with all other documents required by the instructions on it to one of the addresses specified on the Acceptance Form, so that your acceptance is received before the end of the Offer Period; or
- (b) if your Armour Energy Shares are held in a CHESS Holding you must comply with the ASX Settlement Operating Rules. To accept the Offer, you must either:
  - (1) complete, sign and return the Acceptance Form in accordance with the terms of the Offer and the instructions on the Acceptance Form, together with all other documents required by those instructions, to WestSide at an address specified in the Acceptance Form so that your acceptance is received before 7:00pm Sydney time on the second last Business Day of the Offer Period. This will authorise WestSide to instruct your Controlling Participant (usually your Broker) to initiate acceptance of the Offer on your behalf;
  - (2) instruct your Controlling Participant (usually your Broker) to initiate acceptance of the Offer on your behalf in accordance with those ASX Settlement Operating Rules in sufficient time for the Offer to be accepted before the end of the Offer Period;
  - (3) complete, sign and return the Acceptance Form in accordance with the terms of the Offer and the instructions on the Acceptance Form, together with all other documents required by those instructions, directly to your Controlling Participant (usually your Broker) with instructions to initiate acceptance of the Offer on your behalf in accordance with the ASX Settlement Operating Rules before the end of the Offer Period;
- (c) If you are a Broker or an ASX Settlement Participant, to accept the Offer you must initiate acceptance in accordance with the requirements of the ASX Settlement Operating Rules before the end of the Offer Period;
- (d) If some of your Armour Energy Shares are held in a number of forms, your acceptance of the Offer will require action under clause 4.3(a) and 4.3(c) of the Bidder's Statement in relation to the separate portions of your Armour Energy Shares.
- (e) You can only accept the Offer for all of your Armour Energy Shares in accordance with Clause 4 of Appendix 1 of the Bidder's Statement;
- (f) Refer to Clause 4 of Appendix 1 of the Bidder's Statement for an explanation or clarification of any of these requirements; or
- (g) Acceptances must be received by the Closing Date unless the Offer is extended (and in the case of any acceptance in respect of a CHESS Holding, before 7:00pm Sydney time on the second last Business Day of the Offer Period).

If you accept the Offer and you sell your Armour Energy Shares on-market, you will be unable to settle any subsequent sale of your Armour Energy Shares, subject to being entitled to withdraw your acceptance. The right to withdraw an acceptance of the Offer is limited – refer to Section 13.5 of this Target's Statement in this regard. For full details of the consequences of accepting the Offer, please see Section 13.4 of this Target's Statement.

### 13.4 EFFECT OF ACCEPTING THE OFFER

The Offer is currently subject to the Conditions. If the Offer becomes unconditional and you accept the Offer, you will receive \$0.12 cash in respect of each Armour Energy Share.

Subject to any statutory withdrawal rights that may apply, once you accept the Offer (even while it is subject to the Conditions), you will:

- (a) not be able to settle any subsequent sale of your Armour Energy Shares or accept any superior offer that may emerge; and
- (b) give up your right to otherwise deal with your Armour Energy Shares.

However, you will be entitled to receive any increase that WestSide makes to the Offer Price after your acceptance.

Complete details of the effect of acceptance of the Offer are set out in Clause 7 of Appendix 1 of the Bidder's Statement. You should read that section in full to understand the effect that acceptance will have on your ability to exercise the Rights attaching to your Armour Energy Shares, and representations and warranties that you give should you choose to accept the Offer. The rights you will give up will include your voting rights and entitlements to receive any dividends from the date of your acceptance of the Offer.

## 13.5 STATUTORY RIGHTS TO WITHDRAW YOUR ACCEPTANCE

You will only have statutory rights to withdraw your acceptance if:

- (a) the Conditions of the Offer have not been satisfied or waived by WestSide;
- (b) the Offer is varied in such a way as to postpone for more than one month, the time by which WestSide has to meet its obligations under the Offer; and
- (c) you are a person entitled to be given a notice of the variation under subsection 650D(1) of the Corporations Act.

In such circumstances, you will be sent a notice at the relevant time explaining your rights to withdraw your acceptance of the Offer.

Except in these limited circumstances, if you accept the Offer, you will not be able to settle any subsequent sale of your Armour Energy Shares or be able to accept any competing offer (if such an offer were made) during the Offer Period.

## 13.6 REJECTING THE OFFER

If you wish to reject the Offer you need not take any action. You will retain your Armour Energy Shares provided that WestSide does not acquire 90% of the Armour Energy Shares issued (which would accordingly entitle WestSide to compulsorily acquire all remaining Armour Energy Shares).

## 13.7 SELLING YOUR ARMOUR ENERGY SHARES ON THE ASX

Provided that you have not accepted the Offer, you can sell your Armour Energy Shares on the ASX according to the prevailing market value of Armour Energy Shares. If you wish to sell your Armour Energy Shares on-market, you should contact your Broker.

## 13.8 ENQUIRIES

If you have any queries in relation to the Offer, you should contact your financial, legal or other professional advisor.

Armour Energy has set up a Shareholder information line. If you have any questions in relation to the Offer, please call Armour Energy's information line on 1300 794 935 for callers within Australia or on +61 1300 794 935 for callers outside Australia. The information line will be open from Monday to Friday between 8.30am to 5.30pm (Sydney time).

## 13.9 WITHDRAWAL OR LAPSE OF OFFER

As set out in further detail below in Section 16.2 of this Target's Statement, the entry into the Definitive Agreements to give effect to the AEP Northern Territory Farm-Out, and the agreement to issue securities contemplated by the Definitive Agreements has breached the Relevant Conditions of WestSide's Offer. Accordingly, WestSide has the right to withdraw its Offer (or allow it to lapse). WestSide has reserved its right to take any action in relation to the breach of the Relevant Conditions, including to withdraw the Offer (or allow it to lapse).

WestSide has clarified that it intends to exercise its right to withdraw the Offer (or allow it to lapse) for breach of the Northern Territory Farm-Out Condition should the Armour Energy Shareholder meeting occur prior to the close of the Offer Period and Armour Energy Shareholders vote in favour of the proposal with AEP at that meeting. WestSide has also stated that it may exercise that right (to withdraw the Offer or otherwise allow it to lapse) earlier based on the entry into that arrangement (the AEP Northern Territory Farm-Out).

As a result of this, **Shareholders should be aware that there is no guarantee that the WestSide Offer will ever become unconditional, and irrespective of whether the AEP Northern Territory Farm-Out is approved at the EGM, WestSide may still choose to withdraw its Offer (or allow it to lapse).**



The background of the page is a photograph of an oil field. In the foreground, several large, white, curved pipes run across a gravel-covered ground. In the background, there are more pipes, valves, and a clear blue sky. The text is overlaid on the left side of the image.

# SECTION 14

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## INTERESTS OF ARMOUR ENERGY DIRECTORS



## SECTION 14 INTERESTS OF ARMOUR ENERGY DIRECTORS

### 14.1 DIRECTORS' INTERESTS IN ARMOUR ENERGY SHARES AND OPTIONS

At the date of this Target's Statement, Directors and their Associates have a relevant interest in the following Shares and Options:

Director	Securities
Nicholas Mather*	3,619,855 Shares
William Robert Stubbs <sup>^</sup>	410,000 Shares
Roland Kingsbury Sleeman	60,000 Shares
Stephen Grant Bizzell	1,310,000 Shares

\* Mr Nicholas Mather is also the managing director and a substantial shareholder of DGR Global Limited. The shareholding of DGR Global Limited in Armour Energy is set out in Section 8.6 of this Target's Statement.

<sup>^</sup> Mr William Robert Stubbs is the Chairman of DGR Global Limited. The shareholding of DGR Global Limited in Armour Energy is set out in Section 8.6 of this Target's Statement.

Please see Armour Energy's 2015 Annual Report for further information.

### 14.2 RECENT DEALINGS IN ARMOUR ENERGY SHARES BY DIRECTORS

In the four months preceding the date of this Target's Statement, the following Directors (or their respective associates, as the case may be) have acquired or disposed of Armour Energy Shares and can be found in the table at the bottom of the page.

### 14.3 INTERESTS OR DEALINGS IN WESTSIDE SECURITIES

None of the Directors or any of their respective associates have any relevant interest in the securities of WestSide or any related body corporate of WestSide, or have acquired or disposed of any securities of WestSide or any related body corporate of WestSide in the four months preceding the date of this Target's Statement.

Director	Date of transaction	Number of Shares	Consideration	Description
Nicholas Mather*	2 September 2015	900,000 Shares	\$111,550	On-market purchase

\* The relevant Shares were acquired by Samuel Holdings Pty Ltd <Samuel Discretionary A/C>. Nicholas Mather is a Director of Armour Energy and a Director of Samuel Holdings Pty Ltd. Nicholas Mather may be a beneficiary of the Samuel Discretionary Trust from time to time.

### 14.4 NO PAYMENTS OR BENEFITS

No Director has agreed to receive, or is entitled to receive, any benefit in WestSide or Armour Energy which is conditional on, or is related to, the Offer, other than in their capacity as a holder of Armour Energy Shares

As a result of the Offer, no benefit has been or will be given to a person:

- in connection with the retirement of a person from the board or management of Armour Energy or its Related Bodies Corporate; or
- who holds, or has held a position on the board or management of Armour Energy or its Related Bodies Corporate, or a spouse, relative or Associate of such person, in connection with the transfer of the whole or any part of the undertaking or property of Armour Energy; or
- which would require approval of Armour Energy Shareholders under section 200B of the Corporations Act.

### 14.5 NO AGREEMENT OR ARRANGEMENT WITH ANY DIRECTOR OF ARMOUR ENERGY

There is no agreement or arrangement made between any Director or any Related Body Corporate or Associate of any Director and any other person in connection with or conditional upon the outcome of the Offer.

### 14.6 INTERESTS HELD BY DIRECTORS OF ARMOUR ENERGY IN ANY CONTRACT ENTERED INTO BY WESTSIDE

No Director, nor any Related Body Corporate or Associate of Armour Energy, has an interest in any contract entered into by WestSide or any Director, Related Body Corporate or Associate of WestSide.



# SECTION 15

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## INTENTIONS OF WESTSIDE

## SECTION 15 INTENTIONS OF WESTSIDE

WestSide's intentions in respect of Armour Energy are set out in Section 4 of the Bidder's Statement.

WestSide has stated that if it acquires 90% or more of the Shares of Armour Energy (and is entitled to proceed to compulsory acquisition of the outstanding Armour Energy Shares) it will seek to compulsorily acquire the remaining Armour Energy Shares and Armour Energy Options, and then (amongst other matters) seek to:

- (a) replace all Directors on the Armour Energy Board (and of any company in respect of which Armour Energy has nominee directors) with its own nominees;
- (b) arrange for Armour Energy to be removed from the official list of ASX; and
- (c) fully integrate Armour Energy's business into WestSide's operations.

A detailed description of the intentions of WestSide with respect to the assets, business and employees Armour Energy (including where WestSide acquires less than 90% of Armour Energy Shares) are outlined in Section 4 of the Bidder's Statement.





# SECTION 16

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## OTHER INFORMATION MATERIAL TO THE MAKING OF A DECISION BY A HOLDER OF ARMOUR ENERGY SHARES

## SECTION 16

### OTHER INFORMATION

# MATERIAL TO THE MAKING OF A DECISION BY A HOLDER OF ARMOUR ENERGY SHARES

## 16.1 AEP NORTHERN TERRITORY FARM-OUT – DEFINITIVE AGREEMENTS

Please see below for a summary of the Definitive Agreements.

### 16.1.1. SUMMARY OF FARM-OUT AGREEMENT

#### *Purpose and underlying transaction*

The Farm-out Agreement (**FOA**) between AEGP and Armour Energy gives effect to the following transaction:

- (a) Armour Energy will, on completion of the FOA, grant AEGP a 75% interest in each of:
  - (1) six petroleum exploration permits (**Granted EPs**)<sup>74</sup> and
  - (2) nine applications for petroleum exploration permits (which Armour Energy will hold on trust for AEGP and subsequently assign if and once granted) (**EP Applications**)<sup>75</sup>(together, the **Permits**).
- (b) In exchange, AEGP will fund 100% of the capital expenditure to be spent on the Permits (being its own contribution as well as that of Armour Energy) until the earlier of:
  - (1) 31 December 2020; or
  - (2) the date it has expended a total of:
    - (A) US\$130,000,000, if both of EPAs 177 and 178 are granted;
    - (B) US\$115,000,000, if only one of those EPAs is granted; or
    - (C) US\$100,000,000, if neither of those EPAs are granted(**Phase One**).
- (c) Once Phase One has ended, if Armour Energy is unable to obtain financing on fair market terms, AEGP will assist Armour Energy to obtain finance to fund its 25% share of all future capital expenditure to be spent on the Permits, up to a maximum amount of US\$130,000,000 (with such maximum depending on whether EPAs 177 and 178 are granted – if only one of those EPAs is granted, or if neither of those EPAs are granted, this maximum amount will be reduced to the relevant level of expenditure in Phase One).

#### *Cash consideration*

On completion, AEGP must pay US\$13,000,000 to Armour Energy as cash consideration for the assignment of the 75% interest in the Permits to AEGP free and clear of all Encumbrances.

In the future, AEGP will also be required to make the following bonus payments to Armour Energy:

- (a) a further US\$7,000,000 on the earlier of:
  - (1) production licences being granted over 1 million acres covered by EPs 171, 176 and 191; or
  - (2) all EP Applications being granted and a 75% interest being transferred to AEGP; and
- (b) a further US\$3,000,000 if both EPs 177 and 178 are granted and a 75% interest in them is transferred to AEGP.

#### *Conditions precedent*

The parties to the FOA must use their reasonable endeavours to complete all conditions precedent before 9 March 2016 (other than the due diligence condition which must be satisfied earlier, by 9 January 2016), upon which completion of the FOA can occur.

Summarily, those conditions precedent relate to the following matters:

- (a) Foreign Investment Review Board approval;
- (b) approval by the Northern Territory's Minister for Mines and Energy;
- (c) completion of due diligence satisfactory to AEGP (as noted above, due by 9 January 2016);
- (d) AEGP's registration for GST purposes;
- (e) the assignment of all relevant native title agreements by Armour Energy to AEGP;
- (f) shareholder approval;
- (g) there being no court orders or Government Agency decisions in place prior to completion which would materially affect the AEP Northern Territory Farm-Out; and
- (h) the parties to the Share Subscription Agreement entering into it;
- (i) Armour Energy executing a disclosure deed poll;
- (j) the parties to the OA entering into it; and
- (k) the parties to the Option Deed entering into it.

#### *Steps at Completion*

Once the conditions precedent have been satisfied, completion will occur with the following actions:

- (a) Armour Energy must provide AEGP with transfer documents which transfer a 75% interest in the relevant Granted EPs;
- (b) Armour Energy must provide a duly executed copy of each of the Definitive Agreements and a disclosure deed poll;
- (c) AEGP must pay US\$13,000,000 cash consideration to Armour Energy;
- (d) AEGP automatically becomes the Operator under the OA;
- (e) all encumbrances over the Permits must be released;

<sup>74</sup> EPs 171, 174, 176, 190, 191 and 192.

<sup>75</sup> EP(A)s 172, 173, 177, 178, 179, 193, 194, 195 and 196.

- (f) Armour Energy must execute a deed of cross-security;
- (g) Armour Energy must assign all material contracts it has entered into with third parties to AEGP;
- (h) all relevant project records must be made available to AEGP.

#### **Armour Energy's advisory role**

The FOA is drafted to reflect that AEGP recognises Armour Energy's unique expertise in Australian exploration and mining projects. It grants Armour Energy an advisory role for the duration of operations and provides that AEGP will consult with Armour Energy in relation to:

- (a) the design and implementation of work programs;
- (b) native title and land access matters; and
- (c) the renewal, reduction or relinquishment of any parts of the Permits.

This advisory role supplements the operation of the Operating Agreement, where Armour Energy is represented on the Operating Committee (see Section 16.1.2 of this Target's Statement).

AEGP must provide quarterly activity reports to Armour Energy during Phase One. These must compare actual expenditure to previously projected expenditure.

#### **Phase One work program and Operating Agreement**

Between 10% and 15% of the Phase One expenditure must be spent by AEGP within the first two years of the Phase One work program.

Note more than 35% of the Phase One expenditure is to be spent in the final year of the Phase One work program.

Under the terms of the FOA, certain Articles of the Operating Agreement are not operational for the duration of Phase One of the FOA. AEGP will have sole operational control of the tenements during Phase One, subject to Armour Energy's advisory role.

#### **Consequences of AEGP's failure to complete Phase One**

If AEGP does not expend the relevant amounts listed above before the end of Phase One on 31 December 2020 (up to \$US130,000,000 depending on the grant of EP Applications 177 and 178), its interest in the Permits will be reduced proportionately and the balance of the interest must be transferred back to Armour Energy.

If AEGP's adjusted interest falls below 50.1%, AEGP must restore Armour Energy as the Operator under the Operating Agreement.

#### **Reimbursement of good standing expenses**

AEGP must reimburse Armour Energy for all expenses incurred to keep the Granted EPs in good standing between the date the FOA was executed (11 September 2015) and completion of the FOA. These reimbursed amounts will constitute "expenditure" which may be counted towards Phase One expenditure.

#### **Employee secondment**

AEGP may seek secondments from Armour Energy's employees to assist with the development and management of the project. This supplements Armour Energy's advisory role.

#### **EGM process**

The FOA sets out a detailed process under which Armour Energy must call and provide notice of the EGM.

#### **Assignment**

Armour Energy cannot assign its rights under the FOA without first obtaining AEGP's consent (which cannot be unreasonably withheld or delayed). AEGP can assign its rights to an affiliate without needing to obtain Armour Energy's consent, or can otherwise assign its rights to an unassociated third party with Armour Energy's consent.

AEGP also has a right of first refusal in the event that Armour Energy seeks to assign its rights under the FOA to an unrelated third party. This means that AEGP has a pre-emptive right to acquire Armour Energy's interest on the same terms offered by the unrelated third party. The first right of refusal will be on the basis of the same final terms and conditions as were negotiated by Armour Energy with the proposed transferee, or at a cash value agreed by the parties or determined by an independent expert where the Armour Energy's sale transaction includes properties which are not included under the FOA.

#### **R&D rebates**

Any R&D rebates obtained by the project will be divided relative to the parties' participating interests (being 75% for AEGP and 25% for Armour Energy from the date of completion until at least the end of Phase One).

#### **ASX Announcements**

Armour Energy can release ASX announcements where:

- (a) AEGP agrees; or
- (b) Armour Energy:
  - (1) is required to do so by law, regulation, rule, legal proceedings or generally recognised securities exchange;
  - (2) has obtained external legal advice confirming that it is so required; and
  - (3) has provided that advice to AEGP 24 hours before releasing the announcement (or if not, as soon as was reasonably practicable).

#### **Warranties and indemnity**

Armour Energy has provided reasonably significant warranties under the FOA. However, AEGP can only make claims that Armour Energy has breached those warranties, in respect of the majority of the warranties (other than those relating to corporate power, authority, incorporation or similar and in respect of certain business practice, which such warranties will remain in effect for the applicable limitations period under any relevant statute of limitations):

- (a) up until two years after completion (or such later time provided that notice of the breach was provided to Armour Energy prior to this date); and
- (b) if the aggregate claims exceed US\$250,000.

Both parties have given the usual indemnities found in these types of agreements. In addition to this, Armour Energy has the benefit of a disclosure "carve out", which prevents it from being made liable for any and all claims regarding data that was fairly disclosed to AEGP via the data room.

### 16.1.2. SUMMARY OF OPERATING AGREEMENT

The Operating Agreement (**OA**) commences upon the completion of the FOA's conditions precedent (discussed at Section 16.1.1 of this Target's Statement).

The agreement is in the form of the Association of International Petroleum Negotiators model agreement.

#### **Purpose**

The OA primarily establishes the rights and obligations of both Armour Energy and AEGP in relation to the activities to be conducted on the Permits, including the joint exploration and production of petroleum.

It contains detailed and specific provisions relating to the project's Operator and Operating Committee.

The Operator under the OA is AEGP (subject to the operation of the FOA in the event that AEGP's participating interest in the project falls below 50.1%).

It is also noted that under the terms of the FOA, Articles 5, 6, 7, 8, 10, 11 and 13 of the Operating Agreement are not operational for the duration of Phase One of the FOA. Accordingly, during that period AEGP will have sole control as the Operator (subject to consultation with Armour Energy under the terms of the FOA).

#### **Operator provisions**

Broadly, the OA sets out:

- (a) the rights, powers and duties of the Operator;
- (b) the extent to which the Operator is liable and indemnified accordingly; and
- (c) the process by which an Operator may resign or be removed or replaced.

#### **Operating Committee provisions**

The Operating Committee is to be comprised of one representative from each party.

As noted above, under the FOA, the Operating Committee will not operate during the Phase One expenditure period.

The OA provides, in considerable detail:

- (a) how the Operating Committee is to be established;
- (b) how the Operating Committee is to call and conduct meetings;
- (c) how the Operating Committee is to vote; and
- (d) how the Operating Committee will approve and implement work programs.

The OA provides that a resolution of the Operating Committee can be carried by a participant holding 75% or more of the project's total participating interest. Accordingly, provided that AEGP retains its 75% interest under the FOA, AEGP will effectively have control of the Operating Committee for the duration of the arrangements. If AEGP's participating interest falls below 75% due to a failure to meet Phase One's expenditure requirements (as described in Section 16.1.216.1.1 above), then decisions of the Operating Committee will need to be made unanimously.

#### **Technical provisions**

The OA contains a number of technical provisions regarding the conduct of exploration and mining activities on the Permits. It refers to:

- (a) the preparation and approval of work programs and budgets during the exploration phase;
- (b) the preparation and approval of developments plans for commercial discoveries; and
- (c) the preparation and approval of work programs and budgets during the production phase.

The OA also attaches (and refers to):

- (a) a detailed accounting procedure;
- (b) a deed of cross-security to be executed by Armour Energy; and
- (c) decommissioning procedures.

It also contains provisions which require the Operator to prepare, establish and comply with a Health, Safety and Environment Plan which is compliant with international standards.

#### **Transfer rights**

Either party can assign its rights under the OA if:

- (a) the prospective assignee executes an instrument (such as a deed) under which it agrees to perform both the assignor's obligations under the OA and the conditions of each EP;
- (b) the other party (or parties) consent to the assignment in writing. That consent:
  - (1) cannot be unreasonably delayed; and
  - (2) can only be withheld if the party believes the prospective assignee either lacks the financial capability to perform both its obligations under the OA and the conditions of each EP, or is in financial circumstances which would make it difficult or impossible to enforce the provisions of the OA; and
- (c) the prospective assignee executes a suitable deed of cross-security.

#### **Jurisdiction**

The OA is governed by the laws of the State of Texas in the United States of America. Any arbitration under the agreement must also take place in Houston, Texas.

### 16.1.3. SUMMARY OF ARMOUR ENERGY OPTION DEED

The Option Deed contemplates that AEGP will be issued 24,000,000 Options (plus any additional Options required to be issued as a result of a Further Issue or any amendment as a result of a bonus issue, pro-rata issue or similar) (**AEGAP Options**) in three tranches as follows:

- (a) tranche 1 – 12,000,000 Options exercisable at \$0.25 on or before 3 years from the completion of the FOA (**Tranche 1 Options**);
- (b) tranche 2 – 6,000,000 Options exercisable at \$0.40 on or before 5 years from the completion of the FOA (**Tranche 2 Options**); and
- (c) tranche 3 – 6,000,000 Options exercisable at \$0.50 on or before 5 years from the completion of the FOA (**Tranche 3 Options**).

The grant of the AEGP Options is conditional upon Shareholder approval being obtained and completion of the FOA occurring. If the conditions are not satisfied by 31 October 2015, the Option Deed automatically terminates.

If the FOA is terminated in accordance with its terms at any time prior to it completing, then the Option Deed automatically terminates.

Prior to the issue of the AEGP Options, Armour Energy will not issue further securities (Further Issue) unless:

- (a) AEGP has given their prior written consent;
- (b) the total number of securities issued would not exceed 15% of the issued Share capital of Armour Energy as at 11 September 2015 (when aggregated with any other issue of securities issued since that date); or
- (c) that issue of securities is part of a capital raising to fund anticipated expenditure for the Roma Shelf Assets.

Upon being notified of the number of additional securities to be issued as a result of a Further Issue, AEGP will have the right to give notice to Armour Energy to increase the number of AEGP Options that AEGP will receive to enable AEGP to maintain its proportionate holding in securities of Armour Energy on a fully diluted basis. Upon Armour Energy receiving notice to issue such further AEGP Options, and subject to Armour Energy obtaining any Shareholder approvals which may be required under the Listing Rules to issue those additional AEGP Options, Armour Energy will issue such further number of AEGP Options to AEGP, such that:

- (a) 50% of the additional AEGP Options will be issued with the Tranche 1 Options;
- (b) 25% of the additional AEGP Options will be issued with the Tranche 2 Options; and
- (c) 25% of the additional AEGP Options will be issued with the Tranche 3 Options.

Shareholder approval for the issue of the AEGP Options is required as a result of ASX Listing Rule 7.9 which provides that an entity must not issue or agree to issue equity securities (which includes Options) without the approval of holders of ordinary securities, for 3 months after it is told in writing that a person is making, or proposes to make, a takeover for securities in it. Relevantly, ASX Listing Rule 7.9 Exception 6 provides that ASX Listing Rule 7.9 does not apply to an agreement to issue equity securities that is conditional on holder of ordinary securities approving the issue before the issue is made.

The agreement to issue the AEGP Options contemplated under the Option Deed constitutes a breach of the Securities Condition. No Options will be issued unless and until the Option Deed (and the issue of Options contemplated by it) is approved by Shareholders.

The terms of the AEGP Options are shown in the following table.

<b>Exercise price</b>	(a) Tranche 1 Options – A\$0.25 per Option. (b) Tranche 2 Options – A\$0.40 per Option. (c) Tranche 3 Options – A\$0.50 per Option. (subject to any amendment required, for example on a pro-rata issue, as contemplated by their terms)
<b>Expiry date</b>	(a) Tranche 1 Options – 3 years from the completion of the FOA; (b) Tranche 2 Options – 5 years from the completion of the FOA; (c) Tranche 3 Options – 5 years from the completion of the FOA.
<b>Ranking</b>	Shares issued on exercise of Options will rank pari passu with all existing ordinary Shares of Armour Energy.
<b>How to exercise an option</b>	(a) Each tranche of Options may be exercised at any time prior to their expiry date wholly or in part by delivering a duly completed notice of exercise, together with a cheque for the exercise price per option or pay by telegraphic transfer in immediately available funds, to Armour Energy at any time prior to the expiry date. (b) Upon the valid exercise of a tranche of Options and payment of the exercise price, Armour Energy will issue fully paid ordinary Shares ranking pari passu with the then issued ordinary Shares of Armour Energy.
<b>Transferability</b>	Options may be transferred at any time before the expiry date. Options are transferable by any standard form of transfer.
<b>Listing of options</b>	Options will be unlisted.
<b>Dividends</b>	No entitlement to participate in dividends.
<b>Participation in new issues</b>	The Optionholder will be permitted to participate in new issues of securities of Armour Energy to Shareholders generally on the prior exercise of the Options, in which case Optionholder will be afforded the minimum period of notice prescribed under the ASX Listing Rules prior to and inclusive of the books closing date (to determine entitlements to the issue) to exercise the Options.



<b>Effect of corporate restructure following the issue of Options</b>	<p>Following any reconstruction, consolidation, subdivision, reduction (by a cancellation of paid up capital that is lost or not represented by available assets where no securities are cancelled), return or pro rata cancellation of the issued capital of Armour Energy:</p> <p>a) the number and/or exercise price of Options will be adjusted in compliance with the ASX Listing Rules; and</p> <p>b) subject to provisions with respect to rounding of entitlements as sanctioned by a meeting of Shareholders approving a reconstruction of capital, in all other respects the terms of exercise of the Options will remain unchanged.</p> <p>This provision is subject to the ASX Listing Rules and in the event of an inconsistency the ASX Listing Rules will prevail.</p>
<b>Pro rata issues</b>	<p>If there is a pro rata issue (other than a bonus issue), the exercise price of an Option will be reduced in accordance with the following formula:</p> $O^n = \frac{O - E [P - (S + D)]}{N + 1}$ <p>Where:</p> <p>O<sup>n</sup> = the new exercise price of the Option</p> <p>O = the old exercise price of the Option</p> <p>E = the number of underlying securities into which one Option is exercisable</p> <p>P = the average market price per security (weighted by reference to volume) of the underlying securities during the five trading days ending on the day before the ex right date or the ex entitlements date or if there is no such date then the date chosen by the board of directors of Armour Energy</p> <p>S = the subscription price for a security under the pro rata issue</p> <p>D = the dividend (if any) due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue)</p> <p>N = the number of securities with rights or entitlements that must be held to receive a right to one new security.</p>
<b>Bonus issues</b>	<p>If there is a bonus issue to Shareholders of Armour Energy, the number of Shares over which the Option is exercisable will be increased by the number of Shares which the Optionholder would have received if the Option were exercised before the record date for the bonus issue.</p>

<b>Vary Option Terms</b>	<p>The terms of the Options shall only be changed if Shareholders (whose votes are not to be disregarded) approve of such a change. However, except as otherwise required pursuant to their terms, the terms of the Options shall not be changed to reduce the exercise price, increase the number of Options or change any period for exercise of the Options.</p>
<b>Listing of resultant shares</b>	<p>Armour Energy will apply to the ASX for official quotation of Shares issued on the exercise of Options.</p>

#### 16.1.4. SUMMARY OF ARMOUR ENERGY SHARE SUBSCRIPTION AGREEMENT

The Share Subscription Agreement contemplates that AEGP will be issued such number of Shares at a subscription price of \$0.20 per Share so as to equal 9.99% of the issued share capital of Armour Energy as at the date of issue of the first tranche (of two tranches) (**AEGP Shares**).

The issue of the AEGP Shares is conditional on:

- (a) approval by Shareholders; and
- (b) approval of the FOA by Shareholders.

The AEGP Shares will be issued in two tranches:

- (a) such number of Shares equal to 5.00% of the issued Share capital of Armour Energy as at the date of their issue (**Tranche 1 Shares**);
- (b) such number of Shares equal to 4.99% of the issued Share capital of Armour Energy as at the date of issue of the Tranche 1 Shares (**Tranche 2 Shares**).

The AEGP Shares will be issued on:

- (a) for the Tranche 1 Shares, on the business day after receipt of approval of Shareholders; and
- (b) for the Tranche 2 Shares, on the date of completion of the FOA.

The AEGP Shares must rank equally with all other Shares on issue in Armour Energy, and be issued to AEGP or a person nominated by AEGP.

Armour Energy must cause a statement pursuant to s 708A(5) Corporations Act to be issued and given to ASX in respect of the AEGP Shares and apply for quotation of the AEGP Shares on ASX in accordance with the Listing Rules and will use reasonable endeavours to obtain quotation of such Shares.

On the issue of the Tranche 2 Shares, Armour Energy must appoint the person nominated by AEGP as a director of Armour Energy to fill any existing casual vacancy on the Board, with all rights and authorities afforded the other Directors on that Board. Armour Energy agrees to undertake all actions necessary to procure the re-election of the nominated director at such times as such re-election is required under the ASX Listing Rules or the Constitution.

Armour Energy undertakes to do all things necessary to ensure that the AEGP Shares can be transferred by AEGP without the need for disclosure under Australian law, including by giving ASX a notice under section 708A of the Corporations Act at the time of the issue of the AEGP Shares.

The Share Subscription Agreement and the FOA are interdependent and the Share Subscription Agreement will automatically terminate if the FOA is terminated before the issue of the Tranche 1 Shares or the issue of Tranche 2 Shares.

Shareholder approval for the issue of the AEGP Shares is required as a result of ASX Listing Rule 7.9 which provides that an entity must not issue or agree to issue equity securities (which includes Shares) without the approval of holder of ordinary securities, for 3 months after it is told in writing that a person is making, or proposes to make, a takeover for securities in it. Relevantly, ASX Listing Rule 7.9 Exception 6 provides that ASX Listing Rule 7.9 does not apply to an agreement to issue equity securities that is conditional on holder of ordinary securities approving the issue before the issue is made.

The agreement to issue the Shares contemplated under the Share Subscription Agreement constitutes a breach of the Securities Condition. No Shares will be issued unless and until the Share Subscription Agreement (and the issue of Shares contemplated by it) is approved by Shareholders.

## 16.2 CONDITIONS OF THE OFFER

### 16.2.1. GENERAL

The Offer is subject to the Conditions contained in Appendix 2 of the Bidder's Statement and which are summarised in Section 7.4 above of this Target's Statement. Please see section 7.5 of this Target's Statement for the consequences of non-satisfaction of the Conditions.

### 16.2.2. STATUS OF THE CONDITIONS

WestSide has set out in its Replacement Bidder's Statement what it believes to be the status of the Conditions of the Offer.

WestSide has stated that the entry of Armour Energy into the Definitive Agreements to give effect to the AEP Northern Territory Farm-Out is a breach of the Northern Territory Farm-Out Condition. WestSide has also stated that the agreement to issue Shares and Options pursuant to the Definitive Agreements is a breach of the Securities Condition.

Armour Energy does not disagree that the entry into the Definitive Agreements and the agreement to issue Shares and Options is a breach of the Relevant Conditions. However, as is evident by the announcement of 20 August 2015 and the entry of Armour Energy into the non-binding LOI:

- (a) the entry into the Definitive Agreements was undertaken by Armour Energy in the ordinary course of its business (WestSide must accept that Armour Energy's normal business will continue in the ordinary course); and
- (b) the negotiations in respect of the Definitive Agreements had commenced when the bid was made or communicated.

Importantly, Armour Energy has made completion of the AEP Northern Territory Farm-Out (and the issue of the Shares and Options) conditional upon first obtaining Shareholder approval. That is, Armour Energy Shareholders will be effectively asked to choose between the Offer from WestSide and the AEP Northern Territory Farm-Out.

### 16.2.3. BREACH OF CONDITIONS

As noted above:

- (a) the entry into the Definitive Agreements is a breach of the AEP Northern Territory Farm-Out Condition; and
- (b) the agreement to issue Shares and Options pursuant to the Definitive Agreements is a breach of the Securities Condition.

If WestSide decides to rely on the non-satisfaction of the Conditions arising as a result of these breaches, then any contract resulting from acceptance of the WestSide Offer will become void at the end of the Offer Period. Please see section 7.5 of this Target's Statement for the consequences of non-satisfaction of the Conditions.

On 22 September 2015, WestSide clarified its intentions (in a covering letter, and not by way of appropriate supplementary disclosure) in relation to the breach of the Relevant Conditions and noted that it intends to exercise its right to withdraw the Offer (or allow it to lapse) for breach of the Northern Territory Farm-Out Condition should the EGM occur prior to the close of the Offer Period and Armour Energy Shareholders vote in favour of the AEP Northern Territory Farm-Out. WestSide has also stated that it may exercise its right to withdraw the Offer (or allow it to lapse) earlier based on the entry into the Definitive Agreements.

This has important implications for Armour Energy Shareholders. Armour Energy, in an attempt not to unduly frustrate WestSide's Offer, made the AEP Northern Territory Farm-Out conditional on Shareholder approval. Notwithstanding this, the position of WestSide currently means that even if you vote against the AEP Northern Territory Farm-Out, WestSide may still withdraw its Offer.

### 16.2.4. WAIVER OF CONDITIONS

WestSide may waive a Condition that has been breached or otherwise not satisfied. If WestSide elects to proceed with the WestSide Offer irrespective of any breach of the Conditions (including as a result of the breach of the Relevant Conditions), then the Offer will continue unaffected by the breach of Condition.

It may be possible that WestSide may elect to proceed with its bid despite Armour Energy being in breach of the Relevant Conditions, however there can be no guarantee that this will be the case.

As a result of the Relevant Conditions being breached, if WestSide do not waive the Relevant Conditions (and if any other Condition is breached, that Condition), WestSide will not proceed with the Offer as any contract resulting from an acceptance will become void.

Armour Energy does not know if WestSide will waive the breach of the Relevant Conditions. WestSide's Replacement Bidder's Statement has effectively reserved the rights of WestSide to rely on the breaches of the Relevant Conditions.

## 16.3 NOTICE OF STATUS OF CONDITIONS

As required by section 630 of the Corporations Act, WestSide will give a notice of status of conditions (the **Conditions Notice**) to the ASX and Armour Energy not more than 14 days and not less than 7 days before the end of the Offer Period. In Clause 6.5 of Appendix 1 of the Bidder's Statement, WestSide has set the date to give the Conditions Notice as 15 October 2015 (subject to any variation in accordance with section 630(2) of the Corporations Act in the event that the Offer Period is extended).

WestSide is required to set out in its Conditions Notice:

- whether the Offer is free of any or all of the Conditions; and
- whether, so far as WestSide knows, the Conditions have been fulfilled on the date the Conditions Notice is given; and
- WestSide's voting power in Armour Energy (including voting power acquired as a result of acceptances received under the Offer).

If the Offer Period is extended by a period before the time by which the Conditions Notice is to be given, the date for giving the Conditions Notice will be taken to be postponed for the same period. In the event of such an extension, WestSide is required, as soon as practicable after the extension (**Extension Date**), to give a notice to the ASX and Armour Energy that states the new date for the giving of the Conditions Notice, whether the Offer has been freed from the Conditions and whether, so far as WestSide knows, the Conditions have been fulfilled on the Extension Date. If a Condition is fulfilled (so that WestSide's Offer becomes free of that Condition) during the Offer Period but before the date on which the Conditions Notice is required to be given, WestSide must, as soon as practicable, give the ASX and Armour Energy a notice that states that the particular Condition has been fulfilled.

## 16.4 MINORITY OWNERSHIP CONSEQUENCES

The Offer is subject to a 50.1% minimum acceptance condition. That is, for this condition to be satisfied, during, or at the end of, the Offer Period, the number of Armour Energy Shares in which WestSide and its Associates together have relevant interests in must be at least 50.1% of all Armour Energy Shares.

In Section 4.5 of the Bidder's Statement, WestSide sets out its intentions if, as a result of the Offer, it gains effective control of Armour Energy, but it is not entitled to compulsorily acquire the outstanding Armour Energy Shares.

If this were to occur, those Armour Energy Shareholders who do not accept the Offer will become minority Shareholders in Armour Energy. This has a number of possible implications including the following:

- (a) WestSide will be in a position to cast the majority of votes at a general meeting of Armour Energy. This will enable WestSide to control the composition of the Armour Energy Board and senior management, determine Armour Energy's dividend policy and control the strategic direction of the businesses of the Armour Energy Group;

- (b) WestSide has stated that it intends to reconstitute the Armour Energy Board so that at least a majority of Directors are nominees of WestSide;
- (c) the Armour Energy Share price could fall immediately following the end of the Offer Period;
- (d) it is likely that the liquidity of Armour Energy Shares would be significantly lower than at present, with the result that it will be more difficult to buy and sell Armour Energy Shares on the ASX; and
- (e) if WestSide acquires 75% or more of the Armour Energy Shares, it will be able to pass special resolutions of Armour Energy. This will enable WestSide to, among other things, change Armour Energy's Constitution.

## 16.5 OFFER PERIOD

WestSide's Offer is open for acceptance from 22 September 2015 until 7.00pm (Sydney time) on 23 October 2015, unless extended or withdrawn in accordance with the Corporations Act.

## 16.6 WITHDRAWAL OF YOUR ACCEPTANCE

Once you accept the Offer, you will be unable to revoke your acceptance and the contract resulting from your acceptance will be binding on you. Subject to any withdrawal right arising under the Corporations Act, you will be unable to withdraw your acceptance of WestSide's Offer or otherwise dispose of your Armour Energy Shares. You will also not be able to settle any subsequent sale of your Armour Energy Shares on market, or otherwise dispose of your Armour Energy Shares, subject to your limited statutory rights to withdraw your acceptance in certain circumstances.

Armour Energy Shareholders may withdraw their acceptance of the Offer, if the Offer remains subject to Conditions and is varied (such as by an extension of the Offer Period) so as to postpone for more than one month the time when WestSide must meet its obligations under the Offer.

Your early acceptance of the Offer (subject to subsequent withdrawal) will prevent you from being able to accept any superior offer from another bidder which may eventuate following that acceptance. Should WestSide increase its Offer Price, you will be entitled to that increase. There is no guarantee that WestSide will increase its Offer Price.

The recommendation of the Armour Energy Directors is to **REJECT** the Offer. Further details of the recommendation of the Directors are set out in Section 4 of the Target's Statement.



## 16.7 COMPULSORY ACQUISITION


If WestSide acquires a relevant interest in at least 90% of Armour Energy Shares then, pursuant to Part 6A.1 Division 1 of the Corporations Act, WestSide will be entitled to compulsorily acquire any Armour Energy Shares in respect of which it has not received acceptances of the Offer.

Armour Energy Shareholders should be aware that, if their Armour Energy Shares are compulsorily acquired, they are not likely to receive payment until at least one month after the compulsory acquisition notices are dispatched to them.

If WestSide does not become entitled to compulsorily acquire Armour Energy Shares in accordance with Part 6A Division 1 of the Corporations Act, it may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 Division 1 of the Corporations Act, if it subsequently acquires full beneficial interests in at least 90% of Armour Energy Shares.

WestSide has indicated in Section 4.4(a) of the Bidder's Statement that it intends to proceed to compulsory acquisition of the outstanding Armour Energy Shares, if it meets the required thresholds.

Additionally, in the event that WestSide and its Associates have a relevant interest in at least 90% of the Shares of Armour Energy at the end of the Offer Period, WestSide will be required under the Corporations Act to offer to buy Armour Energy Options that remain unexercised. WestSide has indicated in Section 4.4(a) of the Bidder's Statement that if required to do so, it will make such an offer.



# SECTION 17

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## ADDITIONAL INFORMATION

## SECTION 17 ADDITIONAL INFORMATION

### 17.1 ISSUED CAPITAL

As at the date of this Target's Statement, Armour Energy's issued capital consisted of:

- (a) 304,635,766 Armour Energy Shares; and
- (b) 20,480,000 Unlisted Armour Energy Options, as follows:

Options	Exercise Price	Expiry Date
2,400,000	\$0.10	6 February 2016
100,000	\$0.50	2 September 2016
2,400,000	\$0.20	6 February 2017
3,130,000	\$0.26	25 February 2017
1,200,000	\$0.30	6 February 2018
2,500,000	\$0.50	24 July 2018
2,500,000	\$0.75	24 July 2018
2,500,000	\$1.00	24 July 2018
1,250,000	\$0.50	26 August 2018
1,250,000	\$0.75	26 August 2018
1,250,000	\$1.00	26 August 2018

### 17.2 NOTICE OF THE BIDDER'S VOTING POWER

WestSide has stated in its Bidder's Statement that (as at the date of that Bidder's Statement) it has no relevant interest or voting power in Armour Energy Shares. As at the date immediately before the first Offer was sent, WestSide has stated that it has no relevant interest or voting power in Armour Energy Shares.

The Bidder is required to notify the ASX and Armour Energy before 9.30am (Sydney time) on each trading day during the Offer Period where there is an increase in WestSide's relevant interest representing at least 1% in Armour Energy's issued capital.

### 17.3 DISCLOSING ENTITY

Armour Energy is a disclosing entity and as such is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules.

Copies of the documents filed with the ASX may be obtained from the ASX website at [www.asx.com.au](http://www.asx.com.au) or Armour Energy's website at [www.armourenergy.com.au](http://www.armourenergy.com.au).

Copies of the documents lodged with ASIC in relation to Armour Energy may be obtained from, or inspected at, an ASIC office.

Armour Energy Shareholders may obtain a copy of:

- the 2015 Annual Report of Armour Energy;
- the interim financial statements of Armour Energy for the full-year ended 30 June 2015;
- Armour Energy's constitution; and
- any document lodged by Armour Energy with the ASX between the release of the 2015 Annual Report to the ASX and the date of this Target's Statement,

free of charge upon request by contacting Armour Energy or on the ASX website at [www.asx.com.au](http://www.asx.com.au).

### 17.4 FINANCIAL POSITION OF ARMOUR ENERGY

The last published financial results of Armour Energy were for the year ended 30 June 2015.

Armour Energy published its 2015 Annual Report on 2 September 2015. Since 30 June 2015, a number of material events have occurred (including the proposed Roma Shelf Assets Acquisition, the proposed AEP Northern Territory Farm-Out and the WestSide Offer).

The proposed Roma Shelf Assets Acquisition and the proposed AEP Northern Territory Farm-Out are conditional, and accordingly do not currently impact on the financial position of Armour Energy. Should they both complete, there will be a capital expenditure requirement in respect of the Roma Shelf Assets Acquisition (see Section 10.3 of this Target's Statement for further information), as well as an inflow of capital arising pursuant to the AEP Northern Territory Farm-Out (see Section 9 of this Target's Statement for further information). There can be no guarantee that these transactions will complete.



Armour Energy has also entered into a binding terms sheet with DGR in respect of the Facility on 30 September 2015. Should the Facility complete, and the funds become available pursuant to it, Armour Energy expects to use the funds provided under the Facility as the consideration to fund the Roma Shelf Assets Acquisition. It may be the case that irrespective of the various potential capital inflow events, that Armour Energy may still require further capital, and Armour Energy will assess its need for such further capital and react accordingly dependent upon such a requirement arising.

## 17.5 NO OTHER MATERIAL INFORMATION

This Target's Statement is required to include all information that Shareholders and their advisors would reasonably expect to receive to make an informed assessment whether to accept the Offer, but only to the extent that:

- it is reasonable for the Shareholders and their advisors to expect to receive that information in the Target's Statement; and
- the information is known to the Directors.

The Directors are of the opinion that the information that the Shareholders and their professional advisors would reasonably require to make an informed assessment whether to accept or reject the Offer are contained within:

- this Target's Statement;
- the Bidder's Statement (to the extent that the information contained in that document is not inconsistent with the Target's Statement); and
- the annual and other financial reports, releases, announcements and documents lodged by Armour Energy with ASX and/or ASIC.

In preparing this Target's Statement, the Directors have assumed that the information contained in the Bidder's Statement is accurate. However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained within it.

In deciding what information should be contained in this Target's Statement, the Directors have had regard to:

- the nature of the Armour Energy Shares;
- the matters that Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisors of Shareholders; and
- the time available to Armour Energy to prepare the Target's Statement.

An aerial photograph of a vast, flat landscape covered in dense green vegetation. In the lower-left foreground, there is a small industrial or construction site with several rectangular basins or ponds. The sky is a clear, bright blue. In the top right corner, there is a large, stylized graphic element consisting of several concentric, overlapping white and light blue circular bands, resembling a target or a ripple effect.

# SECTION 18

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# CONSENTS



## SECTION 18 CONSENTS

### 18.1 DIRECTORS

The Directors have given and have not, before the lodgement of this Target's Statement with ASIC, withdrawn their consent to be named in this Target's Statement in the form and context in which they are named.

### 18.2 THIRD PARTIES

HopgoodGanim Lawyers has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement as legal advisor to Armour Energy in respect of the Offer in the form and context in which it is named. HopgoodGanim Lawyers does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based. To the maximum extent permitted by law, HopgoodGanim Lawyers expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

Morgans Corporate Limited has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement as financial advisor to Armour Energy in respect of the Offer in the form and context in which it is named. Morgans Corporate Limited does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based. To the maximum extent permitted by law, Morgans Corporate Limited expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

BDO Corporate Finance (QLD) Ltd ACN 010 185 725 has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement as Independent Expert in respect of the Offer in the form and context in which it is named and for the inclusion of the Independent Expert's Report in the Target's Statement.

SRK Consulting (Australasia) Pty Ltd ACN 074 271 720 has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement in the form and context in which it is named, and for the inclusion of the SRK Report (as contained within the Independent Expert's Report prepared by BDO Corporate Finance (QLD) Ltd) in the Target's Statement.

RISC Operations Pty Ltd has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement in the form and context in which it is named, and for the inclusion of the RISC Report (as contained within the Independent Expert's Report prepared by BDO Corporate Finance (QLD) Ltd) in the Target's Statement.

Link Market Services Limited has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement as Share

Registry to Armour Energy in respect of the Offer in the form and context in which it is named. Link Market Services Limited does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based. To the maximum extent permitted by law, Link Market Services Limited expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

The Shareholders referred to in Section 6 (who, as at the date of this Target's Statement, intend to reject the WestSide Offer) have given and have not, before the lodgement of this Target's Statement with ASIC, withdrawn their written consent to be named in the form and context in which they are named.

### 18.3 PUBLICLY AVAILABLE INFORMATION

This Target's Statement contains statements which are made in, or based upon, statements contained in the Bidder's Statement lodged with ASIC. As permitted by ASIC Class Order 13/521, the consent of WestSide is not required for the inclusion of these statements in the Target's Statement.

Armour Energy has also relied on the modification to section 638(5) of the Corporations Act set out in ASIC Class Order 13/521 to include, without obtaining specific consent, statements which are made in, or based on statements made in, any documents announced on the company announcements platform of ASX by Lakes Oil and APA Group on the following dates:

Entity	Announcement	Date of Announcement
Lakes Oil	Quarterly Activities and Cash Flow Report - June 2015	31 July 2015
Lakes Oil	Change in substantial holding from AJQ	12 December 2014
APA Group	Heads of Agreement with Armour Energy	26 June 2013

No person who has made any of these statements has consented to the statement being included in or accompanying this Target's Statement in the form and context in which it is included.

Armour Energy will, on request and during the bid period, provide a copy of those documents, or the relevant parts of those documents containing the statement, free of charge and within two business days of the request to any Armour Energy Shareholder. To obtain a copy of any of those documents, or the relevant parts of those documents containing the statements, please call the Offer Information Line on 1300 794 935 for callers within Australia or on +61 1300 794 935 for callers outside Australia. The information line will be open from Monday to Friday between 8.30am to 5.30pm (Sydney time).

As permitted by ASIC Class Order 07/429, this Target's Statement contains security price trading data sourced from Iress Market Data without its consent.

This Target's Statement also contains information from public official documents in accordance with ASIC Class Order 13/523.



# SECTION 19

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# INTERPRETATION

## SECTION 19 INTERPRETATION

### 19.1 IN THIS TARGET'S STATEMENT UNLESS THE CONTRARY INTENTION APPEARS THE FOLLOWING WORDS HAVE THE FOLLOWING MEANINGS:

- 1C** has the meaning given to the expression '1C' in the SPE-PRMS;
- 2C** has the meaning given to the expression '2C' in the SPE-PRMS;
- 3C** has the meaning given to the expression '3C' in the SPE-PRMS;
- 1P Reserves** or **1P** has the meaning given to the expression '1P' in the SPE-PRMS;
- 2P Reserves** or **2P** has the meaning given to the expression '2P' in the SPE-PRMS;
- 3P Reserves** or **3P** has the meaning given to the expression '3P' in the SPE-PRMS;
- Acceptance Form** means the form of acceptance and transfer accompanying the Offer or any replacement or substitute acceptance form provided by or on behalf of WestSide;
- AEGP** means AEGP Australia Pty Ltd (being a special purpose Australian incorporated entity and an affiliate of AEP);
- AEGP Options** means the Options to be issued to AEGP pursuant to the Option Deed;
- AEP** or **American Energy** means American Energy Partners, LP or any of its affiliates (including American Energy – Acquisitions LLC);
- AEP Northern Territory Farm-Out** means the proposal set out in the Definitive Agreements entered into with AEP announced on 11 September 2015;
- ALRA** means the *Aboriginal Land Rights (Northern Territory) Act 1976* (Cth);
- ALRA Land** means Aboriginal land as defined under the ALRA;
- Announcement Date** means 31 August 2015, being the date on which WestSide publicly announced the Offer;
- Armour Energy** or **Target** or **Company** means Armour Energy Limited ABN 60 141 198 414, a company incorporated in Australia;
- Armour Energy Board** or **Board** means the directors of Armour Energy acting collectively as its board of directors;
- Armour Energy Group** means Armour Energy and its Subsidiaries from time to time;
- Armour Energy Option** or **Option** or **Unlisted Armour Energy Option** means the unlisted options to acquire Armour Energy Shares;
- Armour Energy Optionholder** or **Optionholder** means a holder of Armour Energy Options;
- Armour Energy Shareholder** or **Shareholder** means a holder of Armour Energy Shares;
- Armour Energy Shares** or **Shares** means issued fully paid ordinary shares in the capital of Armour Energy;
- ASIC** means the Australian Securities and Investments Commission;
- Associate** has the meaning given to that term in the Corporations Act;
- ASX** means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market operated by it;
- ASX Settlement Operating Rules** means the operating rules of ASX Settlement Pty Limited as amended and replaced from time to time;
- ASX Settlement Participant** means a participant under the ASX Settlement Operating Rules;
- ATP** means an application for authority to prospect granted under the *Petroleum and Gas (production and safety) Act 2004* (Queensland);
- Bscf** means billion standard cubic feet of gas;
- Best Estimate** has the meaning set out in the SPE-PRMS;
- Bidder** means WestSide;
- Bidder's Statement** or **Replacement Bidder's Statement** means that Replacement Bidder's Statement dated 14 September 2015 given by WestSide to Armour Energy on 14 September 2015 in accordance with the provisions of Part 6.5 of the Corporations Act;
- Broker** means a person who is a share broker and a participant in CHES;
- Business Day** means a day on which banks are open for general banking business in Sydney (and not being a Saturday, Sunday or public holiday in that place);
- CGT** means Capital Gains Tax;
- CHES** means the Clearing House Electronic Sub-registry System operated by ASX which provides for the electronic transfer, settlement and registration of securities;
- CHES Holding** means a holding of Armour Energy Shares on the CHES Sub-register of Armour Energy;
- CHES Sub-register** has the meaning given in the ASX Settlement Operating Rules;
- Closing Date** means 7.00pm (Sydney time) on 23 October 2015 (unless extended or withdrawn);
- Company** or **Armour Energy** means Armour Energy Limited ABN 60 141 198 414;
- Conditions** mean the conditions of the Offer summarised in Section 7.4 of this Target's Statement and set out in Appendix 2 of the Bidder's Statement;
- Contingent Resources** has the meaning given to the expression 'Contingent Resources' in the SPE-PRMS;
- Controlling Participant** means the Broker or ASX Settlement Participant who is designated as the controlling participant for shares in a CHES Holding in accordance with the ASX Settlement Operating Rules;

**Conventional Resources** has the meaning given to that term in the SPE-PRMS;

**Corporations Act** means the *Corporations Act 2001* (Cth);

**Definitive Agreements** means the FOA, OA, Option Deed and Share Subscription Agreement;

**Directors** mean the directors of Armour Energy (unless the context requires otherwise);

**DNRM** has the meaning given to that term in Section 10.3;

**EGM** means the extraordinary general meeting of Armour Energy to be held in relation to the AEP Northern Territory Farm-Out;

**Encumbrances** mean an interest or power:

- (a) reserved in or over an interest in an asset including a retention of title or non-statutory royalties or other payments tied to production; or
- (b) created or otherwise arising in or over an interest in an asset under a mortgage, charge, bill of sale, lien, pledge, trust or power,

by way of security for the payment of a debt, another monetary obligation or the performance of another obligation, and includes any Security Interest (as defined in the PPSA) and an agreement to grant, create or allow to exist any of the above, but excludes any native title agreements entered into which provides for the consent to the grant of the Permits under or in relation to the Native Title Act or the ALRA.

**EP** means petroleum exploration permit issued under the Petroleum Act (NT);

**EP Act** means the *Environmental Protection Act (1994)* (Qld);

**EPA** or **EP(A)** means petroleum exploration permit application under the Petroleum Act (NT);

**EPM** means Mining Exploration Permit(s);

**Facility** has the meaning given to that term in Section 10.4 of this Target's Statement;

**FOA** means the Farm-Out Agreement between AEGP Australia Pty Ltd and Armour Energy as described in further detail in Section 16.1.1 of this Target's Statement;

**Further Issue** has the meaning given to that term in Section 16.1.3 of this Target's Statement;

**GJ** means Gigajoule;

**Good Oilfield Practice** has the meaning given in the Petroleum Act (NT);

**Government Agency** means any governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or entity in any part of the world, and for the avoidance of doubt, includes the Takeovers Panel;

**GST** means Goods and Services Tax;

**Hydraulic Fracturing** or **Hydraulic Stimulation** means the practise of pumping liquids down a well into subsurface rock units under pressures that are high enough to fracture rock;

**Independent Expert** or **IER** means BDO Corporate Finance (QLD) Ltd ACN 010 185 725;

**IRR** means internal rate of return;

**Issuer Sponsored Holding** means a holding of Armour Energy Shares on the Issuer Sponsored Sub-register of Armour Energy;

**Issuer Sponsored Sub-register** has the meaning given in the ASX Settlement Operating Rules;

**Lakes Oil** means Lakes Oil N.L. ACN 004 247 214 (LKO.ASX);

**Lakes Farm-in Tenements** means PEP 166, PEP 169 and PRL2, in which Armour Energy has (or in the case of PRL 2, may earn) an interest, respectively of 25%, 51% and 15% (please see footnote 57 for further context in relation to PRL2);

**Liquids** means liquid compounds such as propanes, butanes, pentanes and heavier products extracted from the gas flowstream;

**Listing Rules** or ASX Listing Rules means the Listing Rules of ASX;

**LNG** means liquefied natural gas;

**LOI** means the letter of intent in respect of the Northern Territory Farm-Out announced on 20 August 2015;

**Minister** means the Minister for the Department of Natural Resources and Mines in Queensland;

**Moratorium** has the meaning given to that term in Section 11.2.3 of this Target's Statement;

**Native Title Act** means the *Native Title Act 1993* (Cth);

**NEGI Pipeline** means the North East Gas Interconnector Pipeline;

**Northern Territory Farm-Out Condition** means the Condition set out in paragraph (b) of Appendix 2 – "Conditions of the Offer" of the Bidder's Statement;

**Northern Territory Tenements** means the Permits;

**NTDME** means the Northern Territory Department of Mines and Energy or such other Government Agency as is responsible for administration of the Petroleum Act (NT) from time to time;

**OA** means the Operating Agreement as further described in Section 16.1.2;

**Offer** or **WestSide Offer** means the offer referred to in the Bidder's Statement and made by WestSide to the holders of Armour Energy Shares to acquire all or any of their Armour Energy Shares;

**Offer Period** means the period commencing on 22 September 2015 and ending on 23 October 2015 or such later date to which the Offer has been extended;

**Offer Price** means the consideration offered by WestSide of \$0.12 for each Armour Energy Share;

**Offer Terms** means the formal terms of the Offer set out in Appendix 1 of the Bidder's Statement;

**Option Deed** means the Armour Energy Option Deed as further described in Section 16.1.3;

**Original Bidder's Statement** means the bidder's statement given by WestSide to Armour Energy on 31 August 2015 in accordance with the provisions of Part 6.5 of the Corporations Act;

**Parliamentary Inquiry** has the meaning given to that term in Section 11.2.3 of this Target's Statement;

**PEP** means a Petroleum exploration permit issued under the Petroleum Act (Vic);

**Permits** has the meaning given to that term in Section 16.1.1 of this Target's Statement;

**Petroleum** has the meaning given to the expression 'Petroleum' in the SPE-PRMS;

**Petroleum Legislation** means Petroleum Act 1923 (Qld) or the Petroleum and Gas (Production and Safety) Act 2004 (Qld);

**Petroleum Act (NT)** means the *Petroleum Act 1984 (NT)*;

**Petroleum Act (Vic)** means the *Petroleum Act 1998 (Vic)*;

**Phase One** has the meaning given to that term in Section 16.1.1(b) of this Target's Statement;

**PJ** means Petajoule ( $10^{15}$  J);

**PL** means Petroleum Lease granted under the Petroleum Legislation;

**PPSA** means the *Personal Property Securities Act 2009* (Cth);

**PRL** means Petroleum retention lease issued under the Petroleum Act (Vic);

**Prospective Resources** has the meaning given to the expression 'Prospective Resources' in the SPE-PRMS;

**Recoverable Resources** has the meaning given to the expression 'Prospective Resources' in the SPE-PRMS;

**Register Date** means 7:00pm Sydney time on 3 September 2015;

**Relevant Conditions** means the Northern Territory Farm-Out Condition and the Securities Condition;

**Relevant Interest** has the meaning given to that term in section 9 of the Corporations Act;

**Reserves** has the meaning given to the expression 'Reserves' in the SPE-PRMS;

**Rights** means all accretions, rights or benefits of whatever kind attaching to or arising from Armour Energy Shares directly or indirectly after the date of the Bidder's Statement, including but not limited to all dividends or other distributions and all rights to receive any dividends or other distributions, or to receive or subscribe for shares, stock units, notes, bonds, options or other securities, declared, paid or made by Armour Energy or an Armour Energy Subsidiary;

**RISC** means RISC Operations Pty Ltd;

**RISC Report** means the report entitled "Independent Technical Specialist Report Roma Shelf Assets" dated 30 September 2015;

**Roma Shelf Assets** has the meaning given to that term in Section 10 of this Target's Statement;

**Roma Shelf Assets Acquisition** means the proposed agreement to acquire the oil and gas interests of Origin Energy Limited at Roma in the Surat Basin, Queensland, for \$13 million (plus GST) and as further described in Section 10 of this Target's Statement;

**Roma Shelf Assets Agreements** has the meaning given to that term in Section 10 of this Target's Statement;

**Securities Condition** means the Condition set out in paragraph (c)(iv) of Appendix 2 – "Conditions of the Offer" of the Bidder's Statement;

**Shale Gas** means natural gas that is trapped within shale formations;

**SPE-PRMS** means the document titled 'Petroleum Resources Management System' published by the Society of Petroleum Engineers/World Petroleum Council/American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) in March, 2007;

**SRK** means SRK Consulting (Australasia) Pty Ltd;

**SRK Report** means the report entitled "Technical Assets Valuation of Armour Energy Limited" dated October 2015;

**Subsidiary** has the meaning given to that term in the Corporations Act;

**Takeovers Panel** means the Takeovers Panel constituted under the Corporations Act;

**Target's Statement** means this document;

**TJ/d** means Terajoules per day;

**Tscf** means trillion standard cubic feet of gas;

**Unconventional Resources** has the meaning given to that term in the SPE-PRMS;

**US\$/bbl** means US\$ per barrel; and

**WestSide** means WestSide Corporation Limited ABN 74 117 145 516, a Subsidiary of Landbridge Group Co., Ltd.

## 19.2 IN THIS TARGET'S STATEMENT, UNLESS THE CONTRARY INTENTION APPEARS:

- (a) the singular includes the plural and vice versa;
- (b) the masculine gender includes the feminine and (where a corporation is or may be concerned) the neuter;
- (c) words and expressions defined in the Corporations Act have the same meanings;
- (d) headings are for ease of reference only and do not affect the meaning or interpretation; and
- (e) all currency and dollar amounts are denominated in Australian dollars unless noted otherwise.

**Dated** 7 October 2015.

**Signed** for and on behalf of Armour Energy Limited ACN 141 198 414 by Nicholas Mather who is authorised so to sign pursuant to a resolution passed at a meeting of the Armour Energy Directors.



**Nicholas Mather**  
Executive Chairman

# CORPORATE DIRECTORY

## Directors

Nicholas Mather – Executive Chairman  
William Robert Stubbs – Non-Executive Director  
Roland Kingsbury Sleeman – Non-Executive Director  
Stephen Grant Bizzell – Non-Executive Director

## Registered Office

Level 27, 111 Eagle Street  
Brisbane QLD 4000  
Telephone: + 61 7 3303 0620  
Facsimile: + 61 7 3303 0681

## Website

[www.armourenergy.com.au](http://www.armourenergy.com.au)

## Share Registry

Link Market Services Limited  
Level 15  
324 Queen Street  
Brisbane QLD 4000

## Stock Exchange Listing

Australian Securities Exchange  
ASX Code: AIQ

## Solicitors

HopgoodGanim Lawyers  
Level 8, Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000

## Lead Financial Advisor

Morgans Corporate Limited  
Level 29, Riverside Centre  
123 Eagle Street  
Brisbane QLD 4000



# ANNEXURE A

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## INDEPENDENT EXPERT'S REPORT

**ANNEXURE A – INDEPENDENT  
EXPERT’S REPORT**

**ARMOUR ENERGY LIMITED  
Independent Expert’s Report**

2 October 2015





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## Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

- (a) financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- (b) arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

### General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

### The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Armour Energy Limited ('Armour Energy') in relation to the takeover offer it has received from Westside Corporation Limited to acquire all the shares in Armour Energy for cash consideration of \$0.12 per Armour Energy share ('the Proposed Transaction').

Further details of the Proposed Transaction are set out in Section 3.0. The scope of this Report is set out in detail in Section 4.0. This Report provides an opinion on whether or not the Proposed Transaction is fair and reasonable to Armour Energy shareholders.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to accept or reject the Proposed Transaction is likely to be influenced by their particular circumstances, for example, their taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

### Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately \$120,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the Proposed Transaction.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

### Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has previously prepared an independent expert's report for Armour Energy. Related entities of BDO CFQ also provide services to Armour Energy as follows:

- BDO (Qld) Pty Ltd provides taxation services to Armour Energy; and
- BDO Audit Pty Ltd is the external auditor of Armour Energy.

In all cases, the services provided by BDO (Qld) Pty Ltd and BDO Audit Pty Ltd are statutory and compliance services by nature and in all cases BDO (Qld) Pty Ltd and BDO Audit Pty Ltd have been engaged as an independent and objective party.

BDO CFQ is not an associate of Armour Energy. The signatories to the Report do not hold any shares in Armour Energy and no such shares have ever been held by the signatories.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

### Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with the Chartered Accountants Australia and New Zealand, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission (ASIC) also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

### Contact Details

BDO Corporate Finance (QLD) Ltd

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## Glossary

Reference	Definition
\$	Australian dollars
ABV	Asset-based valuation
AEP	American Energy Partners, LP
APPEA	Australian Petroleum Production and Exploration Association
Armour Energy	Armour Energy Limited
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
ATP	Authority to Prospect (in Queensland)
bcf	Billion cubic feet
BDO CFQ	BDO Corporate Finance (QLD) Ltd
BDO Persons	BDO CFQ, BDO (QLD) Pty Ltd, BDO Audit Pty Ltd or any of its partners, directors, agents or associates
Beach Energy	Beach Energy Limited
Bidder, the	Westside Corporation Limited
Bidder's Statement, the	The Bidder's Statement prepared by Westside Corporation Limited and dated 31 August 2015. The Bidder's Statement relates to Westside Corporation Limited's proposed acquisition of all the shares in Armour Energy for cash consideration of \$0.12 per Armour Energy share
Binding Proposed Farm-out, the	The revised proposed farm-out of a 75% working interest in approximately 29.3 million acres of Armour Energy's Northern Territory oil and gas assets to AEP, as per the binding agreement, announced by the Company on 11 September 2015
Blue Energy	Blue Energy Limited
boe	Barrel of oil equivalent
bpd	Barrel per day
CAPM	The capital asset pricing model
Cash Consideration, the	The cash consideration of \$0.12 per Armour Energy share to be received under the Proposed Transaction
Central Petroleum	Central Petroleum Limited
CME	Capitalisation of maintainable earnings
Company, the	Armour Energy Limited
Corporations Act, the	The Corporations Act 2001
DCF	Discounted cash flow
DGR Global	DGR Global Limited
Drillsearch Energy	Drillsearch Energy Limited
Empire Oil & Gas	Empire Oil & Gas NL
EP	Exploration Permit (in the Northern Territory)
EP (A)	Exploration Permit (Application) (in the Northern Territory)

Reference	Definition
Existing Acreage, the	The oil and gas permits, mineral permits and other joint venture assets owned by Armour Energy in the Northern Territory, North-west Queensland and Victoria. The Existing Acreage excludes the Roma Shelf Assets and the Company's investment in Lakes Oil NL
Financial Model, the	The forecast financial model prepared by Armour Energy to evaluate the Roma Shelf Assets and utilised by RISC in forming a technical opinion in relation to assumptions adopted for the valuation of the Roma Shelf Assets
FIRB	Foreign Investment Review Board
FSG	Financial Services Guide
FY	Financial year
GJ	Gigajoules
Indicative Proposed Farm-out, the	The proposed farm-out of a 75% working interest in approximately 21.5 million acres of Armour Energy's Northern Territory oil and gas assets to AEP, as per the letter of intent announced by the Company on 20 August 2015
JV	Joint venture
km <sup>2</sup>	Square kilometres
Lakes Oil	Lakes Oil NL
Linc Energy	Linc Energy Limited
LPG	Liquefied Petroleum Gas
MBV	Market-based valuation
NT Petroleum Assets, the	The Northern Territory oil and gas permits and applications currently held by Armour Energy, which are the subject of the Binding Proposed Farm-out
OECD	Organisation for Economic Co-operation and Development
Origin Energy	Origin Energy Limited
OPEC	Organisation of Petroleum Exporting Countries
PEP	Petroleum Exploration Permit
PetroFrontier Corp.	PetroFrontier
Phase One	Phase One of the Binding Proposed Farm-out in which AEP will spend up to a maximum of US\$130 million over a maximum of five years for a 75% working interest in Armour Energy's Northern Territory oil and gas assets
Phase Two	Phase Two of the Binding Proposed Farm-out in which AEP and Armour Energy will be responsible for their own share of work program spend. Phase Two activities have not been defined in the farm-out agreement at this stage.
PJ	Petajoules
PL	Production Licence (in Queensland)
PPL	Petroleum Pipeline Licence (in Queensland)
PRL	Petroleum Retention Licence (PRL)
Proposed Transaction, the	The proposed takeover of Armour Energy by Westside Corporation Limited for cash consideration of \$0.12 per Armour Energy share, under the terms outlined in the Bidder's Statement
PRRT	Petroleum Resources Rent Tax
Regulations, the	The Corporation Regulations 2001

Reference	Definition
Report, this	This independent expert's report prepared by BDO CFQ and dated 2 October 2015
Revised Bidder's Statement, the	The Revised Bidder's Statement lodged by Westside Corporation Limited on 14 September 2015
RG 111	Regulatory Guide 111: <i>Content of Expert Report</i> , issued by ASIC
RGs	Regulatory guides published by ASIC
RISC	RISC Advisory, Petroleum Consultants engaged as the technical expert by BDO CFQ to provide a technical opinion in relation to the Roma Shelf Assets
RISC Report, the	The technical expert's report prepared by RISC, dated 30 September 2015 in relation to the Roma Shelf Assets
Roma Shelf Assets, the	The oil and gas permits, plant and infrastructure assets in the Surat Basin, proposed to be acquired by Armour Energy from Origin Energy Limited, as per the Company's announcement on 2 September 2015
Santos	Santos Limited
Senex Energy	Senex Energy Limited
SOTP	Sum of the Parts
SRK	SRK Australia, Petroleum Consultants engaged as the technical expert by BDO CFQ to provide a technical valuation opinion in relation the Company's Northern Territory, North-west Queensland and Victorian assets.
SRK Report, the	The technical expert's report prepared by SRK, dated 1 October 2015 in relation to the Company's Northern Territory, North-west Queensland and Victorian assets
Strike Energy	Strike Energy Limited
Target's Statement, the	The target's statement prepared by Armour Energy and dated 7 October 2015. The Target's Statement contains Armour Energy's response to the Proposed Transaction
tcf	Trillion cubic feet
Terra Nova Energy	Terra Nova Energy Limited
US	United States of America
US\$	United States dollars
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
We, us, our	BDO Corporate Finance (QLD) Ltd
Westside	Westside Corporation Ltd



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AUSTRALIA

The Shareholders  
C/- The Directors  
Armour Energy Limited  
GPO Box 5261  
BRISBANE QLD 4001

2 October 2015

Dear Shareholders,

## Independent Expert's Report

### 1.0 Introduction

#### 1.1 Overview

BDO Corporate Finance (QLD) Ltd ('BDO CFQ', 'we', 'us' or 'our') has been engaged to provide an independent expert's report ('this Report') to the shareholders of Armour Energy Limited ('Armour Energy' or 'the Company') in relation to the proposed takeover offer by Westside Corporation Limited ('Westside' or 'the Bidder') for a cash consideration of \$0.12 per Armour Energy share ('the Proposed Transaction'). The cash consideration of \$0.12 per Armour Energy share is referred to as 'the Cash Consideration' in this Report.

Specifically, the Proposed Transaction, if approved, is expected to result in:

- Termination of the proposed farm-out of a 75% working interest in certain permits of Armour Energy to American Energy Partners, LP ('AEP') ('the Binding Proposed Farm-out') as outlined in the Company's announcement on 11 September 2015 and described in Section 5 of this Report; and
- Westside acquiring at least 50.1% of the shares in Armour Energy.

In this Report, BDO CFQ has expressed an opinion as to whether or not the Proposed Transaction is 'fair and reasonable' to the Armour Energy shareholders. The bidder's statement dated 31 August 2015 prepared by Westside ('the Bidder's Statement') states that the Proposed Transaction is subject to:

- The Binding Proposed Farm-out to AEP not proceeding;
- Westside achieving at least 50.1% acceptances; and
- There being no prescribed occurrences (refer to Appendix 2 of the Bidder's Statement and Section 3.2).

The Bidder issued a revised bidder's statement on 14 September 2015 ('the Revised Bidder's Statement') and the offer opened with a notice of despatch on 22 September 2015.

A more detailed discussion of the Proposed Transaction is set out in Section 3. The scope of this Report and the basis for assessing the Proposed Transaction is set out in detail in Section 4.

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We understand this Report will be provided to Armour Energy shareholders to assist them to make an informed decision on whether to accept or reject the Proposed Transaction. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to Armour Energy shareholders in conjunction with this Report, including the Bidder's Statement and the Target's Statement dated 7 October 2015 prepared by Armour Energy in relation to the Proposed Transaction ('the Target's Statement').

This Report does not address circumstances specific to individual Armour Energy shareholders. An Armour Energy shareholder's decision to accept or reject the Proposed Transaction is likely to be influenced by their own particular circumstances including, for example, their taxation considerations and risk profile. Armour Energy shareholders should obtain their own professional advice in relation to their own circumstances.

All dollar ('\$') references in this Report are in Australian dollars unless otherwise stated.

## 2.0 Summary of Opinion

This section is a summary of our opinion only and cannot substitute for a complete reading of this Report.

### 2.1 Fairness of the Proposed Transaction

In accordance with Regulatory Guide 111: Content of Expert's Reports ('RG 111'), a transaction is considered fair if the value of the consideration offered is equal to or greater than the value of the securities the subject of the transaction.

Table 2.1 below summarises the range of values used to assess the fairness of the Proposed Transaction. A more detailed assessment of the fairness of the Proposed Transaction is set out in Section 7 of this Report.

**Table 2.1: Fairness of the Proposed Transaction**

	Low (\$)	Preferred (\$)	High (\$)
Value of the Cash Consideration offered per Armour Energy share	0.12	0.12	0.12
Value of an Armour Energy share	0.22	0.37	0.59

Source: BDO CFQ analysis

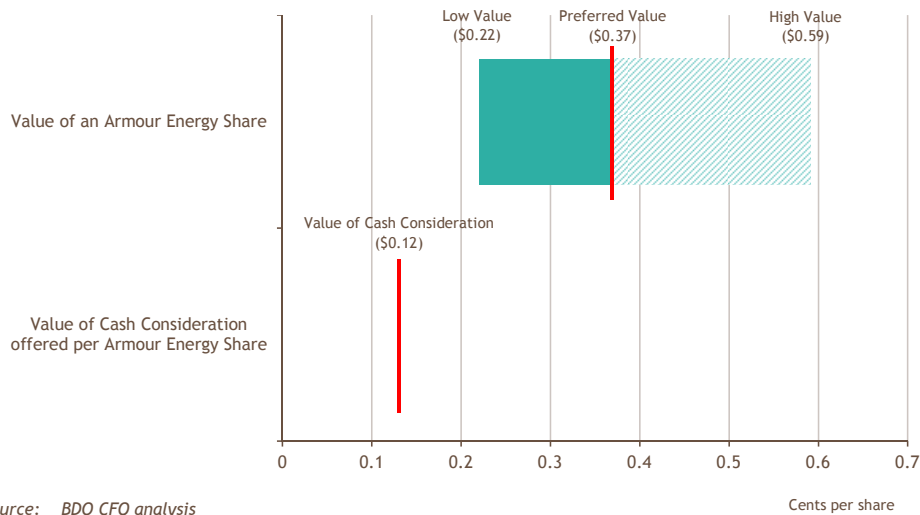
The valuation range as stated above is relatively wide as a consequence of the relatively wide range of values attributed to the Existing Acreage by SRK. While, in our view, this relatively wide range reflects the relatively early stage nature of the Existing Acreage, we also note the following:

- The preferred value of the Existing Acreage is closer to the low value provided by SRK than it is to the high value; and
- Market conditions are generally difficult for Australian energy and resource exploration companies at the current time.

Having regard to the above, it is our view that it is appropriate to narrow the valuation range around the lower end of values and conclude that the control value of each Armour Energy share could reasonably be estimated within the range of \$0.22 and \$0.37 as at the date of this Report and for the purpose of our analysis.

Figure 2.1 below summarises our assessment of the fairness of the Proposed Transaction, setting out a graphical comparison of our valuation an Armour Energy share on a controlling interest basis and the value of Consideration received.

**Figure 2.1: Assessment of the Fairness of the Proposed Transaction**



Source: BDO CFQ analysis

For completeness we note that Armour Energy is an early stage exploration company and has yet to prove that it can generate sustainable positive operating cash flows. In our view, the value of Armour Energy may increase or decrease materially over short time periods depending on the ability to meet certain milestones.

Having regard to the information set out in Figure 2.1 above, the value of the consideration offered per Armour Energy share is not within the valuation range of an Armour Energy share prior to the Proposed Transaction.

After considering the information summarised above and set out in detail in the balance of this Report, it is our view that in the absence any other information the Proposed Transaction is **Not Fair** to the Armour Energy shareholders as at the date of this Report.

## 2.2 Reasonableness of the Proposed Transaction

Table 2.2 below summarises the potential advantages and disadvantages to Armour Energy shareholders of accepting the Proposed Transaction. A more detailed assessment of the reasonableness of the Proposed Transaction is set out in Section 8 of this Report.

**Table 2.2: Potential Advantages and Disadvantages of the Proposed Transaction**

Advantage	Disadvantage
<ul style="list-style-type: none"> <li>The current offer price is known and there are no brokerage /commissions payable</li> </ul>	<ul style="list-style-type: none"> <li>The Proposed Transaction is not Fair</li> </ul>
<ul style="list-style-type: none"> <li>The Cash Consideration offers a premium to the historical trading price of Armour Energy shares</li> </ul>	<ul style="list-style-type: none"> <li>No exposure to any potential upside in the future value of Armour Energy</li> </ul>
<ul style="list-style-type: none"> <li>The Proposed Transaction is the only cash offer to acquire the Company</li> </ul>	<ul style="list-style-type: none"> <li>Requires termination of the Binding Proposed Farm-out</li> </ul>
	<ul style="list-style-type: none"> <li>No exposure to any future offers</li> </ul>
	<ul style="list-style-type: none"> <li>The Proposed Transaction is subject to Westside achieving at least 50.1% acceptances</li> </ul>

Source: BDO CFQ analysis

After considering the potential advantages and disadvantages of the Proposed Transaction summarised above and set out in more detail in Section 8 of this Report, it is our view that, in the absence of a superior offer or any other information, the Proposed Transaction is **Not Reasonable** to the Armour Energy shareholders as at the date of this Report, for reasons which include the following:

- It is our view that the disadvantages of the Proposed Transaction outweigh the advantages; and
- The offer is at a price which is significantly below the low end of our valuation range of Armour Energy shares.

Notwithstanding the above and as mentioned previously, there is no guarantee that shares in Armour Energy will continue to trade at or above \$0.12 per share and have the levels of liquidity required for shareholders to dispose of their shares.

The offer provides certainty of a \$0.12 per share cash payment to those shareholders looking to exit and monetise their investment in Armour Energy.

### 2.3 Expert's Opinion on the Proposed Transaction

In our opinion, in the absence of a superior offer or any other information, the Proposed Transaction is **Not Fair and Not Reasonable** to the Armour Energy shareholders as at the date of this Report.

Notwithstanding our view on the Proposed Transaction, we strongly recommend that Armour Energy shareholders also have regard to the information set out in the balance of this Report including the other considerations set out in Section 2.4 below.

### 2.4 Other Considerations for Armour Energy Shareholders

The other considerations for Armour Energy shareholders include the considerations regarding their position if the Proposed Transaction is not accepted (refer to Section 8.3).

Those considerations include the following:

- Continued participation in the risks and opportunities of an investment in Armour Energy shares, including those associated with the Binding Proposed Farm-out (if it is approved and completed) and Armour Energy's proposed acquisition of the oil and gas permits, plant and infrastructure assets in the Surat Basin from Origin Energy Limited ('Origin Energy'), as per the Company's announcement on 2 September 2015 ('the Roma Shelf Assets');
- The Binding Proposed Farm-out which, if approved and completed, represents a competing offer to farm-in to the Company's most material assets, being its Northern Territory oil and gas acreage ('the NT Petroleum Assets'). If the Binding Proposed Farm-out is carried out successfully, the potential value offered by the proposed work program would be realised over a period of up to five years or longer. That potential future value may be greater or less than the cash price of \$0.12 per Armour Energy share currently being offered under the Proposed Transaction;
- The potential reduction in the free-float of the shares in Armour Energy, should Westside acquire a significant parcel of shares in the Company (without acquiring control). This may reduce the liquidity of Armour Energy shares;
- The potential uncertainty of the ongoing funding requirements of the Company (including funding for the acquisition of the Roma Shelf Assets) and the Company's ability to secure adequate funding on suitable terms in a timely manner.

We note that the Company has announced on 30 September 2015 the provision of a facility to provide funding to complete to acquisition of the Roma Shelf Assets in circumstances where other funding arrangements have not been procured. The terms of this facility are such that the extension of the facility for a period beyond 31 March 2016 would result in additional payments to DGR Global becoming due (in the form of options, royalties and conversion rights).

As mentioned above, the Company expects to complete the Binding Proposed Farm-out with AEP and expects to raise \$18.1 million in upfront cash payments, in addition to funds raised through the issue of shares to AEP. In the event funds are received before 31 March 2016, as is expected by the Company, this would assist to repay this facility and avoid the additional payments to DGR Global; and

- The Company may or may not receive another offer to acquire all the shares in the Company in the foreseeable future.

Before forming a view on whether to accept or reject the Proposed Transaction, we strongly recommend that Armour Energy shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided to them, including this Report, the Bidder's Statement and the Target's Statement; and
- Consider their specific circumstances.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the information presented in this Report in short periods of time. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

### 3.0 The Proposed Transaction

This section sets out an overview of the Proposed Transaction and is structured as follows:

- Section 3.1 provides a brief background and summary of the Proposed Transaction; and
- Section 3.2 summarises the conditions precedent of the Proposed Transaction.

This section is a summary only and should not be treated as a complete description of the Proposed Transaction. Armour Energy shareholders should refer to the Bidder's Statement and Target's Statement for detailed and additional information relating to the Proposed Transaction.

#### 3.1 Background and Summary of the Proposed Transaction

##### 3.1.1 Background

On 31 August 2015, Westside announced a takeover offer to acquire all the shares in Armour Energy for the Cash Consideration of \$0.12 per Armour Energy share.

The key conditions of the Proposed Transaction as outlined in the Bidder's Statement include:

- The Binding Proposed Farm-out to AEP not proceeding;
- Westside achieving 50.1% acceptances from Armour Energy shareholders; and
- There being no prescribed occurrences (refer to Appendix 2 of the Bidder's Statement and Section 3.2 of this Report).

On 14 September 2015, Westside issued the Revised Bidder's Statement which also included the above terms.

Further details in relation to the Proposed Transaction are set out in Section 1 of the Bidder's Statement.

##### 3.1.2 Westside Corporation Limited<sup>1</sup>

Westside is a gas production company based in Brisbane. Westside was listed on the Australian Securities Exchange ('ASX') between January 2007 and September 2014, when it was delisted following its acquisition through an off-market takeover by Landbridge Energy Australia Pty Ltd, a subsidiary of Landbridge Group, a privately owned infrastructure, energy and real estate investment company based in the People's Republic of China.

Westside owns 51% of the Meridian gas fields 160 kilometres west of Gladstone in Queensland's Bowen Basin in joint venture ('JV') with Mitsui E&P Australia. Westside is the operator of the Meridian gas fields. The Meridian JV executed a binding 20-year gas sales agreement in March 2014 with the GLNG project (operated by Santos Limited ('Santos')) for the sale of up to 65 terajoules a day at oil-linked market prices. In 2015, the Meridian gas fields will be connected to the Queensland Gas Pipeline and will have a new connection directly to the GLNG pipeline taking gas to Gladstone.

Westside also holds 25.5% JV interests with Queensland Gas Company and Mitsui E&P Australia in other projects with exploration and appraisal programs at three pilot sites in the Bowen Basin.

##### 3.1.3 Funding the Proposed Transaction

Westside intends to acquire all the shares in Armour Energy for the Cash Consideration of \$0.12 per Armour Energy share. As outlined in Section 6 of the Bidder's Statement, if the Proposed Transaction is accepted in respect of all the shares in Armour Energy, the consideration payable will be approximately \$36.6 million.

Westside notes in section 6.2 of the Bidder's Statement that the cash required to fund the Proposed Transaction will be provided by funding from Landbridge Group and its subsidiaries. Section 6.3 of the Bidder's Statement provides an overview of the funding arrangement.

<sup>1</sup> Westside website ([www.westsidecorporation.com](http://www.westsidecorporation.com))

Westside has stated that Landbridge Group has cash reserves in excess of the consideration payable by Westside under the Proposed Transaction and details of the funds available at major Chinese banks are provided in Section 6.3 of the Revised Bidder's Statement. Additionally, Westside notes that Landbridge Group has a sufficient amount of cash reserves in Chinese yuan to cover what Landbridge Group and Westside anticipate to be any adverse movements in the Chinese yuan / Australian dollar exchange rate during the period in which Westside has an outstanding obligation to make payments under the Proposed Transaction.

### 3.2 Conditions Precedent of the Proposed Transaction

This section summarises a number of conditions precedent to the Proposed Transaction and the current status of the conditions.

#### 3.2.1 Conditions Precedent of the Proposed Transaction

The Proposed Transaction is subject to conditions which include the following. Shareholders should refer to Appendix 2 of the Bidder's Statement for details of the conditions applicable to the Proposed Transaction:

- Minimum acceptance by shareholders of 50.1% of Armour Energy's issued shares;
- No binding agreement, arrangement or understanding being entered into or being resolved to be entered into by Armour Energy with AEP in relation to the Binding Proposed Farm-out;
- No Armour Energy prescribed occurrences happening; and
- No material disposals or material corporate actions by Armour Energy.

Westside may declare the Proposed Transaction free of any or all of the conditions at any time in compliance with the Corporations Act 2001 ('the Corporations Act') by giving written notice to Armour Energy. Further details in relation to the conditions of the Proposed Transaction are set out in Appendix 2 of the Bidder's Statement.

If Westside declares its offer to be free from conditions, Westside has indicated that they will proceed to delist Armour Energy shares from the ASX.

#### 3.2.2 Armour Energy Options

Section 1 of the Bidder's Statement states that the Proposed Transaction extends to all shares in Armour Energy that are issued between 3 September 2015 and 15 October 2015 resulting from the exercise of unlisted options in Armour Energy. Westside is not offering to acquire any unlisted options in Armour Energy.

Westside may seek to acquire the unlisted options in Armour Energy by either: a) making a private offer to acquire those options, or b) where Westside becomes entitled to compulsorily acquire all the shares in Armour Energy, Westside will also compulsorily acquire all the unlisted option in Armour Energy.

#### 3.2.3 Current Status of the Conditions to the Proposed Transaction

The current status of the conditions to the Proposed Transaction as at the date of this Report is that Armour Energy has announced on 11 September 2015 that it had entered into the Binding Proposed Farm-out agreement with AEP (pursuant to the Indicative Farm-out announced on 20 August 2015) and provided an update regarding a funding proposal received in relation to the Roma Shelf Assets.

In the Revised Bidder's Statement, Westside noted that it considers the Binding Proposed Farm-out to be a breach of the conditions of the offer but that it had not yet decided whether it would withdraw its offer or waive the condition.

On 22 September 2015, Westside despatched the Revised Bidder's Statement to Armour Energy shareholders.

## 4.0 Scope of Report and Methodology for Assessment

### 4.1 Scope of Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act, the Corporation Regulations 2001 ('the Regulations'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and the listing requirements of the stock exchanges on which a company is listed. A summary of the relevant requirements is set out as follows:

- Section 4.2 summarises the requirements of the Corporations Act and the Regulations;
- Section 4.3 summarises the requirements of the ASX listing rules; and
- Section 4.4 summarises the requirements of the RGs.

The sole purpose of this Report is to express BDO CFQ's opinion on whether the Proposed Transaction is fair and reasonable to Armour Energy shareholders. This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Target's Statement to be sent to Armour Energy shareholders by the Company.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of individual Armour Energy shareholders. Before deciding whether to accept or reject the Proposed Transaction, individual Armour Energy shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs, including their own taxation consequences. Armour Energy shareholders should read in full the Bidder's Statement, Revised Bidder's Statement and the Target's Statement.

Whether to accept or reject the Proposed Transaction is a matter for individual Armour Energy shareholders based on their expectations as to value and future market conditions and their own particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Armour Energy shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

### 4.2 Requirements of the Corporations Act and Regulations

Westside has prepared a Bidder's Statement in accordance with Section 636 of the Corporations Act. Under Section 633 Item 10 of the Corporations Act, Armour Energy is required to prepare a Target's Statement in response to the Bidder's Statement.

Section 640 of the Corporations Act requires the Target's Statement to include an independent expert's report to shareholders if:

- The Bidder's voting power in the target is 30% or more; or
- The Bidder and the target have a common director or directors.

As we understand Westside does not hold any shares in Armour Energy and the companies do not have any common directors there is no requirement under the Corporations Act for Armour Energy to engage an independent expert in relation to the Proposed Transaction.

Notwithstanding the above, Armour Energy has engaged BDO CFQ to prepare this Report for provision to Armour Energy shareholders to assist them in deciding whether to accept or reject the Proposed Transaction.

### 4.3 Requirements of the ASX Listing Rules

This Report has not been prepared for the purpose of complying with the listing rules of the ASX or any other stock exchange.



#### 4.4 Methodology for Assessment

Neither the ASX Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Proposed Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. RG 111 provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

RG 111 suggests that where the transaction is a control transaction the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. In our opinion the Proposed Transaction is a control transaction as defined by RG 111 and we have assessed the Proposed Transaction to consider whether in our opinion it is fair and reasonable to Armour Energy shareholders.

To meet the ASIC requirements, an expert seeking to determine whether the Proposed Transaction is 'fair' and 'reasonable' should complete the steps set out below.

##### 4.4.1 Step 1 - Assessment of Fairness

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject to the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject to an offer in a control transaction the expert should consider this value inclusive of a control premium and assume a 100% ownership interest.

Having regard to the above, in our view, to assess whether the Proposed Transaction is 'fair' it is appropriate to:

- (a) Determine the value of an Armour Energy share immediately prior to the Proposed Transaction on a controlling interest basis; and
- (b) Compare the value determined in (a) above with the value of the Cash Consideration to be received by Armour Energy shareholders for each Armour Energy share under the Proposed Transaction. Under RG 111, the Proposed Transaction will be considered 'fair' to Armour Energy shareholders if the value of the Cash Consideration to be received by Armour Energy shareholders is equal to or greater than the value of each Armour Energy share prior to the Proposed Transaction.

The valuation work set out in this Report has been completed using publicly available information, in addition to information provided by the Directors of Armour Energy. Further, we have engaged RISC Advisory ('RISC') and SRK Australia ('SRK') to provide independent technical advice in relation to the value of the oil, gas and mineral assets of Armour Energy.

Our assessment of the fairness of the Proposed Transaction is set out in Section 7 of this Report.

##### 4.2.2 Step 2 - Assessment of Reasonableness

To assess whether the Proposed Transaction is 'reasonable' it is appropriate to examine other significant factors to which Armour Energy shareholders may give consideration prior to forming a view on whether to accept or reject the Proposed Transaction. This includes comparing the likely advantages and disadvantages of accepting the Proposed Transaction with the position of Armour Energy shareholders if they do not accept the Proposed Transaction, as well as a consideration of other significant factors.

Our assessment of the reasonableness of the Proposed Transaction is set out in Section 8 of this Report.

##### 4.2.3 Step 3 - Expert's Opinion

RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept an offer in the absence of a superior proposal.

This Report will conclude by providing our opinion as to whether or not the Proposed Transaction is 'fair and reasonable'. While all relevant issues need to be considered before drawing an overall conclusion, we will assess the fairness and reasonableness issues separately for clarity.

In this Report we have not provided any taxation, legal or commercial advice in relation to the Proposed Transaction.

In the process of assessing the Proposed Transaction, we have relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report in a short period of time. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

This Report has been prepared in accordance with professional standard APES 225: Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited. This assignment is a Valuation Engagement as defined by APES 225. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider to be appropriate in the circumstances.

## 5.0 Background of Armour Energy<sup>2</sup>

This section is set out as follows:

- Section 5.1 sets out an overview of Armour Energy;
- Section 5.2 provides a summary of the Binding Proposed Farm-out;
- Section 5.3 provides a summary of the Roma Shelf Assets;
- Section 5.4 sets out an overview of the equity structure of Armour Energy;
- Section 5.5 provides an overview of the recent performance of Armour Energy's shares; and
- Section 5.6 sets out a summary of the historical financial information of Armour Energy.

### 5.1 Overview

#### 5.1.1 Operations Summary

Armour Energy is an ASX-listed (ticker: AJQ) oil and gas and minerals exploration company with a market capitalisation of \$37 million.<sup>3</sup> Armour Energy's oil and gas tenure covers approximately 34 million acres in the Northern Territory and North-west Queensland. To complement Armour Energy's prospective areas in Northern Australia, the Company has an investment in ASX-listed Lakes Oil NL ('Lakes Oil'), an oil and gas explorer focused on the Otway and Gippsland Basins in Victoria. The company also has interests in relation to some of the tenures held by Lakes Oil in Victoria either by way of direct interests or farm in rights.

A summary of Armour Energy's projects in the Northern Territory, Queensland and Victoria is set out further below.

#### Northern Territory

Armour Energy has been granted exploration permits ('EP') 171, 174, 176, 190, 191 and 192 and has 9 additional permits pending grant in the Northern Territory. These permits and applications cover approximately 29.3 million acres in the McArthur, South Nicholson and Georgina Basins.

The Company's most recent Resources upgrade announcement on 21 September 2015 included the following statements:

#### Conventional Oil and Gas

193 conventional leads and prospects in the Northern Territory have been delineated that can target 4.9 tcf of best estimate prospective recoverable gas resources including:

- 97 combined closures with potential conventional reservoirs in the Wollgorang and McDermott with a best estimate prospective gas resource of 2.2 tcf. A host of conventional reservoirs are likely to occur in Tawallah Group and additional hydrocarbon charge could be possible into the overlaying McArthur Group;
- 96 combined Coxco Dolomite leads and prospects with a best estimate prospective resource of 2.65 tcf;
- In 2012, the Glyde 1 discovery well in EP 171 flowed 3.3 mmscf from the Coxco Hydrothermal Dolomite of the McArthur Group. The well enabled booking of 10.1 bcf of Contingent Resources in an estimated 5.9 square kilometre ('km<sup>2</sup>') closure; and
- Armour Energy notes that it has reported both oil and gas discoveries to the NT Department of Mines and Energy in 4 of 6 conventional wells in its granted permits since its initial public offering in 2012, which represents a wildcat exploration success rate of 66%.

<sup>2</sup> Information in this section of this Report is sourced from the Armour Energy website ([www.armourenergy.com.au](http://www.armourenergy.com.au)), from ASX announcements and from Armour Energy management

<sup>3</sup> As at 24 September 2015

### Unconventional Oil and Gas

Armour Energy has a best estimate prospective recoverable resource of 6.9 tcf in the Wollgorang Shale and 10.1 tcf in the McDermott Shale of the Tawallah Group. Source rock sample tests by CSIRO results have demonstrated the McDermott Formation shale core samples are currently within the gas-plus-condensate and/or gas-plus-oil windows and the Wollgorang Formation shale core samples are currently within the gas-window.

The Wollgorang and McDermott Shales underlie the Barney Creek Shale prospective fairway in the Batten Trough (EP 171 and 176) which extends east to the Queensland border (EP 174 and 190) and south into the Barkley Tablelands (EP 191 and 192). The overlying Barney Creek Formation Shale currently has a best estimate prospective recoverable resource of 13 tcf in an estimated area of 11,504 km<sup>2</sup> in only granted EP 171 and 176. The Company is of the view that together, the shales offer a development opportunity for stacked resource plays combined with conventional targets.

### Queensland

This section provides a summary of Armour Energy's permits in northwest Queensland. A summary of Armour Energy's recent acquisition (subject to regulatory and government approvals and pre-emption rights) of the Roma Shelf Assets is set out in Section 5.2 below.

The Company's most recent Resources upgrade announcement on 21 September 2015 included the following statements:

Egilabria-2 and Egilabria-4 wells were drilled in Authority to Prospect ('ATP') 1087 during 2013. After extracting gas to surface from a multi-stage hydraulic stimulation at the Egilabria 2 DW1, 365 bcf of contingent resource were booked in the Lawn Hill Shale fairway. A reassessment of the gas resource in ATP 1087 has determined a combined best estimate prospective recoverable resource of 22.1 tcf from:

- an initial best estimate prospective recoverable resource from the Riversleigh Shale of 14 tcf; and
- a revised prospective recoverable resources in the Lawn Hill Shale of 8.1 tcf following a deeper subsurface depth cut off.

The Company notes that the Riversleigh Shale is approximately 500 metres to 1,000 metres deeper than the overlying Lawn Hill Shale fairway and offers the opportunity for stacked resource play development across an area of 4,200 km<sup>2</sup> in ATP 1087. Hydrocarbon analysis of samples from the Egilabria-2 and Egilabria-4 predominantly show a dry gas window with very low carbon dioxide and nitrogen. In addition, the Company notes that up to 6% helium was reported while drilling and subsequent post-hydraulic stimulation gas analysis showed a consistent 1% of associated helium from analysed separator gas. The Company stated that source rock laboratory studies of recovered shale cuttings and sidewall core demonstrate Total-Organic-Carbon values up to 11% in the Riversleigh Shale. The Company notes that subsurface studies suggest that the Riversleigh Shale in ATP 1087 are directly correlated to the Barney Creek Shale in their NT permits.

### Victoria

In 2013, the Company made an investment in Lakes Oil, an ASX-listed oil and gas explorer focused on the Otway and Gippsland Basins, Victoria. The Company also entered into agreements on three projects:

- Petroleum Exploration Permit ('PEP') 169 (targeting gas from Waarre Sandstone and Eumeralla Formation) in the Otway Basin where Armour Energy holds a direct 51% interest. PEP 169 hosts the 2012 Moreys 1 gas and condensate discovery and the Otway 1 target;
- PEP 166 (targeting the Baragwanath Anticline structure) in the onshore Gippsland Basin where Armour Energy holds a 25% direct interest and a right to earn up to 51% by drilling an additional well or, alternatively, expending \$4.75 million on exploration. The main target within PEP 166 is the gas resources in the Strzelecki Group and oil in the Rintoul Creek Sandstone; and

- Petroleum Retention Licence ('PRL') 2 in the onshore Gippsland Basin where, over the next two years (or longer depending on regulatory outcomes), Armour Energy, has options to acquire in its own right, half of Lakes Oil's project interest in the Trifon and Gangell blocks within PRL 2 and a 25% direct interest in the balance of PRL 2. Alternatively, Armour Energy may match Beach Energy Limited's farm-in agreement on PRL 2 under certain conditions.

The Victorian Government currently has a moratorium in place on all onshore gas exploration and drilling activities, with a primary focus on fracture stimulation.

Gas resources of Armour Energy's Victorian permits are in the proximity of existing gas pipelines, gas-fired power generation plants and heavy industry.

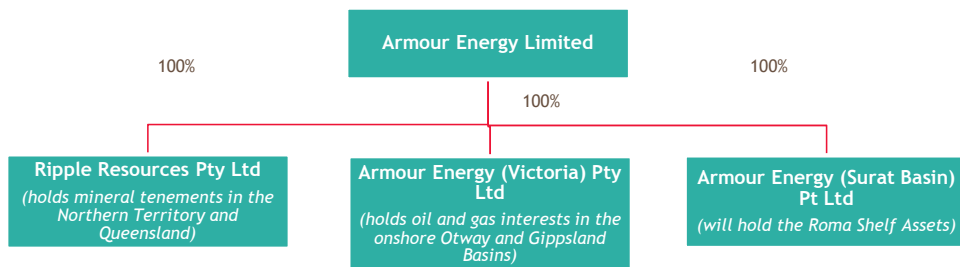
### 5.1.2 Tenements Summary

A listing of Armour Energy's tenements, applications, and also the relevant dates and terms applicable to those permits and applications is set out in the report prepared by SRK dated 1 October 2015 ('the SRK Report'), a copy of which is set out in Appendix F of this Report. The Roma Shelf Assets are summarised separately in Section 5.3 of this Report.

### 5.1.3 Corporate Structure

The corporate structure of Armour Energy is set out in Figure 5.1 below.

Figure 5.1: Corporate Structure



Source: Armour Energy Annual Report 2015 and Armour Energy management

## 5.2 The Binding Proposed Farm-out With American Energy Partners, LP

On 20 August 2015, Armour Energy stated that it had signed a letter of intent with a subsidiary of AEP, for a potential farm-in by AEP into certain permits held by the Company in the McArthur Basin in the Northern Territory ('the Indicative Proposed Farm-out').

AEP was founded in 2013 by Mr Aubrey K. McClendon to invest in unconventional resource plays in the United States of America ('US') and internationally. Mr McClendon was co-founder, Chairman and CEO of Chesapeake Energy Limited (a US listed oil and gas company) between 1989 and 2013. AEP has funded investments through its private equity partners, The Energy and Minerals Group and First Reserve Corporation. Since 2013, AEP has arranged over \$US 5 billion of debt and equity investments and grown to more than 450 employees.<sup>4</sup>

On 11 September 2015, Armour Energy announced that it had signed definitive binding agreements for the letter of intent with AEP (i.e. the Binding Proposed Farm-out). The agreements which comprise the Binding Proposed Farm-out include the following terms:

<sup>4</sup> www.americanenergypartners.com

- Farm-in area of 29.3 million acres in Armour Energy's granted and pending tenements in the Northern Territory. Armour Energy will continue to retain 100% ownership of its tenements in north west Queensland covering 5.1 million acres;
- AEP will spend up to a maximum of US\$130 million on Phase One of the Binding Proposed Farm-out over a maximum of five years for a 75% working interest;
- Armour Energy is free carried 100% for Phase One following which the parties will conduct operations covered by a joint operating agreement. Under Phase One the work program spend up to US\$130 million on the areas subject to the Binding Proposed Farm-out will not require funding contributions from Armour Energy;
- Armour Energy will transfer a 75% working interest and operatorship in the subject tenements to AEP, subject to pro-rata adjustment if the program is not completed. Armour Energy will reclaim operatorship if AEP does not earn at least a 50.1% interest in the subject tenements;
- The design and implementation of the work program will be controlled by AEP with the consultation and assistance of Armour Energy;
- AEP will maintain the subject tenements in good standing;
- AEP will make a cash payment to Armour Energy of US\$13 million on closing of the Binding Proposed Farm-out;
- AEP will make a bonus payment of US\$3 million on the grant and transfer of a 75% interest in Exploration Permit Application ('EP (A)') 177 and 178 by Armour Energy to AEP. As at the date of this Report, Armour Energy only has applications over these areas and the permits have not yet been awarded to the Company;
- AEP will make a bonus payment of US\$7 million upon the earlier to occur of the grant of one million acres of production licences (i.e. the conversion of existing exploration permits to production permits) or the grant and transfer of a 75% farm-in interest in Armour Energy's remaining Northern Territory applications (other than EP(A) 177, 178 and 194) to AEP;
- The following Armour Energy options will be granted to AEP on closing of the Binding Proposed Farm-out subject to pro-rata adjustments (in the event more or less shares are on issue in Armour Energy at closing of the Binding Proposed Farm-out relative to the date of the Binding Proposed Farm-out documentations):
  - 12 million options at an exercise price of \$0.25 each expiring in three years;
  - six million options at an exercise price of \$0.40 each expiring in five years; and
  - six million options at an exercise price of \$0.50 each expiring in five years;
- If Armour Energy is unable to obtain financing on fair market terms and after notice from Armour Energy, AEP will use commercially reasonable efforts to arrange third party financing on the same terms and conditions as AEP's own financing or other fair market terms for Armour Energy's share of Phase Two appraisal and development spend. Details of the scale of Phase Two activities have not yet been agreed and there is no definitive agreement on the nature of the assistance that may be provided by AEP for Armour Energy to procure funding for Phase Two;
- AEP will acquire 33.8 million new Armour Energy shares through a placement at \$0.20 per share for cash. The placement is to be settled 50% on approval of the Binding Proposed Farm-out by Armour Energy shareholders and 50% on closing of the Binding Proposed Farm-out; and
- AEP will nominate a director to be appointed to the board of Armour Energy upon settlement of the second tranche of the share placement.

The Binding Proposed Farm-out is subject to key conditions including:

- Regulatory approvals from FIRB and the Northern Territory Government;
- Approval by Armour Energy shareholders;
- Satisfactory due diligence (to be completed within 120 days of signing the Binding Proposed Farm-out);
- The option deed and the share placement being implemented;
- Assignment of interests in the Native Title agreements to AEP; and
- Goods and services tax registration of relevant AEP entities.

AEP can also withdraw if there is a material adverse change prior to closing that is not resolved after consultation between the parties.

Notwithstanding the above, we have not been provided with specific and definitive details relating to the way in which AEP plans to fund the Binding Proposed Farm-out. We note that AEP is an unlisted asset management company and we have not been provided with details of their financial position or any partners' financial position. It is outside of the scope of this Report to complete due diligence on the financial capacity of AEP to fund the Binding Proposed Farm-out.

We note that AEP's working interest is adjusted if the work program in Phase One is not complete. The minimum working interest AEP will obtain under the Binding Proposed Farm-in is 8.6% of the NT Petroleum Assets. That is, if AEP does not continue with the proposed arrangements post the upfront cash consideration, then Armour Energy will retain any cash payments and retain an interest of 91.4% in the NT Petroleum Assets subject to the Binding Proposed Farm-out.

### 5.3 The Roma Shelf Assets

On 2 September 2015, the Company announced the execution of sale and purchase agreements to acquire certain oil and gas interests from Origin Energy located in the Surat Basin near Roma Queensland (i.e. the Roma Shelf Assets) for cash consideration of \$10 million upfront and \$3 million in deferred payments (to be paid in annual tranches of \$1 million from the first anniversary of first gas sales following the acquisition by Armour Energy).

The Company announced on 30 September 2015 that it has procured debt funding to assist with the funding requirements of the Company's acquisition of the Roma Shelf Assets, if required. The Company announced that the debt funding proposal is from its largest shareholder, DGR Global Limited, for \$15 million.

The acquisition is conditional on a number of matters including regulatory compliance, approval requirements and pre-emption by other JV co-venturers in certain tenements either being waived or expiring.

The Roma Shelf Assets to be acquired include oil and gas production and exploration permits with estimated contingent and prospective resources, the Kincora processing plant, inter-field pipelines and a trunkline link to Wallumbilla, a gas storage facility (Newstead) and infield infrastructure. These assets are discussed further below.

#### 5.3.1 Tenures

The tenures include 19 production leases ('PL') (7 non-operated), 4 ATPs (1 non-operated) and 4 Petroleum Pipeline Licenses ('PPL'). Table 5.1 sets out Origin Energy's interests in the Roma Shelf Assets which are the subject of the executed sale and purchase agreement. Certain JV interests being acquired are subject to pre-emptive rights. In relation to JVs with Santos, the Company's announcement states that the pre-emptive rights have been waived. Of the remainder, Armour Energy may not be able to acquire interests in those tenements depending on whether those pre-emptive rights are exercised or waived by the JV co-venturers.

Many of the permits have additional royalty obligations on some or all of the blocks covering the permits. These royalties range from a 1.6% to 5% royalty on wellhead value and/or up to 10% of net profit interest on certain blocks. We are instructed that the Company has reached an indicative agreement to acquire the majority of the overriding royalties in relation to the JVs with Santos.

**Table 5.1: Interests to be Acquired in the Roma Shelf Assets**

Tenement <sup>1, 2</sup>	Interest	Operated	Unwaived pre-emptive right
PL14	100.00%	Yes	No
PL53	100.00%	Yes	No
PL70	100.00%	Yes	No
PL511 (formerly PL174)	100.00%	Yes	No
PL227	100.00%	Yes	No
PPL 3	100.00%	Yes	No
PPL 63	100.00%	Yes	No
Newstead Gas Storage	100.00%	Yes	No
PL28	46.25%	No	No
PL 69	46.25%	No	No
PL 89	46.25%	No	No
PL 320 (formerly PL 10W)	46.25%	No	No
PL 11W	46.25%	No	No
PL 12W	46.25%	No	No
PL11 Snake Creek East Exclusion Zone	25.00%	No	No
PL 21	87.50%	Yes	No
PL 22	87.50%	Yes	No
PL 27	87.50%	Yes	No
PL 71	90.00%	Yes	No
PL 264	90.00%	Yes	No
ATP 1190 (formerly ATP 471)	50.64%	Yes	Yes
PL 30	75.00%	Yes	Yes
PL 512 (formerly PL 74)	69.00%	Yes	Yes
PPL 22	69.00%	Yes	Yes
PL 71 (exploration)	72.00%	Yes	Yes
ATP 647 (Block 2656)	50.00%	Yes	Yes
ATP 754	50.00%	Yes	Yes
ATP 1190 (Bainbilla) (formally ATP 471)	24.75%	No	Yes

Source: *Armour Energy ASX Announcement, 2 September 2015*

1 *PL = Petroleum Licence (in Queensland)*

2 *PPL = Petroleum Production Licence (in Queensland)*



### 5.3.2 Resources

Table 5.2 sets out the independently estimated 2C contingent resources relating to the Roma Shelf Assets. We are informed by RISC Advisory (an independent technical expert) that these resources may selectively be converted to 2P Reserves upon commissioning of the gas processing plant and the activities approved to enable production from the wells.

**Table 5.2: 2C Contingent Resources in the Roma Shelf Assets**

Sales gas (PJ)	LPG (kTonne)	Condensate (kbbbl)	Oil (kbbbl)
23.0	51.9	245	154

Source: *Armour Energy ASX Announcement, 2 September 2015*

- 1 LPG = Liquefied Petroleum Gas
- 2 PJ = petajoules
- 3 kTonne = thousand tonnes
- 4 kbbbl = thousand barrels

### 5.3.3 Infrastructure

Key infrastructure relating to the Roma Shelf Assets includes:

- The Kincora Plant and LPG Plant and Infrastructure:
  - Gas, LPG and condensate processing and gas compression facilities at Kincora, south of Roma;
  - A number of in-field gas compression and stand-alone oil gathering/processing facilities as well as inter-field pipelines; and
  - A dedicated pipeline from the Kincora Gas Plant to Wallumbilla connecting to the Roma to Brisbane Pipeline.
- An established gas storage facility:
  - A gas storage facility with a capacity of 7.5 PJ, currently containing 2.3 PJ of sales gas.

### 5.4 Equity Structure

As at the date of this Report, Armour Energy had the following securities on issue:

- 304.64 million fully paid ordinary shares; and
- 20.48 million options on issue.

Table 5.3 summarises the top ten shareholders of Armour Energy as detailed in the Company's most recent annual report.

**Table 5.3: Top 10 Shareholders in Armour Energy**

Shareholder	Number of Shares	Percentage Holding
DGR Global Limited	75,050,000	24.6%
National Nominees Limited	28,149,985	9.2%
J P Morgan Nominees Australia Limited	14,919,747	4.9%
BT Portfolio Services Limited	11,900,000	3.9%
UBS Wealth Management Australia Nominees Pty Ltd	7,956,028	2.6%
HSBC Custody Nominees (Australia) Limited	5,442,035	1.8%
Mr Paul Cozzi	4,200,000	1.4%

Shareholder	Number of Shares	Percentage Holding
Lujeta Pty Ltd	4,050,000	1.3%
Capita Trustees Limited	4,000,000	1.3%
Citicorp Nominees Pty Limited	3,527,368	1.2%
All Others	145,440,603	47.7%
<b>Total</b>	<b>304,635,766</b>	<b>100.0%</b>

Source: Armour Energy Annual Report 2015

Table 5.4 summarises Armour Energy's options on issue as at the date of this Report.

**Table 5.4: Options on Issue**

Grant Date	Date of Expiry	Exercise Price	Number of Options
24 July 2013	24 July 2018	\$0.50	2,500,000
24 July 2013	24 July 2018	\$0.75	2,500,000
24 July 2013	24 July 2018	\$1.00	2,500,000
25 July 2013	2 September 2016	\$0.50	100,000
25 July 2013	26 August 2018	\$0.50	1,250,000
25 July 2013	26 August 2018	\$0.75	1,250,000
25 July 2013	26 August 2018	\$1.00	1,250,000
26 February 2015	25 February 2017	\$0.26	3,130,000
6 February 2015	6 February 2016	\$0.10	2,400,000
6 February 2015	6 February 2017	\$0.20	2,400,000
6 February 2015	6 February 2018	\$0.30	1,200,000
<b>Total</b>			<b>20,480,000</b>

Source: Armour Energy Annual Report 2015

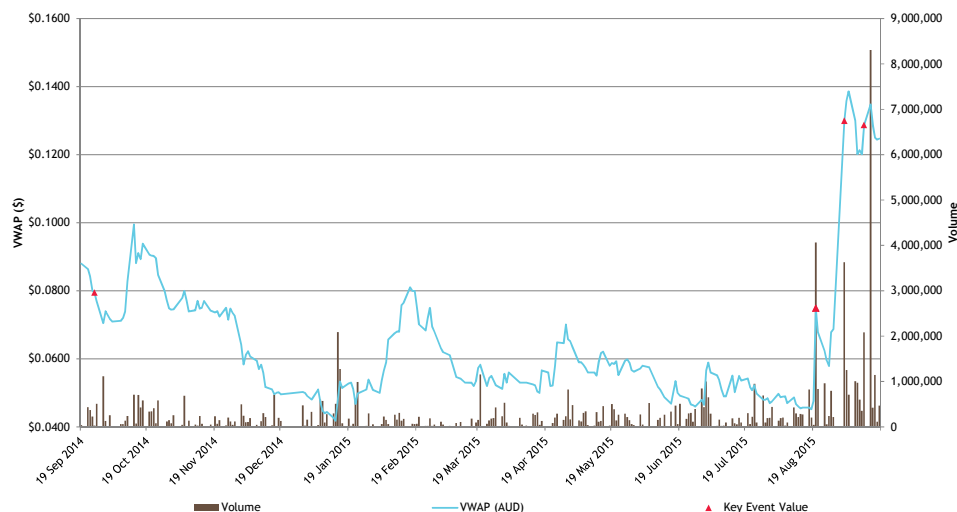
Based on the share price of \$0.12 as at 24 September 2015, approximately 88% of the above options are estimated to be 'out-of-the-money'.

## 5.5 Share Performance

### 5.5.1 Share Price Performance

Figure 5.2 shows the daily volume weighted average price ('VWAP') and daily volume of Armour Energy shares traded on the ASX over the period from 19 September 2014 to 18 September 2015 inclusive.

**Figure 5.2: Daily VWAP and Volume of Armour Energy Shares Traded from 19 September 2014 to 18 September 2015**



Source: Capital IQ

Over the period graphed in Figure 5.2 above, Armour Energy’s daily VWAP shows a period low of \$0.0418 on 13 January 2015 and a period high of \$0.1386 on 4 September 2015.

In addition to the share price and volume data of Armour Energy shown above, we have also provided additional information in Table 5.5 below to assist readers to understand the possible reasons for movements in Armour Energy’s share price over the period analysed. The selected ASX announcement references in Table 5.6 below correspond to those displayed in Figure 5.2 above.

**Table 5.5: Selected Armour Energy ASX Announcements from 19 September 2014 to 18 September 2015**

Date	Announcement
25/09/2014	Armour Energy’s auditor raises ‘going concern’ doubt
20/08/2015	The Company announced that it had signed a Letter of Intent with AEP for a farm-in to the NT Petroleum Assets for cash of US\$10 million and carry consideration of US\$100 million for a 75% working interest
31/08/2015	Westside makes a takeover bid for \$0.12 per Armour Energy share
02/09/2015	Armour Energy executed sale and purchase agreements to acquire oil and gas interests (the Roma Shelf Assets) in the Surat Basin, Queensland from Origin Energy for \$13 million
11/09/2015	Armour Energy announced it had an indicative debt proposal (which is capable of execution) from DGR Global for \$15 million on commercial terms to fund the purchase of the Roma Shelf Assets. The Company stated that it is continuing advanced discussions with other financiers for funding alternatives
11/09/2015	The Company announced it had signed a binding US\$130 million farm-out agreement for AEP to acquire a 75% interest in the NT Petroleum Assets. The agreement includes a cash payment of US\$13 million upon closing and potential bonus payments upon reaching certain milestones

Source: Armour Energy ASX Announcements

We also note that Armour Energy announced an upgrade of prospective resources on 21 September 2015 and on 1 October 2015, it announced that it had entered into a binding financing agreement with DGR Global for \$15 million.

In Table 5.6, we have set out the VWAP of Armour Energy shares traded on the ASX for specified periods prior to 18 September 2015.

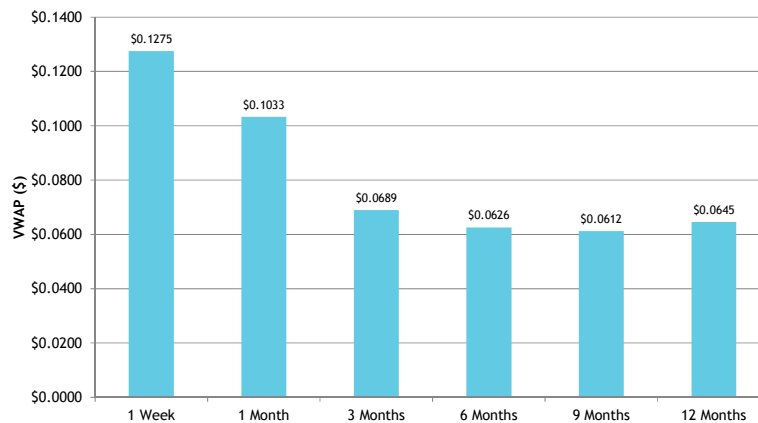
**Table 5.6: Armour Energy's VWAP for Specified Periods Prior to 18 September 2015**

Period Prior to 18 September 2015	VWAP
1 Week	\$0.1275
1 Month	\$0.1033
3 Months	\$0.0689
6 Months	\$0.0626
9 Months	\$0.0612
12 Months	\$0.0645

Source: Capital IQ

The information presented in Table 5.6 is shown graphically in Figure 5.3 below.

**Figure 5.3: Armour Energy's VWAP for Specified Periods Prior to 18 September 2015**



Source: Capital IQ

### 5.5.2 Share Liquidity

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 5.7 summarises the monthly liquidity of Armour Energy shares from 1 September 2014 to 31 August 2015. Liquidity has been summarised by considering the following:

- Volume of Armour Energy share trades per month;
- Number of trades (or turnover) in Armour Energy shares per month;
- Number of Armour Energy shares outstanding in each month;
- Volume of shares traded per month as a percentage of total shares outstanding at the end of the month; and

- VWAP per month.

**Table 5.7: Liquidity of Armour Energy Shares on the ASX from 1 September 2014 to 31 August 2015**

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
August 2015	10,429,700	640,930	304,635,770	3.42%	\$0.0615
July 2015	6,174,240	334,330	304,295,680	2.03%	\$0.0541
June 2015	5,454,020	268,780	303,828,060	1.80%	\$0.0493
May 2015	4,599,010	269,450	303,828,060	1.51%	\$0.0586
April 2015	3,430,540	204,330	303,789,790	1.13%	\$0.0596
March 2015	3,782,310	210,140	303,101,080	1.25%	\$0.0556
February 2015	2,330,210	160,840	303,101,080	0.77%	\$0.0690
January 2015	8,400,190	403,750	302,857,060	2.77%	\$0.0481
December 2014	3,595,580	193,740	302,240,220	1.19%	\$0.0539
November 2014	2,325,390	174,920	302,183,950	0.77%	\$0.0752
October 2014	5,663,320	484,970	302,183,950	1.87%	\$0.0856
September 2014	6,269,010	535,700	301,699,100	2.08%	\$0.0855
<b>Total</b>	<b>62,453,520</b>	<b>3,881,880</b>	<b>303,145,317</b>	<b>20.60%</b>	<b>\$0.0622</b>

Source: Capital IQ

Assuming a weighted average number of 303,145,317 Armour Energy shares on issue over the period, approximately 20.6% of the total shares on issue were traded over the twelve month period to 31 August 2015. In our view, this indicates that Armour Energy shares display a relatively low level of liquidity.

## 5.6 Historical Financial Information

This section sets out the historical financial information of Armour Energy. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in Armour Energy's annual reports, including the full statements of comprehensive income, statements of financial position and statements of cash flows.

Armour Energy's annual reports have been audited by BDO Audit Pty Ltd. BDO CFQ has not performed any audit or review of any type on the historical financial information of Armour Energy. We make no statement as to the accuracy of the information provided. However, we have no reason to believe that any of the information provided is false or misleading.

### 5.6.1 Statement of Comprehensive Income

Table 5.8 summarises the consolidated statement of comprehensive income of Armour Energy for the 12 month periods ended 30 June 2013, 2014 and 2015.

**Table 5.8: Summarised Armour Energy Statements of Comprehensive Income**

	12 Months Ended 30 June 2013 Audited (\$)	12 Months Ended 30 June 2014 Restated <sup>1</sup> (\$)	12 Months Ended 30 June 2015 Audited (\$)
Revenue	2,335,368	505,409	97,803
Other income	2,450,000	1,434,508	17,237
<b>Revenue and other income</b>	<b>4,785,368</b>	<b>1,939,917</b>	<b>115,040</b>
Administration and consulting expenses	(2,771,313)	(2,644,693)	(2,036,291)

	12 Months Ended 30 June 2013 Audited (\$)	12 Months Ended 30 June 2014 Restated <sup>1</sup> (\$)	12 Months Ended 30 June 2015 Audited (\$)
Depreciation	(58,360)	(70,487)	(61,924)
Employee benefits expense	(1,420,508)	(2,002,172)	(1,382,532)
Exploration expenditure written off and impaired	-	-	(150,338)
Legal expenses	(573,057)	(200,398)	(86,340)
Finance costs	(1,573)	(367)	(326)
Share based payments expense	(384,027)	(1,837,800)	(616,827)
<b>Profit / (loss) before income tax</b>	<b>(423,470)</b>	<b>(4,816,000)</b>	<b>(4,219,538)</b>
Income tax benefit / (expense)	2,003,370	(1,852,943)	(2,355,536)
<b>Profit / (loss) for the year</b>	<b>1,579,900</b>	<b>(6,668,943)</b>	<b>(6,575,074)</b>
Other comprehensive income			
Items that may be reclassified to profit or loss			
Change in fair value of available for sale financial assets	-	(4,028,000)	(2,236,000)
Income tax on items that may be reclassified to profit or loss	-	1,208,400	670,800
Other comprehensive income, net of tax	-	(2,819,600)	(1,565,200)
<b>Total comprehensive income for the year</b>	<b>1,579,900</b>	<b>(9,488,543)</b>	<b>(8,140,274)</b>

Source: Armour Energy Annual Reports

1. The financial year ('FY') 2014 accounts were audited in FY2014 and restated in FY2015 as a result of the Company changing its policy in relation to refundable research and development tax incentives. The Company previously accounted for refundable research and development tax incentives as an income tax benefit. Refundable research and development tax incentives are now accounted for as government grants, impacting:
  - i. Income tax benefit (expenses) in the statement of comprehensive income;
  - ii. A number of balance sheet accounts including exploration and evaluation assets, consumables, deferred tax assets and liabilities, and retained earnings; and
  - iii. Net cash flows from operating activities and net cash flows from investing activities in the statement of cash flows.

Regarding Table 5.8 above, we note the following:

- Revenue is primarily comprised of interest income, which was \$2.2 million in FY2013, and over 70% of the revenue in each of FY2014 and FY2015;
- Other income primarily relates to the change in fair value of investments (other than assets available for sale), which was \$2.5 million in FY2013 and \$1.1 million in FY2014; and
- Armour Energy generated a profit in FY2013, and a net loss in FY2014 and FY2015. The profit in FY2013 is due to the relatively higher interest revenues received and the treatment of R&D tax incentives before the change in the Company's accounting policy.

### 5.6.2 Statement of Financial Position

Table 5.9 summarises Armour Energy's statement of financial position as at 30 June 2013, 30 June 2014, and 30 June 2015.

Table 5.9: Summarised Armour Energy Statements of Financial Position

	As at 30 June 2013 Audited (\$)	As at 30 June 2014 Audited (\$)	As at 30 June 2015 Audited (\$)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	37,053,394	6,474,941	8,533,160
Trade and other receivables	1,013,574	119,159	191,672
Other current assets	785,822	298,440	272,682
Consumables	1,395,455	-	-
<b>Total current assets</b>	<b>40,248,245</b>	<b>6,892,540</b>	<b>8,997,514</b>
<b>Non-current assets</b>			

	As at 30 June 2013 Audited (\$)	As at 30 June 2014 Audited (\$)	As at 30 June 2015 Audited (\$)
Other financial assets	10,166,027	7,406,817	5,241,972
Property, plant and equipment	243,999	170,309	116,393
Exploration and evaluation assets	43,258,305	60,428,432	55,156,524
Deferred tax assets	-	504,785	-
<b>Total non-current assets</b>	<b>53,668,331</b>	<b>68,510,343</b>	<b>60,514,889</b>
<b>Total assets</b>	<b>93,916,576</b>	<b>75,402,883</b>	<b>69,512,403</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	8,995,294	634,241	898,025
Provision	106,380	53,828	74,379
<b>Total current liabilities</b>	<b>9,101,674</b>	<b>688,069</b>	<b>972,404</b>
<b>Non-current liabilities</b>			
Deferred tax liability	24,334	-	1,177,530
<b>Total non-current liabilities</b>	<b>24,334</b>	<b>-</b>	<b>1,177,530</b>
<b>Total liabilities</b>	<b>9,126,008</b>	<b>688,069</b>	<b>2,149,934</b>
<b>Net assets</b>	<b>84,790,568</b>	<b>74,714,814</b>	<b>67,362,469</b>
<b>Equity</b>			
Issued capital	83,362,886	83,709,877	83,880,979
Reserves	2,538,069	1,520,269	571,896
Accumulated losses	(1,110,387)	(10,515,331)	(17,090,406)
<b>Total equity attributable to owners of Armour Energy</b>	<b>84,790,568</b>	<b>74,714,814</b>	<b>67,362,469</b>

Source: Armour Energy Annual Reports

Regarding Table 5.9 above, we note the following:

- Cash and cash equivalents have decreased 83% as at 30 June 2014, primarily due to the absence of any significant capital raisings in FY2013 to fund the continued expenditure on exploration and evaluation of Armour Energy's assets;
- Other financial assets comprise:
  - Financial assets at fair value through profit and loss (investments in convertible notes of Lakes Oil) which were converted into shares in Lakes Oil in 2015; and
  - Financial assets at fair value through other comprehensive income (investments in the ordinary issued capital of Lakes Oil and Aus Tin Mining Limited, listed on the ASX); and
- Exploration and evaluation assets increased over the period from \$43.3 million as at 30 June 2013 to \$55.2 million as at 30 June 2015, primarily as a result of expenditure incurred to develop Armour Energy's assets.

### 5.6.3 Statement of Cash Flows

Table 5.10 summarises Armour Energy's statement of cash flows for the 12 month periods ended 30 June 2013, 30 June 2014 and 30 June 2015.

**Table 5.10: Summarised Armour Energy Statements of Cash Flow**

	12 Months Ended 30 June 2013 Audited (\$)	12 Months Ended 30 June 2014 Audited (\$)	12 Months Ended 30 June 2015 Audited (\$)
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees	(4,738,260)	(5,043,710)	(3,088,582)
Interest paid	(1,573)	(367)	(326)
Interest received	2,257,470	831,692	101,461
Research and development tax refund	3,908,558	-	-
Fuel tax credits	-	322,728	3,453
Other income	-	2,791	48,211
<b>Net cash flows from operating activities</b>	<b>1,426,195</b>	<b>(3,886,866)</b>	<b>(2,935,783)</b>
<b>Cash flows from investing activities</b>			
Receipts of/ (payments for) security deposits	202,066	(157,010)	(68,935)
Investment in convertible notes	(2,450,000)	-	-
Interest received on convertible notes	122,500	133,600	-
Purchase of property, plant and equipment	(87,249)	(26,895)	(8,009)
Payments for exploration and evaluation assets	(22,245,328)	(33,809,095)	(4,315,515)
Research and development funds in relation to exploration assets	-	7,106,464	9,394,531
<b>Net cash flows from investing activities</b>	<b>(24,458,011)</b>	<b>(26,752,936)</b>	<b>5,002,072</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares	-	65,000	-
Transaction costs on the issue of shares	(1,240,306)	(3,651)	(8,070)
<b>Net cash flows from financing activities</b>	<b>(1,240,306)</b>	<b>61,349</b>	<b>(8,070)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(24,272,121)</b>	<b>(30,578,453)</b>	<b>2,058,219</b>
Cash and cash equivalents at the beginning of the year	61,325,515	37,053,394	6,474,941
<b>Cash and cash equivalents at the end of the year</b>	<b>37,053,394</b>	<b>6,474,941</b>	<b>8,533,160</b>

Source: Armour Energy Annual Reports

Regarding Table 5.10 above, we note the following:

- Payments for exploration and evaluation assets decreased by 87.2% in FY2015;
- In FY2013, the Company paid for underwriting fees of \$1.24 million related to its initial public offering in 2012;
- In FY2013, research and development tax refund was accounted for in net cash flows from operating activities. This was restated in FY2014 and FY2015 to be included in net cash flows from investing activities as a result of the previously mentioned accounting policy change;
- In FY2013, Armour Energy purchased \$2.45 million in convertible notes of Lakes Oil; and
- On 3 May 2014, 325,000 shares were issued for cash at a price of \$0.20 to raise \$65,000.



## 6.0 Value of Armour Energy Shares Prior to the Proposed Transaction

This section sets out a valuation of the shares in Armour Energy prior to Proposed Transaction. This section is set out as follows:

- Section 6.1 summarises our valuation approach;
- Section 6.2 sets out our sum of the parts ('SOTP') valuation of Armour Energy prior to the Proposed Transaction;
- Section 6.3 sets out our market based valuation ('MBV') of Armour Energy prior to the Proposed Transaction; and
- Section 6.4 summarises our conclusion on the value of Armour Energy prior to the Proposed Transaction.

### 6.1 Our Valuation Approach

#### 6.1.1 Sum of the Parts Valuation

We consider it appropriate to adopt a SOTP valuation methodology as our primary valuation methodology in this Report. To calculate the value of ordinary shares in Armour Energy prior to the Proposed Transaction under a SOTP valuation methodology, the following steps have been completed:

- Calculate the value of the ownership interests held by Armour Energy in assets, including:
  - The oil and gas permits in the Northern Territory, North-west Queensland and Victoria as well as the mineral tenements in the Northern Territory and Queensland ('the Existing Acreage'). A fair market valuation of the Existing Acreage has been provided in the SRK Report (refer Appendix F);
  - The Roma Shelf Assets, comprising the oil and gas assets in the Surat Basin which are to be acquired by Armour Energy from Origin Energy, as announced on 2 September 2015. The Roma Shelf Assets have been evaluated in the report prepared by RISC dated 30 September 2015 ('the RISC Report') (refer to Appendix G). We have provided our discounted cash flow ('DCF') valuation analysis of the Roma Shelf Assets in Appendix E of this Report; and
  - The market value of Armour Energy's 18.9% interest in Lakes Oil;
- Subtract the funding required to complete the purchase of the Roma Shelf Assets;
- Add the value of cash and cash equivalents held by Armour Energy;
- Adjust for the value of Armour Energy's other assets and liabilities;
- Subtract the value of corporate overhead costs incurred by Armour Energy; and
- Subtract the value of the options currently on issue in Armour Energy.

Our SOTP valuation approach draws on a range of different valuation methodologies to determine a value for Armour Energy's ordinary shares prior to the Proposed Transaction. Armour Energy shareholders should refer to the sections and appendices referred to above for detailed information on the methodologies and assumptions used to calculate the values adopted in this Report.

This section is a summary only and does not substitute for a complete reading of this Report.

#### 6.1.2 Market Based Valuation

In our view, it is also appropriate to consider the MBV methodology to value ordinary shares on issue in Armour Energy prior to the Proposed Transaction. The shares of Armour Energy are listed on the ASX. There is a readily observable market for the trading of shares in Armour Energy, albeit on a minority interest basis.

The terms of the Binding Proposed Farm-out also include a proposed placement of Armour Energy shares to AEP, subject to Armour Energy shareholder approval. We have considered the proposed share placement and the terms of the proposed placement in our MBV of Armour Energy shares.

Our MBV of Armour Energy prior to the Proposed Transaction is set out in Section 6.3 of this Report.

## 6.2 Sum of the Parts Valuation of Armour Energy prior to the Proposed Transaction

This section sets out our SOTP valuation of Armour Energy prior to the Proposed Transaction and considers the following:

- The value of the Company's oil and gas assets and mineral assets in Section 6.2.1 including:
  - The Existing Acreage comprising the technical valuation by SRK;
  - The trading value of the Company's investment in Lakes Oil; and
  - The value of the Roma Shelf Assets utilising the technical assumptions validated by RISC and a financial model prepared by the Company ('the Financial Model') and cross-checked with the consideration to be paid by the Company to acquire the Roma Shelf Assets;
- The value of all other measurable assets and liabilities of the Company as at the date of this Report in Section 6.2.2 including:
  - The funding required to complete the purchase of the Roma Shelf Assets;
  - Cash and cash equivalents;
  - Other assets and liabilities;
  - Corporate overheads; and
  - Options on issue.

### 6.2.1 Value of Oil and Gas and Mineral Assets

#### a) Value of the Existing Acreage

We have engaged the services of SRK to assist with a valuation of the oil and gas and mineral exploration assets held by Armour Energy (other than those assets referred to as the Roma Shelf Assets). SRK are specialist valuers of energy and mineral assets and, in our opinion, are suitably qualified to complete a valuation of the Existing Acreage.

We are of the view that it is appropriate for us to refer to the SRK Report when determining an appropriate value for the Existing Acreage. The SRK Report is attached as Appendix F of this Report.

SRK have adopted a market based comparable transactions approach as their primary valuation basis for both the oil and gas and mineral assets. They have cross-checked their valuation using the cost approach (for the petroleum related assets) and a geoscientific rating method (for the minerals related assets). Further details in relation to the valuation methodologies considered by SRK are as follows:

- Acreage multiples achieved in comparable transactions:
  - This approach considers transaction values observed for oil and gas exploration assets considered broadly comparable to the Existing Acreage on the basis of size, location and prospectivity;
  - This method is suitable for very early stage exploration projects to early stage appraisal projects (or, in some cases producing assets);
  - SRK has applied comparable transaction multiples on the basis of total transaction consideration to acreage acquired or farmed into (i.e. on a \$/acre basis);
  - SRK have cross-checked their oil and gas assets valuation using a cost approach which considers the nature of the permit (exploration, development or application) and whether or not a resource has been assigned to the permit to apply a premium to the historical costs already incurred on the permit as a measure of value;
  - For certain North-west Queensland based oil and gas permits and applications (which are included in the Existing Acreage), 2C Contingent Resources have been attributed in certain blocks as noted in the SRK Report however a resource multiple cross-check has not been completed;

- In the case of Armour Energy’s mineral assets, SRK has considered comparable transactions and applied the relevant value per km<sup>2</sup>. Inferred Resources have been assigned to certain permits as noted in the SRK Report; and
- To cross-check their mineral asset valuation, SRK have utilised a geoscientific rating method applicable to mineral properties.

Table 6.1 summarises the preferred valuation method adopted by SRK and the range of values that SRK have determined for the Existing Acreage.

**Table 6.1: Summary of SRK’s Valuations for the Existing Acreage**

Asset	Low Value (\$m)	Preferred Value (\$m)	High Value (\$m)
Petroleum (NT)	54.2	69.4	101.2
Petroleum (QLD)	15.9	29.7	53.7
Minerals (NT and QLD)	4.9	21.5	36.6
<b>Total (Combined)</b>	<b>75.0</b>	<b>120.6</b>	<b>191.5</b>

Source: The SRK Report

Regarding Table 6.1, we note the following:

- The NT Petroleum Assets (which are the subject of the Binding Proposed Farm-out) comprise a significant proportion of the total value of the Existing Acreage, with a valuation range of \$54.2 million to \$101.2 million, with a preferred value of \$69.4 million;
- SRK has adopted a valuation range of \$15.9 million to \$53.7 million for the North-west Queensland oil and gas permits, with a preferred value of \$29.7 million;
- SRK have adopted a preferred value of \$21.5 million for Armour Energy’s mineral assets in the Northern Territory and North-west Queensland;
- SRK have not assigned a value to the Company’s Victorian petroleum interests (excluding its investment in the shares of Lakes Oil);
- The high end of SRK’s valuation of the Existing Acreage is \$191.5 million. This is based on a cost based approach (the NT Petroleum Assets) and comparable transactions (Queensland assets and mineral assets); and
- Further, we note that SRK’s preferred valuation of the Existing Acreage of \$120.6 million is closer to the low end (\$75 million) of their valuation range.

We note that SRK’s valuation is on a fair value basis, which provides the “estimate of the amount of money, or cash equivalent, which would be likely to change hands between a willing buyer and a willing seller in an arms-length transaction, wherein each party had acted knowledgeably, prudently and without compulsion” as at 1 October 2015, being the date of the SRK Report.

**b) Value of the Investment in Lakes Oil**

As at the date of this Report, the Company holds 2.126 billion ordinary shares in Lakes Oil, an ASX listed company. This equates to an interest of 18.9% in Lakes Oil, which represents a minority holding.

To calculate a value for the Company’s investment in Lakes Oil, we have considered the traded value of Lakes Oil shares on the ASX. In the absence of more detailed information that could be used to independently value Lakes Oil, it is our view that it is appropriate to consider the trading of the Company’s shares in Lakes Oil as a reasonable measure of value.

As at 24 September 2015, the trading price of a share in Lakes Oil was \$0.0020 and its market capitalisation was \$22.9 million. This information implies a value for the Company's 2.126 billion ordinary shares in Lakes Oil of \$4.25 million.

**c) Value of the Roma Shelf Assets**

The Company has prepared the Financial Model which sets out a forecast of the expected cash flows from the Roma Shelf Assets based on the information available to the Company. We have engaged the services of RISC to provide us with a technical expert's opinion in relation to the reasonableness of the assumptions adopted in the Financial Model.

RISC have provided their technical expert's opinion in relation to the reasonableness of production forecasts relating to the existing wells, the gas processing plant and surface infrastructure performance and capital and operating costs required to recommission and operate the Roma Shelf Assets. RISC are specialist technical advisers of energy assets and, in our opinion, are suitably qualified to complete a technical assessment of relevant assumptions relating to the Roma Shelf Assets.

RISC have set out their views regarding the reasonableness of the above-mentioned assumptions in the RISC Report. We are of the view that it is appropriate for us to refer to the Financial Model and the RISC Report when determining an appropriate value for the Roma Shelf Assets. Our DCF based valuation of the Roma Shelf Assets, which relies on the Financial Model and the RISC Report, is set out in Appendix E. The RISC Report is attached as Appendix G of this Report.

We note that the scope of the Financial Model and that of the RISC Report covers only the existing gas processing plant, infrastructure and remaining recoverable gas from existing wells (including existing gas stored in the Newstead storage facility).

The Financial Model and the RISC Report do not include the following:

- Further development opportunities from new wells within existing PLs and exploration potential from new wells in the acreage covered by the Roma Shelf Assets. We are informed that the Company has undertaken a significant amount of analysis which has enabled identification of a number of leads and prospects (in addition to the opportunities identified by Origin Energy), some of which may be drilled in the future; and
- The Newstead gas storage facility is understood to contain over seven bcf of capacity (based on the Company's announcement on 2 September 2015). Any additional revenue from gas trading operations undertaken by Armour Energy or future toll earnings relating to the potential use of the storage facility from other upstream producers has not been considered.

Noting the above limitations and based on our valuation analysis in Appendix E, we have valued the Company's interest in the Roma Shelf Assets in the range of \$9.9 million to \$12.0 million having regard to our DCF valuation methodology and relevant cross checks we have considered.

We note as outlined above, that the above valuation range is based on the production forecasts for the relevant areas and wells included in the production forecasts as reviewed by RISC. We understand that this excludes any exploration and development potential of new wells on the acreage and any storage related potential of the Newstead facility.

Our estimate of the present value of the purchase consideration attributed to the Company's acquisition of Origin Energy's interest in the Roma Shelf Assets is approximately \$11.9 million (refer section 6.2.2a). The purchase consideration is comparable to our DCF based valuation of Origin Energy's interest in the Roma Shelf Assets and we have considered this information as a cross check.

We also note that there are a number of co-venturers who own an interest in certain permits included in the Roma Shelf Assets. Our valuation of the Roma Shelf Assets only takes into account the ownership interest that Armour Energy has acquired from Origin Energy.

As outlined in Section 5.3 of this Report, we understand that certain co-venturers (including Santos) have waived their pre-emption rights to acquire the interest of Origin Energy in their relevant permits. Armour Energy is also in discussion with the co-venturers with a view to potentially acquiring their ownership interest in the relevant permits in due course. We have not considered any impacts from the potential exercise of the pre-emption rights. Our valuation approach considers only the current ownership interest in those permits held by Origin Energy as our basis for the value of the Roma Shelf Assets.

#### 6.2.2 Value of Other Measurable Assets and Liabilities

##### a) Funding of the Roma Shelf Assets

To fund the acquisition of the Roma Shelf Assets, the Company requires:

- The upfront cash consideration payable to Origin Energy of \$10 million; and
- The security deposit payable to the Queensland Department of Natural Resources expected to be approximately \$13 million.

We note that the security deposit is refundable upon the Company meeting certain regulatory commitments and generally upon relinquishing the permits granted.

The Company is also required to fund the deferred consideration payable to Origin Energy, being \$3 million payable in three equal annual tranches from the first anniversary of the first gas sales from the Roma Shelf Assets. Based on the production timeframes assumed in the DCF valuation of the Roma Shelf Assets, the first tranche of the deferred \$3 million in consideration is expected to be paid in 2017.

We have included a funding requirement of \$11.9 million in our SOTP valuation of Armour Energy in relation to the Roma Shelf Assets which covers the following:

- Upfront cash consideration of \$10 million;
- The present value of three \$1 million payments from 2017 onwards discounted at 8%, being a proxy for a rate commensurate with the funding options likely to be available to meet these payments as an when they fall due; and
- We have not included the security deposit in this funding requirement calculation as the payment (and future refund) of this deposit is included in our DCF valuation of the Roma Shelf Assets.

As noted in Section 6.2.1c, in each of the permits which form part of the assets acquired under the Roma Shelf Assets transaction, where Origin Energy does not own 100% of the tenements, third parties have pre-emptive rights to acquire Origin Energy's interest. If any pre-emption rights are exercised, Armour Energy will not pay the part of the consideration to Origin Energy which relates to Origin Energy's interest sought under the pre-emption right. We are instructed that the Company has received confirmation that certain co-venturers (including Santos) have waived or agreed to waive their pre-emption rights.

We note that our calculation of the funding requirement for the acquisition of the Roma Shelf Assets does not include any potential consideration that may be paid to any other JV parties in the future nor any adjustment in value required for excluding certain permit interests where any co-venturers exercise their pre-emptive rights to acquire Origin Energy's interest. This is consistent with our valuation basis of the Roma Shelf Assets in Section 6.2.1c above, which considers only the interests held by Origin Energy which are to be acquired by Armour Energy.

##### b) Value of Armour Energy's Cash and Cash Equivalents

As at 30 June 2015, Armour Energy held \$8.5 million in cash. We have made enquiries of Armour Energy management and understand that the current cash position is approximately \$7.0 million. We have included \$7.0 million as cash and cash equivalents in the SOTP valuation.

**c) Value of Armour Energy's Other Assets and Liabilities**

To determine an appropriate value for Armour Energy's other assets and liabilities, we have considered the values set out in Armour Energy's statement of financial position as at 30 June 2015 and have made enquiries of the directors and management of Armour Energy in relation to any material adjustments required to reflect the fair market value of these assets and liabilities in this Report.

Table 6.2 below summarises our view, having regard to those enquiries of the directors and management of Armour Energy, of an appropriate value to adopt for Armour Energy's other assets and liabilities for the purpose of the valuation work set out in this Report.

**Table 6.2: Value of Armour Energy's Other Assets and Liabilities**

	Value (\$m)
<b>Assets:</b>	
Trade and other receivables	0.2
Property, plant and equipment	0.1
Other assets (prepayments)	0.3
Other financial assets (security deposits)	1.0
<b>Liabilities:</b>	
Trade and other payables	(0.9)
Provisions	(0.1)
<b>Net assets / (deficiency) excluding Exploration assets and cash</b>	<b>0.6</b>

Source: Armour Energy financial statements for the year ended 30 June 2015 and BDO CFQ analysis

We have excluded the following assets and liabilities from Table 6.2 above:

- The carrying value of the Company's investment in Lakes Oil (as shown in Other Financial Assets in the Company's Balance Sheet). This asset is valued separately in Section 6.2.1 above; and
- The carrying value of the deferred tax liability (shown in Non-Current Liabilities in the Company's balance sheet). The realisation of this liability is uncertain and will depend on the future taxation position of Armour Energy.

With reference to Table 6.2 above, we have calculated the net value of Armour Energy's other assets and liabilities to be a net asset position of approximately \$0.6 million.

**d) Value of Corporate Overhead Costs**

Armour Energy has approximately \$3.4 million in ongoing annual cash overheads as per its income statement for the year ended 30 June 2015. We note that the Financial Model includes a proportion of corporate overheads, and the value of those overheads is included in our DCF valuation of the Roma Shelf Assets set out in Section 6.2.2c above. Armour Energy management have indicated that any change in the level of corporate overheads is taken into account within the DCF valuation when the acquisition of the Roma Shelf Assets is completed.

In our view given the activities currently underway and the resourcing required it is appropriate to make an adjustment for corporate overheads. Notwithstanding, an acquirer of Armour Energy is likely to be in a position to reduce the overhead costs by at least the amount that can reasonably be attributed to the costs which are specific to a listed entity. For the purposes of this calculation we have estimated this reduction as \$1.5 million per annum.

Having considered the above, we have calculated the DCF value of the remaining corporate overhead costs required, discounted at a rate of 12.3% into perpetuity (in line with the discount rate we have also calculated for the Roma Shelf Assets in Appendix D).

The value of the corporate overhead costs included in our SOTP valuation is \$15.5 million.

#### e) Value of Share Options on Issue

As noted in Section 5.3, Armour Energy has 20.48 million options on issue at the date of this Report with various exercise prices and expiry dates. We have calculated the value of Armour Energy's share options on issue as at the date of this Report using the Black-Scholes option pricing model.

The share price input required to value these options is our valuation of Armour Energy ordinary shares in this Report on a controlling interest basis. As the value of Armour Energy ordinary shares relies on the value of the options we have used an iterative calculation process to overcome this circularity and value the share options on issue.

A summary of the key assumptions we have adopted in valuing the share options on issue is summarised in Table 6.3.

**Table 6.3: Key Assumptions Adopted in Valuating the Share Options on Issue**

Key Driver	Value	Calculation Method
Share Price	\$0.22 to \$0.59	We have considered the value of the options with reference to our view of the value of an ordinary share in Armour Energy on a controlling interest basis. We have adopted this value for all outstanding option tranches.
Exercise Price	\$0.10 to \$1.00	The exercise price differs according to the tranche of options being valued and ranges from \$0.10 to \$1.00 in line with their terms (refer to Table 5.4 in Section 5.4).
Volatility	103% to 150%	The volatility assumed differs according to the tranche of options being valued and ranges from 103% to 150%. The volatility estimate adopted for each option tranche has been determined with reference to the historical volatility of Armour Energy's share price over a period of time that corresponds with the time to maturity of the option tranche.
Risk Free Rate	1.93% to 2.00%	The risk free rate assumed differs according to the tranche of options being valued and ranges from 1.93% to 2.00%. The risk free rate adopted for each option tranche has been determined with reference to a Government Bond rate with a term that corresponds with the time to maturity of the option tranche.
Time to Maturity	0.1 years to 2.94 years	Represents the time to maturity for each option tranche from 18 September 2015. The time to maturity for each option tranche ranges from 0.1 years to 2.94 years.
Dividend Yield	nil	We have assumed that Armour Energy will not pay a dividend before the expiry date.

Source: Capital IQ and BDO CFQ Analysis

#### 6.2.3 Value of Armour Energy Shares Prior to the Proposed Transaction

Table 6.4 sets out a summary of the value we have calculated for the ordinary shares in Armour Energy prior to the Proposed Transaction by applying our SOTP valuation methodology.

**Table 6.4: SOTP Valuation of Ordinary Shares in Armour Energy Prior to the Proposed Transaction**

Description	Reference	Low (\$m)	Preferred (\$m)	High (\$m)
The Existing Acreage	Section 6.2.1a	75.0	120.6	191.5
Investment in Lakes Oil (18.9% interest)	Section 6.2.1b	4.3	4.3	4.3

Description	Reference	Low (\$m)	Preferred (\$m)	High (\$m)
The Roma Shelf Assets <sup>5</sup>	Section 6.2.1c	9.9	10.9	12.0
Funding of the Roma Shelf Assets	Section 6.2.2a	(11.9)	(11.9)	(11.9)
Cash and Cash Equivalents	Section 6.2.2b	7.0	7.0	7.0
Other Assets and Liabilities	Section 6.2.2c	0.6	0.6	0.6
Corporate Overheads	Section 6.2.2d	(15.5)	(15.5)	(15.5)
<b>Equity Value Attributable to all Equity Holders</b>		<b>69.4</b>	<b>116.0</b>	<b>188.0</b>
Share Options	Section 6.2.2e	(2.1)	(3.0)	(7.9)
<b>Equity Value Attributable to Ordinary Shareholders</b>		<b>67.3</b>	<b>113.0</b>	<b>180.1</b>

Source: The SRK Report, the RISC Report and BDO CFQ analysis

Table 6.4 sets out our calculation of the value of the ordinary shares in Armour Energy prior to the Proposed Transaction in the range of \$67.3 million to \$180.1 million on a controlling interest basis, with a preferred value of \$113.0 million.

As the number of ordinary shares on issue in the Company as at 18 September 2015 is 304.6 million, our SOTP valuation implies a value of \$0.22 to \$0.59 per Armour Energy share on a controlling interest basis, with a preferred value of \$0.37 per Armour Energy share on a controlling interest basis.

### 6.3 Market Based Valuation of Armour Energy Prior to the Proposed Transaction

To form a view on the MBV of Armour Energy we have considered:

- Recent share trading data; and
- Significant transactions in Armour Energy shares.

#### 6.3.1 Recent Share Trading Data

We have considered recent trading of Armour Energy shares on the ASX. Table 6.5 below sets out the VWAP of Armour Energy shares traded on the ASX for the one week, one month, three months, six months, nine months and 12 months prior to:

- 28 August 2015, being the last trading day before the Proposed Transaction was announced by Westside; and
- 18 September 2015, being a date closer to the date of this Report and being a date which may include any market movements in response to the announcements by the Company regarding the acquisition of the Roma Shelf Assets (2 September 2015) and the Binding Proposed Farm-out (11 September 2015).

Table 6.5: Armour Energy VWAP over Specified Periods

VWAP Period	Prior to 28 August 2015 (\$)	Prior to 18 September 2015 (\$)
1 Week	\$0.0633	\$0.1275
1 Month	\$0.0535	\$0.1033

<sup>5</sup> This excludes any further development opportunities from new wells within existing PLs and exploration potential of new wells on the acreage and any storage related potential of the Newstead facility, as detailed in Section 6.2.1 c).

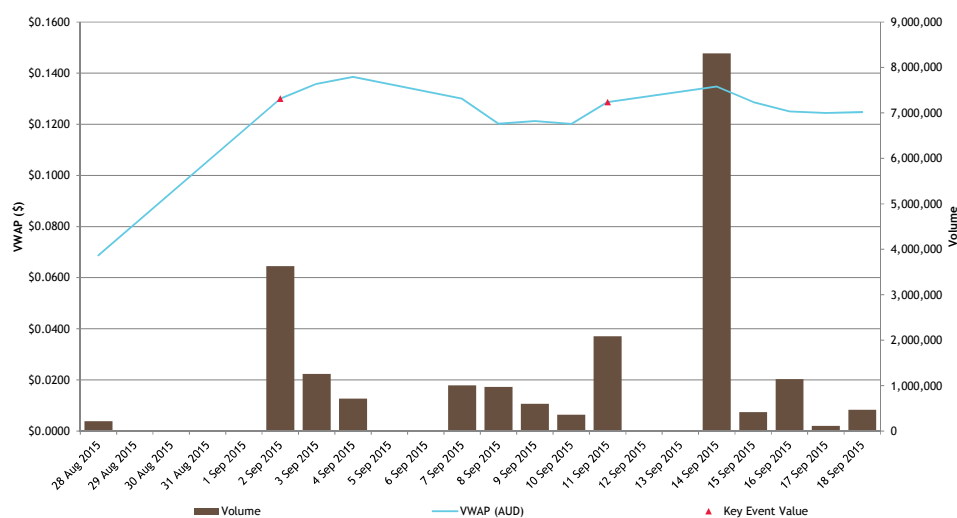


VWAP Period	Prior to 28 August 2015 (\$)	Prior to 18 September 2015 (\$)
3 Months	\$0.0524	\$0.0689
6 Months	\$0.0547	\$0.0626
9 Months	\$0.0557	\$0.0612
12 Months	\$0.0627	\$0.0645

Source: Capital IQ

We have also set out a share price and volume graph for Armour Energy shares for the period 28 August 2015 to 18 September 2015 in Figure 6.1.

Figure 6.1: Daily VWAP and Volume of Armour Energy Shares Traded from 28 August 2015 to 18 September 2015



Source: Capital IQ

In relation to Figure 6.1 above we note the following:

- Armour Energy's share price increased from \$0.0687 on 28 August 2015 to \$0.1300 on 2 September 2015 following the announcement of the Proposed Transaction;
- Armour Energy's shares (based on the daily VWAP shown above) have traded at or above \$0.12 at all times following the announcement of the Proposed Transaction; and
- Armour Energy's monthly share liquidity increased significantly in September 2015 following the announcement of the Proposed Transaction. Armour Energy's monthly share liquidity is 6.9% in September 2015 (up to 18 September), up from a monthly average of 1.7% over the previous 12 month period and 3.4% in August 2015.

In our view, given the timing of the announcement of the Proposed Transaction relative to the announcements made in relation to the Binding Proposed Farm-out and the Roma Shelf Assets, it is not unexpected that the share price has traded closer to the \$0.12 per share offered, while the Proposed Transaction remains on foot.

Further, it is our view that it is reasonable to expect that an investor may not be prepared to pay materially above \$0.12 per share until there is a degree of certainty in relation to the Proposed Transaction or the other announcements made by the Company.

Notwithstanding this, as mentioned above, we note that Armour Energy shares have traded above \$0.12 per share at all times following the announcement of the Proposed Transaction and liquidity has increased in the period post the announcement of the Proposed Transaction.

### 6.3.2 Share Placements

Other than the issue of employee shares under its employee share schemes, the Company has not issued any ordinary shares or completed any capital raisings within the last 12 months.

Under the terms of the Binding Proposed Farm-out, the Company will issue the following shares to AEP, subject to Armour Energy shareholder approval (of both the Binding Proposed Farm-out and the proposed placement):

- **Tranche 1** - 17.0 million shares (amounting to 5% of the total shares on issue in Armour Energy after the placement of both Tranches 1 and 2 are completed) at \$0.20 per share to raise \$3.37 million, conditional upon Armour Energy shareholder approval for both a) the issue of shares to AEP and for b) the Binding Proposed Farm-out; and
- **Tranche 2** - 16.8 million shares (amounting to 4.99% of the total shares on issue in Armour Energy after the placement of both Tranches 1 and 2 are completed) at \$0.20 per share to raise a further \$3.36 million, conditional upon closing of the Binding Proposed Farm-out (refer Section 5.2 for the key conditions of the Binding Proposed Farm-out).

Tranches 1 and 2, if completed, will collectively raise \$6.7 million and result in an issue of 9.99% of the total Armour Energy ordinary shares on issue at a price of \$0.20 per share.

Upon shareholder approval for the issue of shares to AEP and the Binding Proposed Farm-out, AEP will subscribe for the Tranche 1 shares, being a material placement in Armour at \$0.20 per share. In this circumstance, this placement will occur prior to the completion of the Binding Proposed Farm-out and is not conditional on the completion of the Binding Proposed Farm-out.

### 6.3.3 Market Based Valuation of Armour Energy on Minority Interest Basis

Having regard to the information set out in Sections 6.3.1 and 6.3.2 above, it is our view that the value of each Armour Energy share adopting an MBV methodology is in the range of \$0.12 to \$0.20 on a minority interest basis. In forming this view we had regard to the following:

- The one week, one month, three month, six month and nine month VWAPs prior to 28 August 2015 (being the last trading day before the announcement of the Proposed Transaction) are in the range of \$0.0524 to \$0.0633;
- The one week, one month, three month, six month, nine month and twelve month VWAPs prior to 18 September 2015 (being a date closer to the date of this Report) are in the range of \$0.0612 to \$0.1275;
- Announcements for the Roma Shelf Assets and the Binding Proposed Farm-out were made after the announcement of the Proposed Transaction;
- AEP have agreed to invest in Tranche 1 of the proposed share placement subject only to shareholder approval of the proposed share placement and the Binding Proposed Farm-out. While this placement is not complete as at the date of this Report, approval of Armour Energy shareholders is outside of AEP's control and AEP will invest a material sum in Armour Energy prior to all other conditions relating to the Binding Proposed Farm-out being satisfied; and
- Armour Energy shares have traded above \$0.12 per share at all times following the announcement of the Proposed Transaction; and
- Armour Energy's share liquidity has increased in the period post the announcement of the Proposed Transaction.

Notwithstanding the above-mentioned matters, given the timing and number of announcements, it is difficult to estimate an appropriate trading price which considers all relevant announcements and information without the impact of the Proposed Transaction.

#### 6.3.4 Market Based Valuation of Armour Energy on Controlling Interest Basis

The value of Armour Energy determined above is calculated on a minority interest basis. We note that a minority interest in a company is generally regarded as being less valuable than that of a controlling interest as a controlling interest may provide the owner with the following:

- Control over the operating and financial decisions of the Company;
- The right to set the strategic direction of the Company;
- Control over the buying, selling and use of the Company's assets; and
- Control over the appointment of staff and setting of financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid, or some other mechanism for control, for another company. Empirical research suggests that control premiums are typically within the range of 20% to 40% which is consistent with recent transactions in Australia (refer to Appendix C for our research regarding control premiums).

For the purposes of this Report, in our view it is appropriate to adopt a control premium of 30% (the mid-point of the range above) to calculate the value of Armour Energy on a controlling interest basis. Applying a control premium of 30% to our MBV of Armour Energy on a minority basis would provide a valuation range of \$0.16 to \$0.26 per Armour Energy ordinary share on a controlling interest basis.

For the reasons mentioned above we consider this analysis as a broad cross-check only.

#### 6.4 Value per Armour Energy Ordinary Share Prior to the Proposed Transaction

Table 6.6 below summarises our valuation per Armour Energy ordinary share on a controlling interest basis using the SOTP and MBV methodologies.

**Table 6.6: Value per Armour Energy Ordinary Share on a Controlling Interest Basis**

	Reference	Low Value (\$)	Preferred Value (\$)	High Value (\$)
Value per Armour Energy share - SOTP Methodology	Section 6.2.3	0.22	0.37	0.59
Value per Armour Energy share - MBV methodology	Section 6.3.4	0.16	na	0.26

Source: BDO CFQ analysis

With reference to Table 6.6 above, we note that our valuation of Armour Energy using the MBV methodology is lower than the valuation range using the SOTP methodology.

In relation to this valuation range we note that:

- When considering both the SOTP and MBV of each entity in the context of this Report, it is important to note that:
  - The SOTP methodology applied in this Report considers the value of the Existing Acreage based on the SRK Report, the Roma Shelf Assets based on the RISC Report, the Financial Model and our DCF analysis and the value of other corporate assets, liabilities and funding requirement;
  - Armour Energy is of the view that they have a number of alternatives available to fund the acquisition of the Roma Shelf Assets over the life of the asset. We note that a short term debt facility was procured from DGR Global for \$15 million, as announced on 30 September 2015. We have included a funding cost considering our estimated cost of funding as discussed in Appendix D which calculates the discount rate for the valuation of the Roma Shelf Assets; and

- Given the timing and number of announcements recently made by Armour Energy, it is difficult to estimate an appropriate trading price which considers all relevant announcements and information without the impact of the Proposed Transaction (refer to Section 6.3.3); and
- With regard to the MBV valuation, we note that Armour Energy shares display only a relatively low level of liquidity which influences the reliability of ASX share trading data.

Having regard to the above, we have adopted valuation range based on the SOTP Methodology.

For completeness we note that Armour Energy has yet to prove that it can generate sustainable positive operating cash flows. In our view, the value of Armour Energy may increase or decrease materially over short time periods depending on the ability to meet certain milestones.

## 7.0 Fairness of the Proposed Transaction

We have assessed the fairness of the Proposed Transaction as follows:

- (a) Determined the value of an Armour Energy share immediately prior to the Proposed Transaction on a controlling interest basis; and
- (b) Compared the value determined in (a) above with the value of the Cash Consideration to be received by Armour Energy shareholders for each Armour Energy share under the Proposed Transaction.

Under RG 111, the Proposed Transaction will be considered ‘fair’ to Armour Energy shareholders if the value of the Cash Consideration to be received by Armour Energy shareholders is equal to or greater than the value of each Armour Energy share prior to the Proposed Transaction.

Table 7.1 sets out our assessment of the fairness of the Proposed Transaction.

**Table 7.1: Fairness of the Proposed Transaction**

	Low (\$)	Preferred (\$)	High (\$)
Value of the Cash Consideration	0.12	0.12	0.12
Value of an Armour Energy share	0.22	0.37	0.59

Source: BDO CFQ analysis

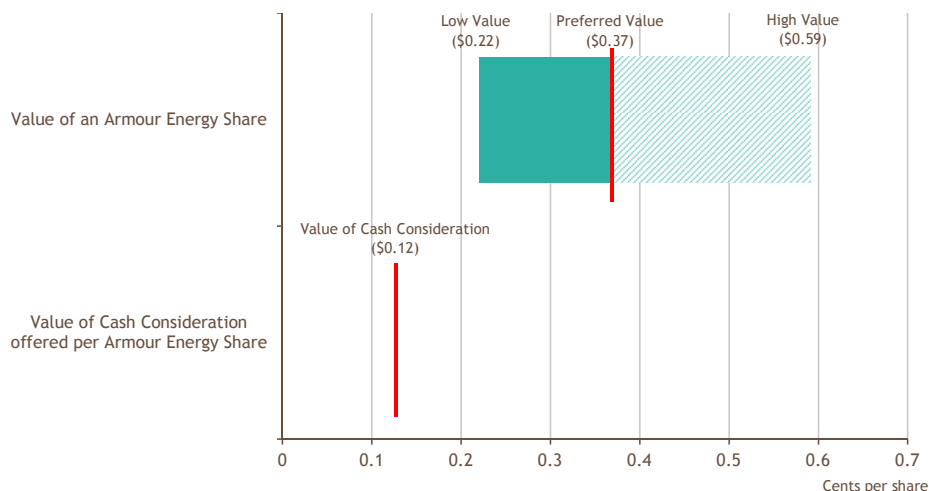
The valuation range as stated above is relatively wide as a consequence of the relatively wide range of values attributed to the Existing Acreage by SRK. While, in our view, this relatively wide range reflects the relatively early stage nature of the Existing Acreage, we also note the following:

- The preferred value of the Existing Acreage is closer to the low value provided by SRK than it is to the high value; and
- Market conditions are generally difficult for Australian energy and resource exploration companies at the current time.

Having regard to the above, it is our view that it is appropriate to narrow the valuation range around the lower end of values and conclude that the control value of each Armour Energy share could reasonably be estimated within the range of \$0.22 and \$0.37 as at the date of this Report and for the purpose of our analysis.

Figure 7.1 below summarises our assessment of the fairness of the Proposed Transaction, setting out a graphical comparison of our valuation an Armour Energy share on a controlling interest basis and the value of Cash Consideration received.

Figure 7.1: Assessment of the Fairness of the Proposed Transaction



Source: BDO CFQ analysis

For completeness we note that Armour Energy is an early stage exploration company and has yet to prove that it can generate sustainable positive operating cash flows. In our view, the value of Armour Energy may increase or decrease materially over short time periods depending on the ability to meet certain milestones.

Having regard to the information set out in Figure 7.1 above, the value of the consideration offered per Armour Energy share is not within the valuation range of an Armour Energy share prior to the Proposed Transaction.

After considering the information summarised above and set out in detail in the balance of this Report, it is our view that in the absence any other information the Proposed Transaction is **Not Fair** to the Armour Energy shareholders as at the date of this Report.

## 8.0 Reasonableness of the Proposed Transaction

This section is set out as follows:

- Section 8.1 outlines the advantages of the Proposed Transaction to Armour Energy shareholders;
- Section 8.2 outlines the disadvantages of the Proposed Transaction to Armour Energy shareholders;
- Section 8.3 considers the position of Armour Energy shareholders who reject the Proposed Transaction; and
- Section 8.4 provides our assessment of the reasonableness of the Proposed Transaction.

### 8.1 Advantages of the Proposed Transaction

Table 8.1 below outlines the potential advantages of the Proposed Transaction to Armour Energy shareholders. This section assumes that each of the conditions of the Proposed Transaction are either met or waived.

**Table 8.1: Advantages of the Proposed Transaction**

Advantage	Explanation
The current offer price is known and there are no brokerage commissions payable	<p>Armour Energy shareholders who accept the Proposed Transaction have certainty that they will receive \$0.12 for each Armour Energy share held.</p> <p>Armour Energy shareholders will no longer be exposed to the variability in the Armour Energy share price.</p> <p>Armour Energy shareholders will not incur any brokerage or commission costs under the Proposed Transaction if their Armour Energy shares are in certificated form in the shareholder's name and they are delivered directly to Westside.</p>
The consideration offers a premium to the historical traded price of Armour Energy shares	<p>As outlined in Section 5.5.1, the trading of Armour Energy shares has demonstrated VWAPs in the range of \$0.0524 (3-month VWAP prior to the announcement of the Proposed Transaction) to \$0.0633 (1-week VWAP prior to the announcement of the Proposed Transaction).</p> <p>The Cash Consideration of \$0.12 per share offers a premium over the historical traded VWAPs. However, it is important to note that the historical traded VWAPs for the periods prior to the announcement of the Proposed Transaction may not include share price movements relating to the announcement of the acquisition of the Roma Shelf Assets and the Binding Proposed Farm-out.</p>
The Proposed Transaction is the only cash acquisition proposal before the Company	<p>We are informed by Armour Energy that the Proposed Transaction is the only cash acquisition offer that is available to the Company as at the date of this Report. We note, however, that the Company has other corporate projects and opportunities it has recently announced, which do not involve a proposed takeover of the Company, including the acquisition of the Roma Shelf Assets and the Binding Proposed Farm-out.</p> <p>As set out in Section 8.3 below, Armour Energy requires funding for continued operations and to complete transactions currently proposed. While the Company have made progress and expect to be in a position to have funds as required, there is no guarantee that Armour Energy will not be required to raise additional capital to meet its obligations. If this capital is raised via the issue of equity in Armour Energy, it may be raised at a price which is higher or lower than the \$0.12 per share implicit in the Proposed Transaction.</p>

Source: BDO CFQ analysis

## 8.2 Disadvantages of the Proposed Transaction

Table 8.2 below outlines the potential disadvantages of the Proposed Transaction to Armour Energy shareholders.

**Table 8.2: Disadvantages of the Proposed Transaction**

Disadvantage	Explanation
The Proposed Transaction is not Fair	The Cash Consideration of \$0.12 per Armour Energy share is below our valuation range. The Proposed Transaction is Not Fair to the Armour Energy shareholders.
No exposure to any potential upside in the future value of Armour Energy	If the Proposed Transaction is accepted, Armour Energy shareholders will no longer hold any shares in Armour Energy. Accordingly, Armour Energy shareholders will have no exposure to any potential upside in the value of Armour Energy as part of Westside going forward. We note that the Company has recently announced two significant transactions. Specifically, the Binding Proposed Farm-out and the acquisition of the Roma Shelf Assets are transactions that may provide opportunities to increase the value of Armour Energy.
Requires termination of the Binding Proposed Farm-out	One of the conditions of the Proposed Transaction is that the Binding Proposed Farm-out be terminated. Armour Energy shareholders will no longer be able to participate in the Binding Proposed Farm-out and the rewards (and risks) it provides.
No exposure to any future offers	If the Proposed Transaction is accepted, Armour Energy shareholders may no longer be able to benefit from any superior future offers from Westside or any other party. There is no guarantee that a future offer will be forthcoming.
The Proposed Transaction is subject to Westside achieving at least 50.1% acceptances	<p>Amongst other conditions, the Proposed Transaction is subject to Westside achieving at least 50.1% acceptances. An Armour Energy shareholder who does not intend to accept the Proposed Transaction may be left in a minority shareholding position and with a major shareholder in a position to influence the Company and its operations as permitted within the rights and obligations attaching to a shareholding greater than 50.1%.</p> <p>If Westside acquires over 50.1% of Armour Energy shares then the 'free float' of shares available to trade on market may be reduced. This may have the impact of reducing the liquidity of Armour Energy shares on the ASX and make it more difficult for an Armour Energy shareholder to efficiently exit their investment at a particular point in time.</p>

Source: BDO CFQ analysis

## 8.3 Position of Armour Energy Shareholders if the Proposed Transaction is Not Accepted

Table 8.3 below outlines the possible position of Armour Energy shareholders in the event that the Proposed Transaction is not accepted. We note that the Proposed Transaction may not proceed for a number of reasons including, but not limited to, the conditions precedent to the Proposed Transaction not being satisfied (refer to Section 3.2 of this Report).



**Table 8.3: Position of Armour Energy Shareholders if the Proposed Transaction is Not Accepted**

Position of Shareholders	Explanation
<p>Continued shareholding in Armour Energy</p>	<p>Armour Energy shareholders who reject the Proposed Transaction will continue to hold shares in Armour Energy. Armour Energy shareholders will continue to be exposed to the risks and opportunities associated with Armour Energy’s portfolio of projects in the oil and gas bearing regions of the Northern Territory, Queensland and Victoria.</p> <p>For example, the Company may be able to proceed with the following opportunities as planned:</p> <ul style="list-style-type: none"> <li>▪ <b>The Binding Proposed Farm-out:</b> if the shareholders approve the Binding Proposed Farm-out and it is completed, the transaction will enable the Company to proceed with its participation in a 25% interest in the NT Petroleum Assets, after receiving cash and applicable bonus payments and its costs for Phase One of the work program being carried by AEP). The Binding Proposed Farm-out, if successfully carried out, could generate value which may not currently be reflected in the share price of Armour Energy shares; and</li> <li>▪ <b>Acquisition of the Roma Shelf Assets:</b> the Company may be able to generate value from the exploration and development of the Roma Shelf Assets.</li> </ul> <p>Notwithstanding the potential for value generation from the exploitation of opportunities (including the above), there is no guarantee that the Company will be able to successfully implement and generate future upside from planned and/or future projects.</p> <p>Shareholders will remain exposed to the risks and opportunities offered by the ownership of Armour Energy shares.</p>
<p>Share trading price may be materially different to recent share trading prices and the shares in Armour Energy may trade at prices that are lower than \$0.12 per share</p>	<p>If the Proposed Transaction does not complete, the share trading price of shares in Armour Energy may either increase and/or decrease relative to recent trading prices and the increase and/or decreases may be material.</p> <p>It is important to note that shares in Armour Energy have been valued in this Report on a controlling interest basis for comparison to the Proposed Transaction. If the Proposed Transaction is not accepted, the trading price of shares in Armour Energy will likely reflect that observed on a minority interest basis.</p> <p>Armour Energy is an oil and gas and minerals exploration company with operations that are high risk and speculative. The share trading prices of shares in Armour Energy may increase and/or decrease materially within short periods of time as milestones are either met or missed and based on market sentiment.</p> <p>It is possible that shares in Armour Energy trade at a price that is less than \$0.12 if the Proposed Transaction is not accepted.</p>



Position of Shareholders	Explanation
Armour Energy requires funding	<p>Armour Energy requires near-term funding of \$23.2 million to fund the acquisition of the Roma Shelf Assets and pay the security deposit associated with these assets, as required by regulation. Notwithstanding the security deposit is refundable upon relinquishing the relevant permits we note the Company has a near-term funding requirement in excess of its current cash reserves.</p> <p>The Company also requires ongoing funding to meet its permit obligations and its working capital needs of approximately \$0.4 million per month excluding listed company costs.</p> <p>We note that the Company has identified and could potentially employ the following funding sources to meet its near term funding requirements:</p> <ul style="list-style-type: none"> <li>▪ Cash and cash equivalents of \$7.0 million;</li> <li>▪ A loan from DGR Global of \$15.0 million. The Company has announced that it is also pursuing other financing options;</li> <li>▪ If the Binding Proposed Farm-out (and related agreements) is approved and completed, \$18.1 million<sup>6</sup> in upfront cash payments from AEP; and</li> <li>▪ If certain milestones under the Binding Proposed Farm-out are met, additional cash amounts of up to \$13.9 million<sup>7</sup> from AEP.</li> </ul> <p>While Armour Energy has identified a number of existing and potential funding sources to meet its near-term and ongoing funding requirements, in circumstances where Armour Energy is unable to secure the required funding on reasonable terms, this would be likely to have significant adverse consequences for Armour Energy and its shareholders.</p> <p>We note that the Company has announced on 30 of September 2015 the provision of a facility to provide funding to complete to acquisition of the Roma Shelf Assets in circumstances where other funding arrangements have not been procured. The terms of this facility are such that the extension of the facility for a period beyond 31 March 2016 would result in additional payments to DGR Global becoming due (in the form of options, royalties and conversion rights).</p> <p>As mentioned above, the Company expects to complete the Binding Proposed Farm-out with AEP and expects to raise \$18.1 million in upfront cash payments, in addition to funds raised through the issue of shares to AEP. In the event funds are received before 31 March 2016, as is expected by the Company, this would assist to repay this facility and avoid the additional payments to DGR Global.</p>
Compulsory acquisition	<p>If Westside obtains a relevant interest in at least 90% of Armour Energy shares then it will be entitled, in certain circumstances, to acquire the remaining Armour Energy shares not already held. For completeness, we note that Westside have indicated in Section 10 of the Bidder's Statement that it intends to proceed with a compulsory acquisition of outstanding Armour Energy shares and any fully paid ordinary shares in Armour Energy which come into existence within the period of six weeks after Westside gives the compulsory acquisition notice and subsequently applies for a delisting of Armour Energy from the ASX.</p>
Prospect of a superior offer or alternative transaction	<p>It is possible that Armour Energy shareholders who do not accept the Proposed Transaction may receive a superior offer to the offer proposed by Westside. We understand that no other offers to acquire all the shares in the Company have been received as at the date of this Report.</p>

Source: BDO CFQ analysis

<sup>6</sup> Upfront cash of US\$13 million under the Binding Proposed Farm-out converted to Australian dollars using the current exchange rate of \$1 = US\$0.72

<sup>7</sup> Bonus payments of up to US\$10 million under the Binding Proposed Farm-out converted to Australian dollars using the exchange rate of \$1 = US\$0.72

#### 8.4 Assessment of the Reasonableness of the Proposed Transaction

In our opinion, after considering all of the issues set out in this Report, in the absence of any other information, the Proposed Transaction is Not Reasonable to Armour Energy shareholders as at the date of this Report, for reasons which include the following:

- It is our view that the disadvantages of the Proposed Transaction outweigh the advantages; and
- The offer is at a price which is significantly below the low end of our valuation range of Armour Energy shares.

Notwithstanding the above and as mentioned previously, there is no guarantee that shares in Armour Energy will continue to trade at or above \$0.12 per share and have the levels of liquidity required for shareholders to dispose of their shares. The offer provides certainty of a \$0.12 per share cash payment to those shareholders looking to exit and monetise their investment in Armour Energy.

## 9.0 Sources of Information

This Report has been prepared using information obtained from the following sources:

- Armour Energy ASX announcements;
- Armour Energy Annual Reports for the years ended 30 June 2013, 2014 and 2015;
- The Target's Statement;
- The Bidder's Statement;
- Armour Energy company website ([www.armourenergy.com.au](http://www.armourenergy.com.au));
- Westside company website ([www.westsidecorporation.com](http://www.westsidecorporation.com));
- The sale and purchase agreements in relation to the proposed acquisition of the Roma Shelf Assets;
- The farm-out agreement and related share subscription agreement, option deed and proposed joint operating agreement in relation to the Binding Proposed Farm-out;
- The Financial Model which sets out forecast financial information relating to the Roma Shelf Assets prepared by Armour Energy management;
- Capital IQ;
- Various other research publications and publicly available data as sourced throughout this Report; and
- Various discussions and other correspondence with Armour Energy management, their advisers and with technical experts SRK and RISC.

## 10.0 Indemnities, Representations and Warranties

Armour Energy has agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

### 10.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, Armour Energy agrees to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. Armour Energy will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

Armour Energy agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by Armour Energy (including but not limited to the directors and advisers of Armour Energy) as part of this engagement.

Armour Energy has acknowledged that the engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

### 10.2 Representations & Warranties

Armour Energy recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by Armour Energy, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

## 11.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds a Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Steven Sorbello and Scott Birkett have prepared this Report with the assistance of staff members. Mr Sorbello and Mr Birkett are directors of BDO CFQ and have extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Armour Energy. This Report has been prepared to provide information to Armour Energy shareholders prior to accepting or rejecting the Proposed Transaction. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to any taxation implications of the Proposed Transaction, it is strongly recommended that Armour Energy shareholders obtain their own taxation advice, tailored to their own particular circumstances.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 2 October 2015.

BDO Corporate Finance (QLD) Ltd



Steven Sorbello  
Director



Scott Birkett  
Director

## Appendix A Industry Information

This appendix sets out an overview of the below industries that are relevant to Armour Energy's operations on a global and national level. These include the:

- Global oil and gas industry; and
- Oil and gas industry in Australia.

The information presented in this section has been compiled from a range of publicly available sources and is not intended to be a comprehensive analysis. We recommend that Armour Energy's shareholders refer to the original source of the information referred to in this section, and any other information they believe appropriate, for a more comprehensive analysis. This section should be referred to as a broad guide only.

### A.1 Global Oil and Gas Industry

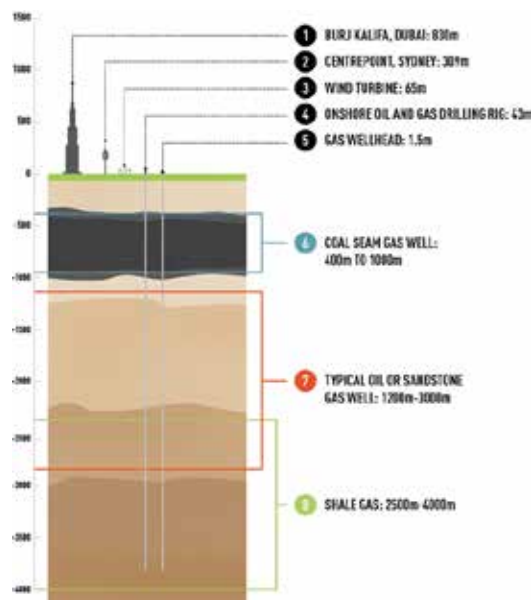
#### A.1.1 Oil and Gas Properties and Uses

Oil and gas are important fossil fuels formed from the decomposition and pressurisation of algae, plankton and other organisms. This process forms hydrocarbons, which are compounds consisting entirely of hydrogen and carbon that are powerful combustible fuels.

When organisms such as algae and plankton die, they sink to the bottom of the sea and lakes. These low-lying areas form part of sedimentary basins that are then filled up over tens of millions of years by fragmented material that hardens into rock layers, including sandstone, shale and coal seams. The organic materials that are trapped in the rock layers break down to hydrocarbons (i.e. oil and gas).

Figure A.1 illustrates the depths of different gas and oil wells, including coal seam gas, sandstone and shale gas wells.

Figure A.1: Depth of Different Oil and Gas Wells



Source: Australian Petroleum Production and Exploration Association ('APPEA')

Oil and gas can be categorised as either conventional or unconventional petroleum resources. Conventional petroleum resources are oil and gas found in sandstone which is extracted using traditional methods such as drilling, allowing the petroleum to flow up through the well.

Unconventional petroleum resources are oil and gas that require additional technology and investment to exploit. Additional technology, energy and capital are necessary to replace the natural action of the geological processes for hydrocarbon resources in order to extract the oil and gas. Unconventional resources include shale oil, shale gas, coal seam gas and tight gas.

Table A.1 details examples of different types of oils and gases and their uses.

**Table A.1: Properties and Uses of Different Types of Oils and Gases**

	Description	Uses
<b>Oil:</b>		
Crude oil	<ul style="list-style-type: none"> <li>Naturally forming liquid hydrocarbons from organic-rich rocks</li> </ul>	<ul style="list-style-type: none"> <li>Transport fuels, such as petrol, diesel and jet fuel</li> </ul>
Condensate	<ul style="list-style-type: none"> <li>Gas in the subsurface reservoir but condenses to a liquid form when brought to the surface</li> </ul>	<ul style="list-style-type: none"> <li>Plastics, chemicals, lubricants, waxes, tars, asphalts and heating oils, such as kerosene</li> <li>Pesticides and fertilisers</li> </ul>
Oil shale	<ul style="list-style-type: none"> <li>Fine-grained sedimentary rock containing organic matter that has not completed the thermal maturation process necessary to convert the organic matter to oil (i.e. the rock has not generated and expelled hydrocarbons)</li> <li>Can be transformed to liquid hydrocarbons by mining, crushing, heating, processing and refining</li> </ul>	
<b>Gas:</b>		
Natural gas (methane)	<ul style="list-style-type: none"> <li>Found in several different rocks, including coal seams, sandstone and shale</li> </ul>	<ul style="list-style-type: none"> <li>Electricity generation</li> <li>Cooking, heating houses and buildings, and heating water</li> </ul>
Coal seam gas (CSG)	<ul style="list-style-type: none"> <li>Natural gas sourced from coal deposits</li> </ul>	<ul style="list-style-type: none"> <li>Fertilisers, glass, steels, plastics, paint and fabrics</li> </ul>
Shale and tight gas	<ul style="list-style-type: none"> <li>Natural gas that has been trapped in low-fracture, low permeability formations with no natural flow</li> <li>Extracted by use of hydraulic fracturing and horizontal drilling techniques</li> </ul>	
Liquefied natural gas (LNG)	<ul style="list-style-type: none"> <li>Natural gas chilled to -161°C until it's in a liquid form</li> <li>Reduced to 1/600<sup>th</sup> of its original size so that it can be transported safely and economically</li> </ul>	

Sources: APPEA, Queensland Government, Australian Government and Geoscience Australia

### A.1.2 Oil and Gas Reserves

Globally, the region with the largest oil reserves is the Middle East, which possesses approximately 810.7 billion barrels of proven oil reserves or approximately 47.7% of the world's total proven oil reserves. The world's largest natural gas reserves are also located in the Middle East, which possesses approximately 79.8 trillion cubic metres of proven gas reserves or approximately 42.7% of the world's total proven gas reserves.

Table A.2 below sets out the geographic spread of global proven oil reserves as at the end of 2014, which represents the latest information available as at the date of this Report.



**Table A.2: Global Proven Oil Reserves as at the End of 2014**

Location	Oil Reserves (Billion Barrels)	Percentage of Total Global Oil Reserves (%)
Australia	4.0	0.2%
North America	232.5	13.7%
South and Central America	330.2	19.4%
Europe and Eurasia	154.8	9.1%
Middle East	810.7	47.7%
Africa	129.2	7.6%
Asia Pacific (excluding Australia)	38.7	2.3%
<b>Total</b>	<b>1,700.1</b>	<b>100.0%</b>

Source: BP Statistical Review of World Energy - June 2015

Table A.3 below sets out the geographic spread of global proven natural gas reserves as at the end of 2014, which represents the latest information available as at the date of this Report.

**Table A.3: Global Proven Natural Gas Reserves as at the End of 2014**

Location	Natural Gas Reserves (Trillion Cubic Metres)	Percentage of Total Global Natural Gas Reserves (%)
Australia	3.7	2.0%
North America	12.1	6.5%
South and Central America	7.7	4.1%
Europe and Eurasia	58.0	31.0%
Middle East	79.8	42.7%
Africa	14.2	7.6%
Asia Pacific (excluding Australia)	11.5	6.2%
<b>Total</b>	<b>187.1</b>	<b>100.0%</b>

Source: BP Statistical Review of World Energy - June 2015

Australia had approximately 4 billion barrels of proven oil reserves and approximately 3.7 trillion cubic metres of proven natural gas reserves as at the end of 2014. The US had approximately 48.5 billion barrels of proven oil reserves and approximately 9.8 trillion cubic metres of proven natural gas reserves as at the end of 2014.

In the US, the application of modern hydraulic fracturing and horizontal drilling techniques has increased the potential for additional unconventional oil and gas reserves to be discovered, particularly in the form of shale gas. The US Energy Information Administration estimates the US may have recoverable shale gas reserves totalling 482 trillion cubic feet and predicts US shale gas production will make up 46% of US natural gas supply by 2035, up from 1% in 2000 and 23% in 2010. The emergence of shale gas as a major new energy source in the US has triggered a rapid increase in natural gas production and is expected to gradually move the US from being a net importer of oil currently to being a net exporter of oil by the year 2035.<sup>8</sup>

<sup>8</sup> APPEA

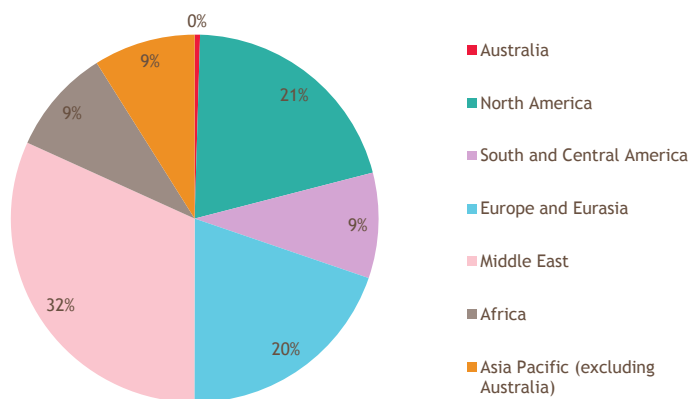
### A.1.3 Oil and Gas Production

The largest oil producing region in the world is the Middle East which produced approximately 1,339.5 million tonnes of oil in 2014, or approximately 31.7% of the world's total oil production. The largest natural gas producing region in the world is Europe and Eurasia which produced approximately 1,002.4 billion cubic metres of natural gas in 2014, or approximately 28.8% of the world's total natural gas production.

The three largest producers of barrels of oil and natural gas equivalents ('boe') in 2014 were all National Oil Companies that operate as an extension of the government in their respective countries. These are Saudi Aramco (12.0 million boe per day), Gazprom (8.3 million boe per day) and National Iranian Oil Company (6.0 million boe per day).

Figure A.2 below sets out the geographic spread of global oil production in 2014, which represents the latest information available as at the date of this Report.

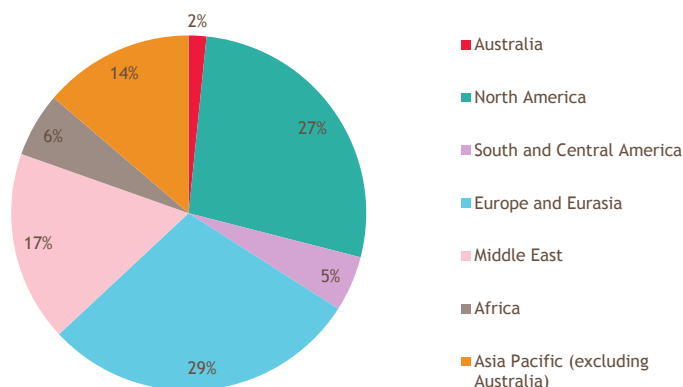
Figure A.2: Global Oil Production in 2014



Source: BP Statistical Review of World Energy - June 2015

Figure A.3 below sets out the geographic spread of global natural gas production in 2014, which represents the latest information available as at the date of this Report.

Figure A.3: Global Natural Gas Production in 2014



Source: BP Statistical Review of World Energy - June 2015

Australia produced 17.9 million tonnes of oil in 2013, a 16.8% decrease on the amount of oil output in 2012. In addition, Australia produced approximately 42.9 billion cubic metres of natural gas in 2013, a 0.9% decrease over the amount of natural gas produced in 2012.

The US produced 446.2 million tonnes of oil in 2013, a 13.5% increase on the amount of oil output in 2012. In addition, the US produced approximately 687.6 billion cubic metres of natural gas in 2013, a 1.3% increase over the amount of natural gas produced in 2012.

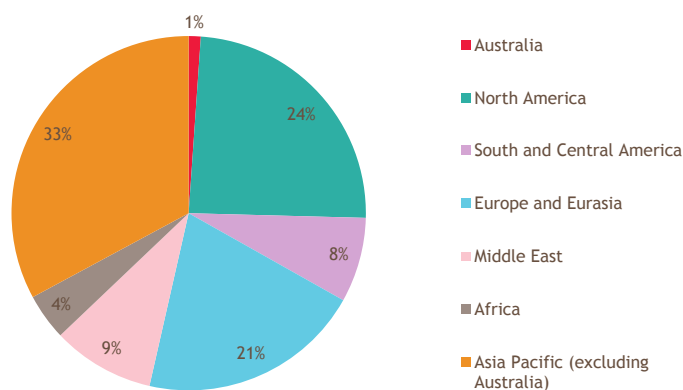
#### A.1.4 Consumption of Oil and Gas

The demand for petroleum and gas products is linked to overall levels of activity in the economy. As domestic economic activity speeds up or slows down, so does growth in the demand for oil and gas. This means that the demand for oil and gas is a derived one (i.e. it depends on the demand for other goods and services). Foremost amongst these is transport (especially by road and air), which accounts for about 90% of petroleum product demand.

In 2014, global oil consumption grew by a slightly below-average 0.4 million barrel per day ('bpd') to reach 92.1 million bpd. Countries outside the Organisation for Economic Co-operation and Development ('OECD') accounted for 52% of global oil consumption and once again accounted for all the net growth in global consumption.

Figure A.4 below sets out the geographic spread of oil consumption in 2013, which represents the latest information available as at the date of this Report.

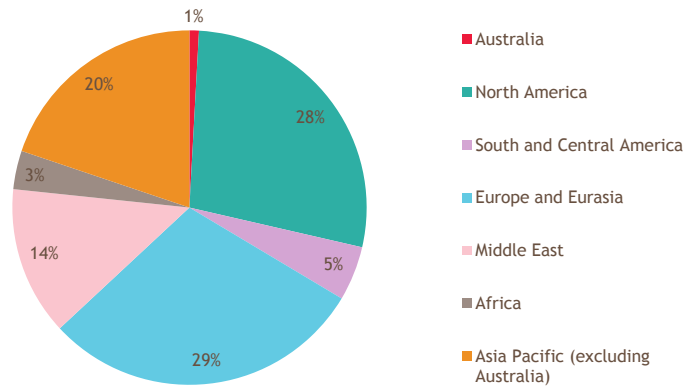
Figure A.4: Global Oil Consumption in 2014



Source: BP Statistical Review of World Energy - June 2015

Figure A.5 below sets out the geographic spread of natural gas consumption in 2014, which represents the latest information available as at the date of this Report.

Figure A.5: Global Natural Gas Consumption in 2014



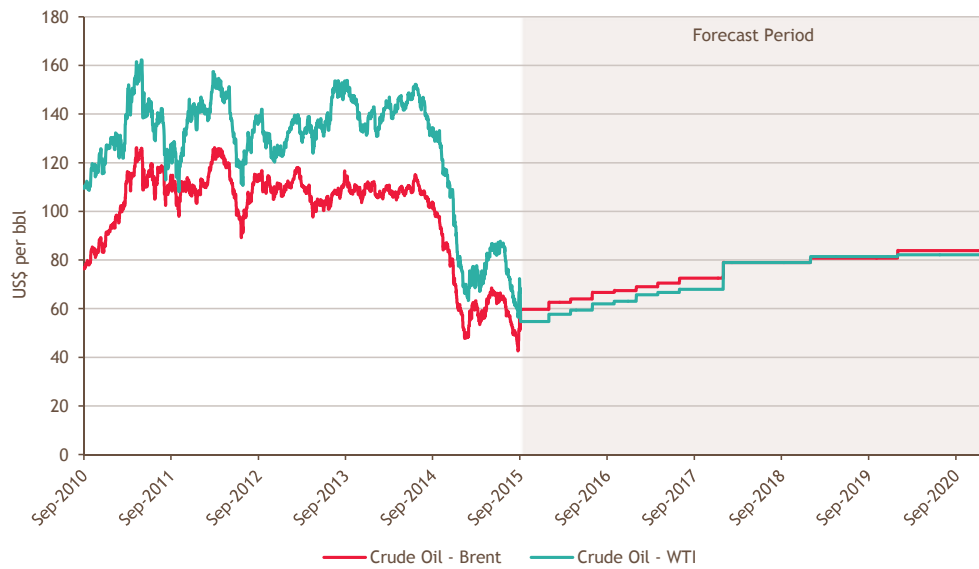
Source: BP Statistical Review of World Energy - June 2015

A.1.5 Oil and Gas Prices

Crude Oil Prices

Figure A.6 sets out the spot price for Brent and WTI crude oil from September 2010 through to September 2015 and for the forecast period to 2020.

Figure A.6: Spot Price of Brent and WTI Crude Oil



Source: Capital IQ

The recent drop in oil price is attributed to increasing production coupled with a decrease in demand due to increasing energy efficiency and the use of alternative energy sources. Particularly influential has been the Organisation of Petroleum Exporting Countries' ('OPEC') unwillingness to decrease production to stabilise markets. This has increased the excess in supply putting additional pressure on prices.<sup>9</sup>

Globally, oil demand is expected to increase by 21 million bpd to 111.1 million bpd by the year 2040. Developing countries (particularly those in Asia) are central to the expected growth in the demand for oil. Rising population, urbanisation, economic expansion, improving social conditions and the growing need for mobility are all drivers of the increased oil use that will be seen in these countries in the decades ahead. Despite this expected growth, per capita oil use is expected to remain significantly lower in developing countries than in the OECD.<sup>10</sup>

Over the long term, OPEC is expected to supply the majority of the increase in the demand for oil. In the short to medium term, growth in the supply from non-OPEC countries is also expected on the back of significant growth in the recent past. However, the growth in oil supplies from non-OPEC countries is expected to decelerate over time.

In terms of the global energy mix, the share of renewables is expected to continue to grow at a fast pace, partly as a result of government support. However, its share of the global energy mix is expected to remain modest by 2040, with fossil fuels (particularly oil) expected to continue to play the leading role in satisfying world energy needs in the future.

#### Natural Gas Prices

Figure A.7 sets out the spot price for Henry Hub natural gas from September 2010 through to September 2015 and for the forecast period to 2020.

Due to the nature of gas production, it is difficult to shut off gas wells due to the risk of losing the supply entirely. The volatility of prices is due to the globalisation of natural gas, increased competition in natural gas exploration, production and transportation and emergence of shale gas. Natural gas prices are primarily driven by supply and demand fundamentals, but can also be linked to the price of crude oil and/or petroleum products.

The global demand for natural gas is expected to grow by 1.9% per annum to 2035, primarily due to increasing demand from the developing countries. The demand for natural gas from developing countries is expected to increase by 2.5% per annum, with the increase in demand from OECD countries expected to be much more modest at only 1.1% per annum.

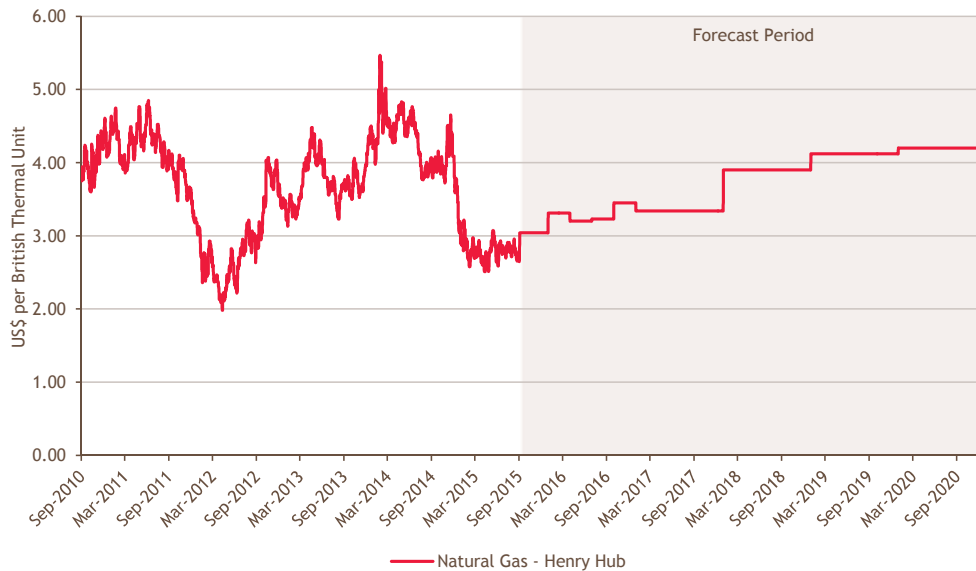
Approximately half of the increase in the global demand for natural gas is expected to be sourced from non-OECD conventional gas supplies, particularly the Middle East and Russia. However, OECD shale gas is expected to experience the fastest rate of supply growth at 5.0% per annum. Shale gas supply is dominated by North America, which provides nearly all of the current global supply and is expected to provide around three-quarters of the global supply in 2035.<sup>11</sup>

<sup>9</sup> IBIS - Business Environment Profiles (Australia)

<sup>10</sup> World Oil Outlook 2014, Organisation of the Petroleum Exporting Countries

<sup>11</sup> BP Energy Outlook 2015

Figure A.7: Spot Price of Natural Gas (US\$ per million British Thermal Units)



Source: Capital IQ

## A.2 Australian Oil and Gas Industry

### A.2.1 Northern Australia<sup>12</sup>

The resources sector has driven northern Australia’s economy for some time. Exports to China alone increased from \$559 million in 2008 to \$2.26 billion in 2012. However, the rapid growth in the resource and energy sectors, coupled with increasing competition from the agriculture, tourism and defence sectors has created capacity constraints on northern Australia’s infrastructure. Inefficiencies in and around ports and airports will become an increasing barrier to development in the north as industries expand and realise new markets.

Along with conventional oil and gas plays, there are also numerous opportunities to develop northern Australia’s onshore tight and shale gas resources. The shale gas potential is viewed as among the best in the world and could be far more productive than Australia’s current and past production of oil and gas. Industry analysis and consultation with communities – including Indigenous communities – will be important in informing the further development of these resources.

#### McArthur Basin<sup>13</sup>

The McArthur Basin in Australia’s Northern Territory is an unexplored petroleum frontier basin with direct indications of oil and gas. Table A.4 below provides an overview of the McArthur Basin’s geology and oil and gas potential.

Table A.4: McArthur Basin’s Geology and Oil & Gas Prospectivity

Factor	Description
Geology	<ul style="list-style-type: none"> <li>The McArthur Basin comprises mostly mid-Proterozoic sedimentary rocks</li> <li>The basin contains marine and non-marine sedimentary rocks up to 12 km thick</li> <li>Exposed area of about 180,000 km<sup>2</sup></li> </ul>

<sup>12</sup> Green Paper on Developing Northern Australia, Australian Government 2014

<sup>13</sup> McArthur Basin Shale Gas Play, Northern Territory Government and Imperial Oil & Gas 2015

Factor	Description
Oil & Gas Prospectivity	<ul style="list-style-type: none"> <li>The McArthur Basin shale research program with the University of Adelaide Research Unit has identified a number of zones within the Northern Territory basin that show good potential for hydrocarbon prospectivity</li> <li>Besides its unconventional shale potential, the area also contains numerous conventional anticline, four-way closed structures</li> <li>Large areas in the north of the basin are effectively unexplored</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>There is an existing gas pipeline across the southern part of the McArthur Basin which connects to the Amadeus Gas Pipeline between Alice Springs and Darwin</li> <li>The tenements of the McArthur Basin are able to be serviced by centre of Nhulunbuy and the Port of Gove</li> <li>The Carpentaria Highway intersects the McArthur Basin</li> </ul>

Sources: *McArthur Basin Shale Gas Play*, Northern Territory Government 2015  
*Geology of the Northern Territory*, Northern Territory Government 2011

#### Georgina Basin<sup>14</sup>

The Georgina Basin is a region of proven oil potential. The Southern Georgina Basin is considered to be one of the most prospective onshore basins in Australia, with potential for very large conventional and unconventional gas deposits. However, it is virtually unexplored.

Table A.5 below provides an overview of the Georgina Basin's geology and oil and gas potential.

**Table A.5: Georgina Basin's Geology and Oil & Gas Prospectivity**

Factor	Description
Geology	<ul style="list-style-type: none"> <li>The Georgina Basin is an extensive, relatively flat-lying Neoproterozoic to Devonian basin</li> <li>The highest petroleum potential occurs in the southern part of the basin which is a thicker depocentre containing prospective shale units such as the Cambrian Arthur Creek Formation</li> <li>The central to northern parts of the basin contain thinner shelf sediments, which may reservoir gas or liquids sourced from underlying older Proterozoic basins</li> <li>Exposed area of approximately 300,000 km<sup>2</sup></li> </ul>
Oil & Gas Prospectivity	<ul style="list-style-type: none"> <li>Geoscience Australia has undertaken a comprehensive geochemical analysis of source rock extracts from existing well data in the basin and has identified at least three valid and active petroleum systems</li> <li>Cambrian Arthur Creek Formation is a major shale oil and gas target with total organic carbon of 3-4% in the basal 'hot shale'</li> <li>Numerous untested stratigraphic and structural conventional plays within basin particularly associated with Cambrian stratigraphy</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>Limited infrastructure exists at present to transport oil and gas from the Georgina Basin</li> <li>The Amadeus Gas Pipeline between Alice Springs and Darwin runs to the west of the Georgina Basin</li> <li>APA Group has reached a heads of agreement with Armour Energy to construct a gas transmission pipeline to supply the Mt Isa market, conditional on Armour Energy and APA Group meeting a number of key milestones</li> </ul>

Sources: *Geology of the Northern Territory*, Northern Territory Government 2011  
*Shale Gas Handbook Australia*, Norton Rose Fulbright 2015  
*Georgina Basin*, Northern Territory Government and CORE 2015  
*Heads of Agreement with APA Group for gas transportation services*, Amour Energy ASX announcement, 26 June 2013

<sup>14</sup> Shale Gas Handbook Australia, Norton Rose Fulbright 2015

### Lawn Hill Platform<sup>15</sup>

The Lawn Hill Platform comprises sedimentary and volcanic strata equivalent to the Tawallah and McArthur groups of the McArthur Basin. It is widely developed in the Lawn Hill region of North-west Queensland and extends north-westward into the Northern Territory.

Table A.6 below provides an overview of the Lawn Hill Platform's geology and oil and gas potential.

**Table A.6: Lawn Hill Platform's Geology and Oil & Gas Prospectivity**

Factor	Description
Geology	<ul style="list-style-type: none"><li>The age of the sediments in this area ranges from the Paleoproterozoic to Mesoproterozoic McNamara Group sediments to the younger overlying Mesoproterozoic Carpentaria Basin cover</li></ul>
Oil & Gas Prospectivity	<ul style="list-style-type: none"><li>Little exploration</li><li>Armour Energy has identified potential shale plays in the Lawn Hill</li><li>There is potential for conventional accumulations along the western part of the basin. These have been targeted by the wells previously drilled in the area, however to date no commercial discovery has been made.</li></ul>
Infrastructure	<ul style="list-style-type: none"><li>Limited oil and gas infrastructure</li><li>The region hosts mining-oriented towns, bitumen highways, a viable rail system, extensive power grid and large scale water resources</li></ul>

Sources: *Geology of the Northern Territory*, Northern Territory Government 2011  
*Independent Expert's Report for Armour Energy*, MBA Petroleum Consultants 2012  
*Geology and Mineral Resources of the Northern Territory*, Northern Territory Government 2010

### A.2.2 Surat Basin<sup>16</sup>

The Surat Basin became the focus for emerging CSG companies from the year 2000 onwards, when it became clear that an analogue existed with various basins in the United States of America, which were producing commercial quantities of gas. The success of the QGC Argyle 1 well in 2000 demonstrated that the Surat Basin could become a significant CSG producer.

Commercial production of CSG from the Jurassic Walloon Coal Measures of the Surat Basin began in January 2006 from the Kogan North CSG area west of Dalby. This was followed in May 2006 by production from the Berwyndale South CSG area, southwest of Chinchilla. CSG is also currently produced from several areas between Dalby and Chinchilla. Surat Basin CSG gas was first used to supply the Swanbank E gas-fired power station near Ipswich in southeast Queensland.

CSG produced commercially from the Walloon Coal Measures is typically obtained from seams between 300 metres and 600 metres. The term Walloon Coal Measures is used for the combined thicknesses of the Taroombul Coal Measures (lower) and Tangalooma Sandstone and Juandah Coal Measures (upper).

Oil and gas projects in the Surat Basin have ready access to well-developed infrastructure and supply chain. The basin is located close to the east coast infrastructure network with pipelines to LNG facilities in Gladstone, which provide export facilities to China, Korea, Japan and elsewhere. The Surat Basin is also well connected to the Eastern Australian domestic market supplying energy to Sydney, Melbourne and Brisbane.

### A.2.3 South-East Australia<sup>17, 18</sup>

South-Eastern Australia has three geological provinces with oil and gas prospectivity, namely:

- Gippsland Basin;

<sup>15</sup> *Geology and Mineral Resources of the Northern Territory*, Northern Territory Government 2010

<sup>16</sup> *Queensland's petroleum and coal seam gas*, Department of Natural Resources and Mines 2015

<sup>17</sup> *Petroleum Explorers Guide to Victoria*, Department of Primary Industries 2009

<sup>18</sup> *Unconventional Gas: Coal Seam Gas, Shale Gas and Tight Gas*, Parliament of Victoria 2015



- Otway Basin; and
- Murray Basin.

The Murray Basin is located entirely onshore and extends across South Australia, New South Wales and Victoria. The Otway and Gippsland Basins are located primarily offshore with smaller fields onshore.

At present, the Victorian Government has announced a Parliamentary Inquiry into onshore unconventional gas exploration and production. The hold, or moratorium, on exploration licences and tenements for onshore gas, hydraulic fracturing and exploration drilling will remain in place pending the Parliamentary Inquiry's findings and the Government's response. This decision restricts the activities that may be approved for existing tenement holders.

#### **Gippsland Basin**

The Gippsland Basin is a well-explored basin and has been the source of all of Victoria's oil production and the majority of its gas production, with almost all derived from the offshore part of the basin. Oil and gas have been discovered in structural and combined structural and stratigraphic traps, within Oligocene, Eocene, Paleocene and Late Cretaceous clastic sequences. Crude oil is thought to have been generated from the maturation of liptinite/exinite, most commonly associated with fine-grained deltaic and lower coastal plain mudstones, and natural gas from the maturation of vitrinite/inertinite, most commonly associated with coal-bearing sediments.

#### **Otway Basin**

The Otway Basin extends along the Southern Margin across Victoria and South Australia. The basin contains a number of gas discoveries and some small oil discoveries. In Victoria, substantial gas reserves (approximately 2 trillion cubic feet) have been discovered over the last 15 years offshore, along with a number of smaller fields onshore. Several new significant offshore gas fields have been brought on-stream since 2005 and others are currently under development.

#### **Murray Basin**

The Murray Basin, which extends across three states (South Australia, New South Wales and Victoria), has yet to yield significant hydrocarbon indications although some gas shows have been reported. Due to the lack of exploration, little is known about the pre-Tertiary sediments. A preliminary regional seismic survey conducted by the Department of Primary Industries in 1996 indicated that a considerable section equivalent to the hydrocarbon-bearing Cooper Basin sequences may be present at depth.

## Appendix B Common Valuation Methodologies

A 'fair market value' is often defined as the price that reflects a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. The valuation work set out in this Report assumes this relationship.

There are a number of methodologies available to value an entity at fair market value. In preparing this Report, we have considered, amongst other metrics, the valuation methodologies recommended by ASIC in RG 111. The methodologies include those mentioned directly below.

### B.1 Discounted Cash Flows

The DCF approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

### B.2 Capitalisation of Maintainable Earnings ('CME')

The CME approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the CME calculation to calculate the total entity value.

The maintainable earnings estimate may require normalisation adjustments for non-commercial, abnormal or extraordinary events.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the maintainable earnings calculation. While this approach also relies to some degree on the availability of market data, the multiple is an alternative way of stating the expected return on an asset.

The CME approach is generally most appropriate where an entity has historical earnings and/or a defined forecast or budget. Further, a CME is usually considered appropriate when relevant comparable information is available.

### B.3 Asset Based Valuation ('ABV')

An ABV is used to estimate the fair market value of an entity based on the book value of its identifiable net assets. The ABV approach using a statement of financial position alone may ignore the possibility that an entity's value could exceed the book value of its net assets, however, when used in conjunction with other methods which determine the value of an entity to be greater than the book value of its net assets, it is also possible to arrive at a reliable estimate of the value of intangible assets including goodwill.

Alternatively, adjustments can be made to the book value recorded in the statement of financial position in circumstances where a valuation methodology exists to readily value the identifiable net assets separately and book value is not reflective of the true underlying value. Examples of circumstances where this type of adjustment may be appropriate include when valuing certain types of identifiable intangible assets and/or property, plant and equipment.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

#### B.4 Market Based Valuation

An MBV methodology determines a value for an entity by having regard to the value at which securities in the entity have recently been purchased. This approach is particularly relevant to:

- Entities whose shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where a sufficient volume of shares is traded and the shares are traded over a sufficiently long period of time; and/or
- Entities for which it is possible to observe recent transactions relating to the transfer of relatively large parcels of shares (e.g. recent capital raisings).

For listed entities, share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

#### B.5 Sum of the Parts

An SOTP methodology determines a value for an entity by considering the value of the various assets, liabilities, other rights and obligations which apply to the valuation of an entity. In determining the value of each of those components, the most relevant methodology applicable to that particular component may be applied. For example:

- Certain assets and liabilities may have a readily observable market, and their value (in the SOTP) may be calculated with reference to their observed price in the market;
- Other assets may be readily valued with reference to a specific earnings stream in future and their value may be determined with regard to an income based approach; and
- Certain rights and obligations (eg: options) may need to be valued using the relevant valuation approach for that type of instrument (eg: Black Scholes option pricing model).

The components valued separately as described above can be summed to determine the SOTP valuation. Consideration is also given to adjusting for corporate costs or other relevant adjustments required to ensure that the valuation derived using the SOTP approach provides a reasonable representation of the overall value of the entity.

## Appendix C Control Premium Research

A controlling interest in a company is usually regarded as being more valuable than a minority interest as it provides the owner with control over the operating and financial decisions of the company, the right to set the strategic direction of the company, control over the buying, selling and use of the company's assets, and control over appointment of staff and setting financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid for another company. For the purposes of our research on control premiums, we have defined a controlling interest to be an interest where the acquirer has acquired a shareholding of greater than 50% in the target company.

The control premium observed in a given takeover bid may be impacted by a range of factors, including:

- The specific value that may have been applicable to the acquirer at the time of the transaction;
- The level of ownership already held by the acquirer in the target;
- The level of speculation in the market about a transaction between the target and the acquirer;
- The presence of competing bids for the target; and
- The prevailing strength of the market and the economy more broadly at the time of the transaction.

To determine an appropriate control premium range to apply to Armour Energy in this Report, we have considered the following information:

- Control premiums implied in merger and acquisition transactions of oil and gas companies in Australia, which indicate median control premiums in the range of 18% to 39%<sup>19</sup>;
- Recent independent expert's reports which apply control premiums in the range of 20% to 40%;
- Various industry and academic research, which suggests that control premiums are typically within the range of 20% to 40%;
- Various valuation textbooks; and
- Industry practice.

Having regard to the information set out above, in our view, it is appropriate to consider control premiums within the range of 20% to 40% for the purposes of assessing the Proposed Transaction in this Report.

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<sup>19</sup> Capital IQ, based on share price comparisons 1 day, 1 week and 1 month prior to the announcement of a control transaction with the price after those announcements

## Appendix D Discount Rate used to value the Roma Shelf Assets

This appendix sets out our view of the appropriate weighted average cost of capital ('WACC') to adopt for our DCF valuation of the Roma Shelf Assets. Details regarding the appropriate capital structure, required return on equity, required return on debt and the value of taxation appropriate for the Roma Shelf Assets are discussed below.

### D.1 Our Approach to Calculating the Weighted Average Cost of Capital

#### D.1.1 Weighted Average Cost of Capital

A company has two principal sources of capital finance: debt and equity. An average of the respective required returns on capital for equity and debt holders, weighted by the relative value of the equity and debt capital of the company is typically used to estimate the company's overall cost of capital. This is commonly referred to as the WACC.

The formula typically used to calculate the WACC is:

$$WACC = \left[ r_e \times \frac{E}{V} + r_d \times \frac{D}{V} \times (1 - t) \right]$$

Where:

- $r_e$  represents the required return on equity;
- $\frac{E}{V}$  represents the portion of the capital that is equity;
- $r_d$  represents the required return on debt;
- $\frac{D}{V}$  represents the portion of the capital that is debt; and
- $t$  represents the tax rate.

#### D.1.2 Required Return on Equity

The most widely accepted method of estimating a company's cost of equity capital is the capital asset pricing model ('CAPM'). The CAPM proposes that any asset is priced according to its market or systematic risk (commonly referred to as the beta of the asset). The CAPM formula is as follows:

$$r_e = r_f + \beta \times MRP$$

Where:

- $r_f$  represents the risk free rate;
- $\beta$  represents the beta of the company; and
- $MRP$  represents the market risk premium, or the additional return an investor requires to invest in a fully diversified market portfolio rather than at the risk free rate.

#### D.1.3 Equity Beta

Equity betas are the commonly cited measure of the sensitivity of a company's share price to movements in the overall market.

To determine the appropriate equity beta to use in the CAPM, it is conventional practice to refer to comparable companies listed on stock exchanges. For the purposes of this Report, we have calculated equity betas for broadly comparable companies against the following indices, based on two years of weekly data and five years of monthly data as at 10 September 2015:

- The S&P/ASX 200 Index; and
- The MSCI World Index.

The MSCI Global Index is commonly used as a benchmark for assets that are likely to be attractive to international buyers, which we consider to be the case for Armour Energy's assets.

The equity betas observed for the comparable companies must be adjusted to remove the impact of the debt in the comparable company's capital structure before they can be applied to Armour Energy's assets. Debt increases the riskiness of a company's cash flows and therefore increases the sensitivity of that company's returns to market movements (i.e. debt serves to inflate equity betas). An equity beta that is adjusted to remove the impact of debt is commonly referred to as an asset beta.

Asset betas provide a measure of the sensitivity of a company's returns to movements in the overall market, independent of a company's capital structure. As a result, asset betas are the more appropriate metric to consider when comparing companies with different capital structures. The asset beta selected for a particular company based on the asset betas observed for comparable companies is then re-levered according to the optimal long-term debt level for the Company in order to calculate the appropriate equity beta.

## D.2 Key Inputs

### D.2.1 Broadly Comparable Companies

Table D.1 below sets out a description of broadly comparable companies which we have referred to when estimating the WACC for Armour Energy, appropriate to apply to a DCF valuation of the Roma Shelf Assets.

**Table D.1: Description of Broadly Comparable Companies**

Company	Description	Market Capitalisation <sup>1</sup> (\$m)
Blue Energy Limited	Blue Energy Limited ('Blue Energy'), an energy company, explores, evaluates, and develops conventional and unconventional oil and gas resources in Queensland and the Northern Territory in Australia.	28.52
Origin Energy Limited	Origin Energy, an integrated energy company, engages in oil and gas exploration and production, and electricity business primarily in Australia and New Zealand.	8,133.75
Santos Limited	Santos explores for, develops, produces, transports, and markets hydrocarbons in Australia and internationally.	4,482.57
Linc Energy Limited	Linc Energy Limited ('Linc Energy') operates as a diversified energy company worldwide.	71.45
Empire Oil & Gas NL	Empire Oil & Gas NL ('Empire Oil & Gas'), together with its subsidiaries, explores, develops, and produces oil and gas in Western Australia.	40.82
Terra Nova Energy Limited	Terra Nova Energy Limited ('Terra Nova Energy') engages in the acquisition and exploration of petroleum and natural gas properties in Canada and Australia.	6.53
Central Petroleum Limited	Central Petroleum Limited ('Central Petroleum') engages in the exploration for and production of hydrocarbons in Australia.	40.56
PetroFrontier Corp.	PetroFrontier Corp. ('PetroFrontier') engages in the acquisition, exploration, and development of conventional and unconventional petroleum assets in Australia.	4.24
Strike Energy Limited	Strike Energy Limited ('Strike Energy') operates as an oil and gas exploration and production company in Australia and the United States.	87.50
Senex Energy Limited	Senex Energy Limited ('Senex Energy') explores, develops, and produces oil and gas resources in Australia.	155.61
Drillsearch Energy Limited	Drillsearch Energy Limited ('Drillsearch Energy') engages in the exploration, development, and production of oil and gas in Australia.	239.77
Beach Energy Limited	Beach Energy explores, develops, produces, and sells oil, gas, and gas liquids.	780.35

Source: Capital IQ

<sup>1</sup> Market Capitalisation as at 10 September 2015

#### D.2.2 Capital Structure

To determine an appropriate capital structure for the Roma Shelf Assets, we have had regard to the average capital structure of companies engaged in operating oil and gas assets considered broadly comparable to the Roma Shelf Assets. We have estimated the average capital structure for each comparable company by having regard to the average percentage of debt and equity observed in the capital structure of each comparable company over the previous 5 year period, data permitting.

Table D.2 summarises the average percentage of debt and equity observed in the capital structure of each comparable company over the previous five year period.

**Table D.2: Average Percentage of Debt and Equity Observed in the Capital Structure of Broadly Comparable Oil and Gas Companies**

Company	Average Debt Percentage	Average Equity Percentage
Blue Energy	0.0%	100.0%
Origin Energy	34.3%	65.7%
Santos	35.1%	64.5%
Linc Energy	65.6%	34.4%
Empire Oil & Gas	1.5%	98.5%
Terra Nova Energy	24.5%	75.5%
Central Petroleum	49.5%	50.5%
PetroFrontier	0.0%	100.0%
Strike Energy	0.0%	100.0%
Senex Energy	0.0%	100.0%
Drillsearch Energy	31.7%	68.3%
Beach Energy	5.1%	94.9%
<b>Median</b>	<b>29.4%</b>	<b>70.6%</b>
<b>Mean</b>	<b>26.3%</b>	<b>73.6%</b>
<b>Median (Blue Energy, Empire, Terra Nova, Central Petroleum, PetroFrontier, Senex &amp; Drillsearch)</b>	<b>1.5%</b>	<b>98.5%</b>
<b>Mean (Blue Energy, Empire, Terra Nova, Central Petroleum, PetroFrontier, Senex &amp; Drillsearch)</b>	<b>15.3%</b>	<b>84.7%</b>

Source: Capital IQ, BDO CFQ analysis

With regard to Table D.2 above, we note that the following companies are broadly comparable to Armour Energy in relative terms:

- Blue Energy;
- Empire Oil & Gas;
- Terra Nova Energy;
- Central Petroleum;
- PetroFrontier;
- Senex Energy; and
- Drillsearch Energy.

We also note that the level of gearing that may be implied from the financing proposal for \$15 million executed with DGR Global on 1 October 2015 is reflective of a short-term funding arrangement for the acquisition of the Roma Shelf Assets.

After considering the above information as well as our own experience, it is our view that it is appropriate to adopt a long-term target debt level within the range of 5% to 15%.



### D.2.3 Required Return on Equity

#### Risk Free Rate

In our view, an appropriate risk free rate to use in calculating the cost of equity capital for the Roma Shelf Assets is the rate on 10 year Australian Government Bonds. As at 10 September 2015, the average 10 year rate on 10-year Australian Treasury Bonds was 4.68%.

#### Beta Estimation

Tables D.3 and D.4 set out the equity betas and asset betas of broadly comparable oil and gas companies against the S&P/ASX 200 Index and the MSCI World Index using two year weekly data and five year monthly data respectively. The asset betas of the broadly comparable companies have been calculated having regard to the latest information available on the capital structure of each company as at 10 September 2015.

**Table D.3: Betas of Broadly Comparable Oil and Gas Companies Using Two Year Weekly Data**

Company	Equity Beta S&P/ASX 200 2-Yrs Weekly	Asset Beta S&P/ASX 200 2-Yrs Weekly	Equity Beta MSCI World 2-Yrs Weekly	Asset Beta MSCI World 2-Yrs Weekly	Number of Years in Beta Measure
Blue Energy	0.26	0.26	0.05	0.05	2.0
Origin Energy	1.42	0.95	1.22	0.82	2.0
Santos	1.32	0.87	1.48	0.98	2.0
Linc Energy	1.18	0.30	1.68	0.43	2.0
Empire Oil & Gas	0.34	0.34	0.73	0.72	2.0
Terra Nova Energy	0.51	0.40	0.82	0.65	1.8
Central Petroleum	2.06	1.22	2.29	1.36	1.5
PetroFrontier	1.42	1.42	1.43	1.43	2.0
Strike Energy	0.50	0.50	0.92	0.92	2.0
Senex Energy	2.14	2.14	1.64	1.64	2.0
Drillsearch Energy	1.96	1.48	1.77	1.33	2.0
Beach Energy	1.42	1.35	1.29	1.22	2.0
<b>Median</b>	<b>1.18</b>	<b>0.40</b>	<b>1.22</b>	<b>0.72</b>	
<b>Mean</b>	<b>1.01</b>	<b>0.62</b>	<b>1.18</b>	<b>0.71</b>	
<b>Median (Blue Energy, Empire, Terra Nova, Central Petroleum, PetroFrontier, Senex &amp; Drillsearch)</b>	<b>1.42</b>	<b>1.22</b>	<b>0.82</b>	<b>0.72</b>	
<b>Mean (Blue Energy, Empire, Terra Nova, Central Petroleum, PetroFrontier, Senex &amp; Drillsearch)</b>	<b>1.24</b>	<b>1.04</b>	<b>1.05</b>	<b>0.83</b>	

Source: Capital IQ, BDO CFQ analysis

**Table D.4: Betas of Broadly Comparable Oil and Gas Companies Using Five Year Monthly Data**

Company	Equity Beta S&P/ASX 200 5-Yrs Monthly	Asset Beta S&P/ASX 200 5-Yrs Monthly	Equity Beta MSCI World Index 5-Yrs Monthly	Asset Beta MSCI World Index 5-Yrs Monthly	Number of Years in Beta Measure
Blue Energy	0.61	0.61	0.47	0.47	5.0
Origin Energy	0.75	0.55	0.85	0.62	5.0
Santos	1.27	0.92	1.16	0.84	5.0
Linc Energy	0.46	0.20	0.94	0.40	4.8
Empire Oil & Gas	0.77	0.76	0.76	0.75	5.0
Terra Nova Energy	1.04	0.84	0.95	0.77	1.8
Central Petroleum	2.41	1.43	1.73	1.02	1.5
PetroFrontier	0.23	0.23	0.40	0.40	5.0
Strike Energy	1.01	1.01	1.89	1.89	4.0
Senex Energy	1.67	1.67	1.70	1.70	5.0
Drillsearch Energy	1.56	1.18	1.47	1.11	3.0
Beach Energy	1.34	1.29	1.18	1.14	5.0
<b>Median</b>	<b>0.77</b>	<b>0.76</b>	<b>0.94</b>	<b>0.75</b>	
<b>Mean</b>	<b>1.04</b>	<b>0.76</b>	<b>0.98</b>	<b>0.70</b>	
<b>Median (Blue Energy, Empire, Terra Nova, Central Petroleum, PetroFrontier, Senex &amp; Drillsearch)</b>	<b>0.77</b>	<b>0.76</b>	<b>0.76</b>	<b>0.75</b>	
<b>Mean (Blue Energy, Empire, Terra Nova, Central Petroleum, PetroFrontier, Senex &amp; Drillsearch)</b>	<b>0.90</b>	<b>0.73</b>	<b>0.94</b>	<b>0.81</b>	

Source: Capital IQ, BDO CFQ analysis

Regarding Tables D.3 and D.4 above, we note the following:

- There is a relatively wide range in the value of beta across the broadly comparable companies;
- A number of the comparable companies have significantly more advanced oil and gas exploration operations; and
- The observed  $R^2$  (the percentage of movements in the security that can be explained by movements in the benchmark index) is low at 0.104 for the weekly data and 0.075 for the monthly data.

In our opinion, only limited conclusions regarding an appropriate beta estimate can be derived from the observed betas of comparable oil and gas companies. The historical calculated beta of an individual oil and gas company may be influenced by factors specific to its individual projects and may at times be unrelated to the betas observed for its peers.

Having regard to the above and considering the nature of the Roma Shelf Assets, we consider an appropriate asset beta to be within the range of 1.0 to 1.5, which we have then re-levered to arrive at an appropriate equity beta. Based on the capital structure assumptions set out in Section D.2.2, this results in an equity beta for the Roma Shelf Assets within the range of 1.1 to 1.7.

### Market Risk Premium

To assess an appropriate market risk premium, we have had regard to numerous empirical studies. This research indicates that market risk premiums can be estimated within the range of 4.5% to 7.0% and that the average MRP tends to vary between countries. For the purposes of this Report, we consider it appropriate to adopt an MRP of 6.0%.

### Estimated Required Return on Equity

Based on the inputs set out above, we consider it appropriate to adopt a required return on equity for the Roma Shelf Assets within the range of 11.2% to 14.8%.

#### D.2.4 Required Return on Debt

In forming our opinion of the appropriate return on debt, we have considered the following:

- The interest expense to total debt of comparable companies over the last twelve months was in the range of 1.5% to 51.1%, with a median of 5.7%. We note that larger, multinational companies with comparable operations to the Roma Shelf Assets have significantly lower interest expenses to total debt ratios;
  - Origin Energy, Santos, Linc Energy, Strike Energy and Beach Energy had an average interest expense to total debt ratio of 8.0%; and
  - Blue Energy, Empire, Terra Nova Energy, Central Petroleum, PetroFrontier, Senex and Drillsearch had an average interest expense to total debt ratio of 18.9%;
- The yield to worst on corporate BBB rated debt issued by Australian companies as at 10 September 2015 was approximately 3.95%;<sup>20</sup> and
- The long-term target capital structure assumed for the Roma Shelf Assets in Section D.2.2 above.

Based on the above, we consider it appropriate to adopt a required return on debt within the range of 10.0% to 12.0%.

#### D.2.5 Tax Rate

The appropriate tax rate is the tax rate payable in Australia. The effective corporate tax rate in Australia is currently 30%.

#### D.2.6 WACC Adopted for the Roma Shelf Assets

Based on the inputs set out above, we consider it appropriate to adopt a WACC to apply to a DCF valuation of the Roma Shelf Assets within the range of 10.7% to 13.8%. For the purposes of this Report, we consider it appropriate to adopt the midpoint of 12.3%.

We note that the cost of debt funding implied by the financing arrangement which the Company has entered into with DGR Global on 1 October 2015 is 22% before tax (until 31 March 2016). The post tax rate achieved under this arrangement (pre 31 March 2016) is broadly consistent with the post-tax WACC we have calculated above.

We understand that the financing arrangement in place with DGR Global is a short-term funding arrangement and that the Company will continue to pursue competitive funding options for the longer term and expects the DGR Global facility to be repaid prior to 31 March 2016.

<sup>20</sup> The 'yield to worst' represents the minimum return to be earned by an investor on a bond at a particular point in time having regard to specific bond features (such as whether it is callable, puttable or exchangeable), assuming the issuer does not default.

## Appendix E Valuation of the Roma Shelf Assets

Appendix E of this Report sets out our valuation of the Roma Shelf Assets and is set out as follows:

- Section E.1 sets out our valuation approach for the Roma Shelf Assets;
- Section E.2 sets out the valuation assumptions adopted to determine the value of the Roma Shelf Assets;
- Section E.3 sets out our valuation of the Roma Shelf Assets;
- Section E.4 sets out a sensitivity analysis; and
- Section E.5 sets out our conclusion on the value of the Roma Shelf Assets.

Armour Energy shareholders should refer to Section 5.3 for further information on the Roma Shelf Assets.

### E.1 Our Valuation Approach

#### E.1.1 Appropriate Valuation Methodology

As noted in Section 5.3 of this Report, on 2 September 2015, Armour Energy announced the execution of Sale and Purchase Agreements to acquire the Roma Shelf Assets from Origin Energy. The gas assets included in the Roma Shelf Assets comprise of numerous wells, associated gathering systems, the Kincora gas plant, Newstead gas storage plant and an export gas pipeline. Oil assets comprise several oil wells and associated facilities. The Company will make a cash payment of \$10 million on completion and three annual payments of \$1 million each starting from the first anniversary of first gas sales from the Roma Shelf Assets.

The Roma Shelf Asset wells have all been shut-in and placed on care and maintenance since 2012. Armour Energy proposes to restart the fields that were operating when the Kincora plant was shut-in. The Company has prepared the Financial Model in relation to the Roma Shelf Assets. We have engaged RISC to provide a technical expert's opinion in relation to the reasonableness of the key assumptions included in the Financial Model.

We note that Financial Model consists of a number of tranches of work programs ranging from:

- Restart of plant, pipeline integrity and relocation works;
- Restart of existing wells at their last production rate before shut-in;
- Well stimulation and well-head compression to improve production rates; and
- Exploration and development of new blocks with known play potential within the acquired acreage.

We note that RISC were only requested to review the assumptions and forecasts relating to the restart and stimulation / compression scenarios for existing wells. They have not reviewed the assumptions and forecasts relating to exploration and development of new blocks and those forecasts have not been considered in our DCF valuation of the Roma Shelf Assets. Section E.2 below sets out the key assumptions that have been adopted in the Financial Model.

Table E.1 below summarises the methodologies which, in our view, are appropriate to consider in determining the value of the Roma Shelf Assets on a controlling interest basis. Table E.1 also provides a brief explanation as to why, in our view, each methodology is or is not appropriate. Appendix B of this Report provides a summary of each of the valuation methodologies listed in Table E.1.

**Table E.1: Appropriate Valuation Methodologies for the Roma Shelf Assets**

Valuation Methodology	Appropriate?	Explanation
ABV	✘	A separate asset based value of the Roma Shelf Assets cannot be readily observed, making an ABV difficult. We are of the view that there are more appropriate valuation methodologies than the ABV methodology which can be adopted for the purposes of valuing the Roma Shelf Assets in this Report.
DCF	✔	<p>The Directors have provided us with the Financial Model which projects earnings and cash flows for the Roma Shelf Assets. We have also engaged RISC to provide a technical expert’s opinion in relation to the reasonableness of the key assumptions included in the Financial Model. In our view, the value of the Roma Shelf Assets can be appropriately determined with reference to the risk-adjusted value of the forecast cash flows from these assets.</p> <p>Having regard to the above, we are of the view that the relevant information is available and that it is appropriate to apply a DCF valuation methodology to value the Roma Shelf Assets for the purposes of this Report.</p>
CME	✘	Having regard to the finite life of the petroleum operations and the changes in earnings associated with expansions and contractions in production, we are of the view that the CME methodology is not as appropriate as a DCF methodology to value the Roma Shelf Assets.
Market Based	✘	Shares in the Roma Shelf Assets are not listed on a stock exchange where market prices can be readily observed, making it difficult to apply an MBV methodology.

Source: BDO CFQ analysis

For reasons detailed in Table E.1 we have identified a DCF methodology as being the most appropriate valuation methodology for the purposes of determining an appropriate value for the Roma Shelf Assets in this Report.

**E.1.2 Basis of Forecast Production Profiles**

We have referred to the Financial Model for the purpose of determining an appropriate value for the Roma Shelf Assets. The forecast production profiles and cash flows for the Roma Shelf Assets have been prepared by, and are the responsibility of, the Directors of Armour Energy. We are instructed that the projections represent the Directors’ best estimates of the future production profiles and associated costs of the Roma Shelf Assets at the current time.

RISC have also reviewed the forecast production profiles and provided their technical opinion in relation to the reasonableness of the forecast production profiles in the RISC Report (refer to Appendix G). We made relevant enquiries of RISC to address any areas requiring further information. We have relied on the work completed by RISC to enable us to utilise the forecast production profiles in the DCF valuation of the Roma Shelf Assets.

Notwithstanding the critical analysis of the forecast production profiles of the Roma Shelf Assets by RISC and our critical evaluation of the Financial Model, forecasts and projections are, by their nature, inherently uncertain. BDO CFQ does not provide any opinion or assurance that the forecasts and/or projections, based on the assumptions utilised, will materialise. Actual results may be materially different to those forecast in the Financial Model. We have not reviewed or audited the financial information as defined by the Australian Accounting Standards and Australian Auditing Standards.

This Report considers the value of the Roma Shelf Assets as at the date of this Report. Many of the assumptions adopted in valuing the Roma Shelf are subjective and may be subject to material change in short periods of time. Changes in these assumptions may have a material impact on the overall value determined for the Roma Shelf in this Report. There can be no guarantee that the cash flow forecasts or valuation calculations will hold for any length of time as circumstances are continually changing.



## E.2 Valuation Assumptions

### E.2.1 Key Assumptions

Table E.2 sets out a summary of the key assumptions we have adopted for our DCF valuation of the Roma Shelf Assets.

**Table E.2: DCF Valuation Assumptions for the Roma Shelf Assets**

Assumption	Explanation
Production	The production forecast is based on Armour Energy management's best estimates of production levels from the Roma Shelf Assets, provided as gross levels and reviewed for reasonableness by RISC. The forecast production volumes include oil, gas, LPG and condensate using product composition data from historical logs and deemed reasonable for forecast purposes by RISC. The product composition varies over the forecast production profile.
Product sales prices	<p>We have adopted forecasts compiled by Capital IQ and other publicly available information. Commodity prices adopted over the forecast period for the petroleum products forecast to be produced by the Roma Shelf Assets include the following. We are instructed that no additional quality adjustments are required in relation to the price bases we have adopted:</p> <ul style="list-style-type: none"> <li>Oil (based on Brent crude oil forward prices and consensus data): US\$59.4 per bbl (2015) to US\$96.9 per bbl (2025), with a long term real price of US\$83.9 per bbl;</li> <li>Sales Gas (East Coast Australia market price intelligence): \$4.5 per gigajoule ('GJ') (2015) to \$6.6 per GJ (2025) with a long term real price of \$5.5 per GJ;</li> <li>LPG (based on Saudi Aramco forward prices and consensus data): US\$357.75 per million metric tonnes (2015) to US\$387.2 per million metric tonnes (2025) with a long term real price of US\$333.8 per million metric tonnes; and</li> <li>Condensate: (based on historical regional differential between oil and condensate prices) US\$50.46 per bbl (2015) to US\$81.70 per bbl (2025) and a long term real price of US\$71.32 per bbl.</li> </ul> <p>We note that we prices achieved by Armour Energy in regional markets may differ slightly due to specific market specifications. We are instructed that no additional quality adjustments are required in relation to the pricing bases we have adopted.</p>
Operating Costs	The operating expenditure forecasts adopted for the Roma Shelf Assets are based on Armour Energy management assumptions. RISC have provided their opinion regarding the reasonableness of the operating cost assumptions relating to the cost of operating producing wells over the forecast period including allowances for fees and charges, plant operating costs, employee costs, administrative costs and state royalties.
Capital expenditure	<p>RISC have provided their opinion regarding the reasonableness of the forecast capital expenditure relating to the Roma Shelf Assets. The assumptions adopted for forecast capital expenditure are as follows:</p> <ul style="list-style-type: none"> <li>\$10.4 million in 2016 to restart the Kincora gas plant;</li> <li>\$1.0 million in 2019 for increased plant compression;</li> <li>\$1.0 million per annum for ongoing minor capital expenditures; and</li> <li>\$4.2 million over 2018 and 2019, relating to planned expenditure stimulating existing wells.</li> <li>Abandonment costs of \$25 million at the end of field economic life.</li> </ul>
Overriding royalties	A number of overriding royalties apply to certain permits included in the Roma Shelf Assets. They range from under 3% of wellhead value on certain blocks to over 10% of net profit interest in other blocks. We are instructed that the Company has reached an indicative agreement to acquire the majority of the overriding royalties in relation to the JVs with Santos.
Corporate taxes	<p>The corporate income tax rate applicable to the project is assumed to be equal to 30.0%, in line with the current corporate tax rate in Australia. We have assumed that this will be the relevant effective tax rate applicable forecast cash flows.</p> <p>Petroleum Resources Rent Tax ('PRRT') has been included by the Company at 40% on relevant PRRT income. The PRRT calculation includes carried forward credits and applicable augmentations (over the long term bond rate).</p>
Foreign exchange rate	Forecast product prices in US dollars were converted to Australian dollars for the purpose of this valuation. We have utilised the \$/US\$ forward curve from Capital IQ to convert the relevant cash flows into Australian dollars, with exchange rates ranging from \$1 = US\$0.72 (2015) to \$1 = US\$0.75 (2018) with a long term exchange rate of \$1 = US\$0.75.

Assumption	Explanation
Financial assurance and security deposit	Financial assurance of \$13.2 million, based on the costs and expenses that may be incurred when rehabilitating or restoring the permit areas acquired by Armour Energy, is held by the Queensland Government over the duration of the project. The Financial Model also includes a cash inflow (a refund) related to the financial assurance payment at the end of the project.
Discount rate	As set out in Appendix D.2, we have calculated a WACC for the Roma Shelf Assets within the range of 10.7% to 13.8%.

Source: Armour Energy, RISC and BDO CFQ analysis

### E.3 Valuation of the Roma Shelf Assets

Our valuation of the Roma Shelf Assets having regard for the assumptions set out in Section E.2 is in the range of \$9.9 million to \$12.0 million. For the purpose of this Report we have adopted the mid-point of the DCF valuation as the preferred for the value of the Roma Shelf Assets, being \$10.9 million.

### E.4 Sensitivity Analysis

To provide further information to Armour Energy shareholders, we have completed a sensitivity analysis on the midpoint of our DCF valuation of \$10.9 million for the Roma Shelf Assets assuming the following variables are adjusted in isolation, with all other variables held constant:

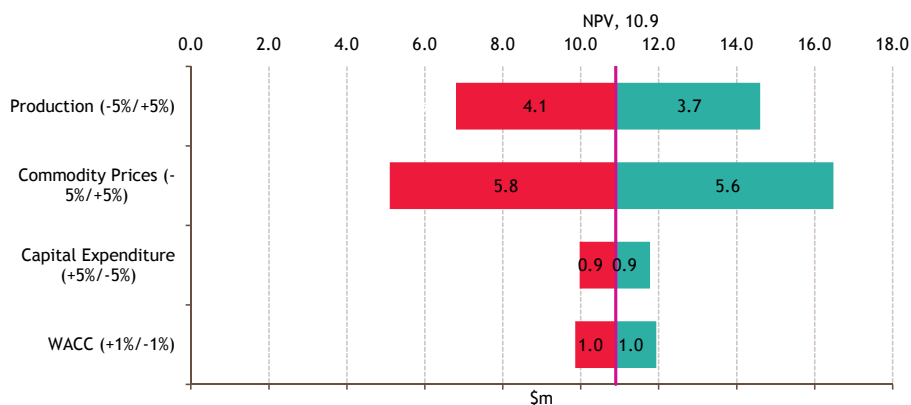
- Production forecasts
- Pricing of the oil and gas products;
- Capital Expenditure forecasts; and
- WACC.

Armour Energy shareholders should note that:

- In reality, the variables described above would have compounding or offsetting effects and are unlikely to move in isolation;
- The variables for which we have performed a sensitivity analysis are not the only variables which are subject to deviation from the forecast assumptions; and
- The sensitivities we have tested do not cover the full range of possible variances from the base case assumptions assumed (i.e. variances could be greater than the percentage increase or decrease set out in this analysis).

Figure E.1 provides an overview of the impact on the midpoint of our valuation range of \$10.9 million for the Roma Shelf Assets from a change in the selected key valuation inputs.

Figure E.1: Sensitivity Analysis on Key Assumptions for the Roma Shelf Assets (Movement in Brackets)



Source: BDO CFQ Analysis

We note the following in relation to the sensitivity analysis on the midpoint of our valuation range for the Roma Shelf Assets:

- A 5% increase / (decrease) in the pricing of the oil and gas products production results in an increase / (decrease) of \$3.7 million / (\$4.1 million) from the mid-point of our valuation range;
- A 5% increase / (decrease) in the forecast commodity prices results in an increase / (decrease) of \$5.6 million / (\$5.8 million) from the mid-point of our valuation range;
- A 5% movement in capital expenditure costs results in a movement of \$0.9 million from the mid-point of our valuation range; and
- A 1% movement in the WACC results in a movement of \$1.0 million from the mid-point of our valuation range.

#### E.5 Conclusion on the Value of the Roma Shelf Assets

Our calculation of the value of Armour Energy’s Roma Shelf Assets is set out in Table E.3 below.

Table E.3: DCF Value of the Roma Shelf Assets

	Low (\$m)	Midpoint (\$m)	High (\$m)
Value of the Roma Shelf Assets	9.9	10.9	12.0

Source: BDO CFQ analysis

Table E.3 above shows that we calculate a value for the Roma Shelf Assets within the range of \$9.9 million to \$12.0 million. We note that we have considered the relevant funding requirements in relation to the Roma Shelf Assets separately in our SOTP valuation in Section 6.2.2 of this Report.

Armour Energy shareholders should note our valuation of the Roma Shelf Assets is sensitive to the assumptions adopted in this Report, including:

- The probability of successfully achieving production from the Roma Shelf Assets as forecast;
- The probability of completing the re-commissioning of essential plant and transmission infrastructure as forecast;
- The \$/US\$ exchange rate; and





- Market and contract prices of oil and gas products to be produced from the assets.

Changes in the assumptions provided to us by RISC, Armour Energy and the other relevant assumptions adopted in this Report may lead to material changes in the value of the Roma Shelf Assets.

Appendix F The SRK Report



# Technical Assets Valuation of Armour Energy Limited



Report Prepared for



BDO Corporate Finance (QLD) Ltd



Report Prepared by



SRK Consulting (Australasia) Pty Ltd

Project Number: AEP017

October 2015

# Technical Assets Valuation of Armour Energy Ltd

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**Cover Photo:** Cover Photo: Armour Energy Egilabria-2 gas exploration well at depth of 1791 m in the main target Lawn Formation shale. Increased background gas was observed as drilling commenced into the Lawn Shale top at 1660.1 m. The Lawn Hill Formation shale intersected by the well was grey-black with high organic content.

## Executive Summary

BDO Corporate Finance (QLD) Ltd (BDO) requested that SRK Consulting (SRK) prepare an independent valuation as outlined in their engagement letter (7<sup>th</sup> September 2015) and as summarised in Chapter-1 of this report. The technical asset valuation assesses:

- 22 exploration permits, either granted or under application; and,
- 71 mineral exploration permits, either granted or under application.

SRK's Valuation of Armour Energy Limited's (**ASX: AJQ**) assets is required to provide an independent technical expert report (SRK report) to the shareholders of Armour Energy Limited in relation to the unsolicited takeover bid by Westside Corporation Limited (Proposed Transaction). In addition to our valuation, the Westside Corporation Ltd proposed transaction for Armour Energy Limited (100%), a further proposed transaction (for a portion of Armour Energy Limited), was announced to the market on 20<sup>th</sup> August 2015 with the parent company American Energy Partners and affiliate company refined on the 2<sup>nd</sup> September and executed on the 11<sup>th</sup> September subject to Armour Energy Limited shareholder acceptance.

Armour Energy Limited is an Australia focused oil exploration and development company listed on the ASX. This valuation report includes both petroleum and mineral assets held by Armour in Australia excluding the Surat Basin Permits (see **Appendix-B, Table A-1**). Two methods have been used for the Valuation of the Petroleum assets:

- Analysis of comparable transactions was used to substantiate the land value/acre, which was considered one fair market estimate. The land value/acre was held constant across the North Queensland and Northern Territory exploration permits since the exploration targets are dominantly all in similar, Proterozoic-aged rocks. Farmin transactions can represent free carries for smaller companies where a path to testing and production is envisaged by the farminee. A free carry in a well or other test work can enable discoveries to be made and production to be eventually achieved based on the value of part or all of an exploration block and farminee share of the risked potential outcome.
- A second approach used for the petroleum permits was the cost multiplier approach, to estimate petroleum exploration permits based on the 'multiples of exploration expenditure' method. This utilised expenditures available from the North Queensland and Northern Territory petroleum exploration permits. The basis of the multiples was the exploration milestone success achieved by the various block expenditures. For example, Proved hydrocarbons (Contingent Resources) based on DST tests and Pilot Production tests were attributed the highest value increase multiples as they demonstrate both discovered hydrocarbons and potential for cost analysis leading to possible economic production of the vast quantities of the Prospective Resources identified. Permits with only Prospective Resources were given a lesser value multiplier. Granted applications were given a smaller multiplier and applications were attributed only book value of the application. Often a range of Resources were contained in the same block. Existing data was not considered relevant as all permits contained greater or lesser amounts of publically available data. Some permits had large existing expenditures and even contained wells available for re-entry. Only expenditure and the increased land values derived from Armour expenditure and re-use of old data (typically G&G) were considered to have added substantial value.

Armour Energy Limited holds a large petroleum acreage portfolio involving granted exploration and permits under application. In addition, many of the exploration permits under application are classified as 'preferred tenderer'.

Contingent and Prospective Resource estimates have previously been identified on several Armour Energy Limited's assets. These provide a firm basis of the likelihood of significant recoverable petroleum being discovered within what is a very large acreage portfolio. Other Prospective Resource estimates are provided in the SRK Report. Both unconventional and conventional hydrocarbon prospectivity is considered in the SRK Report.

Prospective Resource values for petroleum can reflect the costs associated with completing each stage of exploration and the probability of progressing to each subsequent stage. These could be determined for some exploration permits but further modelling is required to enable meaningful project risking and the more detailed calculation of values. The current Prospective and Contingent Resources have therefore been valued on the basis of similar resource transactions. All comparisons are based on the most likely best estimate resource (P<sub>50</sub> or 2C numbers) and permit status.

Ripple Resources Pty Ltd is wholly owned by Armour and has significant tenement holdings in northern Australia's Northern Territory and Queensland covering a total area of 17,944 km<sup>2</sup>. These tenements include both exploration tenements that have been granted and those under application.

Two methods have been used to estimate a Valuation of the mineral exploration permits, namely the analysis of comparable transactions and the Kilburn method.

- All minerals assets are early stage exploration assets;
- The valuation range of \$2,032 – \$5,748 km<sup>2</sup> is reasonably consistent across the two methods and the preferred value is the Median value of five transactions with outliers removed; and,
- SRK's understanding is that the tenement Application areas are likely to be granted so although a discount is warranted (75% applied), the Applications account for more than 12,797 km<sup>2</sup>.

SRK's technical evaluation was carried out in accordance with the VALMIN Code, detailed below.

**"Value"** is defined in the VALMIN Code as:

*... the fair market value of a mineral or petroleum asset or security. It is the amount of money (or the cash equivalent of some other consideration) determined by the expert in accordance with the provisions of the VALMIN Code for which the mineral or petroleum asset or security should change hands on the valuation date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion.'*

Where applicable, the assessed values for each asset are based on available comparable transaction information, multiples of exploration expenditure and ratings of the main characteristics of the properties to determine the overall project value.

SRK's preferred values and value ranges for the technical valuation are presented in **Table ES-1**. The petroleum high and low are based on three recent market transactions which are considered comparable, using these transactions to calculate an \$/acre value which has been used to value the granted tenure in the Northern Territory (EP171, EP176 and EP190) and Queensland (ATP1087). Granted exploration permits (EP174, EP191 and EP192) are allocated a nil value in the Comparable Transactions on the basis that they have minimal exploration expenditure and do not have resource estimates assigned. Permits under application have also been given a nil value in the Comparable Transaction assessment.

SRK's technical valuation is based on the best estimates derived from relevant comparable transactions and escalated multiples of exploration expenditure. The expenditure has achieved proven hydrocarbons and greatly increased the prospectivity of the blocks assessed.

The Low-range valuation for the petroleum permits is considered only on the basis of Comparable Transactions using the valuation of A\$9.06/acre for petroleum permits in both Northern Territory and Queensland indicating a total valuation of A\$70.14 MM for both assets.

The upper range valuation of the Queensland and Northern Territory petroleum assets considers that, although the Queensland assets are relatively small in area, they are more advanced in terms of exploration development and have received more exploration expenditure. The multiples of exploration expenditure methodology values these permits at A\$76.19 MM, however this method does not consider the current market conditions and this valuation is significantly higher than the high range of comparable transactions valuation. SRK considers the Queensland assets preferred High-range valuation of A\$53.69 MM at a rate of A\$30.57/acre providing a market based valuation of the Queensland assets. Given the large area of prospective geology for the Northern Territory permits, the High-range valuation for these permits is considered on the basis of Comparable Transactions using a rate of A\$16.91/acre and a High-range valuation of A\$101.21 MM.

The Preferred Valuation for the Northern Territory petroleum assets is A\$69.41 MM and is derived from the multiples of exploration expenditure methodology. The Preferred Value for the Queensland assets is A\$29.70 MM considered from Comparable Transactions at a rate of A\$16.91/acre, and is further supported by the total actual exploration expenditure of A\$30.47 MM on the property. The Preferred Valuation for the Northern Territory and Queensland petroleum assets is A\$99.11 MM and is derived from the multiples of exploration expenditure and comparable transaction methodology, with a range of A\$70.14 MM to A\$154.90 MM (**Table ES-1**).

The Valuation Range of A\$4.86 MM to A\$36.59 MM for the Ripple Resources mineral exploration assets was chosen as being consistent with the range assessed using the Kilburn method and Comparable Transactions valuation methods. The range above and below the Preferred Value of A\$21.45 MM for the mineral assets is consistent with SRK's view of both the upside potential and the inherent risk in the project at this early stage of exploration.

The Preferred Valuation for both the Northern Territory and Queensland petroleum and mineral assets use the multiples of exploration expenditure and Comparable Transactions methods, which indicates a valuation of A\$120.56 MM. SRK has considered this valuation in terms of technical value to be within the range of A\$75 – A\$191 MM.

**Table ES-1: Technical assets valuation – Total for petroleum and minerals tenements assessed by SRK in our current report (exploration permits under application and Victorian exploration permits have a nil value currently)**

<b>Resources</b>	<b>Low (A\$ MM)</b>	<b>Preferred (A\$ MM)</b>	<b>High (A\$ MM)</b>
Petroleum NT	54.23	69.41	101.21
Petroleum QLD	15.91	29.70	53.69
Minerals (NT and QLD)	4.86	21.45	36.59
<b>Total (Combined)</b>	<b>75.00</b>	<b>120.56</b>	<b>191.49</b>

**On this basis SRK considers the valuation of the Armour assets we have reported is above A\$75 MM with a preferred value of A\$120.56 MM.**



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Appendix B: Exploration Permits Assessed

## Glossary of Oil and Gas Terms

%	Percent	Mdfpd	thousand barrels of fluid per day
A\$	Australian dollar	Mboepd	thousand barrels of oil equivalent per day
\$A MM	Million Australian dollars	Mbopd	thousand barrels of oil per day
bbl	barrel		
BBTU	billions of British Thermal units	Mbwpd	thousand barrels of water per day
BBTU/d	billions of British Thermal Units per day	MMbbl	million barrels of oil
Bcf	billion cubic feet of gas	Mmboe	million barrels of oil equivalent
bscf	billion standard cubic feet of gas	MMBTU	millions of British thermal units
bcpd	barrels of condensate per day	MMscf	million standard cubic feet of gas
bfpd	barrels of fluid per day	MMscfd.	million standard cubic feet of gas per day
boe	barrels of oil equivalent	MOL	an amount of a chemical substance that contains as many elementary entities (e.g. atoms, molecules) as there are atoms in 12 grams of pure carbon-12 (approx. $6 \times 10^{23}$ elementary entities of the substance)
boepd	barrels of oil equivalent per day	MW	megawatt
bopd	barrels of oil per day	NGLs	Natural Gas Liquids
Bwpd	barrels of water per day	NZP&M.	New Zealand Petroleum & Minerals, the New Zealand Government body charged with managing New Zealand's oil, gas, mineral and coal resources, refer to website <a href="http://www.nzpam.govt.nz">www.nzpam.govt.nz</a>
Capex	capital expenditure	Opex	operating expenditure
E&A	Exploration and Appraisal	Permeability	measure of the ease with which a fluid flows through a rock. The units are millidarcies or darcies
EIA	Environmental Impact Assessment	PJ	Petajoules
EPC	Engineering, Procurement and Construction	PLCR	Project Life Cover Ratio
FOA	Farm Out Agreement	POD	Plan of Development
FPSO	Floating Production Storage and Offloading vessel	Porosity.	measure of how much of a rock is open space. This space can be between grains or within cracks or cavities of the rock. Measured in %.
FSO	Floating Storage and Offloading vessel	PSC	Production Sharing Contract
FTP	First Tranche Petroleum	STOIP	Stock Tank Oil Initially In Place
G&A	General and Administrative	Tapis	Malaysian crude used for benchmark

			pricing in Singapore
G&G	Geology and Geophysics	Tcf	trillion standard cubic feet of gas
GBP	British Pound, the lawful currency of the United Kingdom	US\$.	United States Dollar, the lawful currency of the United States of America
GSA	Gas Sales Agreement	VMS	Volcanogenic massive sulphides
ISPC	Incremental Production Sharing Agreement	WHP	Wellhead Platform
JOA	Joint Operating Agreement	WI	Working Interest
JOB	Joint Operating Body	WTI	West Texas Intermediate used for benchmark pricing in North America
km	Kilometre		
L/t	Litres/tonne		
LLCR	Loan Life Cover Ratio		
M	metre		
MM	Million		
Mbcpd	thousand barrels of condensate per day		
mD	millidarcy		

## Disclaimer

This report is based on data and materials provided by Armour and by public domain research carried out by SRK. The information provided by Armour consisted of background information, copies of licenses and applications plus maps and reports.

The opinions expressed in this Report have been based on the information supplied to SRK by Armour. The opinions in this Report are provided in response to a specific request from Armour to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this Report refer to conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK had no prior knowledge nor had the opportunity to evaluate.

## Warranties and Indemnities

Armour has warranted to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

As recommended by the VALMIN Code, Armour has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required which:

- Results from SRK's reliance on information provided by Armour or to Armour not providing material information; or,
- Relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

## Consent

SRK consents to this Report being used by BDO, in the form and context in which the technical assessment is provided, and not for any other purpose. SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report.

## PRMS Definitions and Guidelines – Summary

(Further details are provided in **Appendix A**)

**CONTINGENT RESOURCES** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

**UNRECOVERABLE** is that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur, the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

PRMS Guidelines 2011 state: Contingent Resources may be assigned for projects that are dependent on “technology under development.” It is recommended that the following guidelines are considered to distinguish these from quantities that should be classified as Unrecoverable:

- 1 The technology has been demonstrated to be commercially viable in analogous reservoirs. Discovered recoverable quantities may be classified as Contingent Resources.
- 2 The technology has been demonstrated to be commercially viable in other reservoirs that are not analogous, and a pilot project will be necessary to demonstrate commerciality for this reservoir. If a pilot project is planned and budgeted, discovered recoverable quantities from the full project may be classified as Contingent Resources. If no pilot project is currently planned, all quantities should be classified as Unrecoverable.
- 3 The technology has not been demonstrated to be commercially viable but is currently under active development, and there is sufficient direct evidence (e.g. from a test project) to indicate that it may reasonably be expected to be available for commercial application within 5 years. Discovered Recoverable quantities from the full project may be classified as Contingent Resources.
- 4 The technology has not been demonstrated to be commercially viable and is not currently under active development, and/or there is not yet any direct evidence to indicate that it may reasonably be expected to be available for commercial application within five years. All quantities should be classified as Unrecoverable.

Definition of Prospective Resources, P<sub>90</sub>, P<sub>10</sub>, P<sub>50</sub>.

While there may be a significant risk that sub-commercial or undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable volumes independently of such a risk.



**Prospective Resources** are those quantities of petroleum which are estimated to be potentially recoverable from undiscovered accumulations. These estimates are derived from volumetric estimates for the reservoir size, estimates of the reservoir characteristics (porosity, permeability, oil saturation). The basis of these estimates would be available geological and geophysical data, and the data from any existing wells in the given area. Any estimation of resource quantities for an accumulation is subject to both technical and commercial uncertainties and consequently there will be a range of estimates which in general will be substantially greater for undiscovered accumulations than for discovered accumulations. In all cases, however, the actual range will be dependent on the amount and quality of data (both technical and commercial) which is available for that accumulation. As more data become available for a specific accumulation (for example wells and reservoir performance data) the range of uncertainty would be reduced. Probabilistic methods are normally used to quantify the uncertainty in these estimated quantities and the results of the analysis are typically presented by stating resource quantities at the following levels of confidence:

- **P<sub>90</sub> resource** reflects a volume estimate that, assuming the accumulation is developed, there is a 90% probability that the quantities actually recovered will equal or exceed the estimate. This is therefore a low estimate of resource.
- **P<sub>50</sub> resource** reflects a volume estimate that, assuming the accumulation is developed, there is a 50% probability that the quantities actually recovered will equal or exceed the estimate. This is therefore a median estimate of resource.
- **P<sub>10</sub> resource** reflects a volume estimate that, assuming the accumulation is developed, there is a 10% probability that the quantities actually recovered will equal or exceed the estimate. This is therefore a high estimate of resource.

## Statement of Competency

### Dr Bruce Alan McConachie

Dr Bruce Alan McConachie is a geologist with extensive experience in economic resource evaluation and exploration. His career spans over 30 years and includes production, development and exploration experience in petroleum, coal, bauxite and various industrial minerals.

#### Work history includes:

- **Comalco: 15 years (Rio Tinto-Alcan)** - Chemist, Mine Geologist, Planning Engineer, Senior Geologist and Team Leader (Petroleum Group)
- **Australian Geological Survey Organisation / Bureau of Mineral Resources:** 2½ years (Geoscience Australia) - Senior Research Scientist (Petroleum Systems Petrel Sub-basin Project)
- **Santos:** 7 years - Senior Geologist, Team Leader and Chief Geologist – Indonesia
- **BHP Billiton:** 2½ years - Global Bauxite Commodity Specialist and Manager Bulk Commodities
- **SRK Consulting:** 7 years – Principal Consultant (Manager Petroleum Group)

#### Experience:

Extensive relevant experience covering petroleum exploration programs, joint venture management, farm-in and farm-out deals, onshore and offshore operations, field evaluation and development, oil and gas production and economic assessment, and relevant experience assessing petroleum resources under the PRMS code and mineral commodities under the JORC code.

#### Industry Group Memberships:

- The Australasian Institute of Mining and Metallurgy (AusIMM) – 30 Years
- American Association of Petroleum Geologists (AAPG) – 15 Years
- Petroleum Exploration Society Australia (PESA) and
- Society of Petroleum Engineers (SPE).

#### Qualifications:

- Graduate degrees in geology and analytical chemistry
- Master of Applied Science by research and thesis on the coal geology of the Bowen Basin, Queensland
- Doctor of Philosophy by dissertation on foreland and fold belt basin analysis to characterise petroleum and mineral systems and deposits

**I am a fulltime employee of SRK Consulting and am an experienced petroleum reserves and resources estimator with over 15 years relevant experience. I have adhered to the ASX Listing Rules Guidance Note 32. My qualifications and experience meet the requirements to act as a Competent Person to report petroleum reserves under PRMS (2007) and value assets under the Valmin Code of the AusIMM.**

**The data and interpretations presented in this document accurately reflect my view of Armour Energy Ltd's assets that are the subject of the report.**



**Dr Bruce Alan McConachie**

## Statement of Competency

### Matthew Greentree, PhD (Geology), MAIG, MGSA – Principal Consultant

Matthew Greentree is a geologist with over 16 years of experience in mineral exploration geology, and has international experience working on various deposit styles, including lode gold, IOCG, sediment-hosted Cu-Co and base metal deposits, magmatic nickel, and BIF-hosted iron ores.

#### Work history includes:

- **SRK Consulting:** 9 years – Principal Consultant Project Evaluations and Co-ordinator for Perth Geology Group, Perth, Western Australia
- **Anglo American Exploration:** 3 years – Exploration Geologist, Perth, Western Australia
- **Sons of Gwalia:** 3 years – Geologist, North Eastern Goldfields, Western Australia
- **CSIRO Petroleum Resources:** 1 year – Laboratory Assistant (Part time), North Ryde, Australia

#### Experience:

Industry experience includes his role as a gold exploration geologist for Sons of Gwalia, and various grass-roots and advanced nickel exploration projects in China and Central Australia, whilst in the employ of Anglo American Exploration. Matthew's consultancy expertise is in exploration targeting, technical evaluations of minerals projects, independent public reporting (JORC and NI43-101) and the valuation of mineral assets.

#### Industry Group Membership:

- Member - Australian Institute of Geoscientists

#### Qualifications:

- PhD, University of Western Australia, 2007
- BSc 1<sup>st</sup> Class Hons (Geology), Macquarie University, 1998

**I am a fulltime employee of SRK Consulting with over 15 years relevant minerals industry experience. My qualifications and experience meet the requirements to conduct mineral asset valuations under VALMIN (2005)**



**Dr Matthew Greentree**

# 1 Introduction and Scope of Report

SRK Consulting was engaged by BDO Corporate Finance (QLD) Ltd (Herein BDO) to produce the following Independent Technical Valuation report of certain assets of Armour Energy Limited (defined as the oil and gas and mineral assets of Armour Energy Limited in the Northern Territory, Queensland and Victoria excluding the Company's acquisition of the Roma Shelf Assets and the Company's investment in the shares of Lakes Oil N.L. as follows:

1. We were requested to provide a report to BDO on the current fair market value of each of the Assets ('the SRK Report'). In particular, BDO have requested us to state in our report the value that each of the Assets would change hands for as at the date of BDO's Independent Expert's Report in an open and unrestricted market between a willing buyer and a willing seller in an 'arm's length' transaction, with each party acting knowledgeably, prudently and without compulsion.
2. We were requested to provide BDO with the following:
  - A report with a detailed valuation of the Assets;
  - A statement of compliance in the SRK Report that the valuations are prepared in accordance with the PRMS or VALMIN code as applicable to the Assets;
  - Information on all key assumptions underpinning our valuation;
  - A statement in the SRK Report that the valuations of the Assets represent SRK's estimate of a fair market value for the Assets including a definition of fair market value; and,
  - Our consent to allow BDO to refer to and rely on the SRK Report to assist BDO to determine the current fair market value of the Assets for the purposes of their Report.

Armour Energy Limited (**ASX: AJQ**) is an Australian oil exploration and development-focused company listed on the ASX with a strategy to build a sustainable mid-tier oil and gas business by acquisition and organic growth. For the purpose of this report, American Energy Partners will be abbreviated to '**AEP**', AEGP Australia Pty Ltd to '**AEGP**', Armour Energy Limited to '**Armour**', BDO Corporate Finance Qld Ltd to '**BDO**', Ripple Resources Pty Ltd to '**Ripple Resources**' and SRK Consulting (Australasia) Pty Ltd to **SRK**.

## 1.1 Armour Market Capitalisation

The full Armour market capital value (304 MM shares at 12c per share) was A\$38 MM on 28<sup>th</sup> September 2015.

## 1.2 Oil Price Variations and Forecast

The crude oil price based on West Texas Intermediate pricing (WTI) is shown in **Figure 1-1**. The A\$ to US\$ conversion has also changed significantly from its high in 2013 to its low present-day (**Figure 1-2**). SRK valuations are expressed in Australian dollars (A\$) and the WTI oil price in A\$ is shown in **Figure 1-3**. SRK notes that Tapis pricing is more applicable to Australian oil values.

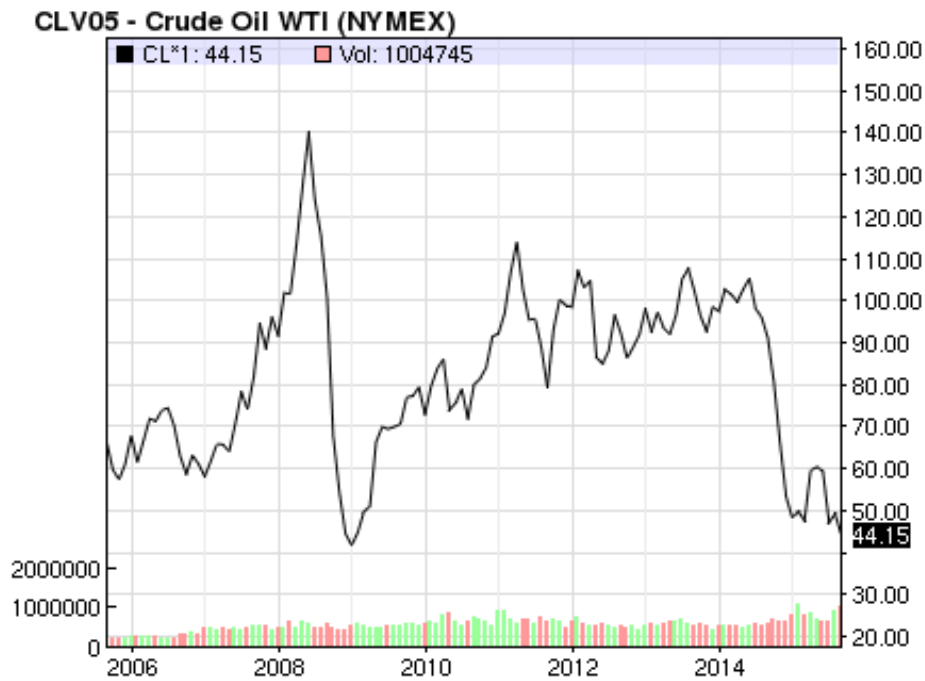


Figure 1-1: West Texas intermediate oil price (WTI, US\$) – 2006 to present

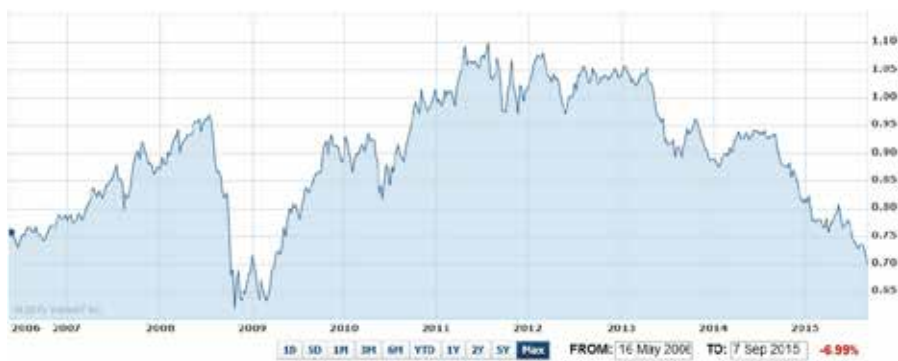


Figure 1-2: Comparison of the Australian (A\$) and American dollars (US\$) – 2006 to present



Figure 1-3: West Texas Intermediate oil price (WTI, A\$) – 2006 to present

The lower Australian dollar and the conversion to Tapis pricing (about 10–20% higher than WTI) are significant factors for Australian-related pricing of oil-based assets; however, this consideration is captured in the available valuations.

Based on the global oil supply and the likelihood of increased global unconventional oil and gas supplies meeting any expanded demand, SRK produced the following oil price forecast in January 2015. This prediction models WTI oil prices recovering to around US\$75 by about 2019 and remaining stable thereafter for the likely foreseeable future with unconventional production ramping up as prices increase (Figure 1-4). In this report, SRK has used a price of US\$51.28 for the 3-month average (Jun. to Aug 2015), Crude Oil (petroleum), West Texas Intermediate 40 API, Midland Texas Source IM (Source IMF).

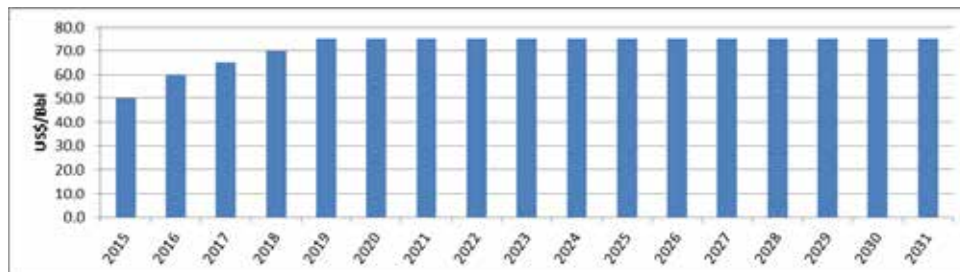


Figure 1-4: SRK modelled oil price forecast as at January 2015

### 1.3 Metal Price and Forecast

The long term metal price variations for lead, zinc, silver and copper are shown in **Figure 1-5**. Forecasted prices are thought to be fairly stable at current levels (i.e. ~ 1 US\$/lb – zinc and lead; 15 US\$/oz – silver; US\$/lb 2.5 – copper). Silver may be somewhat harder to predict due to the recent downward trend.

(a)



(b)



(c)



(d)

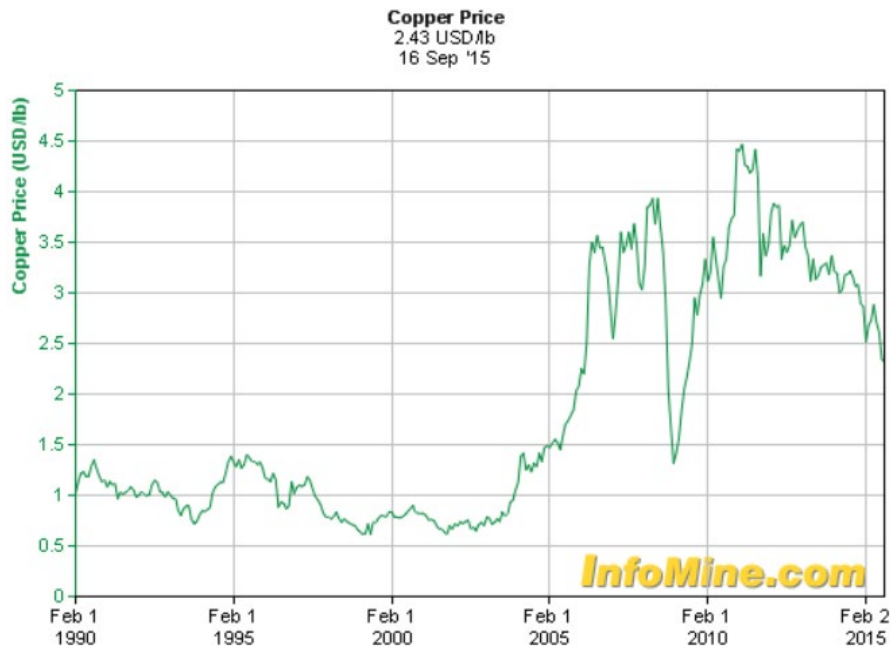


Figure 1-5: Commodity price variation for (a) Lead, (b) Zinc, (c) Silver and (d) copper (in US\$)



## 2 The VALMIN Code

### 2.1 Definitions

“Value” is defined in the VALMIN Code as:

*... the fair market value of a mineral or petroleum asset or security. It is the amount of money (or the cash equivalent of some other consideration) determined by the expert in accordance with the provisions of the VALMIN Code for which the mineral or petroleum asset or security should change hands on the valuation date in an open and unrestricted market between a willing buyer and a willing seller in an “arm’s length” transaction, with each party acting knowledgeably, prudently and without compulsion.’*

All exploration projects can be classified according to the Development Stage Categories as defined by The VALMIN Committee (2005).

- **Exploration Areas** – properties where mineralisation may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified.
- **Advanced Exploration Areas** – properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the resource category.
- **Pre-Development Projects** – properties where Mineral or Petroleum Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral or Petroleum Resources have been identified, even if no further Valuation, Technical Assessment, delineation or advanced exploration is being undertaken.
- **Development Property:** properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels.
- **Operating Mines:** mineral properties, particularly mines and processing plants that have been commissioned and are in production.

While the VALMIN Code 2005 states that decisions as to which valuation methodology is used are the responsibility of the Expert or Specialist, where possible, SRK considers several methods. One aim of the VALMIN code is to compare the results achieved using different methods to select a preferred value within a valuation range. This reflects the uncertainty in the data and interaction of the various assumptions inherent in the valuation. An overview of a number of methods traditionally used to value such early stage Exploration Areas are:

- Comparable Market Transactions (Resource and area-based); and,
- Multiples of exploration expenditure.

## 2.2 Valuation Approaches

The three generally accepted Valuation approaches, as listed and defined in the CIMVAL Code (2003) are:

- Income Approach;
- Market Approach; and,
- Cost Approach.

The Income Approach is based on the principle of anticipation of benefits and includes all methods that are based on the income or cash flow generation potential of the Mineral Property (CIMVAL, 2003). Valuation methods that follow this approach include Discounted Cash flow (DCF) modelling, Monte Carlo Analysis, Option Pricing and Probabilistic methods. The Geological Risk Method also falls within this category.

The *Market Approach* is based primarily on the principle of substitution and is also called the Sales Comparison Approach. The Mineral Property being valued is compared with the transaction value of similar Mineral Properties, transacted in an open market (CIMVAL, 2003). Methods include comparable transactions, MTR and option or farm-in agreement terms analysis.

The *Cost Approach* is based on the principle of contribution to value (CIMVAL, 2003). Methods include the appraised value method and multiples of exploration expenditure, where expenditures are analysed for their contribution to the exploration potential of the Mineral Property. Geoscience ratings methods are also considered to fall within this category, as the state of knowledge of an area is often a factor of the effort expended on exploration.

The applicability of the various valuation approaches and methods vary depending on the stage of exploration or development of the property, and hence the amount and quality of the information available on the mineral potential of the property. **Table 2-1** presents CIMVAL's view on the applicability of the various valuation approaches for the valuation of mineral properties at the various stages of exploration and development.

**Table 2-1: Suggested asset valuation approaches for different types of mineral properties (CIMVAL)**

Valuation approach	Exploration properties	Mineral Resource properties	Development properties	Production properties
Income	No	In some cases	Yes	Yes
Market	Yes	Yes	Yes	Yes
Cost	Yes	In some cases	No	No

Source: (CIMVAL Code, 2003)

The Market approach to valuation is generally accepted as the most suitable approach for valuation of an Exploration Property, a Mineral Resource Property or a Pre-Development Project.

The use of income-based methods, such as DCF modelling, is generally preferred in situations where Mineral Reserves, supported by suitably detailed mining studies, have been declared.

In general these methods are accepted analytical valuation approaches that are in common use for determining Fair Market Value (defined below) of mineral assets, using market derived data.

The “**Fair Market Value**” is defined in the VALMIN Code 2005 as, in respect of a petroleum or mineral asset, the amount of money (or the cash equivalent of some other consideration) determined by the relevant expert in accordance with the provisions of the VALMIN Code 2005 for which the mineral asset should change hands on the relevant date in an open and unrestricted market between a willing buyer and a willing seller in an ‘arm’s length’ transaction, with each party acting knowledgeably, prudently and without compulsion. The Fair Market Value is usually comprised of two components, the underlying Technical Value (defined below) of the mineral asset, and a premium or discount related to market, strategic or other considerations.

The “**Technical Value**” is defined in the VALMIN Code 2005 as an assessment of a petroleum or mineral asset’s future net economic benefit at the valuation date under a set of assumptions deemed most appropriate by a relevant expert or specialist, excluding any premium or discount to account for such factors as market or strategic considerations.

Valuation methods are, in general, subsets of valuation approaches and for example the Income Based Approach comprises several methods. Furthermore, some methods can be considered to be primary methods for valuation while others are secondary methods or rules of thumb considered suitable only to benchmark valuations completed using primary methods.

In summary, however, the various recognised valuation methods are designed to provide an estimate of the mineral asset or property value in each of the various categories of development. In some instances, a particular mineral asset or property or project may comprise assets which logically fall under more than one of the previously discussed development categories.

### 3 Petroleum Exploration

Armour has petroleum assets in North Queensland, Northern Territory and Victoria – assets are described by State and Territory, accordingly. Armour's petroleum assets in Central Queensland (i.e. Surat Basin acreage, in the process of being purchased from Origin Energy) are not being valued in our report.

Much of the geology of the Northern Territory is best reviewed and gleaned from the most recent NTGS publication (Munson, 2014). Much of the geological information contained within Munson (2014) underpins much of the technical asset valuations contained hereunder – the geology will not be paraphrased in sections following.

The areas for the petroleum and mineral exploration permits have been calculated in GIS using the geocentric datum GDA94 as the reference. Minor differences in the exploration permit areas as estimated between different stakeholders will occur although considered small in relation to the total asset value. For example, the area of EP171 as estimated from SRK is 853,276 acres whereas the acreage quoted in the AEGP farmin document is 839,170, a difference of 1.7%. Such differences are small relative to the overall final technical asset valuation.

#### 3.1 North Queensland

##### 3.1.1 Exploration Permits

UTM Global Pty Ltd have conducted a search for petroleum permits held by Armour in the State of Queensland. Petroleum permits (authority to explore or ATP) – permits are tabulated in **Table 3-1**.

**Table 3-1: Petroleum permits held by Armour – State of Queensland (A – under application)**

Permit	Grant date	Application date	Expiry date	First term of tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)
ATP1087	19/12/2012	NA	18/12/2018	6	7,107	1,756,169.8	100
ATP1107(A)	NA	30/05/2012	NA	4	7,908.7	1,954,280.1	NA
ATP1192(A)	NA	1/10/2014	NA	4	2,592.5	640,612.3	NA
ATP1193(A)	NA	1/10/2014	NA	4	2,827.1	698,586.2	NA

##### 3.1.2 Prospectivity and Geology

Armour's Independent Experts (SRK) have assessed 22.1 Tcf of combined best estimate prospective recoverable resources in the Lawn Hill and Riverslea Shale of ATP1087. Additional gas prospectivity has now also been identified by Armour in the underlying Riversleigh Shale that extends across the entire tenement. Following drilling, mapping and gas estimations were able to much better define the hydrocarbon resources contained in ATP1087.

The following points summarise key geological highlights for petroleum exploration permits in North Queensland and held by Armour. The company's petroleum exploration permits have:

- Strong gas shows
- A deep basin extending into Armour's Northern Territory exploration permits
- A depocentre filled with organic rich Proterozoic aged sediments, gas and oil mature
- An extensive seismic dataset, much of it being reprocessed

- An extensive prospect and lead inventory
- Four existing wells with very strong gas shows with up to 8% porosity, two wells with a multi-stage fracture stimulation
- High total organic content
- Further source rock, gas composition and stress field analysis
- Multi-stage fracking that extracted hydrocarbons.

Exploration permits being reviewed cover approximately 3.6 MM acres and encompass the South Nicholson Basin and underlying Isa Superbasin, which extends westward into the Company's Northern Territory applications.

The main targets are the Lawn Hill and Riversleigh Shale within these exploration permits contains a thick, organic-rich source rock section showing up to 8% gas recorded in mud logs during the drilling of four petroleum exploration wells by Comalco in the early 1990s. The wells in conjunction with substantial seismic data delineate an immediate Lawn Hill Shale exploration target area of approximately 1,500 km<sup>2</sup> within ATP1087. The Riversleigh Shale Formation is approximately 500 m to 1000 m deeper than the overlying Lawn Hill Shale Formation and offers the opportunity for stacked resource play development across an area of 4,200 km<sup>2</sup> in ATP1087.

The gas resources have been further confined by the exploration drilling undertaken by Armour. The drilling programme also demonstrated the existence of a Riversleigh Shale Gas Play, significantly increasing the amount of gas identified in the Basin.

There is potential for a stratigraphic pinch-out play around paleo-highs within porous and permeable sandstone reservoirs in the basal Mesozoic section. These sands may be charged by gas and/or oil sourced from the target Proterozoic shales. Overlying Carpentaria Basin shales are expected to provide a competent and extensive top seal, and the pinch-out edge against the Proterozoic paleo-highs are expected to provide a lateral seal.

The following figures show a permit location map (**Figure 3-1**) and stratigraphic cross-section with key wells (**Figure 3-2**) and representative seismic section (**Figure 3-3**).

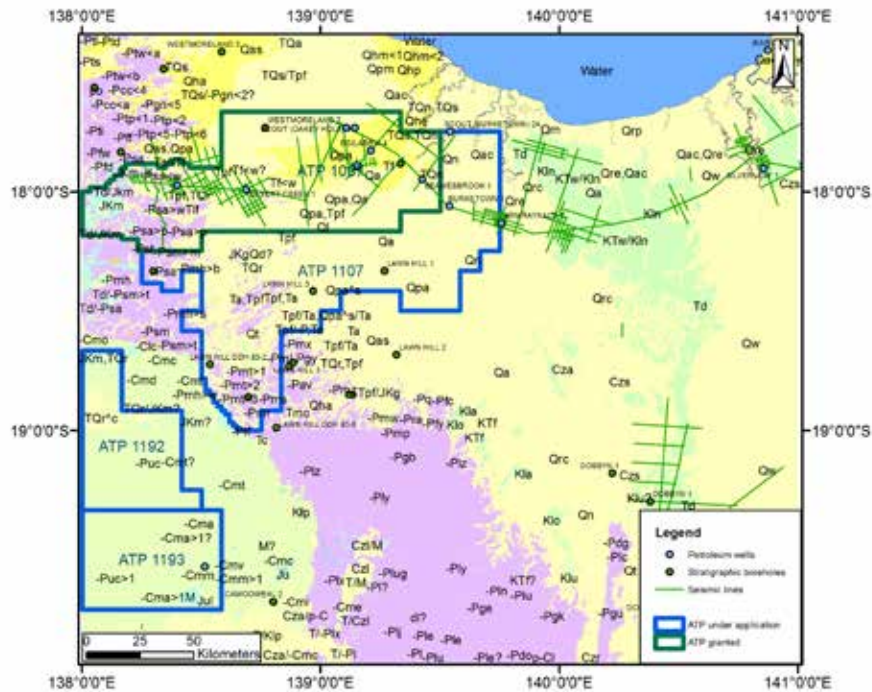
Three oil and gas wells exist in ATP1107(A), which covers 1.95 MM acres and is pending grant, and lies adjacent and south of ATP1087. Exploration permits ATP1107(A), 1192(A), 1193(A) are similar to ATP1087 geology, where fracking has successfully extracted hydrocarbons from both the Lawn and Riversleigh Shales which extend into these application areas.

Exploration permit ATP1087 has Contingent Resources booked for gas in the Lawn Shale Formation, as determined from Egilabria-2 DW1 (i.e. 364 Bcf (3C); 154 Bcf (2C); 33 Bcf (1C); SRK Consulting, July 2014). Egilabria-2 DW1 well flow back recovery and testing operations were carried out, and the formation is believed by Armour to be part of the most promising shale gas play in Australia to-date. An ongoing analysis of the Lawn and Riversleigh shales shows world class Total Organic Content (TOC). A Memoranda of Understanding (MOU) has been signed for gas supply to both MMG Century's operations and Aeon Metal's Walford Creek project in Northwest Queensland.

Gas samples taken from the separator during the flow-back of Egilabria-2 lateral were fully analysed and show a very high methane content (90%), ethane (0.5%) and very little CO<sub>2</sub> (2%), helium (1%) and other inert gases (6.5%). This low CO<sub>2</sub> content is considered very positive as it alleviates any requirements for major gas processing facilities during the development phase, including CO<sub>2</sub> sequestration facilities.

During air drilling operations at Egilabria-2 and Egilabria-4, several pressure sealed canisters were filled with Lawn and Riversleigh cuttings as an exercise to understand if the shales would desorb gas. After several days, the canisters were reported to have a range of pressure values as high as 100psi. The canistered gas samples were taken from the high TOC intervals in the Lawn and Riversleigh shales.

During sidewall coring operations at Egilabria-4, three sidewall cores were canistered and gas samples from those underwent isotopic analysis. The results of which strongly suggest that the gas is thermogenic in origin. This provides evidence that the gas is derived through burial and heating of the original organic material that is now the rich TOC found in these shales.



**Figure 3-1: Location map – Armour’s petroleum exploration permits, granted (ATP1087), under application (ATP1107(A), ATP1192(A) and ATP1193(A))**

Source: SRK, GDA94)

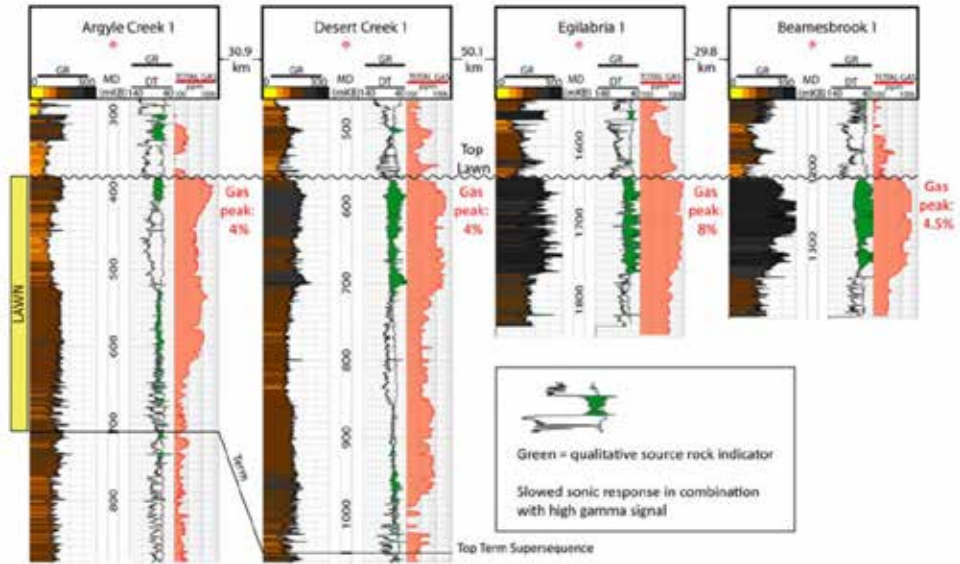


Figure 3-2: Stratigraphic cross-section across ATP1087 – The Lawn Hill Fm (SRK, 2015 (AEP009))

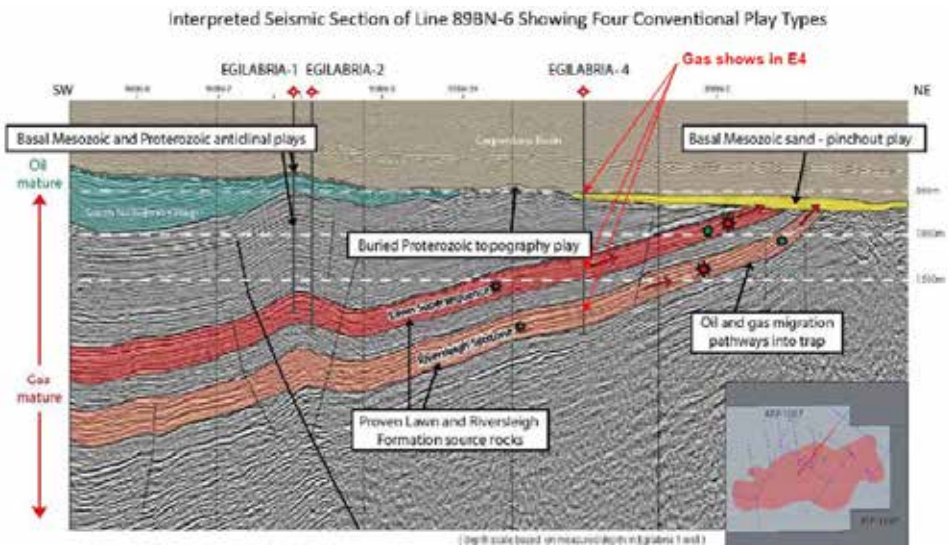


Figure 3-3: Seismic cross-section across ATP1087 – Lawn Hill Fm, Riversleigh Siltstone Fm and oil and gas plays

## 3.2 Northern Territory

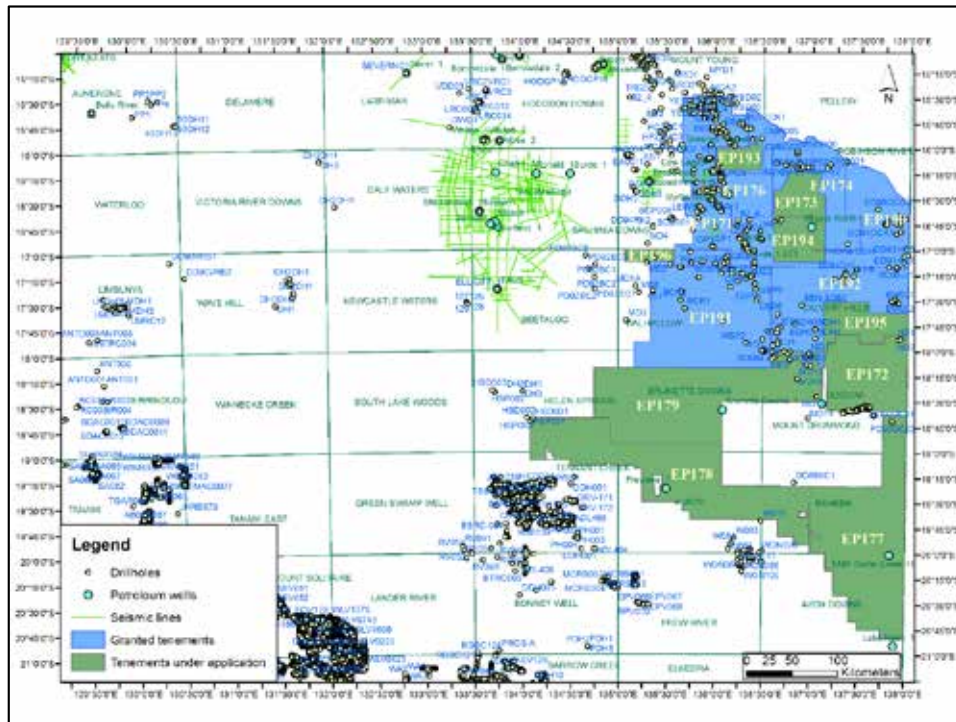
### 3.2.1 Exploration Permits

Australian Mining and Exploration Title Services (AMETS) have conducted a search for petroleum exploration permits held by Armour. Petroleum exploration permits – those permits are tabulated in **Table 3-2**. Their location is shown in **Figure 3-4**.

**Table 3-2: Petroleum permits held by Armour – Northern Territory (A – under application)**

Permit	Grant date	Application date	Expiry date	First term of tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)
EP171	29/06/2011	NA	28/06/2016	5	3,453.1	853,276	100
EP172(A)	NA	19/12/2009	NA	5	7,091.4	1,752,314	NA
EP173(A)	NA	19/12/2009	NA	5	2,903.4	717,455	NA
EP174	11/12/2012	NA	10/12/2017	5	4,319.5	1,067,374	100
EP176	29/06/2011	NA	28/06/2016	5	8,007.4	1,978,667	100
EP177(A)	NA	6/04/2010	NA	5	15,899.3	3,928,796	NA
EP178(A)	NA	8/04/2010	NA	5	15,609.6	3,857,208	NA
EP179(A)	NA	8/04/2010	NA	5	16,033.8	3,962,027	NA
EP190	11/12/2012	NA	10/12/2017	5	12,760.6	3,153,221	100
EP191	03/10/2013	NA	02/10/2018	5	15,163.8	3,747,062	100
EP192	03/10/2013	NA	02/10/2018	5	9,454.5	2,336,268	100
EP193(A)	NA	13/08/2010	NA	5	1,348.4	333,199	NA
EP194(A)	NA	13/08/2010	NA	5	2,330.6	575,904	NA
EP195(A)	NA	13/08/2010	NA	5	3,296.1	814,478	NA
EP196(A)	NA	13/08/2010	NA	5	735.2	181,670	NA





**Figure 3-4: Location map – Armour petroleum exploration permits, Northern Territory**

(Source: SRK, GDA94)

### 3.2.2 Prospectivity and Geology

Armour's total combined unconventional, Best Estimate Prospective Recoverable Gas Resources in Northern Territory is 30 Tscf, as of September 2015 (refer **Section 3.5**). The Wollogorang and McDermott of the Tawallah Group and the Barney Creek of the McArthur Group are the unconventional reservoirs currently targeted in addition to, 193 conventional leads and prospects targeting 4.9 Tscf of Best Estimate Prospective Recoverable Gas Resources from the Coxco, Reward and Lynott Formations of the MacArthur Group and a host of conventional reservoirs in the Tawallah Group, including the Masterton Sandstone, Wununmantyala Sandstone, Rosie Creek Sandstone, Sly Creek Sandstone. Armour has reported oil and gas discoveries in the Cow Lagoon-1, Glyde-1 & Glyde-1 ST1, Lamont Pass-3, Myrtle Basin-1 from the McArthur Group and abandoned the Kilgour North-1 due to water handling issues. The Armour Glyde-1 discovery well flowed 3.3 MMscfd from the Coxco Hydrothermal Dolomite of the McArthur Group, EP171, in 2012. This discovery booked 10.1 Bscf of Contingent Resources in an estimated 5.9 km<sup>2</sup> closure. The mapped McArthur Group closures range in size from 119 km<sup>2</sup> to less than 1.0 km<sup>2</sup> and an average depth of 1200 m. The Tawallah Group closures range in size from 97 km<sup>2</sup> to less than 1.0 km<sup>2</sup> and are currently estimated to be 1,000 m to 1,500 m deeper than the overlying McArthur Group.

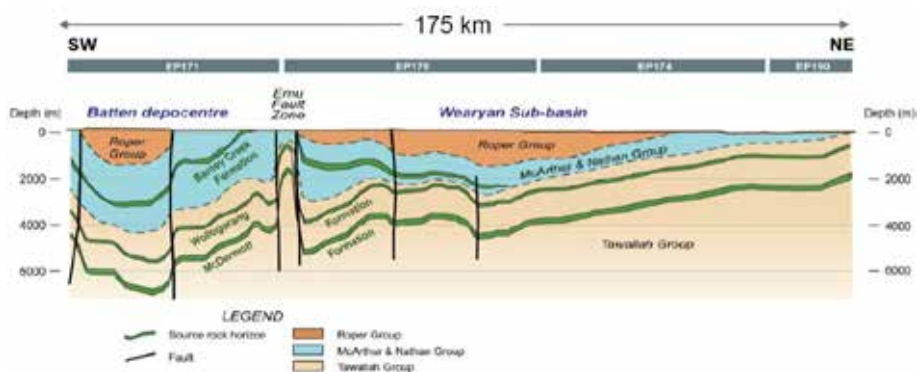
The permeability in the Coxco Dolomite is believed to be formed by structural brecciation and fracturing along the Emu and Tawallah Faults, together with talus or scree breccias occurring adjacent to faults and areas of solution brecciation in contact with the organic rich shale source rock of the Middle Proterozoic Barney Creek Formation.

The geology of the Coxco targets has been defined by surface mapping and preliminary data from extensive airborne gravity and magnetic surveys recently completed by the Company over the Glyde and Myrtle Sub Basin regions. Additional targets are likely to be defined following completion of the Fugro interpretation of this gravity, magnetic and geological data and integration with other ongoing and parallel structural studies. These interpretations will provide additional drilling targets and high-grade areas to strategically locate further 2D seismic and magnetotelluric surveys.

The geology of the conventional targets of the McArthur and Tawallah Groups' (**Figure 3-5**) have been defined by the review of historical and new well penetrations with live-oil and gas shows, geochemical source rock analysis and porosity/permeability laboratory analysis of core and cuttings carried out by Weatherford Laboratories Australia & USA; FEG-SEM thin section analysis; 2D seismic, airborne geophysical survey interpretation and updated FROGTECH (2015) SEEBASETM integrated mapping study commissioned by Armour to generate subsurface structural grids and closures; petrophysical analysis of available logs; stratigraphic review of published cross-sections; Hylogging, electric log & chemostratigraphic correlation; a CSIRO Study commissioned by Armour on the generative potential of the source rock units; gas composition analysis; literature review and Armour sponsored studies with the University of Queensland (UQ) and Australian School of Petroleum (ASP).

The Tallawah Group source rock play is newly recognised, and could potentially add very significant oil and gas resources to Armour's portfolio, beyond those previously identified by the Company. A recent CSIRO study commissioned by Armour has confirmed oil and gas generative potential in two Tawallah Group shale horizons: the Woollogorang and McDermott formations. Core from a number of historic mineral wells, drilled within Armour's permit areas, were sampled and analysed. The results from this analysis have shown that these formations contain good source rock in the oil to wet gas generative window, based on TOC measurements (up to 7.7%) and organic geochemical markers. Another phase of sampling and analysis is underway, which is expected to increase the understanding of these prospective horizons, and inform future exploration activities to appraise the potential.

The Tawallah Group source rocks are believed to underlie the McArthur Group (which includes the Barney Creek Shale) throughout EP176, extending east to the Queensland border and south across EP191. The extent of this newly recognised exploration play within Armour's permits is currently of the order of 52,000 km<sup>2</sup>.



**Figure 3-5: Generic-based structural cross-section – Pertinent geology across EP171, EP174, EP176 and EP190**

### 3.4 Victoria

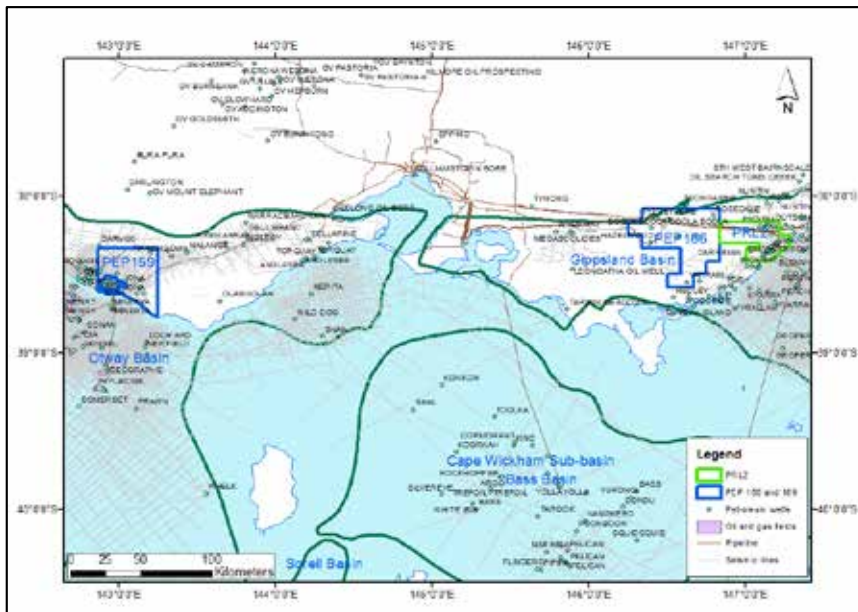
#### 3.4.1 Exploration Permits

Armour has a part percentage interest in two permits (**Table 3-3**). PRL2 is subject to farmin negotiations and has been taken in this report to hold some value to Armour. Armour has the option to acquire 15% interest subject to completing certain exploration expenditure (Lakes Oil N.L., 2015). PEP169 is held by Mirboo Ridge Pty Ltd, PEP166 and PRL2 by Lakes Oil N.L. Exploration permits are shown in **Figure 3-6**.

There is presently a State parliamentary enquiry into onshore unconventional gas – onshore exploration is presently in Moratorium; thereby, impacting on the valuation of exploration permits as a result of perceived risk to exploration.

**Table 3-3: Petroleum permits held by Armour – State of Victoria**

Permit	Grant date	Application date	Expiry date	First term tenure (year)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)
PEP166	3/1/2003	NA	2/10/2016	4	1,752.2	432,968.8	25
PEP169	25/6/2007	NA	24/10/2015	4	1,135	280,466.2	51
PRL2	27/2/2007	NA	26/2/2019	4	747	184,588.2	15



**Figure 3-6: Location map – Armour petroleum exploration permits, Victoria**

(Source: SRK, GDA94)

### 3.4.2 Victoria – Prospectivity and Geology

Armour and Lakes Oil N.L. are targeting oil and gas in the onshore sections of the Gippsland Basin, predominantly in the Strzelecki Group and the Rintoul Creek Sandstone. Armour and Lakes Oil N.L. believe the bulk of the Gippsland Basin's oil and gas reserves, which form the basis for BHP and Esso's massive offshore production activities, are at least partially derived from the Rintoul Creek Sandstone and that the latter offers significant onshore oil potential to Lakes Oil N.L. and Armour.

The sands and shales of the Strzelecki Group are highly prospective in Lakes Oil N.L. exploration permits. Initial flows in the Wombat Field reached up to 4.5 MMcfpd from the Strzelecki Group. Live oil flowed from a natural fracture in Wombat-3 believed to be sourced from the Rintoul Creek Sandstone and/or from a deep source.

### 3.5 Petroleum Resources – Queensland and Northern Territory

Prospective and Contingent Resources have been estimated in Queensland and the Northern Territory – these are tabulated in **Table 3-4** and **Figure 3-5**, respectively.

**Table 3-4: Estimated Prospective Recoverable Resources – Northern Territory and Queensland**

Area	Accessor Report	Reservoir Type/Name	Estimated Recoverable Gas Resource (Bscf)			Estimated recoverable liquid resource (MMstb)		
			Low	Best	High	Low	Best	High
NT	SRK <sup>(5)</sup>	Conventional Closures Wologorang	61	647	6,893	0	0	0
NT	SRK <sup>(5)</sup>	Conventional Closures McDermott	149	1,548	16,557	0	0	0
NT	SRK <sup>(3)</sup>	Conventional Closures Coxco	890	2,254	5,780	0	0	0
NT	D&M <sup>(2)</sup>	Conventional Closures Coxco	187	244	312	0	0	0
NT	MBA <sup>(1)</sup>	Conventional Closures Coxco	50	150	347	4	16	46
			<b>1,337</b>	<b>4,843</b>	<b>29,889</b>	<b>4</b>	<b>16</b>	<b>46</b>
NT	SRK <sup>(5)</sup>	Unconventional Wologorang Shale	5	6,900	141,404	0	0	0
NT	SRK <sup>(5)</sup>	Unconventional McDermott Shale	26	10,120	152,107	0	0	0
NT	MBA <sup>(1)</sup>	Unconventional Barney Creek Shale	3,801	12,971	39,085	261	1,234	4,435
			<b>3,832</b>	<b>29,991</b>	<b>332,596</b>	<b>261</b>	<b>1,234</b>	<b>4,435</b>
QLD	SRK <sup>(6)</sup>	Unconventional Lawn Hill Shale	2,729	8,109	19,576	0	0	0
QLD	SRK <sup>(7)</sup>	Unconventional Riversleigh Shale	3,876	13,985	39,448	0	0	0
			<b>6,605</b>	<b>22,094</b>	<b>59,024</b>	<b>0</b>	<b>0</b>	<b>0</b>
		<b>Total NT/QLD Prospective Resources</b>	<b>11,774</b>	<b>56,928</b>	<b>421,510</b>	<b>265</b>	<b>1,250</b>	<b>4,481</b>

**Table 3-5: Contingent Resources – Northern Territory & Queensland**

Area	Accessor Report	Reservoir Type/Name	Contingent Gas Resource (Bscf)		
			1C	2C	3C
NT	D&M <sup>(9)</sup>	Conventional Closure Coxco	2.4	6.0	10.3
QLD	SRK <sup>(8)</sup>	Unconventional Lawn Hill Shale	33.1	154.4	363.9
<b>Total NT/QLD Contingent Resources</b>			<b>35.5</b>	<b>160.4</b>	<b>374.2</b>

**Table 3-4 and Table 3-5 – Footnotes relating to Armour resource reports**

- <sup>(1)</sup> MBA Report, Conventional and Unconventional Prospective Resource Estimate EP171 & EP176, NT, October 2011
- <sup>(2)</sup> D&M Report, Prospective Resources Attributed to Certain Prospects in Various License Blocks, NT, April 2013
- <sup>(3)</sup> SRK Report, Coxco Dolomite Resource Evaluation Batten Trough, McArthur Basin, EP171, 176, 190, NT, November 2013
- <sup>(4)</sup> MBA Report, Unconventional Prospective Resource Assessment, ATP (A) 1087, QLD, November 2011
- <sup>(5)</sup> SRK Report, SRK Report, Conventional and Unconventional Resource Assessment of the Wollgorang and McDermott Formations – Tawallah Group, NT, September 2015
- <sup>(6)</sup> SRK Report, Lawn Hill Formation Prospective Gas Resources ATP1087, QLD, September 2015
- <sup>(7)</sup> SRK Report, Riversleigh Siltstone Formation Prospective Gas Resources ATP1087, QLD, September 2015
- <sup>(8)</sup> SRK Report, Eglabria-2 Hydraulically Stimulated DW 1, Lawn Hill Formation, Contingent Resource Estimation, ATP 1087, QLD, July 2014
- <sup>(9)</sup> D&M Report, Contingent Resources in Exploration Permit 171 in the Northern Territory, Australia with interests licensed by Armour Energy Limited, April 2013

## 4 Technical Asset Valuation – Petroleum Exploration Permits

Key factors to be considered in this asset evaluation are outlined in **Table 4-1** and expanded upon below.

One consideration is Armour's permits that are granted versus those under application and whether they reside under the minerals or petroleum act. There could be a case to consider differentiating the valuation of different exploration permits based on the overlap of minerals exploration permits onto petroleum exploration permits. In one respect, areas of overlap would increase the knowledge base in minerals exploration permits as the result of petroleum exploration wells being drilled. The reverse could also be true in the respect that petroleum exploration targets are deeper (i.e. ~ 2–4 km) than minerals exploration targets (i.e. typically Surface to 1 km), the latter thereby not adding significant value. However, exploration seismic and/or drilling and/or open-pit mining would impact on access to the common acreage, thereby, potentially impacting on value. The above have not been taken into account in differentiating value between permits as these differentiators are judged as minor at this early stage of exploration.

**Table 4-1: Factors to be considered in the valuation of Armour's assets**

<b>Exploration</b>			
Permit granted	√		Facilitates exploration plans.
Permit under application	√	√	Subject to Northern Land Council approval.
Permit commitments		√	Granted permits will have remaining drilling and exploration expenditure commitments. If further work is not justified, the permits can be dropped with no penalty.
Land value (A\$/acre)	√		Significant value exists.
Contingent Resources	√		Estimated for exploration permits, NT.
Prospective Resources	√		Estimated for exploration permits, NT and QLD.
<b>Strategic</b>			
Gas pipeline	√		The announcement of the Northern Route Gas Pipeline to be built will have positive ramifications on the company's valuation, however subjective at this stage.
Farmin offer by AEGP	√		Announced on 22 <sup>nd</sup> Aug., executed on 11 <sup>th</sup> Sep. 2015.

### 4.1 Methodology

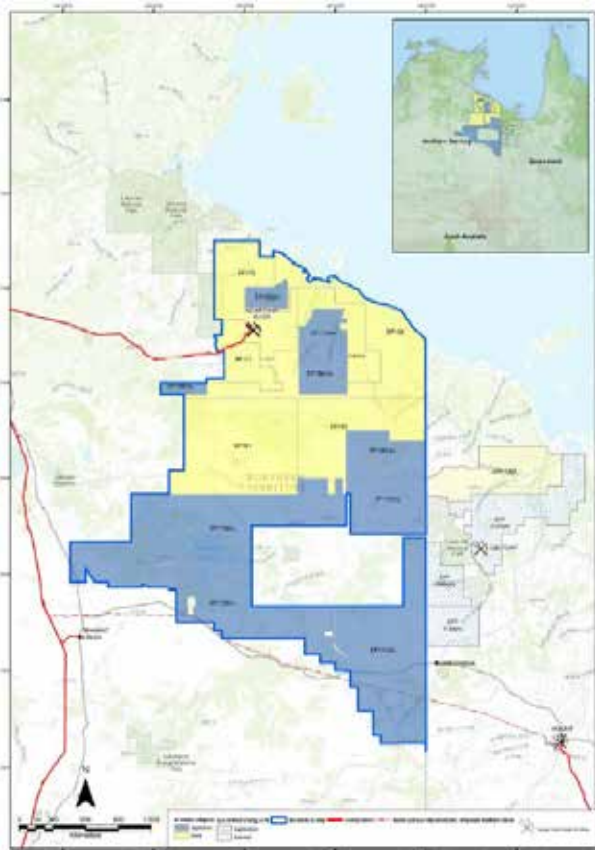
The approach and methodology in regards to the petroleum exploration permits is as follows:

- **Market approach:** The 'comparable transactions' method was used, itself based on land valuations (A\$/acre). Recent transactions undertaken between 2012 to 2015 were assessed. An area based valuation was applied for Queensland, Northern Territory and Victorian exploration permits.
- **Cost approach:** The 'multiple of exploration expenditure' method was used to value the exploration permits. Expenditure and resource multipliers were applied to the exploration permits. Consideration was given to whether permits were granted, under application as well as the presence of Prospective and Contingent Resources. The valuation method 'multiple of exploration expenditure' (Cost Approach) and 'farmin agreement terms analysis' (Market

Approach) uses expenditure and resource multipliers, respectively. The basis upon which to use technical valuation multipliers follows the methodology of Lord (2014). This methodology considers ranges from 0.5 (loss of value) through to 3 being a significant increase in value based on increased prospectivity and Resource definition. We have taken multipliers as follows: 1 for permits under application (book value being the cost of the application), 1.5 for granted permits, 2.0 for permits where the geology has been defined and Prospective Resources identified and 2.5 for permits with defined Prospective and Contingent Resources demonstrating proved hydrocarbons based on DST's and pilot production tests.

## 4.2 Proposed AEGP and Westside transactions

The proposed farmin agreement terms made by AEGP and terms of the takeover bid by Westside Corporation Ltd were analysed to consider how they aligned with the values estimated. The values were not used in SRK's estimation.



**Figure 4-1: Location map – Petroleum exploration permits, Northern Territory (AEGP farmin area – outlined in blue; source – Armour Energy Ltd, 2015. ASX release 11<sup>th</sup> September 15:23)**



#### 4.2.1 Transaction terms – AEGP farmin

A farmin offer through letter-of-intent was announced by AEP on the 20<sup>th</sup> August 2015. The final agreement was executed on the 11<sup>th</sup> September 2015 – the agreement is still subject to share-holder approval. The acreage relating to this farmin is illustrated in **Figure 4-1**.

The farmin terms in the AEGP executed agreement are tabulated (**Table 4-2**). The following granted permits will be transferred at a 75% ownership: EP171, EP174, EP176, EP190, EP191 and EP192. The granted exploration permits equate to a total acreage of 13.14 MM acres. The following permits under application will be transferred at a 75% ownership if granted: EP172(A), EP173(A), EP177(A), EP178(A) and EP179(A), EP193(A), EP194(A), EP195(A) and EP196(A). The permits under application equate to a total acreage of 16.12 MM acres. Granted exploration permits and those under application in total amount to 29.3 MM acres.

The upside and downside in the potential benefit to Armour and in terms of expenditure in the exploration permits are as follows:

- **Upside case:** The land value amounts to A\$9.82/acre if the transaction goes ahead. If the transaction goes ahead Armour will receive a base value A\$18.31 MM and A\$183.10 MM will go into exploration. Armour will also receive A\$4.23 MM if EP178 and EP179 are granted and A\$9.86 MM if remaining exploration permits (EP172, EP173, EP179, EP193, EP195, EP196) are granted. The total to be received by Armour is A\$32.40 MM and A\$183.10 MM will go into exploration. In the upside case, AEGP will acquire 29,258,919 acres at A\$9.82/acre.
- **Low side case:** The land value amounts to A\$12.12/acre if the transaction goes ahead. If the transaction goes ahead Armour will receive A\$18.31 MM. A lesser amount to the upside case of A\$140.85 MM will go into exploration if EP177, EP178 and other pending exploration permits are not granted. The total to be received by Armour is A\$18.31 MM and A\$140.85 MM will go into exploration. In the low side case, AEGP will acquire 13,135,868 acres at A\$12.12/acre.

In addition, the potential farminee (AEGP) will be acquiring shares and options (see below) if the executed agreement is ratified. It follows that the value marker may not be solely measured by the above land value as options if exercised, in addition to the shares, would give AEGP a 16% stake in Armour in addition to 75% interest in Northern Territory exploration permits.

**Table 4-2: Farmin transaction details – Executed agreement between AEGP and Armour**

Item	Cash (US\$MM)	Cash (A\$MM)	Work program (US\$MM)	Work program (A\$MM)
Assignment of Initial Farmout Interest	13	18.31	NA	NA
Upon assignment of pending permits (1 MM acres production licences (or) on grant & transfer of farmin interests in NT)	7	9.86	NA	NA
Performance bonus on grant & transfer of interest in EPs 177 & 178	3	4.23	NA	NA
Phase-1 expenditure funding (5 years for 75% working interest)	NA	NA	130	183.1
<b>TOTAL</b>	<b>23</b>	<b>32.4</b>	<b>130</b>	<b>183.1</b>

**Note:** The conversion rate of A\$1.00 to US\$0.71 is used here. <sup>1</sup> – An additional option for funding development and production is provided; however, it is considered debt-funding and not part of the value for total cash-in-the-ground. (Armour Energy Limited, 2015). Shares and options are not included in **Table 4-2**.

**Table 4-3** shows the maximum amount of acreage that AEGP could farmin to at the proposed maximum expenditure – this translates to a farmin land value of A\$9.82/acre when normalised to 100% ownership. **Table 4-3** does not indicate the value of the exploration permits as these are currently held by Armour shareholders.

**Table 4-3: Market comparison of land values (A\$/acre) 1 – Conditions attached (Armour Energy Limited, 2015)**

State	No	Farmin (FI)	Year	Acreage (acre)	Land value (A\$/acre)	Cash value (A\$MM)	Total value (A\$MM)
NT	1	AEGP proposed farmin to Armour acreage, McArthur Basin (Acquire 75%)	2015	29,258,919	9.82 <sup>1</sup>	32.4	215.50

#### 4.2.2 Transaction terms – Westside proposed transaction

Westside is offering A\$36.6 MM to shareholders to acquire the shares of the Armour. The total to be received by Armour shareholders is A\$36.6 MM in order for Westside Corporation to control 15,186,660 acres or A\$2.40/acre. Exploration permits under application were not considered.

#### 4.3 SRK Valuation (Comparable Transactions method), 2012 to present

Farmin transactions from the last three years show a relatively large spread in land values (**Table 4-4**). The farmins shown refer to transactions in different basins and were conducted at a time of growth in both the mining and petroleum sectors. It follows that any average land value may be heavily skewed if applied directly to today's market. A short review of listed farmin transactions follows.

- **Santos farmin to Tamboran Resources Pty Ltd acreage:** The farmin deal includes a total of A\$71 MM of working interest to farmin to 6.18 MM acres in order to gain up to 75% equity. This equates to a total land value of A\$15.32/acre and when normalised to the 3-month average oil price (Jun. – Aug. 2015, US\$51.28) it equates to A\$9.06/acre.
- **Petrochina farmin to New Standard Energy acreage:** The total transaction amount equates to A\$110 MM to farmin to 11 MM acres in order to gain a 29% equity. This equates to a land value of A\$34.48/acre and when normalised to the 3-month average oil price (Jun. – Aug. 2015 of US\$51.28) it equates to A\$16.91/acre.
- **Origin Energy Resources Ltd and Sasol Petroleum Australia Ltd farmin to Falcon Oil and Gas Ltd acreage:** The farmin deal includes A\$20 MM as cash, A\$64 MM as working interest for drilling five vertical wells, A\$101 MM for drilling four horizontal wells and A\$15 MM of royalties. The total amount equates to A\$185 MM to farmin to 4.6 MM acres to gain a 70% equity. This is equivalent to a land value of A\$57.45/acre, when normalised to the 3-month average oil price (Jun. – Aug. 2015 of US\$51.28) it equates to A\$30.57/acre.

A review of transactions follows, by State:

- **Northern Territory:** Plotting the total dollars in-the-ground on-offer versus total acreage shows that AEGP's offer to farmin to Armour's acreage is on par with two other transactions (**Figure 4-2**). Origin Energy and Sasol paid significantly more for their acreage in the Beetaloo Basin. No in-depth assessment is made on differences in the exploration and geological value of

respective acreage; however, one can note from the Santos farmin (**Table 4-4**) that this deal is located in the same basin as in the AEGP farmin.

- **Queensland:** Lastly, both the Queensland and Northern Territory exploration permits are located over dominantly Proterozoic and NeoProterozoic rocks so that the acreage value (A\$/acre) has been kept constant across both sets of permits. No farmin transactions exist in the Mt Isa Block. The one transaction available covers the south Georgina Basin and is considered less comparable than those transactions in the Northern Territory.
- **Victoria:** Three comparable transactions exist, two have been used as one is offshore marine. Armour has a smaller percentage interest in Victorian exploration permits so that any discrepancy would be considered to not overly skew the total assets value of the company.

Lastly, one could differentiate between the Armour operated permits and those not operated by the company in Victoria. Again, Armour has smaller percentage interests in Victoria so that any discrepancy would be considered to not overly skew the total assets value of the company.

A review of transactions follows:

- Plotting the total dollars in-the-ground on-offer versus total acreage shows that AEGP's offer to farmin to Armour's acreage is on par with the two other transactions (**Figure 4-2**).
- Origin Energy and Sasol paid significantly more for their acreage in the Beetaloo Basin.
- No in-depth assessment is made on differences in the exploration and geological value of respective acreage; however, one can note from the Santos farmin (**Table 4-4**) that this deal is located in the same basin as in the AEGP farmin.

**Table 4-4: Market comparison of land values (A\$/acre) – 2012 to 2015**

State	No	Farmin (FI)	Year	Acreage (acre)	Land value at transaction (A\$/acre)	Land Value normalised to Oil Price <sup>1</sup> 3 month average Sept 2015 (A\$/acre)	Cash value (A\$ MM)	Total value (A\$ MM)
NT	1	Santos farmin to Tamboran Resources acreage, McArthur Basin (Acquire up to 75%)	2012	6,180,000	15.32	9.06	71	71
	2	Petrochina farmin to New Standard Energy acreage, Southern Canning Basin (Acquire 29%)	2013	11,000,000	34.48	16.91	110	110
	3 <sup>1</sup>	Origin & Sasol farmin to Falcon Oil & Gas Ltd acreage, Beetaloo Basin (Acquire 35% each, total 70%)	2014	4,600,000	57.45	30.57	20	185
QLD	4	Total to farmin to Central Petroleum acreage, South Georgina Basin (acquire up to 68%)	2012	3,979,958	30.80	NA	0	83.5
	5	Lakes Oil N.L. farmin to Bass strait Oil Company acreage, onshore Otway Basin (acquire 100%)	2014	430,000	0.70	NA	0.3	0.3
VIC	6	AWE Limited farmin to WHL Energy Limited acreage, offshore Gippsland Basin (acquire 60%)	2013	712,400	21.00	NA	0	12.68
	7	Rawson Resources farmin to Otway Energy Pty Ltd acreage, Otway Basin (acquire 62.5%)	2014	528,000	6.06	NA	0	2

**Note:** the land values are calculated by referencing from total A\$ offer by the farminee and base-lining to 100% equity. Acquisitions of shares and/or options are considered separate to in-the-ground value. <sup>1</sup> – Including the original Hess farmin, the full block value would be A\$87.72/acre. A price of US\$51.28 has been used for the 3-month average (Jun. – Aug. 2015), Crude Oil (petroleum), West Texas Intermediate 40 API, Midland Texas Source IMF.

**Source for 1:** Santos, 2012. ASX release 'Santos farmin to onshore McArthur Basin in NT', 12<sup>th</sup> December.

**Source for 2:** New Standard Energy, 2013. ASX release 'PetroChina settles Canning Basin interest', 11<sup>th</sup> July.

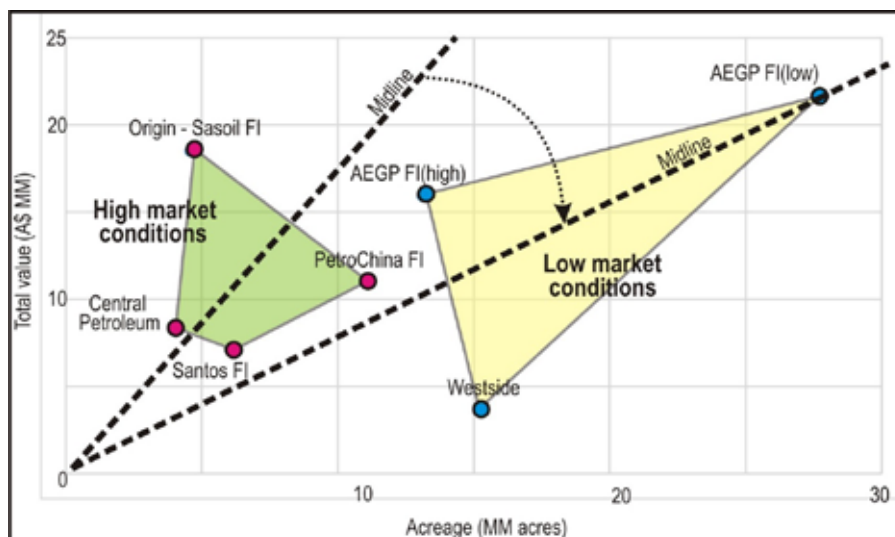
**Source for 3:** Falcon Oil & Gas, 2014. ASX release 'Completion of Australian Beetaloo Basin farm-out', 21<sup>st</sup> August.

**Source for 4:** <http://www.asx.com.au/asxpdf/20131128/pdf/426jr315yhdx.pdf>

**Source for 5:** <http://www.proactiveinvestors.com.au/companies/news/57852/bass-strait-oil-company-sells-victoria-petroleum-permits-to-lakes-oil-57852.html>

**Source for 6:** Source: <http://www.awexplore.com/IRM/Company>ShowPage.aspx/PDFs/2904-11277613/AWEtoacquiremajorityinterestinVicP67>

**Source for 7:** Rawson Resources ASX Announcement 10 Feb 2014 – Acquisition of Otway Energy – Royalty Deed



**Figure 4-2: Transactions in the Northern Territory and Queensland (2012 to 2015) – actual and potential farmins, acquisition of Armour shares by Westside Corporation also shown (FI – farmin, not normalised, see Table 4-4)**

Three comparable transactions designated 1, 2 and 3 most closely align with the Armour NT and Queensland acreage. Each was undertaken when the market condition was much stronger and oil prices significantly higher than today. **The range for these transactions is A\$15.32 to A\$57.45 per acre. When adjusted for the change in petroleum prices and A\$ values the estimated range is A\$9.06 to A\$30.57 with a median value of A\$16.91.** Also, it must be noted that transaction 3 is located in the Beetaloo Basin whereas transaction 1 is located in the McArthur Basin where Armour tenements are located.

Another factor to consider relates to the lower market conditions and perceived timing to achieve exploration success combined with the likely value of discoveries in remote high cost locations however this can be offset by the very large acreage position of Armour.

#### 4.4 Valuation Ranges Based on Comparable Transactions – All Exploration Permits

**Table 4-5** gives an asset valuation to the granted exploration permits. Those under application are considered to have minimal value as there are no comparable transactions available. **A joint venture for an application would only involve a split of the proposed work program.** It is important to note that SRK has made a minimal technical asset valuation of the land under application using the land-value method (**Table 4-4**). The Northern Territory permits valued were transacted at A\$9.06, A\$16.91 and A\$30.57/acre normalised to the 3-month average oil price. The rate of A\$30.57/acre was taken as an outlier as it is considered unrepresentative of the present-day market condition where oil prices are severely depressed (i.e. In the order US\$100/bbl in 2014 as opposed to US\$45/bbl currently). However, the high value of A\$30.57/acre is considered to be informative when considering the range of comparable transactions.

Victorian permits have not been valued as there is currently a moratorium on petroleum exploration – their value has been taken as nil in this report. However, it is noted that permits are transacted at A\$6.06/acre (onshore) and A\$21.00/acre (offshore) (**Table 4-4**).

**Table 4-5** shows the valuations for a low, mid and high valuation to come to A\$70.1 MM, A\$130.9 MM and A\$236.7 MM, respectively. Permits EP174, EP191 and EP192 have minimal exploration and no resource estimates assigned and therefore their value has been taken as nil for the Comparable Transaction assessment.

**Table 4-5: Technical asset valuation based on Comparable Transactions**

State	Permit	Area (acres)	Interest (%)	Valuation (A\$9.06/acre)	Valuation preferred (A\$16.91)	Valuation (A\$30.57/acre)
QLD	ATP1087	1,756,169.8	100	\$15,910,898	\$29,696,831	\$53,686,111
NT	EP171	853,276	100	\$7,730,681	\$14,428,897	\$26,084,647
	EP174	1,067,374	100	na	na	na
	EP176	1,978,667	100	\$17,926,723	\$33,459,259	\$60,487,850
	EP190	3,153,221	100	\$28,568,182	\$53,320,967	\$96,393,966
	EP191	3,747,062	100	na	na	na
	EP192	2,336,268	100	na	na	na
				<b>\$70,136,484</b>	<b>\$130,905,955</b>	<b>\$236,652,574</b>
				<b>Valuation (A\$0.07/acre)</b>	<b>Valuation (work suspended)</b>	<b>Valuation (A\$6.06/acre)</b>
VIC	PEP166	432,968.8	25	na	na	na
	PEP169	280,466.2	51	na	na	na
	PRL2	184,588.2	25	na	na	na

## 4.5 Cost approach (multiples of exploration expenditure method) – Exploration permits, Northern Territory

### 4.5.1 Expenditure

Expenditures-to-date, as provided by Armour are tabulated (**Table 4-6**) – note that these only provide a minimum expenditure in the permits. Exploration permits listed still have up to two years to go in their tenure; thereby, expenditures can be expected to increase as drilling commitments are normally carried out in the last few years of a tenure.

The remaining debt in relation to permit expenditure is also of consideration in the technical assets valuations. Exploration permits have remaining years owning: EP171 (<1), EP174 (>2), EP176 (<1), EP190 (>2), EP191 (>3) and EP192 (>3). Two of the permits (EP171, EP176) require extensions in less than a year, thereby, adding to the risk portfolio that the acquisition of these permits may have less value should the application-for-extension fail.

**Table 4-6: Expenditures to-date in Armour's exploration permits – Northern Territory (Source for expenditure – Armour)**

Permit	Expenditure (A\$)					Acreage (km <sup>2</sup> )	Acreage (acre)	Expenditure value (A\$/acre)
	2012	2013	2014	2015	Total			
EP171	5,764,840	8,243,670	290,943	70,919	14,370,372	3,453.1	853,276	16.7
EP174	0	0	431,533	0	431,533	4,319.5	1,067,374	0.4
EP176	7,305,146	2,107,260	1,771,677	103,565	11,287,648	8,007.4	1,978,667	5.7
EP190	0	2,775,906	2,168,690	0	4,944,596	12,760.6	3,153,221	1.6
EP191	0	0	131,198	0	131,198	15,163.8	3,747,062	0.1
EP192	0	0	70,578	0	70,578	9,454.5	2,336,268	0.1

#### 4.5.2 Valuation – Exploration Permits, North Queensland and Northern Territory

The second technical asset valuation method uses 'multiple of exploration expenditure'. The basis upon which to use technical valuation multipliers follows the methodology of Lord (2014). We have taken multipliers as follows: 1 for permits under application, 1.5 for granted permits in good standing, 2 was applied for permits where Prospective Resources have been assessed and 2.5 for Contingent Resources – including Prospective Resources (**Table 4-7**). Both permits with Contingent Resources have very large Prospective Resources and these represent the opportunity to achieve Reserves with better understanding of sweet spots and production methodologies. As such these justify a significant promotion on the value expended by Armour. The total asset valuation for granted exploration permits (minus Victorian permits), with the multipliers applied to account for the development stage of the permits on this basis is A\$145,597,465.

In order to compare the valuation directly to the valuation as estimated by the 'Comparable Transactions', where exploration permits under application were removed and granted permits with no resources booked minimal expenditure (i.e. multiple of 1.5) were assigned nil value, the total valuation would be A\$143,637,153 (**Table 4-7**). For completeness of the comparison, including all permits would result in an evaluation of A\$145,597,465 (**Table 4-7**).

Permits with Contingent Resources have very large Prospective Resources and these represent the opportunity to achieve Reserves with better understanding of sweet spots and production methodologies. As such these justify a significant promotion on the value expended by Armour.

The total asset valuation for all the exploration permits on this basis is A\$157,108,627. However, in order to be consistent in our comparison with the asset valuation using the comparable transactions method we also have a total for all granted permits excepting the Victorian permits that are under a moratorium. The total asset valuation on the latter basis is A\$145,597,465.



**Table 4-7: Technical asset valuations – Cost approach (A – under application, Source for expenditure – Armour)**

Permit	Permit % held	Expenditure-to-date (A\$)	Details of expenditure (dominant expenditures only)	Multiplier	Valuation (A\$)
ATP1087	100	30,474,759	3 wells, logs, pilot gas flow-testing	2.5	76,186,898
<b>Total (QLD)</b>		<b>30,474,759</b>			<b>76,186,898</b>
ATP1107(A)	100	15,842	Tenure management	1	15,842
ATP1192(A)	100	0	Not applicable	1	0
ATP1193(A)	100	0	Not applicable	1	0
<b>Total (QLD)</b>		<b>15,842</b>			<b>15,842</b>
EP171	100	15,227,971	3 wells, 2D seismic, DST gas flow and well testing	2.5	38,069,928
EP174	100	924,127	Native title, tenure management	1.5	1,386,191
EP176	100	10,720,191	2 wells, exploration royalty	2	21,440,382
EP190	100	3,969,973	1 well, native title management	2	7,939,946
EP191	100	252,551	G&G, tenure management	1.5	378,827
EP192	100	130,196	G&G, corporate, brought forward	1.5	195,294
<b>Total (NT)</b>		<b>31,225,009</b>			<b>69,410,567</b>
<b>Total Valuation based on expenditures for granted permits</b>					<b>145,597,465</b>
<b>Total Valuation based on expenditures for granted permits with Contingent and/or Prospective Resources</b>					<b>143,637,153</b>
EP172(A)	100	26,020	Brought forward	1	26,020
EP173(A)	100	25,960	Brought forward	1	25,960
EP177(A)	100	26,176	Brought forward	1	26,176
EP178(A)	100	25,996	Brought forward	1	25,996
EP179(A)	100	25,996	Brought forward	1	25,996
EP193(A)	100	51,881	Brought forward	1	51,881
EP194(A)	100	23,117	Brought forward	1	23,117
EP195(A)	100	23,117	Brought forward	1	23,117
EP196(A)	100	23,598	Brought forward	1	23,598
<b>Total (NT)</b>		<b>251,861</b>			<b>251,861</b>
PEP166	25	4,561,123	2 wells, cash call	1.5	6,841,685
PEP169	51	2,946,318	2 wells, cash call	1.5	4,419,477
PRL2(UN)	15	200,000	1 well	1.25	250,000
<b>Total (VIC)</b>		<b>7,707,441</b>			<b>11,511,162</b>
<b>Total Valuation based on expenditures for granted permits less Victorian permits</b>					<b>145,597,465</b>
<b>Total Valuation based on all expenditures to-date</b>					<b>157,108,627</b>

### 4.5.3 Discussion

The petroleum valuations based on Comparable Transactions amount to a low, mid and high valuation of A\$70.14 MM, A\$130.91 MM and A\$236.65 MM, respectively.

- While the high is considered an outlier, the valuation rate of A\$30.57/acre is still portrays the potential upside of the exploration acreage. It must be noted that the high case (i.e. transaction 3 equivalent) is located in the Beetaloo Basin as opposed to the low that is located in the McArthur Basin where Armour tenements are located. The low end of our valuation range (A\$70.14 MM) is derived from the Santos Farmin into the McArthur Basin, and is considered more comparable than the upper range transactions.
- Application areas are not considered and have been given a value of nil.
- Granted exploration permits with no prospective and/or contingent resources (EP171, EP191, EP192) are also excluded as these are in an early phase of exploration and are considered to have a negligible contribution to the transactions values. These permits are given a nil value. The early phase of exploration is substantiated by the low expenditure to-date (A\$1.3 MM).

The valuation based on multiples of exploration expenditure comes to A\$145.6 MM.

- The value A\$145.6 MM is considered representative of the early stage of exploration for exploration permits EP174, EP191 and EP192 while permits ATP1087, EP171, EP176, EP190 are in a more advanced stage. However, SRK considers the valuation to be a high as overall the value represents a weighted average of expenditure over all permits.
- Minimal expenditure is assigned to the exploration permits under application.

The Low range valuation for the petroleum permits is considered only on the basis of comparable transactions using the valuation of A\$9.06/acre for petroleum permits in both Northern Territory and Queensland indicating a total valuation of A\$70.14 MM for both assets (A\$54.23 MM for Northern Territory and A\$15.91 MM for Queensland).

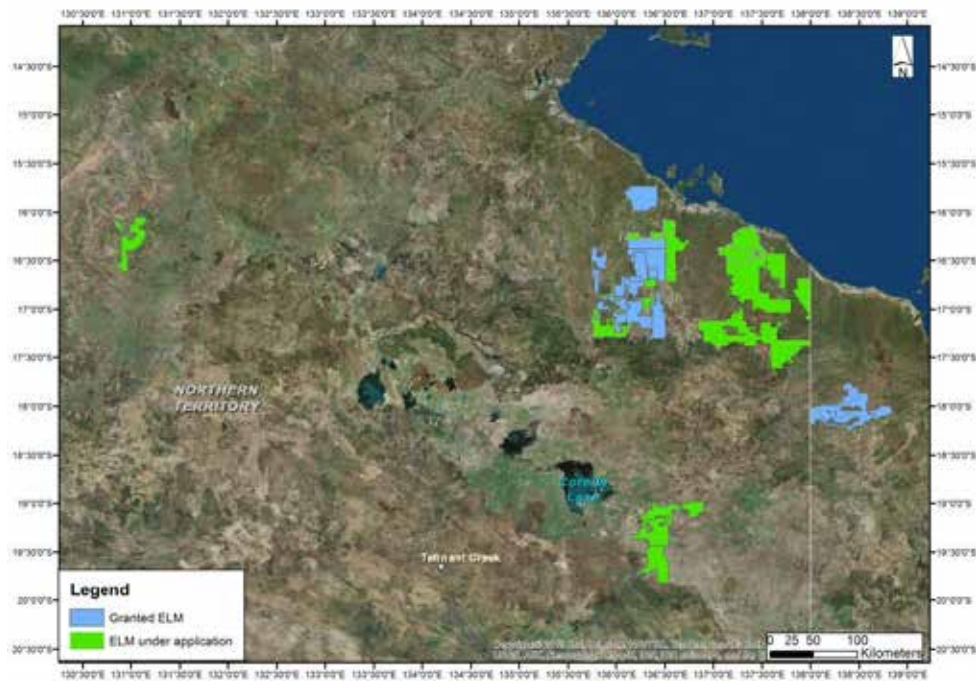
The upper range valuation of the Queensland and Northern Territory petroleum assets considers that, although the Queensland assets are relatively small in area, they are more advanced in terms of exploration development and have received more exploration expenditure. The multiples of exploration expenditure methodology values these permits at A\$76.19 MM, however this method does not consider the current market conditions and this valuation is significantly higher than the high range of comparable transactions valuation. SRK considers the Queensland assets preferred High range valuation of A\$53.69 MM at a rate of A\$30.57/acre providing a market based valuation of the Queensland assets. Given the large area of prospective geology for the Northern Territory permits, the High range valuation for these permits is considered on the basis of comparable transactions using a rate of A\$16.91/acre and a High range valuation of A\$101.21 MM.

The Preferred Valuation for the Northern Territory petroleum assets is A\$69.41 MM and is derived from the multiples of exploration expenditure methodology. The Preferred Value for the Queensland assets is A\$29.70 MM considered from comparable transactions at a rate of A\$16.91/acre, and is further supported by the total actual exploration expenditure of A\$30.47 MM on the property.

The Preferred Valuation for the Northern Territory and Queensland petroleum assets is \$99.11 MM and is derived from the multiples of exploration expenditure and comparable transaction methodology, with a range of A\$70.14 MM to A\$155.09 MM.

## 5 Mineral Exploration Permits

SRK is of the opinion that Ripple Resources (subsidiary of Armour)) holds Exploration areas as no Mineral Resources are reported on these properties and all properties are considered to be at an early stage of exploration and located within proximity of the Gulf of Carpentaria (Table 5-1 and Table 5-2).



**Figure 5-1: Location map – Ripple Resources mineral exploration permits, Northern Territory and area of Proterozoic basement rocks deemed prospective for base metal mineralisation**

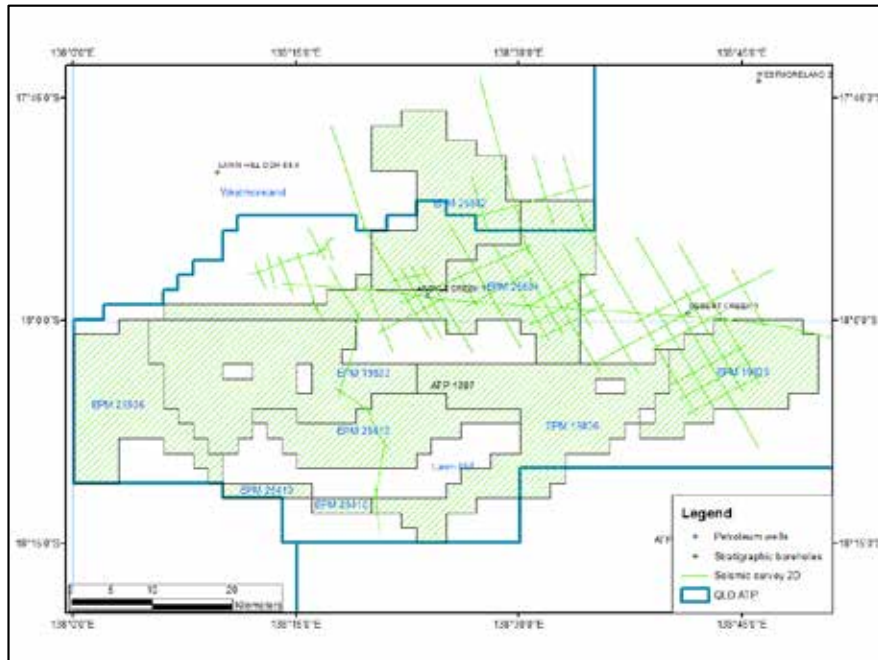
(Source: SRK, GDA94)

### 5.1 North Queensland – Permits and Resources

UTM Global Pty Ltd have conducted a search for mineral exploration permits held by Ripple Resources. Seven mineral exploration permits have currently been granted and four are under application (see Table 5-1 and Figure 5-2 for location). A 'group area' has also been granted that covers EPMs 19833, 19835, 19836, 25410, 25504 and 25505. As a group, costs can be distributed across all these granted EPMs even if work is only carried out in only one of the EPMs.

**Table 5-1: Mineral exploration permits held by Ripple resources – State of Queensland (A – under application)**

Permit	Grant date	Application date	Expiry date	First term of tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)
EPM19833	11/2/2013	NA	10/2/2016	3	325.9301	80,539	100
EPM19835	11/9/2013	NA	10/9/2016	3	198.6737	49,093	100
EPM19836	11/9/2013	NA	10/9/2016	3	322.423	79,672	100
EPM25410	29/5/2014	NA	28/5/2017	3	195.441	48,295	100
EPM25504	10/11/2014	NA	9/11/2017	3	325.9931	80,555	100
EPM25505	3/2/2014	NA	10/8/2018	3	195.5647	48,325	100
EPM25802	20/5/2015	NA	19/5/2018	3	251.1582	62,063	100
EPM26018(A)	NA	14/8/2015	NA	3	100	24,711	NA
EPM26019(A)	NA	14/8/2015	NA	3	100	24,711	NA
EPM26020(A)	NA	19/8/2015	NA	3	100	24,711	NA
EPM26022(A)	NA	19/8/2015	NA </tr				

**Figure 5-2: Location map – Ripple Resource's mineral exploration permits, State of Queensland**

(Source: SRK, GDA94)

## 5.2 North Queensland – Prospectivity and Geology

Leases in Queensland are all held by Ripple Resources, a wholly owned Armour subsidiary. The leases cover prospective Proterozoic stratigraphy commonly referred to as the Carpentaria Zinc Belt.

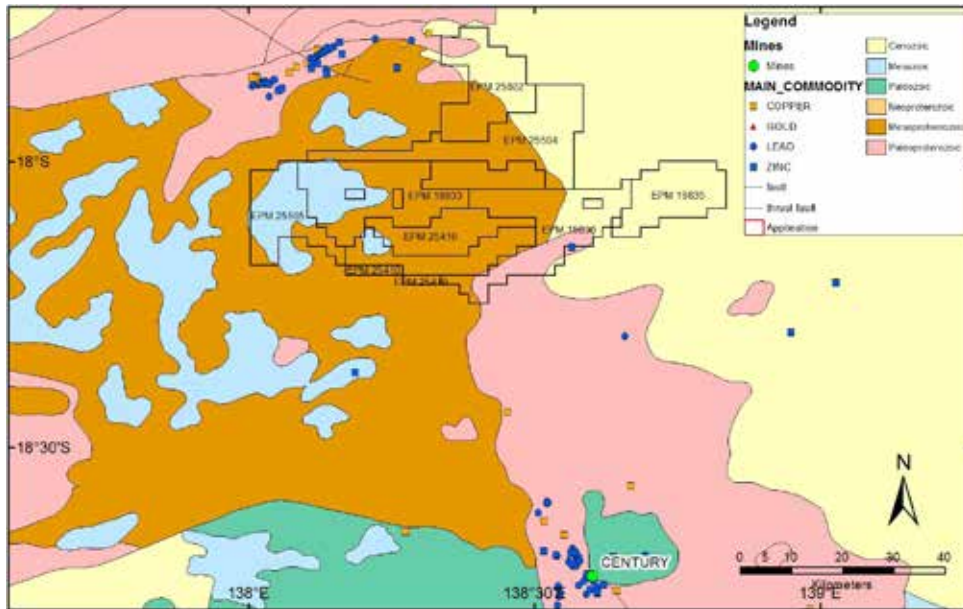
The Isa Superbasin is a world class metalliferous mining province which hosts both significant Pb-Zn-Ag mines (Cannington, George-Fisher, Mt Isa and Lady Loretta) and Cu-Au mines Mt Isa, Ernest Henry and Osbourne). Uranium mineralisation is also known to occur (Valhalla, Mary Kathleen and Westmoreland). Recent discoveries by Ivanhoe Mines and Rocklands highlight the strong exploration potential on this mineralised terrane. Three broad tectonic divisions are distinguished within the Mount Isa Inlier: the Western Fold Belt, Kalkadoon-Leichhardt Belt, and Eastern Fold Belt. These are formed of early and middle Proterozoic sedimentary and volcanic rocks many thousands of metres thick, which are assigned to four major sequences, and numerous igneous intrusions. The Mount Isa Inlier contains major deposits of copper, lead, zinc and silver and significant deposits of gold, uranium and cobalt; it has also produced minor amounts of manganese, cadmium, bismuth, tungsten, beryl, and mica. Most copper occurs in brecciated sediment-hosted deposits within the Western Fold Belt, but there are also numerous small shear and fault-controlled vein copper deposits to the east; most of the gold production has come as a by-product from these veins. Large stratiform lead-zinc-silver ores are hosted in siltstones with interbedded barren clay and rich shales, such as at Mount Isa mine.

### 5.2.1 Isa Super Basin (QLD)

The project exploration permits are located between the Century and New Walford Deposits (**Figure 5-3, Figure 5-4**). The basement consists of Mt Isa basin and on along the Termitte Range Fault.

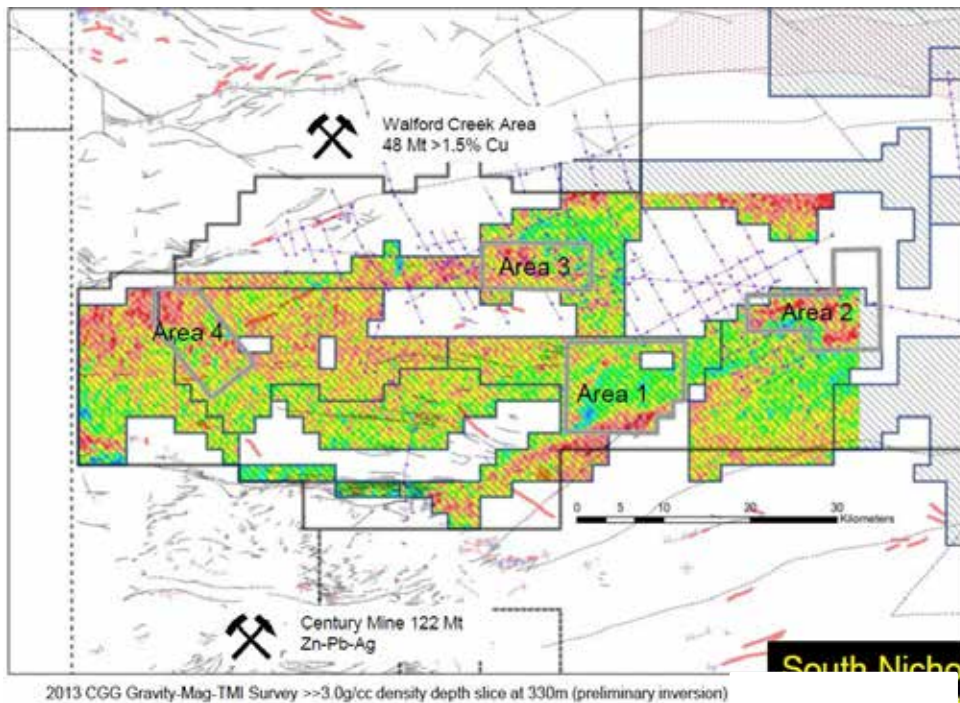
Previous work programs has collected 2009-km<sup>2</sup> 400-m line spaced gravity-magnetic survey and 2D seismic lines. Using this depth gravity targets located along known mineralised structures Ripple Resources have divided into four project areas with 22 targets identified (**Figure 5-4**). The largest of these anomalies is located at Desert Creek adjacent to a broad area of low grade zinc anomalism at the Bluebush prospect. Multiple gravity highs identified from survey above c. 300 m, associated with major lineaments on strike with identified base metal mineralisation. Petroleum wells and seismic data have demonstrated the presence of prospective pyritic shales at reasonable depths.

The South Nicholson Basin overlies the Isa Superbasin and contains large chomositic oolitic iron ore deposits but these now lie in the Lawn Hill National Park.



**Figure 5-3: Location map – Mineral exploration permits in the South Nicolson Project area, State of Queensland**

Shown with 1:2.5 million Geology with GSQ mineral occurrence data



**Figure 5-4: TMI map and seismic line coverage – Isa Super Basin**

### 5.3 Northern Territory – Permits and Resources

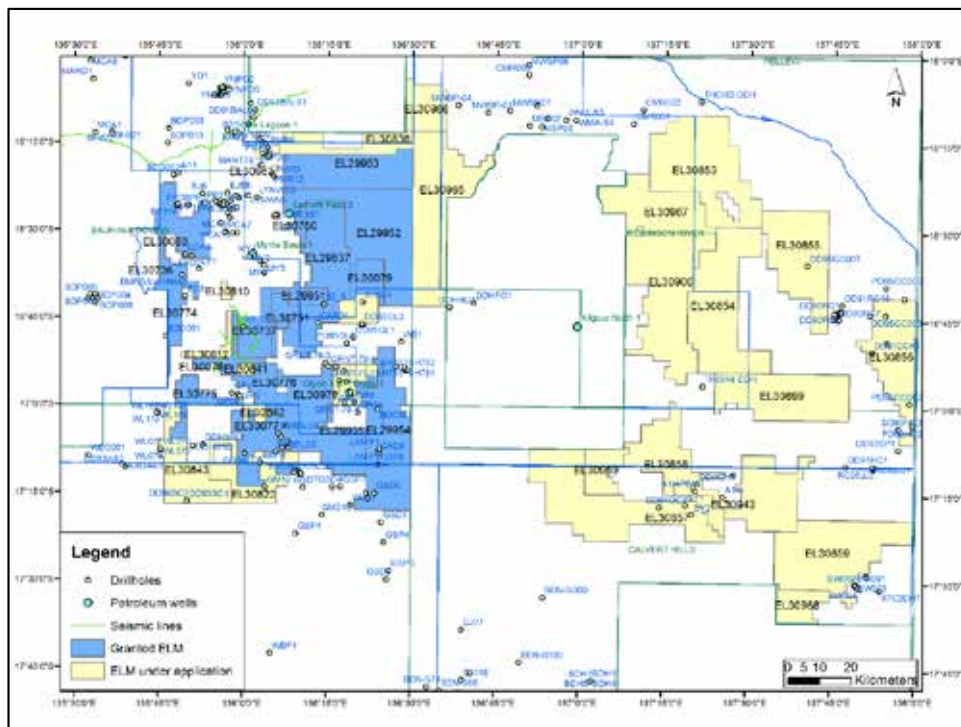
Twenty one exploration permits have been granted whilst 39 permits are under application – Exploration permits are tabulated (Table 5-2) and portrayed in Figure 5-5. Two 'group areas' have also been granted. Barney creek Area-1, which covers ELs 29951, 29952, 29954 and 29955; and Barney Creek Area-2, which covers ELs 30076, 30077, 30078, 30079 and 30080. Costs can be distributed across the granted group areas even if work is only carried out in only one of the licences of each group.

**Table 5-2: Mineral exploration permits held by Ripple Resources – Northern Territory**

No	Permit	Grant date	Application date	Expiry date	First term of tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)
1	EL29837	9/09/2015	NA	26/8/2019	2	645.8	159,580	100
2	EL29951	9/09/2015	NA	20/11/2019	2	75.4	18,628	100
3	EL29952	9/09/2015	NA	20/11/2019	2	715.0	176,675	100
4	EL29953	9/09/2015	NA	17/2/2020	2	463.1	114,431	100
5	EL29954	9/09/2015	NA	20/11/2019	2	608.4	150,345	100
6	EL29955	9/09/2015	NA	20/11/2019	2	575.7	142,270	100
7	EL30076	9/09/2015	NA	8/5/2020	2	101.5	25,079	100
8	EL30077	9/09/2015	NA	8/5/2020	2	219.1	54,138	100
9	EL30078	9/09/2015	NA	8/5/2020	2	22.9	5,654	100
10	EL30079	9/09/2015	NA	8/5/2020	2	104.9	25,926	100
11	EL30080	9/09/2015	NA	8/5/2020	2	249.8	61,728	100
12	EL30494	9/09/2015	NA	7/4/2021	2	816.2	201,686	100
13	EL30736	21/08/2015	NA	20/8/2021	2	85.2	21,061	100
14	EL30737	21/08/2015	NA	20/8/2021	2	176.9	43,708	100
15	EL30750	21/08/2015	NA	20/8/2021	2	41.4	10,225	100
16	EL30751	21/08/2015	NA	20/8/2021	2	13.1	3,238	100
17	EL30752	21/08/2015	NA	20/8/2021	2	16.4	4,042	100
18	EL30753	21/08/2015	NA	20/8/2021	2	39.3	9,707	100
19	EL30774	21/08/2015	NA	20/8/2021	2	108.6	26,829	100
20	EL30775	21/08/2015	NA	20/8/2021	2	130.9	32,341	100
21	EL30776	21/08/2015	NA	20/8/2021	2	137.5	33,966	100
22	EL(A)30810	NA	7/04/2015	NA	2	16.4	4,049	NA
23	EL(A)30812	NA	7/04/2015	NA	2	55.7	13,758	NA
24	EL(A)30813	NA	7/04/2015	NA	2	29.5	7,281	NA
25	EL(A)30817	NA	14/04/2015	NA	2	76.8	18,983	NA
26	EL(A)30818	NA	14/04/2015	NA	2	820.9	202,847	NA
27	EL(A)30822	NA	20/04/2015	NA	2	228.8	56,535	NA

No	Permit	Grant date	Application date	Expiry date	First term of tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)
28	EL(A)30823	NA	20/04/2015	NA	2	19.6	4,848	NA
29	EL(A)30836	NA	27/05/2015	NA	2	218.3	53,947	NA
30	EL(A)30841	NA	14/05/2015	NA	2	19.6	4,847	NA
31	EL(A)30842	NA	14/05/2015	NA	2	39.3	9,701	NA
32	EL(A)30843	NA	14/05/2015	NA	2	339.9	84,001	NA
33	EL(A)30853	NA	25/05/2015	NA	2	792.3	195,783	NA
34	EL(A)30854	NA	25/05/2015	NA	2	754.7	186,492	NA
35	EL(A)30855	NA	25/05/2015	NA	2	574.7	142,023	NA
36	EL(A)30856	NA	25/05/2015	NA	2	479.9	118,593	NA
37	EL(A)30857	NA	25/05/2015	NA	2	800.7	197,855	NA
38	EL(A)30858	NA	25/05/2015	NA	2	808.4	199,766	NA
39	EL(A)30859	NA	25/05/2015	NA	2	751.5	185,694	NA
40	EL(A)30866	NA	1/06/2015	NA	2	104.9	25,912	NA
41	EL(A)30899	NA	6/07/2015	NA	2	580.2	143,361	NA
42	EL(A)30900	NA	6/07/2015	NA	2	820.3	202,689	NA
43	EL(A)30922	NA	20/07/2015	NA	2	36.0	8,899	NA
44	EL(A)30925	NA	21/07/2015	NA	2	806.2	199,215	NA
45	EL(A)30926	NA	21/07/2015	NA	2	797.8	197,135	NA
46	EL(A)30927	NA	21/07/2015	NA	2	807.8	199,602	NA
47	EL(A)30943	NA	14/08/2015	NA	2	91.6	22,633	NA
48	EL(A)30962	NA	26/08/2015	NA	2	14.8	3,650	NA
49	EL(A)30963	NA	26/08/2015	NA	2	9.8	2,425	NA
50	EL(A)30965	NA	27/08/2015	NA	2	741.1	183,120	NA
51	EL(A)30966	NA	27/08/2015	NA	2	195.2	48,229	NA
52	EL(A)30967	NA	27/08/2015	NA	2	430.6	106,408	NA
53	EL(A)30968	NA	27/08/2015	NA	2	147.0	36,328	NA
54	EL(A)30969	NA	27/08/2015	NA	2	148.9	36,790	NA
55	EL(A)30978	NA	7/09/2015	NA	2	13.1	3,236	NA
56	EL(A)30979	NA	7/09/2015	NA	2	42.5	10,514	NA
57	EL(A)30990	NA	10/9/2015	NA	2	26.18	6,469	NA
58	EL(A)30991	NA	10/9/2015	NA	2	647.62	160,030	NA
59	EL(A)30992	NA	10/9/2015	NA	2	71.98	17,787	NA
60	EL(A)30993	NA	20/9/2015	NA	2	445.47	110,078	NA





**Figure 5-5: Location map – Mineral exploration permits, Northern Territory**

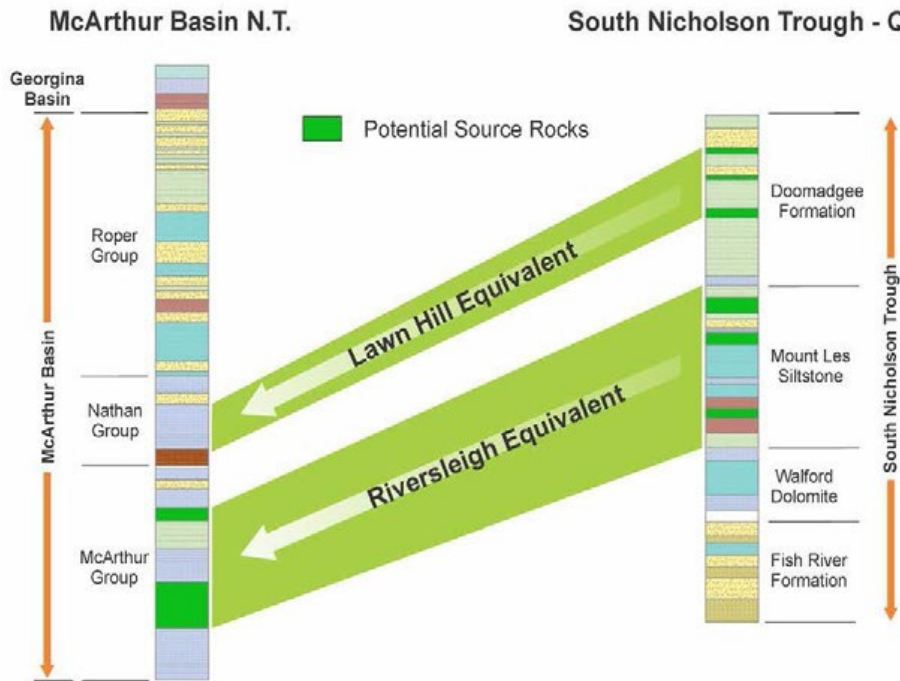
(Source: SRK, GDA94)

## 5.4 Northern Territory – Prospectivity and Geology

Granted exploration permits cover the McArthur Basin, Georgina Basin and a small area of the Carpentaria Basin. Exploration permits under application in the Northeast cover McArthur Basin, Georgina Basin and a small area of the Carpentaria Basin. The Southeast block of applications cover the Georgina Basin. The far Western block of applications covers the Birrindudu Basin.

The McArthur Basin is an extensive Palaeo- to Mesoproterozoic sedimentary basin that forms the western extension of the Carpentaria Zinc Belt, which includes the Mount Isa region, a significant mining province. The Basin is host to the world class Mc Arthur River Pb-Zn-Ag mine, diamond bearing kimberlites at Merlin and Copper mining at Redbank. The Basin is highly prospective for sediment-hosted base metals deposits including Uranium, diamonds and iron ore with large portions of the basin under explored. Lastly, Pb, Zn, Cu, Barite and Manganese occurrences have been identified within the exploration permits.

The Birrindudu Basin is a Proterozoic basin in western part of the Northern Territory which broadly correlates with the McArthur Basin in the East (**Figure 5-6**). The Sediments exhibit little deformation or metamorphism and are of shallow to deep marine environments. The area is underexplored, but there are numerous known occurrences of diamond, Pb-Zn, Ag, Au and U mineralisation.

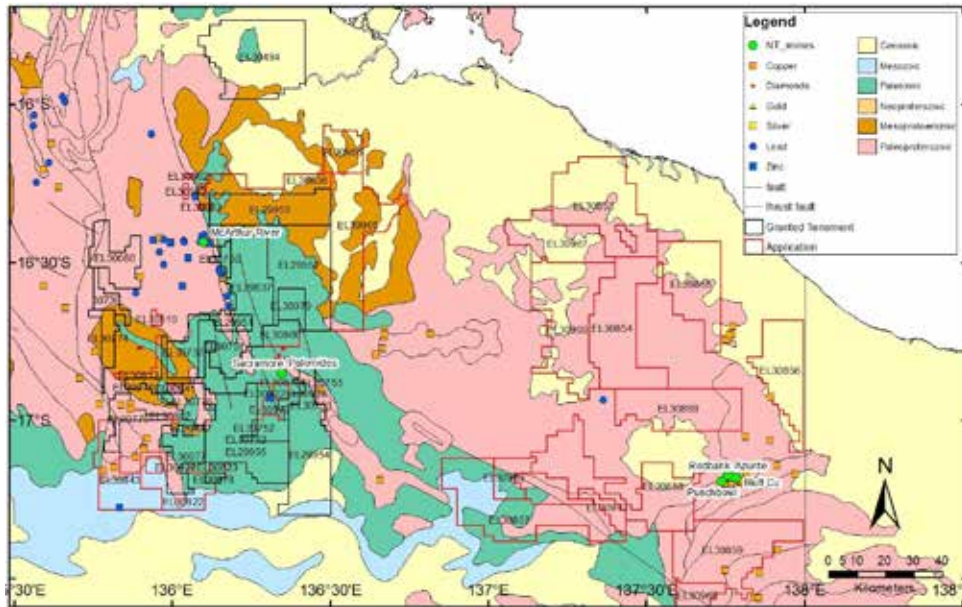


**Figure 5-6: Stratigraphic correlation – Proterozoic basement rocks of the McArthur and South Nicholson basins**

Source: Ripple Resources presentation, 2015

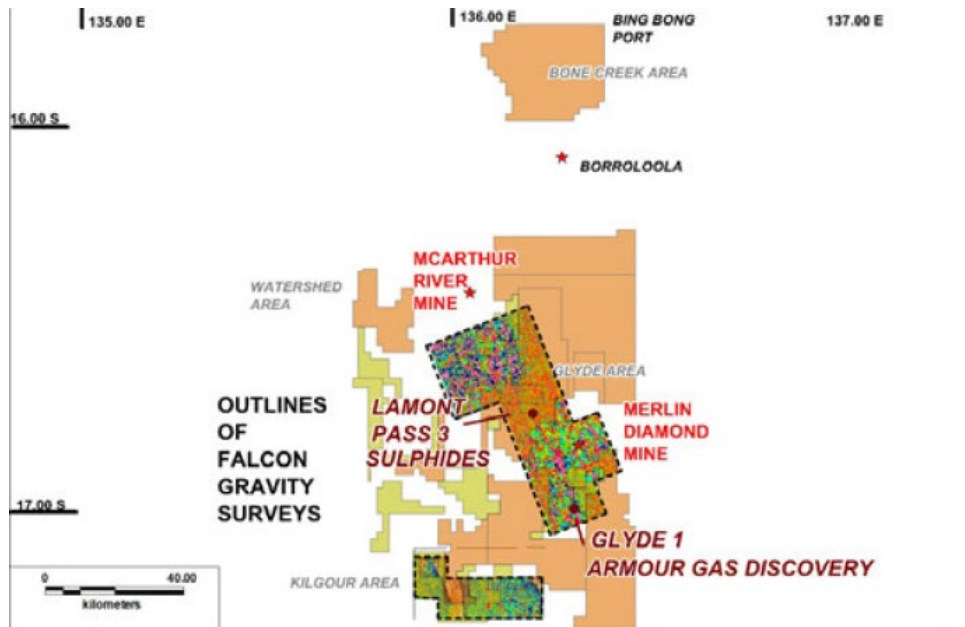
**5.4.1 McArthur Basin**

Exploration permits are located within the prospective rocks of the McArthur Group and has a number of significant mineral deposits including the McArthur River deposit (**Figure 5-7**). Ripple Resources has identified 15 prospective areas within eight prospective rock units of the McArthur Basin. In addition targets have been identified within the volcanics and diamond-bearing kimberlites. These 15 target areas are to be followed-up with by a shallow drilling campaign. A Falcon Gravity Survey along strike from McArthur River Mine (**Figure 5-8, Figure 5-9**) allows the interpretation of mineralised faults and basin geometry, thereby, aiding exploration efforts.



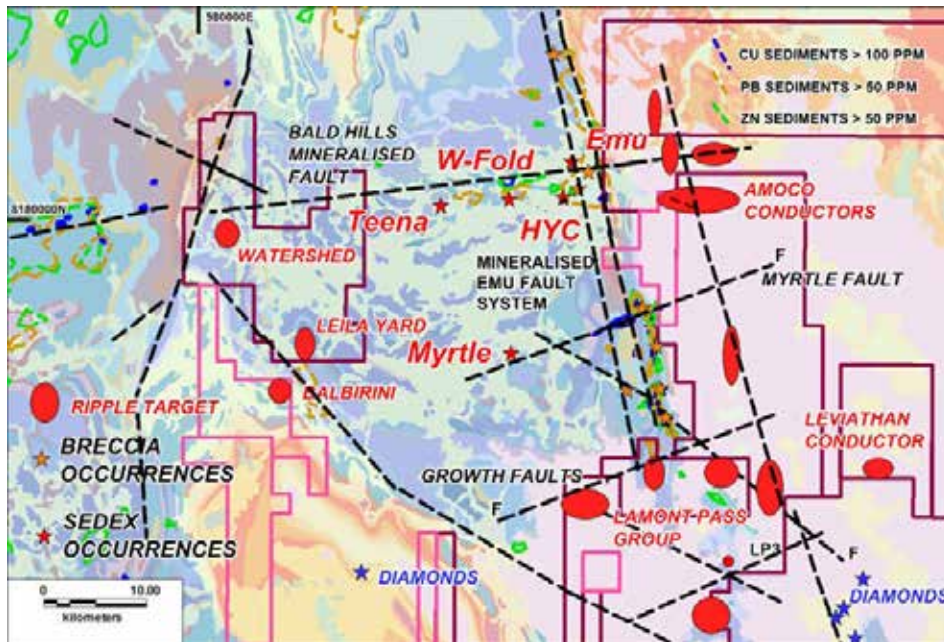
**Figure 5-7: Location map – Mineral exploration permits, McArthur Basin Northern Territory**

Shown with 1:2.5 million Geology with NTGS mineral occurrence data



**Figure 5-8: Falcon oil and Gas's gravity survey area and major deposits**

Source: Ripple Resource 2015



**Figure 5-9: Mineral exploration targets generated by Ripple Resources**

Source: Ripple Resources 2015

#### 5.4.2 Victoria River Downs

The Victoria River Downs project is centred over antiformal domes of Skull Creek Formation dolostone (Figure 5-10, Figure 5-11 and Figure 5-12). Previous explorers Hooker Mining 1971–1973 were exploring for Michigan style copper mineralisation within the Early Cambrian Antrim Plateau basalts. Exploration work identified disseminated base metals within the hinge zones of the dolostones which were considered similarities to the McArthur Basin. Hooker Mining found barite veins in the basalt which indicated potential for low temperature galena-sphalerite mineralisation in vuggy dolomite that was younger than the Proterozoic sediment package.

A large number of stream, rock chip and soil samples were collected. Stream samples confirmed often very strong (9,000 ppm) Pb anomalism in the VRD dome flanks, with only low values above the Supplejack Dolomite capping. Sampling also revealed classic SEDEX zonation, with Zn:Pb ratio increasing outwards from beneath the domes. An IP survey generated spurious anomalies thought to be water table effects, and four percussion holes to a maximum 120m depth had anomalous lead but results <0.1% Pb.

In 1996 BHP generated a large number of GEOTEM anomalies to the east of the dome, but abandoned the project after obtaining heterogeneous Pb isotope results, which were assumed to preclude the existence of an exhalite deposit.

Anglo American Exploration (Anglo) explored the area during 2007, targeting Mississippi and Irish type stratiform deposits associated with black shales. Anglo described the metal zonation of Pb-Zn-Mn, and the apparent origin of Pb anomalism associated within a large structural dome. Gravity was acquired on a 1 km grid, which was considered adequate for a first pass. Gravity anomalies were followed up by geochemical sampling with no infill gravity or drilling.

MMG took over the permit in 2013, stating “lead anomalism may be the surface expression of an alteration halo of a base metal mineralised system at depth”, but MMG does not seem to have done further work. Subsequently exploration work was carried out by Australia Mining and Gemstone, primarily targeting Copper mineralisation.

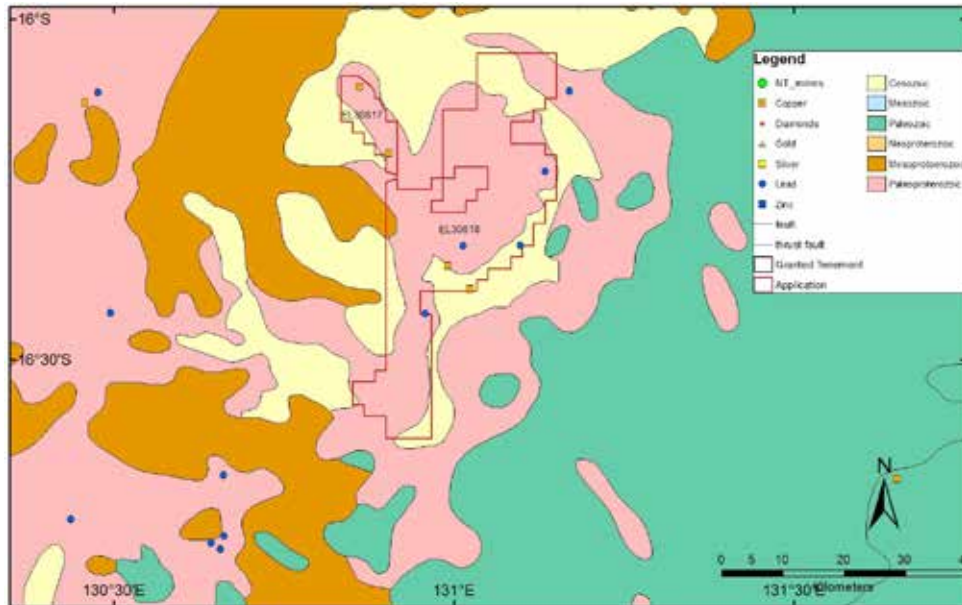


Figure 5-10: The Geology of the Victoria Downs Project area (Shown with 1:2.5 million Geology with GSQ mineral occurrence data)

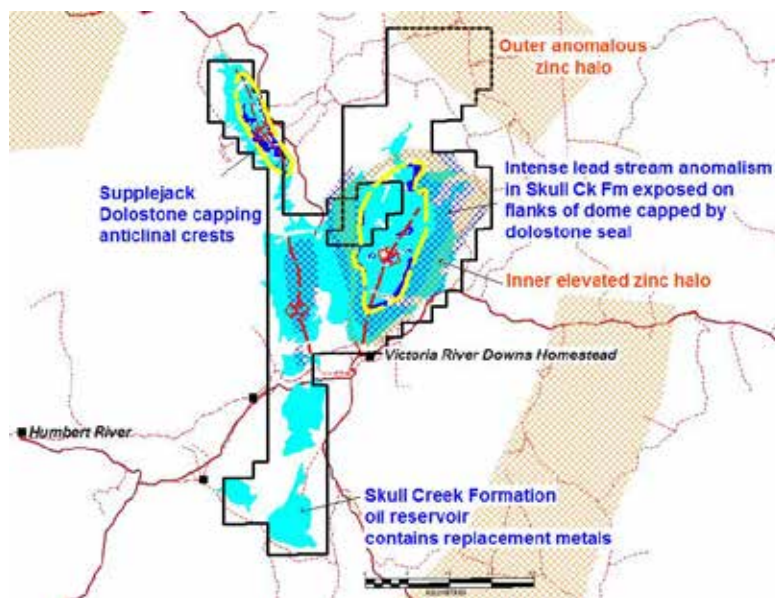
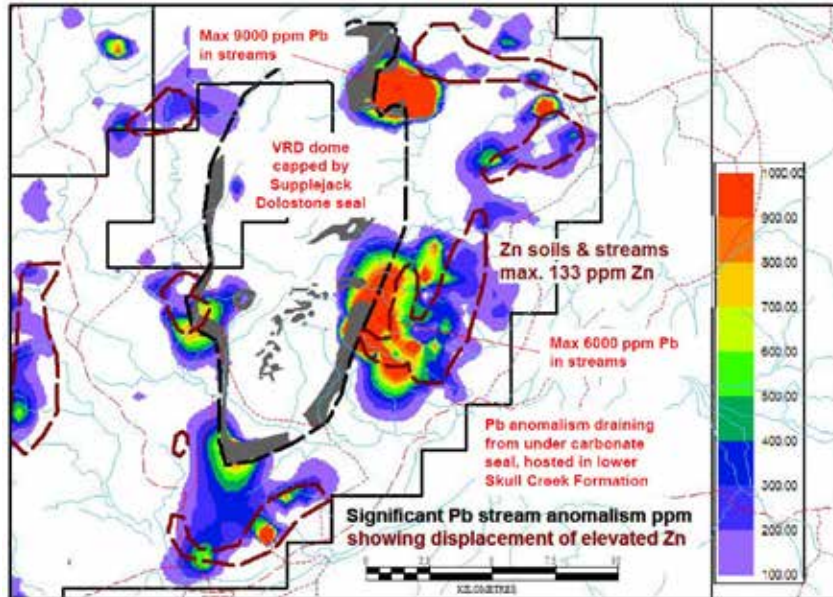


Figure 5-11: The Geology of the Victoria River Downs target on EL30817

Source: Ripple Resources 2015



**Figure 5-12: Surface geochemistry showing Pb-Zn shedding from under the seal rock**

Source: Ripple Resources 2015

Positive anomalies identified in free air gravity are inverted in bouger maps, indicating a processing problem. Existing gravity coverage is too coarse to detect a McArthur sized target. However, positive gravity anomalies in the free air gravity map and within the Anglo residual gravity map suggest the location of potential vents which require drill testing. Live oil with up to 0.16% Pb as epigenetic galena discovered in Departmental holes to the north and south support the theory the dome was oil charged, with subsequent Century-style hydrocarbon replacement by massive sulphide (Ripple Resources, 2015).

Previous surface sampling and very limited drilling indicate any deposit found is likely to have a high Pb:Zn ratio with Pb stream sediment anomalism over a large area associated with structural domes. Although these anomalies have never been drill tested, available government stratigraphic drilling 24 km to the south supports a second target VMS at a depth of 100–300 m depth.

The structural target could provide an oil trap site beneath a large anticlinal folded dolostone, where it is replaced by Pb-Zn massive sulphides deposited during a late low temperature epigenetic event accompanied by barite and disseminated galena (**Figure 5-13**).

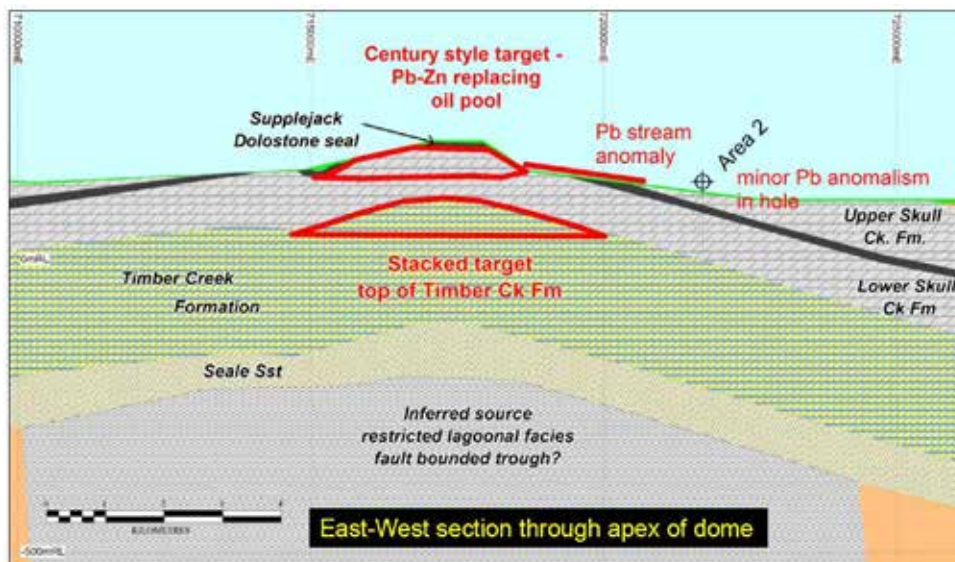


Figure 5-13: Victoria River Downs project exploration model Plan (top) and cross section (bottom)

### 5.4.3 Bone Creek Exploration Licence EL30494 – Diamonds

The alluvial diamond field downstream of the Merlin Mine is covered by 50 km<sup>2</sup> of Ripple Resources properties (EL30494) (Figure 5-14). The detailed magnetic surveys covering these properties have located similar magnetic features adjacent to the Merlin Mine (Figure 5-15). Ripple Resources state that diamond exploration is considered as a secondary target based on proximity of EL30494 to the Merlin Mine.

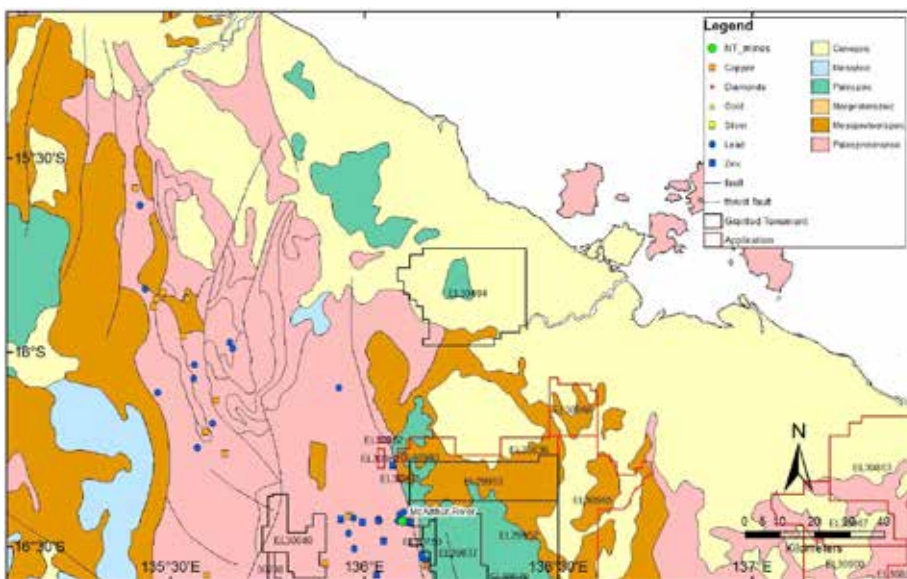
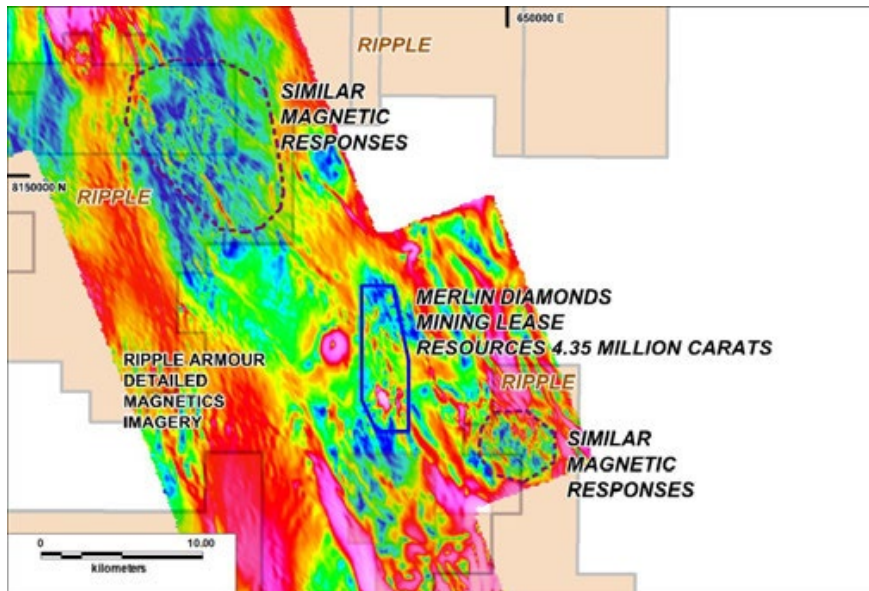


Figure 5-14: Location of the Bone Creek Project on EL30494 (Shown with 1:2.5 million Geology with GSQ mineral occurrence data, GDA94)



**Figure 5-15: Location map – Diamond exploration targets, Northern Territory**

Source: Ripple Resources presentation

Granted exploration permits cover the McArthur and Georgina basins and a small area of the Carpentaria Basin. Exploration permits under application in the Northeast cover the McArthur and Georgina basins and a small area of the Carpentaria Basin. The Southeast block of applications covers the Georgina Basin. The far Western block of applications covers the Birrindudu Basin.

The McArthur basin is an extensive Palaeo- to Mesoproterozoic sedimentary basin that forms the western extension of the Carpentaria Zinc Belt, which includes the Mount Isa region, a significant mining province. The basin is host to the world class McArthur River Pb-Zn-Ag mine, diamond bearing kimberlites at Merlin and Copper mining at Redbank. The basin is highly prospective for sediment hosted base metals deposits including Uranium, diamonds and iron ore with large portions of the basin under explored. Pb, Zn, Cu, Barite and Manganese occurrences have been identified within the tenement areas.

The Georgina Basin is a widespread Neoproterozoic to Palaeozoic intracratonic basin and host numerous sedimentary phosphate deposits including the Wonarah Phosphate Deposit. Pb-Zn mineralisation has been identified on the southern margin of the basin. Phosphate and Gypsum occurrences are noted within the South-East block tenement area.

The Carpentaria Basin is known to host bauxite, placer gold, manganese, oil shale and sedimentary uranium mineralisation. There is a high level of exploration prospectivity as the area has seen limited exploration in tenement areas historically. The Mesozoic Carpentaria Basin contains up to 1,200 m of sedimentary rocks and initiated in the mid-Jurassic. In the early Cretaceous there was a change to shallow marine conditions and a widespread oil shale was deposited. This oil shale has an average thickness of 10 m and yields 20 to greater than 100 L/t.

The Birrindudu Basin is a Proterozoic basin in Western NT which correlates with the McArthur Basin in the East. The sediments exhibit little deformation or metamorphism and are of shallow to deep Marine environments. The area is underexplored but there are known occurrences of diamond, Pb-Ag and Uranium mineralisation. There is also alluvial gold. There are Pb-Zn and Cu occurrences within the exploration permits.



## 6 Technical Asset Valuation – Mineral Exploration Permits

### 6.1 Comparable Transactions

Transactions were researched using the SNL subscription resource databases. Potentially comparable transactions that occurred between November 2011 and February 2015 were sought. Comparable transactions were analysed in cases where sufficient information was available in the public domain. A total of eight transactions involving early stage base metal exploration projects are considered to be comparable in terms of prospectivity and exploration stage (**Table 6-1 and Figure 6-1**). This included seven transactions in Australia and one Canadian project.

SRK has identified that there are five transactions that have been considered in terms of exploration stage and total size of tenure. These transactions include Wabassi, Mt Isa, Borroloola, Erayinia and Victoria Downs. When value of these transactions are normalised to A\$/km<sup>2</sup> five transactions provide the upper and lower range for the asset valuation.

SRK considered the acquisition of Ripple Resources by Armour from DGR Global for A\$10 and the repayment of a loan amounting to DGR Global amounting to A\$29,668. At the time of the transaction Ripple held 7 applications for EPMs (4,989 km<sup>2</sup>) in Queensland and 6 EPM (1,499 km<sup>2</sup>) in the Northern Territory. It is noted by SRK that this is a related party transaction.

#### 6.1.1 Analysis of Transactions

The transactions were analysed in terms of the implied purchase (100% of project) price in A\$ dollars and the area of the license under consideration. The Zn price at the time of the transaction was considered and normalised against the current Zn price at August, 2015 of A\$2,565 per tonne.

When considering all eight transactions, the implied transaction cost ranges from a minimum of A\$472/km<sup>2</sup> to a maximum of A\$9,026/km<sup>2</sup> with a median of A\$1,619/km<sup>2</sup>. When the transaction prices are normalised they ranged from 464 A\$/km<sup>2</sup>, to a maximum A\$10,330/km<sup>2</sup>, with a median of A\$2,425/km<sup>2</sup>.

Three transactions were considered to be outliers (i.e. Captains Flat, Arnhem Land Uranium and Walker Gossan) are removed from further analysis. When the five remaining transactions are considered the implied transactions cost ranges from a minimum of A\$2,032/km<sup>2</sup> to a maximum of A\$5,749/km<sup>2</sup>, with a median of A\$2,451/km<sup>2</sup>. The normalised transaction cost ranges from a minimum of A\$2,032/km<sup>2</sup> to a maximum of A\$5,749/km<sup>2</sup>, with a median value of A\$2,451/km<sup>2</sup>.

From this analysis, SRK has chosen Low, High and preferred valuations factors in terms of tenement area as indicated in **Table 6-2**.

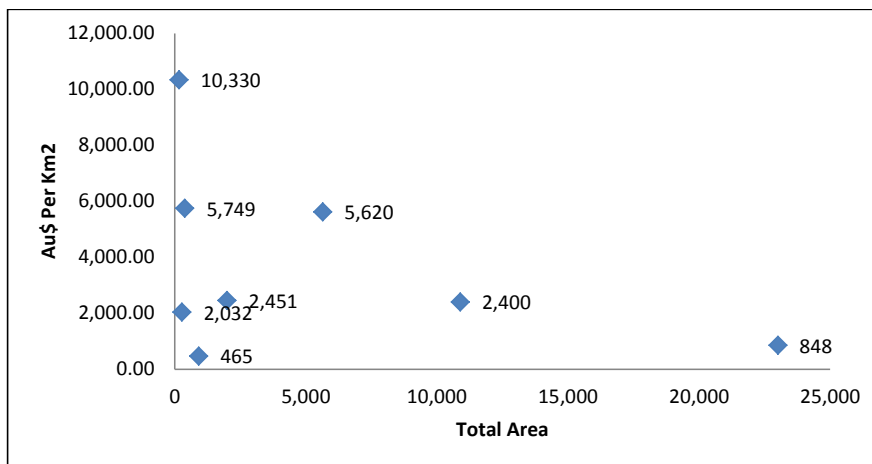


Figure 6-1: Land valuation of early stage base metal transactions – Australia

**Table 6-1: Transactions of base metal exploration projects**

Project	Date	Buyer	Seller	Project stage	Equity % Acquired	Project Area km <sup>2</sup>	AU\$/km <sup>2</sup>	Deal Synopsis
Wabassi	12/02/2015	Great Lakes Resources LLC	Discovery Harbour Resources Corp	Target outline	51	387.2	5,748.89	<p>Great Lakes Resources LLC paid approx. C\$1.215 million in cash to acquire the remaining 51% interest in Wabassi project from Discovery Harbour Resources Corp. Great Lakes Resources LLC has acquired the remaining 51% interest in Wabassi project from Vancouver, British Columbia-based Discovery Harbour Resources Corp. The Wabassi project is a base and precious metals project located in northwestern Ontario that is comprised of 165 unpatented blocks of 2,640 claim units for a total of 38,720 hectares.</p>
Captains Flat	12/11/2014	Investor group	Rutila Resources	Target outline	25	915	464.74	<p>An investor group comprised of Baar, Glencore Plc unit, Base Metals Pty Ltd. and Ironbark Zinc Ltd. acquired the remaining 25% interest in the Captains Flat project from Rutila Resources Ltd. The Captains Flat project is located in New South Wales, Australia and is VMS style base metal project with tenements over 915 Km<sup>2</sup></p>
Mt Isa tenements	2/04/2014	Aeon Metals Limited	Aston Metals QLD Ltd.	Target outline	100	5,648.43	5,619.72	<p>Aeon Metals Ltd. issued 48,275,862 of its common shares, 63,251,107 warrants exercisable at A\$0.1581 which expire 17 June 2017, and a non-recourse loan of approx. \$18.79 million to acquire Aston Metals QLD Ltd. from Aston Copper Pty. Ltd. Aeon Metals Ltd. has acquired Mount Isa from Aston Copper Pty Ltd. Aston, an unlisted public company, holds an exploration tenement portfolio in the world-class Mt Isa mineral province in Northwest Queensland. The most advanced project within the Aston portfolio is the Walford Creek Project.</p>
Walker Gossan	27/01/2014	GPM Metals Inc.	Rio Tinto Plc	Exploration	51	166	10,330.49	<p>GPM Metals Inc. paid \$871,916 on signing of agreement and will incur \$17.44 in exploration expenditures to acquire up to initial 51% interest in the Walker Gossan project from Rio Tinto Plc. However, there are milestone payments within the combined expenditures which are as follows: (a) \$87,192 upon the grant of licenses to all of the properties; (b) \$871,916 upon the completion of the first drill hole on the Walker Gossan and (c) \$3.49 million upon the completion of a JORC Code Compliant resource study that shows an indicated status for minimum 20 million tons of greater than 8% combined lead and zinc, or lead, zinc and silver, within the licensed area or a Decision to Mine being made. In Stage two, GPM Metals may increase its interest to 75% by completing a Feasibility Study within 3 years of completing Stage One. Toronto-based GPM Metals Inc unit Australia-based DPG Resources Australia Pty Ltd. has agreed to acquire up to 75% interest in the Walker Gossan project from London-based Rio Tinto plc., through an earn-in and joint venture transaction. The Walker Gossan project is located in Australia</p>
Borroloola	18/07/2013	MMG	Sandfire Resources NL	Target outline	60	10,887	2,400.18	<p>Sandfire entered an option and joint venture agreement with MMG for the Batten Trough JV covering the eastern portion of the Borroloola tenements whereby MMG could earn up to an 80% interest in the tenements. Under the terms of the agreement, MMG must spend A\$2 million within the first year, spend \$9.16 million (A\$10 million) within four years to earn a 60% interest, and complete a prefeasibility study to earn a further 20%. The Borroloola West JV (#125713) covering the western portion of the Borroloola tenements was under an agreement with West Rock in alliance with Cliffs Natural Resources. (Sandfire 6/13 QR 7/18/13)</p>

Data sourced from SNL database September 2015

**Table 6-1: Transactions of base metal exploration projects (Cont.)**

Project	Date	Buyer	Seller	Project stage	Equity % Acquired	Project Area km <sup>2</sup>	AUS\$/km <sup>2</sup>	Deal Synopsis
Erayinia	29/01/2013	Black Raven Pty Ltd	ABM	Grass Roots	70	275	2,032.19	During the December 2012 quarter, ABM's 70% interest in Erayinia was divested to Black Raven for \$300,000. The Erayinia project is located within the poorly outcropping Erayinia Greenstone belt, which is located at the extreme (south) east of the Yilgarn Block - adjacent to the Albany-Fraser tectonic zone comprises two granted exploration licences covering an area of 275 km <sup>2</sup> .
Victoria River Downs	29/01/2013	MMG Ltd	Anglo-Australian Resources	Target defined /exploration	80	1,995	2,451.11	In January 2013, Anglo Australian Resources entered into an agreement with MMG Exploration concerning the exploration and development of Victoria River Downs. Pursuant to the agreement, MMG could earn a participating interest in the project by completing certain expenditure obligations as sole contributor, including an initial \$500,000 during the first 12 month period in order to decide whether to proceed to form a joint venture with Anglo in relation to the project. MMG would be obliged to spend a further \$2.5 million over a three year period to earn a 60% interest in the project, and then a further unspecified amount and period to bring the project to a point where it was reasonable to begin a bankable feasibility study to earn an 80% interest.
Arnhem Land Uranium	4/11/2011	Anglo American Plc	DB Investments SA & De Beers Société Anonyme	Target outline	40	23,007	847.53	March 2012 quarter, Anglo American purchased the right to all minerals including diamonds on the tenements comprising approximately 23,007 sq km in the Northern Territory. Anglo American Plc has paid \$5.2 billion in cash to acquire an additional 40% interest in DB Investments SA and De Beers Société Anonyme from an investor group comprised of CHL Holdings Ltd. and Centhold International

Data sourced from SNL database September 2015

**Table 6-2: Summary statistics for comparable base metal transactions of early stage exploration permits**

Grouping	Statistic	Implied Price (A\$/km <sup>2</sup> )	Normalised Price (A\$/km <sup>2</sup> )
All transactions n=9	Minimum	472.13	464.74
	Maximum	9,025.91	10,330.49
	Median	1,619.84	2,425.64
	Mean	3,276.64	3,736.86
Transactions with outliers removed n=5	Minimum	1,619.84	2,032.19
	Maximum	5,909.12	5,748.89
	Median	1,619.84	2,451.11
	Mean	1,619.84	3,650.42

Normalised to August 2015 average Zinc price of A\$2,565 per tonne

Highlighting key: Chosen low factor; Median factor; Chosen high factor;

### 6.1.2 Area-based Exploration Valuation

Area-based valuations can be undertaken on early-stage exploration properties using comparable transactions in similar geological terranes. Area-based transaction data are provided in **Table 6-3** – six transactions are taken into account. The values have been considered on the basis of Granted (7,162.3 km<sup>2</sup>) and Applications (10,782 km<sup>2</sup>) for exploration permits. Applications have been discounted at 75% of the value of granted tenure. A discount of 75% was applied to the mineral permit applications, although these permits are considered as an asset of Ripple Resources until they are granted no work can commence on these areas. The discount factor acknowledges the risk that the application may be rejected or delayed.

**Table 6-3: Area-based valuation using comparable transactions – Ripple Resources tenement holding**

Tenement Group (Tenement Status)	Area km <sup>2</sup>	Low	Mid	High
McArthur (granted)	4,530.90	2,105,678	11,105,719	16,539,683
McArthur (Application)	7,472	868,129	4,578,667	6,818,982
McArthur South (Application)	2,412	560,473	2,956,035	2,201,203
Bone Creek (Granted)	816.2	379,319	2,000,593	2,979,472
Victoria Downs (Application)	898	104,334	550,273	819,519
South Nicolson Basin (Granted)	1,815.18	843,582	4,449,200	6,626,167
<b>Total</b>	<b>17,944</b>	<b>4,861,515</b>	<b>25,640,487</b>	<b>35,985,026</b>

## 6.2 Cost Approach

### 6.2.1 Geoscientific Rating Method

The Geoscientific Rating or modified Kilburn method of valuation, as described by Kilburn (1990), attempts to quantify the relevant technical aspects of a property through the use of appropriate multipliers (factors) applied to an appropriate base (or intrinsic) value. The intrinsic value is referred to as the Base Acquisition Cost (BAC), and is critical as it forms the standard base from which to commence a valuation. It represents “the average cost to identify, apply for and retain a base unit of area of title”.

Multipliers or factors are considered for Off-property aspects, On-property aspects, Anomaly aspects and Geological aspects. These multipliers are applied sequentially to the BAC to estimate the Asset value for each tenement. A further Market Factor is then considered to derive a Fair Market Value. The rating criteria used for assessing the modifying factors are provided in **Table 6-4**.

**Table 6-4: Modified Kilburn Geoscientific rating criteria (Modified after Xtract, 2010)**

Rating	Off-Property Factor	On-Property Factor	Anomaly Factor	Geological Factor
0.1				Unfavourable geological setting
0.5			Extensive previous exploration gave poor results	Poor geological setting
0.9			Poor results to date	Generally favourable geological setting, under cover
1	No known mineralisation in district	No known mineralisation on lease	No targets outlined	Generally favourable geological setting
1.5	Minor workings	Minor workings or mineralised zones exposed	Target identified, initial indications positive	
2	Several old workings in district	Several old workings or exploration targets identified	Significant grade intercepts evident, but not linked on cross or long sections	Favourable geological setting, with structures or mineralised zones
2.5				Significant mineralised zones exposed in prospective host rock
3	Mine or abundant workings with significant previous production	Mine or abundant workings with significant previous production	Several economic grade intercepts on adjacent sections	
3.5				
4	Along strike from a major deposit (s)	Major mine with significant historical production		
5	Along strike from a world class deposit			
10		World class mine		

### Base Acquisition Cost

It is worth noting that practitioners calculate the BAC in varying ways. For the purposes of evaluating Ripple Resources exploration permits in northern Australia, SRK has considered the size of exploration permits, initial application payments, annual surface fees and minimum expenditure commitment.

For the evaluation of Ripple Resources exploration permits, SRK has assumed a BAC of A\$147/km<sup>2</sup>. The factors considered in arriving at this BAC are detailed in **Table 6-5**.

**Table 6-5: Calculation of base acquisition cost for exploration permits**

Expenditure Commitment	As per current tenement conditions, a minimum A\$1,182,850 expenditure commitment
Average exploration license area <sup>#</sup>	269 km <sup>2</sup>
Life of tenement considered	3–6 years
BAC	A\$147/km <sup>2</sup>

Area, Initial payment, annual fee and minimum exploration expenditure for exploration permits.

### Dividing the exploration permits

The Geoscientific Rating method, as initially described by Kilburn (1990), was developed in Canada, with reference to the Canadian claims and licencing system. The method works best when considering small individual licenses, with values for larger areas established by summing the values for the individual claims that make up the larger tenure area. The assessment and rating is conducted on the small individual areas so that particularly high or particularly low ratings are not applied to inappropriately large areas, thereby biasing the evaluations.

As Ripple Resources individual licenses are comparably large (of the order of hundreds of square kilometres), SRK found it necessary to subdivide the licenses into smaller project areas, in order to apply the Geoscientific Rating method. For the purpose of the valuation, we used the SRK-determined areas (**Table 6-6; Table 6-7**).

A Market Factor of two was applied in deriving a Fair Market Value from the Technical Value obtained from the rating matrix. This factor was chosen such that the average value for the tenement package considered is consistent with the Preferred Value obtained from the analysis of comparable transactions on an area basis. SRK is of the view that this adequately accounts for market factors on an empirical basis.

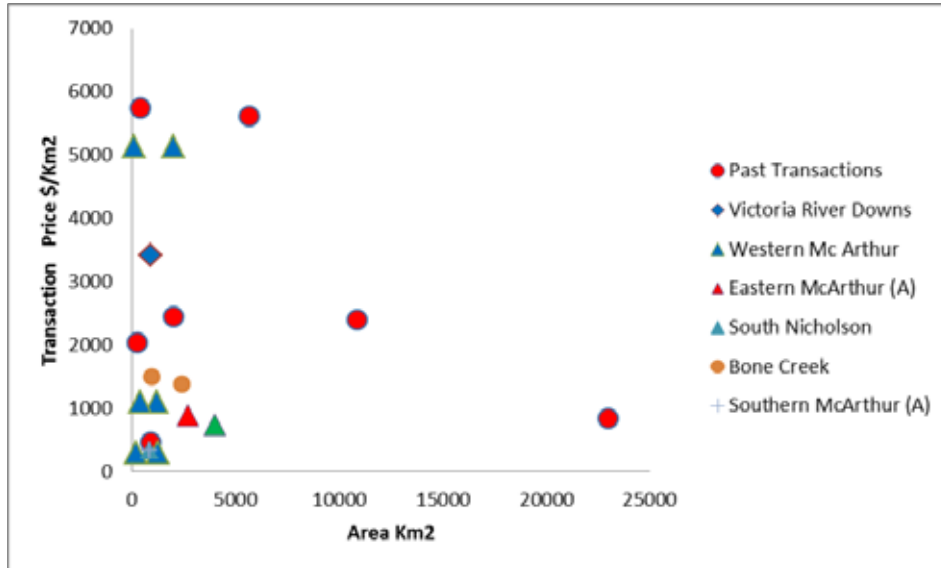


Figure 6-2: Implied price per km<sup>2</sup> from Kilburn analysis to comparable transactions

Table 6-6: Granted minerals exploration permits with project allocation for Kilburn Valuation

Project	Exploration permit	Status	Project Sub area for Kilburn Analysis	Area (km <sup>2</sup> )
McArthur (West)	EL29837	Granted	Central	645.8
	EL29951	Granted	Central	75.4
	EL29952	Granted	East	715
	EL29953	Granted	East	463.1
	EL29954	Granted	Central	608.4
	EL29955	Granted	Central	575.7
	EL30076	Granted	West	101.5
	EL30077	Granted	West	219.1
	EL30078	Granted	West	22.9
	EL30079	Granted	East	104.9
	EL30080	Granted	West	249.8
	EL30736	Granted	West	85.2
	EL30737	Granted	West	176.9
	EL30750	Granted	Central	41.4
	EL30751	Granted	Central	13.1
	EL30752	Granted	Central	16.4
	EL30753	Granted	Central	39.3
	EL30774	Granted	West	108.6
	EL30775	Granted	West	130.9
	EL30776	Granted	West	137.5



Project	Exploration permit	Status	Project Sub area for Kilburn Analysis	Area (km2)
	EL30810(A)	Application	West	16
	EL30812(A)	Application	West	56
	EL30813(A)	Application	Central	30
	EL30822(A)	Application	West	229
	EL30823(A)	Application	West	20
	EL30836(A)	Application	East	218
	EL30841(A)	Application	West	20
	EL30842(A)	Application	West	39
	EL30922(A)	Application	West	36
	EL30866(A)	Application	Central	105
McArthur (East)	EL30843(A)	Application	South	340
	EL30853(A)	Application	North	792
	EL30854(A)	Application	North	755
	EL30855(A)	Application	North	575
	EL30856(A)	Application	North	480
	EL30857(A)	Application	South	801
	EL30858(A)	Application	South	808
	EL30859(A)	Application	South	752
	EL30899(A)	Application	North	580
McArthur South	EL30925(A)	Application	McArthur South	806
	EL30926(A)	Application		798
	EL30927(A)	Application		808
Bone Creek	EL30494	Bone Creek	West	816.2
Victoria River Downs	EL30817	Application	Victoria Downs	76.8
	EL30818	Application		820.9
South Nicolson Basin overlying Isa Superbasin	EPM19833	Granted	West	325.9301
	EPM19835	Granted	East	198.6737
	EPM19836	Granted	West	322.423
	EPM25410	Granted	West	195.441
	EPM25504	Granted	east	325.9931
	EPM25505	Granted	East	195.5647
	EPM25802	Granted	East	251.1582

**Table 6-7: Geoscientific (Modified Kilburn) rating and valuation of Ripple Resources minerals exploration permits**

Project	Tenement sub-block	Area Km2	BAC AU\$	Off Property		On Property		Anomaly		Geology		Technical Value		Market Factor	Valuation		
				Low	High	Low	High	Low	High	Low	High	Low	Mid		High		
Victoria River Downs	EL30817/18	898.0	132,006	2	2.5	1.5	1.5	1.5	2	1	2.5	594,027	2,475,113	2	\$297,014	\$767,285	\$1,237,556
	Granted West	1232.0	181,104	1	2.5	1.5	0.9	1	1	0.9	1	220,041	1,131,900	2	\$550,103	\$1,689,927	\$2,829,750
Western McArthur	Application West	416.0	61,152	1	2.5	1.5	0.9	1	1	0.9	1	74,300	382,200	2	\$37,150	\$114,125	\$191,100
	Granted Central	2015.0	296,205	2	4	1	1.5	2	1	2	1	888,615	9,478,560	2	\$2,221,538	\$12,958,969	\$23,696,400
	Application Central	135.0	19,845	2	4	1	1.5	2	1	2	1	59,535	635,040	2	\$29,768	\$173,644	\$317,520
	Granted East	1283.0	188,601	1.5	1.5	1	1	1	1	0.5	0.9	141,451	254,611	2	\$353,627	\$495,078	\$636,528
	Application East	218.0	32,046	1.5	1.5	1	1	1	1	0.5	0.9	24,035	43,262	2	\$12,017	\$16,824	\$21,631
Eastern McArthur	Application North	4002.0	588,294	1.5	1.5	1.5	1	1.5	1	0.9	0.9	1,191,295	1,786,943	2	\$595,648	\$744,560	\$893,472
	Application South	2701.0	397,047	1.5	2	1.5	1	1.5	1	0.9	0.9	804,020	1,608,040	2	\$402,010	\$603,015	\$804,020
Southern McArthur	Application	2412.0	354,564	1	1.5	1	1	1	1	0.9	0.9	319,108	478,661	2	\$159,554	\$199,442	\$239,331
	Granted East	971.0	142,737	3	4	1	1.5	2	1	0.5	0.9	321,158	1,027,706	2	\$802,896	\$1,686,081	\$2,569,266
Nicholson Trough	Granted West	844.0	124,068	3	4	1	1.5	2	1	0.5	1	279,153	992,544	2	\$697,883	\$1,589,621	\$2,481,360
	Granted	816.0	119,952	1	2.5	1	1	1	1	0.5	0.9	59,976	269,892	2	\$149,940	\$412,335	\$674,730

BAC A\$147/km<sup>2</sup>, Market Factor 2

### 6.3 Preferred Valuation

In choosing the Preferred Value and Valuation of Ripple Resources exploration assets, SRK considered the valuation ranges assessed using both the Area-based and the Kilburn methods. The results were averaged, with a higher weighting placed on the Kilburn valuation as it is a market approach that incorporates an assessment of prospectivity. The valuation by the Kilburn method corresponds with range of values per \$/km<sup>2</sup> comparable transactions (**Figure 6-2**). The tenements in application have been discounted by 75% when compared to the value of granted Tenure.

**Table 6-8: SRK's preferred value and valuation range for Ripple Resources minerals exploration permits, as at 18th September 2015**

Low (A\$ MM)	Preferred (A\$ MM)	High (A\$ MM)
4.86	21.45	36.59

The Valuation Range of A\$4.86 MM to A\$36.59 MM was chosen as being consistent with the range assessed using the two valuation methods, the range above and below the Preferred Value is consistent with SRK's view of both the upside potential and the inherent risk in the project at this early stage of exploration (**Table 6-8**).

### 6.4 Discussion

SRK was appointed by BDO to prepare a Technical Expert Report compliant with the Valmin Code (2005) to support an opinion as to the current Market Value of the exploration assets of Ripple Resources. The exploration permits are located within Northern Australia in the, Mc Arthur Basin and the Isa Super Basin where the company has acquired a ground holding to explore for base metal deposits.

Due to the early stage of the exploration SRK has determined a technical-based Valuation for the exploration permits using similar past transactions. Two different methods were considered appropriate to the nature and stage of exploration of exploration permits held and to be held by Ripple Resources. Sunk costs were not accounted for as no data was available. All exploration permits were included in the asset valuation. A discount of 75% was applied to permits under application although SRK considers that most are likely to be granted.

## 7 Conclusion

SRK summarises the assets valuation of Armour and subsidiary Ripple Resources in **Table 7-1**.

SRK's technical valuation is based on the best estimates derived from relevant comparable transactions and escalated multiples of exploration expenditure. The expenditure has achieved proven hydrocarbons and greatly increased the prospectivity of the blocks assessed.

The Low-range valuation for the petroleum permits is considered only on the basis of comparable transactions using the valuation of A\$9.06/acre for petroleum permits in both Northern Territory and Queensland indicating a total valuation of A\$70.14 MM for both assets.

The upper range valuation of the Queensland and Northern Territory petroleum assets considers that, although the Queensland assets are relatively small in area, they are more advanced in terms of exploration development and have received more exploration expenditure. The multiples of exploration expenditure methodology values these permits at A\$76.19 MM, however this method does not consider the current market conditions and this valuation is significantly higher than the high range of comparable transactions valuation. SRK considers the Queensland assets preferred High range valuation of A\$53.69 MM at a rate of A\$30.57/acre providing a market based valuation of the Queensland assets. Given the large area of prospective geology for the Northern Territory permits, the High range valuation for these permits is considered on the basis of comparable transactions using a rate of A\$16.91/acre and a High range valuation of A\$101.21 MM.

The Preferred Valuation for the Northern Territory petroleum assets is \$69.41 MM and is derived from the multiples of exploration expenditure methodology. The Preferred Value for the Queensland assets is A\$29.70 MM considered from comparable transactions at a rate of A\$16.91/acre, and is further supported by the total actual exploration expenditure of A\$30.47 MM on the property.

The Valuation Range of A\$4.86 MM to A\$36.59 MM for the Ripple Resources mineral exploration assets was chosen as being consistent with the range assessed using the Kilburn method and Comparable Transactions valuation methods. The range above and below the Preferred Value is consistent with SRK's view of both the upside potential and the inherent risk in the project at this early stage of exploration.

**The Preferred Valuation for the Northern Territory and Queensland petroleum assets is \$99.11 MM and is derived from the multiples of exploration expenditure and comparable transaction methodology, with a range of A\$70.14 MM to A\$154.90 MM.**

**The Valuation Range of A\$4.86 MM to A\$36.59 MM for the Ripple Resources mineral exploration assets was chosen as being consistent with the range assessed using the Kilburn method and comparable transactions valuation methods. The range above and below the Preferred Value of A\$21.45 MM for the mineral assets is consistent with SRK's view of both the upside potential and the inherent risk in the project at this early stage of exploration.**

**The Preferred Valuation for both the Northern Territory and Queensland petroleum and mineral assets use the multiples of expenditure and comparable transactions methods, which indicates a valuation of A\$120.56 MM. SRK has considered this valuation in terms of technical value to be within the range of A\$75 – A\$191 MM.**

**Table 7-1: Technical assets valuation – Total for petroleum and minerals resources**

<b>Resources</b>	<b>Low (A\$ MM)</b>	<b>Preferred (A\$ MM)</b>	<b>High (A\$ MM)</b>
Petroleum NT	54.23	69.41	101.21
Petroleum QLD	15.91	29.70	53.69
Minerals (NT and QLD)	4.86	21.45	36.59
<b>Total (Combined)</b>	<b>75.00</b>	<b>120.56</b>	<b>191.49</b>

SRK has considered this valuation in terms of technical value to be within the range of A\$75 – A\$191 MM. This valuation is based on our evaluation of the Armour assets.

**Compiled by**


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**Peer Reviewed by**


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Principal Consultant

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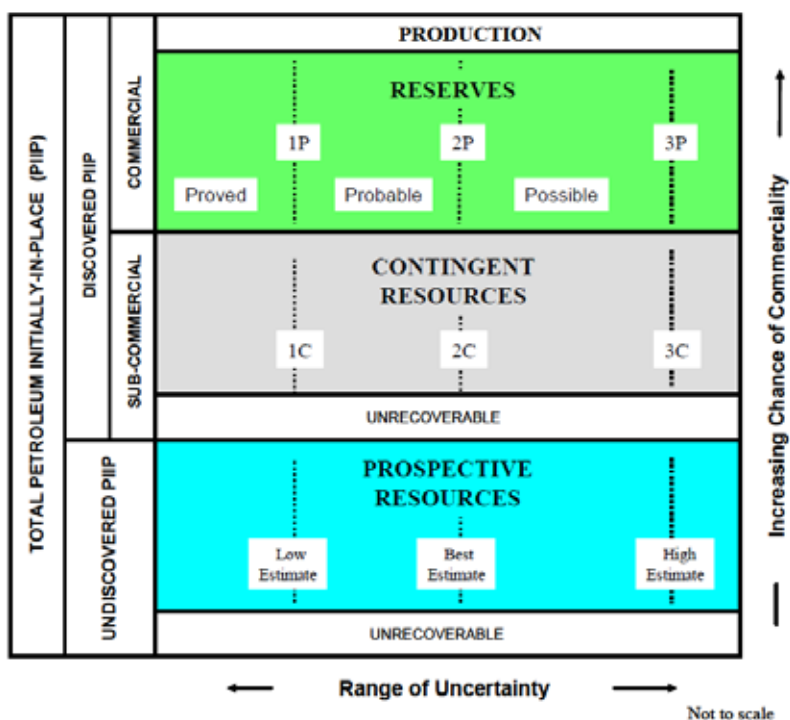
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## **Appendix A: Category Definitions of Petroleum Reserves and Resources**

For further details on the definitions and guidelines, please see the original document (SPE, 2007).



The following figure (from the World Petroleum Council) presents 1P 2P and 3P category definitions. Furthermore, it provides guidelines designed to promote consistency in resource assessments. The following summarizes the definitions for each Reserves category in terms of both the deterministic incremental approach and scenario approach and also provides the probability criteria if probabilistic methods are applied.



**Figure A-1: Resources Classification Framework**

**Proved Reserves** are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

**Probable Reserves** are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

**Possible Reserves** are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this

context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

The “Range of Uncertainty” reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the “Chance of Commerciality”, that is, the chance that the project that will be developed and reach commercial producing status.

The following definitions apply to the major subdivisions within the resources classification:

**TOTAL PETROLEUM INITIALLY-IN-PLACE** is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production plus those estimated quantities in accumulations yet to be discovered (equivalent to “total resources”).

**DISCOVERED PETROLEUM INITIALLY-IN-PLACE** is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.

**PRODUCTION** is the cumulative quantity of petroleum that has been recovered at a given date. While all recoverable resources are estimated and production is measured in terms of the sales product specifications, raw production (sales plus non-sales) quantities are also measured and required to support engineering analyses based on reservoir voidage.

Multiple development projects may be applied to each known accumulation, and each project will recover an estimated portion of the initially-in-place quantities. The projects shall be subdivided into Commercial and Sub-Commercial, with the estimated recoverable quantities being classified as Reserves and Contingent Resources respectively, as defined below.

**RESERVES** are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria's: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

**CONTINGENT RESOURCES** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

**UNDISCOVERED PETROLEUM INITIALLY-IN-PLACE** is that quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.

**PROSPECTIVE RESOURCES** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

**UNRECOVERABLE** is that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur, the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

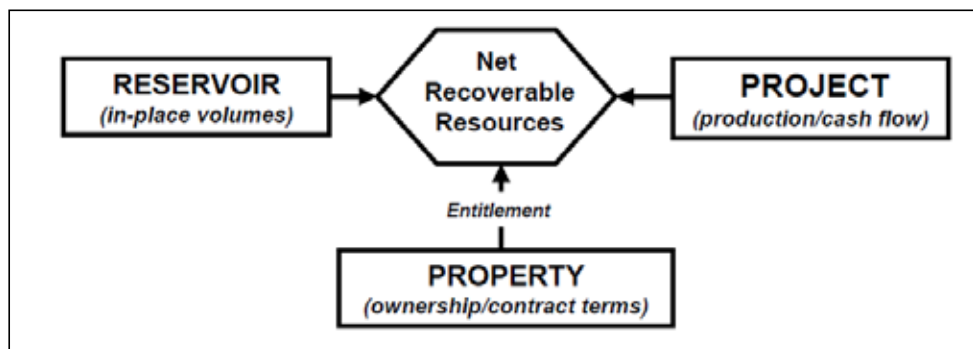
**ESTIMATED ULTIMATE RECOVERY (EUR)** is not a resources category, but a term that may be applied to any accumulation or group of accumulations (discovered or undiscovered) to define those quantities of petroleum estimated, as of a given date, to be potentially recoverable under defined technical and commercial conditions plus those quantities already produced (total of recoverable resources).

In specialized areas, such as basin potential studies, where alternative terminology has been used, the total resources may be referred to as Total Resource Base or Hydrocarbon Endowment. Total recoverable or EUR may be termed Basin Potential. The sum of Reserves, Contingent Resources and Prospective Resources may be referred to as “remaining recoverable resources”. When such terms are used, it is important that each classification component of the summation also be provided. Moreover, these quantities should not be aggregated without due consideration of the varying degrees of technical and commercial risk involved with their classification.

#### Project-Based Resources Evaluations

The resources evaluation process consists of identifying a recovery project, or projects, associated with a petroleum accumulation(s), estimating the quantities of Petroleum Initially-in-Place, estimating that portion of those in-place quantities that can be recovered by each project, and classifying the project(s) based on its maturity status or chance of commerciality.

This concept of a project-based classification system is further clarified by examining the primary data sources contributing to an evaluation of net recoverable resources (see **Figure A-2**) that may be described as follows:



**Figure A-2: Resources Evaluation Data Sources**

#### Resources Classification

The basic classification requires establishment of criteria for a petroleum discovery and thereafter the distinction between commercial and sub-commercial projects in known accumulations (and hence between Reserves and Contingent Resources).

**Determination of Discovery Status**

A discovery is one petroleum accumulation, or several petroleum accumulations collectively, for which one or several exploratory wells have established through testing, sampling, and/or logging the existence of a significant quantity of potentially moveable hydrocarbons.

In this context, "significant" implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the potential for economic recovery. Estimated recoverable quantities within such a discovered (known) accumulation(s) shall initially be classified as Contingent Resources pending definition of projects with sufficient chance of commercial development to reclassify all, or a portion, as Reserves.

Where in-place hydrocarbons are identified but are not considered currently recoverable, such quantities may be classified as Discovered Unrecoverable, if considered appropriate for resource management purposes, a portion of these quantities may become recoverable resources in the future as commercial circumstances change or technological developments occur.

**Determination of Commerciality**

Discovered recoverable volumes (Contingent Resources) may be considered commercially producible, and thus Reserves, if the entity claiming commerciality has demonstrated firm intention to proceed with development and such intention is based upon all of the following criteria:

Evidence to support a reasonable timetable for development.

- A reasonable assessment of the future economics of such development projects meeting defined investment and operating criteria.
- A reasonable expectation that there will be a market for all or at least the expected sales quantities of production required to justify development.
- Evidence that the necessary production and transportation facilities are available or can be made available.
- Evidence that legal, contractual, environmental and other social and economic concerns will allow for the actual implementation of the recovery project being evaluated.

To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.

To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

**Project Status and Commercial Risk**

Evaluators have the option to establish a more detailed resources classification reporting system that can also provide the basis for portfolio management by subdividing the chance of commerciality axis according to project maturity. Such sub-classes may be characterized by standard project maturity level descriptions (qualitative) and/or by their associated chance of reaching producing status (quantitative).

As a project moves to a higher level of maturity, there will be an increasing chance that the accumulation will be commercially developed. For Contingent and Prospective Resources, this can further be expressed as a quantitative chance estimate that incorporates two key underlying risk components:

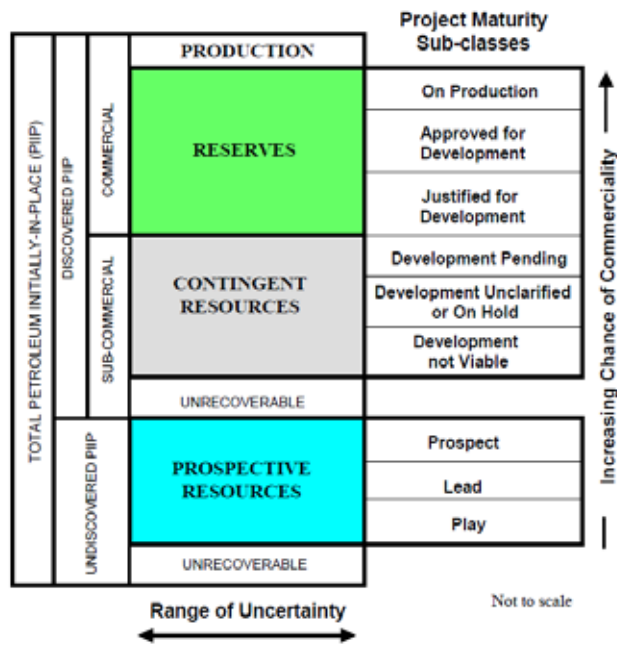
The chance that the potential accumulation will result in the discovery of petroleum. This is referred to as the “chance of discovery”

Once discovered, the chance that the accumulation will be commercially developed is referred to as the “chance of development”.

Thus, for an undiscovered accumulation, the “chance of commerciality” is the product of these two risk components. For a discovered accumulation where the “chance of discovery” is 100%, the “chance of commerciality” becomes equivalent to the “chance of development”.

**Project Maturity Sub-Classes**

As illustrated in **Figure A-3** development projects (and their associated recoverable quantities) may be sub-classified according to project maturity levels and the associated actions (business decisions) required to move a project toward commercial production.



**Figure A-3: Project Maturity Sub-Classes**

Project Maturity terminology and definitions have been modified from the example provided in the 2001 Supplemental Guidelines, Chapter 2. Detailed definitions and guidelines for each Project maturity sub-class are provided in Table I. This approach supports managing portfolios of opportunities at various stages of exploration and development and may be supplemented by associated quantitative estimates of chance of commerciality. The boundaries between different levels of project maturity may be referred to as “decision gates”.

Decisions within the Reserves class are based on those actions that progress a project through final approvals to implementation and initiation of production and product sales. For Contingent Resources, supporting analysis should focus on gathering data and performing analyses to clarify and then mitigate those key conditions, or contingencies that prevent commercial development.

For Prospective Resources, these potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under appropriate development projects. The decision at each phase is to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity where a decision can be made to proceed with exploration drilling.

Evaluators may adopt alternative sub-classes and project maturity modifiers, but the concept of increasing chance of commerciality should be a key enabler in applying the overall classification system and supporting portfolio management.

#### **Reserves Status**

Once projects satisfy commercial risk criteria, the associated quantities are classified as Reserves. These quantities may be allocated to the following subdivisions based on the funding and operational status of wells and associated facilities within the reservoir development plan (detailed definitions and guidelines are provided in **Figure A-3**:

- Developed Reserves are expected quantities to be recovered from existing wells and facilities
- Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate
- Developed Non-Producing Reserves include shut-in and behind-pipe Reserves
- Undeveloped Reserves are quantities expected to be recovered through future investments.

Where Reserves remain undeveloped beyond a reasonable timeframe, or have remained undeveloped due to repeated postponements, evaluations should be critically reviewed to document reasons for the delay in initiating development and justify retaining these quantities within the Reserves class. While there are specific circumstances where a longer delay (see Determination of Commerciality, section 2.1.2) is justified, a reasonable time frame is generally considered to be less than 5 years.

Development and production status are of significant importance for project management. While Reserves Status has traditionally only been applied to Prove Reserves, the same concept of Developed and Undeveloped Status based on the funding and operational status of wells and producing facilities within the development project are applicable throughout the full range of Reserves uncertainty categories (Proved, Probable and Possible).

Quantities may be subdivided by Reserves Status independent of sub-classification by Project Maturity. If applied in combination, Developed and/or Undeveloped Reserves quantities may be identified separately within each Reserves sub-class (On Production, Approved for Development, and Justified for Development).

**Economic Status**

Projects may be further characterized by their Economic Status. All projects classified as Reserves must be economic under defined conditions.

Based on assumptions regarding future conditions and their impact on ultimate economic viability, projects currently classified as Contingent Resources may be broadly divided into two groups:

Marginal Contingent Resources are those quantities associated with technically feasible projects that are either currently economic or projected to be economic under reasonably forecasted improvements in commercial conditions but are not committed for development because of one or more contingencies.

Sub-Marginal Contingent Resources are those quantities associated with discoveries for which analysis indicates that technically feasible development projects would not be economic and/or other contingencies would not be satisfied under current or reasonably forecasted improvements in commercial conditions. These projects nonetheless should be retained in the inventory of discovered resources pending unforeseen major changes in commercial conditions.

Where evaluations are incomplete such that it is premature to clearly define ultimate chance of commerciality, it is acceptable to note that project economic status is "undetermined." Additional economic status modifiers may be applied to further characterize recoverable quantities; for example, non-sales (lease fuel, flare, and losses) may be separately identified and documented in addition to sales quantities for both production and recoverable resource estimates (see also Reference Point, section 3.2.1). Those discovered in-place volumes for which a feasible development project cannot be defined using current or reasonably forecast improvements in, technology are classified as Unrecoverable.

Economic Status may be identified independently of, or applied in combination with, Project Maturity sub-classification to more completely describe the project and its associated resources.

## **Appendix B: Exploration Permits Assessed**



**Table A-1: Armour Energy Limited's (Armour) petroleum and mineral exploration permits – Subject of current report (A – under application, some as preferred tenderer)**

Permit	State	Resource	Grant date	Application date	Expiry date	First term tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)	Source	Evaluation requested by BDO
ATP 1087	QLD	petroleum	19/12/2012	NA	18/12/2016	6	7,107	1,756,170	100	UTM Global	Yes (written request)
ATP1107(A)		petroleum	NA	30/05/2012	NA	4	7,909	1,954,280	NA	UTM Global	Yes (written request)
ATP1192(A)		petroleum	NA	1/10/2014	NA	4	2,592	640,612	NA	UTM Global	Yes (written request)
ATP1193(A)		petroleum	NA	1/10/2014	NA	4	2,827	698,586	NA	UTM Global	Yes (written request)
EP171	NT	petroleum	29/06/2011	NA	28/06/2016	5	3,453	853,276	100	Armour	Yes (written request)
EP172(A)		petroleum	NA	19/12/2009	NA	5	7,091	1,752,314	NA	Armour	Yes (written request)
EP173(A)		petroleum	NA	19/12/2009	NA	5	2,903	717,455	NA	Armour	Yes (written request)
EP174		petroleum	11/12/2012	NA	10/12/2017	5	4,320	1,067,374	100	Armour	Yes (written request)
EP176		petroleum	29/06/2011	NA	28/06/2016	5	8,007	1,978,667	100	Armour	Yes (written request)
EPA177(A)		petroleum	NA	6/04/2010	NA	5	15,899	3,928,796	NA	Armour	Yes (written request)
EPA178(A)		petroleum	NA	8/04/2010	NA	5	15,610	3,857,208	NA	Armour	Yes (written request)
EPA179(A)		petroleum	NA	8/04/2010	NA	5	16,034	3,962,027	NA	Armour	Yes (written request)
EP190		petroleum	11/12/2012	NA	10/12/2017	5	12,761	3,153,221	100	Armour	Yes (written request)
EP191		petroleum	03/10/2013	NA	02/10/2018	5	15,164	3,747,062	100	Armour	Yes (written request)
EP192		petroleum	03/10/2013	NA	02/10/2018	5	9,455	2,336,268	100	Armour	Yes (written request)
EP193(A)		petroleum	NA	13/08/2010	NA	5	1,348	333,199	NA	Armour	Yes (written request)
EP194(A)		petroleum	NA	13/08/2010	NA	5	2,331	575,904	NA	Armour	Yes (written request)
EP195(A)		petroleum	NA	13/08/2010	NA	5	3,296	814,478	NA	Armour	Yes (written request)
EP196(A)		petroleum	NA	13/08/2010	NA	5	735	181,670	NA	Armour	Yes (written request)

Permit	State	Resource	Grant date	Application date	Expiry date	First term tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)	Source	Evaluation requested by BDO
PEP166	VIC	petroleum	3/1/2003	NA	2/10/2016	4	1752	432968.8	25	Armour	Yes (verbal request)
PEP169		petroleum	25/6/2007	NA	24/10/2015	4	1135	280466.2	51	Armour	Yes (verbal request)
PRL2		petroleum	27/2/2007	NA	26/2/2019	4	747	184588.2	15	Armour	Yes (verbal request)
EPM19833	QLD	minerals	11/2/2013	NA	10/2/2016	3	326	80,539	100	UTM Global	Yes (written request)
EPM19835		minerals	11/9/2013	NA	10/9/2016	3	199	49,093	100	UTM Global	Yes (written request)
EPM19836		minerals	11/9/2013	NA	10/9/2016	3	322	79,672	100	UTM Global	Yes (written request)
EPM25410		minerals	29/5/2014	NA	28/5/2017	3	195	48,295	100	UTM Global	Yes (written request)
EPM25504		minerals	10/11/2014	NA	9/11/2017	3	326	80,555	100	UTM Global	Yes (written request)
EPM25505		minerals	3/2/2014	NA	10/8/2018	3	196	48,325	100	UTM Global	Yes (written request)
EPM25802		minerals	20/5/2015	NA	19/5/2018	3	251	62,063	100	UTM Global	Yes (written request)
EPM26018(A)		minerals	NA	14/8/2015	NA	NA	100	24,711	NA	UTM Global	Yes (verbal)
EPM26019(A)		minerals	NA	14/8/2015	NA	NA	100	24,711	NA	UTM Global	Yes (verbal)
EPM26020(A)		minerals	NA	19/8/2015	NA	NA	100	24,711	NA	UTM Global	Yes (verbal)
EPM26022(A)	minerals	NA	19/8/2015	NA	NA	99	24,463	NA	UTM Global	Yes (verbal)	
EL29837	NT	minerals	9/09/2015	NA	26/8/2019	2	646	159,580	100	AMETS	Yes (written request)
EL29951		minerals	9/09/2015	NA	20/11/2019	2	75	18,628	100	AMETS	Yes (written request)
EL29952		minerals	9/09/2015	NA	20/11/2019	2	715	176,675	100	AMETS	Yes (written request)
EL29953		minerals	9/09/2015	NA	17/2/2020	2	463	114,431	100	AMETS	Yes (written request)
EL29954		minerals	9/09/2015	NA	20/11/2019	2	608	150,345	100	AMETS	Yes (written request)
EL29955		minerals	9/09/2015	NA	20/11/2019	2	576	142,270	100	AMETS	Yes (written request)
EL30076		minerals	9/09/2015	NA	8/5/2020	2	102	25,079	100	AMETS	Yes (written request)

Permit	State	Resource	Grant date	Application date	Expiry date	First term tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)	Source	Evaluation requested by BDO
EL30077		minerals	9/09/2015	NA	8/5/2020	2	219	54,138	100	AMETS	Yes (written request)
EL30078		minerals	9/09/2015	NA	8/5/2020	2	23	5,654	100	AMETS	Yes (written request)
EL30079		minerals	9/09/2015	NA	8/5/2020	2	105	25,926	100	AMETS	Yes (written request)
EL30080		minerals	9/09/2015	NA	8/5/2020	2	250	61,728	100	AMETS	Yes (written request)
EL30494		minerals	9/09/2015	NA	7/4/2021	2	816	201,686	100	AMETS	Yes (written request)
EL30736		minerals	9/09/2015	NA	20/8/2021	2	85	21,061	100	AMETS	Yes (written request)
EL30737		minerals	9/09/2015	NA	20/8/2021	2	177	43,708	100	AMETS	Yes (written request)
EL30750		minerals	9/09/2015	NA	20/8/2021	2	41	10,225	100	AMETS	Yes (written request)
EL30751		minerals	9/09/2015	NA	20/8/2021	2	13	3,238	100	AMETS	Yes (written request)
EL30752		minerals	9/09/2015	NA	20/8/2021	2	16	4,042	100	AMETS	Yes (written request)
EL30753		minerals	9/09/2015	NA	20/8/2021	2	39	9,707	100	AMETS	Yes (written request)
EL30774		minerals	9/09/2015	NA	20/8/2021	2	109	26,829	100	AMETS	Yes (written request)
EL30775		minerals	9/09/2015	NA	20/8/2021	2	131	32,341	100	AMETS	Yes (written request)
EL30776		minerals	9/09/2015	NA	20/8/2021	2	138	33,966	100	AMETS	Yes (written request)
EL30810(A)		minerals	NA	7/04/2015	NA	2	16	4,049	NA	AMETS	Yes (written request)
EL30812(A)		minerals	NA	7/04/2015	NA	2	56	13,758	NA	AMETS	Yes (written request)
EL30813(A)		minerals	NA	7/04/2015	NA	2	30	7,281	NA	AMETS	Yes (written request)
EL30817(A)		minerals	NA	14/04/2015	NA	2	77	18,983	NA	AMETS	Yes (written request)
EL30818(A)		minerals	NA	14/04/2015	NA	2	821	202,847	NA	AMETS	Yes (written request)
EL30822(A)		minerals	NA	20/04/2015	NA	2	229	56,535	NA	AMETS	Yes (written request)
EL30823(A)		minerals	NA	20/04/2015	NA	2	20	4,848	NA	AMETS	Yes (written request)

Permit	State	Resource	Grant date	Application date	Expiry date	First term tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)	Source	Evaluation requested by BDO
EL30836(A)		minerals	NA	27/05/2015	NA	2	218	53,947	NA	AMETS	Yes (written request)
EL30841(A)		minerals	NA	14/05/2015	NA	2	20	4,847	NA	AMETS	Yes (written request)
EL30842(A)		minerals	NA	14/05/2015	NA	2	39	9,701	NA	AMETS	Yes (written request)
EL30843(A)		minerals	NA	14/05/2015	NA	2	340	84,001	NA	AMETS	Yes (written request)
EL30853(A)		minerals	NA	25/05/2015	NA	2	792	195,783	NA	AMETS	Yes (written request)
EL30854(A)		minerals	NA	25/05/2015	NA	2	755	186,492	NA	AMETS	Yes (written request)
EL30855(A)		minerals	NA	25/05/2015	NA	2	575	142,023	NA	AMETS	Yes (written request)
EL30856(A)		minerals	NA	25/05/2015	NA	2	480	118,593	NA	AMETS	Yes (written request)
EL30857(A)		minerals	NA	25/05/2015	NA	2	801	197,855	NA	AMETS	Yes (written request)
EL30858(A)		minerals	NA	25/05/2015	NA	2	808	199,766	NA	AMETS	Yes (written request)
EL30859(A)		minerals	NA	25/05/2015	NA	2	752	185,694	NA	AMETS	Yes (written request)
EL30866(A)		minerals	NA	1/06/2015	NA	2	105	25,912	NA	AMETS	Yes (written request)
EL30899(A)		minerals	NA	6/07/2015	NA	2	580	143,361	NA	AMETS	Yes (written request)
EL30900(A)		minerals	NA	6/07/2015	NA	2	820	202,689	NA	AMETS	Yes (written request)
EL30922(A)		minerals	NA	20/07/2015	NA	2	36	8,899	NA	AMETS	Yes (written request)
EL30925(A)		minerals	NA	21/07/2015	NA	2	806	199,215	NA	AMETS	Yes (written request)
EL30926(A)		minerals	NA	21/07/2015	NA	2	798	197,135	NA	AMETS	Yes (written request)
EL30927(A)		minerals	NA	21/07/2015	NA	2	808	199,602	NA	AMETS	Yes (written request)
EL30943(A)		minerals	NA	14/08/2015	NA	2	92	22,633	NA	AMETS	Yes (verbal)
EL30962(A)		minerals	NA	26/08/2015	NA	2	15	3,650	NA	AMETS	Yes (verbal)
EL30963(A)		minerals	NA	26/08/2015	NA	2	10	2,425	NA	AMETS	Yes (verbal)

Permit	State	Resource	Grant date	Application date	Expiry date	First term tenure (years)	Area (km <sup>2</sup> )	Area (acres)	Interest (%)	Source	Evaluation requested by BDO
EL30965(A)		minerals	NA	27/08/2015	NA	2	741	183,120	NA	AMETS	Yes (verbal)
EL30966(A)		minerals	NA	27/08/2015	NA	2	195	48,229	NA	AMETS	Yes (verbal)
EL30967(A)		minerals	NA	27/08/2015	NA	2	431	106,408	NA	AMETS	Yes (verbal)
EL30968(A)		minerals	NA	27/08/2015	NA	2	147	36,328	NA	AMETS	Yes (verbal)
EL30969(A)		minerals	NA	27/08/2015	NA	2	149	36,790	NA	AMETS	Yes (verbal)
EL30978(A)		minerals	NA	7/09/2015	NA	2	13	3,236	NA	AMETS	Yes (verbal)
EL30979(A)		minerals	NA	7/09/2015	NA	2	43	10,514	NA	AMETS	Yes (verbal)
EL30990(A)		minerals	NA	10/9/2015	NA	2	26	6,469	NA	AMETS	Yes (verbal)
EL30991(A)		minerals	NA	10/9/2015	NA	2	648	160,030	NA	AMETS	Yes (verbal)
EL30992(A)		minerals	NA	10/9/2015	NA	2	72	17,787	NA	AMETS	Yes (verbal)
EL30993(A)		minerals	NA	20/9/2015	NA	2	445	110,078	NA	AMETS	Yes (verbal)

Appendix G The RISC Report





Independent Technical Specialist Report  
Roma Shelf Assets  
Armour Energy Limited

30 September 2015



*decisions with confidence*

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The Directors  
Armour Energy Limited  
Level 27,111 Eagle Street  
Brisbane QLD 4000

Mr Steven Sorbello  
BDO Corporate Finance (Queensland) Ltd  
Level 10, 12 Creek Street  
Brisbane QLD 4000

30 September 2015

Dear Sirs,

**Independent Specialist's Report on the Roma Shelf assets being acquired by Armour Energy Limited**

## 1. Introduction

BDO Corporate Finance (Queensland) Ltd ("BDO") has been appointed by Armour Energy Limited ("Armour") to prepare an independent expert's report covering the Roma Shelf assets which Armour is in the process of acquiring from Origin Energy Limited, in relation to the takeover offer for Armour from WestSide Corporation Limited.

To assist BDO in preparing its report covering the takeover offer, BDO engaged RISC Operations Pty Ltd ("RISC") to act as a Specialist, as defined in the Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, as amended (the VALMIN Code), and to prepare an Independent Technical Specialist Report (ITSR).

RISC's role in this engagement is to prepare or, if already available, review production forecasts and associated capital and operating costs for the production and development operations of Armour, advise BDO as to whether these assumptions are reasonable for valuation purposes, prepare sensitivities that may need to be carried out and prepare a report. In addition, RISC was asked to opine on a reasonable basis by which shared costs could be apportioned by permit. RISC was not asked to prepare forecasts for possible future exploration activities.

Armour has made available to RISC a data set of technical information including geological, geophysical, petrophysical, engineering, production and operational data and reports through a dataroom established by Origin. RISC has also had meetings and discussions with Armour's technical and management personnel. In carrying out this review, RISC has relied on the information received from Armour and information in the public domain and made a site inspection to assess the condition of the facilities.

This report has been prepared in accordance with the requirements of the VALMIN code, 2005. To assess contingent resources, RISC has used the Petroleum Resources Management System published by the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/APEE) in March 2007 (SPE PRMS).

This document comprises the ITSR on the Roma Shelf assets. It documents our review of the Roma Shelf assets being acquired by Armour and associated development schedules, production and cost forecasts. We have reviewed the estimates provided by Armour and made such adjustments that in our judgment were necessary to provide a reasonable assessment and reflect current information.

## 2. Summary

### 2.1. Overview

This document comprises the Independent Technical Specialists Report by RISC Operations Pty Ltd (“RISC”) to assist the Independent Expert, BDO Corporate Finance (Queensland) Ltd (“BDO”), in the preparation of an Independent Expert’s Report to the Directors of Armour Energy Limited (“Armour”) on the takeover offer from WestSide Corporation Limited. This document relates only to the Roma Shelf petroleum assets, the location of which is shown in Figure 2-1 which are in the process of being acquired by Armour from Origin Energy.

The report documents our view of the contingent resources of petroleum, production forecasts and associated capital and operating cost for the assets, which have been used to value the oil and gas properties. We have reviewed the estimates provided by Armour and made such adjustments that in our judgment were necessary to provide a reasonable assessment and reflect current information.

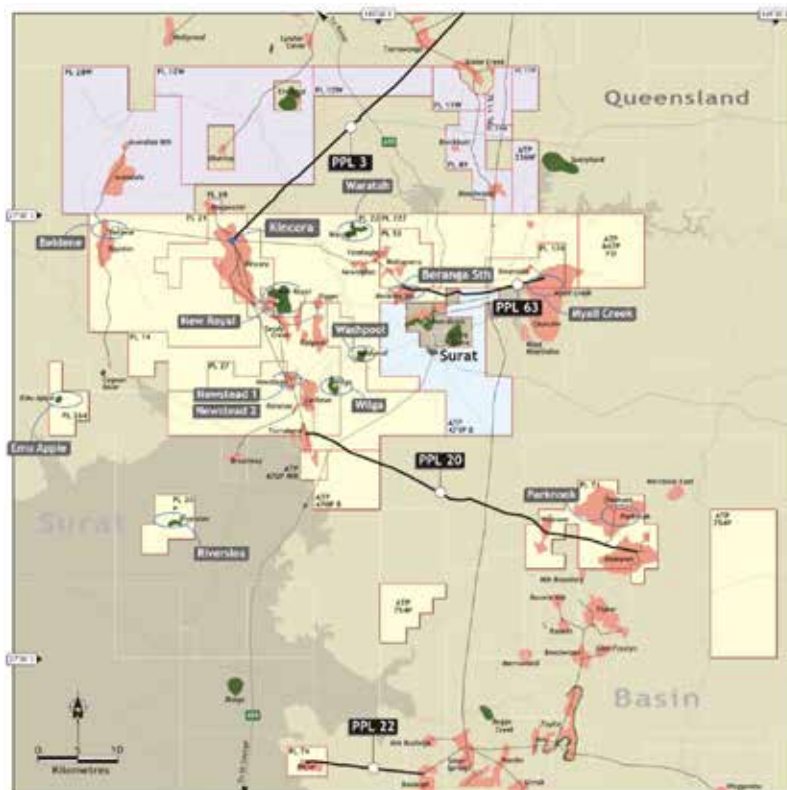


Figure 2-1 Roma Shelf asset portfolio<sup>1</sup>

<sup>1</sup> Source: Origin Energy Limited



For valuation purposes, we have prepared 3 production scenarios for the assets, these scenarios are summarized in Table 2-1. Production and costs are on a “gross” or 100% JV basis. Production is rounded to the nearest 0.1 PJ or 0.01 mmbbl, costs are rounded to the nearest \$0.1 million.

Details of these scenarios along with costs and production profiles associated with the development and production of these resources are included in our report.

The Roma Shelf assets are being acquired by Armour from Origin and the transfer is expected to be completed in December 2015 or January 2016. Forecasts in this report have been generated assuming Armour takes ownership on 1 January 2016.

The future production forecasts have been provided through to 2032, these may be subject to application of an economic cut-off by BDO.

Item	Scenario 1: Low Case	Scenario 2: Mid Case	Scenario 3: High Case
Description	Low side reservoir performance, high side costs, late production	Best estimate reservoir performance, costs estimates and production start-up	High side reservoir performance, low side costs, early start-up
Timing of facilities recommissioning	Gas: 12 months Oil: 3 months	Gas: 8 months Oil: 2 months	Gas: 6 months Oil: 1 months
Recommissioning costs	A\$13.5 million	A\$10.4 million	A\$7.3 million
Production to 2032	Gas, 22.5 PJ Oil, 0.11 mmbbl	Gas, 28.3 PJ Oil, 0.15 mmbbl	Gas, 33.0 PJ Oil, 0.16 mmbbl
Future activity capex (to 2032, \$2015)	A\$23.6 million	A\$20.2 million	A\$16.5 million
Future activity opex (to 2032, \$2015)	A\$149.9 million	A\$146.7 million	A\$139.0 million

Note: figures are expressed on a 100% JV basis

Table 2-1 Roma Shelf asset valuation scenario input summary as at 30 September 2015

The costs relate to technical matters only and exclude any acquisition costs, financing costs or government sureties.



### 3. Terms of reference

Whilst Armour has a number of assets, BDO has requested RISC's support for the Roma Shelf assets only.

BDO has requested that RISC to carry out the following scope of work with respect to the Roma Shelf assets:

- provide a schedule of the production forecasts for each permit on a 100% ownership basis, including alignment of the timing of that forecast with the timing adopted in the financial model;
- provide a corresponding schedule of capital expenditure and operating expenditure for each permit on a 100% ownership basis, including alignment of timing, as per the above; and
- provide your opinion of one or more reasonable basis for the allocation of any shared costs including operators, plant maintenance and shared infrastructure.



## 4. Basis of assessment

### 4.1. Data and site inspection

The data and information used in the preparation of this report were provided by Armour and supplemented by public domain information. RISC has relied upon the information provided and has undertaken the evaluation on the basis of a review of existing interpretations and assessments as supplied, making adjustments that in our judgment were necessary.

To assist in gauging the time and cost involved in re-commissioning the Kincora production facilities, wells and infrastructure RISC has reviewed documentation prepared by the Operator, Origin Energy, and undertaken a site inspection.

RISC has estimated the reserves/resources in accordance with the Society of Petroleum Engineers' internationally recognised Petroleum Resources Management System (SPE-PRMS)<sup>2</sup>.

### 4.2. Status and reference date

The Roma Shelf assets that are the subject of this report are in the process of being acquired by Armour from Origin Energy Limited (Origin). The agreement between Origin and Armour was announced<sup>3</sup> on 2 September 2015, and is subject to ministerial approval. Armour has advised that it expects to complete the transaction in November and be registered on title in December or January. For the purpose of providing forecasts for valuation RISC has assumed that settlement takes effect on 31 December 2015 and recommissioning commences on 1 January 2016.

This review incorporates data available to 30 September 2015 and this constitutes the reference date for this report.

Unless otherwise stated, all costs are in gross A\$ real terms at the reference date.

Production and resource quantities are reported in gross (100% JV) terms.

---

<sup>2</sup> SPE/WPC/AAPG/SPEE 2007 Petroleum Resources Management System

<sup>3</sup> Armour ASX release, 2 September 2015: Armour to become a significant gas, LPG, condensate and oil producer on the Roma Shelf, Surat Basin, Queensland.



## 5. Introduction

### 5.1. Location and description of assets

The Roma Shelf assets are mature oil and gas assets comprising Petroleum Leases (PLs), exploration permits (Authorities to Prospect or ATPs), gas and oil fields, pipelines and production infrastructure, Figure 5-1. The assets have produced over 165 bcf of gas and almost 3 mmbbl since 1977 and are currently shut in.

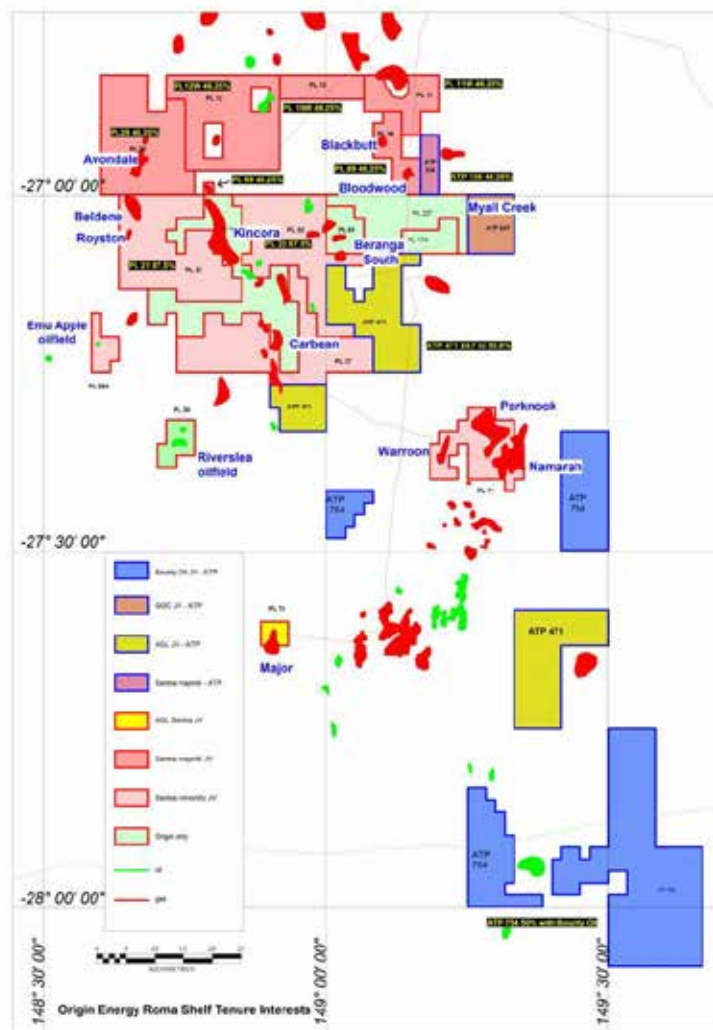


Figure 5-1 Location of the Roma Shelf assets<sup>3</sup>



Upon completion of the transaction, Armour will hold a 100% interest in the core Petroleum Leases PL174 (Myall Creek) and PL14 (Kincora) and an interest of between 46.25% and 100% in the other PLs. Armour will be the operator of the majority of the permits, with the others being operated by Santos. Certain JV interests being acquired are subject to pre-emptive rights. In relation to JVs with Santos, pre-emptive rights have been waived. Of the remainder, Armour may not be able to acquire interests in those tenements depending on whether these pre-emptive rights are exercised or waived by the JV partners. In the event these interests are not acquired, the effect on contingent resources is minor as the interests relate mainly to ATPs.

Tenement	Interest	Operated	Unwaived pre-emptive right
PL 14	100%	*	
PL 53	100%	*	
PL 70	100%	*	
PL 511 (formerly PL 174)	100%	*	
PL 227	100%	*	
PPL 3	100%	*	
PPL 20	100%	*	
PPL 63	100%	*	
Newstead Gas Storage	100%	*	
PL 28	46.25%		
PL 69	46.25%		
PL 89	46.25%		
PL 320 (formerly PL 10W)	46.25%		
PL 11W	46.25%		
PL 12 W	46.25%		
PL 11 Snake Creek East Exclusion Zone	25%		
PL 21	87.5%	*	
PL 22	87.5%	*	
PL 27	87.5%	*	
PL 71	90.0%	*	
PL 264	90.0%	*	
ATP 1190 (formerly ATP 471)	50.64%	*	*
PL 30	75%	*	*
PL 512 (formerly PL 74)	69%	*	*
PPL 22	69%	*	*
PL 71 (exploration)	72%	*	*
ATP 647 (Block 2656)	50%	*	*
ATP 754	50%	*	*
ATP 1190 (Bainbilla) (formerly ATP 471)	24.748%		*

Figure 5-2 Roma Shelf Petroleum Leases and ATPs

## 6. Regional geology

The permits overlie the Bowen and Surat Basins and in particular the structural provinces known as the southern Roma Shelf, northern Wunger Ridge and the western flank of the Taroom Trough (Mimosa Syncline), Figure 6-1 **Error! Reference source not found.**

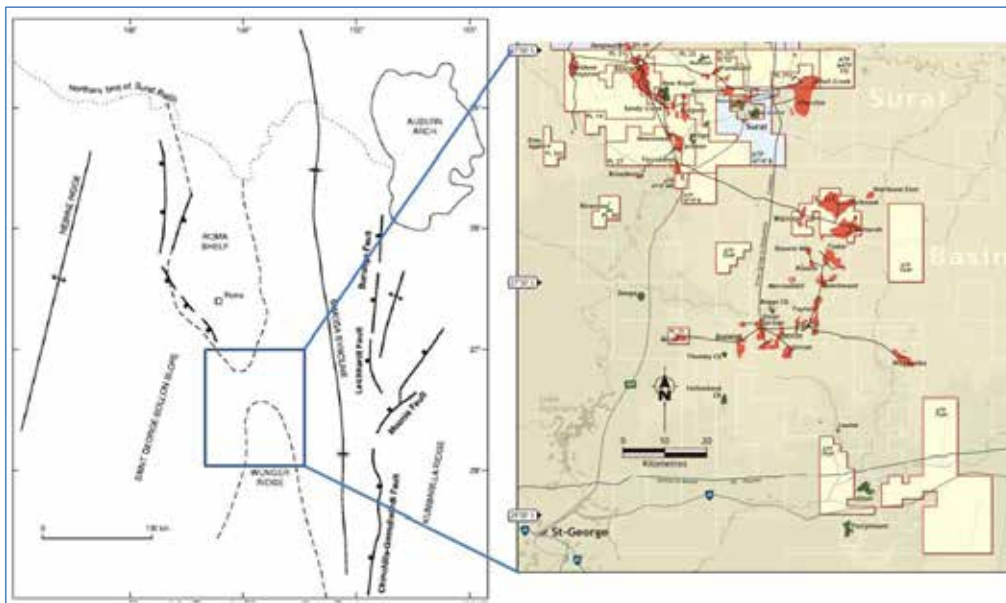


Figure 6-1 Tectonic elements map

Figure 6-2 is part of the stratigraphic chart for the Bowen/Surat Basins that highlights the stratigraphic sequences that are hydrocarbon bearing in the Fields within Origin's permits. The principal formations of interest from oldest to youngest are:

- Permian: Tinowon Formation
- Triassic: Rewan Group
- Triassic: Showgrounds Sandstone
- Triassic: Moolayember Formation
- Jurassic: Evergreen Formation including Boxvale Sandstone Member

Figure 6-3 and Figure 6-4 are schematic cross sections showing the variation in gross sedimentary thickness, possible hydrocarbon migration paths and the stratigraphic position of hydrocarbon accumulations from west to east across the permits.

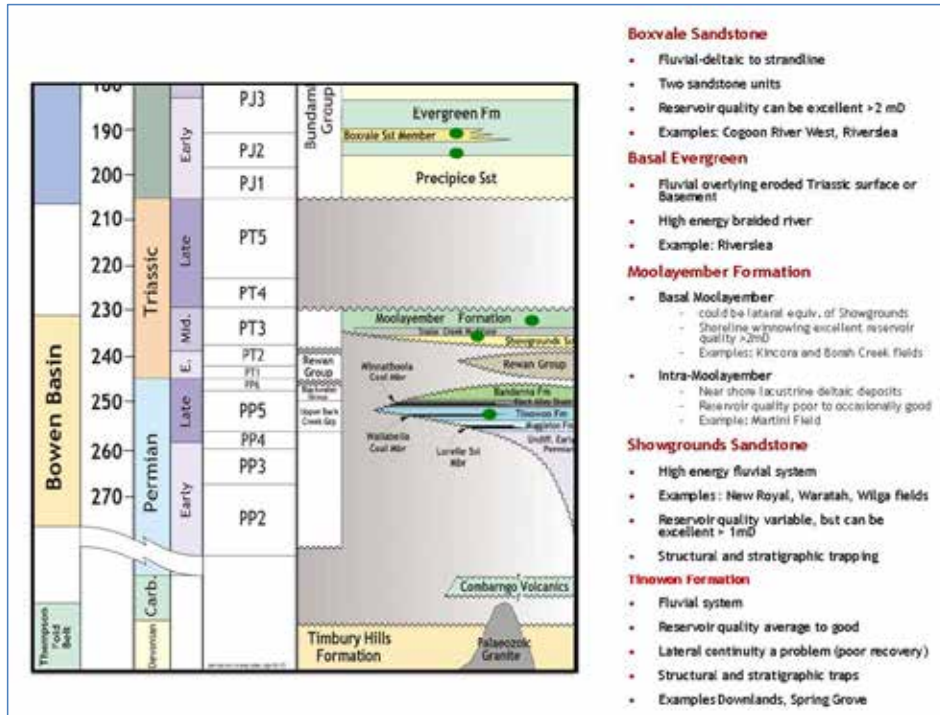


Figure 6-2 Stratigraphic chart highlighting principal hydrocarbon bearing formations in relevant Surat acreage<sup>1</sup>

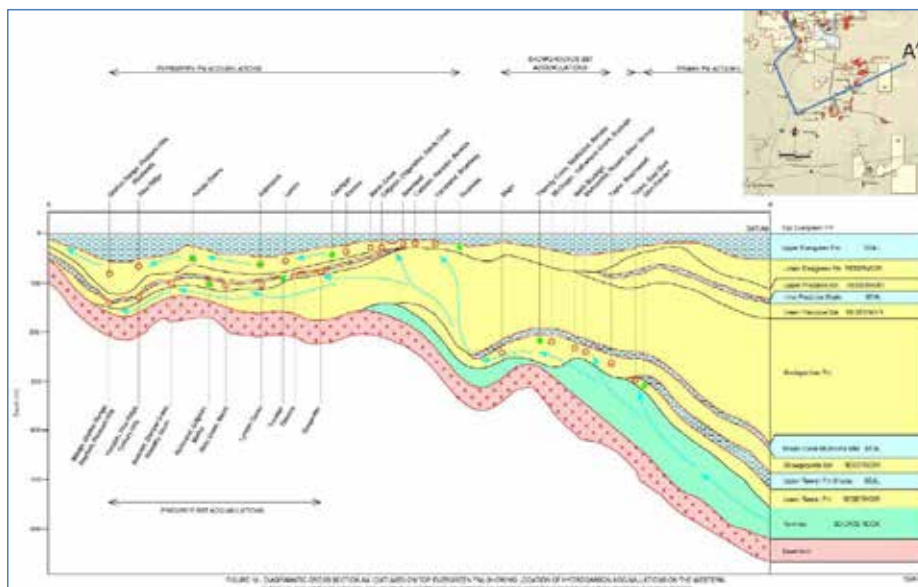


Figure 6-3 Diagrammatic cross section showing hydrocarbon accumulations on the western flank of the Taroom Trough<sup>1</sup>

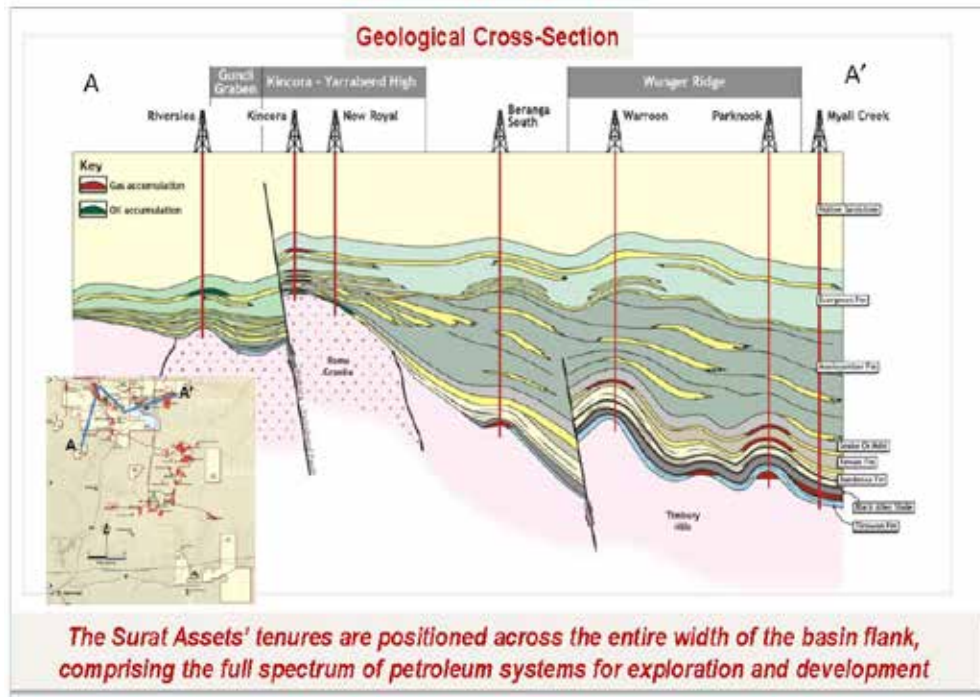


Figure 6-4 Regional geological cross section from Riverslea (west) to Myall Creek (east)<sup>1</sup>

A detailed description of the regional geology of the area can be found in the 1998 APA Report<sup>4</sup>. The following discussion includes sections from this report that are pertinent to the regional geology within Armour’s permits with the key reservoir formations highlighted.

**Bowen Basin**

The formation of the Bowen Basin commenced in Late Carboniferous to Early Permian times. Initially, the area consisted of an eroded peneplain of indurated metasediments of Devonian age (Timbury Hills Formation) bounded to the west, in part, by bodies of granite, schist and gneiss. In the early years of exploration in the Bowen Basin, the various Permo-Carboniferous volcanics and indurated sediments which form economic basement in the Taroom Trough have been referred to by explorationists as the ‘Kuttung Formation’.

The earliest tectonism in the basin occurred in the Late Carboniferous or Earliest Permian and appears to be extensional. A number of well developed half grabens are observed in the Denison Trough and to a lesser extent, in the Taroom Trough (Elliott, 1989). With the onset of extensional subsidence in the Early Permian, the Reids Dome beds were deposited in the Denison Trough, the Arbroath Trough and in the far northeast of the Bowen Basin, north of latitude 23 degrees South. This unit is a predominantly non-marine,

<sup>4</sup> Cadman S.J, Pain, L, Vuckovic V., Bowen and Surat Basins, Clarence-Moreton Basin, Sydney Basin, Gunnedah Basin and other minor onshore basins, Qld, NSW and NT, Australian Petroleum Accumulations Report 11, Department of Primary Industries and Energy Bureau of Resource Sciences



paludal to fluvial sequence of sandstones, siltstones, mudstones and coals. It achieves a thickness of at least 4000 m on the downthrown side of the Merivale Fault System in the Denison Trough. Contemporaneously, the Combarngo Volcanics were laid down on the eastern flank of the Roma Shelf and further to the east, the Camboon Andesite was extruded in the vicinity of the Auburn Arch.

After the initial phase of non-marine deposition and volcanism in the earliest Permian, thermal relaxation and subsidence initiated a marine transgression which flooded the incipient basin from the east. The predominantly marine clastics of the Back Creek Group, which range in age from Early to Late Permian, were deposited over most of the basin east of the Roma Shelf and in the Denison Trough to the north.

In the Early Permian, the Roma Shelf was largely emergent. Early Permian sediments overlapped the flanks of this feature until in the late Early Permian, the shallow marine shales, siltstones and sandstones of the Muggleton Formation transgressed the Roma Shelf.

The **Tinowon Formation**, thought to be a lateral equivalent of the Peawaddy Formation to the north, was then deposited. This unit comprises marine, non-marine and coal facies while the Peawaddy Formation is thought to have been deposited under predominantly marine conditions. The distinctive Mantuan Formation identified in the Denison Trough is also present on the Roma Shelf at the top of the Tinowon Formation. The restricted marine conditions and then finally, the basin wide regression that took place at the close of the Permian has also resulted in the deposition of the Black Alley Shale and the Bandanna Formation in this area.

At the end of the Permian, granites were intruded in the orogen to the east and movement on the Goondiwindi-Moonie Fault and the Leichhardt Fault probably commenced. These events effectively isolated the Bowen Basin from the sea and at the beginning of the Triassic, the coal swamp environment that had predominated over most of the Bowen Basin in the Late Permian gave way to drier, continental conditions. Fine grained terrestrial redbeds (red and green mudstones grading to a basal, sandy conglomeratic facies in part) of the **Rewan Formation** were deposited over much of the basin, although this redbed sequence is not as widespread as the underlying Late Permian coals. On the southeastern flank of the basin, adjacent to the Goondiwindi-Moonie Fault, the massive conglomerates of the informally named 'Cabawin Formation' are developed. These sediments were derived from upthrust Permo-Carboniferous blocks to the east. At this time, the Taroom Trough began to rapidly subside and become the major depocentre in the Bowen Basin.

Towards the end of the Early Triassic, after the deposition of the Rewan Formation, the rate of subsidence in the basin slowed. Erosion on the Roma Shelf and in the southern Bowen Basin considerably reduced the areal extent of both the Rewan Formation and the underlying coal sequences of the Bandanna Formation. Deposition of sheet-like, fluvial sandstones of the **Showgrounds Sandstone** followed. Although distribution of this unit is widespread and it appears to blanket the underlying Rewan Formation, the Showgrounds Sandstone is heterogeneous, displaying rapid lateral and vertical variations in reservoir character.

On the Roma Shelf and its environs, the Showgrounds Formation rests unconformably on the Rewan Formation. In the Denison Trough to the north, the partial lateral equivalent of the Showgrounds Sandstone, the Clematis Group, appears to be largely conformably with the sediments of the underlying Rewan Formation, (although seismic data indicate that the two units may be unconformable on the eastern flank of the Comet Platform).

Thrusting on the Goondiwindi-Moonie Fault and the Leichhardt Fault continued in the Triassic. Early in the Middle Triassic the rate of subsidence in the Bowen Basin increased and a thick sequence of poorly sorted, fluvial to lacustrine, carbonaceous, sandstone, siltstone and mudstone (**Moolayember Formation**) was deposited over most of the basin. On the Roma Shelf and on parts of the western flank of the Taroom Trough, a thin, lacustrine shale unit, the Snake Creek Mudstone Member, has been identified at the top of the Showgrounds Sandstone. In the same area, some workers have also identified a relatively clean, quartzose fluvial sand at the base of the Moolayember Formation - this has been informally named the 'Wandoan Sandstone'.

Towards the end of the Triassic, uplift and erosion terminated sedimentation over much of the Bowen Basin. Considerable thicknesses of Moolayember Formation, Rewan and Clematis Group sediments were removed, leaving a peneplained surface with subdued topography. The compressional regime that had persisted from Permian through to Triassic times and had given rise to thrust faulting and anticlinal folding, abated. Consequently, most structures within the Surat Basin sequence have resulted from either drape over pre-existing basement highs or differential compaction and are invariably of lower relief than those found in the underlying Triassic section. A contractional deformational event early in the Late Cretaceous led to limited propagation of thrust faults from the underlying section into the Surat Basin sequence. More commonly, however, this episode resulted in folding and uplift of Surat Basin sediments over these deeper, reactivated thrust faults

#### **Surat Basin**

In the early Jurassic, regional subsidence commenced with relatively little reactivation of earlier faulting. The first sediments to be deposited on this erosional surface were the fluvial sandstones of the **Precipice Sandstone** (although in some areas, the Late Triassic 'Eddystone beds' are thought to represent the basal sediments of the Surat Basin sequence). This unit is the primary hydrocarbon exploration target in the Surat Basin and contains numerous oil and gas accumulations (but not within Armour's permits). The Precipice Sandstone was probably derived from Precambrian rocks bordering the west and southwest of the Great Artesian Basin (Martin, 1981) and prograded across the basin as a series of fluvial sands deposited in meandering and braided stream environments. The unit achieves a maximum thickness of at least 120 m in the Mimosa Syncline adjacent to the Chinchilla-Goondiwindi/Moonie Faults but it thins to the west over the Roma Shelf, where the Precipice Sandstone is less than 40 m thick.

Immediately overlying the Precipice Sandstone is the **Evergreen Formation**. Also of Early Jurassic age, the boundary between the Lower Evergreen Formation and the Precipice Sandstone is often gradational and difficult to determine. Sediments of the Evergreen Formation represent a transgressive phase, comprising basal fluvial sandstones (which are continuous with those of the underlying Precipice Sandstone), superseded by siltstones, shales and minor fine grained sandstones deposited under fluvio-lacustrine to marginal marine environments. The Evergreen Formation is more areally extensive than the Precipice Sandstone and thickens both to the north and to the east into the Mimosa Syncline. The sandy, basal Evergreen Formation is an important hydrocarbon reservoir in the Surat Basin and is a primary reservoir in Origin's permits.

At the top of the Lower Evergreen Formation, overlying the fine grained, silty sandstone facies, is the **Boxvale Sandstone Member**. A number of hydrocarbon accumulations have been discovered within this unit. The coarse sandstones commonly found at the base of the Boxvale Sandstone are thought to be fluvial, while the well sorted, fine grained, quartzose sandstones in the upper part of the member are considered to represent either beach sands or a fluvio-lacustrine delta. Deposition of the Boxvale



Sandstone Member appears to be restricted to the northwestern Surat Basin and the western flank of the Mimosa Syncline. Boxvale Sandstone reservoirs are sealed by the siltstones, minor silty shales and argillaceous sandstones of the Upper Evergreen Formation.

Towards the end of the Early Jurassic, after the deposition of the Evergreen Formation, a regressive sequence of fluvial, deltaic and lacustrine sandstones with minor siltstone, shales and coals was deposited over most of the Surat Basin.

Early in the Late Cretaceous, a contractional deformational event resulted in folding and uplift of Surat Basin sediments over reactivated thrust faults deeper in the section. This was followed in the Late Cretaceous and Early Tertiary by erosion and peneplanation which took place over most of the Surat Basin. Deep weathering profiles and surficial silcrete deposits developed at this time. In the Oligocene, epeirogenic movements tilted the entire sedimentary section to the southwest. This was accompanied by the extrusion of basalts to the north and east of the Surat Basin.

The Oligocene tilting event resulted in increased erosion in the north of the basin, while to the south, where uplift was much less pronounced, erosion is less evident. Following this tilting event (probably post-Miocene), meteoric waters flowed in a southerly direction through the Early Jurassic, Lower Precipice Sandstone, which is a primary hydrocarbon exploration target in the Surat Basin. Erosion of Surat Basin sediments has continued from Tertiary times until the present day, with Cenozoic sedimentation represented by a thin cover of fluvial sandstones and siltstones.



## 7. Facilities

### 7.1. Description

The most significant facilities being placed for sale by Origin are the Kincora gas condensate processing plant (Figure 7-1) and four licensed gas pipelines; PPL20, PPL22, PPL63 and PPL3. Of the pipelines PPL3 is the most significant as it runs from Kincora to Wallumbilla where it joins with other pipeline networks accessing the East Coast gas market.



Figure 7-1 Kincora gas plant<sup>1</sup>

The Kincora gas plant and PPL3 was first operated in 1977 with the LPG facilities following in 1985. The facilities operated continuously until 2012 when they were mothballed by Origin. The plant has been kept in a preserved state since the shutdown with periodic maintenance being carried out to ensure the rotating machinery is able to turn and the nitrogen blanket is intact.

The Kincora gas plant has a production capacity of approximately 30 mmscf/d of sales gas and 80 t/d of LPG (mixed butane and propane). Associated condensate can also be stabilised and stored. The plant utilises both TEG absorption and Molecular Sieve adsorption gas dehydration technology. LPG refrigeration is utilised along with a de-ethaniser column to produce LPG from the gas stream. A condensate stabilisation column produces further liquids for sale. Both LPG and condensate are stored onsite and can be loaded onto trucks for sale. Sales gas is compressed and exported to Wallumbilla via PPL3. A hot oil utility circuit is used in the stabilisation columns as part of a standard utilities system. Inlet compression has also been installed at the site to facilitate low pressure inlet gas streams. A block diagram of the operating flow scheme is shown below in Figure 7-2.

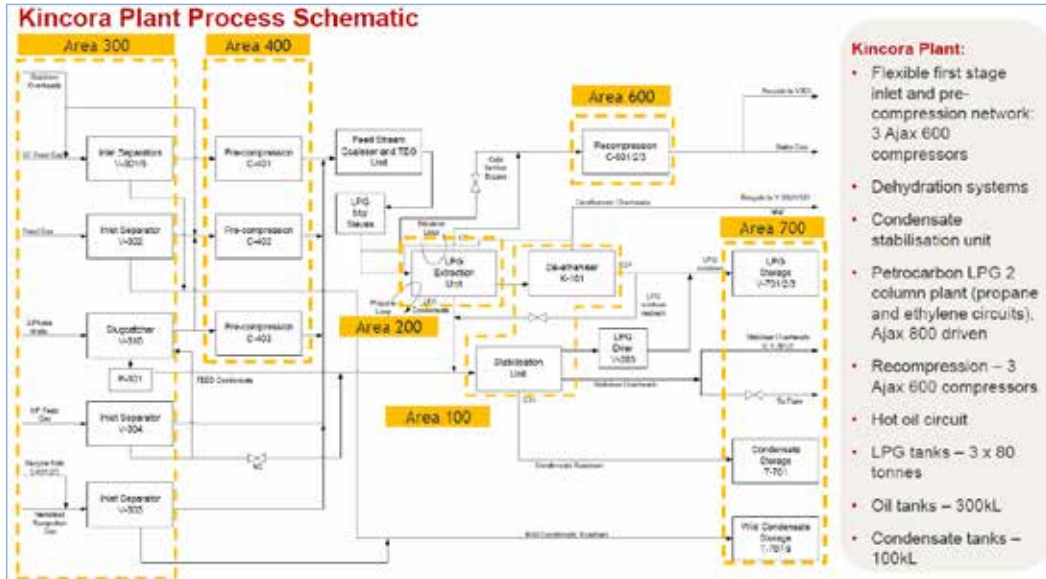


Figure 7-2 Kincora gas plant flow scheme<sup>1</sup>

The Kincora gas facility has associated infrastructure such as maintenance workshops, control and communications facilities and water treatment and evaporation facilities.

In addition to the core assets described above there is also an extensive network of gas and liquid gathering flowlines with satellite compression and wellhead facilities spread across the petroleum leases surrounding the Kincora facility and a gas storage facility at Newstead. The licences contain approximately 90 development wells in 39 gas fields and 6 oil fields that have been produced over the past 40 years. A map showing the extent of this gathering network is shown below in Figure 7-3.

The Newstead gas storage facility is understood to have a storage capacity of approximately 7.5 PJ with a current inventory of 2.3 PJ<sup>3</sup>, these quantities have not been independently verified.

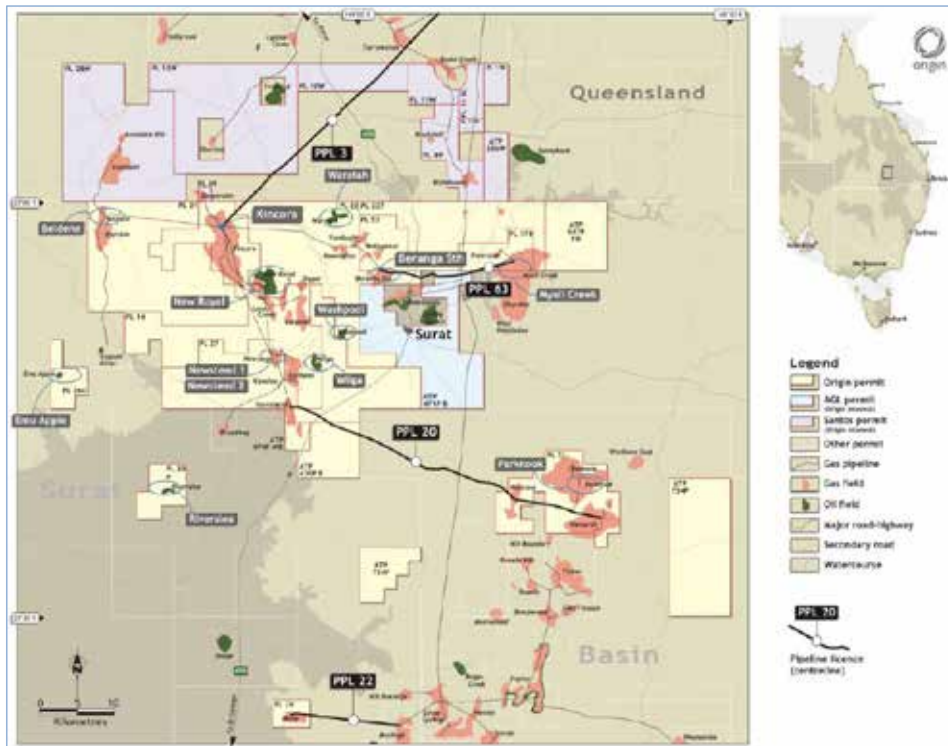


Figure 7-3 Kincora area gathering network map<sup>1</sup>

## 7.2. Restart timing and cost

Due to the mothballing procedures and ongoing preservation plan that Origin instituted when the Kincora plant was shut down it should be possible to restart the plant within a reasonable timeframe and at reasonable cost. The preservation plan resulted in all vessels and pipework being purged and placed under a nitrogen blanket that has remained in place. In addition regular turning and lubrication of rotating equipment has been undertaken. These and other measure should ensure that the internal condition of the major equipment at Kincora will be reasonable. However there are a number of issues that will likely need to be addressed after nearly three years of inaction. These issues include:

- some perishable items such as rubber or plastic will need to be replaced. This will include, ‘O’ rings and seals, gaskets, cable sheaths, valve and instrument internal parts and drive belts;
- instruments and control valves will require inspection and re-calibration or replacement;
- all relief valves (PSVs, TSVs) will need to be removed and serviced before being recertified;
- all pressure vessels will require inspection, pressure testing and re-certification;
- surface corrosion, lagging deterioration and cable damage will require repair; and
- rotating equipment will require overhaul and recommissioning.

This work, as well as general commissioning work, will take time and budget before the plant can be operated safely and reliably. In addition to these physical works a reasonable amount of paperwork will need to be completed before the plant can be restarted including; writing of operating procedures,



completion of a safety case and associated safety procedures, updating environmental impact assessments as required and seeking relevant operating approvals from regulators.

RISC has inspected the Kincora plant and a number of associated sites, we estimate that the timeframe to complete the works described will be 6 to 12 months.

Armour has undertaken a rigorous and detailed estimate of the costs of restarting the Kincora Gas Processing Facility. RISC has reviewed this estimate and considers that it may be possible to restart this facility for the \$5 million that Armour has estimated. However there are significant risks inherent in any reuse of equipment that has been out of service for a considerable period and an impracticality in truly understanding the capability for service of much of the instrumentation and associated items until the restarting programme commences. Thus RISC recommends the application of a 100% contingency to Armour's cost estimate for restarting the Kincora facility leading to an estimated restart cost in the \$5-10 million range

Outside of the core Kincora gas plant it is likely that any pipelines, gathering flowlines, wellhead facilities or satellite compression facilities that are brought back into service will require inspection and minor maintenance before they can be operated. The cost for these works will likely be of the order of \$2-3 million.

Prior to re-starting production through PPL3 Origin requires the pipeline end of line facilities as it enters its ML1A plant at Wallumbilla to be relocated to provide a buffer zone to the other Wallumbilla facilities. Armour has agreed that Origin will undertake this work at an estimated cost to Armour of A\$0.4 million. Armour will also pig the line to confirm its integrity.

### **7.3. Kincora plant operability**

Prior to the shut-in of the plant Origin was considering a number of plant modifications:

- an upgrade to the Kincora gas plant's control system costing approximately \$4 million, and
- an upgrade to various physical parts of the plant including the hot oil system, the condensate storage and stabilization systems, the LPG fractionation system and the gas compression system at estimated to cost between \$7 and \$10 million, depending on the scope chosen.

RISC understands that the rationale for these changes was to reduce operating costs and increase reliability but that they were not crucial to the operation of the plant. Armour does not plan to undertake these activities as part of its start-up process and RISC considers that operating cost forecast are consistent with maintaining the facility without these upgrades.

RISC also notes that the TEG dehydration system at Kincora was performing below specification before shutdown due to low gas pressures. Additional activities such as the planned stimulation should increase the pressure and/or flowrate from the satellites which will help to improve the efficiency of the TEG operation and obviate the need for modifications.

RISC estimates ongoing minor capital expenditure will be approximately \$1 million per annum.

#### 7.4. Operating costs

Once the Kincora gas plant has been restarted there will be an ongoing operation cost required to run the plant and associated facilities. We estimate that this will range between \$9-15 million per year for such items as:

- labour, including an operating, management and maintenance team for the plant;
- chemicals and consumable materials such as oils, paint, corrosion inhibitors, glycol, etc.;
- spare parts and routine maintenance;
- logistics and accommodation costs;
- head office support such as engineering, HSE, etc.; and
- overheads such as insurance, IT, fees, etc.

Costs have been delineated as either fixed or variable with variable costs adjusted on the basis of production. Approximately 60% of costs are associated with the operation of the Kincora gas plant, the balance being incurred by the PLs, roughly in proportion with production.

We estimate the cost for periodic major maintenance shutdowns at approximately \$3 million per 3 to 5 years.

Gas stored at Newstead has been assumed to be reproduced, but no cost or forecast has been assumed for the ongoing use as a storage scheme. Although ongoing use for storage and reproduction would incur additional costs for gas purchases, operations and maintenance it would only be undertaken if it could be operated profitably.

#### 7.5. Abandonment costs

The Kincora assets and associated wells and gathering network represent a significant liability in terms of decommissioning and abandonment. There are upwards of 10 fixed facilities, approximately 180 km of pipelines and flowlines and approximately 90 wells that will require decommissioning and abandonment as well as land rehabilitation once the facilities reach the end of life.

We estimate that decommissioning of the facilities, including all wells, and rehabilitation of land will cost between \$25 and \$35 million however, we note that abandonment costs can largely be deferred until the end of the productive life of the assets.



## 8. Production forecasts

### 8.1. Armour's projects and timing

Armour has identified a number of potential projects for the permits and has grouped these according to the speed, certainty and cost at which they can be performed broadly as follows:

- re-establish production from wells that were producing at the time of the field shut-in in 2012;
- undertake stimulation campaigns on existing wells;
- install nodal compression at Myall Creek; and
- drill new gas and oil wells followed by stimulation of the new gas wells.

This report addresses the production from re-starting the wells, stimulation and additional compression. In announcing its acquisition Armour<sup>3</sup> noted further development and exploration potential for both conventional and unconventional (tight gas and coals) targets within the permits. Provision of forecasts for these was outside the scope of this report.

### 8.2. Production forecasts

#### 8.2.1. Re-opening of wells

Armour has identified approximately 40 wells that were producing in mid-2012 when the Kincora gas plant and facility was shut in. These have been identified as the first wells to attempt to re-open when the facilities and infrastructure have been re-commissioned. RISC has reviewed these wells in order to generate a production forecast at the restart.

Field	Reservoir	No of wells	Wells
<b>GAS WELLS</b>			
Carbean	Basal Evergreen	3	Carbean 1, 4, 5
Kincora	Mid Evergreen	2	Kincora 7, 39
	Basal Evergreen	5	Kincora 7, 26, 32, 33, 40
Borah Creek	Basal Evergreen	1	Borah Creek 3
Sandy Creek	Intra Moolayember	1	Sandy Creek 2
North Colgoon	Basal Evergreen	1	North Colgoon 1
Beranga South/Glenloth/Bottletree	Tinowon	2	Beranga South 1, Bottletree 1
Caxton	Basal Evergreen	3	Caxton 1, 2, Regatta 1
New Royal	Showgrounds	1	New Royal 8
Berwick	Moolayember	1	Berwick 3
Beranga South	Tinowon	1	Beranga South 1
Myall Creek	Lower Tinowon	1	Myall Creek 2
	Upper Tinowon	5	Myall Creek 2, 4, 6, 7, 8
Riverside	Tinowon	1	Riverside 1
Warroon	Showgrounds	1	Warroon 1
Parknook	Rewan	3	Parknook 2, 3, 6
	Showgrounds	2	Parknook 3, 6



Horseshoe	Intra Wallabella	1	Horseshoe 2
	Rewan	1	Horseshoe 3
<b>OIL WELLS</b>			
Riverslea	Mid Evergreen	2	Riverslea 1, 3
Emu Apple	Mid Evergreen	2	Emu Apple 1, 2
Total		40	

Table 8-1 Wells considered for initial re-start

### 8.2.2. Forecasts for initial (unstimulated) gas wells

RISC has generated gas production forecasts for the wells to be restarted as follows:

- Decline curve analysis was performed on the raw gas production history;
- Low, mid and high case raw gas production forecasts were generated based on the declines;
- Reservoir drive mechanism and liquid lifting were considered to assess whether wells were likely to produce after the extended shut-in; and
- Raw gas forecasts were converted to sales gas, LPG and condensate forecasts.

For the Newstead gas storage scheme a forecast was generated based on historical production performance at the stated level of storage. An initial storage quantity of 2.3 PJ was used based on estimates provided by Origin.

Decline curve analysis was undertaken on all wells individually using the commercial software package, Harmony. Historical gas production data was considered reliable and could be matched without difficulty.

The drive mechanism of the reservoir is a factor to be considered in judging whether a well that has been shut in for three years is likely to return to production. Water drive reservoirs may have had movement of the aquifer which could limit future gas production whereas depletion drive reservoirs are less likely to have such issues.

In considering whether gas production would be impacted by the extended shut-in RISC has considered the geological setting of the wells, pressure information (both during production [p/z] and shut-in) and historical water production trends.

Material balance (P/z) data was generally found to be of limited use. Although most plots were found to exhibit some upward curvature (increased pressure support) it cannot be concluded that this was due to tight gas influx, water influx or a combination of the two. Other issues included data scatter, changes in the number of wells draining a reservoir and lack of recent data.

Similarly, Shut-in Tubing Head Pressures (SITHP) taken in a number of wells indicate varying degrees of re-pressurisation, from 95 psi to over 500 psi. As with the material balance these increases could be a result of aquifer or gas influx.

After considering the production trends, pressure data, water production trends and the depositional environment RISC considers that the Tinowon, Intra Wallabella and Rewan formations are most likely to have depletion drive, whilst the Basal Evergreen, Mid Evergreen (Boxvale) and Showgrounds are prone to water drive.



A review of existing well completions and showed that a number of the gas wells Armour is considering to re-start are near the limit of their ability to lift liquids. Coiled Tubing (CT) velocity strings have been installed in some wells and were recommended for the majority of the other wells, but not installed prior to the field shut-in in early 2012, compression has also been recommended for a number of wells. Prior to shut-in many wells were producing at rates between 20 mscf/d and 70 mscf/d. Soap sticks have been also used in a number of wells to help unloading and maintaining production.

In order to introduce a realistic flow rate cut-off into our forecasts we have incorporated vertical lift considerations. A review of the minimum gas rate required to lift water was undertaken using the Turner correlation<sup>5</sup>.

Prior to shut-in a number of wells had been producing at rates lower than the theoretical limit. This is often achieved by the use of soap sticks or “rocking” the wells. RISC has therefore assumed that a production rate slightly lower than the theoretical limit can be achieved through the continued application of these techniques. In our forecasts we have assumed that wells with a 2 7/8 inch tubing will cease production at 60 mscf/d, wells with a 1 ½ inch coiled tubing velocity string will cease at 40 mscf/d.

With the cut-offs specified RISC has forecast that 9 of the gas wells will not return to production. Coincidentally, these wells are mainly wells producing from the Basal Evergreen Formation, the reservoir which RISC considers prone to water drive.

Conversion from raw gas to sales gas and liquids was as follows:

- Raw gas forecasts volumes (mmscf) were converted to sales gas volumes (mmscf) assuming that most heavier components were removed as LPG and condensate (shrinkage factor);
- Fuel of 7% was removed from the sales gas volumes (mmscf);
- Sales gas volumes (mmscf) were converted to heating value (PJ) after consideration of the gas composition;
- LPG (tonne) and condensate (bbl) quantities were estimated by applying historical ratios; stored gas was assumed to have mixed with gas in the reservoir and have a low liquid yield.

Figure 8-1 illustrates the mid case sales gas production forecast generated as described above. The forecast assumes that stored gas will be produced initially. This provides the early spike as the Newstead wells are highly productive, however production rates fall rapidly as the stored quantity is small.

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<sup>5</sup> The Turner correlation was developed from droplet theory for both water and condensate, and then tuned to actual field data.



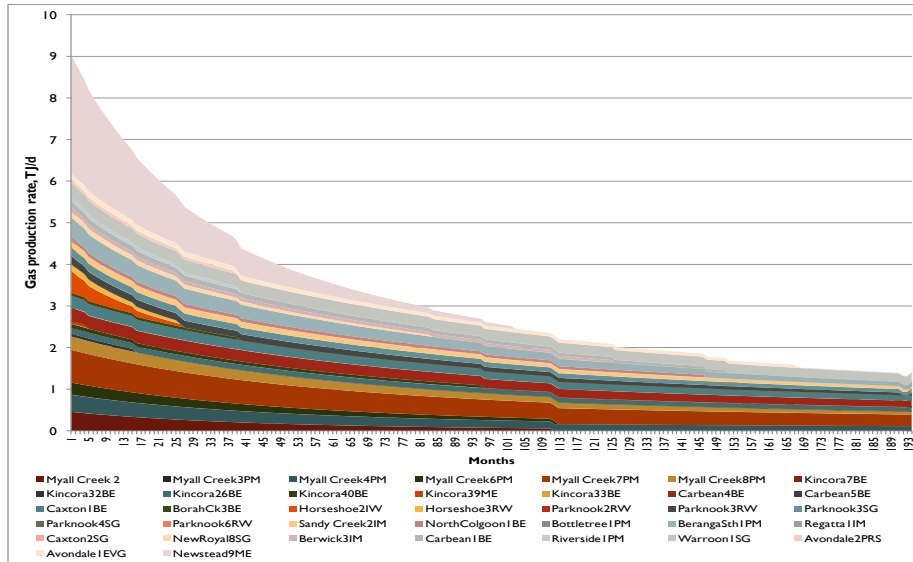


Figure 8-1 Initial (unstimulated) gas production forecast by well (mid case)

### 8.2.3. Oil production forecast

Oil production forecasts for the existing wells have been generated using decline curve analysis on the existing four production wells. The use of the decline trends to forecast production after the extended shut off assumes that there has been no change on conditions during the shut-in. In practice, the reservoir pressure will have built-up around the wells and some flush production is likely.

Figure 8-2 shows the combined well production and extrapolated performance for the Emu Apple Field.



Figure 8-2 Emu Apple historical and forecast production

### 8.2.4. Stimulation projects

Armour's gas well stimulation programme considers the stimulation of existing gas production wells. RISC has generated a gas production forecast for stimulated wells by:

- Reviewing the performance of the wells that have been fraced;
- Creating type curves for the post stimulation performance for the Rewan and Tinowon formations;
- Reviewing the well list and assigning appropriate type curves to the wells that RISC considers suitable for stimulation, assuming activity dates;
- Generating sales gas and liquids forecasts by use of appropriate fuel and conversion factors.

The average gas rate and accessed OGIP increments from stimulated wells are tabulated below for the Rewan and Tinowon formations.

Formation	OGIP increase bcf	Gas rate increase mmscf/d
Tinowon	0.78	1.25
Rewan	0.04	0.51

Table 8-2 Incremental gas rates and accessed OGIP from stimulation

Although the sample size is small RISC notes that:

- incremental rates and accessed gas for the Tinowon reservoir are, on average, better than for the Rewan;
- approximately half of wells stimulated show no increase in accessed OGIP; and
- 2 wells had no gas production and the stimulation was assumed to have failed.

RISC has generated type curves that match the average initial rate and recovery of the Tinowon and Rewan results above, Figure 8-3.

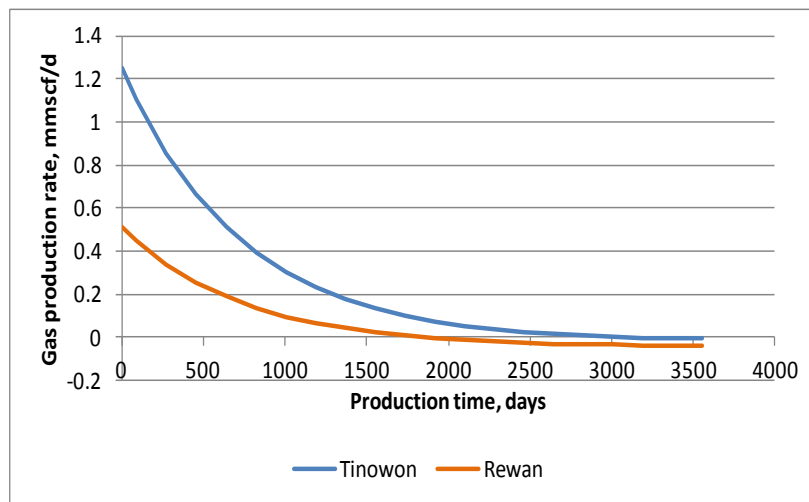


Figure 8-3 Rewan and Tinowon stimulation result gas production type curves



RISC has reviewed Armour’s proposed stimulation candidates and made a high level assessment of the whether it considers the candidates viable and if so, assigned a Tinowon or Rewan type curves as deemed appropriate.

With the exception of Avondale 1, RISC has excluded wells completed on the Basal Evergreen (BE) Formation due to the likelihood that a stimulation would access the permeable underlying Precipice Sandstone (see Figure 6-2). At Avondale 1 the precipice is absent and the Evergreen overlies the basement high. Overall, RISC considers the likely number of wells to be stimulations is 16.

RISC has assumed that the stimulations are performed in two periods approximately 12 months apart. The resultant gas forecast for initial wells and initial wells with stimulation is illustrated in Figure 8-4.

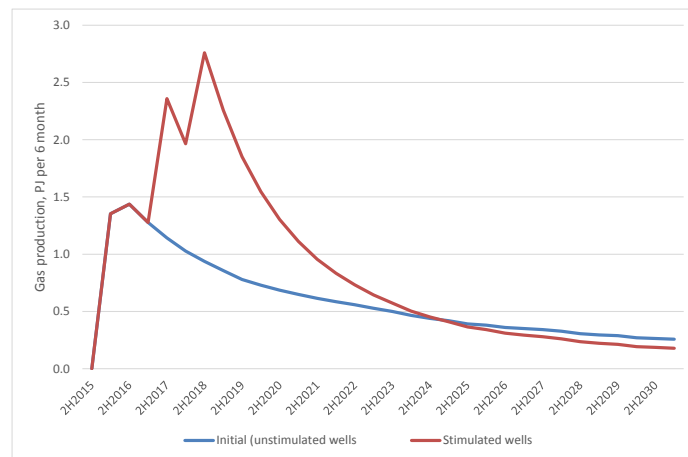


Figure 8-4 RISC’s forecast Initial wells and post stimulation sales gas forecasts

Note that the stimulation activities have a high initial rate and a rapid decline. This is a result of the acceleration nature of many of the activities where higher early production is countered by a reduced forecast in the latter part of the forecast.

### 8.2.5. Production forecasts with additional compression

Wells in the vicinity of the Kincora plant have been producing to compressors operating at low suction pressure, 30 psi, more distant wells have been operated at a relatively high suction pressure. This provides an opportunity to increase gas rates at satellite locations through the installation of additional compression.

RISC has investigated the likely production increase from installing a nodal compressor at both Myall Creek and Parknook. Overall a small increase was forecast for Myall Creek and this is included in our forecast. The increase at Parknook was considered uneconomic and has been omitted.

### 8.2.6. Further development and exploration activities

In addition to the activities mentioned above which will be undertaken soon after taking ownership of the Roma Shelf asset, Armour has noted further development and exploration activities that may be

undertaken at a later date. To date Armour has concentrated on the early activities and evaluation of the additional opportunities is immature, as a result forecasts have not been generated in this review.

RISC notes that, unlike the early activities, returning wells to production and stimulating them, the future development activities will likely require workover or new wells and hence be more expensive and, as they target depleted fields, will need careful evaluation to estimate recovery and risks.

Origin had identified a number of conventional exploration prospects and leads. As expected in a mature basin these are generally small and will need detailed review when Armour takes ownership of the assets to determine which will progress to drillable prospects. Again these opportunities are expected to be reviewed once the near term activities have been undertaken.

Origin also identified deep coal seams with an unrisksed GIIP of 6 Tcf (P50) within the permits. These coals are deeper than the coals currently being developed in the Walloon Coal Measures, as a result RISC considers that any appraisal or development of these would occur well in the future.

### 8.2.7. Low and high case forecasts

Low and high case forecasts were generated using the method described above for the mid case forecasts but with more conservative or more optimistic assessments respectively. The low, mid and high side gas production forecasts are illustrated in Figure 8-5.

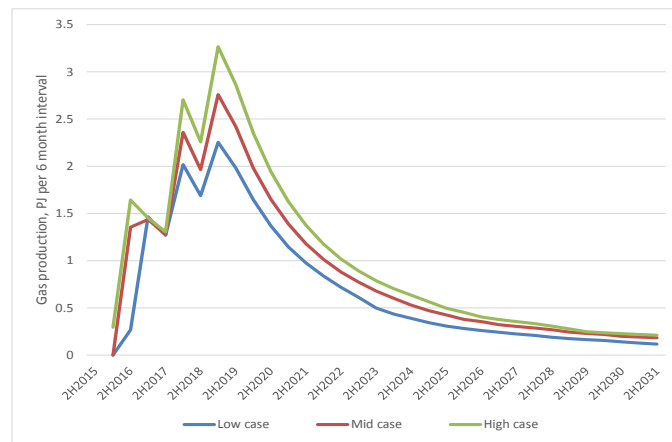


Figure 8-5 Low, mid and high case gas production forecasts

### 8.3. Resource assessment

RISC has generated production forecasts for the Initial wells and stimulated wells that it considers producible, the gas forecast is shown in Figure 8-6. The production forecast has gas production commencing in 2016 and runs to end 2031. Gas production from the initial wells to 2032 is 18.8 PJ, with a further 8.6 PJ coming from the stimulated wells and 0.9 PJ from compression at Myall Creek.

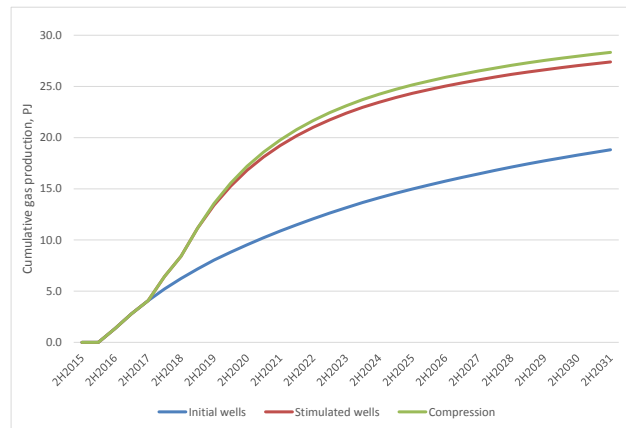


Figure 8-6 RISC's mid case sales gas cumulative production forecast, initial wells and stimulation

#### 8.4. Resource classification

Table 8-3 details the contingent resources potentially recoverable to 2032. Note that the table includes 2.3 PJ in storage at Newstead which, strictly, should be classified as inventory.

	Sales gas PJ	LPG kTonne	Condensate kbbl	Oil kbbl	OilEq kboe
<b>Initial wells</b>	18.8	40.2	189.7	152.8	3,917.5
<b>Stimulated wells</b>	8.6	20.1	94.8	0.0	1,741.8
<b>Compression</b>	0.9	1.7	9.9	0.0	184.6
<b>Total to Dec-31</b>	28.3	62.0	294.4	152.8	5,843.9

Notes: 1. Estimates are classified according to SPE-PRMS.

2. Contingent resources are stated on a 100% JV basis, the average WI is 95% with minor ORR and NPI in some permits.

3. Estimates have been prepared using deterministic methods and added arithmetically.

4. Contingent resources are net of fuel and use the Kincora Plant gate as a reference point.

5. Oil equivalent estimates are based on conversion of 5.82 PJ gas = 1,000 kboe, 118.2 Tonne LPG = 1 kboe and 1 kbbl = 1 kboe for oil and condensate.

Table 8-3 Contingent resources (2C) estimated for the Roma Shelf assets, 30 September 2015

RISC notes that the above quantities are stated on a 100% JV or gross basis. As noted above, certain JV interests being acquired are subject to pre-emptive rights, Santos has waived its pre-emptive rights in those tenements where it has an interest. In the event that Armour did not acquire interests from other parties with pre-emptive rights the effect on contingent resources would be minor as the interests relate mainly to ATPs.



Low, mid and high case contingent resources (oil equivalent totals) are tabulated below.

Product	Unit	1C	2C	3C
Sales gas	PJ	22.5	28.3	33.0
LPG	ktonne	49.4	62.0	70.7
Condensate	kbbl	232.3	294.4	337.2
Oil	kbbl	107.6	152.8	154.6
Oil Eq	kboe	4,629.5	5,843.9	6,767.8

Notes: 1. Estimates are classified according to SPE-PRMS.

2. Contingent resources are stated on a 100% JV basis, the average WI is 95% with minor ORR and NPI in some permits.

3. Estimates have been prepared using deterministic methods and added arithmetically.

4. Estimates beyond the field level have been aggregated arithmetically, as a result the aggregate 1C may be very conservative and the aggregate 3C may be very optimistic due to portfolio effects.

5. Contingent resources are net of fuel and use the Kincora Plant gate as a reference point.

6. Oil equivalent estimates are based on conversion of 5.82 PJ gas = 1,000 kboe, 118.2 Tonne LPG = 1 kboe and 1 kbbl = 1 kboe for oil and condensate.

**Table 8-4 Contingent resources (1C, 2C and 3C) estimated for the Roma Shelf assets, 30 September 2015**

The contingent resources estimates have been determined using deterministic methods based on forecasts run to 2032, without economic truncation.

RISC considers that recovery from the initial wells can be re-classified as a reserve once the wells are returned to production and all the facilities to deliver the product to market are operational. Stimulation activities can be individually reclassified when there is a commitment and plans to undertake the activity.

Any re-classification as a reserve will require an evaluation of the economic limit of production and the recovery up to the economic cut-off would be re-classified as reserves.

Table 8-5 shows the contingent resource by Petroleum Lease.

Product	Unit	PL14	PL22	PL27	PL28W	PL53	PL71	PL174	PL227	NGS	PL30	PL264	Total
Sales gas	PJ	3.9	2.1	0.4	1.5	2.2	3.0	12.5	0.4	2.3	0.0	0.0	28.3
LPG	ktonne	11.0	4.9	1.1	3.7	3.8	11.7	23.5	0.7	1.5	0.0	0.0	62.0
Condensate	kbbl	39.1	19.2	4.5	15.7	20.8	52.0	133.9	3.8	5.5	0.0	0.0	294.4
Oil	kbbl	0	0	0	0	0	0	0	0	0	53.0	99.8	152.8

Notes: 1. Estimates are classified according to SPE-PRMS.

2. Contingent resources are stated on a 100% JV basis, the average WI is 95% with minor ORR and NPI in some permits.

3. Estimates have been prepared using deterministic methods and added arithmetically.

4. Contingent resources are net of fuel and use the Kincora Plant gate as a reference point.

**Table 8-5 2C contingent resource by PL (100% JV) as at 30 September 2015**



## 9. Declarations

### 9.1. Qualifications

RISC is an independent oil and gas advisory firm. All of the RISC staff engaged in this assignment are professionally qualified engineers, geoscientists or analysts, each with many years of relevant experience and most have in excess of 20 years.

The preparation of this report has been supervised by Mr. Geoffrey Barker, RISC Partner. He has over thirty years of global experience in the upstream hydrocarbon industry, with extensive expertise in the areas of asset valuation, business strategies, evaluation of conventional and non-conventional petroleum (coal seam gas and tight gas), due diligence assessment for mergers, acquisitions and project finance requirements and reserves assessment/certification and preparation of Independent Technical Specialist reports. Mr. Barker is a Past Chairman of the SPE WA Section, a past member of the SPE International's Oil and Gas Reserves Committee 2007-2009, and is a co-author of the Guidelines for Application of the Petroleum Resources Management System published by the SPE in November 2011 (Chapter 8.5 Coal Bed Methane). Mr Barker is a Member of the Society of Petroleum Engineers (SPE), and holds a BSc (Chemistry), Melbourne University, 1980 and an M.Eng.Sc. (Pet Eng), Sydney University, 1989 and is a qualified petroleum reserves and resources evaluator (QPPRE) as defined by ASX listing rules.

RISC was founded in 1994 to provide independent advice to companies associated with the oil and gas industry. Today the company has approximately 40 highly experienced professional staff at offices in Perth and Brisbane, Australia and London, UK. We have completed over 1500 assignments in 68 countries for nearly 500 clients. Our services cover the entire range of the oil and gas business lifecycle and include:

- Oil and gas asset valuations, expert advice to banks for debt or equity finance;
- Exploration/Portfolio management;
- Field development studies and operations planning;
- Reserves assessment and certification, peer reviews;
- Gas market advice;
- Independent Expert/Expert Witness;
- Strategy and corporate planning.

### 9.2. VALMIN Code

This Report has been prepared by RISC. This Report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition ("The VALMIN Code") as well as the Australian Securities and Investment Commission (ASIC) Regulatory Guides 111 and 112.

### 9.3. Petroleum Resources Management System

In the preparation of this Report, RISC has complied with the guidelines and definitions of the Petroleum Resources Management System approved by the Board of the Society of Petroleum Engineers in 2007 (PRMS).

### 9.4. Report to be presented in its entirety

RISC has been advised by BDO that this report will be presented in its entirety without summarisation.



## 9.5. Independence

This report does not give and must not be interpreted as giving, an opinion, recommendation or advice on a financial product within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investments Commission Act 2001.

RISC is not operating under an Australian financial services licence in providing this report.

In accordance with regulation 7.6.01(1)(u) of the Corporations Regulation 2001. RISC makes the following disclosures:

RISC is independent with respect to Armour, BDO and Grant WestSide Corporation Ltd and confirms that there is no conflict of interest with any party involved in the assignment;

Under the terms of engagement between RISC and BDO for the provision of this report, RISC will receive a time-based fee, with no part of the fee contingent on the conclusions reached, or the content or future use of this report. Except for these fees, RISC has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report;

Neither RISC nor any of its personnel involved in the preparation of this report have any material interest in Armour or in any of the properties described herein;

RISC has not provided advice to Armour specifically in relation to the Proposed Transaction.

RISC has carried out the following assignments for Armour over the last 2 years:

- o Technical and due diligence of the Roma Shelf assets, then owned by Origin Energy Limited)

The abovementioned assignment was undertaken as part of our normal independent consulting services, did not involve contingent payments and does not affect our ability to take an unbiased view of the assets.

## 9.6. Limitations

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to RISC are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, RISC has considered and relied upon information obtained from Armour as well as information in the public domain.

The information provided to RISC has included both hard copy and electronic information supplemented with discussions between RISC and key Armour staff.

Whilst every effort has been made to verify data and resolve apparent inconsistencies, we believe our review and conclusions are sound, but neither RISC nor its servants accept any liability, except any liability which cannot be excluded by law, for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose.

In particular, we have not independently verified property title, encumbrances or regulations that apply to this asset(s). We have not independently confirmed the status of the permit titles. RISC has also not audited the opening balances at the economic evaluation date of past recovered and unrecovered development and exploration costs, undepreciated past development costs and tax losses.





We believe our review and conclusions are sound but no warranty of accuracy or reliability is given to our conclusions.

Our review was carried out only for the purpose referred to above and may not have relevance in other contexts.

### **9.7. Consent**

RISC has consented to this report, in the form and context in which it appears, being included in the Independent Expert's Report prepared by BDO for Armour. Neither the whole nor any part of this report nor any reference to it may be included in or attached to any other document, circular, resolution, letter or statement without the prior consent of RISC.

This Report is authorised for release by Mr. Geoffrey Barker, RISC Partner dated 30 September 2015.

A handwritten signature in black ink, appearing to read "GB", with a long, wavy horizontal line extending to the right.

**Geoffrey J Barker**  
Partner

## 10. List of terms

### 10.1. Abbreviations

The following table lists abbreviations commonly used in the oil and gas industry and which may be used in this report.

Abbreviation	Full Term
1P	Proved
2P	Proved plus Probable
3P	Proved plus Probable plus Possible
A\$	Australian dollars
ATP	Authority to Prospect
bbl(/d)	US barrels (per day)
bcf	Billion (10 <sup>9</sup> ) cubic feet
bwpd	Barrels of water per day
CO <sub>2</sub>	Carbon dioxide
CVR	Commercial Viability Report
DST	Drill Stem Test
FBHP	Flowing Bottom Hole Pressure
FDP	Field Development Plan
FTHP	Flowing Tubing Head Pressure
GIIP	Gas Initially In Place
GJ	Gigajoules (10 <sup>9</sup> J)
JV(P)	Joint Venture (Parties)
km <sup>2</sup>	Square kilometres
kPa	Kilopascal
LNG	Liquefied Natural Gas
m	Metres
mD	Millidarcies
mKB	Metres below Kelly Bushing
mGL	Metres below Ground Level
MJ	Megajoules (10 <sup>6</sup> J)
Ml (/d)	Megalitres (per day)
mmscf(/d)	Million standard cubic feet (per day)
MPa	Megapascal
mscf(/d)	Thousand standard cubic feet (per day)
mSS	Metres subsea
OIIP	Oil initially In Place
OWC	Oil-water contact
PCA	Potential Commercial Area
PJ	Petajoules (10 <sup>15</sup> J)
PL	Petroleum Lease
psi (a or g)	Pounds per square inch pressure (absolute or gauge)
RISC	Resource Investment Strategy Consultants
RT	Rotary Table or Real Terms, depending on context



Abbreviation	Full Term
scf	Standard cubic feet (measured at 60 F and 14.696 psia)
scm	Standard cubic metres (measured at 15 C and 101.325 kPa)
SPE	Society of Petroleum Engineers
SPE-PRMS	Society of Petroleum Engineers Petroleum Resources Management System
SUG	System Use Gas (fuel and flare)
Tcf	Trillion ( $10^{12}$ ) cubic feet
TJ	Terajoules ( $10^{12}$ J)
UR	Ultimate Recovery
US\$	United States dollars

## 10.2. Definitions

The following table lists some definitions for terms commonly used in the oil and gas industry and which may be used in this report.

Term	Definition
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the SPE-PRMS.
Expectation	The mean of a probability distribution.
P90, P50, P10	90%, 50% & 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively if probabilistic techniques are used.
Possible Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
Probable Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Probable Reserves are those additional Reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.



Term	Definition
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations as defined in the SPE-PRMS.

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