# ARMOUR ENERGY LIMITED
AND CONTROLLED ENTITIES
ACN: 141 198 414

# ANNUAL REPORT 2013

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## CORPORATE INFORMATION

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### COUNTRY OF INCORPORATION
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### STOCK EXCHANGE LISTING
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### AUSTRALIAN BUSINESS NUMBER
60 141 198 414

## CHAIRMAN'S REPORT

Dear Shareholder

The past year has seen a very busy initiation of Armour Energy's intense exploration and drilling program in all three of the gas provinces in which it is involved. The company's activities coincide with an unprecedented increase in the demand for gas both internationally and within Australia. Gas is the world's most compressible, transportable and politically and environmentally acceptable form of fossil energy and we believe that the urbanisation of half of the world's population over the next 30 years will continue to fuel a demand for gas that will outstrip supply.

Recent application of tight gas extraction technologies, pioneered in the USA, have opened a window to extensive tight gas exploration development and marketing opportunities in Australia. Armour Energy is at the forefront of this effort. The potential rewards for the Company and its Shareholders are immense and Armour has carved a unique position in the Australian gas exploration industry on the basis of several key factors.

The Company holds an extensive and provincial tenement position, 100% owned over several basins in Northern Territory and Queensland and substantial interests over the onshore sector of Australia's most prolific oil and gas producing basin in Gippsland in Victoria. Your Company employs some of Australia's best, most accomplished and most experienced drilling and reservoir stimulation experts with extensive global experience in the art of tight gas exploration and extraction.

Armed with our cash resources, Armour has been able, over the past 12 months, to make several important discoveries in its project areas. Most importantly, we demonstrated the very great potential of the Proterozoic McArthur Basin in the Northern Territory to host significant conventional and unconventional gas reserves with the discovery of the Glyde 1 lateral flow of 3.3 million SCF (Standard Cubic Feet) per day. Our technical team demonstrated an enviable capability to operate and complete a lateral well in difficult circumstances. This would not have been possible without the cultivation and maintenance of strong working relationships with Traditional Owners over the project area. Since the Glyde 1 discovery, Armour has engaged a globally recognised independent certifier, DeGolyer and MacNaughton to assess the potential within the greater Glyde Area. A further 264 BCF (Billion Cubic Feet) of unrisked Mean Prospective Resources was estimated to occur in the Coxco Dolomite, within 23 conventional gas prospects.

In Queensland, again under the auspices of strong cooperative relationships with Traditional Owners Armour has successfully completed its objective of both vertical and lateral wells into the Lawn Shale, with significant gas shows, and successfully completed a multi stage hydraulic stimulation programme – just 9 months after the ATP1087 permit was granted. The Lawn Shale hosts a prognosed recoverable resource of some 22 TCF of gas. In addition, Armour's geological team has identified a further 18 TCF of targets within the underlying Riversleigh Shale in the Isa Super Basin. At the time of this report Armour has recently completed its second well in the tenement, Egilabria 4, to test gas contents, porosity and permeability of the Lawn Shale and Riversleigh Shales formations and overlying conventional gas targets in the younger Mesozoic aged Carpentaria Basin. Armour is excited by the potential offered in this project area and our extensive and clean ownership. Armour believes the area to hold potential for the definition of reserves sufficient to support the export of 6 million tonnes per annum of LNG.

Our commercial development programmes are focusing particularly on mid-stream gas transportation arrangements and downstream gas sales arrangements. These are all conditional on project feasibility however I am pleased that through the year Armour entered a conditional agreement with APA to ultimately install gas pipelines to effect the delivery of up to 330 Petajoules per annum to North Queensland customers and Gladstone based LNG producers.

During the year the Company appointed Mr Robbert de Weijer as CEO taking over from Armour's originating CEO, Mr Phil McNamara. Mr McNamara was instrumental in the $75.0 million IPO and listing of Armour Energy on the ASX, securing key tenements in Queensland and Northern Territory and the negotiation of key agreements with Traditional Owners and his valuable contribution to the Company is acknowledged. Mr de Weijer has some 25 years of international oil and gas experience and successfully led a number of very large operations within Shell International in the Middle East and North Sea. Pleasingly, at the time of writing, Armour is now operational simultaneously at 3 well sites - Egilabria 2 and 4 and Myrtle Basin 1 in the McArthur Basin in the Northern Territory.

## CHAIRMAN'S REPORT (continued)

The development of Armour's operational capability has required the dedication and focus of many talented personnel; a team which is growing rapidly. On behalf of the board I take this opportunity to express our gratitude to all the Armour staff and contractors and look forward to a year of further positive developments. Lastly and most importantly I wish to thank you, as Armour's Shareholders and Investors, for your support and faith in our ability to ultimately deliver on Armour's exciting strategy to emerge as a significant Australian gas Production Company.

Yours sincerely

Nicholas Mather
Executive Chairman

## REVIEW OF OPERATIONS

## COMPANY STRATEGY

Armour Energy is focused on the discovery and development of world class gas and associated liquids resources in an extensive hydrocarbon province in northern Australia which was first discovered in the early 1990s. This region has only recently had its shale potential identified by Armour Energy. Today's business environment with strong domestic and global demand for gas, domestic gas prices trending towards LNG netback, combined with proven shale extraction technologies and world class personnel, provides the Company with an extraordinary opportunity to define and ultimately develop a major new gas province.

Armour Energy's permit areas in northern Australia, which are all 100% owned, are characterised by low population densities, cooperative stakeholders and a natural environment suited to the exploration and development of a major future hydrocarbon province.

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

## OPERATIONAL HIGHLIGHTS

<u>Northern Territory</u>

- After successful shows and flows at the Cow Lagoon 1 well, Armour Energy estimates that the Greater Cow Lagoon structure holds a Mean Prospective Resource of 100.4 BCF (Billion Standard Cubic Feet) in the Lynott and Reward Formations.
- Glyde 1 ST1 lateral well drilled and intersected a gas bearing zone and flow tested up to 3.33 million cubic feet per day equivalent at 125 psi pressure after 10 minutes on a 1 inch choke.
- A 1,642 square kilometres Airborne Gravity and Magnetic survey completed over the Glyde and Myrtle Sub-Basins and adjoining areas of the Batten Trough in EPs 171, 176 and 190.
- Third party independent resource assessor DeGolyer and MacNaughton estimates 264.4 BCF or 322 Petajoules (PJ) of unrisked Mean Prospective Resources in the Coxco Dolomite, a free-flowing reservoir in the Batten Trough, McArthur Basin, associated with twenty-three (23) conventional gas prospects.
- Third party independent resource assessor DeGolyer and MacNaughton estimates 10.3 BCF or 12.5 PJ of 3C Contingent Resources relating to the successful Glyde 1 and Glyde 1 ST1 discovery wells in the Coxco Dolomite.
- EP 174 and EP 190 granted in the Northern Territory covering a total area of 17,160 square kilometres (4.24 million acres).

<u>Queensland</u>

- ATP 1087 granted in Queensland covering an area of 7,138 square kilometres (1.76 million acres).
- ATP 1087 2013 exploration program commenced as part of a 3 year campaign to define up to 9 TCF (Trillion Cubic Feet) of gas resources and reserves from the Lawn Hill Formation.
- Egilabria 2 vertical well drilled to evaluate the gas flows from a vertical section of the target shale in the Lawn Hill Formation.
- Additional plays and leads identified in ATP 1087 for potential large Riversleigh Shale gas accumulations and conventional gas and liquids in four trap types.

<u>Victoria</u>

- Lakes Oil Yallourn 1 core hole drilled in PEP 166 to test source rock potential of the Rintouls Creek Formation.

## CURRENT CORPORATE PROFILE

Armour Energy made its ASX debut on 26 April 2012, having successfully raised $75,000,000.

The Company currently has the following capital structure:

| | |
|---|---|
| Shares on Issue | 300,587,196 (221,050,000 currently quoted) |
| Listed Options ($0.50 to 31.08.2014) | 92,400,000 (57,687,500 currently quoted) |
| Unlisted Options (various prices and dates) | 23,900,000 |
| Performance Shares | 805,000 |
| Performance Rights | 625,000 |

Armour Energy is focused on the discovery and development of gas and associated liquids resources in Northern Australia where in the Northern Territory it now holds four granted exploration permits EP 171, 174, 176 and EP 190 along with an additional eleven applications for exploration permits in the Northern Territory (Figure 1). At the time of publication EP(A) application tenements 191 and 192 are in process of stamping and issue. When those tenements are granted, Armour will have 53,399 square kilometres of granted tenements in the NT, with a further 65,471 square kilometres under application in the NT.

In Queensland the Company is the holder of granted tenement ATP 1087 (7,138 square kilometres) and the preferred tender applicant for ATP 1107 (7,931 square kilometres) in the Gulf of Carpentaria region of North Queensland (Figure 1).

At the time of publication, Armour Energy holds an 18.6% interest in ASX-listed Lakes Oil NL (ASX: LKO) on a fully diluted basis, and is progressing the exploration and development of gas and associated liquids resources in the Otway and Gippsland Basins in Victoria (Figure 18). This will be achieved through the Company's farm-in agreements with Lakes Oil where it has now become entitled to a 51% ownership interest and operatorship of PEP 169 (Otway Basin) and a 25% ownership interest in 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 PRL2 covering the Trifon, Gangell, and Wombat gas fields; 25% of the balance of PRL 2; and rights to earn a 50% interest in PRL 2 under certain conditions.

| Resource summary | NT | QLD |
|---|---|---|
| Conventional ▸ Contingent | 2.4 Bcf 1C, 6.0 Bcf 2C, 10.3 Bcf 3C | |
| Conventional ▸ Prospective | Mean 264.4 Bcf | |
| Unconventional ▸ Prospective | Mean 18.8 Tcf 2.0bn bbl condensate | Mean 22.5 Tcf |

| Permit status | NT | QLD |
|---|---|---|
| Granted or preferred tenderer | EP171, EP176. EP174, EP190 Granted 28,665 km² *(21.4% of total area)* | ATP1087 Granted 7,138 km² ATP 1107 Preferred tenderer 7,943km² *(11.3% total area)* |
| Pending grant | 13 (6 ALRA, 7 Native Title) 90,204km² *(67.3% of total area)* | |

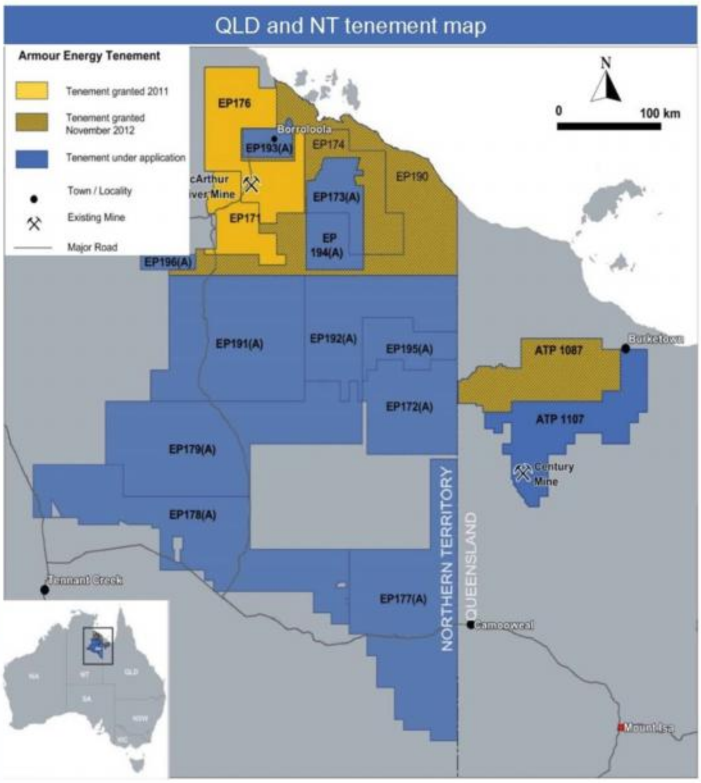


**Figure 1: Location map of Armour Energy's granted exploration permits and application areas in Northern Australia**

REVIEW OF OPERATIONS (continued)

## NORTHERN TERRITORY HIGHLIGHTS

### Cow Lagoon Resource Estimate

On 17 July 2012, after further evaluation of the Cow Lagoon 1 well log and seismic data, Armour Energy reported that Cow Lagoon 1 was part of the Greater Cow Lagoon structure in EP 176 estimated to contain a Mean Prospective Resource Estimate of 100.4 BCF, unrisked, in the Lynott and Reward Formations.

### Glyde Resource Estimate

On 30 October 2012, Armour Energy reported than an in-house resource assessment of the Glyde 1 ST1 well had been completed regarding the gas resource potential of the Coxco Formation in the EP 171 portion of the Glyde Sub-Basin. This assessment estimated a Mean Prospective Gas Resource of 130.7 BCF, unrisked, in the EP 171 portion of the Glyde Sub-Basin.

At the same time, the Company reported the discovery of a gas accumulation in the Barney Creek. This was based on the presence of a 132 metre thick zone of highly carbonaceous, naturally-fractured, gas-charged, Barney Creek Shale, in the Glyde 1 vertical well, which also demonstrated flows and shows while air-drilling. This report further substantiates the estimated Mean Prospective Resource of 11.2 TCF for the Barney Creek Shale in EP 171, assessed by MBA Petroleum Consultants as of 20 March 2012 (Armour Energy, Replacement Prospectus, Independent Expert's Report, as of 20 March 2012, pg. 109-146).

The Glyde Sub-Basin extends for approximately 50 kilometres in a North South direction in the region (Figures 7 and 8) and has been the source of repeated gas shows through previous minerals exploration drilling. Evaluation of drilling and flow testing data from the Glyde 1 ST1 lateral well and Glyde 1 vertical well, along with mineral hole data collected by Amoco during the late-1970s to early-1980's indicates the Glyde 1 ST1 lateral well penetrated part of a covered fault bounded structural high, later confirmed with the airborne gravity survey.

On 12 February 2013, the Company reported that that the combination of ongoing in-house 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 Prospective Resources in the Coxco Dolomite member of the Teena Formation, risked for exploration and development success.

These 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 7 and 8). They range at an average depth range of 1,200 metres and vary in size from 6 to 43 PJ. Based on the free flowing nature of the Glyde 1 ST1 lateral well test and buildup results, the Company has forward modeled the Coxco as a conventional free-flowing reservoir target in the Batten Trough, McArthur Basin.

On 24 April 2013, Armour Energy reported that DeGolyer and MacNaughton estimated 264.4 BCF Mean Prospective Resources, unrisked, on twenty-three (23) of Armour's targeted areas in the Coxco Dolomite of the Teena Formation, a conventional, free-flowing reservoir in the Batten Trough, McArthur Basin.

Based on Armour's geological data, pressure transient analysis of the Glyde 1 ST1 flow test, production modeling, and projected appraisal and development strategy, DeGolyer and MacNaughton were able to estimate a total area of 1440 acres, containing a 3C Contingent Resource volume of 10.3 BCF or 12.5 PJ (Table 2), the full details of which were released to the market on 24 April 2013.

### Glyde 1 Vertical Well

The Glyde 1 vertical well drill site was located 300 metres from the location of the gas flow discovery that was made in 1979 by Amoco Minerals in their GR 79-9 well when exploring for lead-zinc deposits in the Glyde Sub-Basin of the Batten Trough, McArthur Basin. The 1979 gas flow occurred from a brecciated section of the Coxco Dolomite located immediately below the Barney Creek Shale at approximately 500 metres depth.

## REVIEW OF OPERATIONS (continued)

### Glyde 1 Vertical Well (continued)

The well was spudded on 27 July 2012, and intersected a continuous vertical section of 132 metres of black, gas-charged, naturally-fractured, Barney Creek Shale before intersecting the Coxco Dolomite Member of the Teena Formation with gas flows and shows during air drilling and connections.

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 Butane (C4) and Pentane (C5), based on gas chromatography. Carbon Dioxide levels were negligible and no water was encountered during drilling of the well.

The 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 geophysical logging. These data along with continuous gas readings for 132 metres 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 79-9 well, drilled in 1979.

### Glyde 1 ST1 Lateral Well

The Glyde 1 ST1 lateral well, was side track drilled out of the Glyde 1 vertical well at a depth of 280m to a near horizontal inclination where it intersected the Coxco Dolomite near the subsurface location of the GR 79-9 well at a measured depth (MD) of 840 metres, or 500 metres true vertical depth (TVD). The well encountered gas bearing formations and continuous gas flows to surface within the lateral in zone section extending from 648 to 840 metres MD.

Flow tests were performed on the prospective intersection of the middle-Proterozoic aged Barney Creek Shale and the Coxco Dolomite Formations in this lateral section. After 45 minutes of testing the total flow on a 16/64 inch choke from the Glyde 1 lateral well was 606 thousand cubic feet per day equivalent rate at 412 psi pressure. A 30 minute surface shut in pressure of 554 psi was observed after flowing on a 16/64 inch choke. After 10 minutes of testing on a 16/64 inch choke with a full open choke of 64/64 inch, the Glyde 1 lateral well was flowing at 3.33 million cubic feet per day equivalent rate at a pressure of 125 psi. (Figure 3)

Gas concentrations remained high throughout the drilling of the dolomites and dolomitic shales encountered until drilling was terminated. 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 is based on gas chromatography during drilling of the interval. No water flow was observed from this interval.

The well was terminated as a result of high gas flows at the MD of 840 metres on 13 August 2012, with the well orientated close to a horizontal trajectory at TVD of approximately 500 metres. A full suite of geophysical logs were then collected from the well, then the well was cased, cemented back to surface from above the Coxco, and a temporary cement plug placed inside the casing. This allowed the company to temporarily suspend the well awaiting final completion, cleanup, and production testing (Figure 4) the well in conjunction with future rig mobilisations to drill and test additional Glyde Basin targets.

### Exploration Permits EP174 and EP190 granted in the Northern Territory

On 13 December 2012, Armour Energy advised that the Company had been granted Exploration Permit (EP) 174 covering 4,340 square kilometres and EP 190 covering 12,820 square kilometres in the Northern Territory (Figure 1). The granting of EP 174 and EP 190 more than doubled Armour Energy's contiguous granted tenement coverage over targeted Proterozoic shale plays in the McArthur Basin from 11,505 square kilometres to 28,665 square kilometres. The granting of this additional area further increased the size of the prospective Glyde Sub-Basin within Armour's granted tenements to 1300 square kilometres in the Batten Trough of the McArthur Basin (Figure 5).

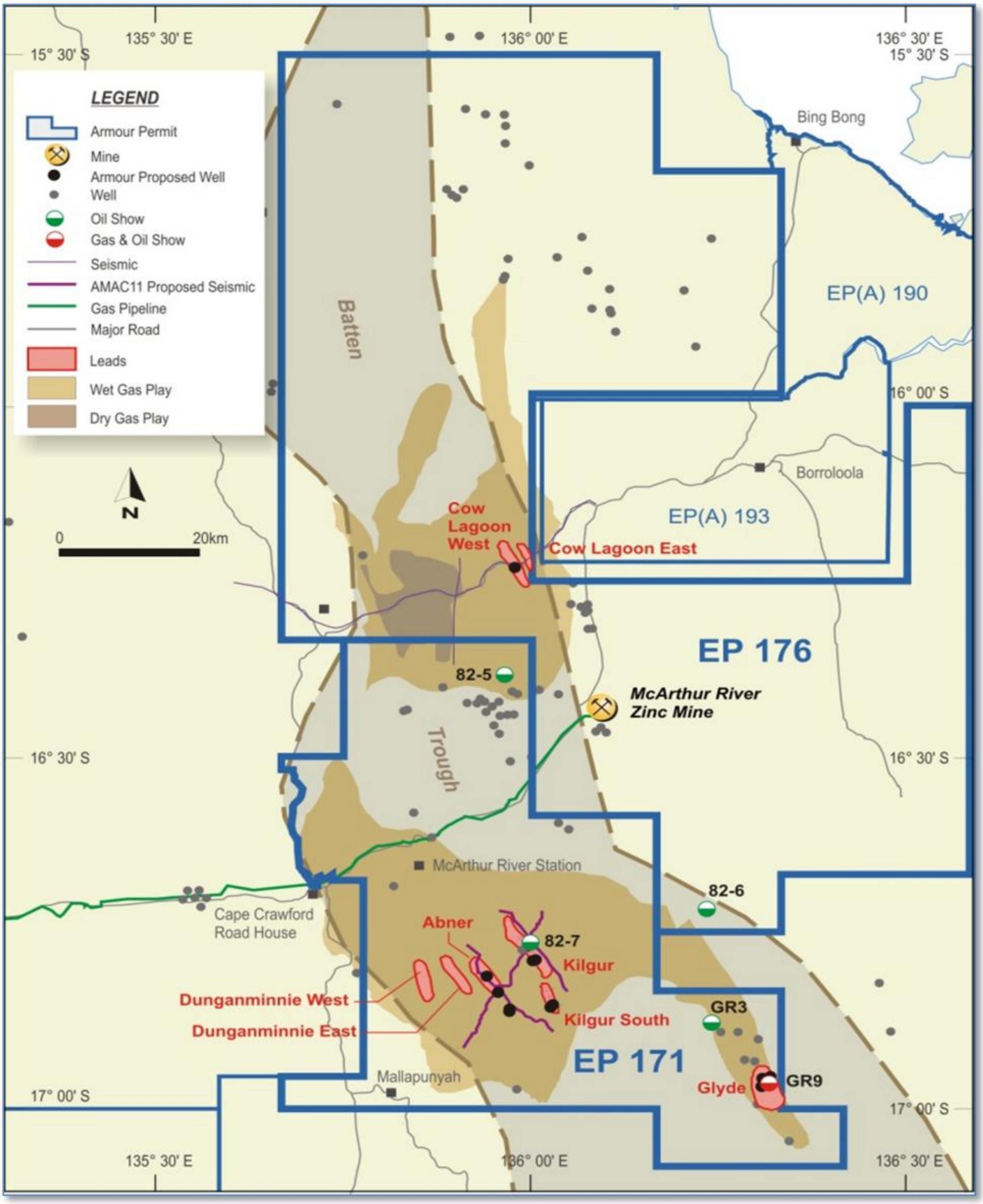


**Figure 2: Location Map – Cow Lagoon 1, Kilgour 1 and Glyde 1 and ST1 well locations within EP 171 and EP 176 in the Batten Trough, Northern Territory**

## Glyde 1 ST1 Lateral Well (continued)

**Figure 3: Gas flare during testing at Glyde 1 lateral well**

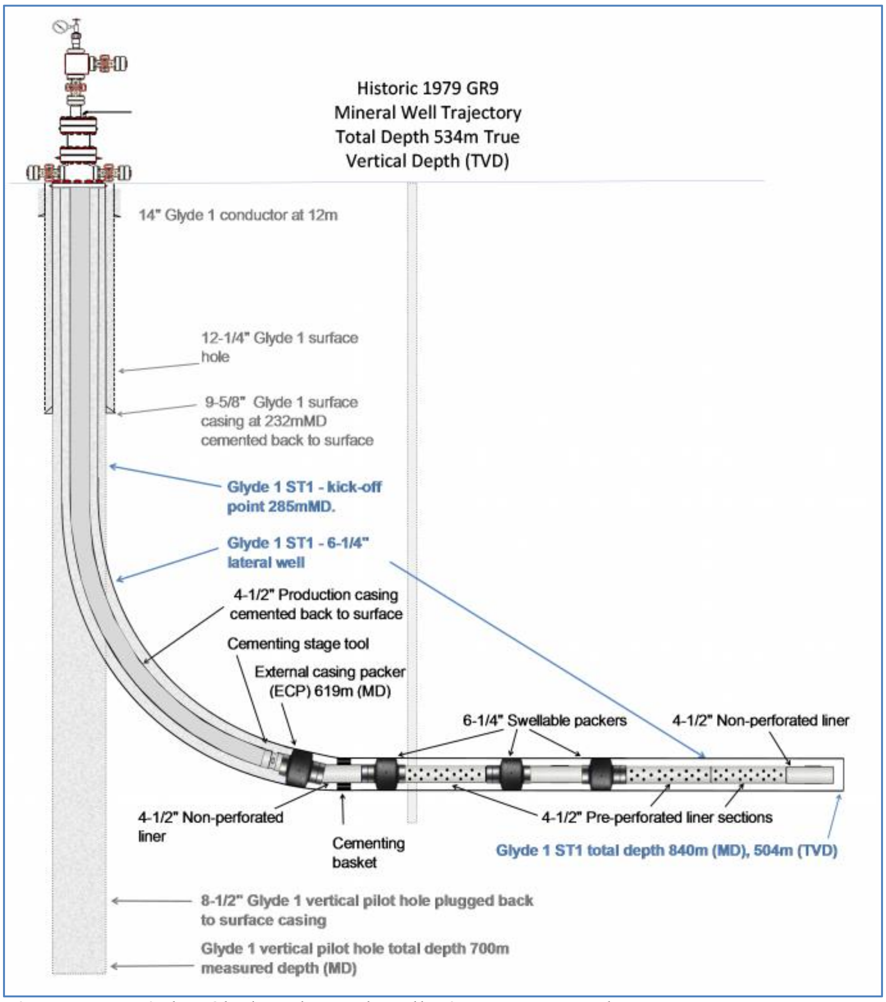


**Figure 4: Configuration of the Glyde 1 lateral well after casing and cementing awaiting completion and production testing**

### 1,642 square kilometres Glyde Sub-Basin Airborne Gravity and Magnetic Survey

In early January 2013, an airborne gravity gradiometer, magnetic and digital terrain survey at 400 metre line spacing was flown by airborne geophysical contractor Fugro Geophysical over a selected 1,642 square kilometres portion of the Glyde and Myrtle Sub-Basins of the Batten Trough. The survey aimed to identify subsurface structures similar to the Glyde 1 ST1 gas flow discovery and other high priority targets in the Barney Creek Shale and Coxco Dolomite. The location of the Glyde Sub-Basin and area of the airborne survey within Armour's EP 171, 176 and 190 exploration tenements as shown in Figure 5.

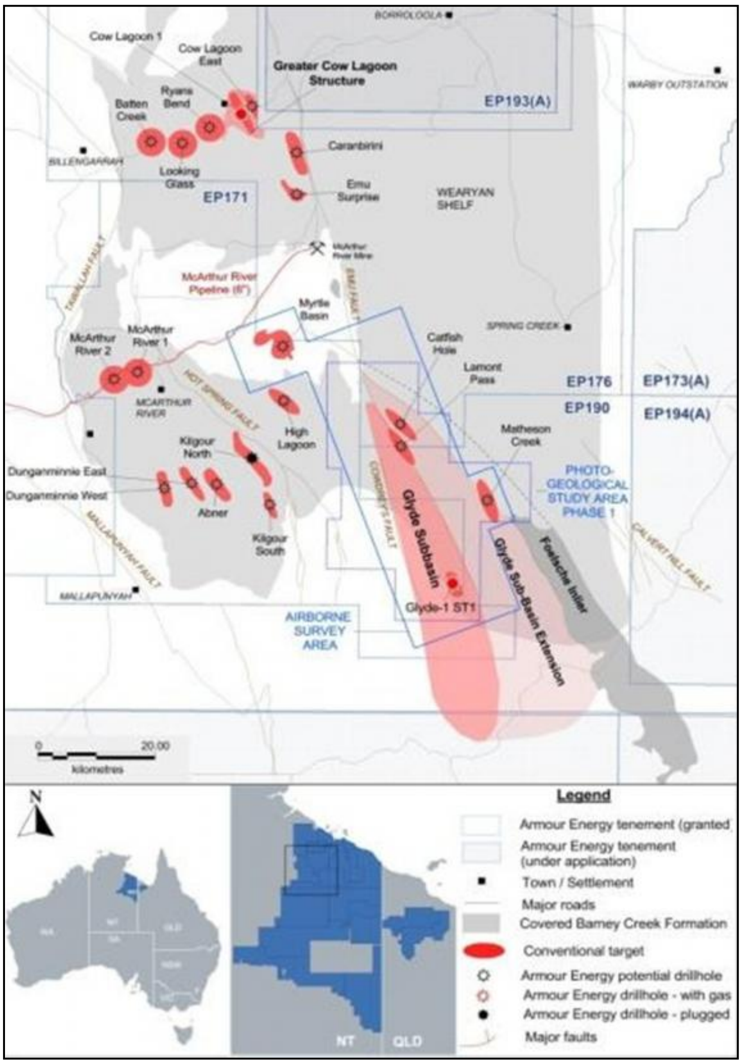


**Figure 5: Location of the Glyde Sub Basin with airborne survey area of Armour's EP 171, 176 and 190 tenements**

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. The Company 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 6. The red and purple coloured areas indicate areas of a high rate of gravity variations, or 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.

**1,642 square kilometres Glyde Sub-Basin Airborne Gravity and Magnetic Survey (continued)**

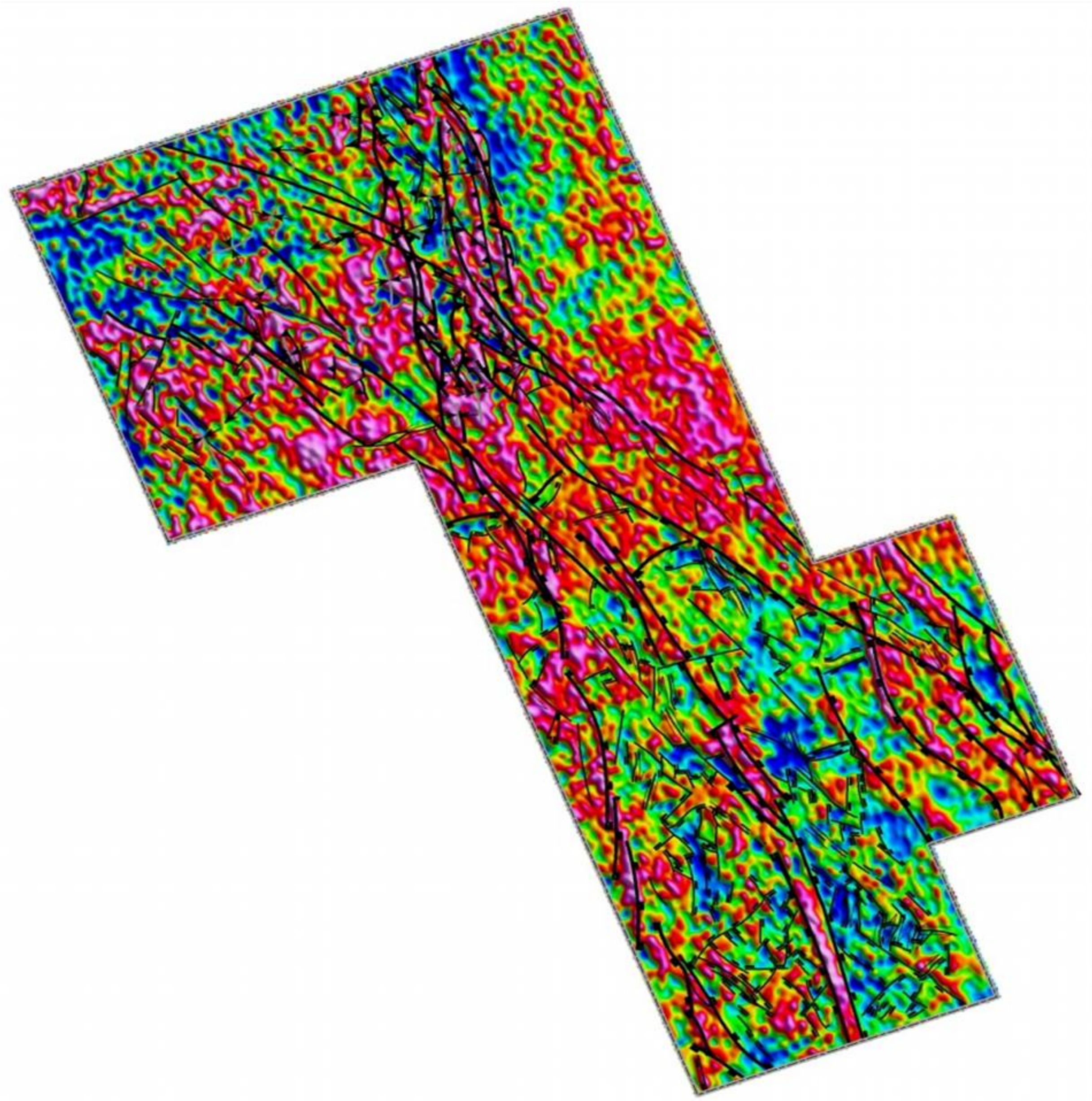

**Figure 6: Enhanced gravity survey imaging from the Glyde Sub Basin gravity survey completed in early January 2013**

## REVIEW OF OPERATIONS (continued)

**Unconventional and Conventional Discoveries and Resource Assessments**

On 30 October 2012, Armour Energy reported that an in-house resource assessment of the Glyde 1 ST1 well had been completed regarding the gas resource potential of the Coxco Formation in the EP171 portion of the Glyde Sub-Basin. The Company's in-house assessment estimated a Mean Prospective Gas Resource of 130.7 BCF in the EP 171 portion of the Glyde Sub-Basin.

At the same time, the Company reported the discovery of a gas accumulation based on the presence of a 132 metre thick zone of highly carbonaceous, naturally-fractured, gas-charged, Barney Creek Shale, in the Glyde 1 vertical well, which also demonstrated flows and shows while air-drilling. This report provides further substantiated the estimated Mean Prospective Resource of 11.2 TCF for the Barney Creek Shale in EP 171, assessed by MBA Petroleum Consultants as of 20 March 2012 (Armour Energy, Replacement Prospectus, Independent Expert's Report, as of 20 March 2012, pg. 109-146).

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On 12 February 2013, the Company advised that that the combination of ongoing in-house 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 Prospective Resources in the Coxco Dolomite member of the Teena Formation, risked for exploration and development. These 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 7 and 8). They range at an average depth range of 1,200 metres and vary in size from 6 PJ to 43 PJ. Based on the free flowing nature of the Glyde 1 ST1 lateral well test and buildup results, the Company has forward modeled the Coxco as a conventional free-flowing reservoir target in the Batten Trough, McArthur Basin.

Ultimately, a total of twenty-three 23 conventional gas prospects were further assessed by DeGolyer and MacNaughton and estimated to contain 264.4 BCF or 322 PJ of unrisked Mean Prospective Resources in the Coxco (Table 1).

Based on Armour Energy's geological data, pressure transient analysis of the Glyde 1 ST1 flow test, production modeling, and projected appraisal and development strategy, DeGolyer and MacNaughton estimated a total area of 1440 acres, containing a 3C Contingent Resource volume of 10.3 BCF or 12.5 PJ (Table 2), the full details of which were released to the market on 24 April 2013.

**Remaining 2013 Program**

The Company 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. The Company is planning two to three wells in the remainder of 2013 to continue to grow Prospective and Contingent Resources from this highly prospective Coxco Dolomite play in the Batten Trough, Northern Territory.

Armour Energy continues to investigate numerous market opportunities in the area.

## REVIEW OF OPERATIONS (continued)

### Remaining 2013 Program (continued)

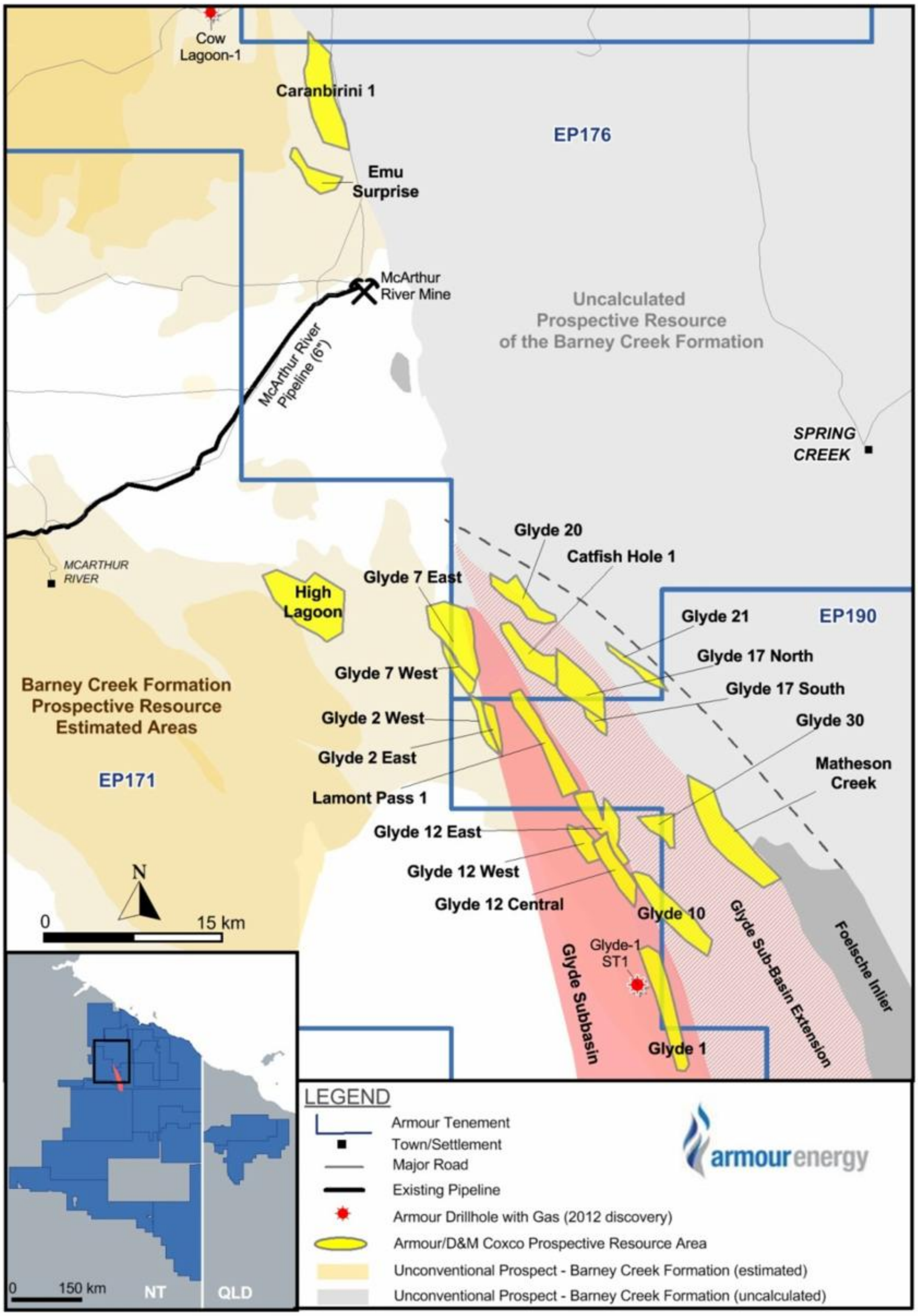


**Figure 7: Conventional and unconventional gas targets in the Batten Trough, Northern Territory exploration areas, also showing the Glyde 1 lateral well location**

**Remaining 2013 Program (continued)**

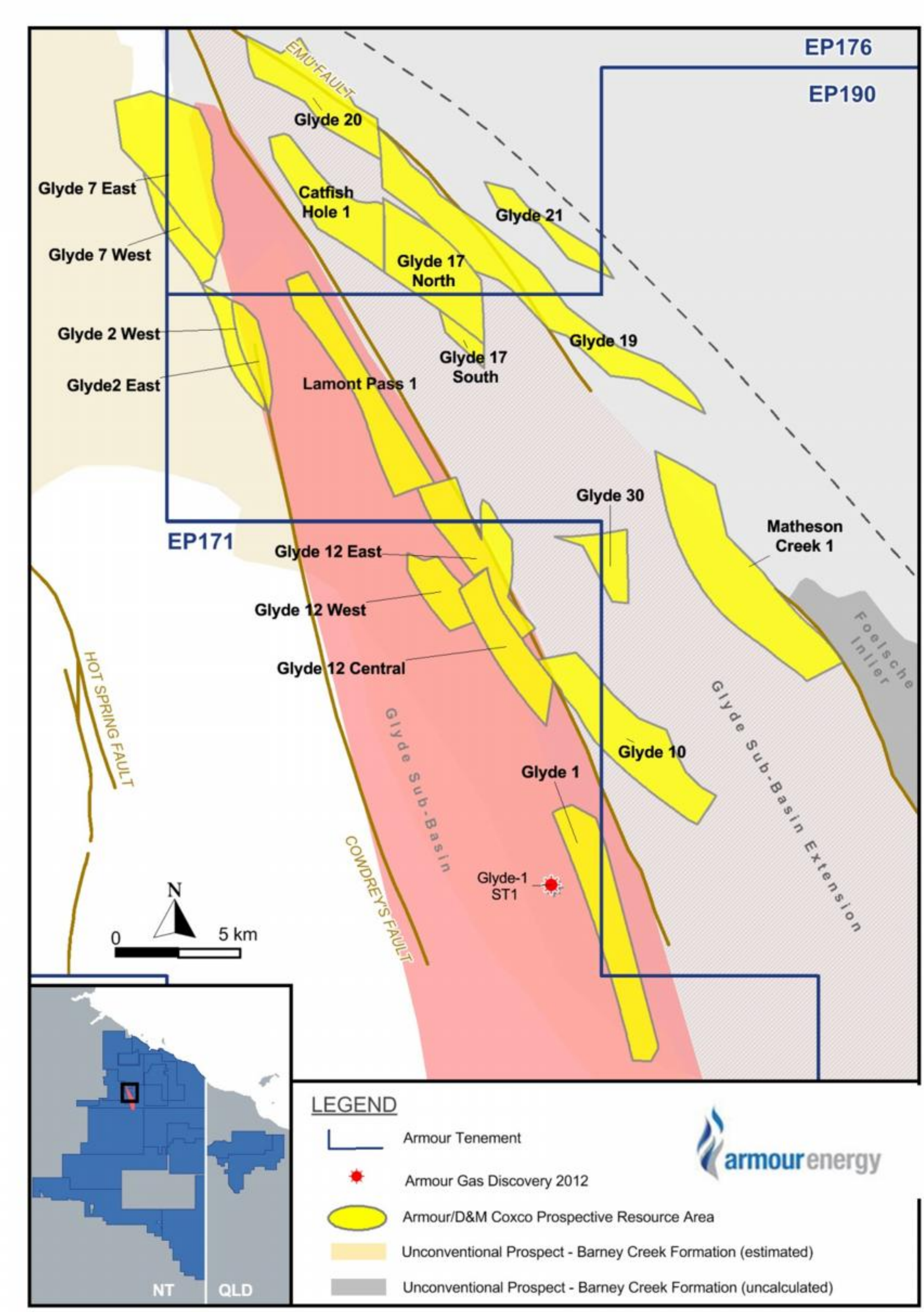


**Figure 8: Conventional Coxco Dolomite gas targets in the Glyde Sub Basin**

## REVIEW OF OPERATIONS (continued)

### Remaining 2013 Program (continued)

**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 (BCF) | Most Likely Estimate (BCF) | High Estimate (BCF) | Mean Estimate (BCF) | 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

**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 (BCF) | 2C (BCF) | 3C (BCF) | 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

## QUEENSLAND HIGHLIGHTS

### Armour Energy Granted ATP 1087

On 20 December, 2012, Armour Energy reported that the Company had been granted exploration tenement ATP 1087 over an area of 7,138 square kilometres (1.76 million acres) in Northern Queensland (Figure 9). ATP 1087 covers the thick prospective sections of the petroleum rich South Nicholson and underlying Isa Super Basins. These basins extend to the south into ATP 1107 where Armour Energy is the Preferred Tenderer, and to the west into Armour's Northern Territory application areas.

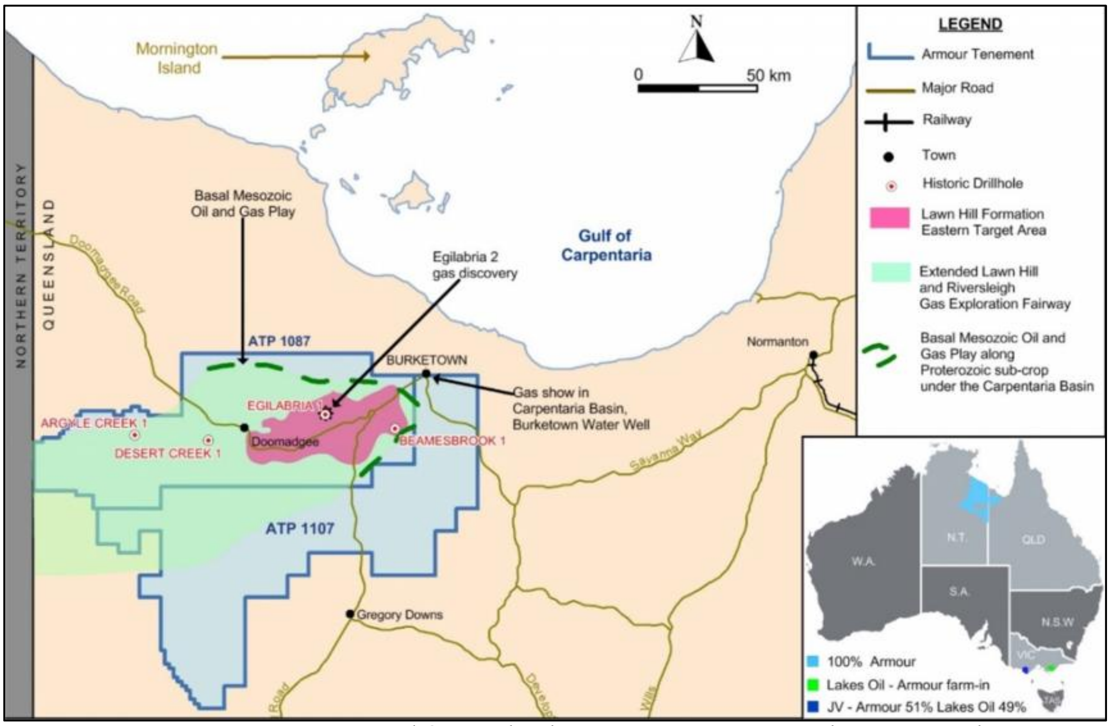


**Figure 9: Armour Energy granted Queensland tenement ATP 1087 and ATP 1107 where Armour Energy is preferred tenderer.**

**Armour Energy Granted ATP 1087 (continued)**

The target Lawn Hill Shale contains a thick, organic-rich source rock section showing up to 8% gas (Egilabria 1 well) as 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 Hill Shale exploration target area of approximately 1,400 square kilometres within the eastern area of ATP 1087. A gas exploration fairway of an additional 6,000 square kilometres extends to the west across ATP 1087 and south into ATP 1107 (Figure 9).

The Company's Independent Experts, MBA Petroleum Consultants, previously assessed 22.5 TCF of Mean Prospective Gas Resource in the Proterozoic aged Lawn Supersequence, hosting the Lawn Shale in ATP 1087, as of 20 March 2012 (Armour Energy, Replacement Prospectus, Independent Expert's Report, as of 20 March 2012, pg. 109-146). Additional gas prospectivity has now also been identified by the Company in the underlying Riversleigh Shale that extends across the entire tenement.

**2013 ATP 1087 Exploration Program**

During the 2013 drilling campaign Armour plans to drill two vertical wells and one lateral well targeting the Lawn Hill Shale. The first well was located in the eastern area of ATP 1087 nearby the Egilabria 1 well which recorded up to 8% gas (390 gas units) on mud logs during drilling in 1992 (Figure 10).

The primary target for Armour's aggressive drilling program over the next three years is to define up to 9 TCF of gas resources and reserves from the Lawn Hill Shale Play in eastern area of ATP 1087 (Figure 10). This is a sufficient gas volume to supply a 6 million tonne per annum Liquefied Natural Gas (LNG) project for a period of 25 years. The Company is also investigating local market opportunities in excess of 65 PJ's of gas fired energy per annum along with the potential for export LNG opportunities.

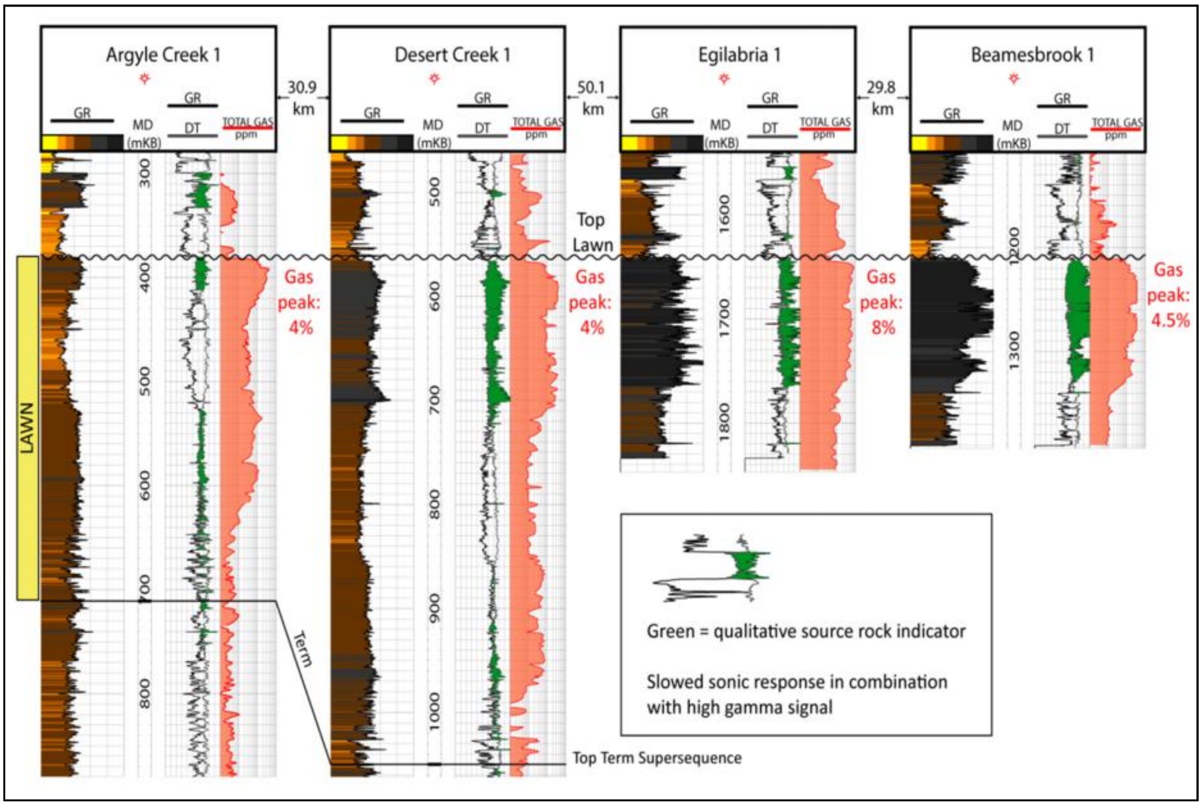


**Figure 10: The Lawn Hill Shale is up to 125 metres thick with gas shows recorded to 8% in Egilabria 1 and over 4% in Argyle Creek 1, Desert Creek 1 and Beamesbrook 1.**

**Egilabria 2 Vertical Well**

The Egilabria 2 vertical well was spudded on 12 May 2013. The well is located within the Company's 100% owned Queensland tenement ATP 1087, as indicated below in Figure 11. The objectives for the well were to drill vertically through the Lawn Supersequence and a depth below the Lawn Shale in order to evaluate the gas flows through and below the target Lawn Shale.

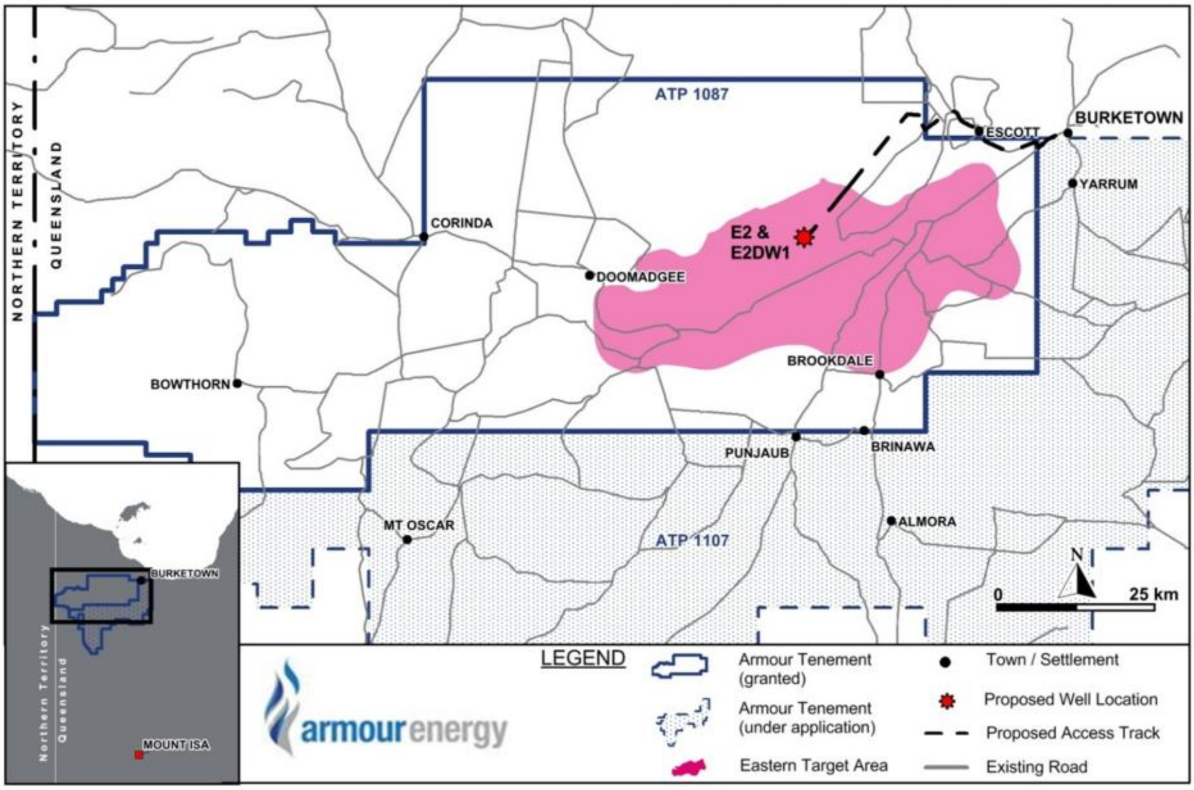


**Figure 11: Location of Egilabria 2 well site within ATP 1087, Queensland.**

First gas was detected in the well at 425 metres while running into the well, and again at 502 metres, with peaks of 900 units (approximately 18%) of gas. An average background gas level of 25 units was detected while drilling on mud from 502 to 545 metres. This indicates that the South Nicholson Group has capacity to store hydrocarbons in tight sandstone reservoirs that are likely fractured.

While drilling on mud from 550 to 635 metres depth through the interbedded sandstones and siltstones within the South Nicholson Group, the background gas averaged 120 units (2.4%) of predominantly methane with peaks up to 200 units. At 635 metres depth, the mud weight was increased and background gas readings were reduced to 20 units as a result of the higher mud pressure but gradually increased to 70 units at the intermediate casing depth of 743 metres. Within the South Nicholson Group, a gas peak of 591 units was observed while running into the hole at 699 metres and was predominantly methane with 2348 ppm helium.

On 28 June 2013, a gas zone was penetrated in the Doomadgee Supersequence of the Isa Super basin at 1097 meters. Immediate gas to surface produced an 8 meter long flare from a peak gas show of 1417 units (238,400 ppm or approximately 23.8%) (Figure 12, photo of flare). The gas was predominately methane with traces of ethane, propane, helium and negligible carbon dioxide. Gas log readings for Egilabria 2 were showing less than 1 unit of background gas before the gas flare. In the nearby historic Egilabria 1 well (drilled by Comalco in 1991) an increase in background gas to just 16 units (3000 ppm or approximately 0.3%) accompanied the intersection of the same gas bearing rock unit.

## REVIEW OF OPERATIONS (continued)

**Egilabria 2 Vertical Well (continued)**

**Figure 12: Eight metre long burning gas flare from gas show at 1098 metres in Armour's Egilabria 2 well, ATP 1087 North Queensland.**

Drilling of the well continued into July, terminating at a total depth at 1900 metres. The well penetrated the bottom of the target Lawn Shale at 1810 metres, 65 metres lower than forecast, confirming a highly prospective Lawn Shale target interval on logs of 137 metres, approximately 12 metres thicker than the 125 metres expected based on Egilabria 1 (Figure 13).

Gas was continuously detected in excess of 800 metres from the approximate interval of 1091 metres to 1900 metres total depth. Numerous gas shows and gas flares were encountered within this interval, including a flare at 1519 metres (Figure 14), and are summarised in Table 3.

## REVIEW OF OPERATIONS (continued)

**Egilabria 2 Vertical Well (continued)**

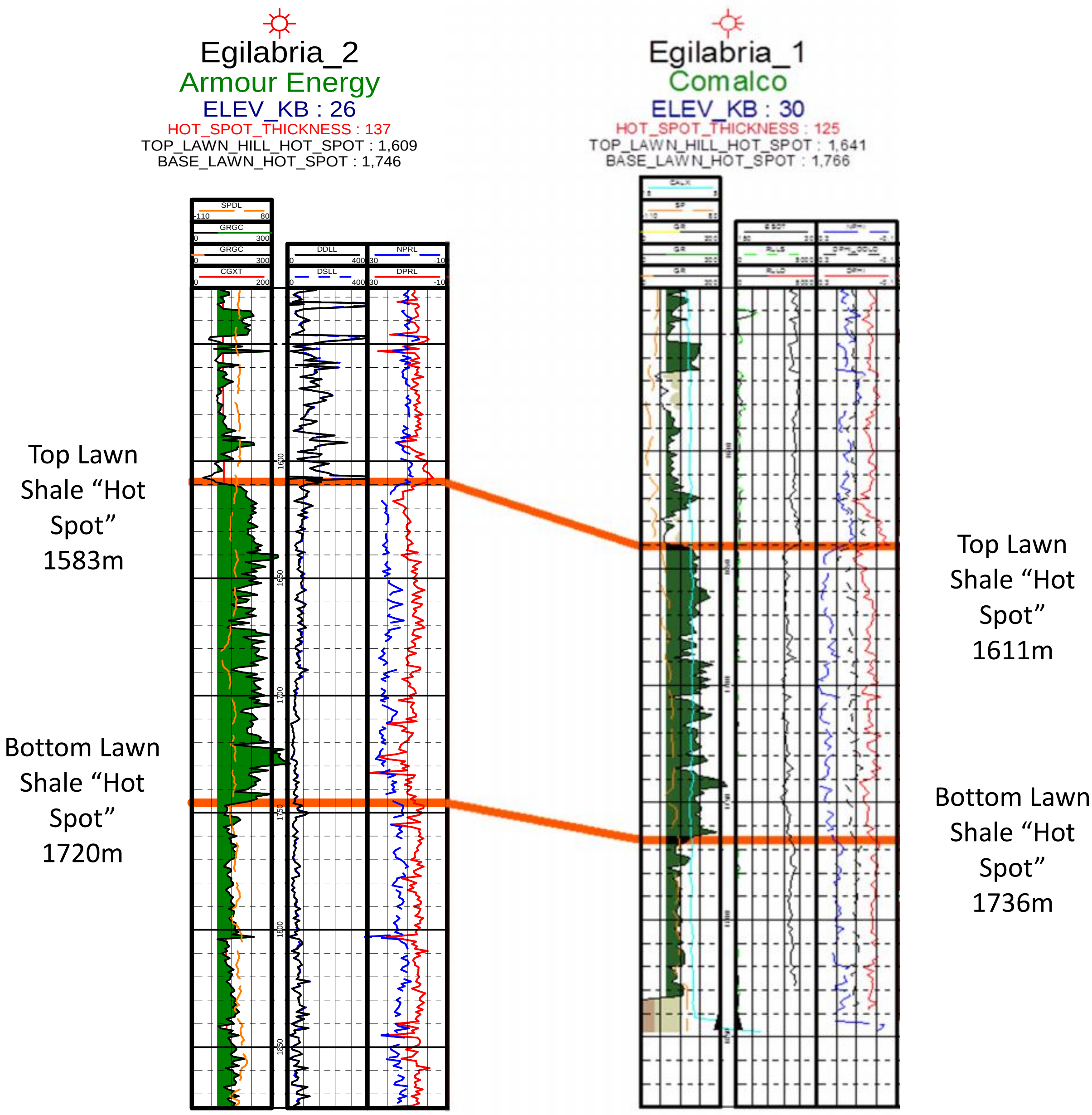


**Figure 13: Comparison of Log Sections between Egilabria 2 and Egilabria 1. The green shaded reading indicates the gamma ray count in each well.**

## Egilabria 2 Vertical Well (continued)

Figure 14: Flare from gas encountered at 1519 metres in the Egilabria 2 well.

Table 3: Gas Flares Encountered while Drilling Egilabria 2 Vertical Well

| Date | Time (hrs) | Hole Depth (m) | Formation | Gas Peak (units) | Chromatagraph Hydrocarbon Breakdown (ppm) | Flare Length (m) | Flared Duration (sec) | Operation at Flare |
|---|---|---|---|---|---|---|---|---|
| 28/06/2013 | 1400 | 1098 | Doomagee Supersequence | 1404 | C1-204299, C2-1752, C3-1708, He-1265, CO2-986 | 7-8m | ~120 | Drilling ahead |
| 28/06/2013 | 1500 | 1098 | Doomagee Supersequence | 1417 | C1-226164, C2-1524, C3-1468, He-1420, CO2-1174 | 7-8m | ~120 | Open BOP after shut In |
| 1/07/2013 | 2240 | 1519 | Wide Supersequence | 1099 | C1-189019, C2-2171, C3-2130, He-1087, CO2-905 | Not reported | | Drilling ahead |
| 3/07/2013 | 520 | 1519 | Wide Supersequence | 4000 | C1-248404, C2-2608, C3-2549, He-1465, CO2-374 | - | | Unloading well |
| 4/07/2013 | 800 | 1791 | Lawn Hill Shale | 1100 | C1-202253, C2-1357, C3-1312, He-1238, CO2-6410 | - | | Inflow test |
| 4/07/2013 | 1500 | 1791 | Lawn Hill Shale | 1013 | C1-143018, C2-1019, C3-984, He-898, CO2-1638 | - | | Unloading well |
| 5/07/2013 | 420 | 1830 | Base Lawn Hill Supersequence | 4062 | C1-322731, C2-2512, C3-2422, He-2008, CO2-5335 | - | | Inflow test |
| 6/07/2013 | 1846 | 1830 | Base Lawn Hill Supersequence | 3901 | C1-324973, C2-1404, C3-1335,He-2381,CO2-808 | 5-6m | ~360 | RIH 1156 unloading well |
| 6/07/2013 | 1932 | 1830 | Base Lawn Hill Supersequence | 3150 | C1-Undetermined,C2-2772,C3-2564,He-4651,CO2-9947 | 4-5m | ~35 | RIH 1252 unloading well |
| 6/07/2013 | 2240 | 1830 | Base Lawn Hill Supersequence | 2501 | C1-196486, C2-953, C3-910,He-1359,CO2-655 | 5-6m | ~45 | RIH 1676 unloading well |
| 6/07/2013 | 2345 | 1830 | Base Lawn Hill Supersequence | 4166 | C1-Undetermined, C2-4745, C3-4169, He-5984 , CO2-4607 | 6-8m | ~180 | RIH 1810 unloading well |
| 7/07/2013 | 520 | 1870 | Base Lawn Hill Supersequence | 2667 | C1-204993, C2-1309, C3-1265, He-1136, CO2-5111 | 6m | ~300 | Circulate after changing rubber |

**Egilabria 2 DW1 Lateral Well**

The Egilabria 2 DW1 (Directional Well 1) lateral well commenced from the Egilabria 2 vertical well in mid-July and established a sub horizontal lateral section targeting an interval within the Lawn Hill Formation. The lateral section was subsequently drilled, completed with casing and will be fracture stimulated across a number of intervals within the Lawn Supersequence to optimise productivity from the Egilabria 2 DW1 lateral.

**Additional Riversleigh Shale Gas and Mesozoic Plays Provide Upside in ATP 1087**

Armour Energy's 2013 drilling plans also include exploration of a newly identified regionally extensive shale gas play within the Riversleigh Shale and a test of a pinch-out play in the Basal Mesozoic in the overlying Carpentaria Basin in Egilabria 4.

The Riversleigh Shale is a stratigraphic equivalent of the Barney Creek Shale in the McArthur Basin, Northern Territory, over which Armour holds tenements and applications over 125,000 square kilometres in the area. 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 ATP 1087 (Figure 15); source rock in the Riversleigh Shale is indicated by green shading.

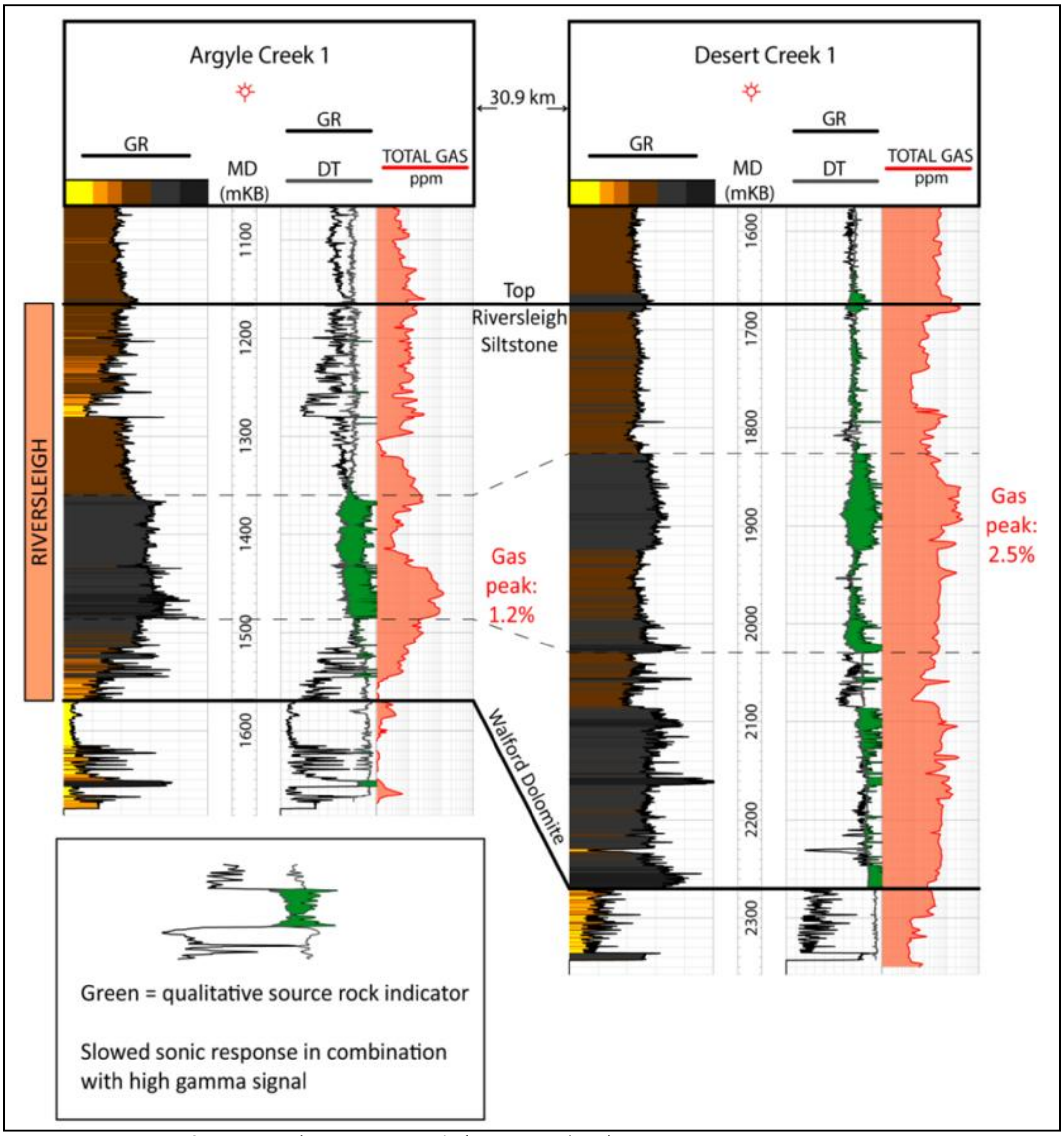


**Figure 15: Stratigraphic section of the Riversleigh Formation pay zone in ATP 1087.**

### Additional Riversleigh Shale Gas and Mesozoic Plays Provide Upside in ATP 1087 (continued)

Should the 2013 exploration and drilling program prove up the existence of a larger Riversleigh Shale gas play then the total potential for gas from the area will increase significantly. With reprocessing of a majority of historic seismic data over ATP 1087, the Company was also able to identify a number of conventional targets (Figure 16) overlying the Lawn Shale and in combination with the Riversleigh Shale Gas play create a regionally pervasive, stacked and continuous gas charged shale play. Together these plays are targeting a volume up to 18 TCF of Prospective Resources in the Riversleigh Shale and an additional 1.8 TCF of Prospective Resources in the conventional targets.

Armour is continuing to explore the western areas of ATP 1087 and planning an airborne gravity survey over the area in at the time of this report. The Company is drilling Egilabria 4 to investigate the Riversleigh Shale as well as a basal Jurassic sand unit that has been confirmed in regional drilling as being porous and permeable at the base of the Carpentaria Basin. The Company has identified a number of leads around the Carpentaria Basin where the Lawn and Riversleigh Shales sub crop (Figure 17) to the Carpentaria Basin and may lead to prospects.

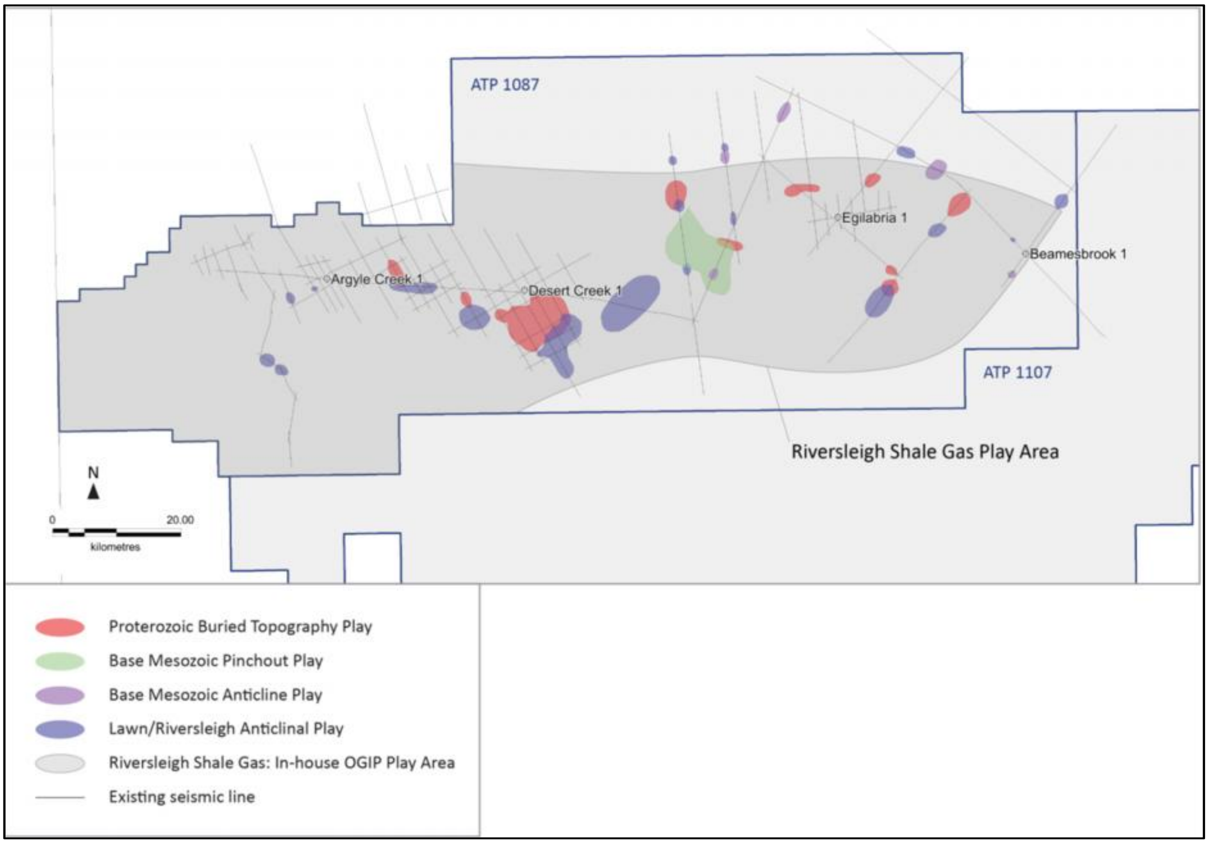


**Figure 16: Conventional targets and Riversleigh Shale gas play area in ATP 1087.**

**Additional Riversleigh Shale Gas and Mesozoic Plays Provide Upside in ATP 1087 (continued)**

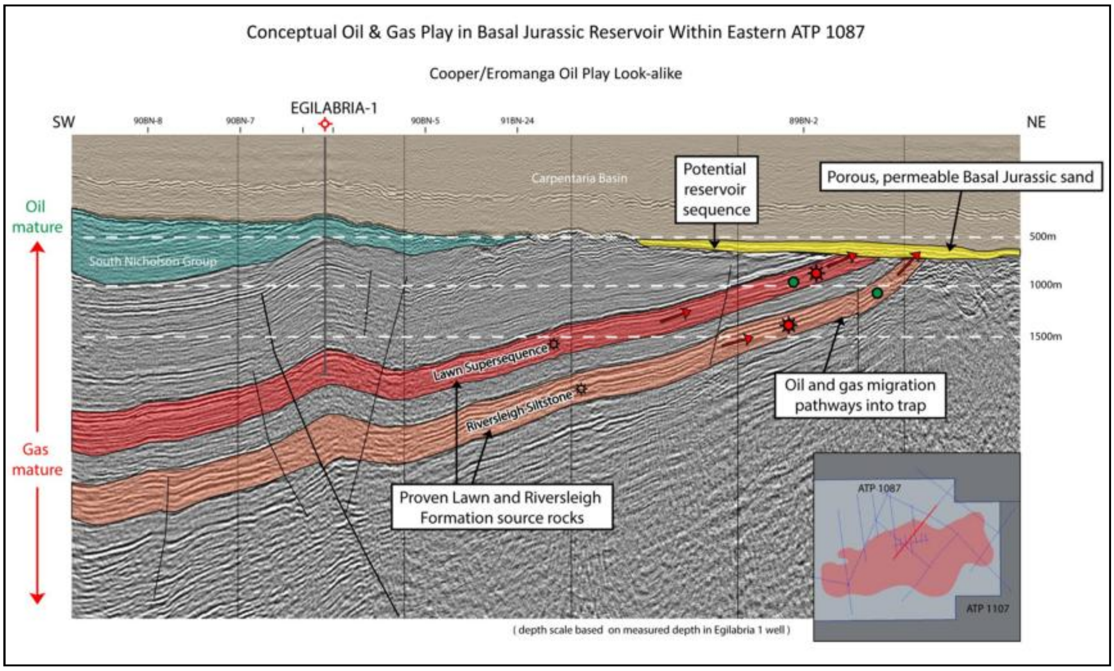


**Figure 17: Interpreted seismic section 89BN-6 showing conceptual oil and gas play within Basal Jurassic sand, sourced from Proterozoic Lawn and Riversleigh Shales.**

## VICTORIA HIGHLIGHTS

**Lakes Oil Yallourn Power 1 Stratigraphic Corehole, PEP 166, Gippsland Basin, Victoria**

Lakes Oil (LKO) completed drilling of the Yallourn Power-1 Corehole on 14 June 2013. The well is located near the Yallourn Power Station within PEP 166, Gippsland Basin Victoria (Figure 18). The corehole was drilled under the Joint Venture between Lakes Oil and Armour on a 75% / 25% basis with Armour contributing 25% of the cost.

The core hole was drilled to a depth of 1201 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.

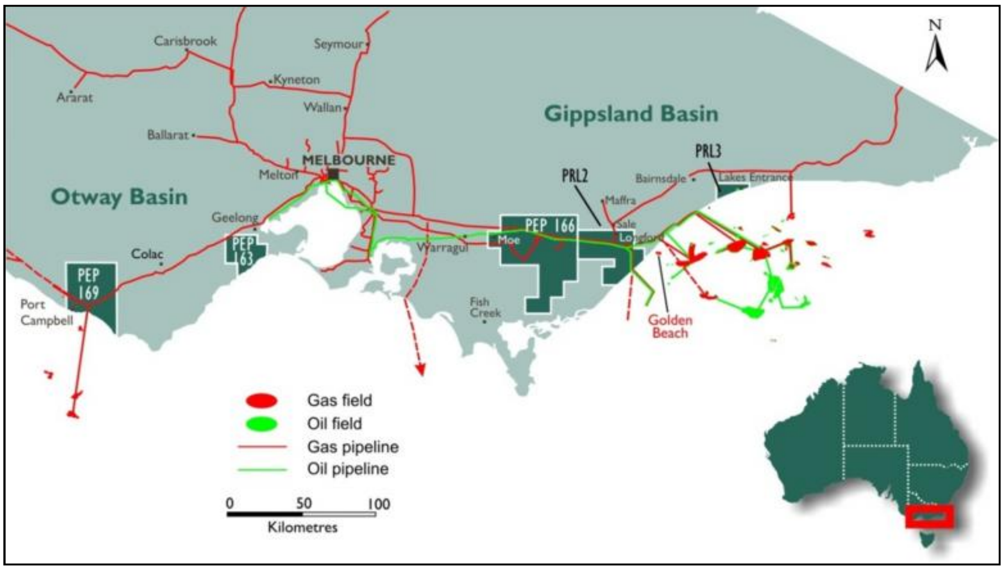


**Figure 18: Location of PEP 169 Otway Basin and PEP 166 Gippsland Basin**

# DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2013.

## 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 – resigned 5 August 2013
William (Bill) Stubbs
Roland Sleeman
Jeremy Barlow
Stephen Bizzell

**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*
- Navaho Gold Ltd*
- Bow Energy Ltd (resigned 11 January 2012)
- Lakes Oil NL*
- SolGold plc, which is listed on the London Stock Exchange (AIM)*

* Current Directorships

**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.

## Directors' Report (continued)

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*

* Current Directorships

## Directors’ Report (continued)

**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.

Mr Barlow is a Fellow of the Australasian Institute of Mining and Metallurgy. 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 Energy 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 (resigned 19 December 2012)
- Arrow Energy Ltd (resigned 23 August 2010)

**Stephen Bizzell – Non Executive Director**
***BComm, MAICD***

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

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

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

He is also a director of Queensland Treasury Corporation.

## Directors' Report (continued)

**Stephen Bizzell – Non Executive Director**
***BComm***

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

- Apollo Minerals Ltd (delisted following takeover in January 2011)
- Arrow Energy Ltd (resigned 23 August 2010)
- Bow Energy Ltd (resigned 11 January 2012)
- Dart Energy Ltd*
- Diversa Ltd*
- Hot Rock Ltd*
- Liquefied Natural Gas Ltd (Alternate) (resigned 17 March 2010)
- Renaissance Uranium Ltd*
- Stanmore Coal Ltd*
- Titan Energy Services Ltd*
- Laneway Resources Limited* (formerly Renison Consolidated Mines NL)

*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 | 2,719,855 | 1,943,417 |
| 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, and in the onshore Gippsland Basin in Victoria in joint venture with Lakes Oil NL.

During the year, Armour Energy acquired Ripple Resources Pty Ltd from DGR Global Ltd. Ripple Resources holds seven applications for EPM's (Exploration Permits for Minerals) in Queensland, within the area covered by ATP1087 and six EPM applications within the Northern Territory, covering a number of Armour Energy's applications and tenements.

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.

## Directors' Report (continued)

### Review and results of operations

The profit after income tax for the Company for the year ended 30 June 2013 was $1,579,900 (2012: loss $1,509,547).

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

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 2013 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

*1. Individual key management personnel disclosures*

*Key management personnel*

(i) Directors

| | |
|---|---|
| Nicholas Mather | Executive Chairman |
| Philip McNamara | Director (to 5 August 2013) Managing Director and Chief Executive Officer (to 5 July 2013) |
| William (Bill) Stubbs | Non-executive Director |
| Roland Sleeman | Non-executive Director |
| Jeremy Barlow | Non-executive Director |
| Stephen Bizzell | Non-executive Director |

(ii) Executives

| | |
|---|---|
| Raymond Johnson | General Manager - Exploration and Production |
| Roger Cressey | General Manager – Infrastructure and Project Development |
| Karl Schlobohm | Company Secretary |
| Priy Jayasuriya | Chief Financial Officer |

Subsequent to the reporting date, Philip McNamara resigned as Managing Director and Chief Executive Officer of the company. Robbert de Weijer was appointed as Chief Executive Officer on 8 July 2013 and Christopher Ohlrich was appointed as General Manager – Commercial on 26 August 2013.

Other than the above, there were no changes to KMP after reporting date and before the date the financial report was authorised for issue.

## Directors' Report (continued)

**Remuneration report (audited) (continued)**

*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 outlined below.

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 2013 is detailed in this Remuneration Report.

## Directors' Report (continued)

**Remuneration report (audited) (continued)**

*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 2013 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. The closing share price on the ASX as at 28 June 2013 was $0.22.

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 three 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.

*Phil McNamara - Chief Executive Officer (1 July 2012 to 5 July 2013)*

The Company had 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 was entitled to a base remuneration of $400,000 per annum;
- Mr McNamara was 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 were entitled to terminate the contract upon giving three (3) months written notice, or at the end of its three year term;
- The Company was entitled to terminate the agreement immediately upon Mr McNamara's insolvency or certain acts of misconduct;
- Mr McNamara was entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, authority or responsibilities;

**Remuneration report (audited) (continued)**

- Mr McNamara was entitled to a series of performance bonuses equal to 230% of the annual salary over the lifetime of the Executive Service Agreement, if the following key performance indicators were met (which were 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 was achieved and a cash bonus of $40,000 was paid);
    b) 20% - IPO completed (this milestone was achieved and a bonus of $80,000 was paid);
    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.

*Robbert de Weijer - Chief Executive Officer (8 July 2013 to current)*

The Company has an Executive Employment Agreement with Mr Robbert de Weijer, which took effect on 8 July 2013.

Under the terms of the agreement:

- Mr de Weijer is entitled to a base remuneration of $300,000 per annum, inclusive of superannuation up to 31 August 2013, and $375,000 per annum, inclusive of superannuation up to 31 December 2013. From 1 January 2014, Mr de Weijer's salary will increase to $400,000 per annum inclusive of superannuation. If Mr de Weijer is appointed as Managing Director of the Company, his salary will be $425,000 per annum inclusive of superannuation;
- Mr de Weijer 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 de Weijer are entitled to terminate the contract upon giving three (3) months written notice;
- The Company is entitled to terminate the agreement immediately upon Mr de Weijer's insolvency or certain acts of misconduct;
- Mr de Weijer is entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, responsibilities or authority;
- Mr de Weijer is entitled to a series of performance bonuses, at the Board's election, if the following key performance indicators are met:
    a) 15% max per annum - successful execution of drill programs in NT and QLD on time and on budget (for annual assessment by 30 June in each year);
    b) 15% max per annum - execution of major conditional gas sales, transportation and/or project sell down or joint venture (for annual assessment by 30 June in each year);
    c) 20% - successful implementation of a change of control transaction approved by the Board (upon completion) (once off entitlement) not resulting in termination;
    d) 10% - for every 500 petajoules of proven and probable (2P) reserves booked by the Company, as certified by an independent expert under SPP PRMS guidelines (for assessment whenever reasonably required).
- Subject to obtaining any approvals legally required, including pursuant to the ASX listing rules, the Company shall issue Mr de Weijer 7,500,000 options to subscribe for fully paid ordinary shares in the Company exercisable upon the following terms:
    a) No consideration is payable for the grant of the options;
    b) The options are to subscribe for ordinary shares in the Company;
    c) The exercise price for the Options is:
        (ii) In respect of 2,500,000 Options, $0.50 each, vesting 8 January 2014;
        (iii) In respect of 2,500,000 Options, $0.75 each, vesting 8 January 2015;
        (iv) In respect of 2,500,000 Options, $1.00 each, vesting 8 January 2016;
    d) The options expire on 8 July 2018.

## Directors' Report (continued)

### Remuneration report (audited) (continued)

*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 | 3 months |
| Serious misconduct | Company may terminate at any time |
| Payouts upon resignation or termination, outside industrial regulations (i.e. 'golden handshakes') | None |

The Company has an incentive scheme which rewards employees for contributing to the overall performance of the company. The underlying objective of the incentive arrangements is to:

- ensure employees understand the Company's business drivers, objectives and performance;
- strengthen the involvement and focus of employees in achieving the business' objectives; and
- improve teamwork, communication and interaction among employees.

Under the incentive scheme, the Company may, on an annual basis, pay a bonus to permanent employees who are employed by the company on the final day of the relevant financial year (that is, 30 June).
The maximum amount of bonus hat will be paid to each employee in any year is set out in the employee's contract of employment.

The actual amount of bonus paid to each individual employee will be dependent upon:

- as to 70% of the potential maximum, the individual employee's performance relative to pre-agreed key performance indicators ('KPIs'); and
- as to 30% of the potential maximum, overall corporate performance compared to predetermined corporate performance targets but subject to satisfactory personal performance.

In 2013, the bonus component relating to corporate performance targets were forfeited by all employees and accordingly, only a percentage relating to the individual employee's performance was paid.

The proportion of performance based payments paid/payable or forfeited to key management personnel is as follows:

| | Performance Payment Paid/Payable | | Performance Payment Forfeited | |
|---|---|---|---|---|
| Name | 2013 | 2012 | 2013 | 2012 |
| Raymond Johnson | 50% | -% | 50% | 100% |
| Roger Cressey | 63% | -% | 37% | 100% |
| Karl Schlobohm | 50% | -% | 50% | 100% |
| Priy Jayasuriya | 50% | -% | 50% | 100% |

## Directors' Report (continued)

### Remuneration report (audited) (continued)

*Remuneration of Directors and Other Key Management Personnel*

| Directors | Short term benefits | | Post-employment | Share based payments Equity settled | | Total | Consisting of options | Performance related |
|---|---|---|---|---|---|---|---|---|
| | Salary & fees | Bonus | Superannuation | Options | Shares | | | |
| | $ | $ | $ | $ | $ | $ | % | % |
| Nicholas Mather | | | | | | | | |
| - 2013 | 245,000 | - | - | - | - | 245,000 | - | - |
| - 2012 | 232,708 | - | - | - | - | 232,708 | - | - |
| Philip McNamara | | | | | | | | |
| - 2013 | 353,530 | - | 16,767 | - | - | 370,297 | - | - |
| - 2012 | 439,601 | 80,000 | 15,784 | - | - | 535,385 | - | 14.9% |
| William Stubbs | | | | | | | | |
| - 2013 | 75,000 | - | - | - | - | 75,000 | - | - |
| - 2012 | 54,514 | - | - | - | - | 54,514 | - | - |
| Roland Sleeman | | | | | | | | |
| - 2013 | 75,000 | - | - | 9,308 | - | 84,308 | 11.0% | - |
| - 2012 | 40,670 | - | - | 4,641 | - | 45,311 | 10.2% | - |
| Jeremy Barlow | | | | | | | | |
| - 2013 | 68,807 | - | 6,193 | 9,803 | - | 84,803 | 11.6% | - |
| - 2012 | 21,172 | - | 1,905 | 3,652 | - | 26,729 | 13.7% | - |
| Stephen Bizzell | | | | | | | | |
| - 2013 | 75,000 | - | - | 9,803 | - | 84,803 | 11.6% | - |
| - 2012 | 23,387 | - | - | 3,652 | - | 27,039 | 13.5% | - |
| Vincent Mascolo | | | | | | | | |
| - 2013 | - | - | - | - | - | - | - | - |
| - 2012 | 8,333 | - | - | - | - | 8,333 | - | - |
| **Total remuneration** | | | | | | | | |
| - **2013** | **892,337** | **-** | **22,960** | **28,914** | **-** | **944,211** | | |
| - **2012** | **820,385** | **80,000** | **17,689** | **11,945** | **-** | **930,019** | | |

## Remuneration report (audited) (continued)

*Remuneration of Directors and Other Key Management Personnel (continued)*

| Other Key Management Personnel | Short term benefits | | Post-employment | Share based payments Equity settled | | Total | Consisting of options | Performance related |
|---|---|---|---|---|---|---|---|---|
| | Salary & fees $ | Bonus $ | Superannuation $ | Options $ | Shares $ | $ | % | % |
| Raymond Johnson | | | | | | | | |
| - 2013 | 321,101 | 80,000 | 26,348 | 74,462 | 17,975 | 519,886 | 14.3% | 15.4% |
| - 2012 | 177,841 | - | 16,006 | 41,005 | 9,899 | 244,751 | 16.8% | - |
| Roger Cressey | | | | | | | | |
| - 2013 | 302,752 | 100,000 | 25,077 | 37,231 | - | 465,061 | 8.0% | 21.5% |
| - 2012 | 172,336 | - | 15,510 | 22,644 | - | 210,490 | 10.8% | - |
| Karl Schlobohm | | | | | | | | |
| - 2013 | 50,000 | 24,500 | - | - | - | 74,500 | - | 32.9% |
| - 2012 | 8,333 | - | - | - | - | 8,333 | - | - |
| Priy Jayasuriya | | | | | | | | |
| - 2013 | 45,872 | 24,500 | 4,128 | 9,308 | - | 83,808 | 11.1% | 29.2% |
| - 2012 | 8,116 | - | 730 | 5,304 | - | 14,150 | 37.5% | - |
| **Total remuneration** | | | | | | | | |
| **- 2013** | **719,725** | **229,000** | **55,553** | **121,001** | **17,975** | **1,143,254** | | |
| **- 2012** | **366,626** | **-** | **32,246** | **68,953** | **9,899** | **477,724** | | |

**Robbert de Weijer has nil earnings for the year ended 30 June 2013, as commenced on 8 July 2013.*

## Directors' Report (continued)

**Remuneration report (audited) (continued)**

*Performance income as a proportion of total remuneration*

Performance based payments to the Key Management Personnel of $229,000 were paid or payable during 2013 (2012: $80,000).

*7. Equity instruments disclosures*

*Options granted as part of remuneration for the year ended 30 June 2013*

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 2013, there were no 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 2013 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 30/6/13 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | | |
| R Sleeman | 11/10/11 | 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).

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 2013. 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 (2012: nil).

*Performance shares*

Details of all performance shares on issue over unissued ordinary shares in Armour Energy Ltd at 30 June 2013 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 performance share at grant date# | Exercised in current year | Exercised in prior years | Balance at 30/6/13 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Other key management** | | | | | | | | | | | |
| R Johnson | 12/12/11 | 180,000 | $0.00 | 12/12/14 | 12/12/13 | - | 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 drilling and Hydraulic Fracturing of the Company's first multistage lateral well within 2 years.

**(End of Remuneration Report)**

## Directors' Report (continued)

**DIRECTORS' MEETINGS**

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

| | Number of meetings held while in office | Board Meetings attended | Audit & Risk Number of meetings held while in office | Management Committee Meetings attended |
|---|---|---|---|---|
| Nicholas Mather | 11 | 11 | - | - |
| Phil McNamara | 11 | 11 | - | - |
| Bill Stubbs | 11 | 10 | 2 | 2 |
| Roland Sleeman | 11 | 11 | 2 | 2 |
| Jeremy Barlow | 11 | 10 | - | - |
| Stephen Bizzell | 11 | 10 | 2 | 2 |

**Indemnification and insurance of Directors, Officers and Auditor**

Each of the Directors, the Chief Executive Officer 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 |
| 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 |
| 22 January 2013 | 7 May 2015 | $0.50 | 1,150,000 |
| 24 July 2013 | 24 July 2018 | $0.50 | 2,500,000 |
| 24 July 2013 | 24 July 2018 | $0.75 | 2,500,000 |
| 24 July 2013 | 24 July 2018 | $1.00 | 2,500,000 |
| 25 July 2013 | 2 September 2016 | $0.50 | 100,000 |
| 25 July 2013 | 26 August 2018 | $0.50 | 1,250,000 |
| 25 July 2013 | 26 August 2018 | $0.75 | 1,250,000 |
| 25 July 2013 | 26 August 2018 | $1.00 | 1,250,000 |

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 (continued)

### 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:

| | |
|---|---|
| Tax services | $9,020 |

### 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 40.

Signed in accordance with a resolution of Directors:

Nicholas Mather
Executive Chairman

Brisbane

Date: 26 September 2013

*The 17 July 2012, Prospective Resource Estimate for the **Greater Cow Lagoon structure in EP 176** 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.*

*The 30 October 2012, Prospective Resource Estimate covering the **EP171 portion of the Glyde Sub-Basin** in the Northern Territory 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.*

*The Prospective Resource Estimates covering the **Barney Creek Shale in 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).*

*The 12 February 2013 Prospective Resource Estimate covering the **Coxco Dolomite in EPs 171, 176 and 190** 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.*

*The 24 April, 2013, Prospective Resource Estimates covering the **Coxco Dolomite in EPs 171, 176 and 190** and Contingent Resource Estimate covering **Coxco Dolomite relating to Glyde 1 ST1**, used in this report were compiled by DeGolyer and MacNaughton, who are 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.*

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**DECLARATION OF INDEPENDENCE BY DAMIAN WRIGHT TO THE DIRECTORS OF ARMOUR ENERGY LIMITED**

As lead auditor of Armour Energy Limited for the year ended 30 June 2013, 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.

This declaration is in respect Armour Energy Limited and the entities it controlled during the period.

**D P Wright**

Director

**BDO Audit Pty Ltd**

Brisbane, 26 September 2013

## 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 22 AUGUST 2013.**

### (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 | 30 | 6,572 | 54 | 52,311 | - | - |
| 1,001 - 5,000 | 216 | 761,082 | 585 | 2,034,978 | - | - |
| 5,001 - 10,000 | 361 | 3,224,749 | 210 | 1,826,935 | - | - |
| 10,001 - 50,000 | 907 | 24,815,674 | 214 | 4,837,836 | 2 | 52,500 |
| 50,001 - 100,000 | 219 | 17,623,655 | 54 | 4,177,318 | 1 | 60,000 |
| 100,000+ | 220 | 253,568,268 | 82 | 44,758,122 | 9 | 34,600,000 |
| **TOTAL** | **1,953** | **300,000,000** | **1,199** | **57,687,500** | **12** | **34,712,500** |

| | **ESOP OPTIONS** EXERCISABLE AT $0.50 | | **ESOP OPTIONS** EXERCISABLE AT $0.75 | | **ESOP OPTIONS** EXERCISABLE AT $1.00 | |
|---|---|---|---|---|---|---|
| | NUMBER OF HOLDERS | NUMBER OF OPTIONS | NUMBER OF HOLDERS | NUMBER OF OPTIONS | NUMBER OF OPTIONS | NUMBER OF OPTIONS |
| 1 - 1000 | - | - | - | - | - | - |
| 1,001 - 5,000 | - | - | - | - | - | - |
| 5,001 - 10,000 | - | - | - | - | - | - |
| 10,001 - 100,000 | - | - | - | - | - | - |
| 100,000+ | 16 | 17,900,000 | 2 | 3,750,000 | 2 | 3,750,000 |
| **TOTAL** | **16** | **17,900,000** | **16** | **3,750,000** | **2** | **3,750,000** |

The number of security investors holding less than a marketable parcel of 1516 securities ($0.33 on 22 August 2013) is 44, and they hold 26,081 securities.

### (B) TWENTY LARGEST HOLDERS

| **ORDINARY SHARES:** | | | |
|---|---|---|---|
| 1 | DGR GLOBAL LIMITED | 75,050,000 | 25.02% |
| 2 | NATIONAL NOMINEES LIMITED | 34,024,379 | 11.34% |
| 3 | JP MORGAN NOMINEES AUSTRALIA LIMITED | 17,591,513 | 5.86% |
| 4 | UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 9,558,042 | 3.19% |
| 5 | BT PORTFOLIO SERVICES LIMITED <WARRELL HOLDINGS S/F A/C> | 8,500,000 | 2.83% |
| 6 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 8,468,120 | 2.82% |
| 7 | CITICORP NOMINEES PTY LTD | 5,478,208 | 1.83% |
| 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 | CPS CONTROL SYSTEMS PTY LIMITED <THE IAN CAMPBELL S/FUND A/C> | 3,160,000 | 1.05% |
| 12 | ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | 2,295,201 | 0.77% |
| 13 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 2,176,526 | 0.73% |
| 14 | DIAB INVESTMENTS PTY LTD | 2,075,000 | 0.69% |
| 15 | G HARVEY NOMINEES PTY LTD <HARVEY 1995 DISC A/C> | 2,063,969 | 0.69% |
| 16 | MR JEREMY WARDE BARLOW | 2,000,000 | 0.67% |
| 17 | MR ANDREW JAMES LEES | 1,900,698 | 0.63% |
| 18 | GURRAVEMBI INVESTMENTS PTY LTD <THE GURRAVEMBI S/FUND A/C> | 1,900,000 | 0.63% |
| 19 | SAMUEL CAPITAL LIMITED | 1,819,855 | 0.61% |
| 20 | GRAHAM & LINDA HUDDY NOMINEES PTY LTD <THE HUDDY FAMILY A/C> | 1,750,000 | 0.58% |
| | **TOP 20** | **190,761,511** | **63.59%** |
| | **TOTAL** | **300,000,000** | **100.00%** |

## SHAREHOLDER INFORMATION (continued)

### (C) TWENTY LARGEST HOLDERS (continued)

| ASX QUOTED OPTIONS: | | | |
|---|---|---|---|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – GSCO ECA | 8,750,000 | 15.17% |
| 2 | JP MORGAN NOMINEES (AUSTRALIA) LIMITED | 4,631,678 | 8.03% |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 2,606,856 | 4.52% |
| 4 | BT PORTFOLIO SERVICES LIMITED <WARRELL HOLDINGS S/F A/C> | 1,749,345 | 3.03% |
| 5 | UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 1,616,250 | 2.80% |
| 6 | MR JOCHI JOHN MAKER | 1,616,250 | 2.80% |
| 7 | CITICORP NOMINEES PTY LIMITED | 1,043,322 | 1.81% |
| 8 | CAPITA TRUSTEES LIMITED <KONDA FAMILY A/C> | 1,000,000 | 1.73% |
| 9 | MR TC & MRS SM GOODWIN <GOODWIN SUPER FUND A/C> | 1,000,000 | 1.73% |
| 10 | SAMUEL HOLDINGS PTY LTD <SAMUEL DISCRETIONARY A/C> | 918,417 | 1.59% |
| 11 | LUJETA PTY LTD <THE MARGARET A/C> | 875,000 | 1.52% |
| 12 | BAINPRO NOMINEES PTY LIMITED | 747,385 | 1.30% |
| 13 | MR JEFFREY DOUGLAS PAPPIN | 627,992 | 1.09% |
| 14 | SEATON ROSS HOLDINGS PTY LTD <AJC MCGLEW FAMILY A/C> | 610,000 | 1.06% |
| 15 | MR BILAL AHMAD | 570,000 | 0.99% |
| 16 | FLASKAS BICKLE PTY LTD <FLASKAS BICKLE INVEST A/C> | 537,500 | 0.93% |
| 17 | MR VINCENT DAVID MASCOLO | 517,500 | 0.90% |
| 18 | DIAB INVESTMENTS PTY LTD | 512,500 | 0.89% |
| 19 | MR JEREMY WARDE BARLOW | 500,000 | 0.87% |
| 20 | DSWPET PTY LTD <WARNER FAMILY A/C 2> | 500,000 | 0.87% |
| | **TOP 20** | **30,478,045** | **52.83%** |
| | **TOTAL** | **57,687,500** | **100.00%** |

### (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) | 23,087,940 | 7.70% |

### (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% |

## SHAREHOLDER INFORMATION (continued)

### (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 and its subsidiaries 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).

Subsequent to year end, a Remuneration Committee was established, which meets at least once a year and is responsible for making decisions on Directors' and key management personnel's remuneration packages, and is represented by Roland Sleeman and Stephen Bizzell.

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 5 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.

## CORPORATE GOVERNANCE STATEMENT (continued)

**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).

# CORPORATE GOVERNANCE STATEMENT (continued)

## DIVERSITY POLICY (continued)

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 measureable objectives, having regard to the nature and scale of its activities.

The Company currently has 12 employees, but no female Directors or executives. The Company employs a total of 3 female employees (25% 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.

## CORPORATE GOVERNANCE CHARTER

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, 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. |
| 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. |

## CORPORATE GOVERNANCE CHARTER (continued)

| ASX Principles and Recommendations | Summary of the Company's Position |
|---|---|
| **Principle 2 – Structure Board to Add Value** | |
| 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:<br>- Consists of only non-executive directors<br>- Consists of a majority of independent directors<br>- Is chaired by an independent chair, who is no chair of the board<br>- Has at least 3 members | The Company's Audit and Risk Management Committee is comprised of Messrs. Stubbs, Bizzell and Sleeman.<br><br>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.<br><br>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.<br><br>Mr. Roland Sleeman is a non-executive director. The Company considers Mr. Sleeman to be an independent director as defined in the ASX Guidelines.<br><br>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. |
| **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 | Subsequent to year end, a Remuneration Committee was established, which meets at least once a year and is responsible for making decisions on Directors' and key management personnel's remuneration packages, and is represented by Roland Sleeman and Stephen Bizzell. |

## 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 | 12/12/12 | N/A | 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 | 12/12/12 | N/A | 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 | 19/12/12 | N/A | N/A | 5 years |
| ATP 1107 | 100 | N/A | 30/05/12 | N/A | 5 years |
| EPM 19795* | 100 | N/A | 31/07/12 | N/A | 3 years |
| EPM 19796* | 100 | N/A | 31/07/12 | N/A | 3 years |
| EPM 19797* | 100 | N/A | 31/07/12 | N/A | 3 years |
| EPM 19833* | 100 | 11/02/13 | N/A | 10/02/16 | 3 years |
| EPM 19835* | 100 | N/A | 21/08/12 | N/A | 3 years |
| EPM 19836* | 100 | N/A | 21/08/12 | N/A | 3 years |
| EPM 25153* | 100 | N/A | 03/01/13 | N/A | 3 years |
| ELM 29837* | 100 | N/A | 18/01/13 | N/A | 3 years |
| ELM 29951* | 100 | N/A | 23/04/13 | N/A | 3 years |
| ELM 29952* | 100 | N/A | 23/04/13 | N/A | 3 years |
| ELM 29953* | 100 | N/A | 23/04/13 | N/A | 3 years |
| ELM 29954* | 100 | N/A | 23/04/13 | N/A | 3 years |
| ELM 29955* | 100 | N/A | 23/04/13 | N/A | 3 years |

** Tenements held by Ripple Resources Pty Ltd*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
**For the year ended 30 June 2013**

| | Notes | 2013<br>$ | 2012<br>$ |
|---|---|---|---|
| Revenue | 2a | 2,335,368 | 1,030,438 |
| Other income | 2b | 2,450,000 | - |
| **Revenue and other income** | | **4,785,368** | **1,030,438** |
| | | | |
| Administration and consulting expenses | | (2,771,313) | (1,664,491) |
| Depreciation | | (58,360) | (20,018) |
| Employee benefits expenses | | (1,420,508) | (505,073) |
| Legal expenses | | (573,057) | (171,361) |
| Finance costs | | (1,573) | (421) |
| Share issue costs | | - | (556,016) |
| Share based payments expense | | (384,027) | (297,605) |
| **Profit before income tax** | 3 | **(423,470)** | **(2,184,547)** |
| Income tax benefit (expense) | 4 | 2,003,370 | 675,000 |
| **Profit for the year** | | **1,579,900** | **(1,509,547)** |
| | | | |
| **Items that will be reclassified to profit or loss** | | | |
| Change in fair value of available for sale financial assets | | - | 2,250,000 |
| Income tax on items that will be reclassified to profit or loss | | - | (675,000) |
| **Other comprehensive income, net of tax** | | - | 1,575,000 |
| | | | |
| **Total comprehensive income for the year** | | **1,579,900** | **65,453** |

| **Earnings per share** | | cents/ share | cents/ share |
|---|---|---|---|
| Basic earnings per share | 8 | 0.5 | (0.9) |
| Diluted earnings per share | 8 | 0.5 | (0.9) |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## As at 30 June 2013

| | Notes | 2013 $ | 2012 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 37,053,394 | 61,325,515 |
| Trade and other receivables | 10 | 1,013,574 | 1,441,252 |
| Other current assets | 11 | 785,822 | 705,189 |
| Inventory | | 1,395,455 | - |
| **Total current assets** | | **40,248,245** | **63,471,956** |
| **Non-current assets** | | | |
| Other financial assets | 12 | 10,166,027 | 5,466,093 |
| Property, plant and equipment | 13 | 243,999 | 215,110 |
| Exploration and evaluation assets | 14 | 43,258,305 | 20,385,252 |
| **Total non-current assets** | | **53,668,331** | **26,066,455** |
| **Total assets** | | **93,916,576** | **89,538,411** |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 8,995,294 | 8,377,971 |
| Provision | 16 | 106,380 | 42,297 |
| **Total current liabilities** | | **9,101,674** | **8,420,268** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 4 | 24,334 | - |
| **Total non-current liabilities** | | **24,334** | **-** |
| **Total liabilities** | | **9,126,008** | **8,420,268** |
| **Net assets** | | **84,790,568** | **81,118,143** |
| **Equity** | | | |
| Issued capital | 17 | 83,362,886 | 81,654,388 |
| Reserves | 19 | 2,538,069 | 2,154,042 |
| Accumulated losses | | (1,110,387) | (2,690,287) |
| **Total equity attributable to owners of Armour Energy Ltd** | | **84,790,568** | **81,118,143** |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**For the year ended 30 June 2013**

| | Issued Capital | Accumulated Losses | Available for Sale Financial Asset Reserve | Performance Shares Reserve | Performance Rights Reserve | Option Reserve | Total Equity |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **Balance at 1 July 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** |
| | | | | | | | |
| Profit for the year | - | 1,579,900 | - | - | - | - | 1,579,900 |
| Other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | 1,579,900 | - | - | - | - | 1,579,900 |
| Tax losses transferred to head company | - | - | - | - | - | - | - |
| Shares issued during the year | - | - | - | - | - | - | - |
| Share issue costs | (172,356) | - | - | - | - | - | (172,356) |
| Recognition of deferred tax assets relating to share issue costs | 1,880,854 | | | | | | 1,880,854 |
| Share based payments | - | - | - | 17,975 | 62,414 | 303,638 | 384,027 |
| **Balance at 30 June 2013** | **83,362,886** | **(1,110,387)** | **1,575,000** | **153,108** | **86,183** | **723,778** | **84,790,568** |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS
**For the year ended 30 June 2013**

| | Notes | 2013<br>$ | 2012<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | | (4,738,260) | (1,089,800) |
| Interest received | | 2,257,470 | 511,196 |
| Interest expense | | (1,573) | - |
| Research and Development funds received | | 3,908,558 | - |
| **Net cash flows from operating activities** | **20** | **1,426,195** | **(578,604)** |
| **Cash flows from investing activities** | | | |
| Receipts of/ (payments for) security deposits | | 202,066 | (946,093) |
| Investment in available for sale financial assets | | - | (2,250,000) |
| Investment in convertible notes | | (2,450,000) | - |
| Interest received on convertible notes | | 122,500 | - |
| Purchase of property, plant and equipment | | (87,249) | (180,572) |
| Payments for exploration and evaluation assets | | (22,245,328) | (14,312,992) |
| **Net cash flows from investing activities** | | **(24,458,011)** | **(17,689,657)** |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of shares | | - | 75,000,000 |
| Transactions costs on the issue of shares | | (1,240,306) | (7,436,976) |
| Proceeds from borrowings | | - | - |
| Repayment of borrowings | | - | - |
| **Net cash flows from financing activities** | | **(1,240,306)** | **67,563,024** |
| Net increase in cash and cash equivalents | | (24,272,121) | 49,294,762 |
| Cash and cash equivalents at the beginning of the year | | 61,325,515 | 12,030,753 |
| **Cash and cash equivalents at the end of the year** | **9** | **37,053,394** | **61,325,515** |

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

# NOTES TO THE FINANCIAL STATEMENTS
**For the year ended 30 June 2013**

**Note 1: Summary of Significant Accounting Policies**

**Corporate Information**

The financial report of Armour Energy Ltd for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 26 September 2013.

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 its subsidiary, 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, entering into a joint venture or farm-in agreement with respect to its tenements, the realization of its available for sale assets and the successful exploration and exploitation of the Company's tenements. In the absence of these matters being successful, there exists a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the ordinary course of business.

*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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2013

**Note 1: Summary of Significant Accounting Policies (continued)**

**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 2012:

| Reference | Title | Application date of standard | Application date for the Company |
|---|---|---|---|
| AASB 20011-9 | Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income (AASB 101 Amendments) | 1 July 2012 | 1 July 2012 |

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 2013. 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 20011-4 | Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124 Amendments) | 1 July 2013 | 1 July 2013 |

**(b) Basis of Consolidation**

*Subsidiaries*

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Armour Energy Ltd are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues by the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**For the year ended 30 June 2013**

**Note 1: Summary of Significant Accounting Policies (continued)**

**Accounting Policies (continued)**

**(b) Basis of Consolidation (continued)**

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

**(c) 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.

**Note 1: Summary of Significant Accounting Policies (continued)**

**Accounting Policies (continued)**

**(d) 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.

**(f) 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.

**(g) Inventories**

Inventories comprise drilling consumables that are valued at the lower of cost or net realisable value on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**(h) 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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## For the year ended 30 June 2013

**Note 1: Summary of Significant Accounting Policies (continued)**

**Accounting Policies (continued)**

**(h) Financial Instruments (continued)**

(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.

(iv) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. These assets are measured at fair value with gains or losses recognised in the profit or loss.

*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.

**(i) 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.

**Note 1: Summary of Significant Accounting Policies (continued)**

**Accounting Policies (continued)**

### (j) 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.

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.

### (k) 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.

### (l) 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.

### (m) 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.

**Note 1: Summary of Significant Accounting Policies (continued)**

**Accounting Policies (continued)**

**(m) Provisions and Employee Benefits (continued)**

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.

**(n) 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.

**(o) 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.

**(p) 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").

**Note 1: Summary of Significant Accounting Policies (continued)**

**Accounting Policies (continued)**

**(p) Share-Based Payments (continued)**

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.

**(q) 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).

**(r) 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

# NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2013

**Note 1: Summary of Significant Accounting Policies (continued)**

**Accounting Policies (continued)**

**(r) Income Tax (continued)**

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.

Armour Energy Limited and its wholly-owned subsidiary, Ripple Resources Pty Ltd, have formed an income tax consolidated group under the tax consolidation regime. Armour Energy Limited is responsible for recognising the current tax assets and liabilities and deferred tax assets attributable to tax losses for the tax consolidation group. The tax consolidated group has entered a tax funding agreement whereby each company in the tax consolidation group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidation group.

**(s) 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.

**(t) 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.

**(u) Comparatives**

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

**(v) 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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**For the year ended 30 June 2013**

**Note 1: Summary of Significant Accounting Policies (continued)**

**Accounting Policies (continued)**

**(v) Critical Accounting Estimates and Judgments (continued)**

*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 judgments – 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.

**(w) Critical Accounting Estimates and Judgments (continued)**

The Directors have assessed that for the exploration and evaluation assets recognised at 30 June 2013, 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 2013 were $43,258,305 (2012: $20,385,252).

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Note 2. Revenue and other income** | | |
| (a) Interest revenue from: | | |
| - Term deposits held with financial institutions | 2,212,739 | 1,030,438 |
| - Australian Taxation Office | 129 | - |
| - Lakes Oil convertible notes | 122,500 | - |
| **Total Interest Revenue** | **2,335,368** | **1,030,438** |
| (b) Other income | | |
| - Change in fair value on investments | 2,450,000 | - |
| **Note 3. Profit / (Loss)** | | |
| Included in the profit / (loss) are the following specific expenses: | | |
| Finance costs | | |
| - Interest expense | 1,573 | 421 |
| Depreciation | | |
| - Office equipment | 15,865 | 4,536 |
| - Leased motor vehicles | 38,951 | 15,042 |
| - Plant and equipment | 3,544 | 440 |
| Defined contribution superannuation expense | 184,230 | 82,055 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2013

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Note 4. Income Tax** | | |
| **(a) Component of income tax expense (benefit)** | | |
| Income tax expense (benefit) is made up of: | | |
| Current tax | (3,908,558) | (6,552,470) |
| Deferred tax | 1,905,188 | 5,877,470 |
| | **(2,003,370)** | **(675,000)** |
| **(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% (2012: 30%) | (127,041) | (655,364) |
| Add tax effect of: | | |
| Share based payments | 128,146 | 89,282 |
| Current year losses not recognised | 1,322 | 335,021 |
| Less tax effect of: | | |
| Timing differences from deferred tax in equity not recognised | - | (1,989) |
| Other | 190,821 | (441,950) |
| Deferred Tax Asset utilised following R&D cash back | (2,196,618) | - |
| Income tax expense / (benefit) attributable to profit / (loss) before income tax | **(2,003,370)** | **(675,000)** |
| **Recognised deferred tax assets** | | |
| Unused tax losses | 12,616,051 | 6,758,565 |
| Deductible temporary differences | (168,537) | 187,783 |
| Deductible temporary differences (through equity) | 1,880,854 | - |
| Potential benefit at 30% (2012: 30%) | **14,328,368** | **6,946,348** |
| **Recognised deferred tax liabilities** | | |
| Assessable temporary differences | | |
| Exploration and evaluation assets | (12,942,702) | (6,115,576) |
| Financial assets at fair value through profit or loss | (735,000) | - |
| Available for sale financial assets | (675,000) | (675,000) |
| Other assessable temporary differences | - | (155,772) |
| Potential benefit at 30% (2012: 30%) | **(14,352,702)** | **(6,946,348)** |
| **Net deferred tax recognised** | **(24,334)** | **-** |
| **Unrecognised deferred tax assets** | | |
| Unrecognised tax losses | **-** | **1,599,830** |
| Tax effect of tax losses not recognised at 30% (2012: 30%)* | **-** | **479,949** |

At 30 June 2013 deferred tax assets relating to share issue costs, which were previously unrecognised were 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.

**(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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## For the year ended 30 June 2013

### 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:

| | 2013 $ | 2012 $ |
|---|---|---|
| Short term employee benefits | 1,841,062 | 1,267,010 |
| Post-employment benefits | 78,513 | 49,936 |
| Share based payments | 167,890 | 90,797 |
| **Total** | **2,087,465** | **1,407,743** |

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 2012 | Granted as Compensation | Options Exercised | Net Change Other# | Balance 30 June 2013 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Nicholas Mather | 2,379,855 | - | - | 340,000 | 2,719,855 |
| Philip McNamara | 3,450,000 | - | - | - | 3,450,000 |
| Robbert de Weijer | - | - | - | - | - |
| William Stubbs | 410,000 | - | - | - | 410,000 |
| Roland Sleeman | 50,000 | - | - | - | 50,000 |
| Jeremy Barlow | 2,005,000 | - | - | - | 2,005,000 |
| Stephen Bizzell | 1,310,000 | - | - | - | 1,310,000 |
| **Other Key Management Personnel**[1] | | | | | |
| Raymond Johnson | 470,000 | - | - | 3,301 | 473,301 |
| Roger Cressey | 209,629 | - | - | - | 209,629 |
| Karl Schlobohm | 245,000 | - | - | (245,000) | - |
| Priy Jayasuriya | - | - | - | - | - |
| **Total** | **10,529,484** | **-** | **-** | **98,301** | **10,627,785** |

[1] Subsequent to year end, 336,766 shares were issued to other key management personnel as part of their performance incentives.

| Previous 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 | - | 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** |

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

There were 209,629 shares held nominally at 30 June 2013 (2012: 209,629).

# NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2013

## Note 5. Key Management Personnel (continued)

### (b) Equity Instruments (continued)

*Option holdings*

| Current Year | Balance 1 July 2012 | Granted as Remuneration | Options Exercised | Net Change Other# | Balance 30 June 2013 | Total Vested | Total Vested and Exercisable | Total Vested and Unexercisable |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Nicholas Mather | 1,943,417 | - | - | - | 1,943,417 | 1,943,417 | 1,943,417 | - |
| Philip McNamara | 7,762,500 | - | - | - | 7,762,500 | 7,762,500 | 7,762,500 | - |
| Robbert de Weijer | - | - | - | - | - | - | - | - |
| William Stubbs | 602,500 | - | - | - | 602,500 | 602,500 | 602,500 | - |
| Roland Sleeman | 512,500 | - | - | - | 512,500 | 12,500 | 12,500 | - |
| Jeremy Barlow | 1,000,000 | - | - | - | 1,000,000 | 500,000 | 500,000 | - |
| Stephen Bizzell | 5,205,000 | - | - | - | 5,205,000 | 4,705,000 | 4,705,000 | - |
| **Other Key Management Personnel** | | | | | | | | |
| Raymond Johnson | 4,057,500 | - | - | - | 4,057,500 | 57,500 | 57,500 | - |
| Roger Cressey | 2,020,000 | - | - | - | 2,020,000 | 20,000 | 20,000 | - |
| Karl Schlobohm | 561,250 | - | - | (391,902) | 169,348 | 169,348 | 169,348 | - |
| Priy Jayasuriya | 500,000 | - | - | - | 500,000 | - | - | - |
| **Total** | **24,164,667** | **-** | **-** | **(391,902)** | **23,772,765** | **15,772,765** | **15,772,765** | **-** |

| Previous Year | Balance 1 July 2011 | Granted as Remuneration | Options Exercised | Net Change Other# | Balance 30 June 2011 | Total Vested | Total Vested and Exercisable | Total Vested and Unexercisable |
|---|---|---|---|---|---|---|---|---|
| **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** | **-** |

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

There were no share options held nominally at 30 June 2013 (2012: nil).

# NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2013

## Note 5. Key Management Personnel (continued)

### (b) Equity Instruments (continued)

*Performance Shares*

| Current Year | Balance 1 July 2012 | Granted as Remuneration | Options Exercised | Net Change Other# | Balance 30 June 2013 | Total Vested | Total Vested and Exercisable | Total Vested and Unexercisable |
|---|---|---|---|---|---|---|---|---|
| **Other Key Management Personnel** | | | | | | | | |
| Raymond Johnson | 180,000 | - | - | - | 180,000 | - | - | - |
| **Total** | **180,000** | **-** | **-** | **-** | **180,000** | **-** | **-** | **-** |

| Previous Year | Balance 1 July 2011 | Granted as Remuneration | Options Exercised | Net Change Other# | Balance 30 June 2012 | Total Vested | Total Vested and Exercisable | Total Vested and Unexercisable |
|---|---|---|---|---|---|---|---|---|
| **Other Key Management Personnel** | | | | | | | | |
| Raymond Johnson[1] | - | 180,000 | - | - | 180,000 | - | - | - |
| **Total** | **-** | **180,000** | **-** | **-** | **180,000** | **-** | **-** | **-** |

[1] Raymond Johnson has been granted 180,000 performance shares in Armour Energy which are 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.

### (c) Loans to Key Management Personnel

There were no loans to Directors or other key management personnel during the current year (2012: 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 (2012: none). There are no franking credits available to shareholders of the Company (2012: none).

| | 2013 $ | 2012 $ |
|---|---|---|
| **Note 7. Auditors Remuneration** | | |
| Audit and review of the financial reports of the Company | 48,000 | 42,600 |
| Other assurance related services: *Investigating Accountants Report* | - | 58,955 |
| Taxation services | 9,020 | 10,050 |
| | **57,020** | **111,605** |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**For the year ended 30 June 2013**

**Note 8. Earnings Per Share (EPS)**

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **(a) Earnings** | | |
| Earnings used to calculate basic and diluted EPS | 1,579,900 | (1,509,547) |
| | **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 | 300,000,000 | 176,712,329 |
| 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 | 300,000,000 | 176,712,329 |

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

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Note 9. Cash and Cash Equivalents** | | |
| Cash at bank | 1,389,877 | 325,520 |
| Short-term deposits | 35,663,517 | 60,999,995 |
| | **37,053,394** | **61,325,515** |
| **Note 10. Trade and Other Receivables** | | |
| GST refundable | 1,006,039 | 1,433,717 |
| Other receivables | 7,535 | 7,535 |
| | **1,013,574** | **1,441,252** |

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 2013 (2012: nil).

| | 2013 | 2012 |
|---|---|---|
| **Note 11. Other Current Assets** | | |
| Prepayments | **785,822** | **705,189** |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**For the year ended 30 June 2013**

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Note 12. Other Financial Assets** | | |
| NON-CURRENT | | |
| Financial assets at fair value through Profit or Loss | | |
| - Held for trading Australian Convertible Notes | 4,900,000 | - |
| Available for sale financial assets | | |
| - Held for sale Australian listed shares | 4,502,000 | 4,500,000 |
| Security deposits | 764,027 | 966,093 |
| | **10,166,027** | **5,466,093** |

Interest is payable half yearly at the rate of 50 cents per Note immediately following each Interest Payment Date (31 May 2013, 30 November 2013, 31 May 2014 and 30 November 2014), equating to a 10% per annum interest rate. Each Note converts into 5,000 Shares on the maturity date 30 November 2014.

| | | |
|---|---|---|
| **Movements in Financial assets at fair value through Profit or Loss** | | |
| Opening balance at 1 July | - | - |
| Additions | 2,450,000 | - |
| Fair value adjustments through Profit or Loss and Other Comprehensive Income | 2,450,000 | - |
| Closing balance at 30 June | 4,900,000 | - |

Financial assets at fair value through Profit or Loss comprise investments in Convertible Notes of Lakes Oil NL.

| | | |
|---|---|---|
| **Movements in available for sale financial assets** | | |
| Opening balance at 1 July | 4,500,000 | - |
| Additions | - | 2,250,000 |
| Additions acquired with Ripple Resources Pty Ltd | 2,000 | - |
| Fair value adjustments through Profit or Loss and Other Comprehensive Income | - | 2,250,000 |
| Closing balance at 30 June | 4,502,000 | 4,500,000 |

Available for sale financial assets comprise investments in the ordinary issued capital of Lakes Oil NL and AusNiCo Limited, listed on the Australian Securities Exchange.

| | | |
|---|---|---|
| **Note 13. Property, Plant and Equipment** | | |
| Motor vehicles – at cost | 194,793 | 194,793 |
| Accumulated depreciation | (54,495) | (15,544) |
| Written down value | 140,298 | 179,249 |
| | | |
| Office equipment – at cost | 65,739 | 39,059 |
| Accumulated depreciation | (21,023) | (5,158) |
| Written down value | 44,716 | 33,901 |
| | | |
| Plant and equipment – at cost | 62,969 | 2,400 |
| Accumulated depreciation | (3,984) | (440) |
| Written down value | 58,985 | 1,960 |
| | | |
| Total written down value | **243,999** | **215,110** |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
**For the year ended 30 June 2013**

**Note 13. Property, Plant and Equipment (continued)**

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

| | Motor Vehicles $ | Office Equipment $ | Plant & Equipment $ | Total $ |
|---|---|---|---|---|
| **Year ended 30 June 2013** | | | | |
| At 1 July 2012 net of accumulated depreciation | 179,249 | 33,901 | 1,960 | 215,110 |
| Additions | - | 26,680 | 60,569 | 87,249 |
| Disposals | - | - | - | - |
| Depreciation charge for the year | (38,951) | (15,865) | (3,544) | (58,360) |
| At 30 June 2013 net of accumulated depreciation | **140,298** | **44,716** | **58,985** | **243,999** |
| | | | | |
| **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** |

| | 2013 $ | 2012 $ |
|---|---|---|
| **Note 14. Exploration and Evaluation Assets** | | |
| Exploration and evaluation assets | **43,258,305** | **20,385,252** |
| | | |
| ***Movements in carrying amounts*** | | |
| Balance at the beginning of the year | 20,385,252 | 723,933 |
| Additions | 22,864,052 | 19,661,319 |
| Additions acquired with Ripple Resources Pty Ltd | 9,001 | - |
| Balance at the end of the year | **43,258,305** | **20,385,252** |

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.

| | 2013 $ | 2012 $ |
|---|---|---|
| **Note 15. Trade and Other Payables** | | |
| Trade creditors | 7,234,783 | 5,729,876 |
| Accrued expenses | 1,760,511 | 2,648,095 |
| | **8,995,294** | **8,377,971** |

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.

| | 2013 $ | 2012 $ |
|---|---|---|
| **Note 16. Provisions** | | |
| Employee benefits | **106,380** | **42,297** |
| | | |
| **Note 17. Issued Capital** | | |
| **(a) Issued and paid up capital** | | |
| 300,000,000 (2012: 300,000,000) ordinary shares fully paid | 89,008,001 | 89,008,001 |
| Share issue costs | (7,525,969) | (7,353,613) |
| Recognition of deferred tax asset relating to share issue costs | 1,880,854 | - |
| | 83,362,886 | 81,654,388 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## For the year ended 30 June 2013

### Note 17. Issued Capital (continued)

**(a) Issued and paid up capital (continued)**

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.

| (b) Reconciliation of issued and paid-up capital | Number of Shares | $ |
|---|---|---|
| At 1 July 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 |
| | | |
| Additional share issue costs relating to 20/4/12 issue | - | (172,356) |
| Recognition of deferred tax asset relating to share issue costs | - | 1,880,854 |
| At 30 June 2013 | **300,000,000** | **83,362,886** |

**(c) Options**

As at 30 June 2013, there were 104,950,000 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.
- 12,900,000 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.
- 5,000,000 listed options to take up one ordinary share in Armour Energy Ltd (issued to the Lead Manager) at an exercise price of 50 cents. The options vested immediately on grant and expire 31 August 2014.
- 1,150,000 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 2013) 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 7 May 2015.

**(d) Performance Shares**

As at 30 June 2013, 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).
- 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 December 2013.

**(e) Performance Rights**

As at 30 June 2013, 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.

### Note 17. Issued Capital (continued)

#### (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

#### (a) Recognised share-based payments

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Expense arising from equity settled share-based payment transactions recorded in the statement of comprehensive income | 384,027 | 297,605 |
| Cost of equity settled share-based payment transactions recorded as share issue costs in the statement of financial position | - | 148,554 |
| | **384,027** | **446,159** |

The share-based payments are described below. There have been no cancellations or modifications to any of the share based payments during 2013 and 2012.

#### (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.

*Performance Shares*
The Company 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
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.

### Note 18. Share-based Payments (continued)

**(b) Types of share-based payment plans (continued)**

*Performance Rights (continued)*

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) 15 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:

| | 2013 No. | 2013 WAEP | 2012 No. | 2012 WAEP |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 25,200,000 | $0.50 | 10,900,000 | $0.50 |
| Granted during the year | 1,150,000 | $0.50 | 14,300,000 | $0.50 |
| Forfeited during the year | (1,400,000) | $0.50 | - | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| Outstanding at the end of the year | 24,950,000 | $0.50 | 25,200,000 | $0.50 |
| Exercisable at the end of the year | 10,900,000 | $0.50 | 10,900,000 | $0.50 |

During 2013, 1,150,000 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 2.29 years. These options expire 7 May 2015. A value of $0.0949 was calculated using the Black Scholes valuation methodology (refer below).

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**For the year ended 30 June 2013**

**Note 18. Share-based Payments (continued)**

**(c) Summaries of share-based payment plans (continued)**

**Summary of Performance Shares granted**

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

| | 2013 No. | 2012 No. |
|---|---|---|
| Outstanding at the beginning of the year | 805,000 | - |
| 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 | 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:

| | 2013 No. | 2012 No. |
|---|---|---|
| Outstanding at the beginning of the year | 625,000 | - |
| 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 | 625,000 |

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

**(d) 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 2013 and 2012:

**Employee share options**

| | 2013 | 2012 |
|---|---|---|
| Weighted average exercise price | \$0.50 | \$0.50 |
| Weighted average life of the option | 2.29 years | 3.0 years |
| Underlying share price | \$0.32 | \$0.209 |
| Expected share price volatility | 70.54% | 60.85% - 63.42% |
| Risk free interest rate | 2.78% | 3.14% - 3.71% |
| Number of options issued | 1,150,000 | 14,300,000 |
| Value (Black-Scholes) per option | \$0.0949 | \$0.0372 - \$0.1758 |
| Total value of options issued | \$109,135 | \$601,760 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
**For the year ended 30 June 2013**

**Note 18. Share-based Payments (continued)**

**(d) Share based payment pricing model (continued)**

**Performance Shares**

| | 2013 | 2012 |
|---|---|---|
| Weighted average exercise price | - | $0.00 |
| Weighted average life of the share | - | 2.13years |
| 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**

| | 2013 | 2012 |
|---|---|---|
| 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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**For the year ended 30 June 2013**

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Note 20. Cash Flow Reconciliation** | | |
| Profit (Loss) after income tax | 1,579,900 | (1,509,547) |
| Non-cash items | | |
| - Share based payments | 384,027 | 297,605 |
| - Depreciation | 58,360 | 20,018 |
| - Deferred tax | 1,905,188 | (675,000) |
| - Change in FV on investments through Profit or Loss | (2,450,000) | - |
| Share issue costs classified as financing activities | - | 556,016 |
| Interest income classified as investing activities | (122,500) | - |
| Changes in operating assets and liabilities* | | |
| (Increase) decrease in trade and other receivables | - | 114,072 |
| (Increase) decrease in other current assets | (80,632) | (519,242) |
| Increase (decrease) in trade and other payables | 87,770 | 1,109,755 |
| Increase (decrease) in provisions | 64,082 | 27,719 |
| Net cash flows from operating activities | **1,426,195** | **(578,604)** |

* Net of amounts relating to exploration and evaluation assets.

**Non-cash investing and financing activities**

| | | |
|---|---|---|
| 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.

**(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) | 2013 | - | 499,500 | - |
| | 2012 | - | 378,000 | - |
| Samuel Holdings Pty Ltd (ii) | 2013 | - | - | - |
| | 2012 | - | 3,500,000 | - |
| Hopgood Ganim (iii) | 2013 | - | 609,890 | - |
| | 2012 | - | 901,525 | - |
| Bizzell Capital Partners (iv) | 2013 | - | 125,000 | - |
| | 2012 | - | 2,306,199 | - |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
**For the year ended 30 June 2013**

**Note 21. Related Party Disclosures (continued)**

**(c) Transactions with related parties (continued)**

(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 $45,000 (2012: $31,500) per month. For the year ended 30 June 2013 $499,500 (2012: $378,000) was paid or payable to DGR Global for the provision of the Services. The total amount outstanding at year end was $100 (2012: $11,058).

(ii) 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. For the year ended 30 June 2013, $nil was paid or payable to Samuel Holdings Pty Ltd. (2012: $3,500,000). The total amount outstanding at year end was $nil (2012: $1,128,158).

(iii) 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 2013, $609,890 (2012: $901,525) 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 $84,043 (2012: $10,367).

(iv) 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 was payable for a minimum of 12 months following the IPO, and expired at the end of April 2013.

For the year ended 30 June 2013, $125,000 (2012: $2,195,887 plus options valued at $110,312) 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 $6,875 (2012: $nil).

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

**(d) Loans from related parties**

No such loans existed at any time during the year ended 30 June 2013 (2012: $nil).

# NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2013

**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:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Less than 12 months | 30,962,500 | 500,000 |
| Between 12 months and 5 years | 96,182,500 | 8,150,000 |
| | **127,145,000** | **8,650,000** |

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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2013

**Note 23. Financial Risk Management (continued)**

**(b) Credit Risk (continued)**

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.

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<br>2013<br>$ | Fixed interest rate<br>2013<br>$ | Non-interest bearing<br>2013<br>$ | Total carrying amount<br>2013<br>$ | Weighted average effective interest rate<br>2013<br>% |
|---|---|---|---|---|---|
| **(i) Financial assets** | | | | | |
| Cash and cash equivalents | 1,389,877 | 35,663,517 | - | 37,053,394 | 3.95% |
| Trade and other receivables | - | - | 1,013,574 | 1,013,574 | N/A |
| Available for sale financial assets | - | - | 4,502,000 | 4,502,000 | N/A |
| Investments at fair value through profit or loss | - | 2,450,000 | 2,450,000 | 4,900,000 | 5% |
| Security deposits | - | - | 764,027 | 764,027 | N/A |
| **Total financial assets** | **1,389,877** | **38,113,517** | **8,729,601** | **48,232,995** | |
| | | | | | |
| **(ii) Financial liabilities** | | | | | |
| Trade and other payables | - | - | 7,234,783 | 7,234,783 | - |
| **Total financial liabilities** | **-** | **-** | **7,234,783** | **7,234,783** | |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## For the year ended 30 June 2013

### Note 23. Financial Risk Management (continued)

| | 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 | |
| **Total financial liabilities** | **-** | **-** | **8,377,971** | **8,377,971** | |

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

**(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 2013.

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **2013** | | | | |
| Available for sale financial asset | 4,502,000 | - | - | 4,502,000 |
| Lakes Oil convertible notes | 4,900,000 | | | 4,900,000 |
| **2012** | | | | |
| Available for sale financial asset | 4,500,000 | - | - | 4,500,000 |

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

### Note 24. Asset Acquisitions

On 27 March 2013, Armour Energy acquired 100% of the capital of Ripple Resources Pty Ltd (an entity associated with DGR Global Ltd), an Australian company with mining tenement applications in northern Australia, for cash consideration of $10. In accordance with AASB 3, this transaction has been treated as an asset acquisition. The following table shows the assets acquired, liabilities assumed and the purchase consideration at acquisition date.

| | Fair Value $ |
|---|---|
| Investments & security deposits | 4,500 |
| Intangible assets – exploration expenditure | 9,001 |
| Trade creditors | (13,491) |
| **Consideration paid** | **10** |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## For the year ended 30 June 2013

**Note 25. 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 26. 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 27. Contingent Assets and Liabilities**

*Exploration 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.

Under the Company's native title agreement over ATP 1087, the Company is required to pay the greater of either $50,000, or:

- 3% of exploration costs within the preceding financial year; and
- 1.5% of the Exploration Costs incurred in the Shared Area within the preceding financial year.

There are no other contingent assets and liabilities at 30 June 2013.

## 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 2013 are in accordance with the *Corporations Act 2001*, including:

      (i) Giving a true and fair view of its financial position as at 30 June 2013 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.

   (d) The remuneration disclosures contained in the Remuneration Report comply with s300A of the Corporations Act 2001.

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 2013.

On behalf of the board

Nicholas Mather
Executive Chairman

Brisbane
Date: 26 September 2013

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# INDEPENDENT AUDITORS' 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 consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

**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 consolidated entity's financial position as at 30 June 2013 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.

**Emphasis of Matter - Material Uncertainty Regarding Going Concern**

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 30 to 37 of the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit Pty Ltd**

BDO

**D P Wright**
Director

Brisbane, 26 September 2013