

QUARTERLY ACTIVITIES REPORT



Quarterly Report – For the Period Ended 31st December 2012

ASX CODE: AJQ

Shares on Issue
300 million

Listed Options
57.7 million

Market Capitalisation (31/12)
\$75m (at AUD\$0.25)

DIRECTORS

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

COMPANY SECRETARY

Karl Schlobohm

CONTACT DETAILS

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HIGHLIGHTS

- EP174 and EP190 granted in the Northern Territory covering a total area of 17,160 km² (4.24 million acres).
- Glyde River Sub-Basin Field estimated to contain a Mean Prospective Conventional Gas Resource of 130.7 Billion Cubic Feet (BCF).
- Additional Glyde Sub Basin targets identified.
- Glyde Sub-Basin Airborne Gravity Survey completed.
- ATP 1087 Granted in Queensland covering an area of 7,138 km² (1.76 million acres).
- 2013 ATP1087 Exploration program planned as part of 3 year target to define up to 9 Trillion Cubic Feet of gas resources and reserves from the Lawn Hill Formation.
- Additional potential identified within Riversleigh Shale in ATP1087.
- Extensive oil play with similarities to the Cooper Eromanga Basin relationships identified within ATP1087.
- Lakes Oil Yallourn 1 Corehole spudded in PEP166 to test source rock potential of the Rintouls Creek Formation.



About Armour Energy

Armour Energy Limited (ASX: AJQ) was admitted to the official list of the ASX with official quotation of securities in the Company commencing at 11:00am AEST on Thursday, 26th April 2012.

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

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

- 221,050,000 fully paid ordinary shares (ASX code : AJQ);
- 57,687,500 options exercisable at \$0.50 expiring on 31st August 2014 (ASX code : AJQO);
- Escrow conditions apply to further shares and options in the Company through to 26 April 2014.

The Company is focussed on the discovery and development of gas and associated liquids resources in a hydrocarbon province in Northern Australia where it now holds four granted exploration permits EP171, 174, 176 and EP190. These granted permits are located in the Northern Territory along with an additional eleven applications for exploration permits in the Northern Territory. **(Figure 1)**

The Company is also the holder of granted tenement ATP1087 and the preferred tender applicant for ATP1107 in the Gulf of Carpentaria region of North Queensland. **(Figure 6)**

At the time of publication, Armour Energy holds an 18.6% interest in ASX-listed Lakes Oil NL (ASX:LKO) and is progressing the exploration and development of gas and associated liquids resources in the Otway and Gippsland basins in Victoria **(Figure 9)**. This will be achieved through the Company's farm in agreements with Lakes Oil where it has now acquired a 51% ownership and operatorship of PEP 169 (Otway Basin) and a 25% ownership of PEP166 (Gippsland Basin) with an option to increase this to 51%. Armour Energy also holds an option to acquire 50% of Lake Oil's interests in PRL2 covering the Trifon Gangell and Wombat gas fields, and 25% of the balance of PRL2, and rights to earn a 50% interest in PRL2 under certain conditions.

Exploration Permits EP174 and EP190 granted in the Northern Territory

On the 13th December 2012 Armour Energy advised that the Company had been granted Exploration Permit 174 covering 4,340km² and Exploration Permit 190 covering 12,820km² in the Northern Territory (**Figure 1**).

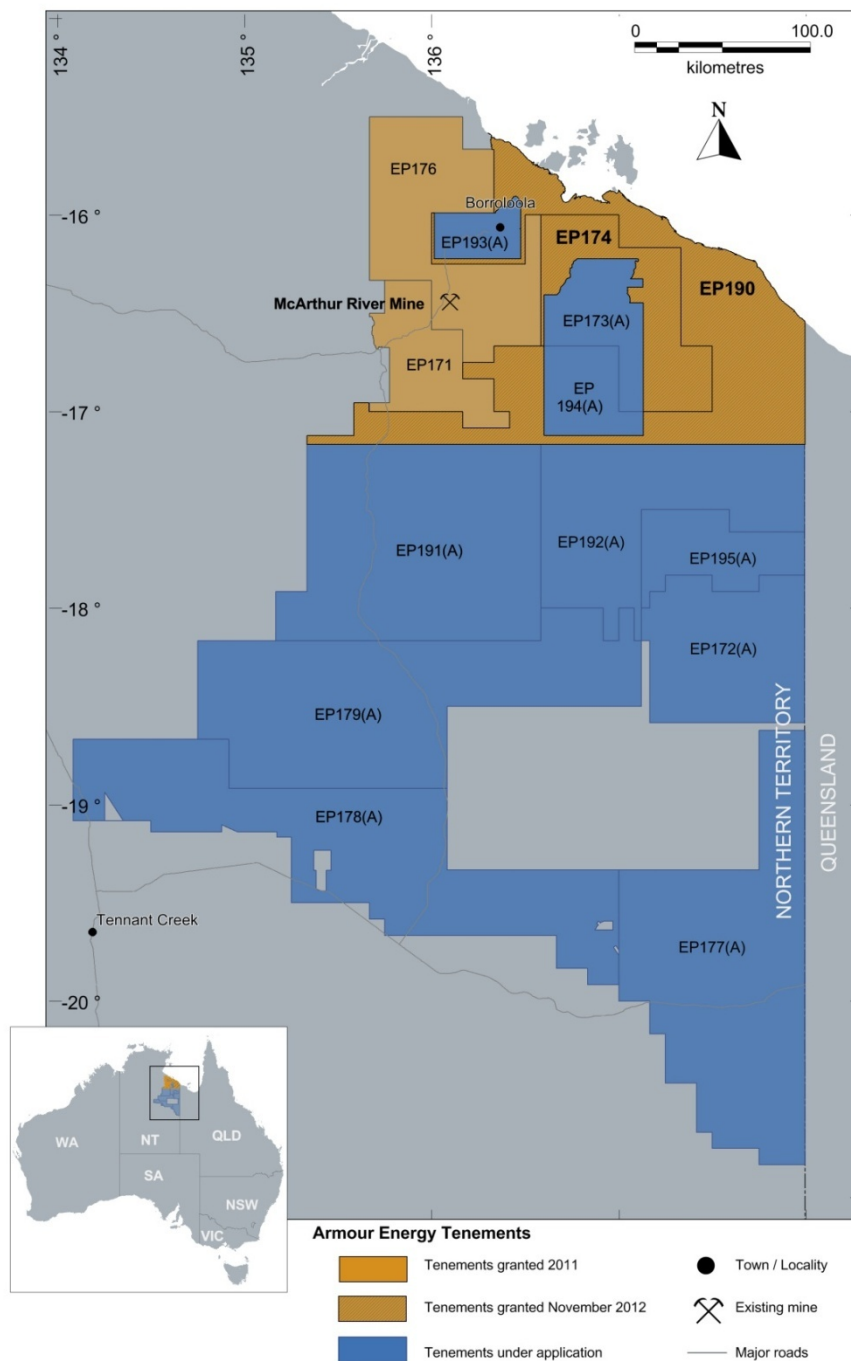


Figure 1 – Armour Energy Northern Territory Granted Tenements and Applications

The granting of EP174 and EP190 has more than doubled Armour Energy's contiguous granted tenement coverage over targeted Proterozoic shale plays in the McArthur Basin from 11,505km² to 28,665km². With the granting of this additional area the Company can now fully test and potentially more than double the size of the prospective Glyde Sub-Basin from 500km² to 1300km² within the Batten Trough of the McArthur Basin (**Figure 2**).

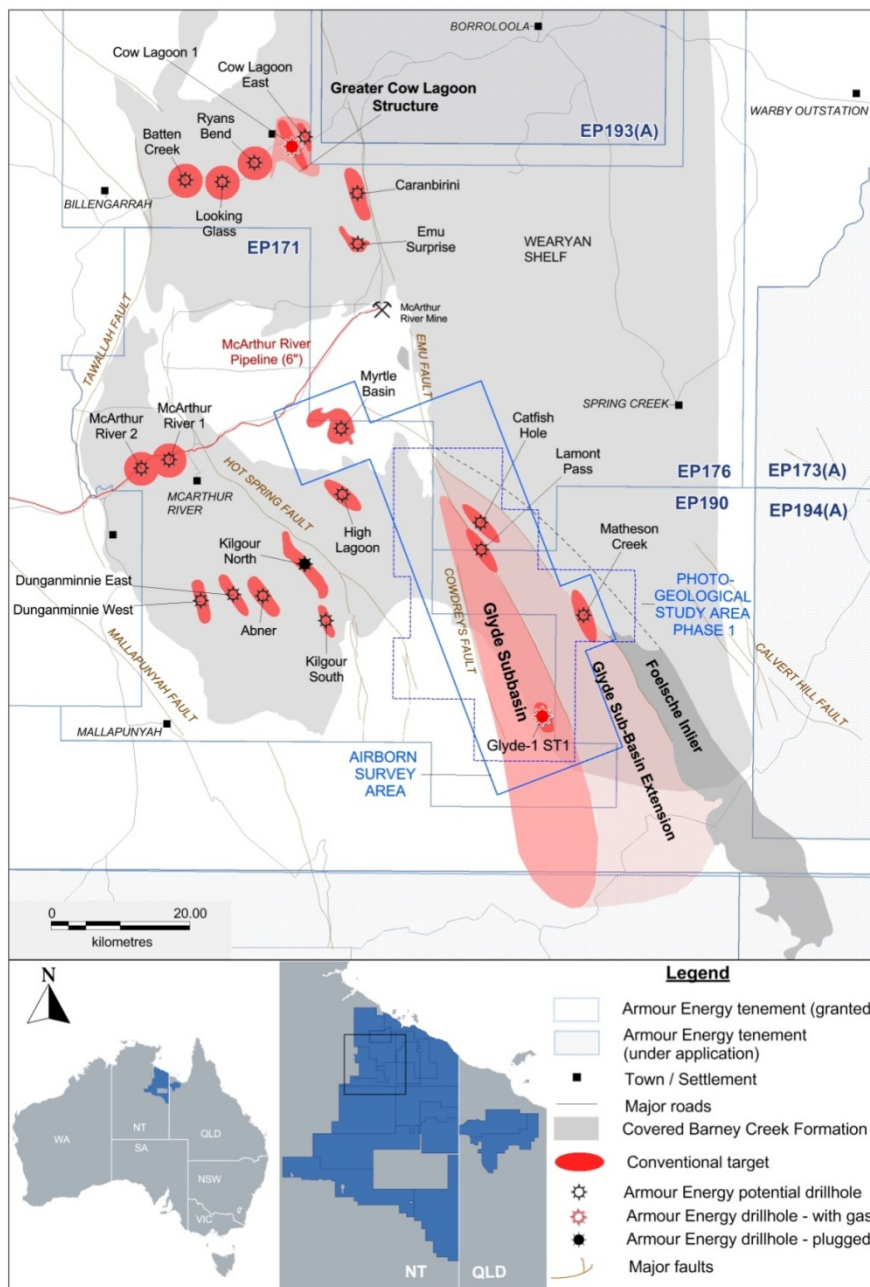


Figure 2 – Northern Territory Exploration areas showing the Glyde Sub-Basin, Glyde 1 Lateral Well Location and other exploration Targets

Glyde Sub-Basin Resource Assessment

On 30th October 2012 Armour Energy reported that a resource assessment of the Glyde 1 lateral well had been completed and the gas resource potential of the Coxco Formation in the EP 171 portion of the Glyde Sub-Basin had been estimated as a mean prospective gas resource of 130.7 Billion Standard Cubic Feet (BCF), in accordance with the Society of Petroleum Engineers, Petroleum Resources Management System (SPE-PRMS).

The Glyde Sub-Basin extends for approximately 50km in a North South direction in the region (**Figure 2**) and has been the source of repeated gas shows through previous minerals exploration drilling. The base of the Barney Creek Shale Formation in the region is typically 500 metres to 700 metres deep and provides potential for shallow, low cost, production wells.

Evaluation of drilling and flow testing data from the Glyde 1 lateral well and Glyde 1 vertical well, along with mineral hole data collected by Amoco during the late-1970s to early-1980's, has indicated the Glyde 1 lateral well penetrated part of a covered fault bounded structural high (**Figure 3**).

Armour Energy reported the discovery and gas accumulation around the Glyde 1 lateral well to the Northern Territory Department of Resources as required by the Northern Territory of Australia Petroleum Act, 1994.

The presence of a 132metre thick zone of highly carbonaceous, naturally-fractured, gas-charged, Barney Creek Shale, as intersected by the Glyde 1 vertical well also provides further substantiation of the estimated Mean Prospective Resource of 11.2 TCF for the Barney Creek Formation in EP 171, as prepared by MBA Petroleum Consultants effective 20th March 2012 (Armour Energy, Replacement Prospectus, Independent Expert's Report, 20th March 2012, pg. 109-146).

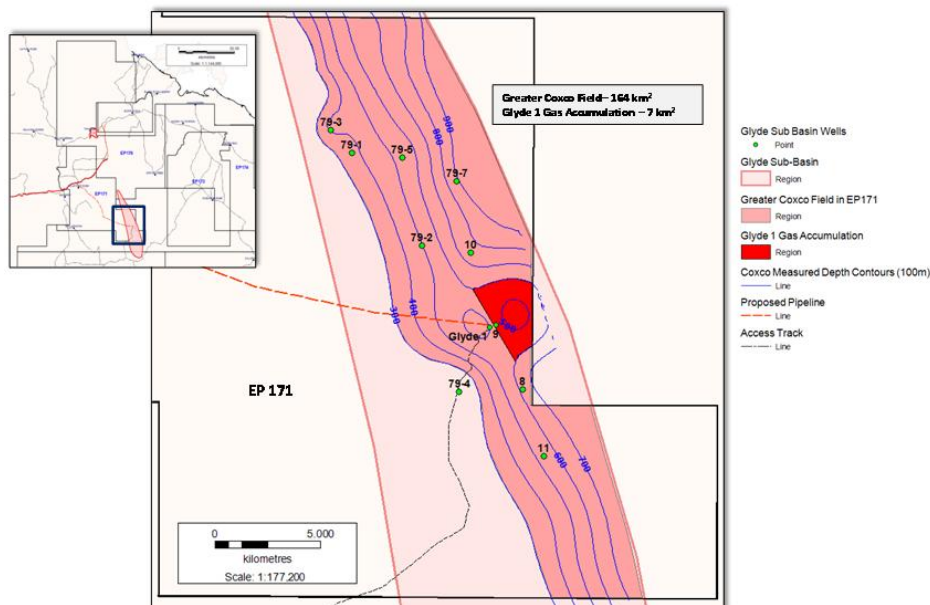


Figure 3: Greater Coxco Field and Glyde 1 lateral well gas accumulation in EP 171, Glyde Sub-Basin

Background to the Glyde 1 Lateral Well

The Glyde 1 lateral well had been drilled in August from a vertical depth of 280m within the Glyde 1 well and deviated through a 250 metre vertical radius to a near horizontal inclination where it progressed past the historic GR-9 well to a measured depth of 840 metres. The Glyde 1 lateral well was drilled under balanced using compressed air and then logged.

The lateral well encountered a gas bearing formation and continuous gas flows to surface from 648 metres measured depth to the final 840 metres measured depth at a vertical depth of circa 500 metres. No water flow was observed from this interval.



**Figure 4: Gas Flare during Testing at Glyde 1 Lateral Well
Measured Well Depth of circa 670m**

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.

Flow tests were performed on the prospective intersection of the middle-Proterozoic aged Barney Creek Shale and the Coxco Dolomite Formations in this interval.

After 45 minutes of testing the total flow on a 16/64 inch choke from the Glyde 1 lateral well was 606 thousand standard cubic feet per day equivalent (mscf/d) at 412 psi pressure. A 30 minute surface shut in pressure of 554 psi was observed after flowing on a 16/64 inch choke.

After 10 minutes of testing with a full open choke of 64/64 inch, the Glyde 1 lateral well was flowing at 3.33 million standard cubic feet per day equivalent (mmscf/d) at a pressure of 125 psi.

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

The well was then cased with solid casing through the vertical and curved sections of the well in conjunction with two separate stages of perforated casing which were installed along the near horizontal lateral section of the well (**Figure 5**).

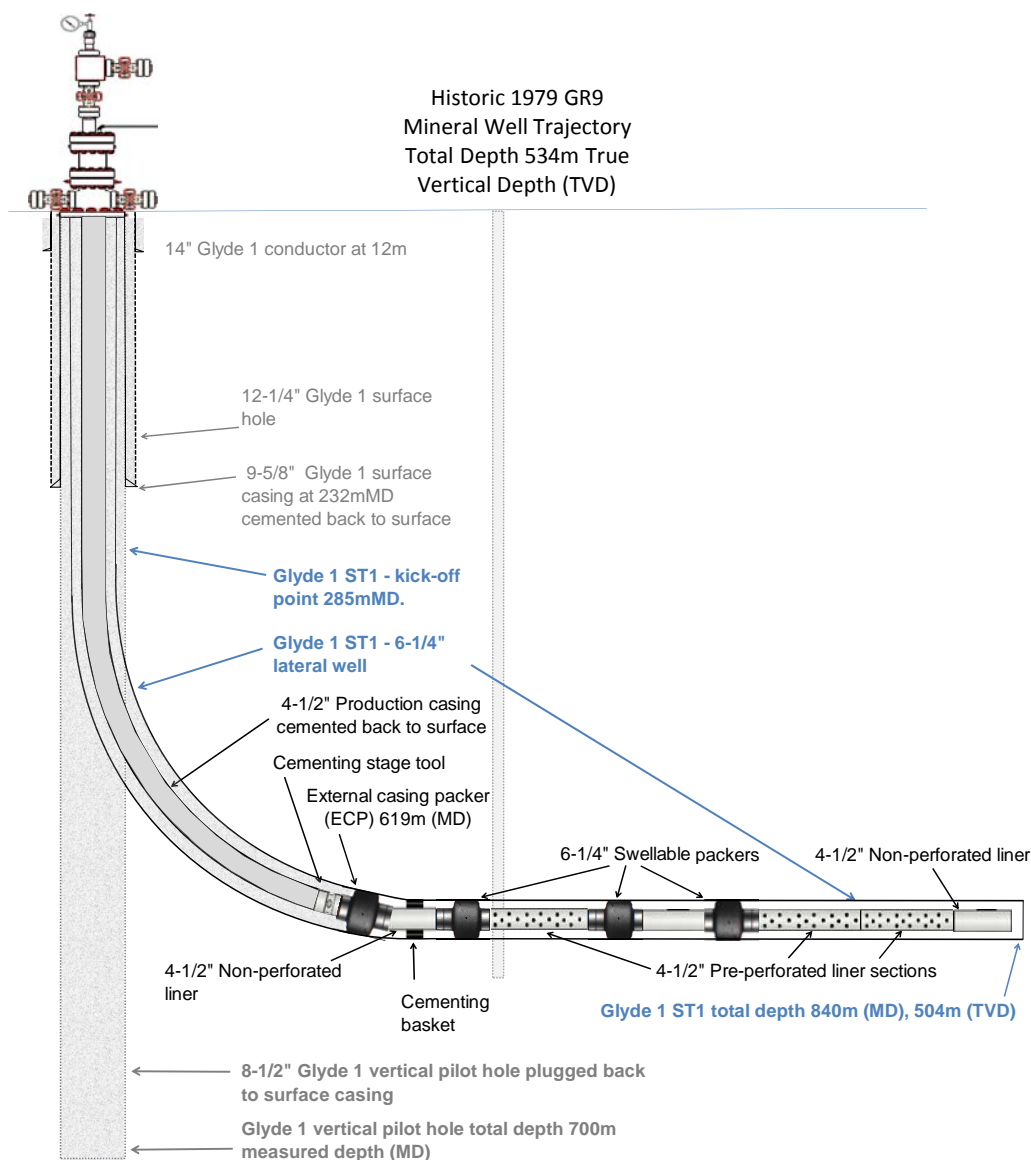


Figure 5: Configuration of the Glyde 1 lateral well after casing and cementing awaiting completion and production testing

Additional Glyde Sub Basin Targets Identified

Ongoing geological studies in EP171 and the recently granted EP174 and EP190 by AUSMEC Geoscience confirm that the Glyde Sub-Basin which hosts an extensive thick, organically rich hydrocarbon charged system in the Barney Creek Shale, can be mapped across the Emu Fault to the Foelsche Inlier and then north along its strike towards the Masterton Horst (**Figure 2**).

With the granting of the new tenements, three new conventional prospects, namely Catfish Hole, Lamont Pass and Matheson Creek (**Figure 2**), can now be fully characterised and added to the growing number of conventional targets that may be explored whilst evaluating the unconventional potential of the Proterozoic Barney Creek Shale Play across the Company's Northern Territory tenements.

The Catfish Hole Anticline covers approximately 11km² and was penetrated by the Amoco 82-6 wellbore to 300 metres and discovered oil in the Stretton Sandstone and Yalco Formations. Immediately southwest, the recently identified 11km² double-plunging Lamont Pass Anticline has never been tested. Both structures are in close proximity to the Emu Fault where the Barney Creek Shale can be greater than 900m thick and are on trend with the Greater Coxco Field.

The unexplored Matheson Creek Prospect, in EP190, is located on the eastern side of the Emu Fault where the Barney Creek Shale has not been tested. This overturned double-plunging anticline covers 15km² adjacent to the major Calvert Hills Fault and is expected to have a similar stratigraphic section to Cow Lagoon-1 which was drilled in EP176 and reported a 100.3 BCF of mean prospective resource discovery in June 2012.

Glyde Sub-Basin Gravity and Magnetic Survey completed

A gravity gradiometer, magnetic and digital terrain airborne survey at 400m line spacing has been flown by airborne geophysical contractor Fugro in early January 2013 over a selected 1,642km² portion of the Glyde Sub-Basin with the aim of identifying subsurface structures similar to the Glyde-1 discovery and other high priority targets in the Barney Creek Shale.

The data from this survey is now being processed to generate a structural map of the Glyde Sub-Basin region. Armour Energy believes that this airborne survey, which has been successfully employed to image subsurface structures in onshore and offshore portions of the Canning Basin and which led to recent hydrocarbon discoveries, will allow for a more direct exploration strategy to high grade the area for additional drilling targets, strategically locating 2-D seismic lines and magneto-telluric surveys.

Armour Energy granted ATP1087 in North Queensland

Tenement Grant

On the 20th December 2012 Armour Energy advised that the Company had been granted exploration tenement ATP1087 over an area of 7138 km² (1.76 million acres) in Northern Queensland (**Figure 6**). 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 ATP1107 where Armour Energy is the Preferred Tenderer, and to the west into Armour's Northern Territory application areas.

The target Lawn Hill Shale contains a thick, organic-rich source rock section showing up to 8% gas recorded in mud logs during drilling of four petroleum exploration wells by Comalco in the early 1990s. These wells in conjunction with substantial seismic data delineate an immediate Lawn Hill Shale exploration target area of approximately 1400 km² within the eastern area of ATP1087. A gas exploration fairway of an additional 6000 km² extends to the west across ATP 1087 and south into ATP1107 (**Figure 6**).

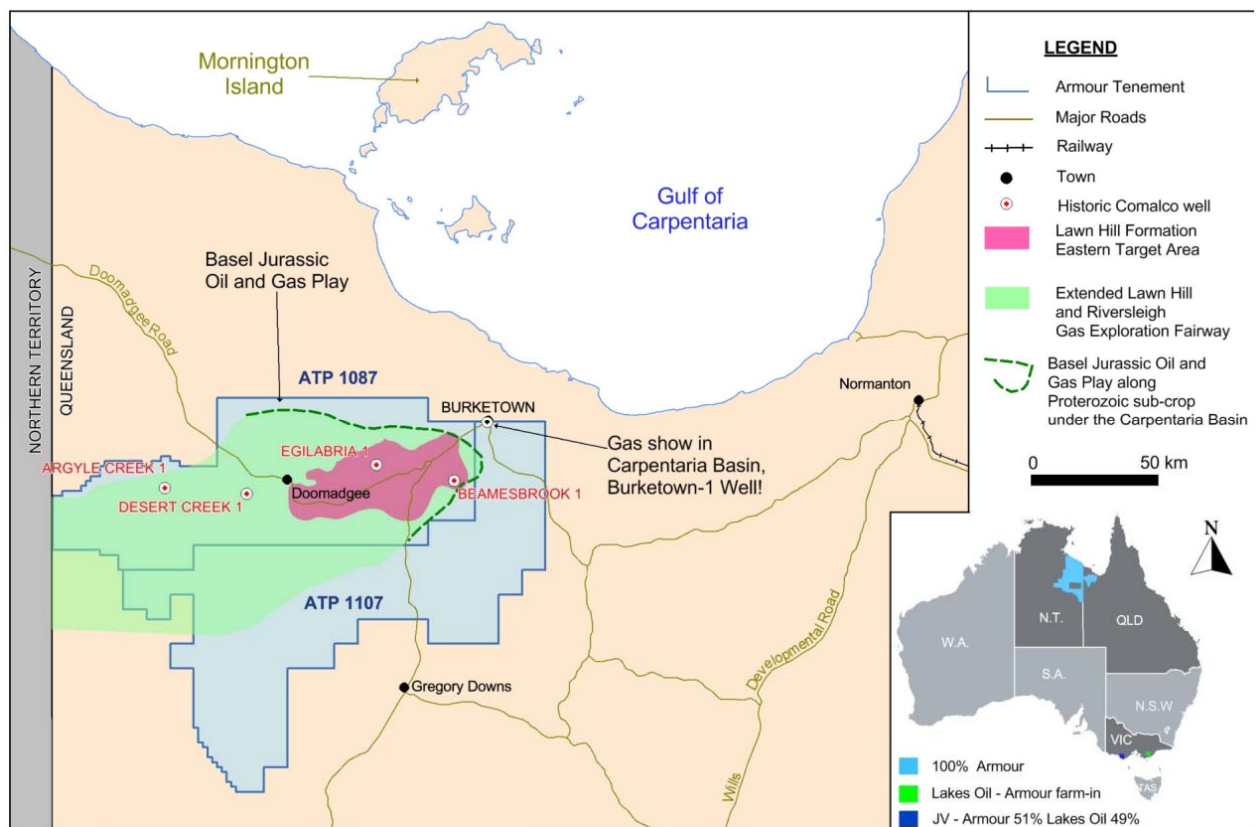


Figure 6: Armour Energy Granted Queensland Tenement ATP1087 and ATP 1107 where Armour Energy is Preferred Tenderer.

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

The Company announced that it is proposing to finalise initial drill sites across ATP1087 during early 2013. These will be located on pre-existing seismic lines. During the 2013 drilling campaign Armour proposes to drill three vertical wells and one lateral well targeting the Lawn Hill Shale. The first well is proposed in the eastern area of ATP 1087 adjacent to the Egilabria 1 well which recorded up to 8% gas (390 gas units) on mud logs during drilling in 1992 (**Figure 7**). Further seismic surveys are also proposed for 2013.

The primary target for Armour's aggressive drilling program over the next three years is to define up to 9 trillion cubic feet of gas resources and reserves from the Lawn Hill Shale Play in eastern area of ATP 1087. 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 65PJ of gas fired energy per annum along with the potential for export LNG opportunities.

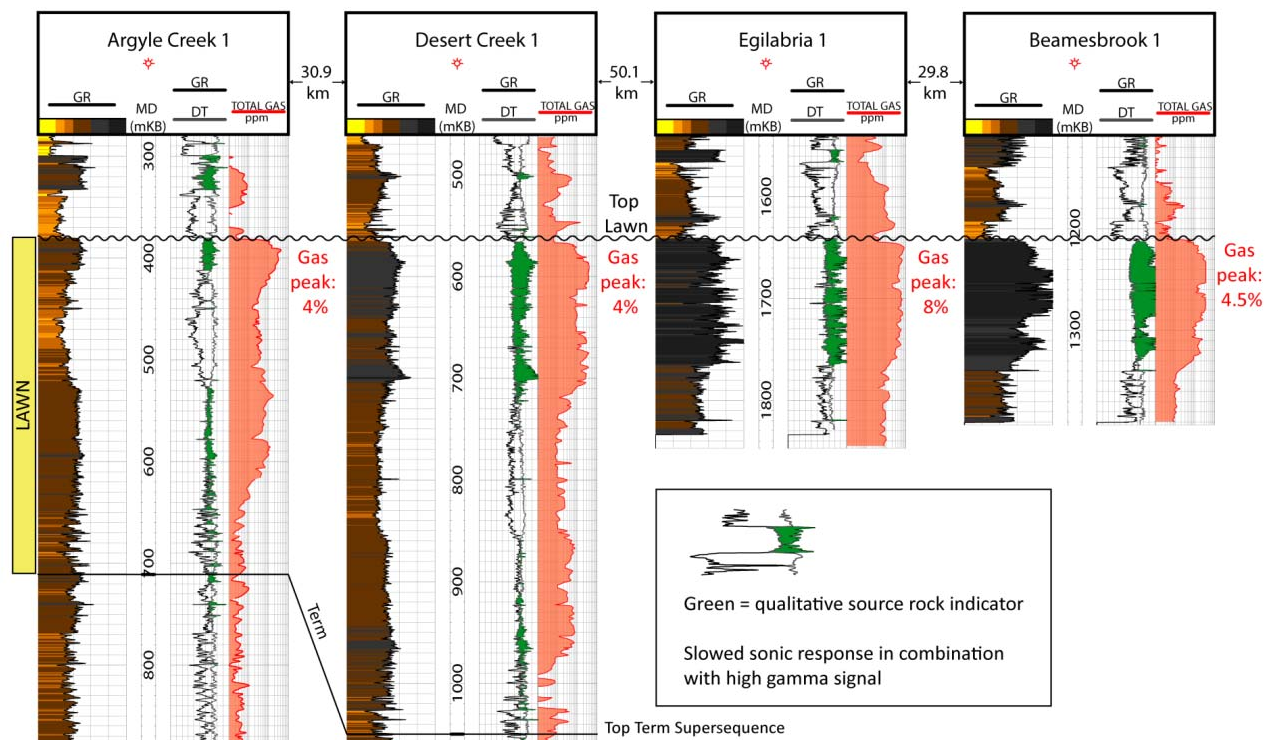


Figure 7: 110km west to east continuous stratigraphic section of the Lawn Hill Shale pay zone across ATP1087.

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.

Additional Riversleigh Shale Gas Upside

Armour Energy's 2013 drilling plans also include exploration of a newly identified regionally extensive shale gas play within the Riversleigh Shale. This shale is a stratigraphic equivalent of the Barney Creek Shale in the McArthur Basin, Northern Territory over which Armour holds tenements and applications over 125,000 km² in 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 8**). Should the drilling programme prove up the existence of a Riversleigh Shale Gas Play then the total potential for gas from the area will increase significantly and in combination with the Lawn Hill Shale Gas play create a regionally pervasive, stacked and continuous gas charged shale play.

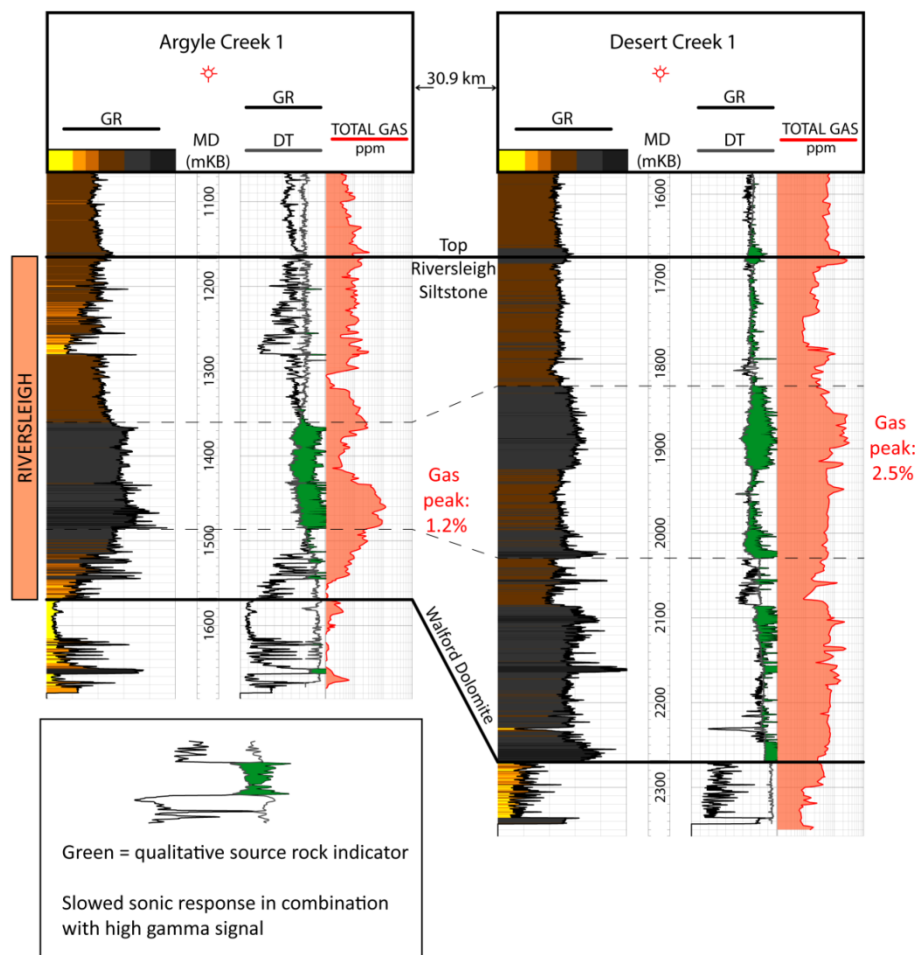


Figure 8 – Stratigraphic section of the Riversleigh Formation pay zone in ATP1087. Source rock in the Riversleigh Shale is indicated by green shading. Gas kicks up to 2.5% were observed in Desert Creek 1.

Additional Oil Play in ATP 1087

Based on previous oil and gas shows Armour Energy has also identified an oil and gas play in the basal Jurassic sand unit that has been confirmed in regional drilling as being porous and permeable. Armour has identified a number of leads around the Lawn Hill and Riversleigh Shale sub crops below the Carpentaria Basin (**Figure 9**).

Armour is currently finalising the planning for an exploration and appraisal program to define 9 Trillion Cubic Feet (TCF) of gas resources and reserves over the next 3 years. Details of this planned exploration and appraisal program along with further information regarding the basal Jurassic oil and gas play plus an inventory of prospects and leads is to be released early in 2013.

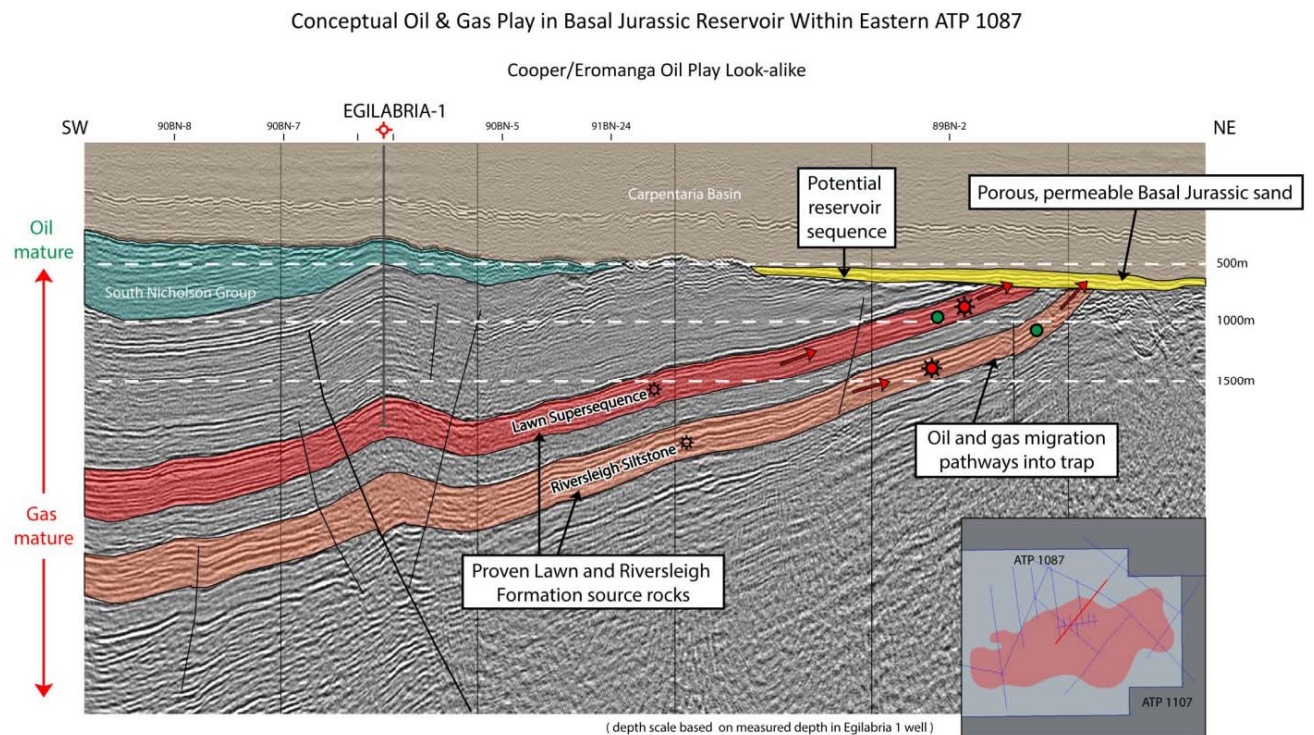


Figure 9: Interpreted seismic section 89BN-6 showing conceptual oil and gas play within Basal Jurassic sand, sourced from Proterozoic Lawn Hill and Riversleigh source rocks.

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

On 20th December 2012 Lakes Oil (LKO) advised that it had commenced drilling of the Yallourn Power - 1 Corehole located near the Yallourn Power Station within PEP166, Gippsland Basin Victoria.

The corehole is being drilled to a depth of approximately 1500m to test the extent, thickness and source rock potential of the Rintouls Creek Formation which may have the potential to contain oil bearing source rock at deeper locations in the central onshore Gippsland Basin.

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

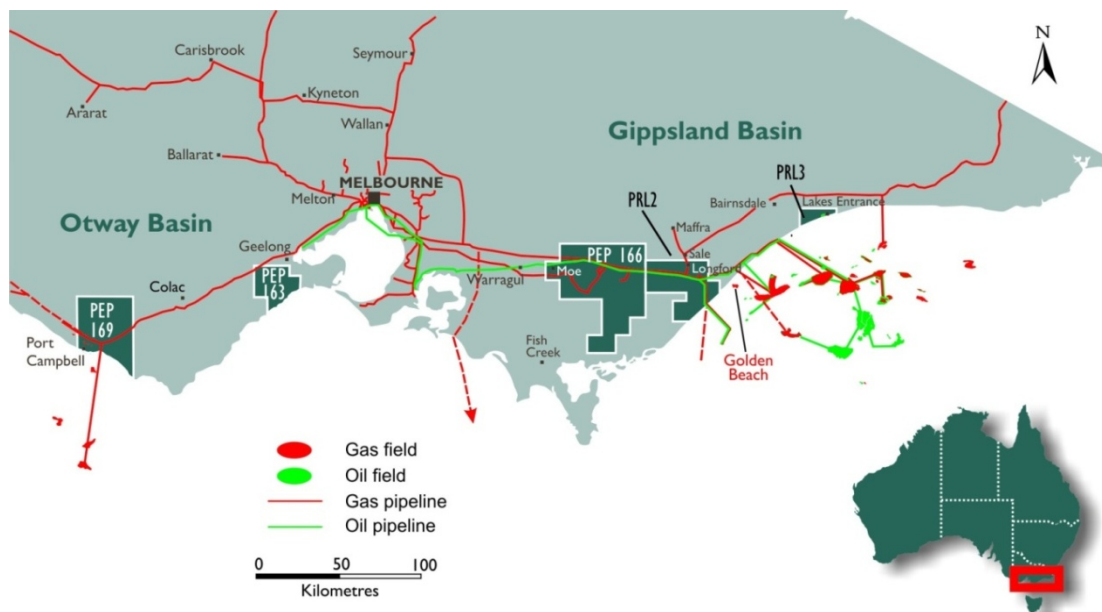


Figure 9: Location of PEP169 Otway Basin and PEP166 Gippsland Basin.



About Armour Energy Limited

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

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

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

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

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

A handwritten signature in blue ink, appearing to read "K. Schlobohm".

On behalf of the Board
Karl Schlobohm
Company Secretary

The resource estimates used in this announcement for the Cow Lagoon discovery, the Greater Coxco Field / Glyde River Sub-Basin in EP 171, and target estimates for ATP1087 have been 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 announcement.

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