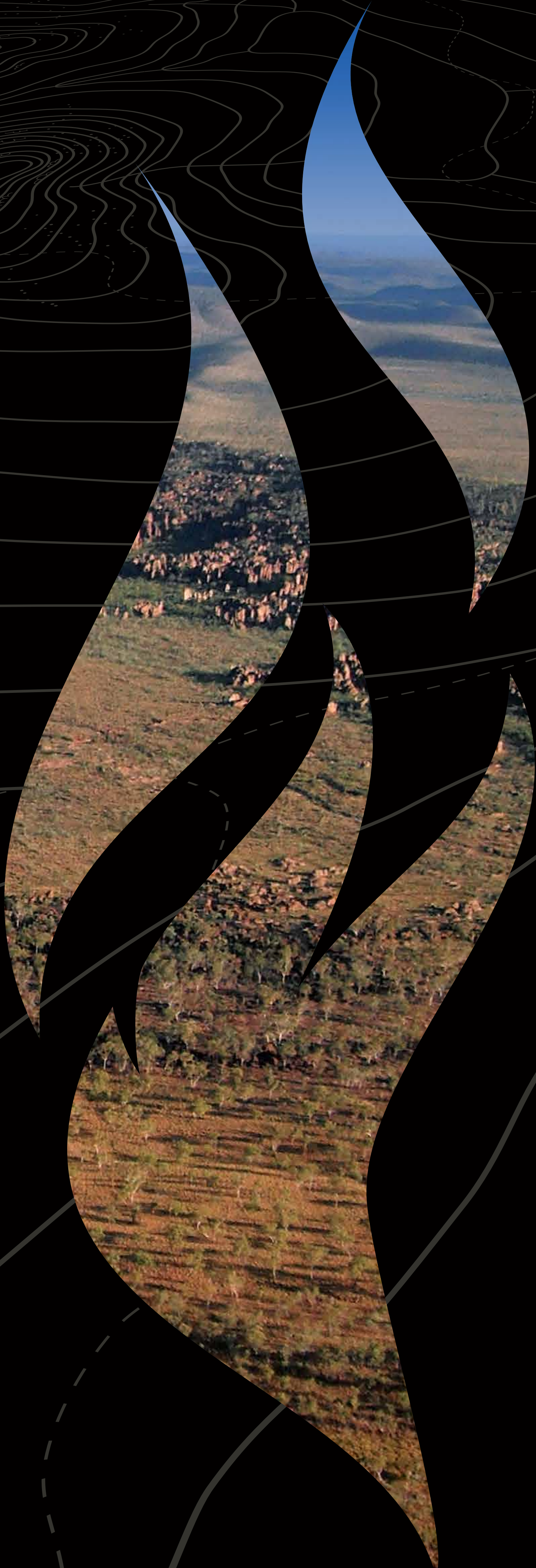
armour energy

Annual Report 2012



Armour Energy is focussed on the discovery and development of world class gas and associated liquids resources in an extensive and recently recognised hydrocarbon province in northern Australia.

The Company has significant tenure position in this region and is applying proven modern shale gas technologies to capitalise on its unique opportunity as an early entrant.

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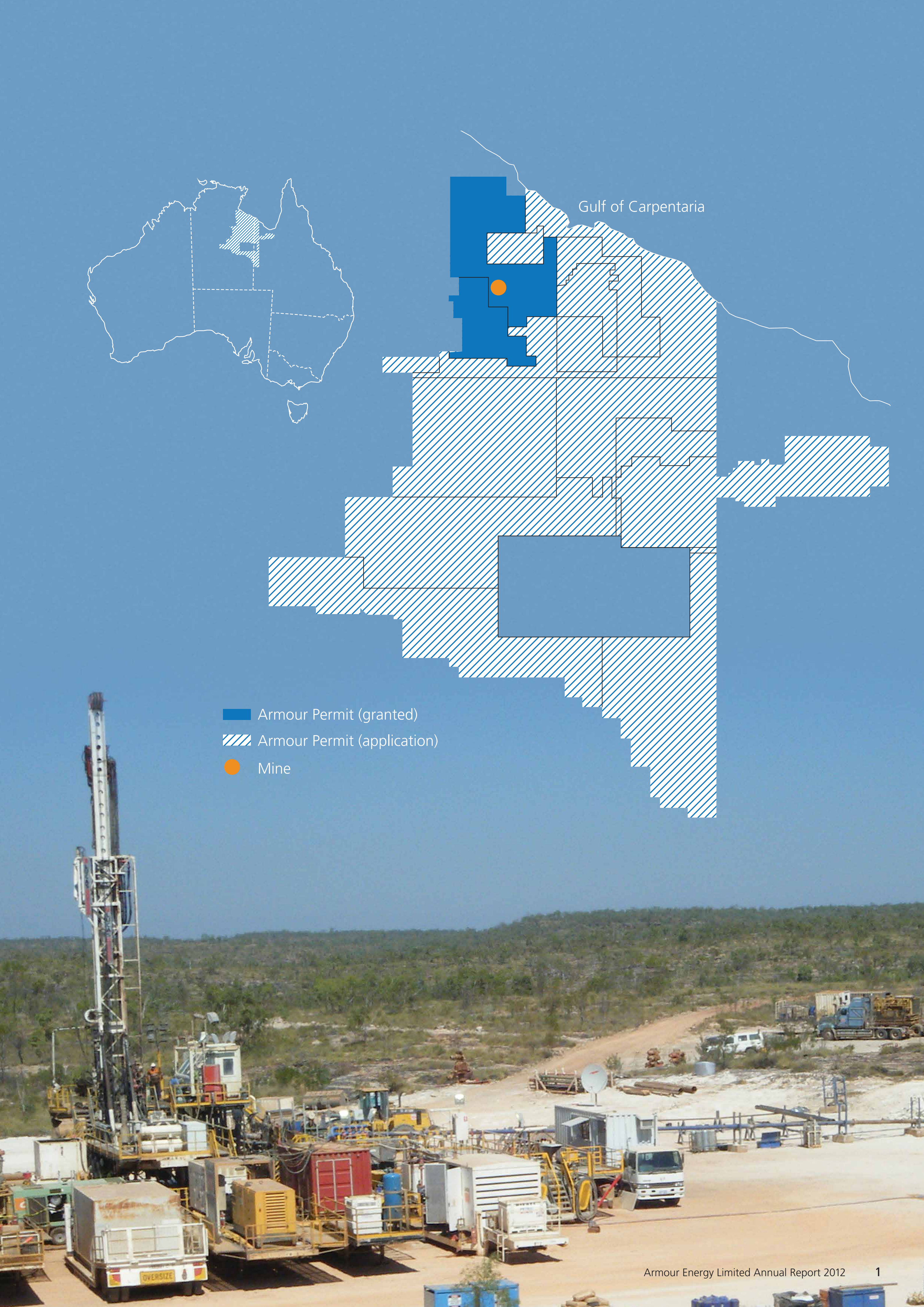
Armour Energy Limited
ACN 141 198 414


Gulf of Carpentaria
Armour Permit (granted)
Armour Permit (application)
Mine

Chairman's Report

NICHOLAS MATHER, EXECUTIVE CHAIRMAN B.Sc (Hons. Geology)

Dear Shareholder,

On behalf of the Board of Directors it is with great pleasure that I take this opportunity to report the progress achieved by Armour Energy over the past twelve months and in particular on the advancements made in the last six months since listing on the Australian Stock Exchange.

Armour Energy is an emerging regional gas exploration and development company in a new province in northern Australia. The mean Prospective Resource estimate for Armour Energy, in only two of its granted permits and one permit pending grant, is approximately 41.3 trillion cubic feet of gas and 2.2 billion barrels of associated Liquids. Armour Energy believes the prospectivity of the balance of the area, which includes 13 adjoining permits pending grant, could endow the Company with a markedly larger petroleum resource of global strategic significance.

Armour Energy holds the unique position of having 100% ownership in a strategic tenure position in northern Australia of 133,000km² (approximately 33 million acres). Without any near term plans for farm-ins or asset sales contemplated, shareholders are exposed to 100% of the upside created in unlocking the immense potential of this project.

In addition, this provincial footprint provides the Company with a broad range of infrastructure options, limits competition in the region, focuses capital investment and streamlines negotiation processes for local stakeholders. This strategic location is proximate to large scale regional market opportunities, existing pipelines with access to LNG infrastructure and its coastal position expands export market options.

Armour Energy commenced drilling immediately following the IPO, with the first well spudded in May 2012, and proceeded to drill 4 vertical and 1 horizontal lateral well. This rapid mobilization was affected by our experienced technical team who delivered this activity in a new theatre in just 5 months.

This drilling program lead to a discovery in the Northern Territory at Glyde 1 lateral well. The well encountered a gas flow of 3.33 million standard cubic feet per day at 125 psi pressure after 10 minutes on a one inch choke. This occurred at a measured depth of 793 metres (vertical depth 504 metres). The gas constituents from this interval were 77% Methane (C1), 11% Ethane (C2), 11% Propane (C3), 0.6% n-Butanes (C4), 0.2% n-Pentanes (C5) with negligible Carbon Dioxide. The result demonstrated the potential for endowment of the Batten Trough

1. Granted permits EP 171 and EP 176 in the Northern Territory and ATP 1087 in Queensland over which Armour Energy is the preferred tenderer

under Armour Energy tenure of up to 22.8tcf of gas. Armour Energy is now undertaking further analysis to gain an understanding of the potential repetition across the region.

Armour Energy's permit areas are characterised by low population densities, cooperative stakeholders and aspects of the natural environment suited to the exploration and development of a future gas and Liquids province. The Company places substantial importance on maintaining close liaison between traditional owners and all stakeholders and this approach has led to the expeditious granting of Armour Energy's key permits in the Northern Territory. Armour Energy is committed to further developing this close relationship with its stakeholders. Similarly, in Queensland, Armour Energy's proactive and cooperative approach to negotiation with traditional owners will we believe deliver a framework for smooth exploration activities and a cooperative approach to development.

To complement Armour Energy's prospective areas in northern Australia, in December 2011, the Company made a strategic investment in Lakes Oil, an oil and gas explorer focused on the Otway and Gippsland Basins in Victoria. In conjunction with this investment Armour Energy has the right to earn an interest in two project areas and acquire a significant interest in a third project area. This provides Armour Energy with exposure to a potentially large gas province, immediate drill targets with a 12 month drilling window and geographical expansion. Already, gas and condensate liquids discoveries have been made in Morey's 1 in the Otway Basin (Armour Energy 51%) and a tight gas discovery made in Holdgate 1 (Armour Energy 25%). At the date of this report, Armour Energy is preparing, with Lakes, to drill Otway 1 which is located in the gas rich Otway Basin beside existing production infrastructure.

Armour Energy's aims are made possible as a result of the efforts and experience of our key personnel. The Board includes four former Arrow Energy Directors, comprising Mr William (Bill) Stubbs, Mr Stephen Bizzell, Mr Jeremy Barlow and myself; plus Mr Roland Sleeman, previously part of Eastern Star Gas (ASX) senior management team. The same expansive and progressive approach to exploration and development that was used to drive Arrow Energy's evolution is also planned for Armour Energy.

Armour Energy's CEO Mr Philip McNamara has been involved in the successful development of many large coal projects and, most recently, as Waratah Coal's former Managing Director he was instrumental in securing AUD5.5 billion of financing for the proposed development of the Galilee Basin coal projects.

Natural gas is globally accepted as the cleanest and most efficient fossil fuel and growing seaborne demand is largely driven by emerging economies seeking oil alternatives and energy security. Natural gas whether it is produced from conventional free flowing or unconventional sources, such as shale and coal seams, is the most environmentally and politically acceptable as well as the most transportable source of fossil fuel; and at Armour Energy we believe the future for gas production is assured.

The forecast global demand for gas, combined with new shale extractive technologies and experienced personnel, provides Armour Energy with an extraordinary opportunity to define and ultimately develop a new Liquids rich gas province.

I would like to take this opportunity to thank you for your ongoing support, as a Shareholder of Armour Energy. We look forward to continuing to deliver results in the new financial year.

Yours Sincerely

Nicholas Mather
Executive Chairman

The forecast global demand for gas, combined with new shale extractive technologies and experienced personnel, provides Armour Energy with an extraordinary opportunity…

Review of Operations

HIGHLIGHTS

$75M IPO completed and ASX trading commenced on 26th April 2012

Additional Queensland tenement position secured, ATP 1107

Northern Territory operations base established

56km seismic survey completed in EP 171 in the Northern Territory

Cow Lagoon 1 well drilled and extended in EP 176 in the Northern Territory with gas flows and shows from the Lynott and Reward Formations

Greater Cow Lagoon Structure estimated to hold a Mean Prospective Resource of 100.4 BCF in the Lynott and Reward Formations

Moreys 1 well drilled in PEP 169, Otway Basin Victoria with gas flows and condensate recovery

Holdgate 1 well drilled in PEP 166, Gippsland Basin Victoria

Kilgour North 1 well drilled in EP 171 in the Northern Territory

Glyde 1 lateral well drilled in EP 171 in Northern Territory with significant gas discovery

$75M IPO Completed and ASX Trading Commenced on 26th April 2012

Armour Energy Limited (ASX: AJQ) was admitted to the official list of the ASX with official quotation of securities in the Company commencing at 11:00am AEST on Thursday, 26th April.

The Company successfully raised $75,000,000 in an oversubscribed offer with the issue of 150,000,000 fully paid ordinary shares at an issue price of $0.50 and 37,500,000 free attaching options exercisable at $0.50 expiring on 31st August 2014 (issued on the basis of one option for every four new shares).

The non-escrowed securities quoted at the time of listing were:

- 221,050,000 fully paid ordinary shares (ASX code: AJQ);
- 57,687,500 options exercisable at $0.50 expiring on 31st August 2014 (ASX code: AJQO).

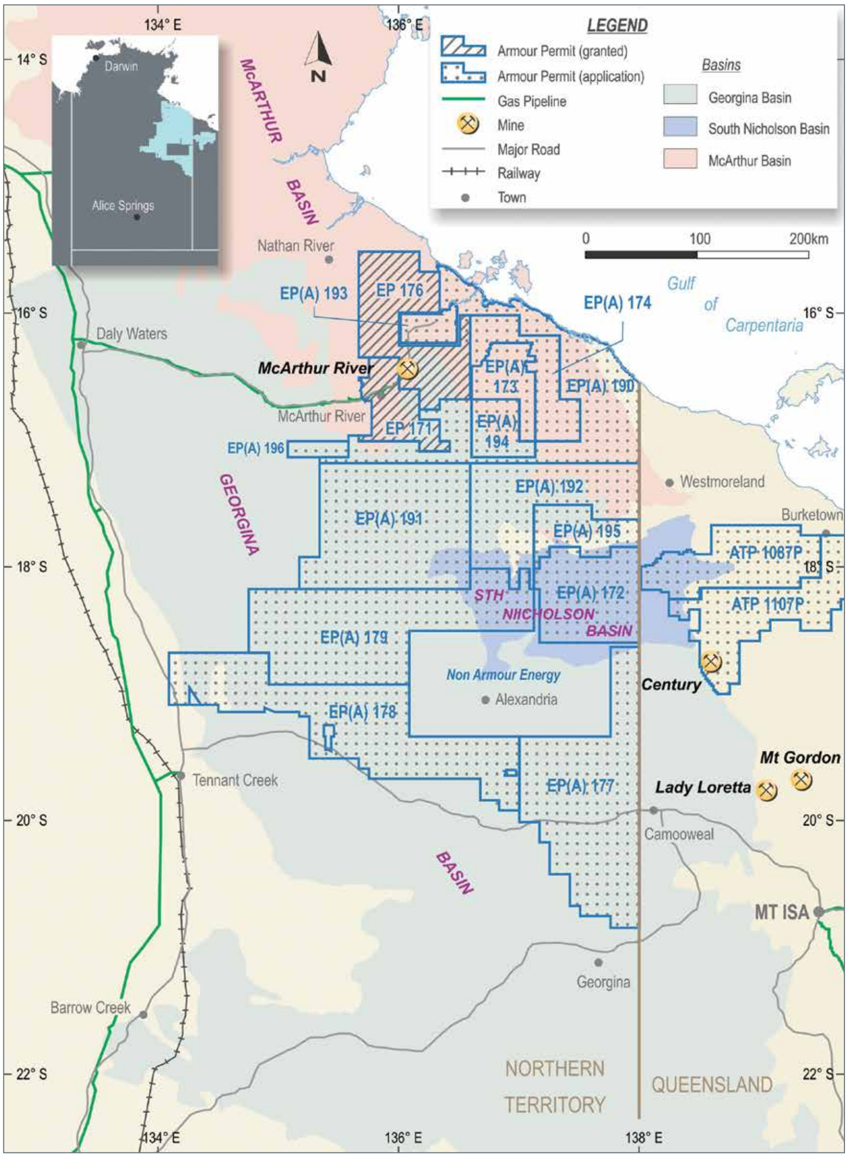
Escrow conditions apply to further shares and options in the Company through to 26 April 2014.

Armour Energy's business focus is on the discovery and development of gas and associated liquids resources in a hydrocarbon province in Northern Australia where the Company has two granted exploration permits EP171 and EP176. These granted permits are located in the Northern Territory along with an additional thirteen applications for exploration permits in the Northern Territory (Figure 1).

At the time of listing Armour Energy was also the preferred tender applicant for ATP1087 in the Gulf of Carpentaria region of North Queensland and is continuing to pursue the grant of that tenement with an active drill program thereafter. Since listing Armour Energy has been selected as preferred tenderer for ATP1107 which is adjacent to ATP1087.

Armour Energy holds a 13% interest in ASX-listed Lakes Oil NL (ASX:LKO) and is progressing the exploration and development of gas and associated liquids resources in the Otway and Gippsland basins in Victoria. This will be achieved through the Company's farm in agreements with Lakes Oil where it has now acquired a 51% ownership and operatorship of PEP 169 (Otway Basin) and a 25% ownership of PEP 166 (Gippsland Basin) with an option to increase this to 51%. Armour Energy also holds an option to acquire 50% of Lake Oil's interests in PRL 2 covering the Trifon, Gangell and Wombat gas fields.

Figure 1 Armour Energy's Northern Australia Exploration Permits and Application Areas



Armour Energy Secures Further Queensland Tenement Position ATP1107

During May 2012 Armour Energy was advised by the Queensland Government that it had been successful in its tender for Queensland permit ATP 1107 which lies immediately south of, and adjacent to, the Company's original Queensland tenement position ATP 1087 (Figure 2). ATP 1107 and ATP 1087 cover the south Nicholson Basin and underlying Mt Isa Super Basin which extends westward into the Company's Northern Territory applications.

The selection as preferred tenderer for ATP 1107 effectively doubles Armour Energy's Queensland ground position from approximately 1.8 million acres to 3.6 million acres, significantly increasing the Company's exposure to the South Nicholson Basin and in particular the Lawn Hill Formation within the underlying Mt Isa Super Basin.

A Native Title Agreement and the relevant environmental clearances will be required before Armour Energy can be granted an exploration permit over either of ATP 1087 or ATP 1107. Considering the location of ATP 1107 however the Company expects that these processes will flow on from the on-going negotiations and assessments for ATP 1087.

Armour Energy and its independent consultants (MBA Petroleum Consultants) have previously determined a mean technically recoverable prospective resource estimate for ATP 1087 of 22.5 TCF of gas and 242 million barrels of associated liquids. The adjoining ATP 1107 is expected to extend the regional prospective resource inventory.

The main evidence for prospectivity in the Basin is the very strong and consistent gas shows in the drilling mud across a 125 metre section of the Lawn 4 formation in the Egilabria 1 well which was drilled by Comalco in the 1990s in what is now ATP 1087.

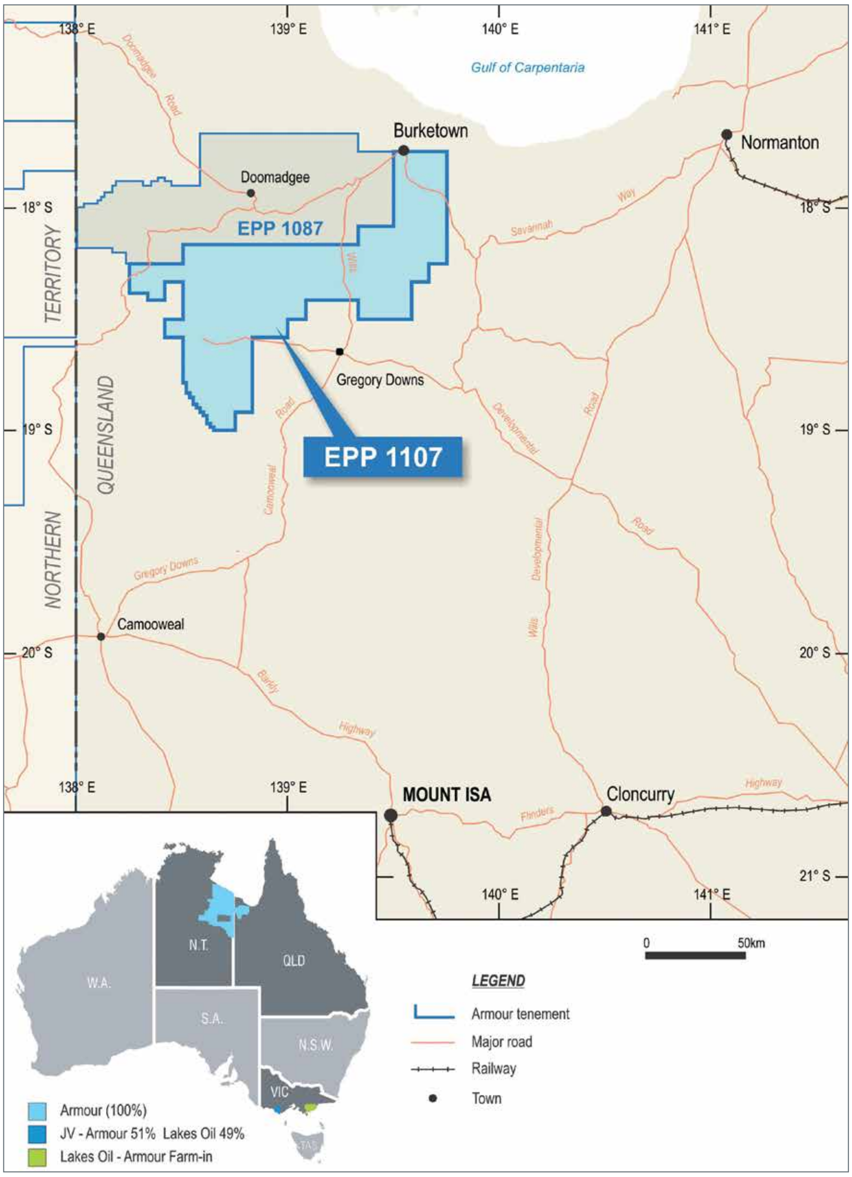


Figure 2 Location Map – ATP 1107 and ATP 1087 in Queensland

The Lawn 4 formation is interpreted to contain up to 8% Total Organic Carbon and a gas charged brittle shale suitable for lateral drilling and hydraulic fraccing to stimulate gas production.

Armour Energy intends to conduct an integrated exploration program across ATP 1087 in order to define commercial gas reserves by the end of 2013. ATP 1107 will provide an extension of this exploration opportunity.

Northern Territory Operations Base established

During April 2012 the Company established a base accommodation facility in the Northern Territory at the Cape Crawford roadhouse located on the intersection of the Tablelands and Carpentaria highways. This facility has provided an efficient base from which to carry out the company's exploration activities across EP 171 and EP 176.

56km 2D Seismic Survey completed in EP 171 in the Northern Territory

Armour Energy completed a seismic acquisition program in the vicinity of the Abner Range area within EP 171 during early May 2012. A total of 56km of 2D seismic acquisition was completed across 12 days of acquisition (Figure 3). The seismic acquisition was completed by Geokinetics (Australasia) Pty Ltd to provide seismic coverage of the area including the Kilgour North, Kilgour South and Abner anticlines.

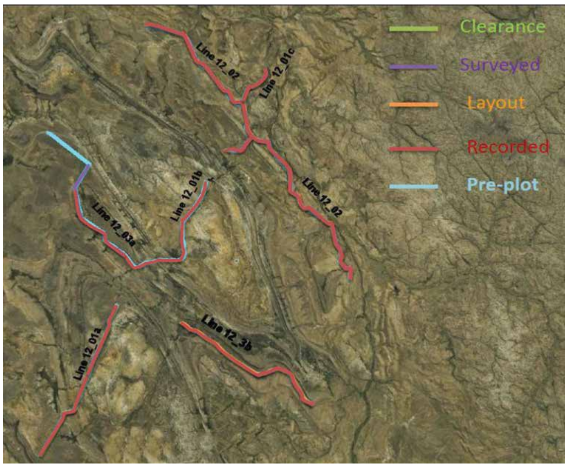


Figure 3 Seismic acquisition lines around Abner Range – completed lines in red

Cow Lagoon 1 well completed in EP176 in the Northern Territory

During May and into June 2012 Armour Energy drilled the Cow Lagoon 1 well in EP 176 in the Northern Territory. This was the first well in the 2012 MacArthur Basin drill program, located in the highly prospective Batten Trough (Figure 4).

The Batten Trough is covered by granted EPs 171 and 176 (100% Armour Energy). These tenements cover 11,000km² and are the subject of an independently assessed mean technically recoverable prospective resource of some 18.6 TCF (Trillion Cubic Feet) of gas.

The Cow Lagoon 1 well surface casing was set and cemented at a depth of 240 metres and the well was ultimately drilled to 1804 depth after being deepened from the originally planned depth of 850 metres.

The well was drilled to target and test the hydrocarbon potential of the Reward Dolomite, Barney Creek Shale and the Coxco Dolomite formations. The well is located on an anticline that had been defined by a previous seismic line. The emphasis of the investigation was to assess the maturity, organic carbon content, hydrocarbon content and suitability of the Barney Creek Shale for reservoir stimulation.

Cow Lagoon 1 discovered gas in the Lynott and Reward Formations with further gas shows in the Barney Creek and deeper formations on the Cow Lagoon West Anticline (Figure 4)

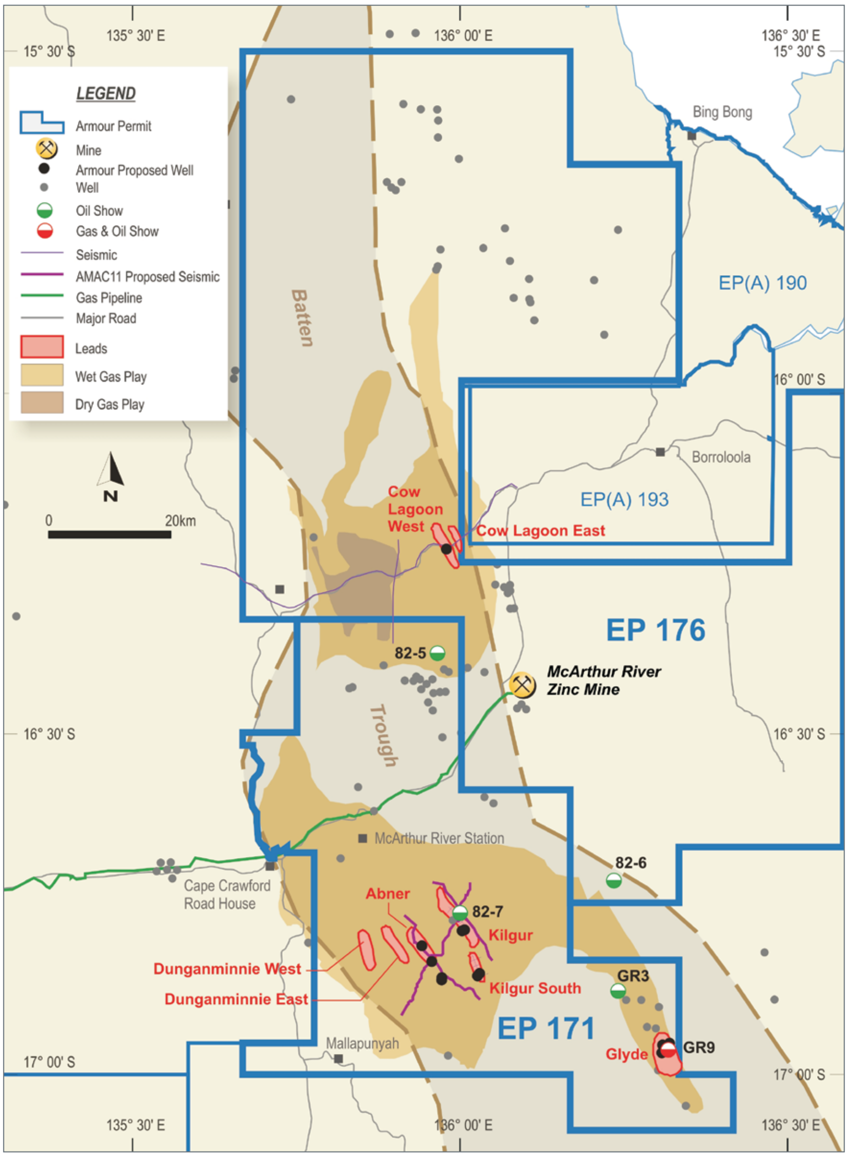


Figure 4 Location Map – Cow Lagoon 1 well location within EP 176 in the Batten Trough

Figure 5 Gas burning from the end of the 8” diameter “blooie” pipeline, venting the Cow Lagoon 1 well

during underbalanced, air-mist drilling operations. This proved the presence of a valid hydrocarbon trap at the Cow Lagoon 1 location where surface geological mapping had indicated four-way dip closure. Gas influxes and flares were observed and continued from these formations up to 15 days after they were drilled.

The gas flare pictured (Figure 5) was a gas show from indeterminate zones in the Reward Dolomite between 342 and 540 metres depth. The flare was caused by gas that was driven from the well by the reintroduction of compressed air into the well after the connection of an additional pipe into the drill string during drilling.

Approval was obtained from the Northern Territory Government to suspend the well and the well was cased and cemented. The final well head configuration installed will allow Armour Energy to perform future cased hole testing, lateral drilling and stimulation as required.

Gas charged sediments were confirmed by flares, mudlog shows, chromatograph readings, and preliminary desorption readings from core and cutting samples from the Lynott, Reward and Barney Creek Formations. A full suite of logs was acquired and detailed cuttings collection was obtained for further mineralogy, maturity, and brittleness studies. Image logs indicated porosity responses in conjunction with natural fracturing within these formations. The presence of this thick gas charged, naturally fractured sequence indicates the potential for the application of lateral wells and stimulation techniques in these sequences across EP 176.

The Barney Creek Formation, an unconventional shale gas and shale oil target, was encountered in Cow Lagoon 1 at a depth of 1245m which was deeper than the original depth prognosis. A prospective 65m shale section was penetrated within the Barney Creek Formation.

Further evaluation in accordance with the Society of Petroleum Engineers, Petroleum Resources Management System (SPE-PRMS) of the seismic data, has indicated that Cow Lagoon is part of a greater structure that is holding a mean prospective resource of 100.4 billion standard cubic feet (BCF) in the Lynott and Reward Formations.

Further appraisal of the Lynott, Reward and Barney Creek Formations at greater depth can now be considered at down dip locations in synclinal areas of the Batten Trough where the formations may thicken and display further increases in gas charge and pressure. Additional targets have been identified 10-15km south west of Cow Lagoon.

In 1979 during zinc exploration activities, the narrow diameter Glyde River 9 drill core hole was drilled in the wet gas window and flowed wet gas to surface at approximately 300,000 standard cubic feet per day from the Coxco dolomite underlying the Barney Creek Shale, at a depth of some 500 metres.

The result from the Cow Lagoon 1 hole located 90km to the north of 1979 Glyde River 9 well demonstrates the broad presence of both gas generating shales and dolomites of reservoir potential in the Batten Trough of the MacArthur Basin on Armour Energy’s 100% owned tenements

Armour Energy is using the Vertical Seismic Profile data acquired at Cow Lagoon 1 to reprocess and reinterpret the regional seismic line 02GA-BT1 that was originally surveyed in 2002 and extends across EP 176. This will assist in identifying further Barney Creek Formation targets.

During the course of drilling the Cow Lagoon 1 well, significant improvements in drilling rates were achieved. These improvements will be further refined and applied further in Armour Energy’s current and future exploration campaigns.

Kilgour North 1 well drilled

The Kilgour North 1 well is located on the Kilgour Anticline (see Figure 4) where the subsurface structure had been confirmed by the processing and interpretation of the Kilgour-Abner seismic survey completed in May 2012.

The Kilgour North 1 well was drilled to assess the Yalco, Lynott, Reward, Barney Creek and Coxco Formations using improved drilling techniques and streamlined formation evaluation methods that had been developed at the previously drilled Cow Lagoon 1 well.

The well was spudded on 23rd June 2012 and a surface casing set to 319 metres. Drilling out from the surface casing commenced on 29th June and had progressed to 1046 metres by the 6th July. During this phase of drilling, two water bearing zones were intersected in the porous and permeable reservoir units of the Lynott and Reward Formations at approximately 350 metres and 750 metres depth.

At 1046 metres a decision was made to log and case the well to reduce water inflow into the well, as the water inflow was compromising the efficiency of the air drilling operation.

Drilling re-commenced from the bottom of the cased section of the well in dry drilling conditions and continued to 1142 metres where a further high water inflow zone was intersected with an inflow of approximately 10 litres per second.

Based on these repeated water inflows, a decision was made to suspend drilling of the Kilgour North 1 well and relocate the drilling rig to the Glyde drill site. The Kilgour North 1 well was further logged and then suspended in a manner where it can be re-entered as required.

Results at Kilgour North 1 confirmed the presence of reservoir quality porous and permeable units in the Lynott Formation and Reward Dolomites. Gas and oil shows encountered indicate primary charge of these reservoirs but subsequent water inflows have flushed out and oxidized the hydrocarbons.

Glyde 1 vertical and Glyde 1 lateral wells drilled with significant gas discovery

The Glyde drill site is near the location of the gas flow discovery that was made in 1979 by Amoco Minerals when exploring for zinc in the Glyde sub Basin. The 1979 gas flow occurred from the Coxco Dolomite located immediately below the Barney Creek Shale at approximately 500 metres depth.

The Glyde1 vertical well was spudded on 27th July 2012 and was drilled to a total depth of 698 metres. The well intersected a continuous vertical section of 132 m of black, gas-charged, naturally-fractured, Barney Creek Shale before intersecting the Coxco Dolomite Formation. During drilling of the shale interval consistent background and peak gas readings were observed. The gas constituents were generally Methane (C1), Ethane (C2), Propane (C3) with some Butane (C4) and Pentane (C5).Carbon Dioxide levels were negligible and no water was encountered during drilling of the well.

The Glyde 1 well was rotary drilled with compressed air. This proved to be efficient with high penetration rates and low drill bit wear confirming that the formation in the Glyde Sub Basin is conducive to low cost drilling operations in a repetitive production drilling scenario. The efficient vertical drilling results confirmed that effective directional drilling could be carried out in the planned Glyde 1 lateral well. Cuttings samples were taken for further analyses of both gas and organic carbon content.

Gas flares were noted at the surface from the Barney Creek Shale Formation during reintroduction of compressed air after drilling downtimes. The Glyde 1 vertical well was geophysically logged with the Barney Creek Shale Formation showing high gamma readings and log responses similar to other organic-rich shales. Numerous open natural fractures were also observed on resistivity-imaging tools during the logging. This provided Armour Energy with further confidence that the Barney Creek Shale Formation is the source rock and main contributor to the gas flows at the original GR-9 location that was drilled in 1979 and is located 300 metres to the East of the Glyde 1 well.

Figure 6 Gas Flare during Drilling with Compressed Air at Glyde 1 lateral well. Measured well depth of circa 770m

Figure 7 Arial view of the Glyde1 lateral well site

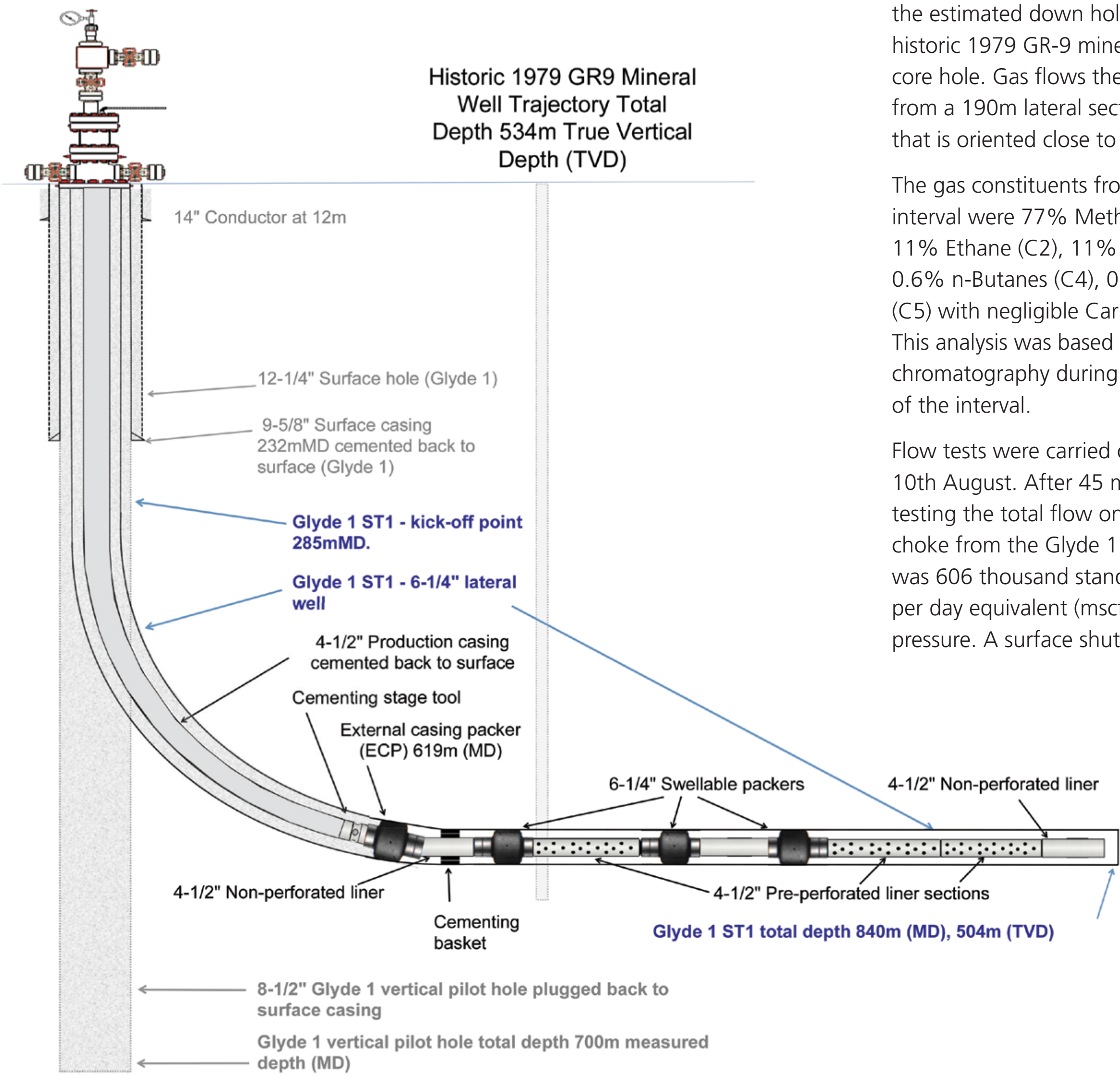


Figure 8 Configuration of the Glyde 1 lateral well after casing and cementing awaiting completion and production testing

Drilling of the Glyde 1 lateral well was then commenced from a vertical depth of 280m within the Glyde 1 vertical well and deviated through a 250 metre vertical radius to a near horizontal inclination from where it progressed past the historic GR-9 well and continued to a total measured depth of 840metres. The Glyde 1 lateral well was drilled with an under balanced technique drilled using a down hole motor and compressed air.

The lateral well first encountered a significant gas flow from the dolomitic shales in the lower section of the Barney Creek Formation on Friday 10th August 2012 as the well approached the estimated down hole location of the historic 1979 GR-9 mineral exploration core hole. Gas flows then continued from a 190m lateral section of the well that is oriented close to horizontal.

The gas constituents from this interval were 77% Methane (C1), 11% Ethane (C2), 11% Propane (C3), 0.6% n-Butanes (C4), 0.2% n-Pentanes (C5) with negligible Carbon Dioxide. This analysis was based on gas chromatography during drilling of the interval.

Flow tests were carried out on 10th August. After 45 minutes of testing the total flow on a 16/64 inch choke from the Glyde 1 lateral well was 606 thousand standard cubic feet per day equivalent (mscf/d) at 412 psi pressure. A surface shut in pressure of 554 psi was observed 30 minutes after shutting in of the well following completion of flow testing on the 16/64 inch choke.

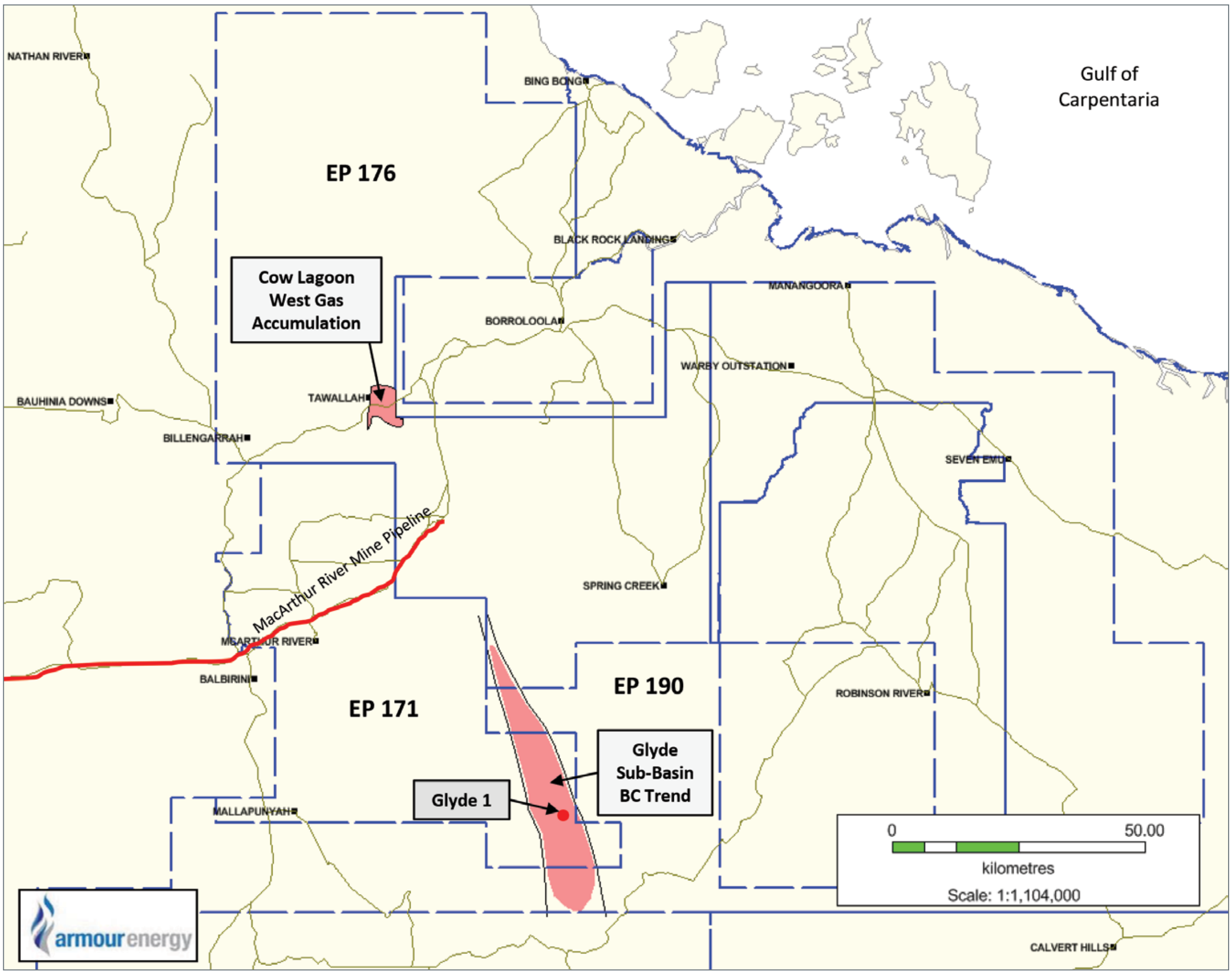
After 10 minutes of testing with a full open choke of 64/64 inch, the Glyde 1 lateral well was flowing at 3.33 million standard cubic feet per day equivalent (mmscf/d) at a pressure of 125 psi. This reading validated the high unimpeded flow potential of this reservoir as observed during drilling with gas chromatography readings.

The well was terminated at a measured depth of 840m with the well orientated close to a horizontal trajectory at a vertical depth of circa 500m. Gas concentrations remained high throughout the drilling of the dolomites and dolomitic shales encountered until drilling was terminated late on 13 August 2012. A full suite of logs was then collected from the well.

The well has since been cased with solid casing through the vertical and curved sections of the well in conjunction with two separate stages of perforated casing which have been installed along the near horizontal lateral section of the well (Figure 8).

The solid casing section of the well was then cemented into place and a temporary cement plug placed inside the solid casing as per regulatory requirements for temporary suspension of the well. The well will now await final completion and production testing where the temporary plug will be removed allowing final cleanup of the well and production testing.

Figure 9 Glyde Sub Basin and Glyde 1 lateral well location



The Glyde Sub Basin extends for approximately 50km in a North South direction in the region (Figure 9) and has been the source of repeated gas shows through previous minerals exploration drilling.

The base of the Barney Creek Shale Formation in the region is typically 500 metres to 700 metres deep and provides potential for shallow, low cost, production wells.

Armour Energy is progressing with a resource analysis in relation to the Glyde 1 lateral well. Armour Energy will also progress further analysis of the overall Glyde Sub Basin area to gain further understanding of the extent of the gas bearing formation and structure encountered in the Glyde 1 lateral well, and also the potential repetition of similar wells. A resource evaluation of the highly prospective Glyde Sub Basin which covers approximately 500km², as illustrated in Figure 9, will be prepared.

The Company is conducting an assessment of several data sets including radiometry, air photo interpretation, gravity and magnetics over the Glyde Sub Basin between Glyde and Cow Lagoon in order to plan seismic surveys and resource evaluation in conjunction with drilling.

Moreys 1 well drilled in Lakes Oil's PEP169, Otway Basin Victoria

Armour Energy funded the drilling of the Lakes Oil Moreys 1 well in the second quarter of 2012 to earn 51% and operatorship of PEP 169 in the onshore Otway Basin, Victoria (Figure 10). The well was spudded on 20 April 2012, and reached a total depth of 2300 metres on 7 May 2012.

The primary objective of the well, the Waarre 'C' Sandstone, was intersected between 1833-1878 metres and was found to be a coarse-grained, strongly cemented sandstone with only a minor gas show of C1 to C5 at the top of the unit. The reservoir was not as expected when compared with nearby wells.

The secondary target, the Eumeralla Formation was intersected between 1899-2300m with gas shows of C1 to C5 throughout the interval drilled. The formation consists of tight interbedded sandstones and

Figure 10 Location of PEP169 Otway Basin and PEP166 Gippsland Basin

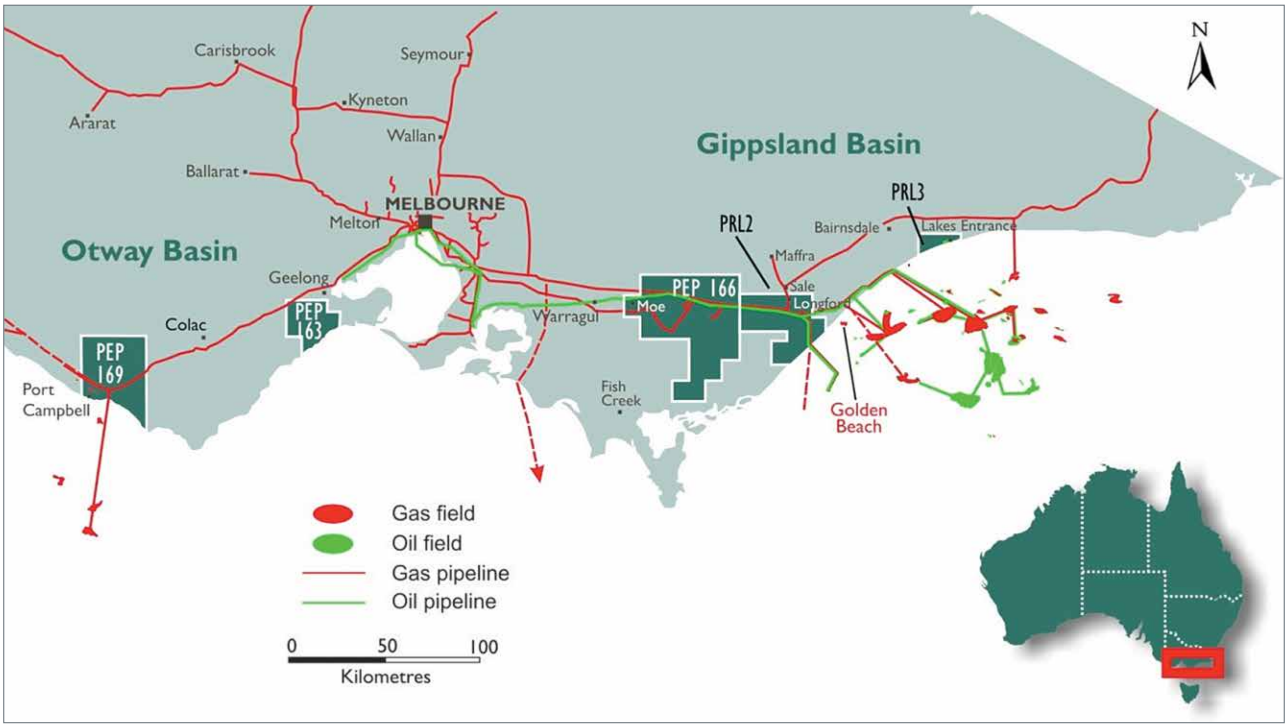


Figure 11 Gas and condensate flare from the Eumeralla Formation during the Moreys Drill Stem Test

claystones. A Drill Stem Test (DST) was conducted over a 10 metre sand interval within the Eumeralla Formation and flowed gas to the surface while condensate was recovered from the DST tool string.

The sandstone unit was gas saturated and is a typical mid-range Eumeralla type sandstone, with cuttings porosity and permeability estimates within the poor range. The sandstone is encased top and bottom by claystones with Gas composition of C1 to C5+. Condensate composition was C1-C28 with 63.75° API gravity.

Figure 12 Condensate collected from Eumeralla Formation

Moreys 1 indicates that the Eumeralla Formation is hydrocarbon saturated and where the porosity and permeability is enhanced flows can be achieved. This has upgraded the Eumeralla reservoir target potential in PEP 169. Moreys 1 showed that an active petroleum system exists across the PEP 169 permit, and not just across the existing production areas held by others. No Carbon Dioxide was evident in the well. There was evidence of wet gas throughout the well from the shallow Mepunga Formation and Skull Creek Mudstone to the deep Eumeralla Formation at 2300 metres.

The Waarre 'C' Sandstone in Moreys 1 intersected minor gas shows, however due to strong silica cementation caused by fluid invasion along the bounding fault trap had damaged the reservoir. Both Armour Energy and Lakes Oil are continuing to assess the results of all logging and test results conducted and re-evaluate the seismic data.

Moreys 1 is considered a tight gas and condensate discovery well due to indications of tight gas during drilling and recovery of hydrocarbons during drill stem testing in the Eumeralla Formation. Facture stimulation will be required at a later date to confirm this.

Holdgate 1 well drilled in PEP 166, Gippsland Basin Victoria

Armour Energy funded the drilling of the Holdgate 1 well by Lakes Oil in the second quarter of 2012 with Lakes Oil as operator.

This has earned Armour Energy a 25% interest in PEP 166. Armour Energy retains an option to extend this interest to 51% and operatorship of PEP 166.

The overall objective of the well was to explore for oil and gas plays on the Greater Baragwanath Anticline in PEP 166 which is part of a large surface anticline extending 60 kms across PEP 166 and into the adjacent PRL 2 where Armour Energy retains a further farm in option (refer Figure 10).

Holdgate-1 was drilled with two targets, with the primary objective being the Strzelecki Group, in which Lakes Oil has encountered 'tight gas' in previous wells drilled in the onshore Gippsland Basin. The secondary objective being the underlying Rintouls Creek Sandstone / Tyers Conglomerate.

Holdgate-1 well was spudded on 23rd May 2012. The drilling of the well was completed after reaching a total depth of 2752 metres on 2nd July 2012. A full logging program was run from 2280m up to the casing shoe at 427m including Formation Micro-Imaging/Sonic Scanner (FMI/SS) and Sidewall Coring Tool with the Gamma Ray (GR) run to surface.

Preliminary Results from Holdgate 1

The top of the Strzelecki Group was encountered at 126 metres depth and consisted of thick, inter-bedded felspathic and quartzose sandstones, claystones, shales and minor coals.

From 787m-2752m, the Strzelecki Group indicated sandstone lithologies that include quartzose and volcanogenic elements. This is a variation of the typical Strzelecki sandstone lithology which is dominantly volcanogenic (felspathic).

Continuous C1-C3 background gas readings (up to C5 across some intervals) were noted across large intervals within the Strzelecki Group, typical of a tight gas well.

Residual oil was identified in shale cuttings from 1720m. Additional analyses will be conducted from sidewall cores. A weak dull yellow bulk crush was noted across several intervals in recovered cuttings.

The thermal maturation levels obtained from cuttings indicate that the top of the Strzelecki Group down to about 2700m is mature for gas generation.

Preliminary evaluation of the drilling and log data by US tight gas specialists indicates that there are a number of zones of interest with tight gas potential. Overall the porosity ranged from 3-10%; however this is still a preliminary result without the benefit of any core analysis.

The FMI imaging log indicates there are abundant natural fractures throughout the drilled section. See part of the imaging log below (Figure 13).

From the interpreted index of brittleness, the shaley intervals in the well appear to be in the brittle range, indicating better fracture generation potential. This will need to be calibrated with core analysis. Both Armour Energy and Lakes Oil are continuing to evaluate all data collected from this well.

The Holdgate 1 wildcat has been deemed a tight gas discovery well by the company based on the presence of continuous gas in the Strzelecki Group and the identification of numerous tight gas zones from preliminary log evaluation conducted by independent U.S. based tight gas specialists. However, confirmation of this will still require fracture stimulation at a later stage.

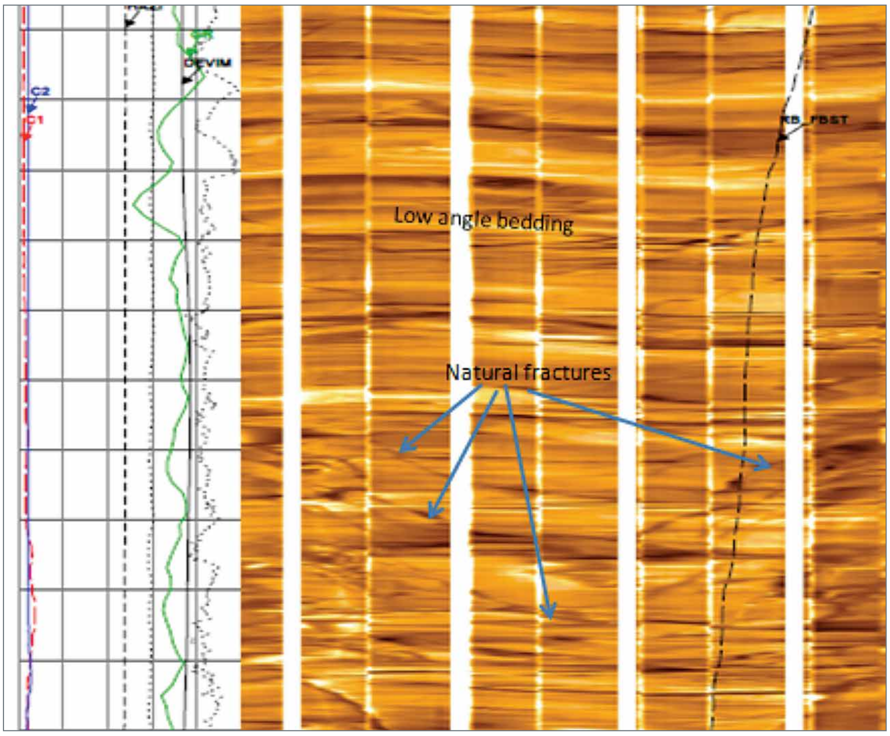


Figure 13 Part of the Holdgate 1 Formation Micro- Imaging Log at 1250 metres

Directors' Report

Your directors submit their report for the year ended 30 June 2012.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Nicholas Mather
Philip McNamara
William (Bill) Stubbs
Matthew Stubbs (alternate for William Stubbs – appointed 9 May 2012 and resigned 6 July 2012)
Vincent Mascolo – resigned 12 September 2011
Roland Sleeman – appointed 11 October 2011
Jeremy Barlow – appointed 14 February 2012
Stephen Bizzell – appointed 9 March 2012

Nicholas Mather –Executive Chairman

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
- Orbis Gold Ltd (formerly Mt Isa Metals Ltd)
- AusNiCo Ltd (listed on 21 October 2010)
- Navaho Gold Ltd (listed on 11 April 2011)
- Bow Energy Ltd (resigned 11 January 2012)
- Lakes Oil NL (appointed 7 February 2012)
- SolGold plc, which is listed on the London Stock Exchange (AIM)

Philip McNamara – Managing Director and Chief Executive Officer

BEng

Mr McNamara is a qualified mining engineer with 28 years' experience and is currently the Managing Director and Chief Executive Officer of Armour Energy Ltd. Mr McNamara has significant experience and success in operational management, major resource infrastructure projects, strong landholder negotiations and management, as well as successful Chinese negotiation experience. Prior to joining Armour Energy Ltd, Mr McNamara was the Managing Director of the Waratah Coal Galillee Basin Coal Project with 1.1 billion tonne reserve, $8.5 billion mine, rail and port project.

Mr McNamara has not served as a director of any other listed company in the last 3 years.

William (Bill) Stubbs – Non Executive Director

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
- Coalbank Ltd
- Lakes Oil NL (appointed 7 February 2012)

Roland Sleeman – Non Executive Director

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 3 years.

Jeremy Barlow – Non Executive Director

BEng (Mining), MBA

Jeremy Barlow has had a long and distinguished career in the coal and petroleum industries and brings a wealth of experience to Armour Energy's Board.

DIRECTORS (CONT.)

Mr Barlow is a Fellow of the Australasian Institute of Mining and Metallurgy and is currently the Non-Executive Chairman of coal explorer and developer Bandanna Energy Limited (ASX). He was a founding director of CH4 Gas Limited and after its merger with Arrow Energy Limited in August 2006, continued as a director of Arrow until its acquisition by Shell and Petro China in 2010.

Mr Barlow is the founder of well-respected coal consulting firm Barlow Jonker which was sold to Wood Mackenzie in 2007. In the early years of his career he held diverse technical and commercial positions with operating resource companies in Australia and overseas.

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

- Bandanna Energy Ltd*
- Arrow Energy Ltd

*Current Directorships

Stephen Bizzell – Non Executive Director

BComm

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 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 an Executive Director of Dart Energy Ltd (ASX) and Non-Executive Director of Apollo Gas 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.

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

- Apollo Minerals Ltd
- Arrow Energy Pty Ltd
- Bow Energy Ltd
- Dart Energy Ltd*
- Diversa Ltd*
- Hot Rock Ltd*
- Liquefied Natural Gas Ltd (Alternate)
- Renaissance Uranium Ltd*
- Renison Consolidated Mines NL*
- Stanmore Coal Ltd*
- Titan Energy Services Ltd*

*Current Directorships

As at the date of this report, the interests of the directors in the shares and options of Armour Energy Ltd were:

	Number of ordinary shares	Number of options over ordinary shares
Nicholas Mather	2,379,855	1,943,417
Philip McNamara	3,450,000	7,762,500
William (Bill) Stubbs	410,000	602,500
Roland Sleeman	50,000	512,500
Jeremy Barlow	2,005,000	1,000,000
Stephen Bizzell	1,310,000	5,205,000

COMPANY SECRETARY

Karl Schlobohm – Company Secretary

B.Comm, B.Econ, M.Tax, CA, AICD

Karl Schlobohm is a Chartered Accountant with over 20 years' experience across a wide range of industries and businesses. He has extensive experience with financial accounting, corporate governance, company secretarial duties and board reporting. Over the past 5 years, Mr Schlobohm has contracted into roles as CFO and/or Company Secretary for a number of ASX-listed resource companies including Linc Energy, Discovery Metals and Meridian Minerals.

He currently acts as the Company Secretary for ASX-listed DGR Global Ltd, Navaho Gold Ltd, AusNiCo Ltd and LSE (AIM)-listed SolGold Plc.

CORPORATE STRUCTURE

Armour Energy Ltd (the "Company") is a company limited by shares that is incorporated and domiciled in Australia. It was converted to a public company on 14 January 2011 and became an ASX-listed company on 26 April 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year involved exploration for economically viable reserves of both conventional and unconventional natural gas and oil in both the Northern Territory and Queensland. There was no significant change in the nature of the activities of the Company during the financial year.

DIVIDENDS

No dividends were declared or paid during the financial year or since the end of the year.

REVIEW AND RESULTS OF OPERATIONS

The loss after income tax for the Company for the year ended 30 June 2012 was $953,531 (2011: $1,127,237).

The Directors confirm that the period since the Company's admission on the Australian Securities Exchange, the Company has used its cash (and assets in a form readily convertible to cash) in a way consistent with its business objectives.

The review of operations for the year is discussed in the Annual Report under the heading "Review of Operations".

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the financial year ended 30 June 2012, issued capital increased to $81,098,372 from $13,717,043 as a result of successfully completing its $75 million initial public offering, net of share issue costs of $7,618,671.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements of the Company for the financial year.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Planned developments in the operations of the Company and the expected results of those operations in subsequent financial years have been discussed where appropriate under "Review and results of operations".

There are no further developments of which the Directors are aware which could be expected to affect the results of the Company's operations and plans, other than information which the Directors believe comment on, or disclosure of, would prejudice the interests of the Company.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The Directors have put in place strategies and procedures to ensure that the Company manages its compliance with environmental regulations. The Directors are not aware of any breaches of any applicable environmental regulations.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the Court under section 237 of *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2012 outlines the remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* (the "Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company, and includes the executive team.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration policy
3. Non-executive director (NED) remuneration arrangements
4. Executive remuneration arrangements
5. Company performance and the link to remuneration
6. Executive contractual arrangements
7. Equity instruments disclosures

REMUNERATION REPORT (AUDITED) (CONT.)

1. Individual key management personnel disclosures

Key management personnel

(i) Directors

Nicholas Mather	Executive Chairman
Philip McNamara	Managing Director and Chief Executive Officer
William (Bill) Stubbs	Non-executive Director
Matthew Stubbs	(alternate for William Stubbs – appointed 9 May 2012 and resigned 6 July 2012)
Roland Sleeman	Non-executive Director (appointed 11 October 2011)
Jeremy Barlow	Non-executive Director (appointed 14 February 2012)
Stephen Bizzell	Non-executive Director (appointed 9 March 2012)
Brian Moller	Non-executive Director (resigned 29 May 2011)
Vincent Mascolo	Non-executive Director (resigned 12 September 2011)

(ii) Executives

Raymond Johnson	General Manager – Exploration and Production (appointed 12 December 2011)
Roger Cressey	General Manager – Infrastructure and Project Development (appointed 21 November 2011)
Karl Schlobohm*	Company Secretary
Priy Jayasuriya*	Chief Financial Officer

*Karl Schlobohm and Priy Jayasuriya were remunerated by DGR Global Ltd up until the completion of the IPO and listing of the Company on the ASX.

There were no changes to KMP after reporting date and before the date the financial report was authorised for issue.

2. Remuneration policy

Armour Energy Ltd's remuneration strategy is designed to attract, motivate and retain employees and NEDs by identifying and rewarding high performers and recognising the contribution of each person to the continued growth and success of the Company.

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team. The Board assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality Board and Executive team. Such officers are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Company. Further details on the remuneration of Directors and Executives are set out in this Remuneration Report.

The Company aims to reward the Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company. The Board's policy is to align Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives.

In accordance with best practice corporate governance, the structure of NED and executive remuneration is separate and distinct.

3. Non-executive director remuneration arrangements

The board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest caliber, whilst incurring a cost that is acceptable to shareholders. The Company's specific policy for determining the nature and amount of remuneration of Board members of the Company is as follows:

The Constitution of the Company provides that the NEDs are entitled to remuneration as determined by the Company in general meeting to be apportioned among them in such manner as the Directors agree, and, in default of agreement, equally. The aggregate remuneration has not been set and will be determined at the next general meeting. Additionally, NEDs are entitled to be reimbursed for properly incurred expenses.

If a NED performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Company may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect would be to exceed the maximum aggregate amount payable to NEDs. A NED is entitled to be paid travelling and other expenses properly incurred by them in attending Director's or general meetings of the Company or otherwise in connection with the business of the Company.

All Directors have the opportunity to qualify for participation in the Company's Employee Share Option Plan, subject to the approval of shareholders.

The remuneration of NEDs for the year ended 30 June 2012 is detailed in this Remuneration Report.

REMUNERATION REPORT (AUDITED) (CONT.)

4. Executive remuneration arrangements

The Company aims to reward the Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- align the interests of the Executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

The remuneration of Executives may from time to time be fixed by the Board. The remuneration will comprise a fixed remuneration component and also may include offering specific short and long-term incentives, in the form of:

- performance based salary increases and/or bonuses; and/or
- the issue of options.

The remuneration of the Executives employed on a full-time basis by the Company for the year ending 30 June 2012 is detailed in this Remuneration Report.

5. Company performance and the link to remuneration

During the financial year, the Company has generated losses as its principal activity was exploration for economically viable reserves of both conventional and unconventional natural oil and gas. During the year ended 30 June 2012 the Company's ordinary shares commenced trading on the ASX. The closing share price on 30 June 2012 was $0.275.

As the Company is still in the exploration and development stage, the link between remuneration, Company performance and shareholder wealth is tenuous. Share prices are subject to the influence of oil and gas prices and market sentiment toward the sector, and as such increases or decreases may occur quite independent of Executive performance or remuneration.

6. Executive contractual arrangements

It is the Board's policy that employment agreements are entered into with all Executives.

The current employment agreement with the Chief Executive Officer ("CEO") has a notice period of three (3) months. All other employment agreements have one month (or less) notice periods. Executives are entitled to their statutory entitlements of accrued annual leave and long service leave together with any superannuation on termination. No other termination payments are payable.

The terms of appointment for NEDs are set out in the letters of appointment.

Chief Executive Officer

The Company has a three (3) year Executive Service Agreement with Mr. Philip McNamara, which took effect on 7 July 2010.

Under the terms of the agreement:

- Mr McNamara is entitled to a base remuneration of $400,000 per annum;
- Mr McNamara is entitled to participate in the issue of incentive options in the Company in accordance with the Company's Employee Share Option Scheme;
- Both the Company and Mr. McNamara are entitled to terminate the contract upon giving three (3) months written notice;
- The Company is entitled to terminate the agreement immediately upon Mr McNamara's insolvency or certain acts of misconduct;
- Mr McNamara is entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, authority or responsibilities;
- Mr McNamara may earn a series of performance bonuses equal to 230% of the annual salary over the lifetime of the Executive Service Agreement with him on meeting the following key performance indicators (which are subject to board approval and any applicable regulatory requirements):

  a) 10% – existing tenement applications granted or deal on granted 3rd party tenure sufficient for IPO (this milestone has been achieved and a cash bonus of $40,000 has been paid);

  b) 20% – IPO completed (this milestone has been achieved and a bonus of $80,000 has been accrued and been paid subsequent to year end);

  c) 30% – Business deal with North American producer or suitable equivalent with respect to drilling, production and enhancement;

  d) 20% – Queensland tenements offered for grant;

  e) 30% – First gas production;

  f) 20% – Gas reserves at minimum 3P definition in excess of 5,000 PJs or 5 trillion cubic feet;

  g) 50% – First sales agreements for more than 100 PJs per annum; and

  h) 50% – Financial close on filed development for more than 90 PJs per annum.

The Board may vary this bonus program at its discretion.

REMUNERATION REPORT (AUDITED) (CONT.)

6. Executive contractual arrangements (cont.)

Other Executives

Employment contracts entered into with Executives contain the following key terms:

Event	Company Policy
Performance based salary increases and/or bonuses	Board discretion
Short and long-term incentives, such as options	Board discretion
Resignation/notice period	1 month
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination, outside industrial regulations (i.e. 'golden handshakes')	None

Remuneration of Directors and Other Key Management Personnel

	Short term benefits		Post-employment	Share based payments Equity settled				
Directors	Salary & fees $	Cash bonus $	Super-annuation $	Options $	Shares $	Total $	Consisting of options %	Performance related %
Nicholas Mather								
– 2012	232,708	–	–	–	–	232,708	–	–
– 2011	–	–	–	18,284	–	18,284	100%	–
Philip McNamara								
– 2012	439,601	80,000	15,784	–	–	535,385	–	14.9%
– 2011	380,361	–	15,199	84,119	–	479,679	17.5%	–
William Stubbs								
– 2012	54,514	–	–	–	–	54,514	–	–
– 2011	–	–	–	6,096	–	6,096	100%	–
Roland Sleeman[1]								
– 2012	40,670	–	–	4,641	–	45,311	10.2%	–
– 2011	–	–	–	–	–	–	–	–
Jeremy Barlow[2]								
– 2012	21,172	–	1,905	3,652	–	26,729	13.7%	–
– 2011	–	–	–	–	–	–	–	–
Stephen Bizzell[3]								
– 2012	23,387	–	–	3,652	–	27,039	13.5%	–
– 2011	–	–	–	–	–	–	–	–
Brian Moller[4]								
– 2012	–	–	–	–	–	–	–	–
– 2011	–	–	–	6,096	–	6,096	100%	–
Vincent Mascolo[5]								
– 2012	8,333	–	–	–	–	8,333	–	–
– 2011	–	–	–	6,096	–	6,096	100%	–
Total remuneration								
– 2012	**820,385**	**80,000**	**17,689**	**11,945**	**–**	**930,019**		
– 2011	**380,361**	**–**	**15,199**	**120,691**	**–**	**516,251**		

1 Roland Sleeman was appointed as a non-executive director on 11 October 2011.

2 Jeremy Barlow was appointed as a non-executive director on 14 February 2012.

3 Stephen Bizzell was appointed as a non-executive director on 9 March 2012.

4 Brian Moller resigned as a non-executive director on 29 May 2011.

5 Vincent Mascolo resigned as non-executive director on 12 September 2011.

6. Executive contractual arrangements (cont.)

Remuneration of Directors and Other Key Management Personnel (cont.)

	Short term benefits		Post-employment	Share based payments Equity settled				
Other Key Management Personnel	Salary & fees $	Cash bonus $	Super-annuation $	Options $	Shares $	Total $	Consisting of options %	Performance related %
Raymond Johnson[6]								
– 2012	177,841	–	16,006	41,005	9,899	244,751	16.8%	–
– 2011	–	–	–	–	–	–	–	–
Roger Cressey[7]								
– 2012	172,336	–	15,510	22,644	–	210,490	10.8%	–
– 2011	–	–	–	–	–	–	–	–
Karl Schlobohm[8]								
– 2012	8,333	–	–	–	–	8,333	–	–
– 2011	–	–	–	6,096	–	6,096	100%	–
Priy Jayasuriya[8]								
– 2012	8,116	–	730	5,304	–	14,150	37.5%	–
– 2011	–	–	–	–	–	–	–	–
Total remuneration								
– 2012	**366,626**	**–**	**32,246**	**68,953**	**9,899**	**477,724**		
– 2011	**–**	**–**	**–**	**6,096**	**–**	**6,096**		

6 Raymond Johnson was appointed as General Manager – Exploration and Production on 12 December 2011.

7 Roger Cressey was appointed as General Manager – Infrastructure and Project Development on 21 November 2011.

8 Prior to the completion of the initial public offering and listing on the ASX on 26 April 2012, Karl Schlobohm and Priy Jayasuriya were remunerated by DGR Global Ltd.

Performance income as a proportion of total remuneration

There were performance based bonuses totaling $80,000 paid and payable to the chief executive officer for achieving certain milestones as outlined in his executive services agreement. No performance based payments were paid or payable during the previous financial year.

7. Equity instruments disclosures

Options granted as part of remuneration for the year ended 30 June 2012

Options may be granted to Directors and Executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of Directors and Executives of the Company to align comparative shareholder return and reward for Directors and Executives.

During the year ended 30 June 2012, there were 8,000,000 options granted as remuneration to Key Management Personnel of the Company.

Details of all options on issue over unissued ordinary shares in Armour Energy Ltd at 30 June 2012 to Key Management Personnel as remuneration are set out below:

Key Management Personnel	Grant date	Grant number	Exercise price	Expiry date	Vest date	Number vested	% Vested	Value per option at grant date#	Exercised in current year	Exercised in prior years	Balance at 30/6/12
Directors											
R Sleeman	11/10/12	500,000	$0.50	11/10/14	11/10/13	–	0%	$0.037	–	–	500,000
J Barlow	14/02/12	500,000	$0.50	11/10/14	11/10/13	–	0%	$0.032	–	–	500,000
S Bizzell	09/03/12	500,000	$0.50	11/10/14	11/10/13	–	0%	$0.032	–	–	500,000
Other key management											
R Johnson	01/12/11	4,000,000	$0.50	01/12/14	04/11/13	–	0%	$0.037	–	–	4,000,000
R Cressey	21/11/11	2,000,000	$0.50	21/11/14	04/11/13	–	0%	$0.037	–	–	2,000,000
P Jayasuriya	04/11/11	500,000	$0.50	04/11/14	04/11/13	–	0%	$0.037	–	–	500,000

Value per option at grant date is calculated using the Black-Scholes option pricing model, which takes into account factors such as the option exercise price, the share price at the date of issue and volatility of the underlying share price and the time to maturity of the option (refer Note 18).

REMUNERATION REPORT (AUDITED) (CONT.)

7. Equity instruments disclosures (cont.)

Options granted as part of remuneration for the year ended 30 June 2012 (cont.)

The options generally have a 2 year vesting period and a 3 year life. Once vested, options can be exercised at any time up to the expiry date. None of the above options were forfeited during the year ended 30 June 2012. The options are not granted based on performance criteria, as the Board does not consider this appropriate for a junior exploration company. No amount was paid or payable on the grant of the options.

Shares issued on exercise of remuneration options

There were no options exercised during the year that were previously granted as remuneration (2011: nil).

Performance shares

Details of all performance shares on issue over unissued ordinary shares in Armour Energy Ltd at 30 June 2012 to Key Management Personnel as remuneration are set out below:

Key Management Personnel	Grant date	Grant number	Exercise price	Expiry date	Vest date	Number vested	% Vested	Value per option at grant date#	Exercised in current year	Exercised in prior years	Balance at 30/6/12
Other key management											
R Johnson	12/12/11	180,000	$0.00	12/12/14	12/12/13	0	0%	$0.20	–	–	180,000

Value per performance share at grant date is calculated using the Black-Scholes option pricing model, which takes into account factors such as the option exercise price, the share price at the date of issue and volatility of the underlying share price and the time to maturity of the option (refer Note 18).

The performance shares are subject to a forfeiture condition being the completion within 2 years the drilling and Hydraulic Fracturing of the Company's first multistage lateral well.

(End of Remuneration Report)

DIRECTORS' MEETINGS

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows:

	Board		Audit & Risk Management Committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Nicholas Mather	4	4	–	–
Phil McNamara	4	4	–	–
Bill Stubbs/Matthew Stubbs	4	4	–	–
Vincent Mascolo	–	–	–	–
Roland Sleeman	4	4	–	–
Jeremy Barlow	4	4	–	–
Stephen Bizzell	4	4	–	–

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR

Each of the Directors and Secretary of the Company has entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company to those Directors. The Company has insured all of the Directors. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act does not require disclosure of the information in these circumstances.

The Company has not indemnified or insured its auditor.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Directors are not aware of any significant changes in the state of affairs of the Company after the balance date that is not covered in this report.

OPTIONS

At the date of this report, the unissued ordinary shares of Armour Energy Ltd under option are as follows:

Grant date	Date of Expiry	Exercise Price	Number under Option
1 November 2010	31 August 2014	$0.50	20,000,000
29 November 2010	31 August 2014	$0.50	10,900,000
14 March 2011	31 August 2014	$0.50	12,500,000
20 April 2011	31 August 2014	$0.50	5,000,000
11 October 2011	31 August 2014	$0.50	500,000
4 November 2011	4 November 2014	$0.50	500,000
21 November 2011	21 November 2014	$0.50	2,000,000
23 November 2011	23 November 2014	$0.50	1,400,000
1 December 2011	1 December 2014	$0.50	4,000,000
6 February 2012	6 February 2015	$0.50	1,400,000
12 February 2012	12 February 2015	$0.50	2,000,000
14 February 2012	31 August 2014	$0.50	500,000
9 March 2012	31 August 2014	$0.50	500,000
16 April 2012	16 April 2015	$0.50	1,000,000
26 April 2012	31 August 2014	$0.50	42,500,000
30 April 2012	30 April 2015	$0.50	500,000

Option holders do not have any rights under the options to participate in any share issue of the Company or any other entity.

There were no options exercised up to the date of this report.

Directors' Report (cont.)

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor BDO Audit Pty Ltd. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

BDO Audit Pty Ltd received the following amounts for the provision of non-audit services:

Other assurance related services: Investigating Accountants Report	$58,955
Tax services	$10,050

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behavior and accountability, the Directors of the Company support and have adhered to the principles of corporate governance.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 64.

Signed in accordance with a resolution of Directors:

Philip McNamara
Director

Brisbane
Date: 28 September 2012

The resource estimates covering **EP 171** and **EP 176** in the Northern Territory used in this report were, where indicated, compiled by MBA Petroleum Consultants, and detailed in the Independent Expert's Report, Replacement Prospectus dated 20 March 2012 for Armour Energy (Chapter 9). Raymond L Johnson Jr., General Manager Exploration and Production for Armour Energy, is qualified in accordance with the requirements of ASX listing rule 5.11 and has consented to the use of the resource figures in the form and context in which they appear in this report.

The resource estimate for the **Cow Lagoon** structure used in this report was compiled by Raymond L Johnson Jr, General Manager Exploration and Production for Armour Energy, who is qualified in accordance with the requirements of ASX listing rule 5.11 and has consented to the use of the resource figures in the form and context in which they appear in this report.

Auditors' Independence Declaration

BDO

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Australia

DECLARATION OF INDEPENDENCE BY D P WRIGHT TO THE DIRECTORS OF ARMOUR ENERGY LIMITED

As lead auditor of Armour Energy Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

D P WRIGHT

Director

BDO Audit Pty Ltd

Brisbane, 28 September 2012

Shareholder Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 17 September 2012.

(A) DISTRIBUTION SCHEDULE

Fully Paid Ordinary Shares, and Options

	Ordinary Shares		ASX Quoted $0.50 Options Exercisable On or Before 31 August 2014		Unquoted $0.50 Options Escrowed to 26 April 2014	
	Number of Holders	Number of Shares	Number of Holders	Number of Options	Number of Holders	Number of Options
1 – 1000	8	3,077	55	55,000	–	–
1,001 – 5,000	172	658,881	691	2,407,262	–	–
5,001 – 10,000	397	3,595,875	262	2,252,411	–	–
10,001 – 100,000	1,100	42,140,397	345	11,393,209	3	112,500
100,000+	203	253,601,770	79	41,579,618	9	34,600,000
TOTAL	**1,880**	**300,000,000**	**1,432**	**57,687,500**	**12**	**34,712,500**

	ESOP Options Exercisable At $0.50	
	Number of Holders	Number of Options
1 – 1000	–	–
1,001 – 5,000	–	–
5,001 – 10,000	–	–
10,001 – 100,000	–	–
100,000+	8	12,800,000
TOTAL	**8**	**12,800,000**

The number of shareholders holding less than a marketable parcel of shares is 31 (holding a total of 43,045 shares).

(B) TWENTY LARGEST HOLDERS

Ordinary Shares:	**Number**	**%**
1 DGR Global Ltd	75,050,000	25.02%
2 National Nominees Limited	39,032,317	13.01%
3 JP Morgan Nominees Australia Limited	19,000,000	6.33%
4 HSBC Custody Nominees (Australia) Limited	11,131,980	3.71%
5 UBS Wealth Management Australia Nominees Pty Ltd	7,542,878	2.51%
6 BT Portfolio Services Limited <Warrell Holdings S/F A/C>	7,454,000	2.48%
7 Citicorp Nominees Pty Ltd	4,276,650	1.43%
8 Capita Trustees Limited <Konda Family A/C>	4,000,000	1.33%
9 Lujeta Pty Ltd <The Margaret A/C>	3,500,000	1.17%
10 Philip McNamara	3,450,000	1.15%
11 Jeremy Warde Barlow	2,000,000	0.67%
12 Diab Investments Pty Ltd	2,000,000	0.67%
13 Gurravembi Investments Pty Ltd <The Gurravembi S/F A/C>	1,900,000	0.63%
14 CF2 Pty Ltd <The CF A/C>	1,750,000	0.58%
15 CPS International Holdings Pty Ltd	1,750,000	0.58%
16 Graham & Linda Huddy Nominees Pty Ltd <Huddy Family A/C>	1,750,000	0.58%
17 CVC Limited	1,570,000	0.52%
18 Samuel Holdings Pty Ltd <Samuel Discretionary A/C>	1,479,855	0.49%
19 Thumbtacks Pty Ltd	1,470,000	0.49%
20 JP Morgan Nominees Australia Limited <Cash Income A/C>	1,455,286	0.49%
TOP 20	**191,562,966**	**63.85%**
TOTAL	**300,000,000**	**100.00%**

(B) TWENTY LARGEST HOLDERS (CONT.)

ASX Quoted Options:	Number	%
1 HSBC Custody Nominees (Australia) Limited – GSCO ECA	8,750,000	15.17%
2 JP Morgan Nominees (Australia) Limited	4,750,000	8.23%
3 HSBC Custody Nominees (Australia) Limited	2,782,571	4.82%
4 BT Portfolio Services Limited <Warrell Holdings S/F A/C>	1,749,345	3.03%
5 UBS Wealth Management Australia Nominees Pty Ltd	1,336,250	2.32%
6 Capita Trustees Limited <Konda Family A/C>	1,000,000	1.73%
7 Merrill Lynch (Australia) Nominees Pty Ltd	1,000,000	1.73%
8 Samuel Holdings Pty Ltd <Samuel Discretionar A/C>	918,417	1.59%
9 Citicorp Nominees Pty Ltd	900,000	1.56%
10 Mr TC & Mrs SM Goodwin <Goodwin Super Fund A/C>	900,000	1.56%
11 Lujeta Pty Ltd <The Margaret A/C>	875,000	1.52%
12 Flaskas Bickle Pty Ltd <Flaskas Bickle Investment A/C>	537,500	0.93%
13 Diab Investments Pty Ltd	512,000	0.89%
14 Vincent Mascolo	512,500	0.89%
15 Jeremy Warde Barlow	500,000	0.87%
16 Dswpet Pty Ltd <Warner Family A/C 2>	500,000	0.87%
17 Brian Moller	500,000	0.87%
18 Carlie Rogers	500,000	0.87%
19 Gurravembi Investments Pty Ltd <Gurravembi Super Fund A/C>	475,000	0.82%
20 Thumbtacks Pty Ltd	460,250	0.80%
TOP 20	**29,459,333**	**51.07%**
TOTAL	**57,687,500**	**100.00%**

* These security holders have more than one holding and these holdings have been merged for the purposes of these tables.

(D) SUBSTANTIAL SHAREHOLDERS

The Company has received substantial shareholding notices from the following parties:

Name	Number of Shares	%
DGR Global Limited	75,050,000	25.02%
JP Morgan Chase & Co (and affiliates)	24,100,000	8.03%

(E) VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

(F) UNQUOTED EQUITY SECURITIES GREATER THAN 20%

Name	Number of Escrowed Options	% of Escrowed Options
DGR Global Limited	18,837,500	54.27%
Philip McNamara	7,762,500	22.36%

(G) RESTRICTED SECURITIES

The Company is aware of the following parties having restrictions over their security holdings through to 26 April 2014:

Name	Number of Ordinary Shares	% of Ordinary Shares	Number of Escrowed Options	% of Escrowed Options
DGR Global Limited	75,050,000	25.02%	18,837,500	54.27%
Philip McNamara	3,450,000	1.15%	7,762,500	22.36%
Bizzell Capital Partners Pty Ltd	–	–	4,500,000	12.96%
Samuel Holdings Pty Ltd <Samuel Discretionary A/C>	–	–	1,000,000	2.88%
Jeremy Warde Barlow	–	–	500,000	1.44%
Stephen Grant Bizzell	–	–	500,000	1.44%
Plutus Capital Pty Ltd <Harrison Family A/C>	–	–	500,000	1.44%
Roland Kingsbury Sleeman	–	–	500,000	1.44%
Stubbs Superannuation Pty Ltd <Stubbs S/F A/C>	–	–	500,000	1.44%
BCP Alpha Investments Ltd	240,000	0.08%	60,000	0.17%
Billted Investments Pty Ltd	150,000	0.05%	37,500	0.11%
Bizzell Nominees Pty Ltd	60,000	0.02%	15,000	0.04%

Corporate Governance Statement

The Board of Directors of Armour Energy Ltd is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Armour Energy Ltd on behalf of the shareholders by whom they are elected and to whom they are accountable.

Armour Energy Ltd's Corporate Governance Statement was adopted on 8 November 2011, and is structured with reference to the Australian Securities Exchange ("ASX") Corporate Governance Council's (the "Council") "Corporate Governance Principles and Recommendations, 2nd Edition", which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the Board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Remunerate fairly and responsibly

A copy of the eight Corporate Governance Principles and Recommendations can be found on the ASX's website.

The Company's Corporate Governance Charter can be obtained, at no cost, from the Company's registered office and is also available on the Company's website www.armourenergy.com.au.

This statement outlines the main corporate governance policies, which the Directors have adopted.

COMMITTEES

The Board has established an Audit and Risk Management Committee comprising Mr Stephen Bizzell, Mr Bill Stubbs and Mr Roland Sleeman. The Company has adopted an Audit and Risk Management Charter setting out the composition, purpose, powers and scope of the Committee as well as reporting requirements to the Board as a whole. Extracts of this Charter are available at the Company's website (www.armourenergy.com.au). The Company does not have any other formally constituted committees of the Board of Directors. The Directors consider that the Company is not of a size nor are its affairs of such complexity as to justify the formation of any other special or separate committees at this time. The Board as a whole is able to address the governance aspects of the Company's activities and ensure that it adheres to appropriate ethical standards.

COMPOSITION OF THE BOARD

The Board is currently comprised of 6 Directors. The names, qualifications and relevant experience of each current Director are set out in the Directors Report. There is no requirement for any Director's shareholding qualification.

As the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to adequately supervise the Company's activities determined within the limitations imposed by the Constitution.

BOARD MEMBERSHIP

The Board acts as a nomination committee. Members of the Board have been brought together to provide a blend of qualifications, skills and national and international experience required for managing a company operating within the mining industry.

APPOINTMENT AND RETIREMENT OF DIRECTORS

The Company's Constitution provides that Directors are subject to retirement by rotation, by order of length of appointment. Retiring Directors are eligible for re-election by Shareholders at the annual general meeting of the Company.

DUTIES OF DIRECTORS

Directors are expected to accept all duties and responsibilities associated with the running of a public company, to act in the best interests of the Company and to carry out their duties and responsibilities with due care and diligence. Directors are required to take into consideration conflicts when accepting appointments to other boards. Accordingly, Directors wishing to accept appointment to other boards must first seek approval from the Board, approval of which will not be unreasonably withheld.

INDEPENDENT PROFESSIONAL ADVICE

The Board has determined that individual Directors may, in appropriate circumstances, engage outside advisers at the Company's expense. The engagement of an outside adviser is subject to the prior approval of the Board, which will not be unreasonably withheld.

COMPENSATION ARRANGEMENTS

The maximum aggregate amount payable to non-executive Directors as Director's fees has been set at five hundred thousand dollars ($500,000) per annum. The Constitution provides that Director's fees can only change pursuant to a resolution at a general meeting.

The Board is responsible for reviewing and negotiating the compensation arrangements of senior executives and consultants.

INTERNAL MANAGEMENT CONTROLS

The Company's assets are located in Australia. Control over the operations is exercised by senior management. The Board also monitors the performance of outside consultants engaged from time to time to complete specific projects and tasks.

IDENTIFYING SIGNIFICANT BUSINESS RISKS

The Board regularly monitors the operational and financial performance of the Company's activities. It monitors and receives advice on areas of operation and financial risk and considers strategies for appropriate risk management. All operational and financial strategies adopted are aimed at improving the value of the Company's Shares, however, the Directors recognise that mineral exploration and evaluation is inherently risky.

ASX CORPORATE GOVERNANCE

To further enhance listed entities' disclosure of corporate governance issues, the ASX Corporate Governance Council (the "Council") was established on 1 August 2002. The Council was established for the purpose of setting an agreed set of corporate governance standards of best practice for Australian listed entities. The Council has released its second edition of Corporate Governance Principles and Recommendations (ASX Guidelines) which will apply to a Company's financial statements upon listing on the ASX. The ASX Guidelines articulate core principles that the Council believes underlie good corporate governance. The ASX Guidelines provide that a listed entity's Annual Report is required to disclose its main corporate governance practices and also the extent to which the entity complies with the ASX Guidelines and where it does not, to explain why.

TRADING POLICY

The Directors and Executives of the Company are subject to a number of restrictions in relation to them dealing in Shares of the Company, all of which are incorporated in a Trading Policy which is part of the Company's Corporate Governance Policies and Procedures. Directors and Executives are specifically precluded from dealing in Shares during certain "close" periods, with specific exceptions (e.g. participation in rights issues, etc). Prior to any dealing in Shares the Director or Executive must seek, and receive, written clearance for the intended transaction from the Chairman of the Board.

DIVERSITY POLICY

The recruitment and selection processes adopted by the Company ensure that staff and management are selected in a non-discriminatory manner based on merit. The Company also values diversity in the organisation. In light of recent amendments to the ASX's Corporate Governance Principles, the Company has developed a formal Diversity Policy which is available on the Company's website (www.armourenergy.com.au).

The Company respects and values the competitive advantage of diversity (which includes but is not limited to gender, age, ethnicity and cultural background), and the benefit of its integration throughout the Company in order improve corporate performance, increase shareholder value and maximise the probability of achievement of the Company's goals. However, given that the Company was only listed earlier this year, it is yet to consider the establishment of formal and measurable objectives, having regard to the nature and scale of its activities.

The Company currently has 11 employees, but no female Directors or executives. The Company employs a total of 2 female employees (18% of the total employee number). Further, under a contractual agreement with DGR Global, various services of an administrative, accounting and business development nature are provided, and whose staff include female executives and employees directly involved in the provision of services to Armour Energy.

The Company has adopted a Corporate Governance Charter dated 28 May 2010 (**Corporate Governance Charter**) in order to implement and maintain a culture of good corporate governance both internally and in its external dealings. In adopting the Corporate Governance Charter the Board is mindful of the ASX Guidelines. The original Corporate Governance Charter has also been supplemented by the adoption of a Trading Policy and a Diversity Policy, both of which are summarised above.

In addition to any matters specifically addressed above, the following table briefly addresses the areas where the Company has departed from the ASX Guidelines. Where the Company's Corporate Governance practices do not correlate with the practices recommended by the Council,

DIVERSITY POLICY (CONT.)

the Company is working towards compliance; however it does not consider that all practices are appropriate for the Company due to the size and scale of Company operations.

The Board is of the view that with the exception of the departures from the ASX Guidelines noted above and/or set out in the following table it otherwise complies with all of the ASX Guidelines.

Areas where the Company has departed from the ASX guidelines

ASX Principles and Recommendations	Summary of the Company's Position
Principle 1 – Lay Solid Foundations for Management and Oversight	
Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives	The Board has not established a separate nomination committee. In the absence of a formally constituted nomination committee, the full Board is responsible for the proper oversight of the Board, the Directors and senior management. The Board considers that given its size, no efficiencies or other benefits would be gained by establishing a separate committee.
Principle 2 – Structure Board to Add Value	
Recommendation 2.1 – A majority of the board should be independent directors	Presently under the ASX Guidelines it is considered that there are two independent directors. While the Company does not presently comply with this Recommendation 2.1, the Company may consider appointing further independent Directors in the future. The Company believes that given the size and scale of its operations, non-compliance by the Company with this Recommendation 2.1 will not be detrimental to the Company.
Recommendation 2.2 – The Chair should be an independent director	Nicholas Mather is the Chairman of the Company, but is not considered to be independent under the ASX Guidelines. The Company is of the view that the size and scale of its current operations do not warrant the appointment of an independent Chairperson and that non-compliance with this Recommendation 2.2 will not be detrimental to the Company.
Recommendation 2.4 – The board should establish a nomination committee	The Board's view is that the Company is not currently of the size to justify the formation of a separate nomination committee. The Board currently performs the functions of a nomination committee and where necessary will seek the advice of external advisors in relation to this role. The Board shall, upon the Company reaching the requisite corporate and commercial maturity, approve the constitution of a nomination committee to assist the Board in relation to the appointment of Directors and senior management.
Principle 4 – Safeguard Integrity in Financial Reporting	
Recommendation 4.2 – The audit committee should be structured so that it: – Consists of only non-executive directors – Consists of a majority of independent directors – Is chaired by an independent chair, who is no chair of the board – Has at least 3 members	The Company's Audit and Risk Management Committee is comprised of Messrs. Stubbs, Bizzell and Sleeman. Mr. Stephen Bizzell is a non-executive director and the current Chairman of the Audit and Risk Management Committee. The Company does not consider Mr. Bizzell to be an independent director as defined in the ASX Guidelines on the basis that he is a director of Bizzell Capital Partners Pty Ltd, an entity that managed the Company's IPO. Mr. Bill Stubbs is a non-executive director. The Company does not consider Mr. Stubbs to be an independent director as defined in the ASX Guidelines on the basis that he is a director of DGR Global Ltd, a substantial shareholder in the Company. Mr. Roland Sleeman is a non-executive director. The Company considers Mr. Sleeman to be an independent director as defined in the ASX Guidelines. On the basis of the above information, the Company is of the view that there is a possibility that the Committee does not consist of a majority of independent directors. Whilst the Company does not presently comply with Recommendation 4.2 it will, upon reaching the requisite corporate and commercial maturity, reconfigure the Committee to comply with this Recommendation.

DIVERSITY POLICY (CONT.)

Areas where the Company has departed from the ASX guidelines (cont.)

ASX Principles and Recommendations	Summary of the Company's Position
Principle 7 – Recognise and Manage Risk	
Recommendation 7.2 – The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	The Board is responsible for reviewing and ratifying systems of risk management and internal compliance.
Principle 8 – Remunerate Fairly and Responsibly	
Recommendation 8.1 – The board should establish a remuneration committee	The Board has not established a remuneration committee. The Board considers that given its size, no efficiencies or other benefits would be gained by the establishing of such a committee. The role of the remuneration committee is carried out by the full Board. The Company has adopted a Remuneration Committee Charter, which is set out in the Company's Corporate Governance Charter.

Interest in Tenements

As at the date of this report, the Company has an interest in the following tenements.

Tenement	% Interest	Grant Date	Application Date	Expiry Date	Term
EP 171	100	29/06/11	N/A	29/06/16	5 years
EP 176	100	29/06/11	N/A	29/06/16	5 years
EP 172	100	N/A	19/12/09	N/A	5 years
EP 173	100	N/A	19/12/09	N/A	5 years
EP 174	100	N/A	19/12/09	N/A	5 years
EP 177	100	N/A	06/04/10	N/A	5 years
EP 178	100	N/A	08/04/10	N/A	5 years
EP 179	100	N/A	08/04/10	N/A	5 years
EP 190	100	N/A	04/08/10	N/A	5 years
EP 191	100	N/A	04/08/10	N/A	5 years
EP 192	100	N/A	04/08/10	N/A	5 years
EP 193	100	N/A	13/08/10	N/A	5 years
EP 194	100	N/A	13/08/10	N/A	5 years
EP 195	100	N/A	13/08/10	N/A	5 years
EP 196	100	N/A	13/08/10	N/A	5 years
ATP 1087	100	N/A	27/09/10	N/A	5 years
ATP 1107	100	N/A	30/05/12	N/A	5 years

Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	2012 $	2011 $
Revenue	*2*	**1,030,438**	**160,198**
Administration and consulting expenses		(1,664,491)	(655,120)
Depreciation		(20,018)	(1,091)
Employee benefits expenses		(505,073)	(425,699)
Legal expenses		(171,361)	(18,678)
Finance costs		(421)	(100,000)
Share issue costs		(556,016)	–
Share based payments expense		(297,605)	(132,883)
(Loss) before income tax	*3*	**(2,184,547)**	**(1,173,273)**
Income tax benefit (expense)	*4*	675,000	46,036
(Loss) for the year		**(1,509,547)**	**(1,127,237)**
Other comprehensive income			
Change in fair value of available for sale financial assets		2,250,000	–
Income tax relating to other comprehensive income		(675,000)	–
Other comprehensive income, net of tax		1,575,000	–
Total comprehensive income for the year		**65,453**	**(1,127,237)**

		cents/share	cents/share
Earnings per share			
Basic earnings per share	*8*	(0.9)	(1.6)
Diluted earnings per share	*8*	(0.9)	(1.6)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2012

	Notes	2012 $	2011 $
Current assets			
Cash and cash equivalents	*9*	61,325,515	12,030,753
Trade and other receivables	*10*	1,441,252	121,607
Other current assets	*11*	705,189	33,141
Total current assets		**63,471,956**	**12,185,501**
Non-current assets			
Other financial assets	*12*	5,466,093	20,000
Property, plant and equipment	*13*	215,110	54,555
Exploration and evaluation assets	*14*	20,385,252	723,933
Total non-current assets		**26,066,455**	**798,488**
Total assets		**89,538,411**	**12,983,989**
Current liabilities			
Trade and other payables	*15*	8,377,971	300,225
Provisions	*16*	42,297	14,578
Total current liabilities		**8,420,268**	**314,803**
Total liabilities		**8,420,268**	**314,803**
Net assets		**81,118,143**	**12,669,186**
Equity			
Issued capital	*17*	81,654,388	13,717,043
Reserves	*19*	2,154,042	132,883
Accumulated losses		(2,690,287)	(1,180,740)
Total equity attributable to owners of Armour Energy Ltd		**81,118,143**	**12,669,186**

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2012

	Issued Capital $	Accumulated Losses $	Available for Sale Financial Asset Reserve $	Performance Shares Reserve $	Performance Rights Reserve $	Option Reserve $	Total Equity $
Balance at 1 July 2010	**1**	**(33,259)**	**–**	**–**	**–**	**–**	**(33,258)**
Loss for the year	–	(1,127,237)	–	–	–	–	(1,127,237)
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the year	–	(1,127,237)	–	–	–	–	(1,127,237)
Tax losses transferred to head company	–	(20,244)	–	–	–	–	(20,244)
Shares issued during the year	14,008,000	–	–	–	–	–	14,008,000
Share issue costs	(290,958)	–	–	–	–	–	(290,958)
Share based payments	–	–	–	–	–	132,883	132,883
Balance at 30 June 2011	**13,717,043**	**(1,180,740)**	**–**	**–**	**–**	**132,883**	**12,669,186**
Loss for the year	–	(1,509,547)	–	–	–	–	(1,509,547)
Other comprehensive income	–	–	1,575,000	–	–	–	1,575,000
Total comprehensive income for the year	–	(1,509,547)	1,575,000	–	–	–	65,453
Tax losses transferred to head company	–	–	–	–			
Shares issued during the year	75,000,000	–	–	–	–	–	75,000,000
Share issue costs	(7,062,655)	–	–	–	–	–	(7,062,655)
Share based payments	–	–	135,133	23,769	287,257	446,159	
Balance at 30 June 2012	**81,654,388**	**(2,690,287)**	**1,575,000**	**135,133**	**23,769**	**420,140**	**81,118,143**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2012

	Notes	2012 $	2011 $
Cash flows from operating activities			
Payments to suppliers and employees		(1,089,800)	(1,128,946)
Interest received		511,196	146,143
Net cash flows from operating activities	*20*	**(578,604)**	**(982,803)**
Cash flows from investing activities			
Payments for security deposits		(946,093)	(20,000)
Investment in available for sale financial assets		(2,250,000)	–
Purchase of property, plant and equipment		(180,572)	(53,915)
Payments for exploration and evaluation assets		(14,312,992)	(537,692)
Net cash flows from investing activities		**(17,689,657)**	**(611,607)**
Cash flows from financing activities			
Proceeds from the issue of shares		75,000,000	14,008,000
Transactions costs on the issue of shares		(7,436,976)	(290,958)
Proceeds from borrowings		–	713,582
Repayment of borrowings		–	(805,461)
Net cash flows from financing activities		**67,563,024**	**13,625,163**
Net increase in cash and cash equivalents		49,294,762	12,030,753
Cash and cash equivalents at the beginning of the year		12,030,753	–
Cash and cash equivalents at the end of the year	*9*	**61,325,515**	**12,030,753**

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

The financial report of Armour Energy Ltd for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 28 September 2012.

Armour Energy Ltd (the Company) is a public company limited by shares incorporated and domiciled in Australia. DGR Global Ltd was the ultimate parent of Armour Energy Ltd up until its initial public offering and listing on the ASX on 26 April 2012. The Company's registered office is located at Level 27, 111 Eagle Street, Brisbane, QLD 4000.

The nature of the operations and principal activities of the Company are described in the director's report.

Basis of Preparation

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial report covers Armour Energy Ltd and is presented in Australian dollars.

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of Armour Energy Ltd comply with International Financial Reporting Standards (IFRS).

Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The Company has not generated revenues from operations. As such, the Company's ability to continue to adopt the going concern assumption will depend upon a number of matters including successful future capital raisings of necessary funding and the successful exploration and exploitation of the Company's tenements.

Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report.

ACCOUNTING POLICIES

(a) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2011:

Reference	Title	Application date of standard	Application date for the Company
AASB 124 (R)	Related Party Disclosures (December 2009)	1 January 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	1 January 2011	1 July 2011
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011	1 July 2011
AASB 1054	Australian Additional Disclosures	1 July 2011	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, 7, 101, 134 and Interpretation 13]	1 January 2011	1 July 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	1 January 2011	1 July 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

ACCOUNTING POLICIES (CONT.)

(a) New Accounting Standards and Interpretations (cont.)

Reference	Title	Application date of standard	Application date for the Company
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	1 July 2011	1 July 2011
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	1 July 2011	1 July 2011

The adoption of the above standards and interpretations did not have any material impact on the current or any prior period and is not likely to materially affect future periods.

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ending 30 June 2012. None of these is expected to have a significant effect on the financial statements.

The Company anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information of new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below.

Reference	Title	Application date of standard	Application date for the Company
AASB 9	Financial Instruments	1 January 2015	1 July 2015
AASB 10	Consolidated Financial Statements	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	1 January 2013	1 July 2013
AASB 13	Fair Value Measurements	1 January 2013	1 July 2013
AASB 20011-9	Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income (AASB 101 Amendments)	1 July 2012	1 July 2012
AASB 20011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124 Amendments)	1 July 2013	1 July 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(b) Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Company's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured.

(c) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This may include start-up operations which are yet to earn revenues.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(d) Cash and Cash Equivalents

For the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(e) Trade and other receivables

Receivables, generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(f) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Classification and Subsequent Measurement

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(f) Financial Instruments (cont.)

Classification and Subsequent Measurement (cont.)

(ii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

(iii) Available for sale financial assets

Available for sale financial assets comprise investments in listed entities that are designated in this category. After initial recognition, these investments are measured at fair value with gains or losses recognised through other comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit of loss.

(g) Property, Plant & Equipment

Property, plant & equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant & equipment constructed within the Company includes the cost of materials, direct labour, borrowing costs and an appropriate portion of fixed and variable costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial year in which they are incurred.

Depreciation

The depreciable amount of all property, plant & equipment is depreciated over their useful life to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of Property, plant & equipment	*Depreciation*
Motor Vehicles	20% Straight line
Office Equipment	20% – 33.3% Straight line
Plant and Equipment	20% Straight line

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the profit or loss.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(h) Exploration and Evaluation Assets

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

A provision is raised against exploration and evaluation expenditure where the Directors are of the opinion that the carried forward net cost may not be recoverable or the right of tenure in the area lapses. The increase in the provision is charged against the results for the year. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Costs of site restoration are provided over the life of the area from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(h) Exploration and Evaluation Assets (cont.)

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation.

Accordingly the costs have been determined on the basis that restoration will be completed within one year of abandoning the site.

(i) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(j) Trade and Other Payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition.

(k) Provisions and Employee Benefits

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wages and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(l) Leases

Leases of property, plant & equipment where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Company are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the year.

Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the Company will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(m) Share Capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

(n) Share-Based Payments

The Company may provide benefits to Directors, employees or consultants in the form of share-based payment transactions, whereby services may be undertaken in exchange for shares or options over shares ("equity-settled transactions").

The fair value of shares and options granted to Directors, employees and consultants is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the recipients become unconditionally entitled to the instruments. For options, fair value is determined using a Black-Scholes option pricing model.

Where the terms of equity instruments granted are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where equity instruments granted are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the profit or loss. If new instruments are substituted for the cancelled instruments and designated as a replacement, the combined impact of the cancellation and replacement instruments are treated as if they were a modification.

(o) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Interest revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

(p) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The charge for current income tax expense is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates expected to apply to the period when the asset is realised or liability is settled based on tax rates (and laws) that have been enacted or substantially enacted by the reporting date.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences and unused tax losses can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Current and deferred tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(q) GST

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(r) Earnings per Share

Basic earnings per share is calculated as net profit (loss) attributable to owners of the Company, adjusted to exclude any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the year, adjusted for any bonus element.

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:

- The after tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(s) Comparatives

When required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(t) Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key estimates – impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Where applicable, value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Key judgements – exploration & evaluation assets

The Company performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. These reviews are based on detailed surveys and analysis of drilling results performed to balance date.

The Directors have assessed that for the exploration and evaluation assets recognised at 30 June 2012, the facts and circumstances do not suggest that the carrying amount of an asset may exceed its recoverable amount. In considering this the Directors have had regard to the facts and circumstances that indicate a need for impairment as noted in Accounting Standard AASB 6 "Exploration for and Evaluation of Mineral Resources".

Exploration and evaluation assets at 30 June 2012 were $20,385,252 (2011: $723,933).

NOTE 2. REVENUE

	2012 $	2011 $
– Interest received	1,030,438	160,198
Total Revenue	**1,030,438**	**160,198**
(a) Interest revenue from:		
– Term deposits held with financial institutions	1,030,438	160,198
Total Interest Revenue	**1,030,438**	**160,198**

NOTE 3. PROFIT/(LOSS)

Included in the profit/(loss) are the following specific expenses:

	2012 $	2011 $
Finance costs		
– Interest expense	421	–
– Guarantee fees	–	100,000
Depreciation		
– Office equipment	4,536	588
– Leased motor vehicles	15,042	503
– Plant and equipment	440	–
Defined contribution superannuation expense	82,055	15,199

NOTE 4. INCOME TAX

	2012 $	2011 $
(a) Component of income tax expense (benefit)		
Income tax expense (benefit) is made up of:		
Current tax	(6,552,470)	(206,095)
Deferred tax	5,877,470	160,059
	(675,000)	**(46,036)**

NOTE 4. INCOME TAX (CONT.)

	2012 $	2011 $
(b) The prima facie tax on profit/(loss) before income tax is reconciled to the income tax expense as follows:		
Prima facie tax on profit/(loss) before income tax at 30% (2011: 30%)	(655,364)	(351,982)
Add tax effect of:		
Share based payments	89,282	30,687
Current year losses not recognised	335,021	275,259
Less tax effect of:		
Timing differences from deferred tax in equity not recognised	(1,989)	
	(441,950)	–
Income tax expense/(benefit) attributable to profit/(loss) before income tax	**(675,000)**	**(46,036)**
Recognised deferred tax assets		
Unused tax losses	6,758,565	206,094
Deductible temporary differences	187,783	13,074
Potential benefit at 30% (2011: 30%)	**6,946,348**	**219,168**
Recognised deferred tax liabilities		
Assessable temporary differences		
Exploration and evaluation assets	(6,115,576)	(217,180)
Available for sale financial assets	(675,000)	–
Other assessable temporary differences	(155,772)	(1,988)
Potential benefit at 30% (2011: 30%)	**(6,946,348)**	**(219,168)**
Net deferred tax recognised	**–**	**–**
Unrecognised deferred tax assets		
Unrecognised tax losses	**1,599,830**	**917,532**
Tax effect of tax losses not recognised at 30% (2011: 30%)*	**479,949**	**275,260**

At 30 June 2012 there are $1,748,351 (2011: $69,830) of unrecognised deferred tax assets relating to share issue costs, which, if recognised would be recognised through equity.

In order to recoup carried forward losses in future periods, either the Continuity of Ownership Test (COT) or Same Business Test (SBT) must be passed. The Company has failed COT with respect to $1,170,077 of tax losses carried forward from 2011 following the IPO. Accordingly, these losses are carried forward SBT losses. COT is passed for the further $6,887,491 losses incurred in the current year.

(c) Petroleum Resource Rent Tax Note

On 19 March, 2012, the Australian Government passed through the Senate, the Petroleum Resource Rent Tax Act 2012, with application to certain profits arising from petroleum extracted in Australia. In broad terms, the tax is imposed on a project-by-project basis. This tax applies to upstream mining operations only, and the effective rate of Petroleum Resource Rent Tax is 22.5%. This tax is considered to be an "income tax" for the purposes of AASB 112. Certain transition measures are contained in the legislation which can give rise to deductions in future years by adopting fair value, for Petroleum Resource Rent Tax purposes. Affected entities have until 31 December 2013, to exercise an election to adopt fair value as opposed to cost, in determining their future deductions. The Company is not in the production phase yet and is currently below the taxable threshold. Accordingly, the Company has not yet exercised its election, nor have fair value modeling and valuations been performed. Thus, the Company is not yet able to determine any potential increase in the balance of deferred tax assets that may otherwise arise should the Company elect by 31 December 2013 to adopt the fair value basis in determining future tax deductions.

NOTE 5. KEY MANAGEMENT PERSONNEL

(a) Key Management Personnel Compensation

The total remuneration of Key Management Personnel for the Company for the year was as follows:

	2012 $	2011 $
Short term employee benefits	1,267,010	380,361
Post-employment benefits	49,936	15,199
Share based payments	90,797	126,787
Total	**1,407,743**	**522,347**

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of Key Management Personnel.

(b) Equity Instruments

Shareholdings

Current Year	Balance 1 July 2011	Granted as Compensation	Options Exercised	Net Change Other#	Balance 30 June 2012
Directors					
Nicholas Mather	–	–	–	2,379,855	2,379,855
Philip McNamara	3,450,000	–	–	–	3,450,000
William Stubbs	250,000	–	–	160,000	410,000
Roland Sleeman	–	–	–	50,000	50,000
Jeremy Barlow	–	–	–	2,005,000	2,005,000
Stephen Bizzell	–	–	–	1,310,000	1,310,000
Vince Mascolo	50,000	–	–	(50,000)	–
Other Key Management Personnel					
Raymond Johnson[1]	–	180,000	–	290,000	470,000
Roger Cressey	–	–	–	209,629	209,629
Karl Schlobohm	175,000	–	–	70,000	245,000
Priy Jayasuriya	–	–	–	–	–
Total	**3,925,000**	**180,000**	**–**	**6,424,484**	**10,529,484**

1 Raymond Johnson has been granted 180,000 performance shares in Armour Energy which shall be subject to a forfeiture condition, being the completion within two (2) years of the drilling and hydraulic fracturing of Armour Energy's first multistage lateral well.

NOTE 5. KEY MANAGEMENT PERSONNEL (CONT.)

(b) Equity Instruments (cont.)

Shareholdings (cont.)

Previous Year	Balance 1 July 2010	Granted as Compensation	Options Exercised	Net Change Other#	Balance 30 June 2011
Directors					
Nicholas Mather	–	–	–	–	–
Philip McNamara	–	–	–	3,450,000	3,450,000
William Stubbs	–	–	–	250,000	250,000
Brian Moller	–	–	–	–	–
Vince Mascolo	–	–	–	50,000	50,000
Other Key Management Personnel					
Karl Schlobohm	–	–	–	175,000	175,000
Priy Jayasuriya	–	–	–	–	–
Total	**–**	**–**	**–**	**3,925,000**	**3,925,000**

"Net Change Other" above includes the balance of shares held on appointment/resignation, and shares acquired for cash on similar terms and conditions to other shareholders.

There were no shares held nominally at 30 June 2012 (2011: nil).

Option holdings

Current Year	Balance 1 July 2011	Granted as Remun-eration	Options Exercised	Net Change Other#	Balance 30 June 2012	Total Vested	Total Vested and Exercisable	Total Vested and Un-exercisable
Directors								
Nicholas Mather	1,500,000	–	–	443,417	1,943,417	1,943,417	1,943,417	–
Philip McNamara	7,762,500	–	–	–	7,762,500	7,762,500	7,762,500	–
William Stubbs	562,500	–	–	40,000	602,500	602,500	602,500	–
Roland Sleeman	–	500,000	–	12,500	512,500	12,500	12,500	–
Jeremy Barlow	–	500,000	–	500,000	1,000,000	500,000	500,000	–
Stephen Bizzell	–	500,000	–	4,705,000	5,205,000	4,705,000	4,705,000	–
Vince Mascolo	512,500	–	–	(512,500)	–	–	–	–
Other Key Management Personnel								
Raymond Johnson	–	4,000,000	–	57,500	4,057,500	57,500	57,500	–
Roger Cressey	–	2,000,000	–	20,000	2,020,000	20,000	20,000	–
Karl Schlobohm	543,750	–	–	17,500	561,250	561,250	561,250	–
Priy Jayasuriya	–	500,000	–	–	500,000	–	–	–
Total	**10,881,250**	**8,000,000**	**–**	**5,283,417**	**24,164,667**	**16,164,667**	**16,164,667**	**–**

NOTE 5. KEY MANAGEMENT PERSONNEL (CONT.)

(b) Equity Instruments (cont.)

Option holdings (cont.)

Previous Year	Balance 1 July 2010	Granted as Remun-eration	Options Exercised	Net Change Other#	Balance 30 June 2012	Total Vested	Total Vested and Exercisable	Total Vested and Un-exercisable
Directors								
Nicholas Mather	–	1,500,000	–	–	1,500,000	1,500,000	1,500,000	–
William Stubbs	–	500,000	–	62,500	562,500	562,500	562,500	–
Brian Moller	–	500,000	–	(500,000)	–	–	–	–
Vince Mascolo	–	500,000	–	12,500	512,500	512,500	512,500	–
Philip McNamara	–	6,900,000	–	862,500	7,762,500	7,762,500	7,762,500	–
Other Key Management Personnel								
Karl Schlobohm	–	500,000	–	43,750	543,750	543,750	543,750	–
Priy Jayasuriya	–	–	–	–	–	–	–	–
Total	**–**	**10,400,000**	**–**	**481,250**	**10,881,250**	**10,881,250**	**10,881,250**	**–**

"Net Change Other" above includes the balance of options held on appointment/resignation, and options issued in capacity of shareholders on similar terms and conditions to other shareholders.

There were no share options held nominally at 30 June 2012 (2011: nil).

(c) Loans to Key Management Personnel

There were no loans to Directors or other key management personnel during the current year (2011: none).

(d) Other Transactions with Key Management Personnel

Other transactions with Directors are set out in Note 21. There were no other transactions or balances with key management personnel during the year.

NOTE 6. DIVIDENDS AND FRANKING CREDITS

There were no dividends paid or recommended during the year or since the end of the year (2011: none). There are no franking credits available to shareholders of the Company (2011: none).

NOTE 7. AUDITORS REMUNERATION

	2012 $	2011 $
Audit and review of the financial reports of the Company	42,600	15,000
Other assurance related services: *Investigating Accountants Report*	58,955	-
Taxation services	10,050	750
	111,605	**15,750**

NOTE 8. EARNINGS PER SHARE (EPS)

	2012 $	2011 $
(a) Earnings		
Earnings used to calculate basic and diluted EPS	(1,509,547)	(1,127,237)

	Number of Shares	Number of Shares
(b) Weighted average number of shares		
Weighted average number of ordinary shares outstanding during the year, used in calculating basic earnings per share	176,712,329	71,703,297
Weighted average number of dilutive options outstanding during the year	–	–
Weighted average number of ordinary shares and potential ordinary shares outstanding during the year, used in calculating diluted earnings per share	176,712,329	71,703,297

Options are not considered dilutive as they are currently out of the money. Options may become dilutive in the future.

NOTE 9. CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Cash at bank	325,520	2,030,753
Short-term deposits	60,999,995	10,000,000
	61,325,515	**12,030,753**

NOTE 10. TRADE AND OTHER RECEIVABLES

	2012 $	2011 $
GST refundable	1,433,717	100,017
Other receivables	7,535	21,590
	1,441,252	**121,607**

Receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. No impairment loss has been recorded for the current and previous financial year.

Due to the short term nature of these receivables, their carrying value is assumed to approximate fair value. The maximum exposure to credit risk is the carrying value of receivables. Collateral is not held as security.

The receivables are not exposed to foreign exchange risk. No receivables were past due or impaired at 30 June 2012 (2011: nil).

NOTE 11. OTHER CURRENT ASSETS

	2012 $	2011 $
Prepayments	**705,189**	**33,141**

NOTE 12. OTHER FINANCIAL ASSETS

	2012 $	2011 $
Security deposits	966,093	20,000
Available for sale financial assets at fair value	4,500,000	–
	5,466,093	**20,000**
Movements in available for sale financial assets		
Opening balance at 1 July	–	–
Additions	2,250,000	–
Fair value adjustments through comprehensive income	2,250,000	–
Closing balance at 30 June	**4,500,000**	**–**

Available for sale financial assets comprise an investment in the ordinary issued capital of Lakes Oil NL, listing on the Australian Securities Exchange.

NOTE 13. PROPERTY, PLANT AND EQUIPMENT

	2012 $	2011 $
Motor vehicles – at cost	194,793	53,915
Accumulated depreciation	(15,544)	(503)
Written down value	179,249	53,412
Office equipment – at cost	39,059	1,765
Accumulated depreciation	(5,158)	(622)
Written down value	33,901	1,143
Plant and equipment – at cost	2,400	–
Accumulated depreciation	(440)	–
Written down value	1,960	–
Total written down value	**215,110**	**54,555**

Reconciliation of carrying amounts at the beginning and end of the year

	Motor Vehicles $	Office Equipment $	Plant & Equipment $	Total $
Year ended 30 June 2012				
At 1 July 2011 net of accumulated depreciation	53,412	1,143	–	54,555
Additions	140,879	37,294	2,400	180,573
Disposals	–	–	–	–
Depreciation charge for the year	(15,042)	(4,536)	(440)	(20,018)
At 30 June 2012 net of accumulated depreciation	**179,249**	**33,901**	**1,960**	**215,110**

NOTE 13. PROPERTY, PLANT AND EQUIPMENT (CONT.)

Reconciliation of carrying amounts at the beginning and end of the year (cont.)

	Motor Vehicles $	Office Equipment $	Plant & Equipment $	Total $
Year ended 30 June 2011				
At 1 July 2010 net of accumulated depreciation	–	1,731	–	1,731
Additions	53,915	–	–	53,915
Disposals	–	–	–	–
Depreciation charge for the year	(503)	(588)	–	(1,091)
At 30 June 2011 net of accumulated depreciation	**53,412**	**1,143**	**–**	**54,555**

NOTE 14. EXPLORATION AND EVALUATION ASSETS

	2012 $	2011 $
Exploration and evaluation assets	**20,385,252**	**723,933**
Movements in carrying amounts		
Balance at the beginning of the year	723,933	85,973
Additions	19,661,319	637,960
Written-off during the year	–	–
Balance at the end of the year	**20,385,252**	**723,933**

The recoverability of the carrying amount of exploration and evaluation assets is dependent on the successful development and commercial exploitation or, alternatively, sale of the respective areas of interest.

NOTE 15. TRADE AND OTHER PAYABLES

	2012 $	2011 $
Trade creditors	5,729,876	247,157
Accrued expenses	2,648,095	53,068
	8,377,971	**300,225**

Trade and other payables are non-interest bearing and are generally on 30-60 day terms.

Due to the short term nature of these payables, their carrying value is assumed to approximate fair value.

NOTE 16. PROVISIONS

	2012 $	2011 $
Employee benefits	**42,297**	**14,578**

NOTE 17. ISSUED CAPITAL

	2012 $	2011 $
(a) Issued and paid up capital		
300,000,000 (2011: 150,000,000) ordinary shares fully paid	89,008,001	14,008,001
Share issue costs	(7,353,613)	(290,958)
	81,654,388	13,717,043

Ordinary shares participate in dividends and the proceeds on winding up the Company in proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on show of hands.

	Number of Shares	$
(b) Reconciliation of issued and paid-up capital		
At 1 July 2010	1	1
Shares issued for cash ($0.0001 per share – 1/11/10)	79,999,999	8,000
Shares issued for cash ($0.20 per share, net of share issue costs – 14/03/11)	50,000,000	9,909,042
Shares issued for cash ($0.20 per share, net of share issue costs – 20/04/11)	20,000,000	3,800,000
At 30 June 2011	150,000,000	13,717,043
Shares issued for cash ($0.50 per share, net of share issue costs – 20/4/12)	150,000,000	67,937,345
At 30 June 2012	**300,000,000**	**81,654,388**

(c) Options

As at 30 June 2012, there were 105,200,000 unissued ordinary shares of Armour Energy Ltd under option,held as follows:

- 37,500,000 listed options to take up one ordinary share in Armour Energy Ltd (issued to initial and seed shareholders) at an exercise price of 50 cents. The options vested immediately on grant and expire 31 August 2014.
- 10,900,000 listed options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2011) at an exercise price of 50 cents. The options vested immediately on grant and expire 31 August 2014.
- 37,500,000 listed options to take up one ordinary share in Armour Energy Ltd (issued to IPO shareholders) at an exercise price of 50 cents. The options vested immediately on grant and expire 31 August 2014.
- 14,300,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2012) at an exercise price of 50 cents. The options vest over a 2 year period and have a life of 3 years. Accordingly, the options expire commencing 11 October 2014 through to 30 April 2015.

(d) Performance Shares

As at 30 June 2012, there were 805,000 Performance Shares of Armour Energy Ltd issued to two (2) employees of the Company.

- 625,000 unlisted Performance Shares to convert into one ordinary share each in Armour Energy Ltd, upon satisfaction of the Performance Criteria applying to the Performance Share. The Performance Shares vest subject to performance criteria being met within 3 years (but not before the second anniversary after issue).

NOTE 17. ISSUED CAPITAL (CONT.)

(d) Performance Shares (cont.)

- 180,000 unlisted Performance Shares to convert into one ordinary share each in Armour Energy Ltd, upon satisfaction of the Performance Criteria applying to the Performance Share. The Performance Shares are subject to a forfeiture condition being the completion of the drilling and Hydraulic Fracturing of the Company's first multistage lateral well and expire 12 December 2014.

(e) Performance Rights

As at 30 June 2012, there were 625,000 issued Performance Rights of Armour Energy Ltd.

- 625,000 unlisted Performance Rights which are exercisable into one ordinary share each of Armour Energy Ltd upon vesting. The Performance Rights vest on 12 February 2014 and expire on 12 February 2015.

(f) Capital Risk Management

Management controls the capital of the Company in order to provide capital growth to shareholders and ensure the Company can fund its operations and continue as a going concern. The Company's capital comprises equity as shown on the statement of financial position. There are no externally imposed capital requirements. Management effectively manages the Company's capital by assessing the Company's financial risk and adjusting its capital structure in response to changes in these risks and the market. These responses include the management of share issues.

There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year.

NOTE 18. SHARE-BASED PAYMENTS

	2012 $	2011 $
(a) Recognised share-based payments		
Expense arising from equity settled share-based payment transactions recorded in the statement of comprehensive income	297,605	132,883
Cost of equity settled share-based payment transactions recorded as share issue costs in the statement of financial position	148,554	–
	446,159	**132,883**

The share-based payments are described below. There have been no cancellations or modifications to any of the share based payments during 2012 and 2011.

(b) Types of share-based payment plans

Employee share option plan (ESOP)

Share options are granted to employees. The employee share option plan is designed to align participants' interests with those of shareholders by increasing the value of the Company's shares.

When a participant ceases employment prior to the vesting of their share options, the share options are forfeited after 90 days unless cessation of employment is due to termination for cause, whereupon they are forfeited immediately or death. The Company prohibits KMP from entering into arrangements to protect the value of unvested ESOP awards.

The contractual life of each option granted is generally three (3) years. There are no cash settlement alternatives.

Each option can be exercised from vesting date to expiry date for one share with the exercise price payable in cash. The Company has issued performance shares to two (2) employees during 2012. A performance share shall:

1) be automatically converted into an ordinary share upon satisfaction of the Performance Criteria applying to the Performance Shares.

2) unless otherwise determined by the Board, a Performance Share shall covert into an ordinary share on the basis of one Performance Share for every one Share; and

NOTE 18. SHARE-BASED PAYMENTS (CONT.)

(b) Types of share-based payment plans (cont.)

Employee share option plan (ESOP) (cont.)

3) an ordinary share issued upon conversion of a Performance Share will rank equally with other Shares on issue in the Company.

The vesting conditions are outlined in note 17(d).

Performance Rights

The Company has established a Performance Rights Plan (Plan), being a long term incentive scheme aimed at creating a stronger link between an eligible recipient's performance and reward whilst increasing Shareholder value in the company.

The Company has obtained from ASIC the necessary relief to issue Performance Rights under the Performance Rights Plan without the need to hold a Financial Services licence or to issue or to issue a disclosure document.

The performance criteria applying to the 625,000 Performance Rights are the delivery of a new project on any new interests outside the Company's existing tenement interest that generates the addition of Prospective Resources equivalent to or greater than any one of the following:

(a) 5 tcf unconventional gas;

(b) 850 million barrels of unconventional oil;

(c) 100 bcf conventional gas; or

(d) 5 million barrels of conventional oil (with discovery after one hole even if not necessarily commercially viable).

Persons eligible to participate in the Plan include a Director, officer, employee or certain consultants (or their nominee) of the Company, or a controlled entity who the Board determines in its absolute discretion is to participate in the Performance Rights Plan (Eligible Person). The Board may in its absolute discretion issue or cause to be issued invitations on behalf of the Company to Eligible Persons to participate in the Plan. The invitation will include information such as performance hurdles and performance periods. On vesting, one Performance Right is exercisable into one ordinary share.

(c) Summaries of share-based payment plans

Summary of employee share options granted

The following table illustrates the number (no.) and weighted average exercise prices (WAEP) of, and movements in, share options granted during the year under the employee share option plan:

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	10,900,000	$0.50	–	–
Granted during the year	14,300,000	$0.50	10,900,000	$0.50
Forfeited during the year	–	–		
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at the end of the year	25,200,000	$0.50	10,900,000	$0.50
Exercisable at the end of the year	10,900,000	$0.50	10,900,000	$0.50

On 29 November 2010, 10,900,000 Armour Energy Ltd share options were granted to employees under the employee share option plan. The options are to take up one ordinary share in Armour Energy at a price of 50 cents each. The options vested immediately and are due to expire on 31 August 2014. A $0.0122 value was calculated using the Black Scholes valuation methodology (refer below).

NOTE 18. SHARE-BASED PAYMENTS (CONT.)

(c) Summaries of share-based payment plans (cont.)

Summary of employee share options granted (cont.)

During 2012, 14,300,000 Armour Energy Ltd share options were granted to employees under the employee share option plan. The options are to take up one ordinary share in Armour Energy at a price of 50 cents each. The options vest over a 2 year period and have a life of 3 years. These options expire 11 October 2014 through to 30 April 2015. A value of $0.0372 to $0.1758 was calculated using the Black Scholes valuation methodology (refer below).

Summary of Performance Shares granted

The following table illustrates the number (no.) of, and movements in, Performance Shares granted during the year:

	2012 No.	2011 No.
Outstanding at the beginning of the year	–	–
Granted during the year	805,000	–
Forfeited during the year	–	–
Exercised during the year	–	–
Expired during the year	–	–
Outstanding at the end of the year	805,000	–

Terms and conditions associated with the performance shares are outlined in note 17(d).

Summary of Performance Rights granted

The following table illustrates the number (no.) of, and movements in, Performance Rights granted during the year under the Performance Rights Plan:

	2012 No.	2011 No.
Outstanding at the beginning of the year	–	–
Granted during the year	625,000	–
Forfeited during the year	–	–
Exercised during the year	–	–
Expired during the year	–	–
Outstanding at the end of the year	625,000	–

Terms and conditions associated with the performance rights are outlined in note 17(e).

(e) Share based payment pricing model

The fair value of the equity settled share-based payments granted (including ESOP) is estimated using a Black-Scholes options pricing model taking into account the terms and conditions upon which the instruments were granted.

The following table lists the inputs to the models used for the years ended 30 June 2012 and 2011:

Employee share options	**2012**	**2011**
Weighted average exercise price	$0.50	$0.50
Weighted average life of the option	3.0 years	3.8 years
Underlying share price	$0.209	$0.044
Expected share price volatility	60.85% – 63.42%	100%
Risk free interest rate	3.14% – 3.71%	5.11%
Number of options issued	14,300,000	10,900,000
Value (Black-Scholes) per option	$0.0372 – $0.1758	$0.0122
Total value of options issued	$601,760	$132,883

NOTE 18. SHARE-BASED PAYMENTS (CONT.)

(e) Share based payment pricing model (cont.)

Performance Shares	2012	2011
Weighted average exercise price	$0.00	–
Weighted average life of the share	2.13 years	–
Underlying share price	$0.200	–
Expected share price volatility	60.853% – 61.39%	–
Risk free interest rate	3.34% – 3.53%	–
Number of performance shares issued	805,000	–
Value (Black-Scholes) per performance share	$0.200	–
Total value of performance shares issued	$161,000	–

Performance Rights	2012	2011
Weighted average exercise price	$0.00	–
Weighted average life of the right	3.0 years	–
Underlying share price	$0.200	–
Expected share price volatility	60.853%	–
Risk free interest rate	3.53%	–
Number of performance shares issued	625,000	–
Value (Black-Scholes) per performance right	$0.200	–
Total value of performance rights issued	$125,000	–

Historical volatility of a group of comparable companies has been the basis of determining expected share price volatility, as it is assumed that this is indicative of future movements. The life of the option has been based on the full life of the option.

NOTE 19. RESERVES: NATURE AND PURPOSE

(i) Share-Option Reserve, Performance Shares Reserve and Performance Rights Reserve

The share option reserve, performance shares reserve and performance rights reserve (collectively "share based payments") is used to recognise the grant date fair value of share based payments issued employee and other service providers.

(ii) Available for Sale Financial Assets Reserve

Changes in the fair value of investments, such as equities, classified as available for sale financial assets, are recognised in other comprehensive income, as described in note 1(f) and accumulated in a separate reserve within equity. Amounts are classified to profit or loss when the associated assets are sold or impaired.

NOTE 20. CASH FLOW RECONCILIATION

	2012 $	2011 $
Loss after income tax	(1,509,547)	(1,127,237)
Non-cash items		
– Share based payments	297,605	132,883
– Depreciation	20,018	1,091
– Deferred tax	(675,000)	–
Share issue costs classified as financing activities	556,016	–
Changes in operating assets and liabilities*		
(Increase) decrease in trade and other receivables	114,072	(116,334)
(Increase) decrease in other current assets	(519,242)	(33,141)
Increase (decrease) in trade and other payables	1,109,755	191,393
Increase (decrease) in provisions	27,719	14,578
Increase (decrease) in deferred taxes	(46,036)	
Net cash flows from operating activities	**(578,604)**	**(982,803)**

*Net of amounts relating to exploration and evaluation assets.

Non-cash investing and financing activities

	2012 $	2011 $
Share-based payment transactions recorded as share issue costs in the statement of financial position	148,554	–

Equity settled share based payment transactions are disclosed in note 18.

NOTE 21. RELATED PARTY DISCLOSURES

(a) Ultimate parent

DGR Global Ltd was the ultimate parent up until 26 April 2012, the date on which Armour Energy listed on the ASX.

(b) Key management personnel

Details relating to key management personnel, including remuneration paid are included in note 5.

NOTE 21. RELATED PARTY DISCLOSURES (CONT.)

(c) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Related party		Sales to related parties	Purchases from related parties	Other transactions with related parties
DGR Global Ltd (i)	2012	–	378,000	–
	2011	–	300,000	713,582
Samuel Capital Ltd (ii)	2012		–	
	2011	–	169,022	–
Samuel Holdings Pty Ltd (iii)	2012		3,500,000	–
	2011	–	100,000	–
Hopgood Ganim (iv)	2012		901,525	–
	2011	–	141,055	–
Bizzell Capital Partners (v)	2012	–	2,306,199	–
	2011		–	

(i) The Company has a commercial arrangement with DGR Global Ltd for the provision of various services, whereby DGR Global provides resources and services including the provision of its administration and exploration staff, its premises (for the purposes of conducting the Company's business operations), use of existing office furniture, equipment and certain stationery, together with general telephone, reception and other office facilities (''Services''). In consideration for the provision of the Services, the Company pays DGR Global a monthly management fee of $31,500 (2011: $30,000) per month. For the year ended 30 June 2012 $378,000 (2011: $300,000) was paid or payable to DGR Global for the provision of the Services. The total amount outstanding at year end was $11,058 (2011: $nil). Refer to item (d) below for details of other transactions with DGR Global Ltd.

(ii) Mr. Nicholas Mather (Chairman) is the sole director of Samuel Capital Ltd. For the year ended 30 June 2012, Samuel Capital were paid $nil (2011: $169,022) for the provision of consulting services. The services were based on normal commercial terms and conditions. The total amount outstanding at year end was $nil (2011: $nil).

(iii) Mr. Nicholas Mather (Chairman) is the sole director of Samuel Holdings Pty Ltd. The Company entered into an Underwriting Agreement with Samuel Holdings Pty Ltd to underwrite $50 million of the April 2012 IPO, and agreed to pay an underwriting fee of seven (7) per cent of the amount underwritten. The total amount outstanding at year end was $1,128,158 (2011: $nil).

An amount of $100,000 was paid in 2011 for the provision of a finance guarantee to secure the Company's tenements.

(iv) Mr. Brian Moller (a former Director), is a partner in the Australian firm Hopgood Ganim lawyers. Mr. Brian Moller resigned as a director on 29 May 2011. For the year ended 30 June 2012, $901,525 (2011: $141,055) was paid or payable to Hopgood Ganim for the provision of legal services to the Company. The services were based on normal commercial terms and conditions. The total amount outstanding at year end was $10,367 (2011: $21,221).

(v) Mr. Stephen Bizzell (a Director), is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. The Company entered into an agreement with Bizzell Capital Partners Pty Ltd as Lead Manager for the April 2012 IPO. A lead manager fee was payable of two (2) per cent of the funds raised under the IPO ($75 million), five (5) million Options exercisable at $0.50 expiring 31 August 2014, and a five (5) per cent firm offer fee on monies raised by the lead manager in excess of the underwritten amount. An ongoing corporate advisory fee of $12,500 per month is payable for a minimum of 12 months following the IPO.

For the year ended 30 June 2012, $2,195,887 (2011: $nil) was paid or payable to Bizzell Capital Partners for the provision of lead management and consultancy services. The services were based on normal commercial terms and conditions. The total amount outstanding at year end was $nil (2011: $nil).

The outstanding balances at each relevant year end are unsecured, interest free and settlement occurs in cash.

(d) Loans from related parties

During the prior year, a loan of $713,582 was made from DGR Global Ltd to Armour Energy Ltd. This loan was fully repaid during the year ended 30 June 2011, and was unsecured and repayable on demand. No such loans existed at any time during the year ended 30 June 2012.

NOTE 22. CAPITAL COMMITMENTS

(a) Future Exploration Commitments

The Company has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Company. The commitments are as follows:

	2012 $	2011 $
Less than 12 months	500,000	160,000
Between 12 months and 5 years	8,150,000	8,650,000
	8,650,000	**8,810,000**

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Company has the option to negotiate new terms or relinquish the tenements. The Company also has the ability to meet expenditure requirements by joint venture or farm-in agreements.

NOTE 23. FINANCIAL RISK MANAGEMENT

(a) General objectives, policies and processes

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

The Company's financial instruments consist mainly of deposits with banks, receivables, other financial assets and payables.

The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

(b) Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Company incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Company. The Company's objective is to minimise the risk of loss from credit risk exposure.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk is reviewed regularly by the Board. It arises from exposure to receivables as well as through deposits with financial institutions.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company and at balance date.

The Company's cash at bank is spread across multiple Australian financial institutions to mitigate credit risk.

(c) Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties raising funds to meet financial obligations as they fall due. The objective of managing liquidity risk is to ensure, as far as possible, that the Company will always have sufficient liquidity to meets its liabilities when they fall due, under both normal and stressed conditions.

Liquidity risk is reviewed regularly by the Board.

NOTE 23. FINANCIAL RISK MANAGEMENT (CONT.)

(c) Liquidity Risk (cont.)

The Company manages liquidity risk by monitoring forecast cash flows and liquidity ratios such as working capital. The Company did not have any financing facilities available at balance date.

All financial liabilities are due within 12 months.

(d) Market Risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments and investments in listed securities. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). The Company does not have any material exposure to market risk other than interest rate risk and price risk on available for sale financial assets.

Interest rate risk

Interest rate risk arises principally from cash and cash equivalents. The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters while optimising the return.

For further details on interest rate risk refer to the tables below:

	Floating interest rate 2012 $	Fixed interest rate 2012 $	Non-interest bearing 2012 $	Total carrying amount 2012 $	Weighted average effective interest rate 2012 %
(i) Financial assets					
Cash and cash equivalents	325,520	60,999,995	–	61,325,515	5.54%
Trade and other receivables	–	–	1,441,252	1,441,252	N/A
Available for sale financial assets	–	–	4,500,000	4,500,000	N/A
Security deposits	–	–	966,093	966,093	N/A
Total financial assets	**325,520**	**60,999,995**	**6,907,345**	**68,232,860**	
(ii) Financial liabilities					
Trade and other payables	–	–	8,377,971	8,377,971	N/A
Total financial liabilities	**–**	**–**	**8,377,971**	**8,377,971**	

	Floating interest rate 2011 $	Fixed interest rate 2011 $	Non-interest bearing 2011 $	Total carrying amount 2011 $	Weighted average effective interest rate 2011 %
(i) Financial assets					
Cash and cash equivalents	2,030,753	10,000,000	–	12,030,753	5.07%
Trade and other receivables	–	–	121,607	121,607	N/A
Security deposits	–	–	20,000	20,000	N/A
Total financial assets	**2,030,753**	**10,000,000**	**141,607**	**12,172,360**	
(ii) Financial liabilities					
Trade and other payables	–	–	300,225	300,225	N/A
Total financial liabilities	**–**	**–**	**300,225**	**300,225**	

Due to the short term nature of the above assets and liabilities, their carrying values are assumed to approximate their fair values.

NOTE 23. FINANCIAL RISK MANAGEMENT (CONT.)

(e) Fair Value

The fair values of financial assets and liabilities approximate their carrying amounts principally due to their short-term nature or the fact that they are measured and recognised at fair value.

The following table presents the Company's financial assets and liabilities measured and recognised at fair value at 30 June 2012.

	Level 1 $	Level 2 $	Level 3 $	Total $
2012				
Available for sale financial asset	4,500,000	–	–	4,500,000
2011				
Available for sale financial asset	–	–	–	–

Available for sale financial assets are measured based on quoted securities.

NOTE 24. OPERATING SEGMENTS

The Company has identified its operating segment based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Company is managed primarily on a geographic basis, which is the location of the respective areas of interest (tenements) in Queensland and the Northern Territory, Australia. Operating segments are determined on the basis of financial information reported to the Board. The Company does not yet have any products or services from which it derives an income.

Accordingly, management currently identifies the Company as having only one reportable segment, being exploration for shale oil and gas. The financial results from this segment are equivalent to the financial statements of the Company. There have been no changes in the operating segments during the year.

NOTE 25. SUBSEQUENT EVENTS

The Directors are not aware of any significant changes in the state of affairs of the Company or events after the balance date that would have a material impact on the financial statements.

NOTE 26. CONTINGENT ASSETS AND LIABILITIES

Under the Company's native title agreement over EP 171 and EP 176, the Company is required to pay the greater of either $10,000 or 3% of exploration costs on each anniversary date.

There are no other contingent assets and liabilities at 30 June 2012 (2011: none).

Directors' Declaration

In accordance with a resolution of the Directors of Armour Energy Ltd, I state that:

1. In the opinion of the Directors:

   (a) The attached financial statements and notes of Armour Energy Ltd for the financial year ended 30 June 2012 are in accordance with the *Corporations Act 2001*, including:

   (i) Giving a true and fair view of its financial position as at 30 June 2012 and its performance for the year ended on that date; and

   (ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

   (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

   (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required to be made by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2012.

On behalf of the board

Philip McNamara
Director

Brisbane
Date: 28 September 2012

BDO

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INDEPENDENT AUDITOR’S REPORT

To the members of Armour Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Armour Energy Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration.

Directors’ Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor’s Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Armour Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Armour Energy Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 31 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Armour Energy Limited for the year ended 30 June 2012 complies with section 300A of the Corporations Act 2001.

BDO Audit Pty Ltd

BDO

D P WRIGHT
Director

Brisbane, 28 September 2012

Corporate Information

DIRECTORS

Nicholas Mather
Philip McNamara
William Stubbs
Roland Sleeman
Jeremy Barlow
Stephen Bizzell

COMPANY SECRETARY

Karl Schlobohm

REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE

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COUNTRY OF INCORPORATION

Australia

STOCK EXCHANGE LISTING

Australian Securities Exchange Ltd
ASX Code: AJQ

INTERNET ADDRESS

www.armourenergy.com.au

AUSTRALIAN BUSINESS NUMBER

ABN 60 141 198 414

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Armour Energy Limited
ACN 141 198 414