

QUARTERLY ACTIVITIES REPORT



Quarterly Report – For the Period Ended 31st March 2013

ASX CODE: AJQ**Shares on Issue**

300 million

Listed Options

57.7 million

Market Capitalisation (28/3)

\$81m (at AUD\$0.27)

DIRECTORS

Nicholas Mather (Chairman)
Philip McNamara (MD and CEO)
William Stubbs
Roland Sleeman
Stephen Bizzell
Jeremy Barlow

COMPANY SECRETARY

Karl Schlobohm

CONTACT DETAILS

Level 27, 111 Eagle Street
Brisbane Qld 4000
Tel: +61 7 3303 0620
Postal Address:
GPO Box 5261
Brisbane QLD 4001

www.armourenergy.com.au**HIGHLIGHTS**

- Northern Territory
 - Glyde Sub-Basin Airborne Gravity Survey completed
 - Additional Conventional Gas Targets Identified
- Third Party Independent Assessment
 - 322 PJ Prospective Resources of Conventional Gas
 - 12.5 PJ 3C Resources of Conventional Gas
- Conditional gas sales and gas transportation discussions underway for significant volumes of gas from Armour's Queensland and NT projects
- 2013 Queensland Exploration Program (ATP1087) set to start in May
 - Drilling contractor mobilised
 - Hydraulic Stimulation contractor engaged
 - Program designed to commence definition of 9 Trillion Cubic Feet (TCF) of potential gas resources and reserves
- Additional potential (18 TCF) identified within Riversleigh Shale in ATP1087
- Oil play identified within ATP1087 with potential for 137 mmbo
- Lakes Oil Yallourn 1 Corehole progressing in PEP166 to identify oil potential of the Rintouls Creek Formation
- Armour increases holding in Lakes Oil NL (ASX: LKO) to 18.6% fully diluted, matching Hancock Prospecting's interest

Head Office

Level 27
111 Eagle Street
Brisbane

GPO Box 5261
Brisbane QLD 4001
Facsimile: +61 7 3303 0681
Phone: +61 7 3303 0680

ASX CODE: AJQ

ACN: 141 198 414
Email: info@armourenergy.com.au
www.armourenergy.com.au

About Armour Energy

Armour Energy Limited (ASX: AJQ) was admitted to the official list of the ASX on Thursday, 26th April 2012. The Company is focussed on the discovery and development of gas and associated liquids resources in a new hydrocarbon province in Northern Australia.

Armour now holds four granted exploration permits EP171, 174, 176 and EP190 located in the Northern Territory along with an additional eleven applications for exploration permits in the Northern Territory.

The Company is also the holder of granted tenement ATP1087 and the preferred tender applicant for ATP1107 in the Gulf of Carpentaria region of North Queensland.

Armour tenements are 100% owned and cover 133,950 km² across four Proterozoic-Cambrian Basins (McArthur, Isa Super, South Nicholson and Georgina) and the potentially overlying Mesozoic Carpentaria Basin. Of the Company's project sites, approximately 24% (by area) of the Northern Territory has been granted, and approximately 47% (by area) of the Queensland has been granted.

The extent of Armour's granted tenements and application areas in Northern Australia is shown in **Figure 1** along with current and potential gas markets in the region.

Armour Energy holds an 18.6% fully-diluted 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 (**Figure 15**). 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 PEP166 (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 PRL2 covering the Trifon Gangel and Wombat gas fields.

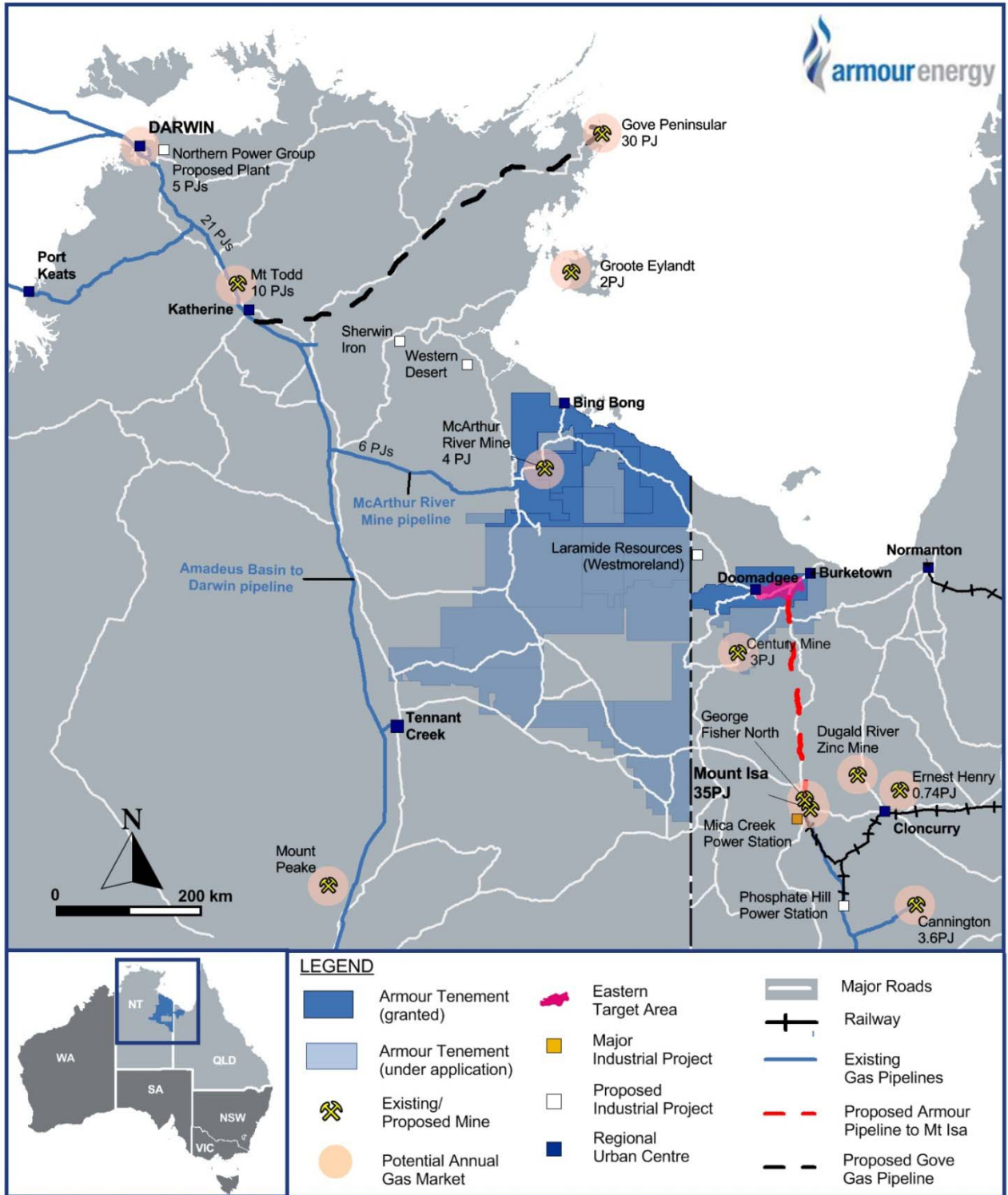


Figure 1 – Armour Energy Northern Territory granted tenements and application areas showing potential regional gas markets for Armour Energy

Northern Territory Exploration - Glyde Sub-Basin Gravity and Magnetic Survey Completed

In early January 2013 a gravity gradiometer, magnetic and digital terrain airborne survey at 400 metre line spacing was flown by airborne geophysical contractor Fugro over a selected 1,642 km² portion of the Glyde and Myrtle Sub-Basins. The survey aimed to identify subsurface structures similar to the Glyde-1 gas flow discovery and helped to identify other high priority targets in the Barney Creek Shale and Coxco Dolomite. The location of the Glyde Sub-Basin within Armour's exploration tenements and applications is shown in **Figure 2**.

The data from this survey was processed and used in conjunction with surface mapping to generate a detailed structural map of the Glyde Sub-Basin region. Armour believes that this airborne survey will allow for a more direct exploration strategy to high grade the area for additional drilling targets and strategically locating 2-D seismic lines. This technique has been successfully employed to image subsurface structures in onshore and offshore portions of the Canning Basin leading to recent hydrocarbon discoveries for other companies.

The enhanced gravity survey image is shown in **Figure 3**. The red and purple coloured areas indicate areas of a high rate of gravity variation indicating potential uplift zones. It is known from well logs that the gas accumulation discovered in Armour's discovery hole in 2012 (Glyde 1 ST1) was contained within an uplifted fault zone.

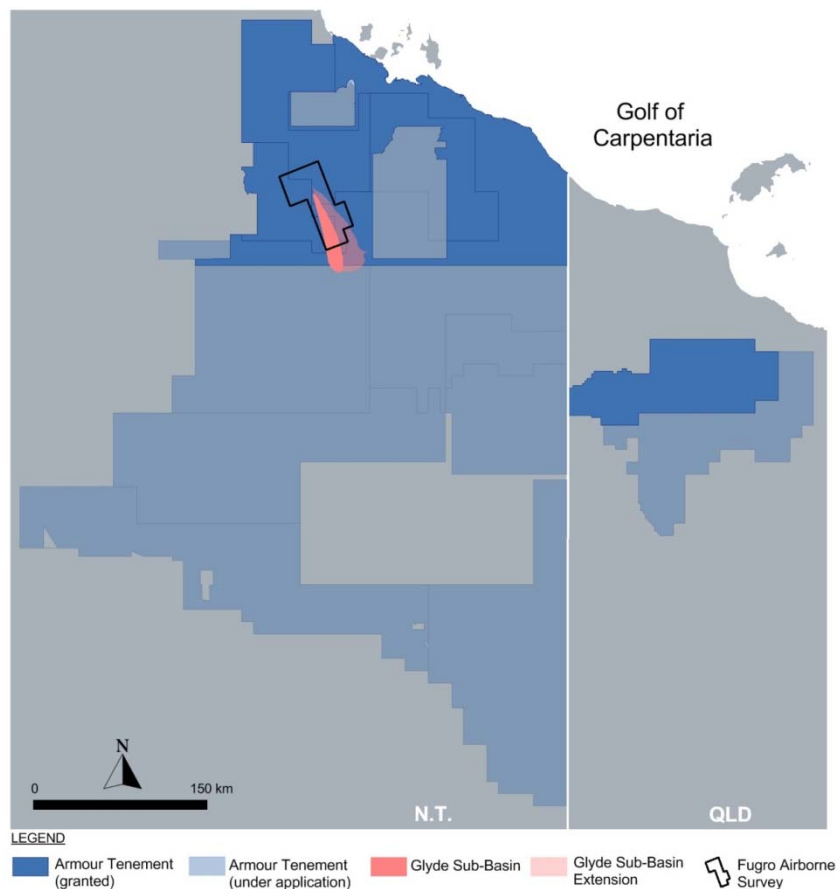


Figure 2 – Location of the Glyde Sub Basin with Armour Energy's Tenements and Application

Conventional Targets Identified in Glyde Sub Basin with 322 PJ Prospective Resources

On 12th February Armour advised that the combination of ongoing geological studies and surface mapping in conjunction with results from the recently completed gravity and magnetic survey had delineated a series of conventional gas prospects holding 314 PJ of risked, prospective resources in the Coxco Dolomite member of the Teena Formation (subsequently independently certified as 322 PJ, refer below). The Coxco is now modelled as a conventional free-flowing reservoir target in the Batten Trough, McArthur Basin.

These conventional gas accumulations, first discovered by Armour in the course of drilling the Glyde 1 ST1 lateral well in August 2012, occur within the porous and permeable dolomites of the Coxco Dolomite. The Glyde 1 lateral well had encountered continuous gas flows to surface from 648 metres measured depth to the final 840 metres measured depth at a vertical depth of circa 500 metres with no water flow observed from the interval.

The permeability in the Coxco Dolomite is believed to be formed by structural brecciation and fracturing along the Emu and Tawallah Faults, together with talus or scree breccia occurring adjacent to faults and areas of solution brecciation in contact with the organic rich shale source rock of the Middle Proterozoic, Barney Creek Formation. A stratigraphic section of these formations is presented in **Figure 4**.

The targets for the Coxco Dolomite in EPs 171, 176 and 190 within the Batten Trough are located in the Glyde Sub-Basin and the Myrtle Sub-Basin to the south of McArthur River Mine with further targets to the north in the Caranbirini area (**Figures 5 and 6**). These targets are defined by surface geological studies and the extensive geophysical survey (magnetics and gravity) indicating targets with the similar geophysical and geological characteristics as the structure hosting the gas accumulation discovered by Armour in the Glyde 1 ST 1 well.

These conventional targets have an average depth of 1,200 metres and vary in size from 6 PJ to 43 PJ and total 322 PJ of risked, prospective resources, certified by DeGolyer and MacNaughton. Modelling based on the Glyde 1 ST1 flow and build up test data indicates these targets should be free flowing.

Based on realistic risking applied for discovery and development, drilling of 21 wells across these targets has the potential to generate a 2C Contingent Resource of 322 PJ of gas. A feasibility study will be undertaken to confirm the viability of and market for produced gas, in order to complete conditions precedent of a potential contract to convert this to 322 PJ to 2P reserves, plus additional resources and reserves defined. Armour continues to investigate numerous market opportunities in the area.

Armour completed detail field surveys of these targets during late March and early April. Cultural heritage clearance of many of the target areas was then completed in late April in preparation for and prior to commencement of the 2013 drill program.

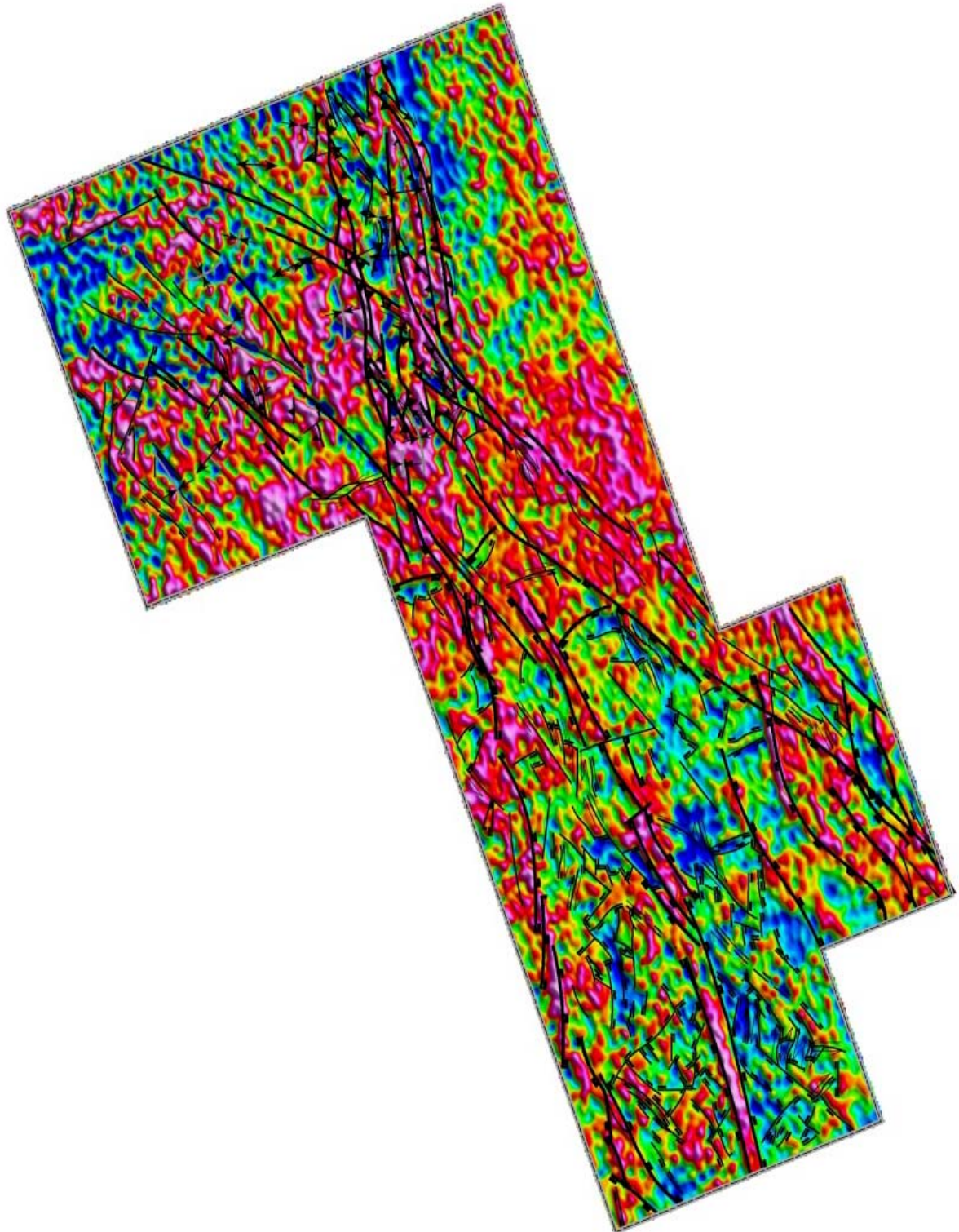


Figure 3 – Enhanced gravity survey imaging from the Glyde Sub Basin Gravity Survey completed in early January 2013

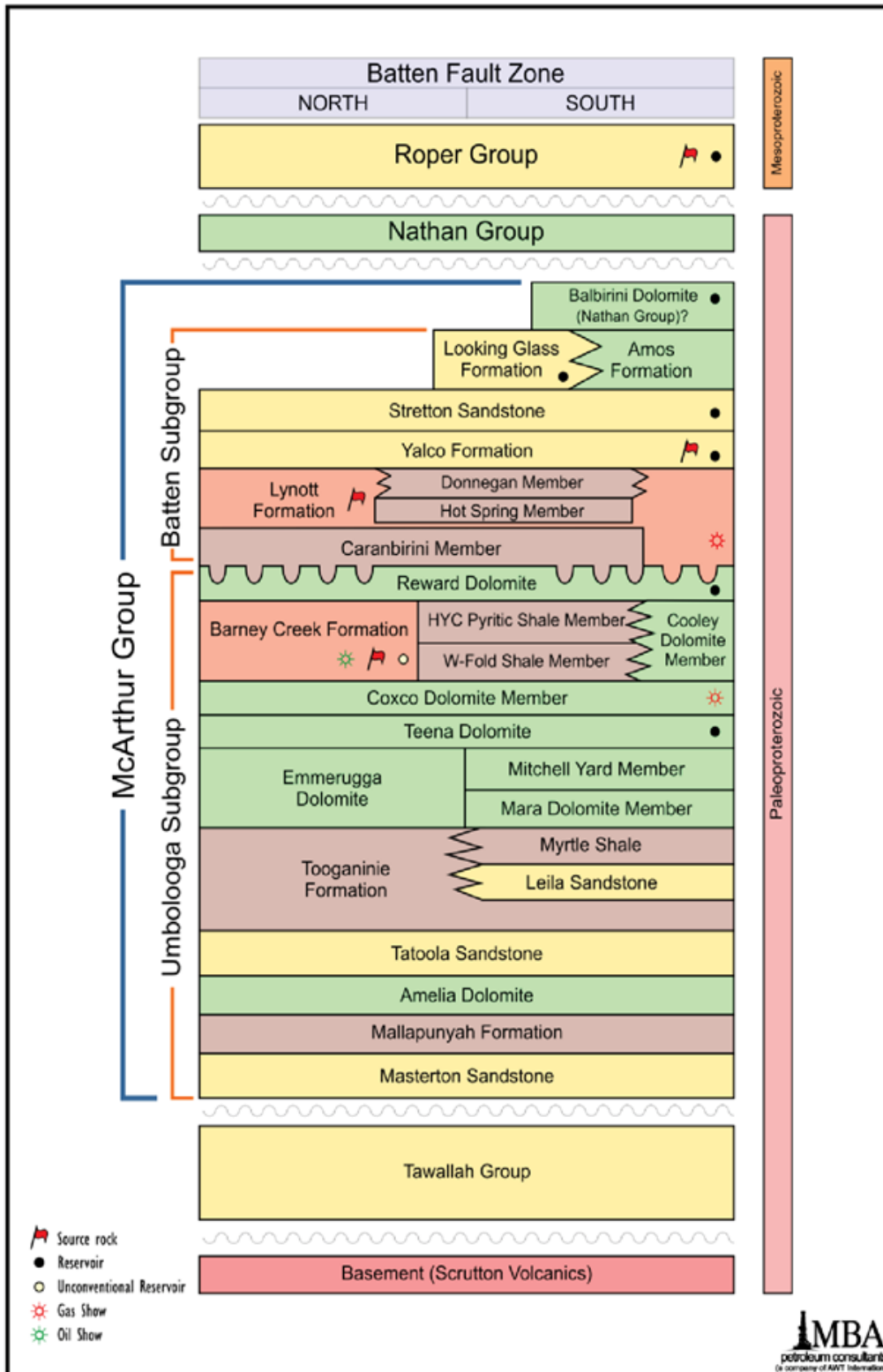


Figure 4 – Stratigraphic Section in the Batten Trough

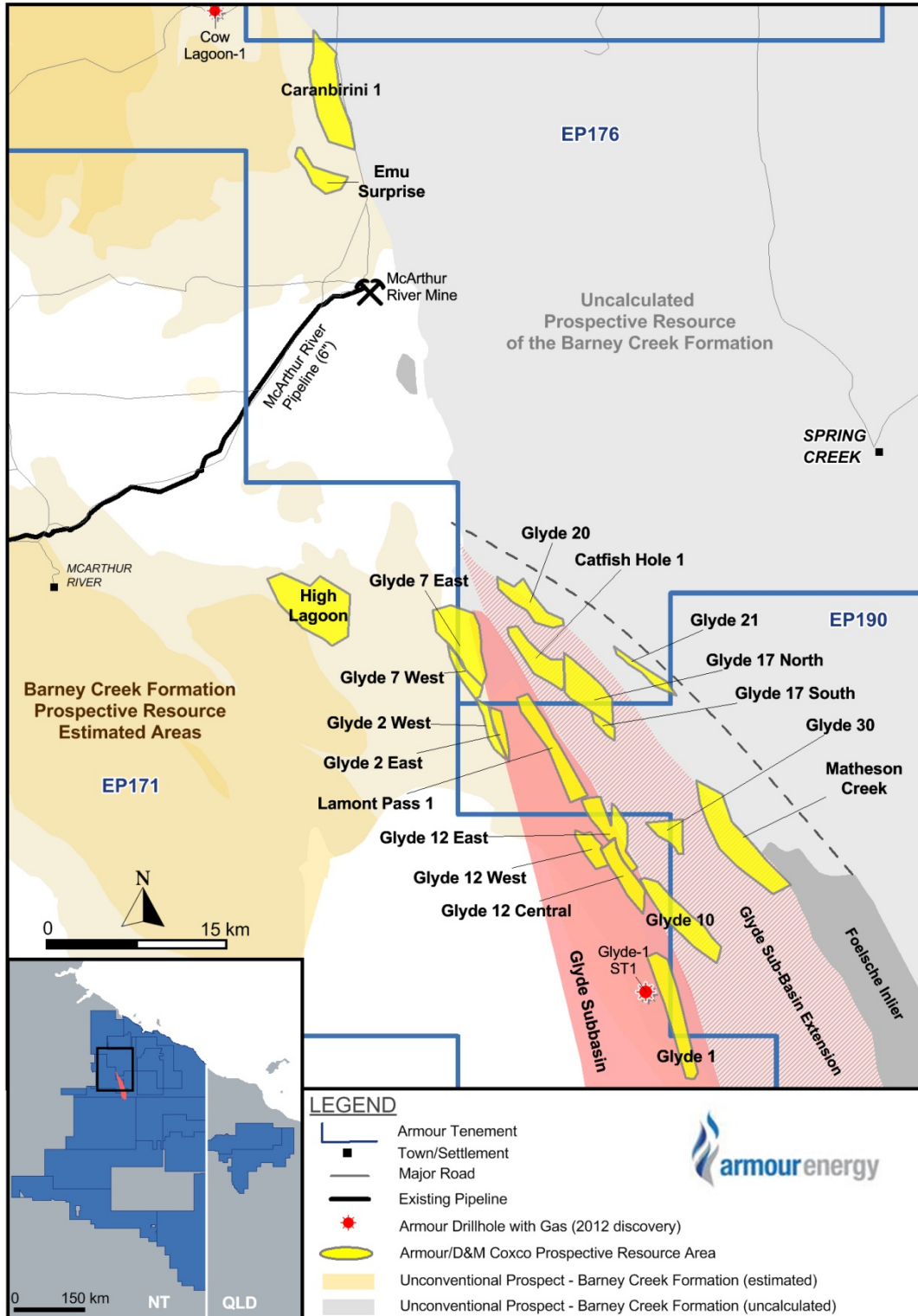


Figure 5 – Conventional and Unconventional Gas Targets in the Batten Trough Northern Territory Exploration areas also showing the Glyde 1 Lateral Well Location

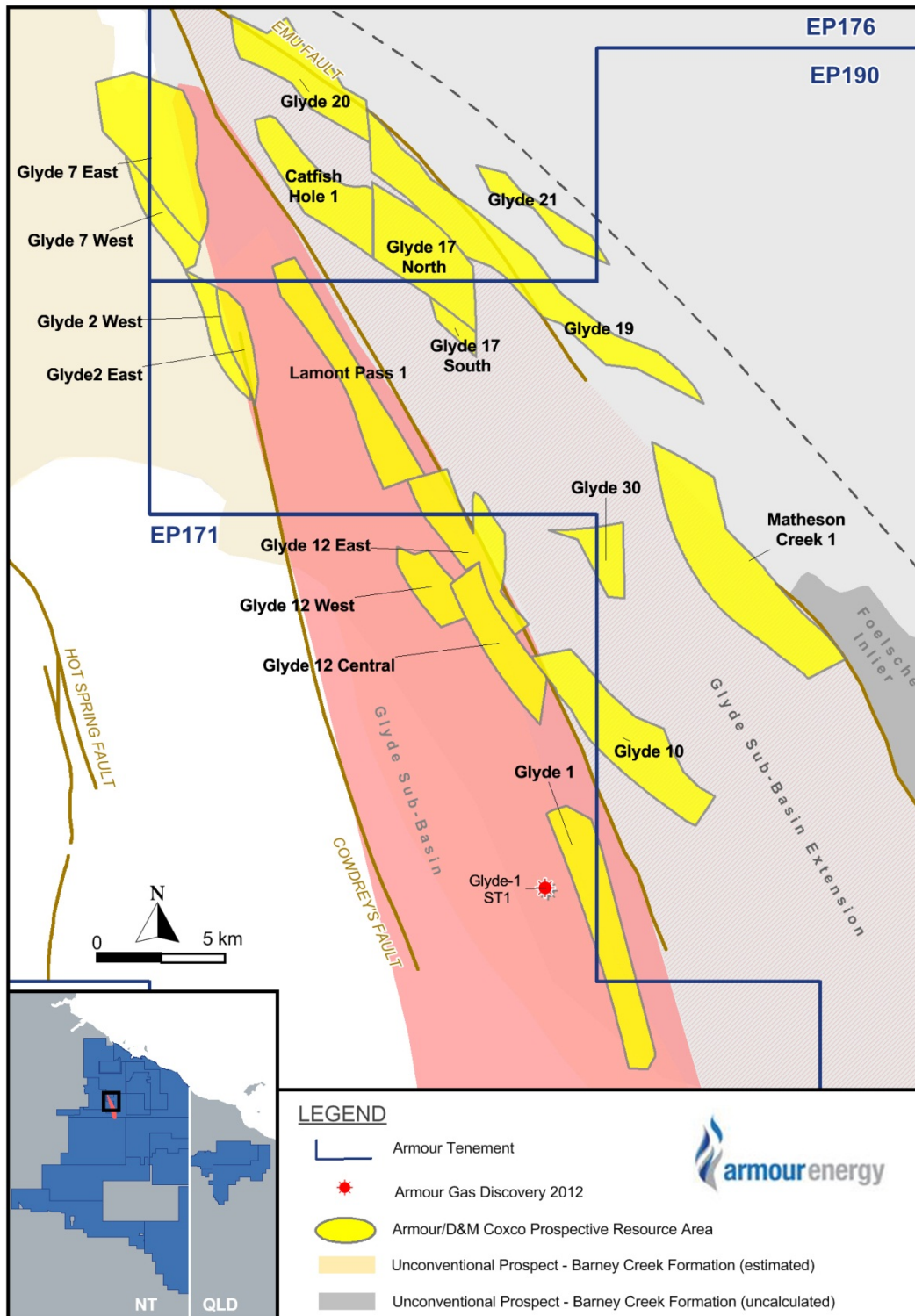


Figure 6 – Conventional Gas Targets in the Glyde Sub Basin

Third Party Independent Assessment of 264.4 Bscf (322 PJ) Mean Prospective Resources of conventional gas, unrisksed.

Armour advised on 23rd April that an independent third party assessment of conventional gas resources had been completed by well the respected resource and reserve assessors DeGolyer and MacNaughton based in Dallas, Texas.

DeGolyer and MacNaughton have estimated 264.4 Bscf (322 PJ) Mean Prospective Resources of conventional gas, un-risked (**Table 1**). This has been based on twenty-three (23) of Armour's targeted areas in the Coxco Dolomite of the Teena Formation. This is a conventional, free-flowing reservoir in the Batten Trough, McArthur Basin

This type of conventional gas accumulation was discovered by Armour in the course of drilling the Glyde 1 ST1 lateral well in August 2012 and occurs within the porous and permeable dolomites and breccia of the Coxco Dolomite.

DeGolyer and MacNaughton have prepared their Prospective Resource Estimates in accordance with the Society of Petroleum Engineers (SPE) Petroleum Resource Management System (PRMS) guidelines as of 1 April 2013.

Table 1: Estimates of Conventional Gas Prospective Resources in Coxco Dolomite, EPs 171, 176 and 190 within the Batten Trough (by DeGolyer and MacNaughton, as of 1 April 2013)

Low Estimate (Bscf)	Most Likely Estimate (Bscf)	High Estimate (Bscf)	Mean Estimate (Bscf)	Low Estimate (PJ)*	Most Likely Estimate (PJ)*	High Estimate (PJ)*	Mean Estimate (PJ)*
191.5	255.6	345.9	264.4	233.2	311.3	421.3	322.0

*Based on Glyde 1 ST1 gas chromatography data or a conversion of 1.218 GJ/Mscf

Third Party Independent Assessment of 10.3 Bscf (12.5 PJ) of 3C Contingent Resources of Conventional Gas

During the August 2012 drilling of the Glyde 1 ST1 lateral well, a series of flow tests were performed on the prospective intersection of the middle-Proterozoic aged, Barney Creek Shale and the Coxco Dolomite Formations at a measured well depth of 648-810 m and vertical depth of circa 500 m.

During 45 minutes of testing, Glyde 1 ST1 indicated a total flow on a 16/64 inch choke of 606 thousand standard cubic feet per day equivalent (Mscf/d) at 412 psi pressure. After 30 minutes of surface shut in, a pressure of 554 psi was observed providing readily analysable reservoir and pressure data. Then, after 10 minutes of further flow testing on a full open choke of 64/64 inch, the well was flowing at 3.33 million standard cubic feet per day equivalent (MMscf/d) at a pressure of 125 psi. Gas chromatography data from this interval indicated a composition of 77% Methane (C1), 11% Ethane (C2), 11% Propane (C3), 0.6% n-Butane (C4), 0.2% n-Pentane (C5) with negligible Carbon Dioxide.

Based on Armour's geological data, pressure transient analysis of the flow test, production modelling, and projected appraisal and development strategy, DeGolyer and MacNaughton have estimated a total area of 1440 acres, containing a 3C Contingent Resource volume of 10.3 Bscf or 12.5 PJ (**Table 2**). DeGolyer and MacNaughton have prepared their Contingent Resource Estimates in accordance with SPE PRMS guidelines as of 1 April 2013.

Table 2: Estimates of Conventional Gas Contingent Resources of Coxco Dolomite, Glyde 1 Target Area (1440 Acres, based on Glyde 1 ST1) within EP 171 within the Batten Trough (by DeGolyer and MacNaughton, as of 1 April 2013)

1C (Bscf)	2C (Bscf)	3C (Bscf)	1C (PJ)*	2C (PJ)*	3C (PJ)*
2.4	6.0	10.3	2.9	7.4	12.5

*Based on Glyde 1 ST1 gas chromatography data or a conversion of 1.218 GJ/Mscf

Armour Energy 2013 North Queensland Exploration Program to commence early May

On the 20th December 2012 Armour Energy advised that the Company had been granted exploration tenement ATP1087 over an area of 7138 km² (1.76 million acres) in Northern Queensland (**Figure 7**). ATP1087 covers the thick prospective sections of the petroleum rich South Nicholson and underlying Isa Super Basins.

These basins extend to the south into ATP1107 where Armour Energy is the Preferred Tenderer and to the west into Armour's Northern Territory application areas.

The target Lawn 4 Shale contains a thick, organic-rich source rock section showing up to 8% gas recorded in mud logs during drilling of four petroleum exploration wells by Comalco in the early 1990s. These wells in conjunction with substantial seismic data delineate an immediate Lawn 4 Shale exploration target area of approximately 1400 km² within the eastern area of ATP1087. A gas exploration fairway of an additional 6000 km² extends to the west across ATP1087 and south into ATP1107 (**Figure 8**).

Armour's Independent Experts have previously assessed 22.5 trillion cubic feet of mean prospective gas resource in the Proterozoic aged Lawn 4 Shale in ATP1087. Additional gas prospectivity has now also been identified by Armour in the underlying Riversleigh Shale that extends across the entire tenement.

The Company finalised selection of initial drill sites across ATP1087 during early 2013. These are located on pre-existing seismic lines. During the 2013 drilling campaign Armour proposes to drill three (3) vertical wells and one (1) lateral well targeting the Lawn 4 Shale (**Figure 10**).

The program is scheduled to start in May. The first well is proposed in the eastern area of ATP1087 adjacent to the Egilabria 1 well which recorded up to 8% gas (390 gas units) on mud logs during drilling in 1992 (**Figure 9**).

The Company is also continuing to investigate local market opportunities in the Mt Isa region to the south of ATP 1087 along with further more extensive gas market opportunities elsewhere.

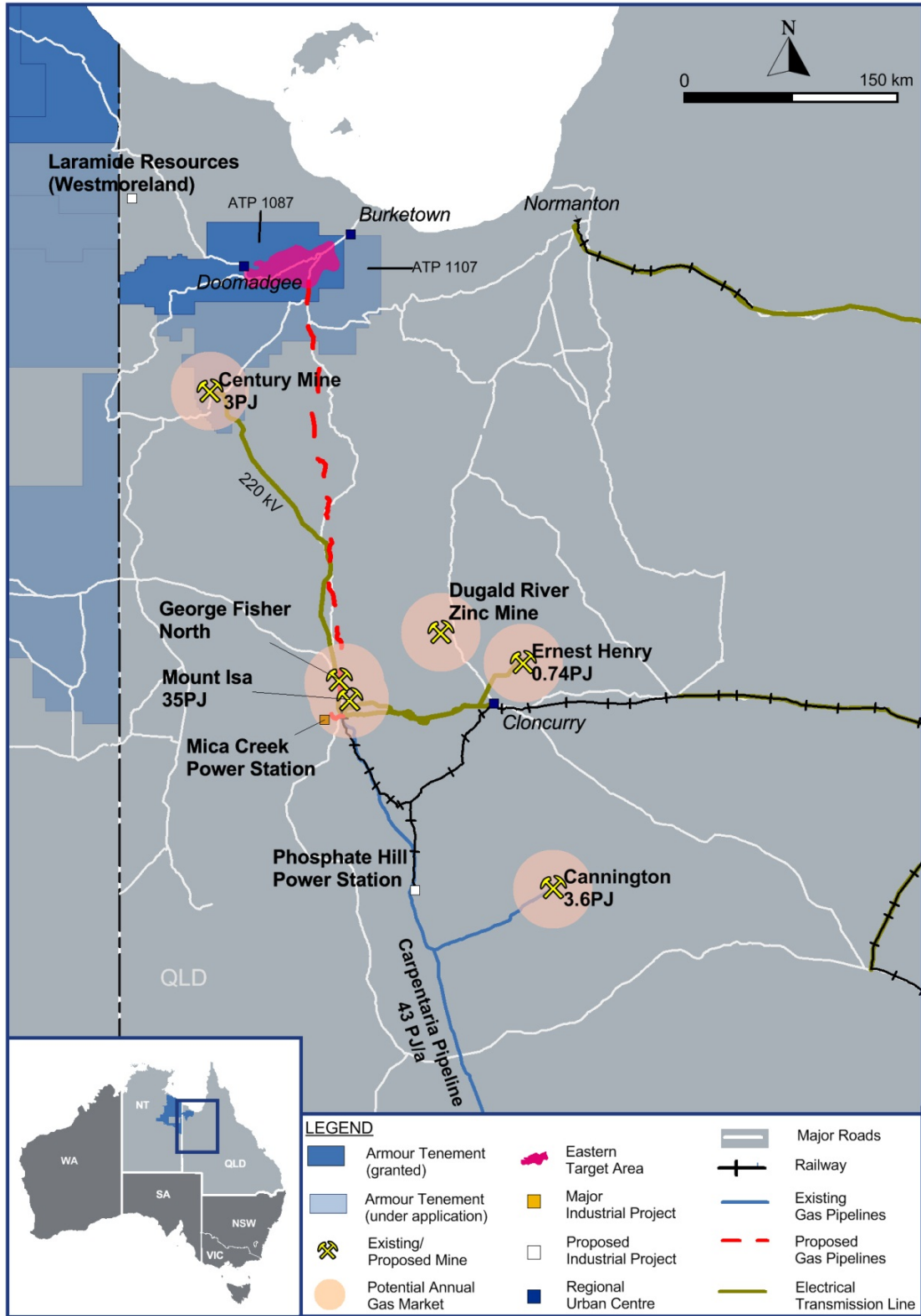


Figure 7 – Location Map – ATP1087 and ATP1107 in Queensland

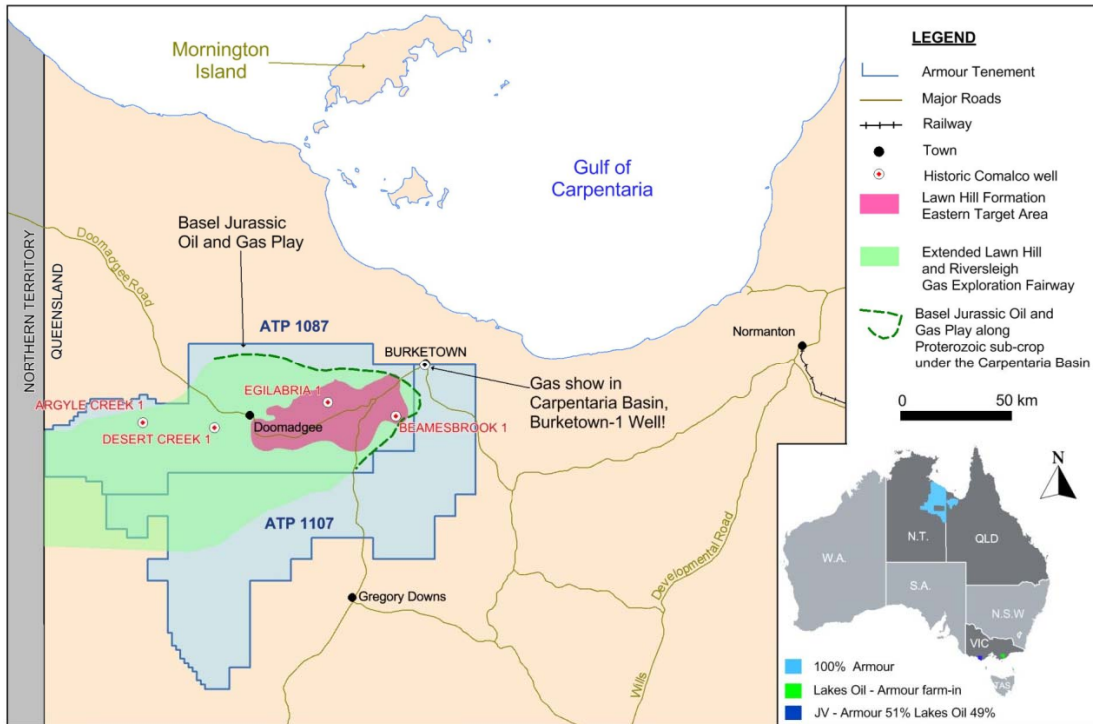


Figure 8 – Armour Energy Granted Queensland Tenement ATP1087 and ATP1107 where Armour Energy is Preferred Tenderer

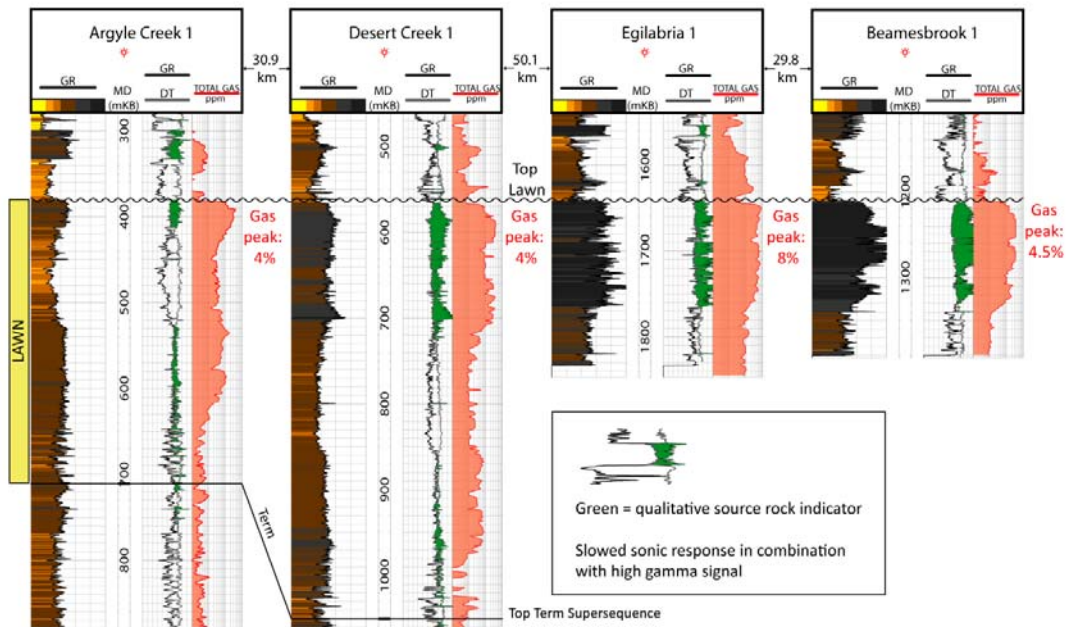


Figure 9 – 110 km west to east continuous stratigraphic section of the Lawn 4 Shale pay zone across ATP1087. The Lawn 4 Shale is up to 125 metres thick with gas shows recorded to 8% in Egilabria 1 and over 4% in Argyle Creek 1, Desert Creek 1 and Beamesbrook 1

Drilling contractor mobilised / Hydraulic Stimulation contractor engaged for 2013 Queensland Exploration Program

In early February Armour advised that a drilling contract had been finalised with Silver City Drilling in preparation for commencement of the planned 2013 exploration program in North Queensland and the Northern Territory. In late April Armour advised that the drilling contractor had been mobilised for a planned drilling commencement during early May 2013.

The Contractor will supply the services of their highly experienced drilling crews and management team along with a Schramm TX130XD drill rig and the associated spread of equipment. The drill rig is capable of drilling to a vertical depth of 2900 metres and will be equipped to drill vertical and lateral wells on both mud and compressed air.

The first well of the program will be the Egilabria 2 vertical well to a planned depth of 1750 metres. The Egilabria 2 DW1 Lateral well will then be drilled from the Egilabria 2 vertical well to a measured depth of 2360 metres to establish a 600 metre sub horizontal lateral well section within the Lawn 4 Formation. This lateral section will then be completed with casing and swelling packers to establish six (6) isolated stimulation zones (**Figure 11 and 12**).

Halliburton Energy Services have been contracted to carry out a six stage hydraulic stimulation of the Egilabria 2 DW1 well in July 2013 to test the shale gas production potential of the Lawn 4 Formation. Halliburton are a proven service provider in other Australian shale plays.

The planned hydraulic stimulation of the Egilabria 2 DW1 lateral well is designed to prove commercial gas flows and will be a key milestone in the Company's plans to define proven and probable reserves in ATP1087.

Armour Energy and its independent expert consultants believe the Lawn 4 Formation contains a prospective recoverable resource of 22 TCF of gas. Armour believes this provides potential to define up to 9 TCF of resources and reserves over the next three years. 9 TCF is sufficient gas resource to support 6 Million tonne per year of LNG production for more than 20 years.

The Egilabria 3 and Egilabria 4 vertical wells are then scheduled to follow in the program. Both of these wells are of similar depth and will test the lateral extension of the Lawn 4 Formation away from the Egilabria 2 DW1 well.

The Egilabria 4 well is also located to simultaneously test the potential of a pinch out oil and gas play at the base of the Mesozoic Carpentaria Basin which Armour believes is being sourced by the underlying Lawn 4 and Riversleigh Formations.

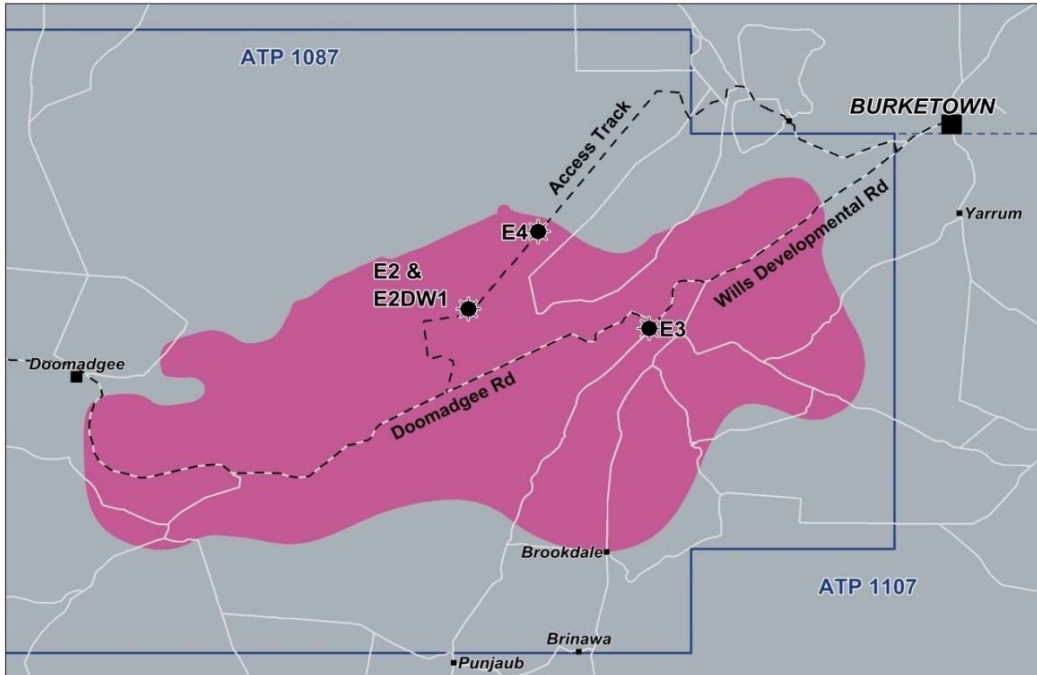


Figure 10 – Location of the 2013 Exploration Program Drill Sites within the Eastern Shale Gas target area of ATP1087

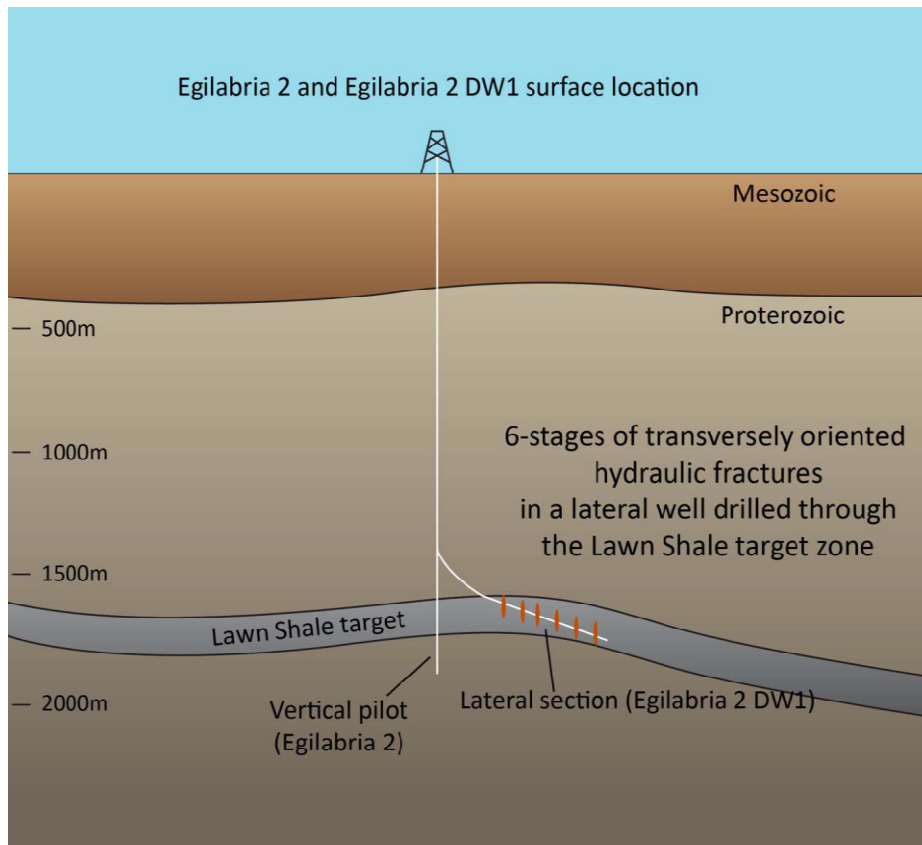


Figure 11 – Proposed Well Schematic – Egilabria 2 and Egilabria 2 DW1 Wells

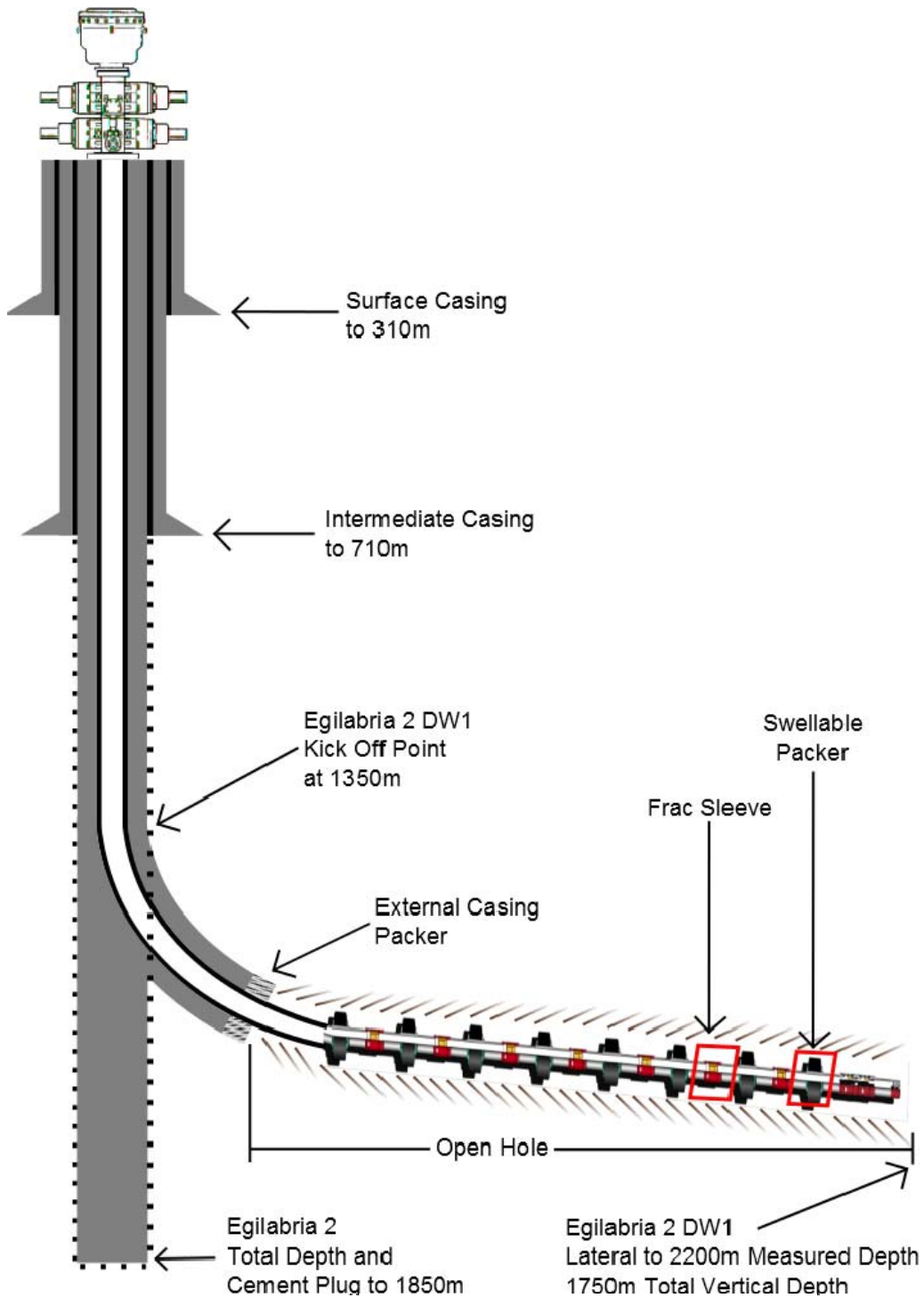


Figure 12 – Proposed configuration of the Egilabria 2 vertical and Egilabria 2 DW 1 Sub-horizontal lateral well with 6 or more intervals isolated for individual zone stimulation in the Lawn 4 Shale

Additional Riversleigh Shale Gas Upside

Armour Energy’s 2013 drilling plans also include exploration of a newly identified regionally extensive shale gas play within the Riversleigh Shale. This shale is a stratigraphic equivalent of the Barney Creek Shale in the McArthur Basin, Northern Territory over which Armour holds extensive tenements and applications.

The Riversleigh Shale has recorded significant gas shows up to 2.5% on mud logs in the Argyle Creek 1 and Desert Creek 1 wells in the western areas of ATP1087 (**Figure 13**). Should the drilling programme prove up the existence of a Riversleigh Shale Gas Play then the total potential for gas from the area will increase significantly and in combination with the Lawn 4 Shale Gas play create a regionally pervasive, stacked and continuous gas charged shale play.

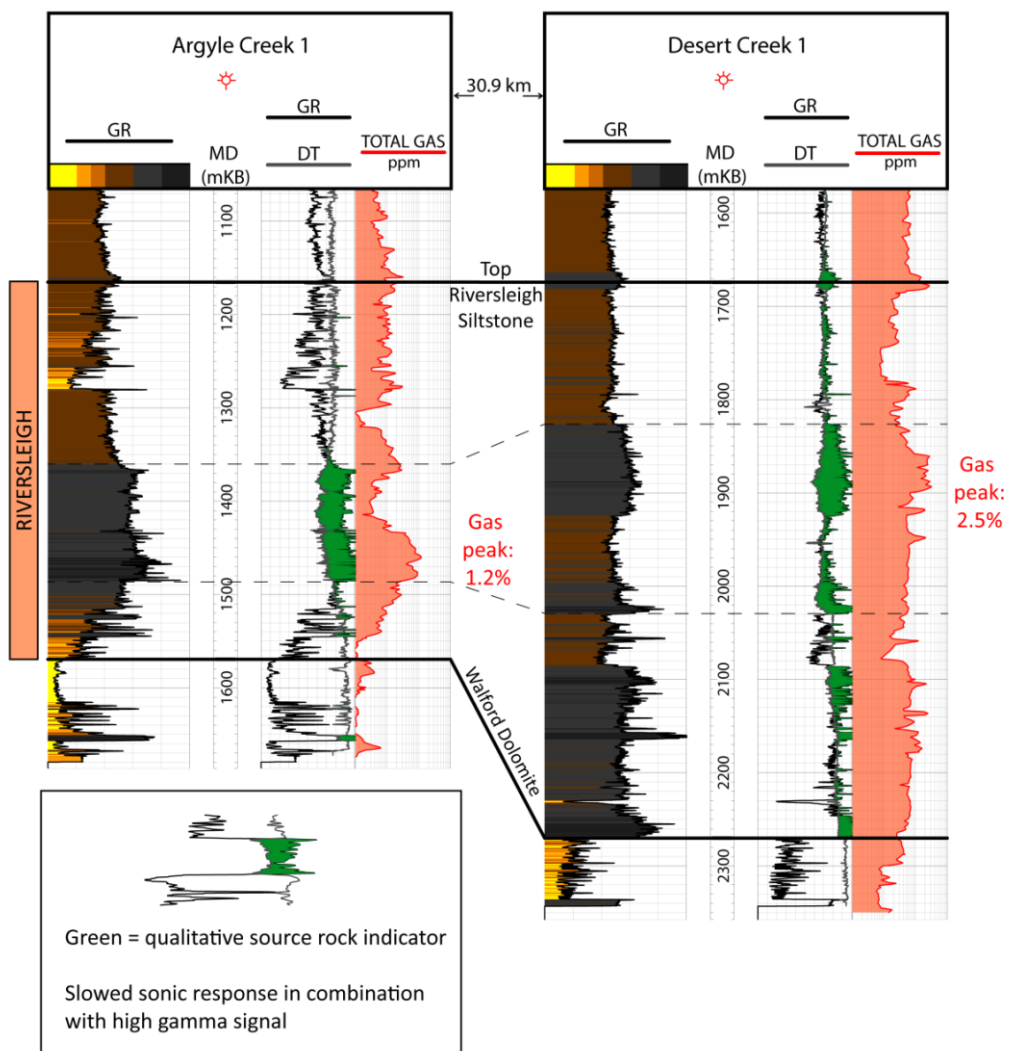


Figure 13 – Stratigraphic section of the Riversleigh Formation pay zone in ATP1087. Source rock in the Riversleigh Shale is indicated by green shading. Gas kicks up to 2.5% were observed in Desert Creek 1

Additional Oil Play in ATP1087

Based on previous oil and gas shows Armour Energy has also identified an oil and gas play in the basal Jurassic sand unit that has been confirmed in regional drilling as being porous and permeable. Armour has identified a number of leads around the Lawn 4 and Riversleigh Shale sub crops below the Carpentaria Basin (**Figure 14**). A total target of 137mmbo has been assessed.

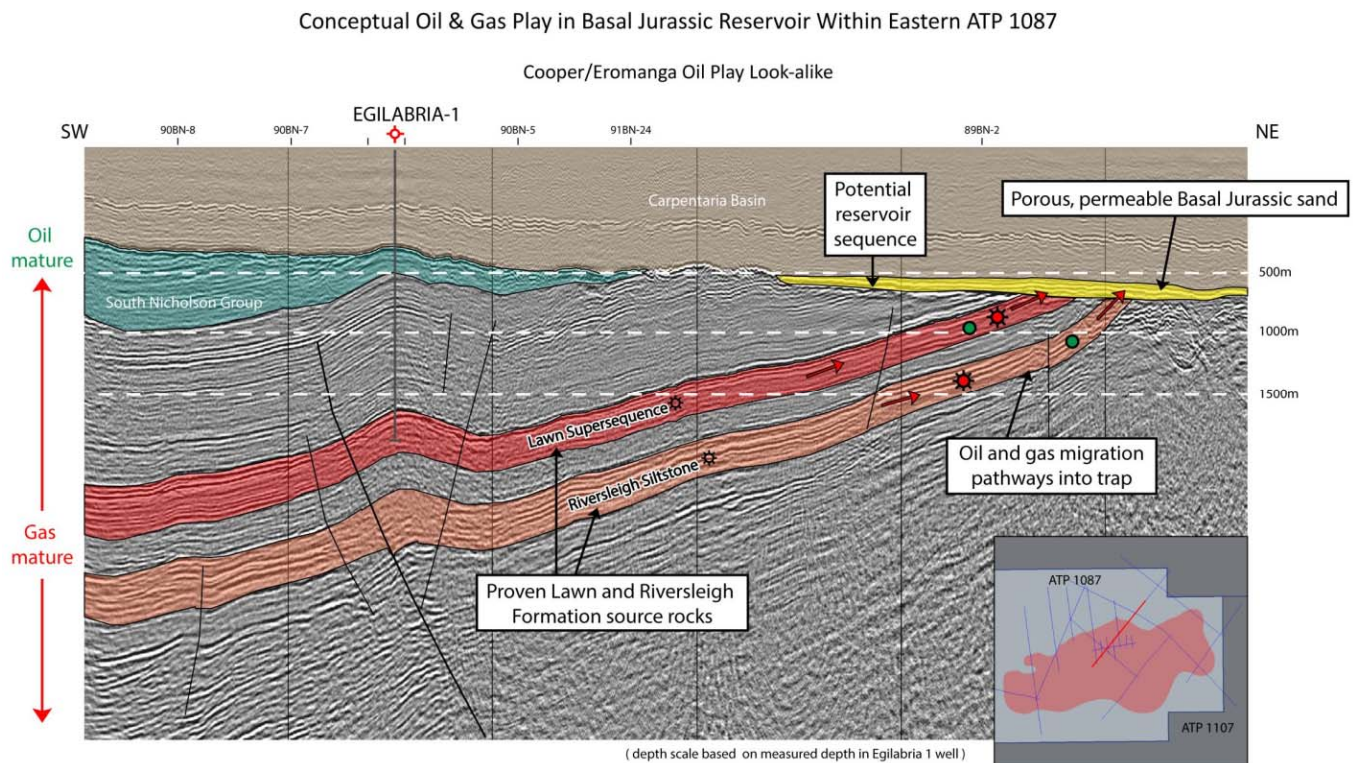


Figure 14 – Interpreted seismic section 89BN-6 showing conceptual oil and gas play within Basal Jurassic sand, sourced from Proterozoic Lawn 4 and Riversleigh source rocks

Lakes Oil Yallourn Power 1 Stratigraphic Corehole Spuds in PEP166, Gippsland Basin Victoria

Lakes Oil (LKO) has continued with drilling of the Yallourn Power - 1 Corehole located near the Yallourn Power Station within PEP166, Gippsland Basin Victoria (**Figure 15**).

The corehole is being drilled to a depth of approximately 1200 metres to test the extent, thickness and source rock potential of the Rintouls Creek Formation which may have the potential to contain oil bearing source rock at deeper locations in the central onshore Gippsland Basin.

The corehole is being drilled under the Joint Venture between Lakes Oil and Armour on a 75% / 25% basis with Armour contributing 25% of the estimated \$900,000 cost.

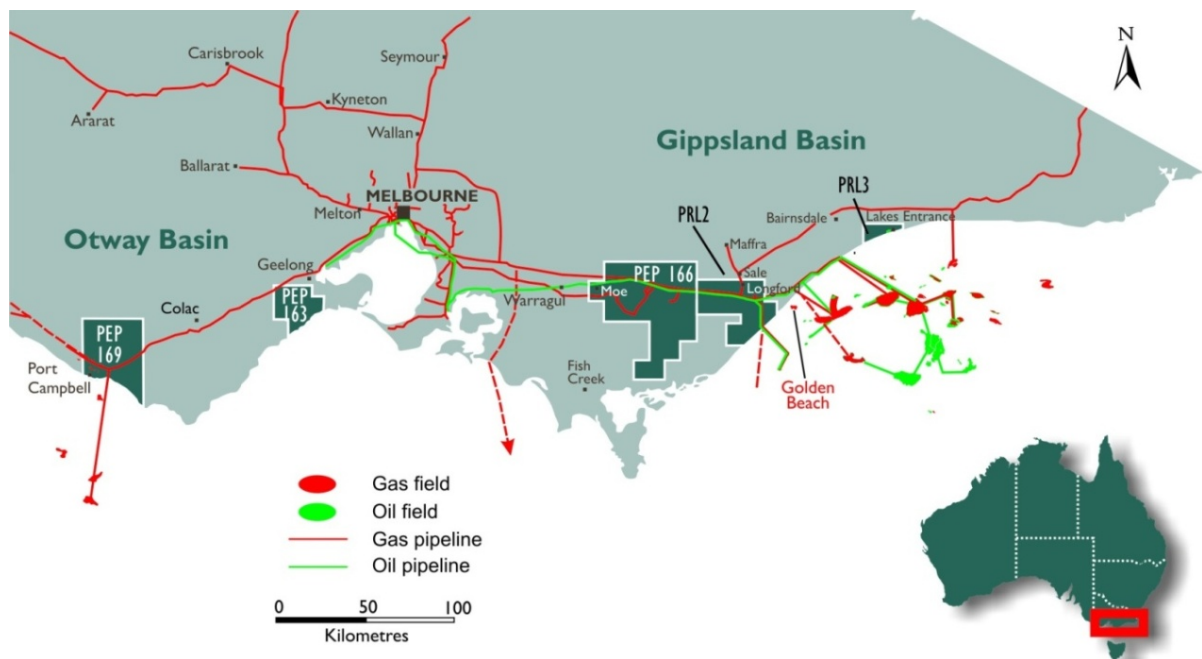


Figure 15: Location of PEP169 Otway Basin and PEP166 Gippsland Basin

About Armour Energy Limited

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

Armour Energy's permit areas are characterised by low population densities, cooperative stakeholders and aspects of the natural environment suited to the exploration and development of a future gas and liquids province. Armour places considerable importance on close liaison with traditional owners and all stakeholders and this approach has led to speedy grant of its key tenements in the Northern Territory. The Company intends to continue to invest this effort.

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

The Board of the Company includes four past Directors of Arrow Energy, and the same expansive approach to exploration and development that drove Arrow's evolution is planned for Armour Energy. The CEO Mr Philip McNamara has been involved in the development of large coal projects, including most recently as managing Director of Waratah Coal, where he was instrumental in securing \$5.5 billion of financing for the proposed development of the Galilee Basin coal projects. The Company's technical team includes a range of industry experts and seasoned professionals who have been selected to support the Board and the CEO in our goal to build Armour Energy into a significant gas exploration and development company.

Further information regarding Armour Energy Limited, its projects, management team and a copy of its Prospectus are available on the Company's website at www.armouenergy.com.au



On behalf of the Board
Karl Schlobohm
Company Secretary

The resource estimates used in this announcement 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 announcement.