

Terms and Conditions of Performance Shares

As at 19 April 2012, Armour Energy Limited ACN 141 198 414 (**Company**) has issued the following performance shares:

- (a) 180,000 to Mr Ray Johnson (**Johnson Performance Shares**); and
- (b) 625,000 to DSWPET Pty Ltd, an entity controlled by Mr David Warner (**Warner Performance Shares**).

The terms and conditions attaching to the Johnson Performance Shares and Warner Performance Shares are detailed below.

1. Rights attaching to Johnson Performance Shares

- 1.1 The performance criteria applying to each of the Johnson Performance Shares shall be the completion by the Company within on or before 1 December 2013 (**End Date**) of the drilling and hydraulic fracturing of the Company's first multi-stage horizontal well (**Johnson Performance Criteria**).
- 1.2 A Johnson Performance Share shall:
 - (a) not have any voting rights at any general meeting of the Company;
 - (b) entitle the holder to receive notices of all general meetings and financial reports and accounts that are circulated;
 - (c) entitle the holder to attend all general meetings of the Company;
 - (d) not have any dividend entitlements;
 - (e) not be transferrable unless and until the achievement of the Johnson Performance Criteria applying to the Johnson Performance Shares;
 - (f) on winding up entitle the holder to a preferential entitlement to participate in surplus profits or assets of the Company only to the extent of \$0.0001 per Johnson Performance Share;
 - (g) have no entitlement to participate in new issues of equity securities offered to ordinary shareholders of the Company;
 - (h) in the event of listing of the Company on ASX Ltd (**ASX**), not be quoted on the stock exchange;
 - (i) each Johnson Performance Share shall be automatically converted into an ordinary share in the Company upon satisfaction of the Johnson Performance Criteria applying to the Johnson Performance Share (**Conversion**).
 - (j) each Johnson Performance Share shall convert into an ordinary share on the basis of 1 Johnson Performance Share for every 1 ordinary share;
 - (k) an ordinary share issued upon conversion of a Johnson Performance Share will rank equally with other ordinary shares on issue in the Company and will:

- (1) participate with all other ordinary shares on issue in the capital of the Company for dividends as from the date of Conversion; and
- (2) be entitled to vote at all general meetings of the Company at all times, and
- (l) unless otherwise determined by the Board of directors of the Company, in the event that the Johnson Performance Criteria applying to any Johnson Performance Share held by a recipient is not satisfied by the End Date, all of the Johnson Performance Shares held by the holder shall convert into 1 ordinary share only;
- (m) on a winding up, the priority entitlement of a holder will be \$0.0001 per Johnson Performance Share;
- (n) on any listing of the Company on ASX, if ASX require a reorganisation of the share capital of the Company take place, the Johnson Performance Shares will be reorganised in such manner as is prescribed under the ASX Listing Rules at that time;
- (o) on any listing of the Company on ASX, if ASX require any amendments to the terms of the Johnson Performance Shares as a condition of listing, then the holder will agree to the same;
- (p) if the Company is listed on ASX at the time of the Johnson Performance Criteria being met then the Company will within 7 days of Conversion of any Johnson Performance Shares, apply for listing of the resulting ordinary shares on ASX; and
- (q) no other terms apply to the Johnson Performance Shares other than the terms in paragraph (a) - (q) above.

2. Rights attaching to Warner Performance Shares

2.1 **Warner Performance Shares Milestone** means that David Warner has been responsible for generating a project or projects, as the case may be, such that there is a reclassification of resources/reserves within the existing interests (set out in Schedule 1) equal to or greater than:

- (a) 2,000 PJ to 2P and or above;
- (b) 3,000 PJ to 3P and or above; or
- (c) 20,000 PJ to 2C and or above;

2.2 The Warner Performance Shares:

- (a) do not have any voting rights at any general meeting of the Company;
- (b) entitle the holder to receive notices of all general meetings and financial reports and accounts that are circulated;
- (c) entitle the holder to attend all general meetings of the Company;
- (d) do not have any dividend entitlements;
- (e) are only be capable of being disposed of by the holder upon achievement of the Warner Performance Share Milestone and then only in respect of those Warner Performance Shares that are not classified by ASX as restricted securities;

- (f) on winding up entitle the holder to participate in surplus profits or assets of the Company only to the extent of \$0.00001 per share;
 - (g) have no entitlement to participate in new issues offered to ordinary shareholders of the Company; and
 - (h) will not be quoted on ASX.
- 2.3 Upon Conversion into ordinary shares, the resulting shares may be subject to classification as restricted securities by ASX.
- 2.4 The terms of the Warner Performance Shares may be amended as necessary by the Board in order to comply with the Listing Rules or any directions of ASX regarding the terms of the Warner Performance Shares.

2.5 **Conversion of the Performance Shares**

- (a) The Warner Performance Shares are converted into ordinary shares upon achievement of the Warner Performance Share Milestone (**Conversion**).
- (b) One (1) Warner Performance Share converts to one (1) ordinary share in the Company.
- (c) Upon Conversion, the ordinary shares are to be listed on the ASX subject to applicable escrow restrictions.
- (d) Shares issued upon Conversion of Warner Performance Shares will rank equally with other ordinary shares on issue and will;
 - (1) participate with all other ordinary shares on issue in the capital of the Company for dividends as from the date of issue; and
 - (2) be entitled to vote at all general meetings of the Company at all times.
- (e) The Warner Performance Shares may not Convert before the second anniversary of their issue on 29 February 2012 (**Warner Issue Date**).
- (f) In the event that the Warner Performance Share Milestone is not achieved by the third anniversary of the Warner Issue Date (**End Date**), then all of the Warner Performance Shares shall together Convert into one (1) ordinary share in the Company on the End Date.

Schedule 1 - Existing Interests

Interest	Status	State	Comments
EP171	Approved	NT	
EP172	Application	NT	
EP173	Application	NT	
EP174	Application	NT	
EP176	Approved	NT	
EP177	Application	NT	
EP178	Application	NT	
EP179	Application	NT	
EP190	Application	NT	
EP191	Application	NT	
EP192	Application	NT	
EP193	Application	NT	
EP194	Application	NT	
EP195	Application	NT	
EP196	Application	NT	
ATP 1087	Application	QLD	