

Armour Energy Limited

21 December 2012

Market Update

Following yesterday's ASX announcement regarding the grant of Queensland tenement ATP1087 ([Please Click Here](#)), the Directors of Armour Energy Limited (ASX: AJQ) (the **Company**) are pleased provide the attached market update.



On behalf of the Board
Karl Schlobohm - Company Secretary

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

About Armour Energy

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



Armour Energy

Investor Update
December 2012



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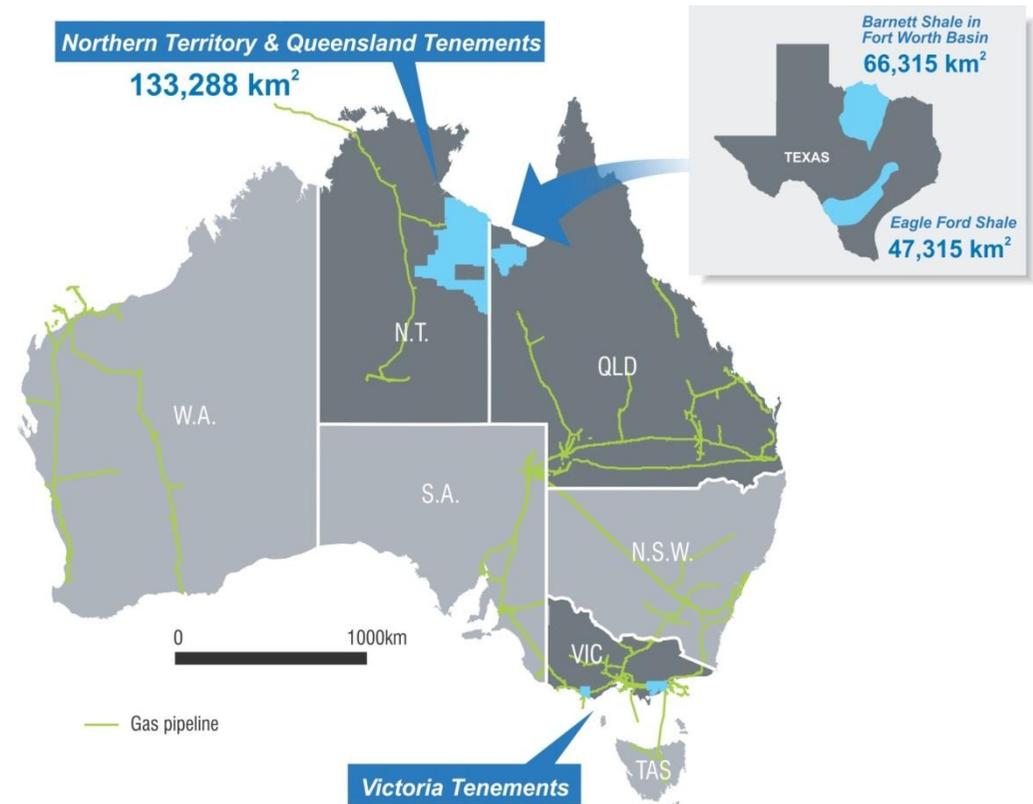
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This presentation contains certain "forward-looking statements". The words "expect", "should", "could", "may", "predict", "outlook", "guidance", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Armour and the Relevant Parties, that may cause actual results to differ materially from those predicted or implied by any forward-looking statements. Armour makes no representations as to the accuracy or completeness of any such statement of projections or that any projections will be achieved and there can be no assurance that any projections are attainable or will be realized or that actual outcomes will not differ materially from any forward-looking statements.

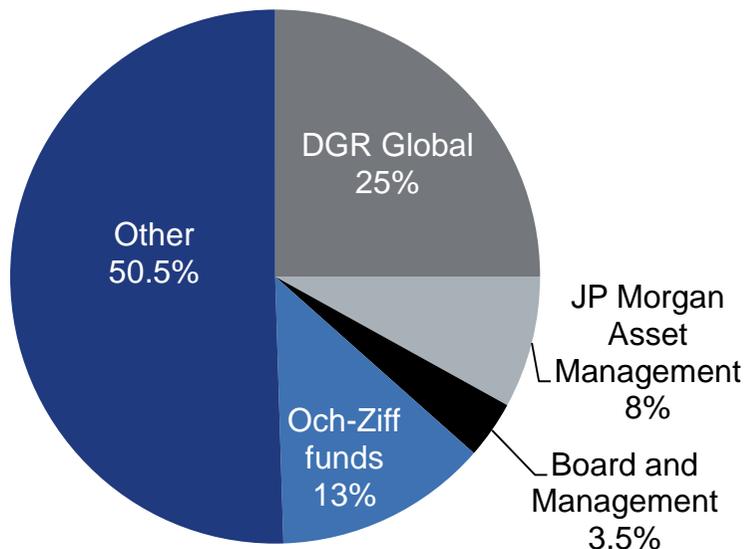
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- ▶ 100% ownership of an entire petroleum province – 33m acres
- ▶ Access to infrastructure and markets
- ▶ 41.3 Tcf and 2.2 bbls Prospective Resource assessed in northern Australia alone – represents a volume equivalent to 25% of Australia’s known gas resources
- ▶ \$40m net cash currently– fully funded exploration program
- ▶ Year round drilling action
- ▶ Strong forecast domestic and Asia-Pacific gas market
- ▶ Accomplished Board with proven track record - four former Arrow Energy Directors

Location Armour permits – size comparable to entire US basins



Shareholder ownership



ASX	AJQ
Issued shares	300m
Market cap (@ 24cps)	\$72m
EV	\$32m
Acreage	33 million acres

Armour is Under-Priced



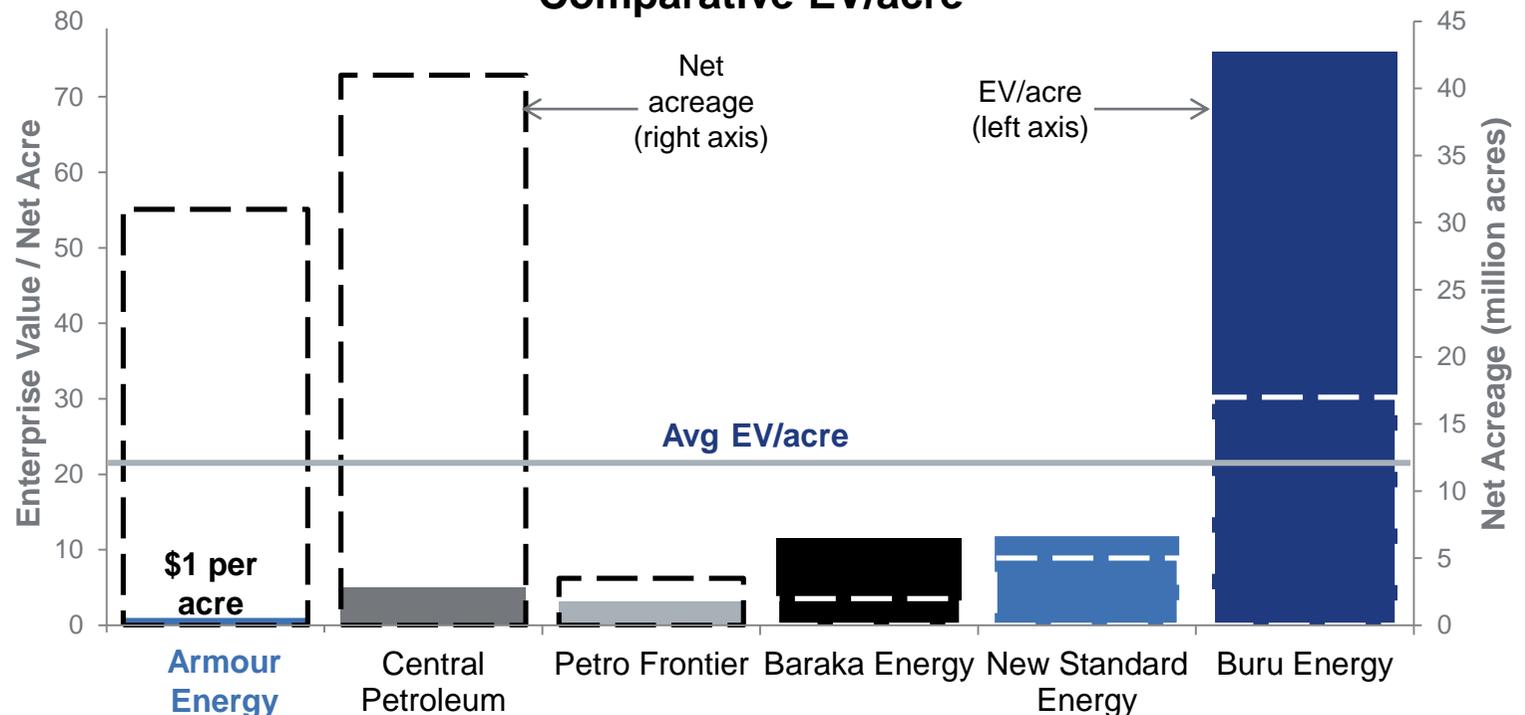
- ▶ Valuations of developed US shale oil acreage range between \$8,000 and \$30,000 per acre
- ▶ Statoil and Total recently took a positions in exploration projects in the Georgina Basin at average price of \$32.79/acre
- ▶ Armour retains 100% ownership

Global Majors Investing in NT Shale Gas Prospects



- ▶ Armour is less than a quarter of the Central Petroleum market price per acre
- ▶ Armour provides the lowest dollar per acre entry into 100% owned shale gas projects in Australia

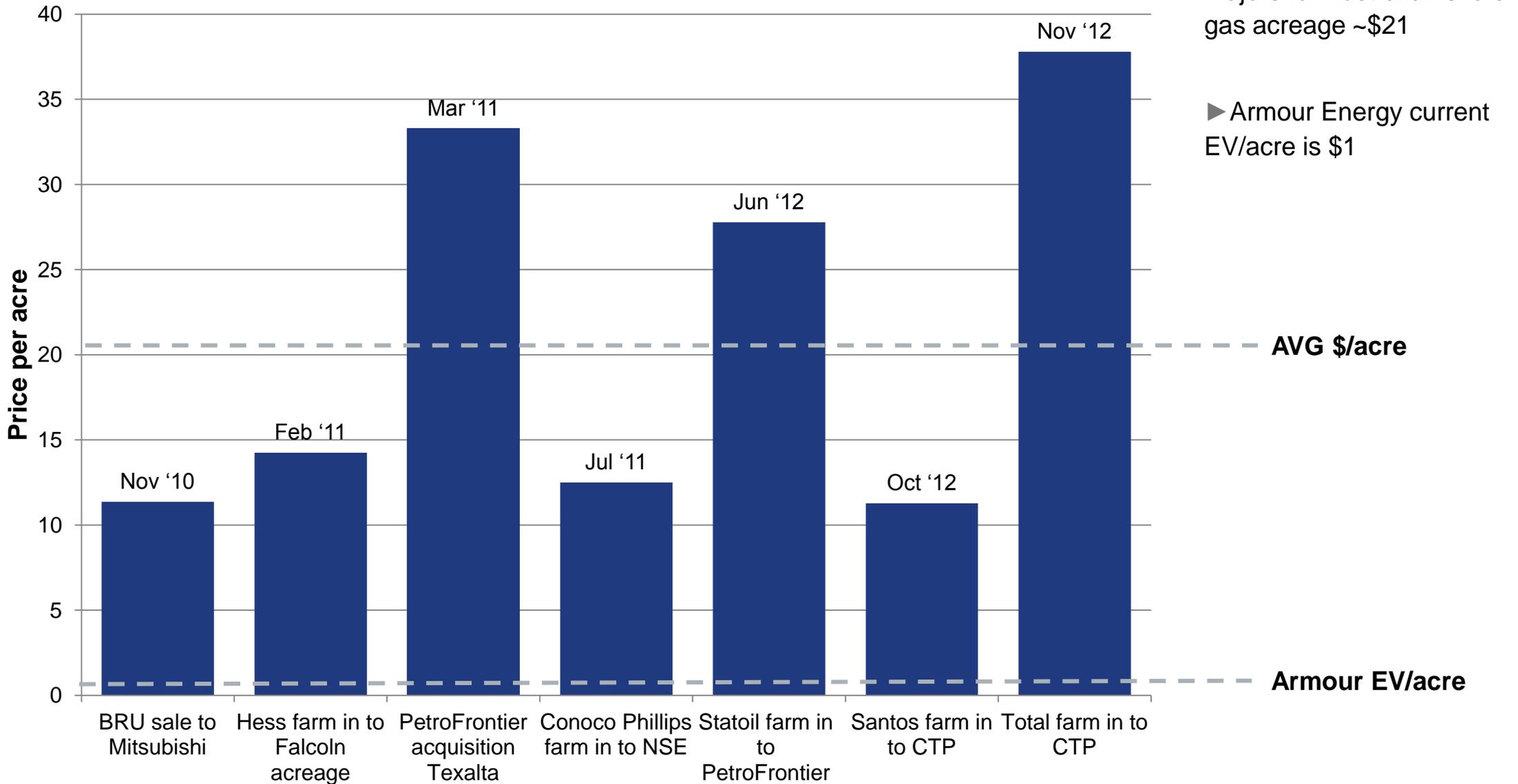
Comparative EV/acre



Armour is Under-Priced



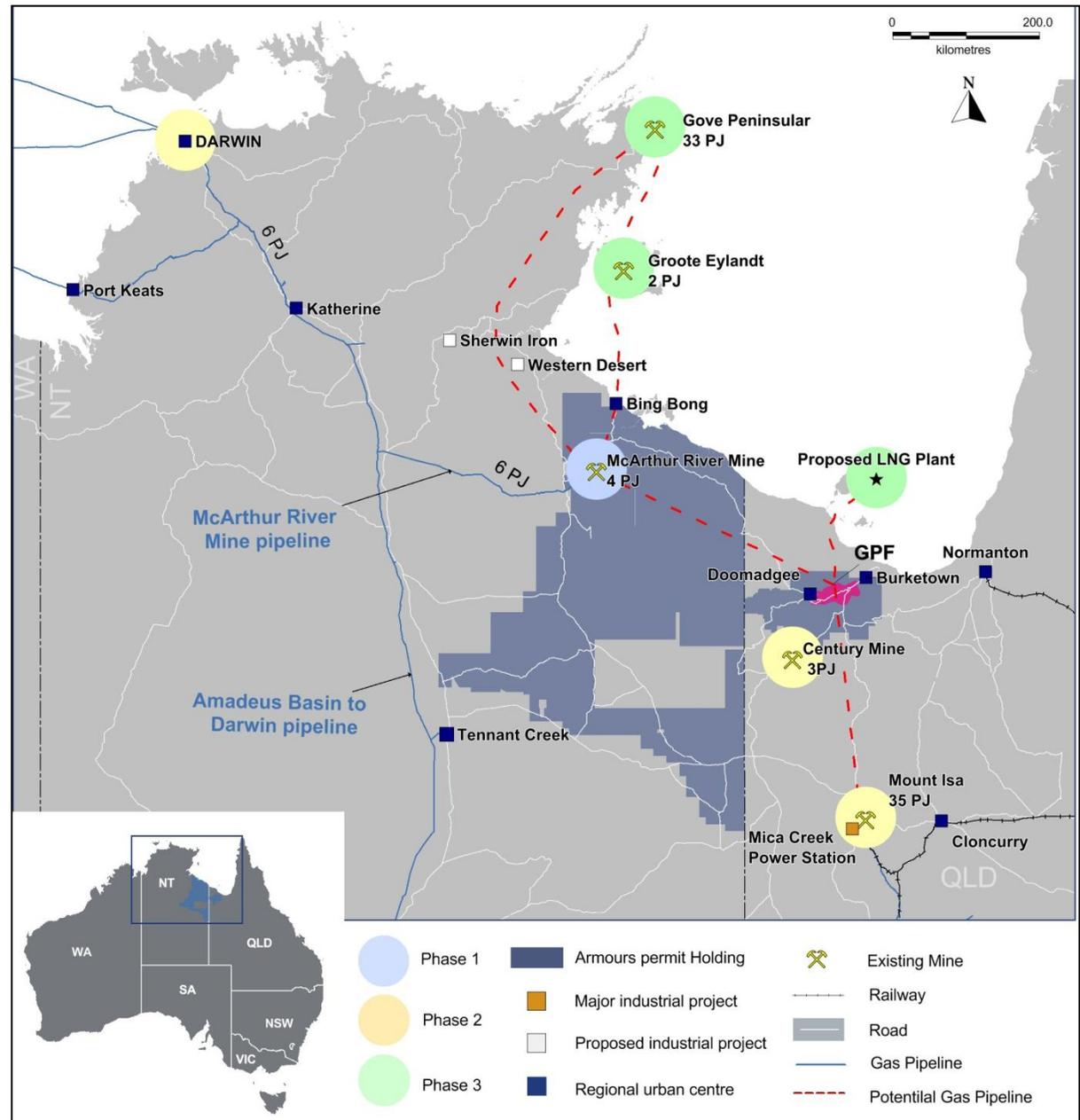
Australian Transaction Valuation Per Acre



NT and QLD – A Clear Path to Commercialisation



	Phase 1	Phase 2	Phase 3
Volume	10PJ 600,000 bbls	60 PJ 3.5 mmbbls	360 PJ 3.5 mmbbls
Timing	2 years	5 years	7 years
New Markets	Local mines and existing pipelines	Northern regional power supply	Offshore export LNG and petrochemical opportunities



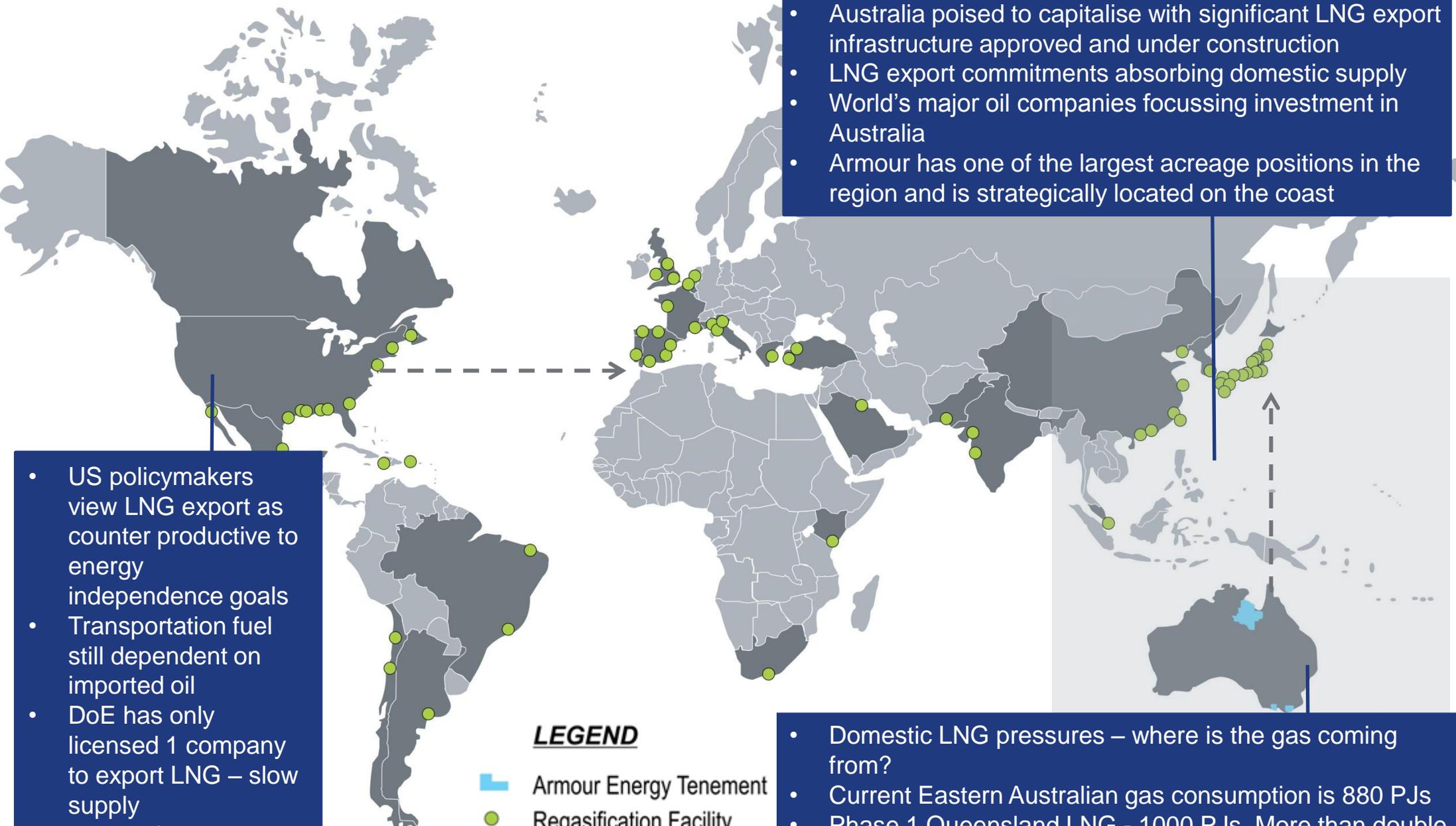
Source: Company publications. PJ represent per annum

¹ Represents energy consumption

² 35PJ includes gas supplied to Mt Isa, Mica Creek station, Phosphate Hill, Cannington

Atlantic and Asian markets remain distinct

- Asia Pacific gas demand to grow by 150% by 2030
- Australia poised to capitalise with significant LNG export infrastructure approved and under construction
- LNG export commitments absorbing domestic supply
- World's major oil companies focussing investment in Australia
- Armour has one of the largest acreage positions in the region and is strategically located on the coast



- US policymakers view LNG export as counter productive to energy independence goals
- Transportation fuel still dependent on imported oil
- DoE has only licensed 1 company to export LNG – slow supply responsiveness

LEGEND

- Armour Energy Tenement
- Regasification Facility

- Domestic LNG pressures – where is the gas coming from?
- Current Eastern Australian gas consumption is 880 PJ
- Phase 1 Queensland LNG - 1000 PJ. More than double this demand by 2014

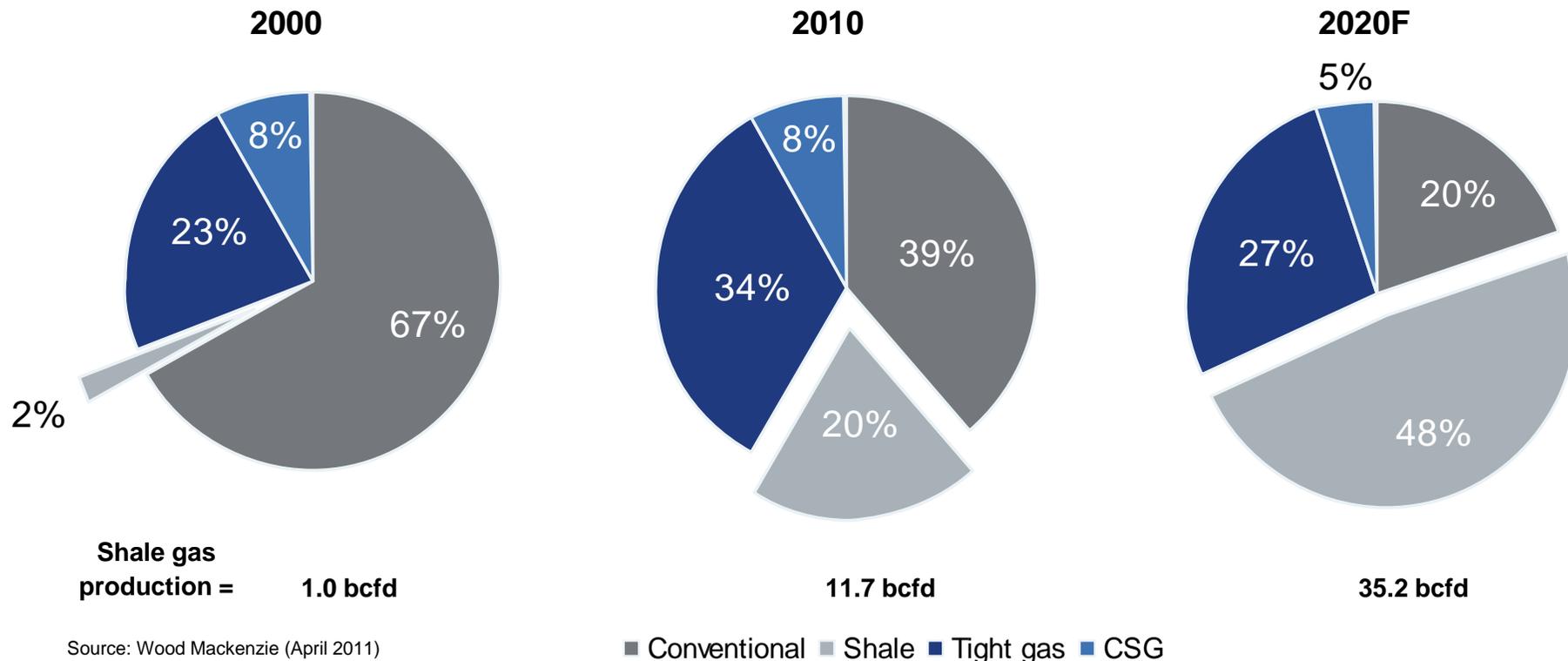
Shale Technology Delivering Rapid Production Growth



Applying proven technology in North America

- ▶ Developments in technology have unlocked new resource potential
- ▶ Economic viability of shale gas production has been proven in the U.S.
 - ‘*Shale revolution*’ driving the country’s industrial renaissance – industrial production is up 12% since 2010
- ▶ Shale gas (and liquids) have underpinned strongest production growth in the U.S. energy sector in the last decade
- ▶ Expert US service providers are increasing their presence in Australia – Halliburton forecast cost reductions

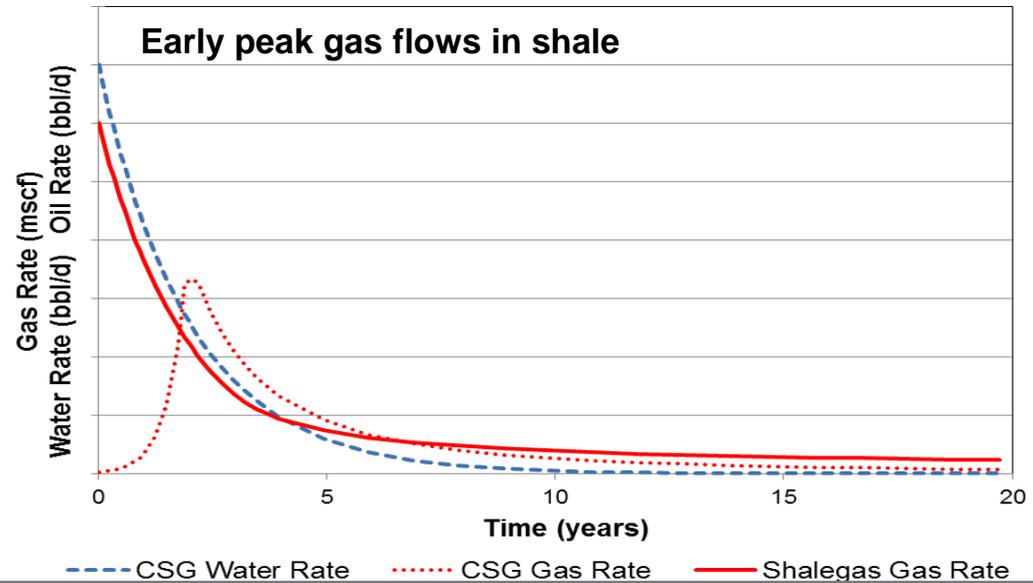
Shale gas has a growing share of production in the U.S.



Source: Wood Mackenzie (April 2011)

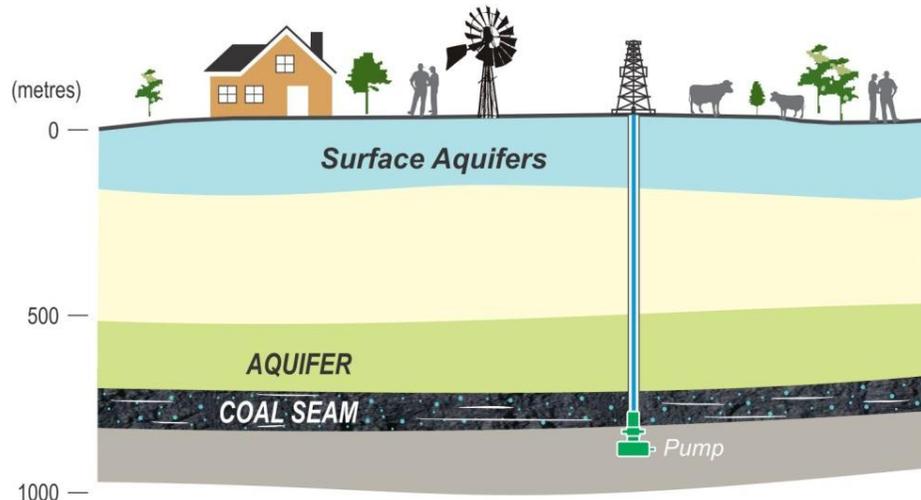
Why Shale Gas?

- ▶ Shale gas has thicker reservoirs
 - Coal 5-10m compared to shales 150m
- ▶ Early peak gas flows
- ▶ Early payback and strong returns
- ▶ Armour project areas are sparsely populated with no agriculture
- ▶ CSG wells require dewatering

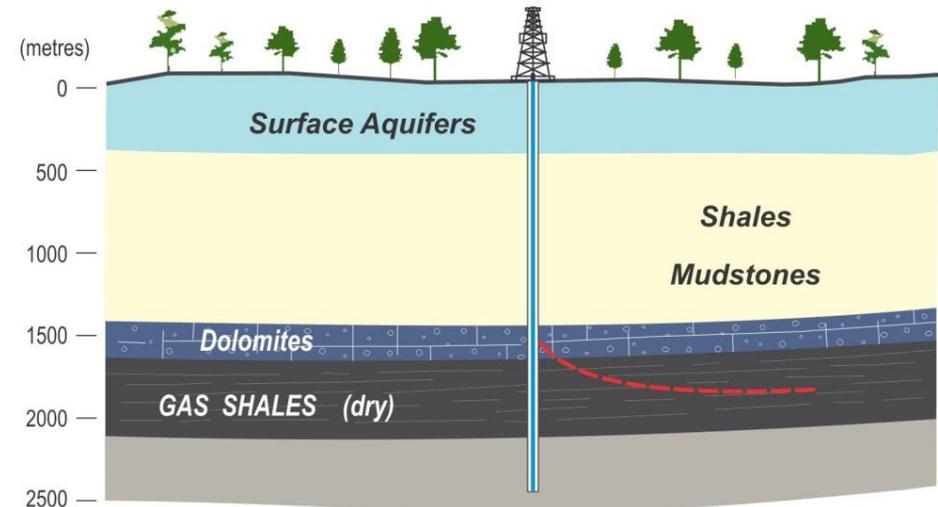


Indicative comparison of CSG in QLD compared Armour shale projects

Coal Seam Gas Well - by-product H₂O



Shale Gas Well



- ▶ Track record of delivering value
- ▶ Economic alignment with shareholders
- ▶ Extensive experience building resource production companies
- ▶ Four founding directors of Arrow Energy

Armour Energy Board of Directors



Nicholas Mather,
Executive Chairman

Strategic

- ▶ B.Sc (Hons. Geology)
- ▶ More than 25 years experience in junior resource sector
- ▶ Co-founder and former Executive Director of Arrow Energy; Chairman of Waratah Coal; Director of Bow Energy



Philip McNamara,
Chief Executive Officer

Operations

- ▶ B.Eng
- ▶ 30 years experience in Australian resource industry
- ▶ Former Managing Director of Waratah Coal



Jeremy Barlow,
Non-Executive Director

Engineering

- ▶ B.Eng (Mining), MBA
- ▶ Long and distinguished career in the coal and petroleum industries and a Fellow of the Australasian Institute of Mining and Metallurgy
- ▶ Founder of CH4 Gas Ltd and following merger with Arrow Energy, continued a Non-Executive Director
- ▶ Founder of coal consulting company Barlow Jonker, acquired by Wood Mackenzie and currently a Non-executive Director of Bandanna Energy Ltd



Stephen Bizzell,
Non-Executive Director

Finance

- ▶ BComm ACA MAICD
- ▶ Chartered Accountant with extensive corporate structuring and finance experience, actively involved in the coal seam gas and resource industry
- ▶ Co-founder of Arrow Energy and currently the Chairman of Bizzell Capital Partners



William Stubbs,
Non-Executive Director

Strategic

- ▶ LLB
- ▶ 35 years experience in commercial law including stock exchange listings and mining law
- ▶ Founding Chairman of Arrow Energy
- ▶ Non-Executive Chairman of DGR Global Ltd and Chairman of the Advisory Board of Tetra Q and Non-Executive Director of Coalbank Ltd

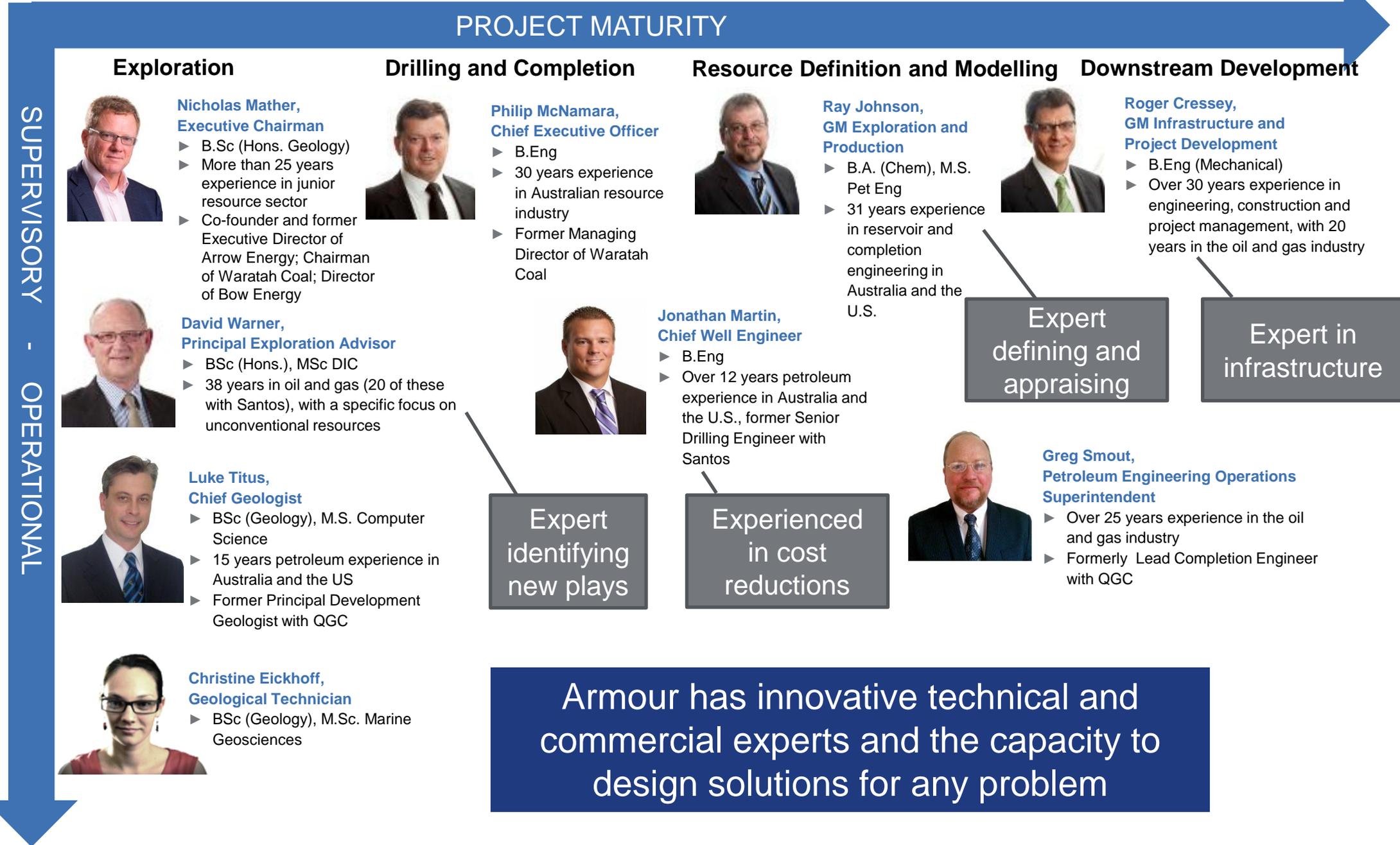


Roland Sleeman,
Non-Executive Director

Finance

- ▶ B.Eng (Mechanical), MBA
- ▶ 34 years experience in oil and gas, utilities and infrastructure
- ▶ Former Chief Commercial Officer of Eastern Star Gas and General Manager of the Goldfield Gas Pipeline at AGL

Parallel operations streams



- ✓ Drilled 2 wells in Victoria
 - ✓ Moreys 1 – discovered gas and condensate
 - ✓ Holdgate 1 – tight gas
- ✓ Spent \$19.6m in Northern Territory on 5 wells
- ✓ Defined gas bearing Proterozoic section Batten Trough, MacArthur Basin
 - ✓ 100.4 BCF at Cow Lagoon at < 100 mcf/d
 - ✓ 130 BCF at Glyde at 3.3 mmcf/d
- ✓ Demonstrated well completion capability
- X Over budget due to:
 - Contract difficulties
 - Hard rock drilling
 - Unsuitable combination of coring and production holes
- ✓ Queensland ATP1087 granted following successful execution of Native Title Agreements and Environmental authorities
- ✓ Program planned for Q1, Q2 Queensland ATP1087
- ✓ Defined 100% Armour oil play, South Nicholson/Carpentaria Basins similar to Cooper/Eromanga Basins
- ✓ Approval for Otway 1 PEP169 Otway Basin



Very Active Debut - 5 wells, 6 months, 4 discoveries



We used this rig...



...to drill this hole at Glyde, NT



...this is what we found – 3.3mmcf/d of gas!



To view this movie click on the following link or copy and paste it into your browser:

<http://www.youtube.com/watch?v=7z7V1bPSQWQ>

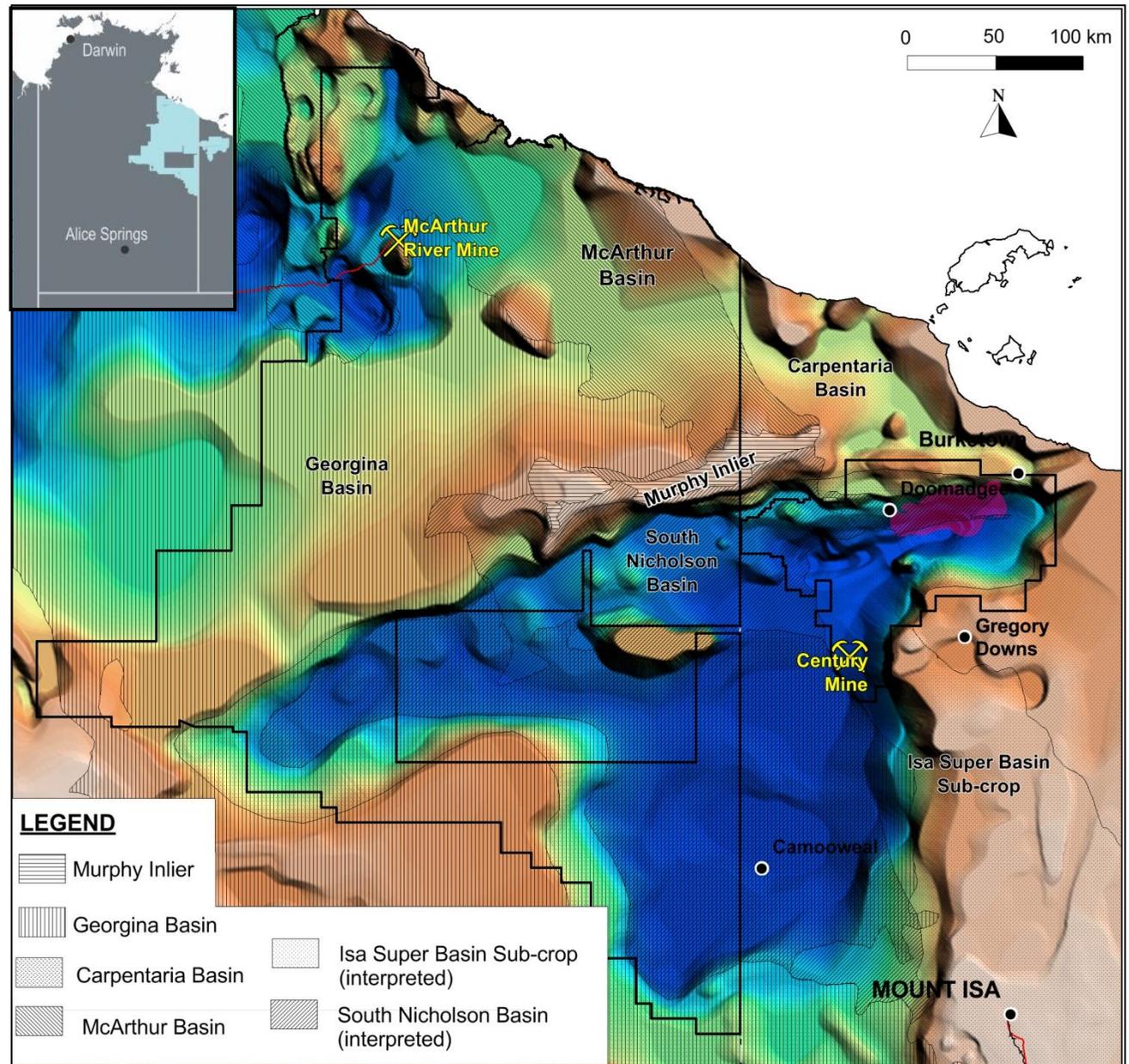
**220m lateral unfraced
What do you get with 1.5km fraced?**

Armour – 100% Ownership - 3 Basins, A New Petroleum Province



Armour Tenure Cover Multiple Sedimentary Basins

	NT	QLD
Prospective Resource	18.8 Tcf 2.0 bn bbl Condensate	22.5 Tcf 0.2 bn bbl Condensate
Permit Area	EP171 EP176 EP174 EP190 Granted 28,665 km ²	ATP1087 Granted 7,138km ² ATP1107 Preferred Tenderer 7,943 km ²
Additional Areas Pending Grant	13 (6 ALRA, 7 Native Title) 90,204 km ²	

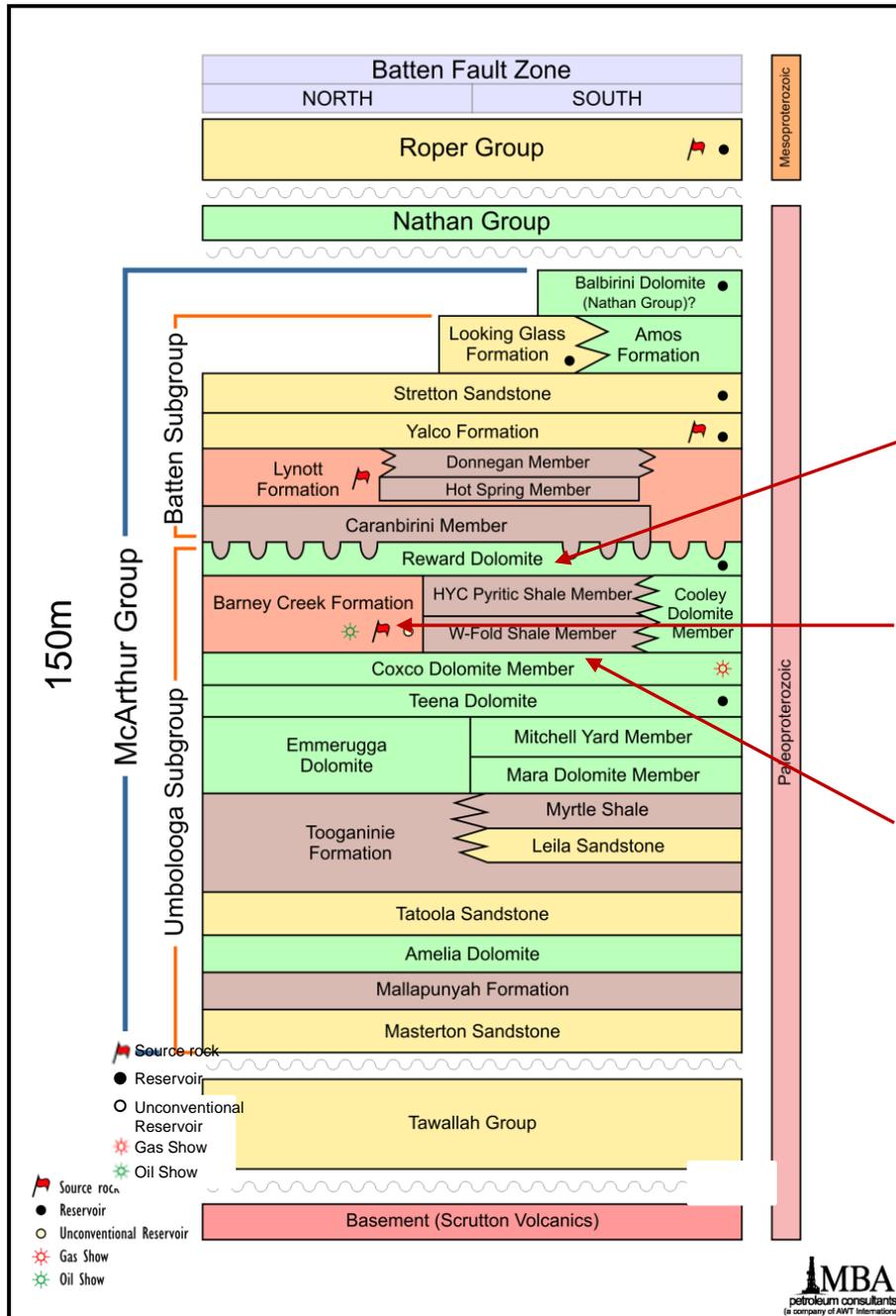


Source: Modified from FROGTECH

McArthur Basin – Proterozoic Rocks Flow Gas and Show Oil



Stratigraphic table of the McArthur Basin



Reward Dolomite conventional target

Barney Creek Formation (oil show) shale target

Coxco Dolomite (gas flow, oil show) conventional target

Historical hydrocarbon shows

	Formation	Hydrocarbon show
Petroleum well		
82-5	Lynott	Oil Fluorescence
82-6	Yalco	Oil Fluorescence
82-7	Yalco	Oil Fluorescence
Mineral wells		
GR 3	Barney Creek	Live oil
GR 9	Barney Creek	Live oil
GR 9	Coxco Dolomite	Gas flow (flared) and live oil

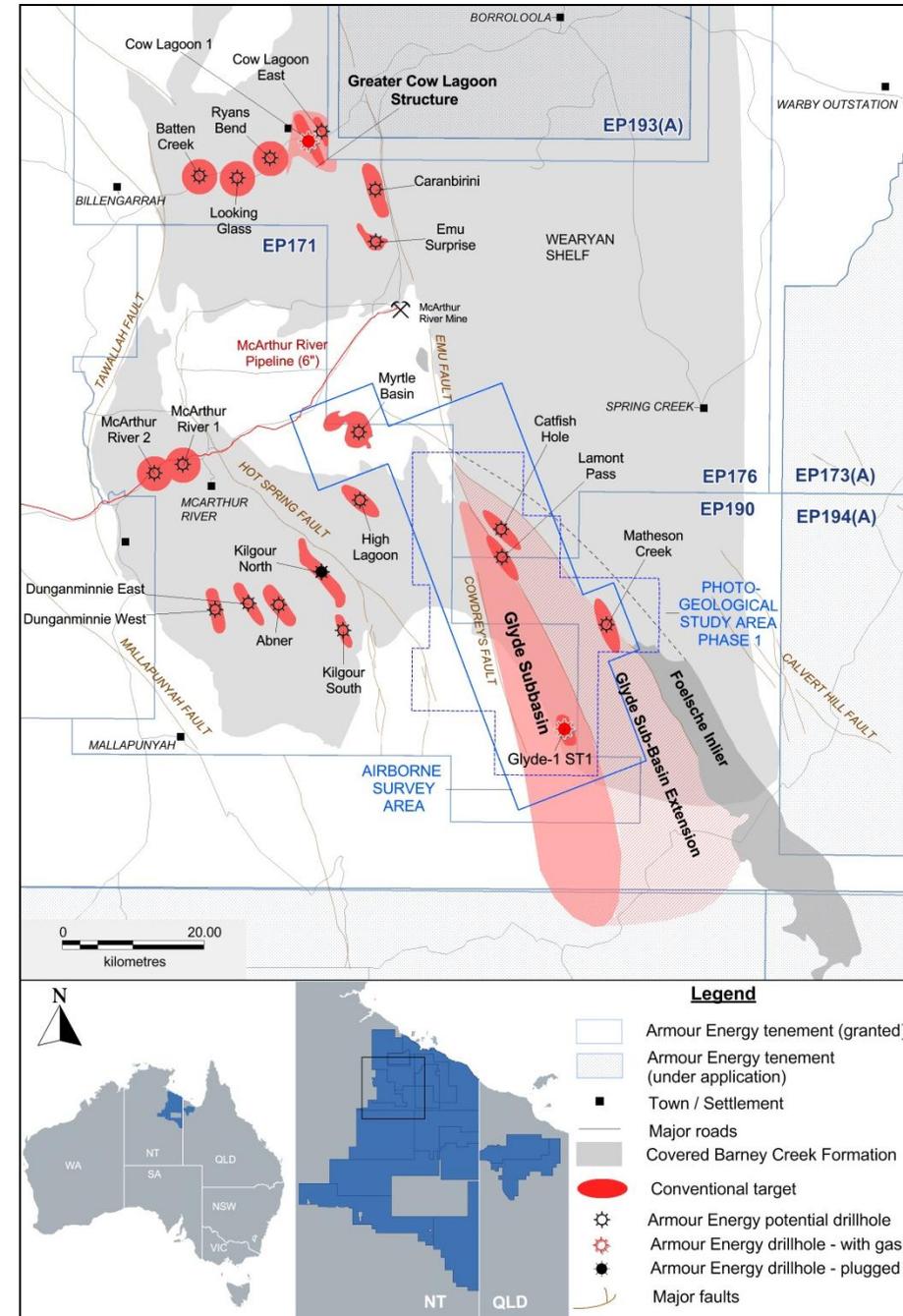
Source: MBA Petroleum Consultants

Proterozoic section is very hydrocarbon rich

NT - Cow Lagoon and Glyde Point to 3.7 Tcf of Current Targets in Batten Trough



- ▶ Glyde Mean Prospective Conventional resource estimated at 130BCF
- ▶ Batten Trough Barney Creek shale - Coxco Dolomite breccia fairway up to 100km long
- ▶ 10 targets up to 3.7 Tcf of gas and 258 MMbbl liquids prospects (P90 Prospective Resource)
- ▶ 500km² airborne gravity and aeromagnetic survey planned to define drill targets
- ▶ Resistivity survey could provide a strategic tool for further confirmation of additional targets
- ▶ Local markets and infrastructure



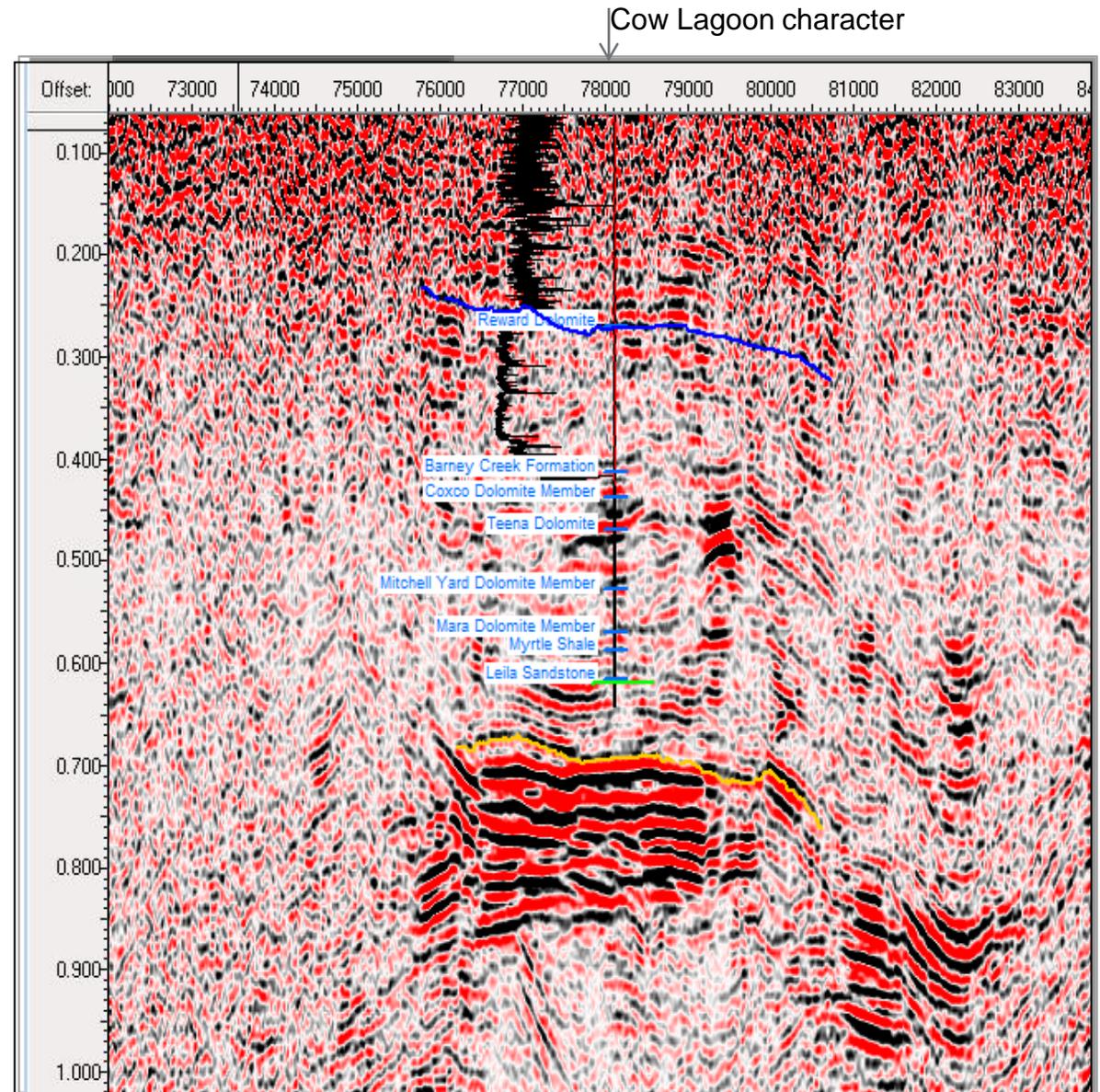
NT - Cow Lagoon Confirmed Gas Generation and Productive Shales in the Batten Trough



- ▶ Mean Prospective Resource 100.4 BCF
- ▶ Fault bounded structure, no water filled fractures
- ▶ Additional targets identified
 - Batten Creek
 - Looking Glass Creek
 - Ryan's Bend



Greater Cow Lagoon Structure – seismic indicates intact reservoir



NT – Small Shows Lead to Big Flows – Glyde 1 Potential for 10 Other Targets



1979 - Gas flow from Glyde River GR9 mineral hole

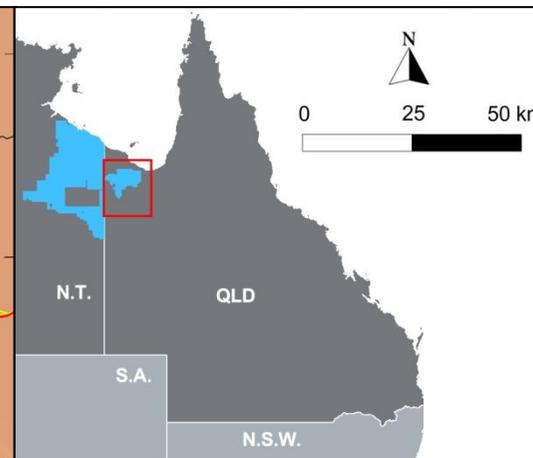
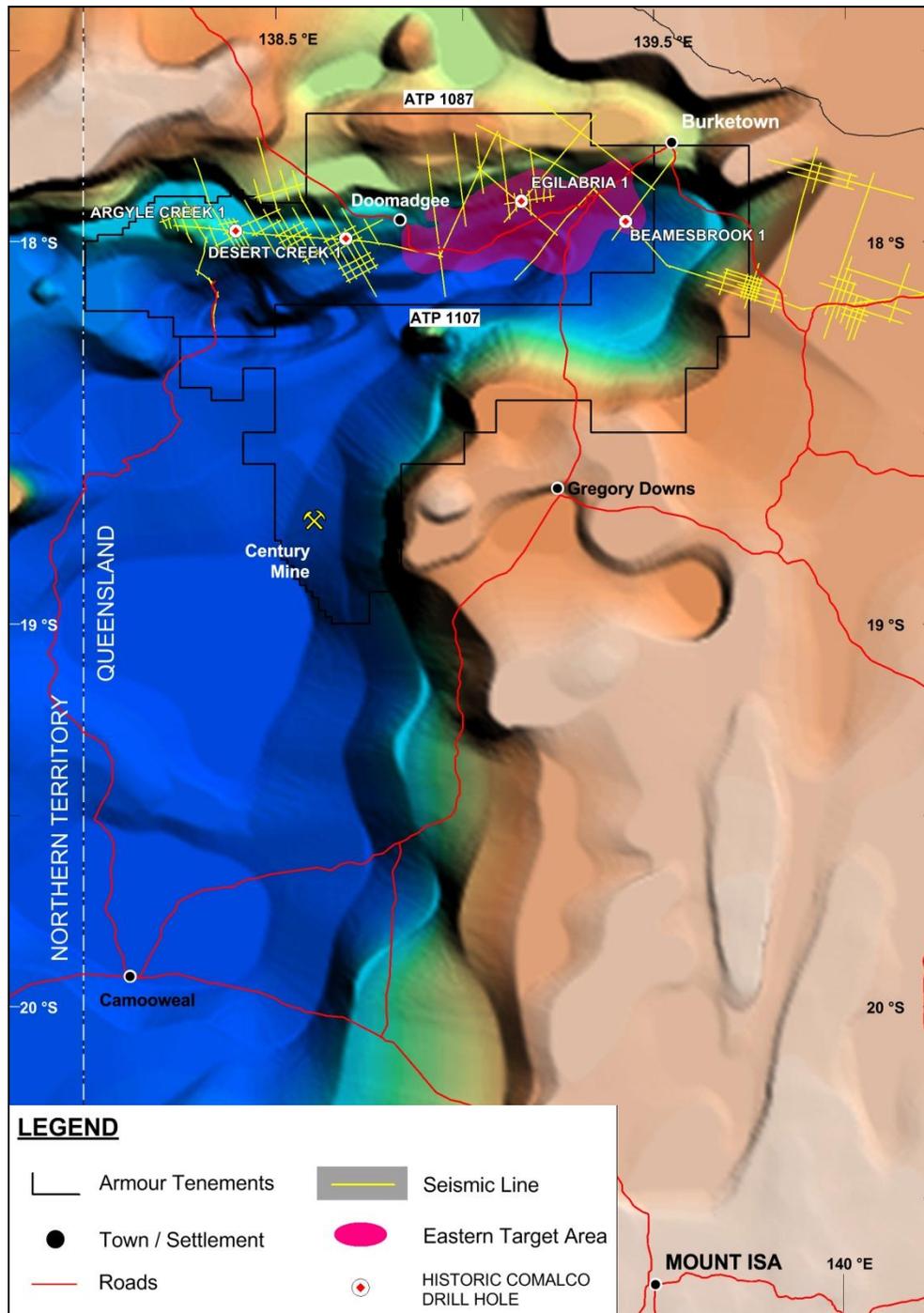


2012 – 3.3 million cubic feet/day gas flare from Glyde 1 lateral well during air drilling and testing



- ▶ Gas discovered in 1979 by Amoco Minerals while exploring for Zinc
- ▶ Reservoir is porous Coxco Dolomite at the base of Barney Creek Shale
- ▶ Armour's Glyde 1 is 300m to the west of the original GR9 well
- ▶ Lateral intersected 132m of black gas charged naturally fractured source Barney Creek shale above the Coxco Dolomite – flowed 3.3 mmcfd
- ▶ Numerous shows and blows over 90km
- ▶ Now proven Armour drilling capability

QLD - Previous Wells and Seismic Provide Shale Target Definition



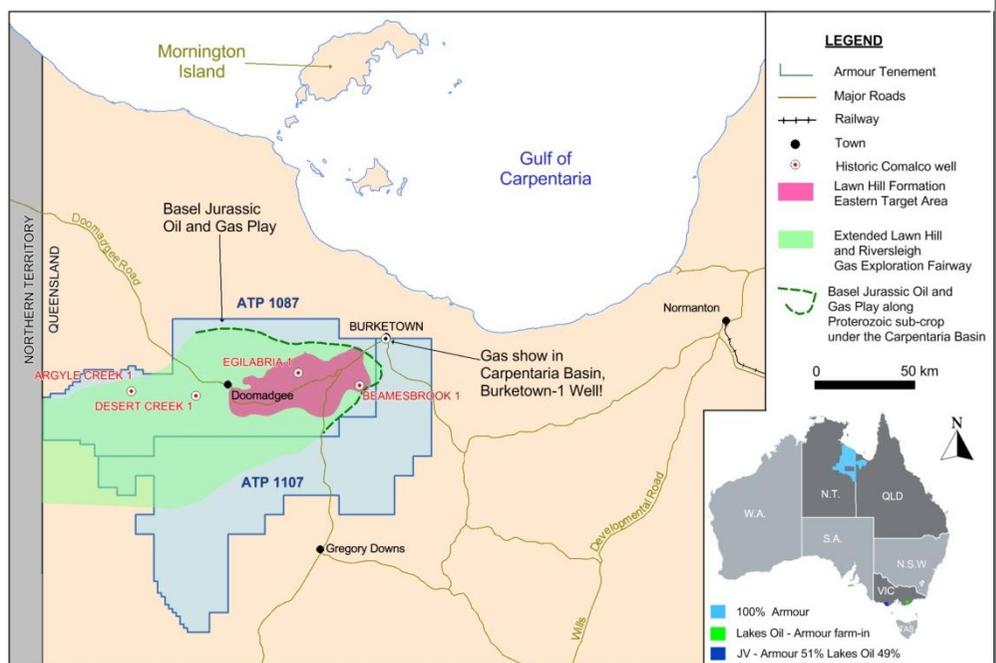
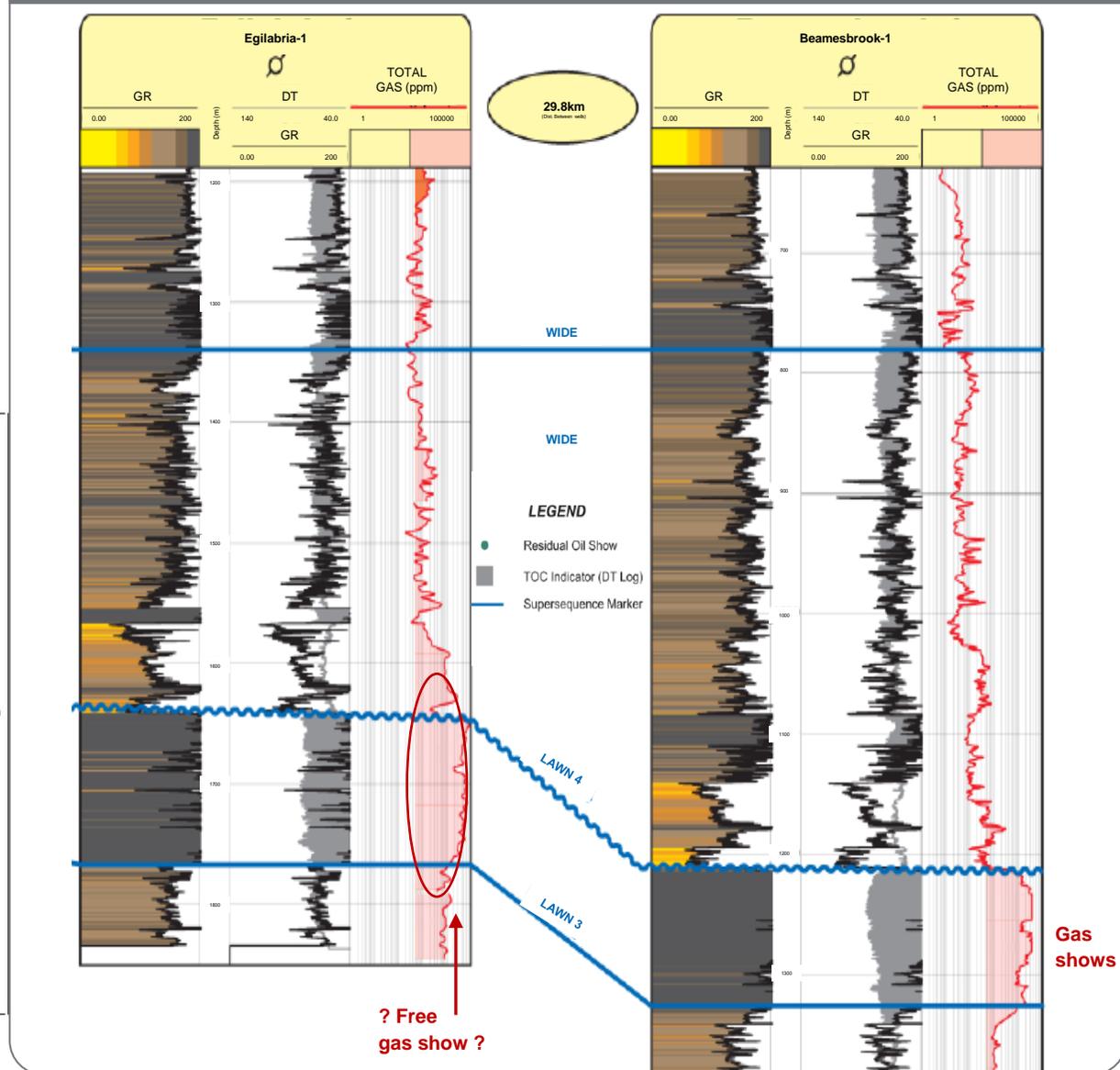
- ▶ Strong gas shows
- ▶ Deep basin extending into Armour's NT tenements
- ▶ Filled with organic rich Proterozoic ages sediments, gas and oil mature
- ▶ 22 Tcf Mean Prospective Resource defined
- ▶ Extensive seismic data being reprocessed
- ▶ 4 existing wells (Comalco 1991)

QLD - 22 Tcf Mean Prospective Resource in Lawn Hill Formation



- ▶ 5-10 mmcf/d gas flows modelled from 1300m lateral well with 16 stage frac
- ▶ Gas shows to 8% in Argyle Creek-1, Desert Creek-1, Egilabria-1, Beamesbrook-1 (Comalco 1991)
- ▶ However no gas market in 1991
- ▶ Potential for extensive new gas province
- ▶ Existing seismic defines basin centre
- ▶ Native Title Agreement in place
- ▶ Environmental permit conditions finalised
- ▶ 100% Armour Tenure granted on ATP1087
- ▶ Egilabria #2 lateral planned May 2013

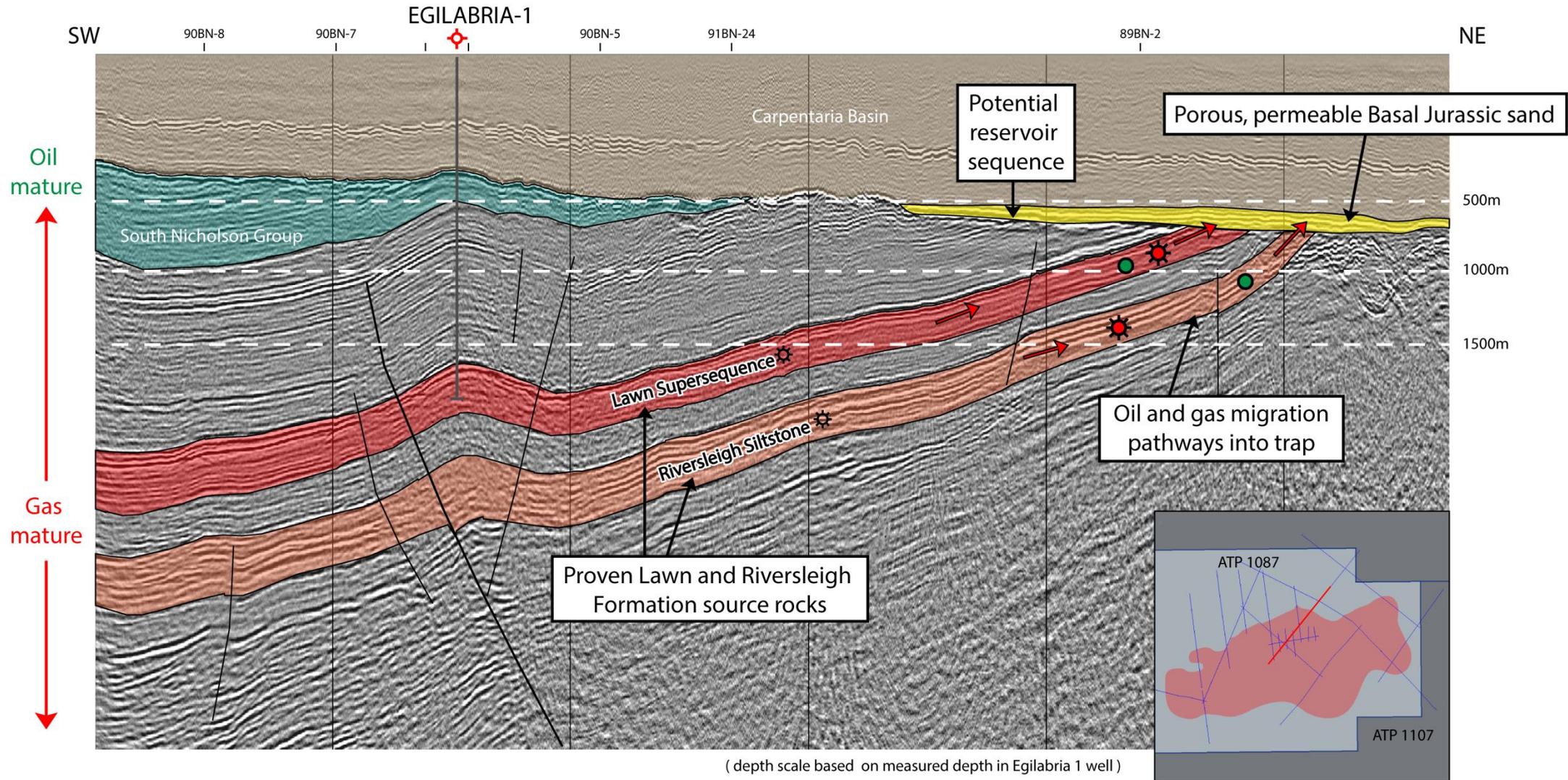
Very strong gas shows over 125m, modern wells 30km apart



Egilabria Exploration Area – Interpreted Seismic section: Line 89BN-6

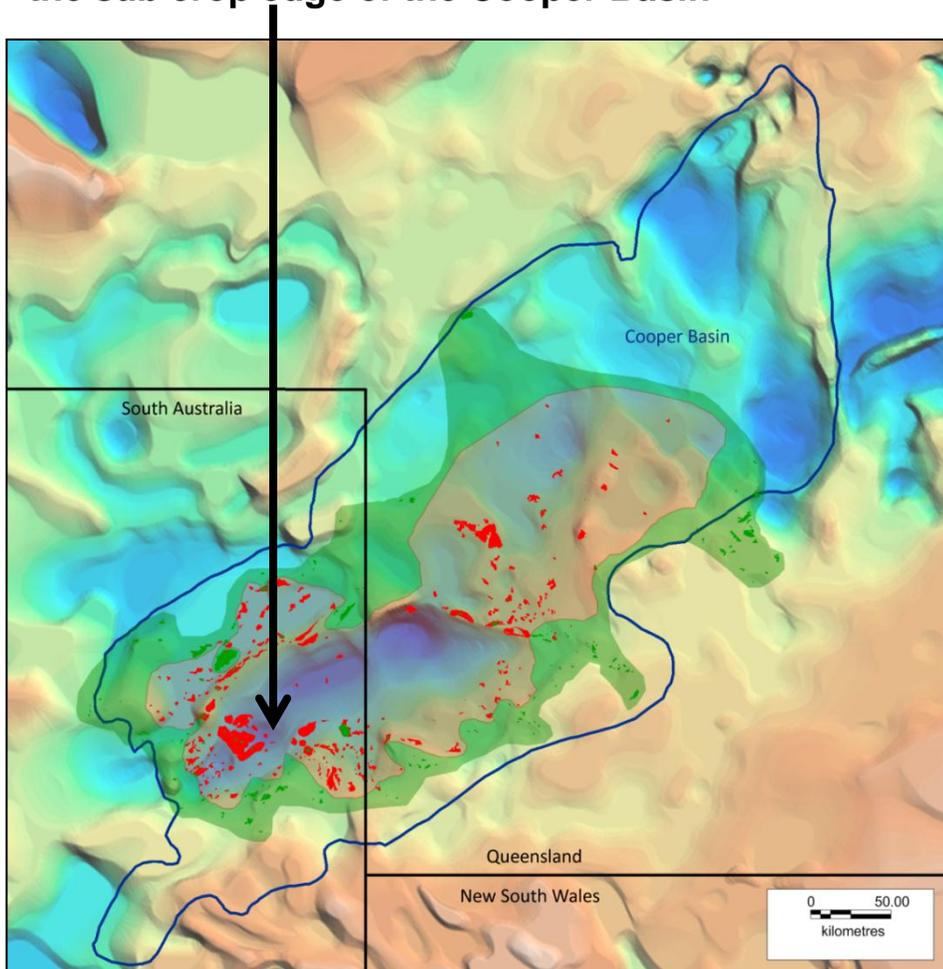
Conceptual Oil & Gas Play in Basal Jurassic Reservoir Within Eastern ATP 1087

Cooper/Eromanga Oil Play Look-alike



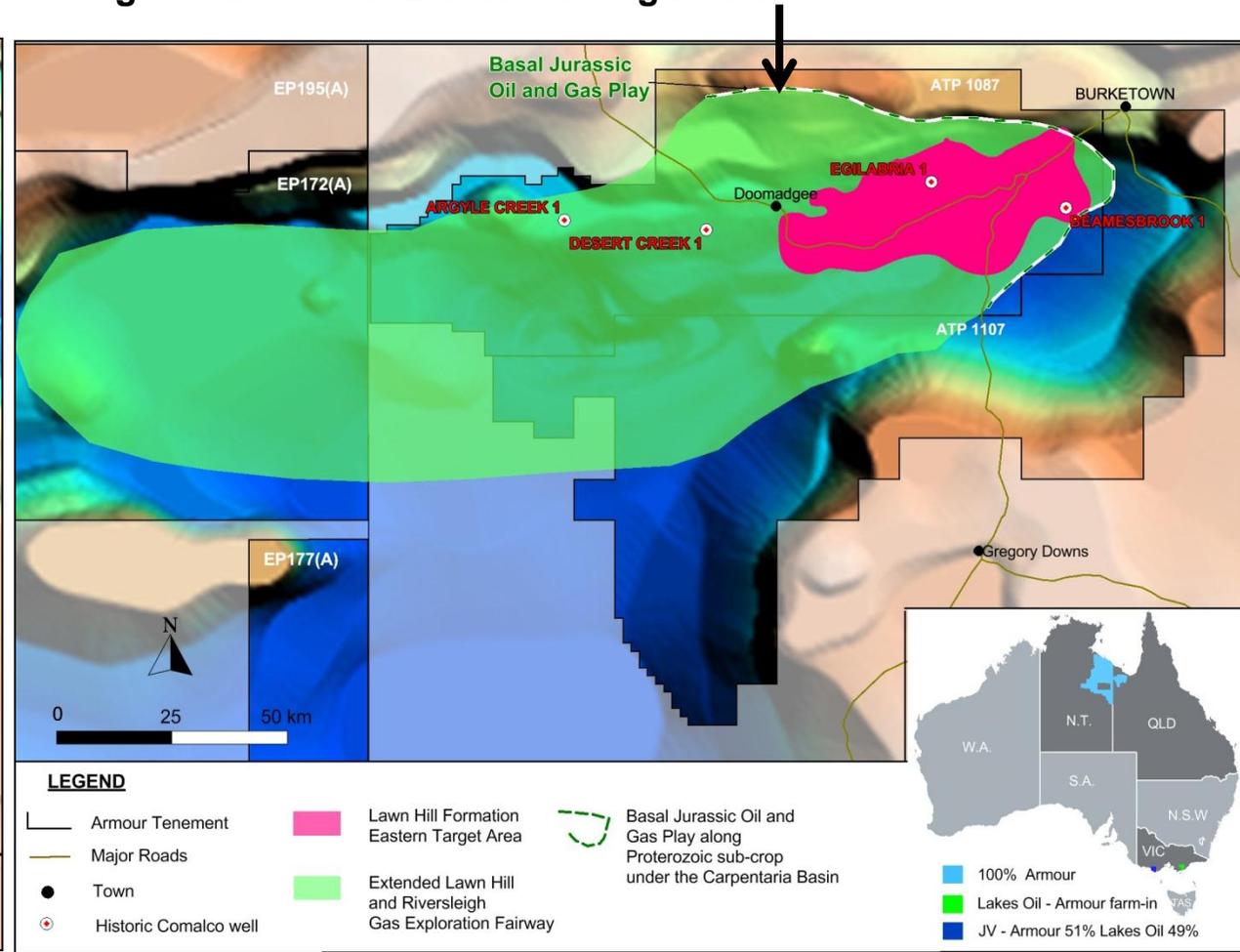
Cooper Basin overlain by Eromanga

Oil fields in the Eromanga Basin lie around the sub crop edge of the Cooper Basin



South Nicholson, Isa Superbasin, overlain by Carpentaria

Oil field targets fairway around the sub crop edge of the Proterozoic Riversleigh Shale

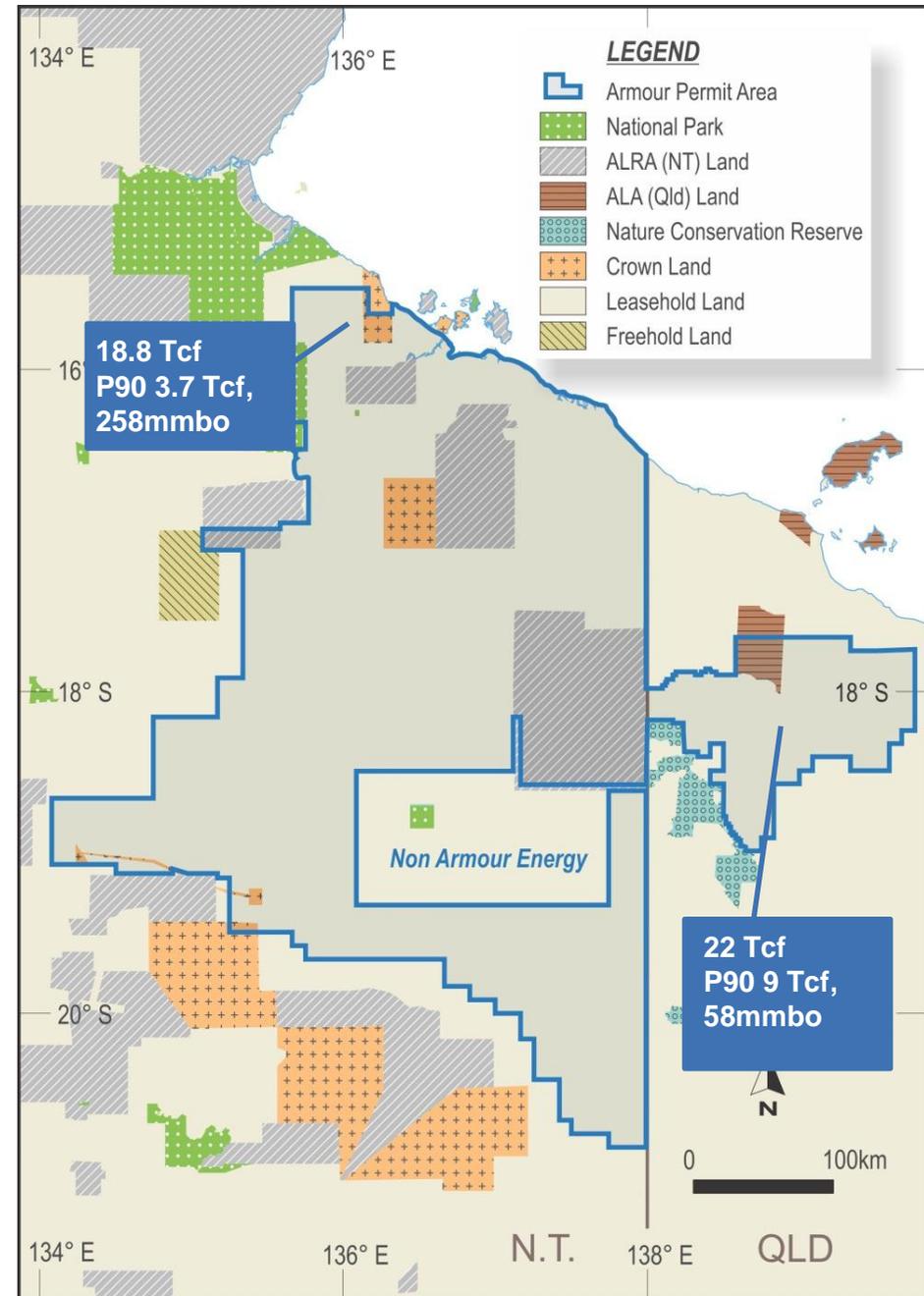


Low Social Impact, Proactive Stakeholder Engagement



- ▶ Tenements located within land used for low intensity uses
 - **Grazing**
 - **Not cropping lands**
 - **No freehold land**
- ▶ **Low population density** area but accessible to production infrastructure
- ▶ **Very few towns**
- ▶ Strong relationship with local community, traditional owners and government bodies
 - **Native Title Agreements** completed and **Tenements Granted**: EP171, EP174 EP176 and EP190 and ATP1087
 - **No objections** lodged on proposed exploration activities
 - **Employment** opportunities for local communities

	QLD CBM	ARMOUR SHALE PROJECTS
TENURE	FREEHOLD	LEASEHOLD
RESERVOIR	THIN COALS	THICK SHALES
LOCAL TOWNS AND POPULATION CENTERS	YES	NO



Victoria - An Additional Gas Province

- ▶ Acquisition of 13% Lakes Oil (ASX:LKO) complements Armour's existing strategy
 - Brings diversity to the project portfolio, the opportunity for constant news flow and mitigates risk
 - Onshore Gippsland and Otway oil and gas focus

EXISTING RESOURCES

1. Tight gas Strzelecki 2Tcf in Wombat, Trifon and Gangell fields, PRL2 – up to 4.5mmcf/d flows
2. Gas reserve value ~\$2bn
3. 4 billion tonnes brown coal

STRONG MARKETS

4. Extensive local infrastructure power generation and industrial demand – early cash flows
5. Victorian gas projected to \$8/GJ

PROMISING GAS DISCOVERIES

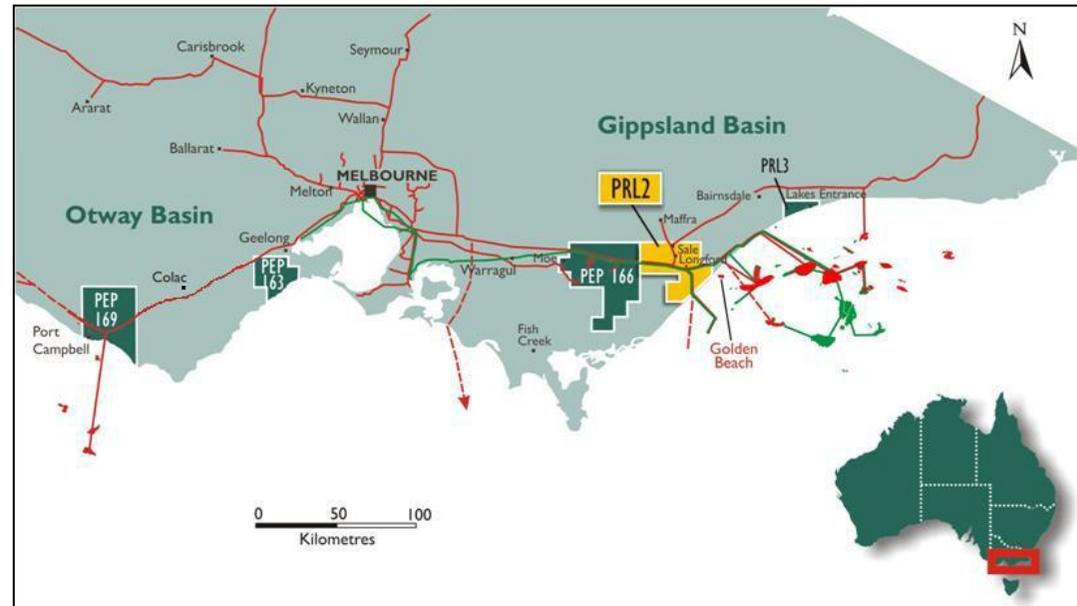
6. Moreys gas condensate discovery May 2012
7. Oil discoveries in Strzelecki and Rintouls – new oil play

PLANNED ACTIVITY

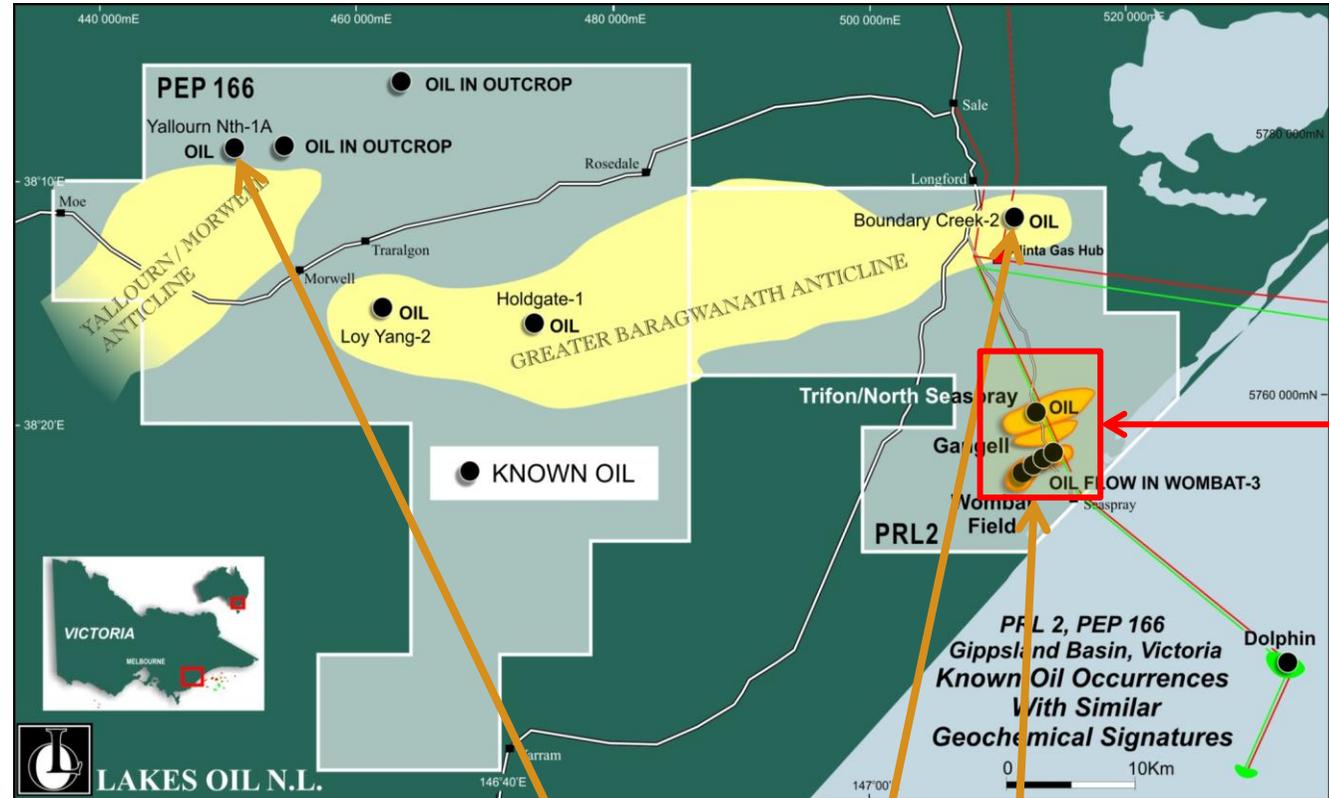
8. Drilling Yallourn Power 1 now and Otway 1 March 2013
9. Fracking ban to lift in Feb 2013

ARMOUR INTEREST

10. Option to purchase 50% of Lakes interest in PRL 2 for \$30m
11. Armour can earn 51% of PEP169 and 166 with \$14m expenditure \$6.75m already completed

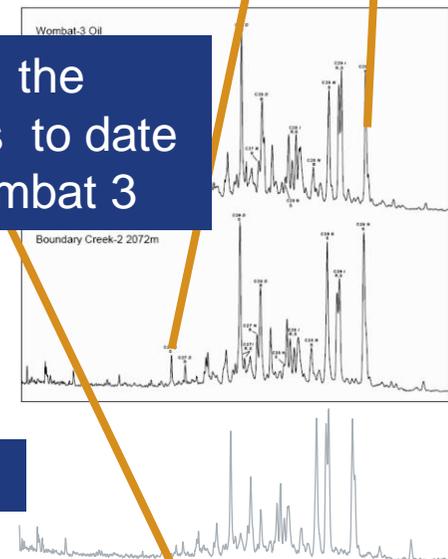


Victoria – New Oil Play Onshore Gippsland Basin



Oil has been extracted from basal units of the onshore basin and from all Lakes Oil wells to date with approx. 8 bbl live oil recovered in Wombat 3

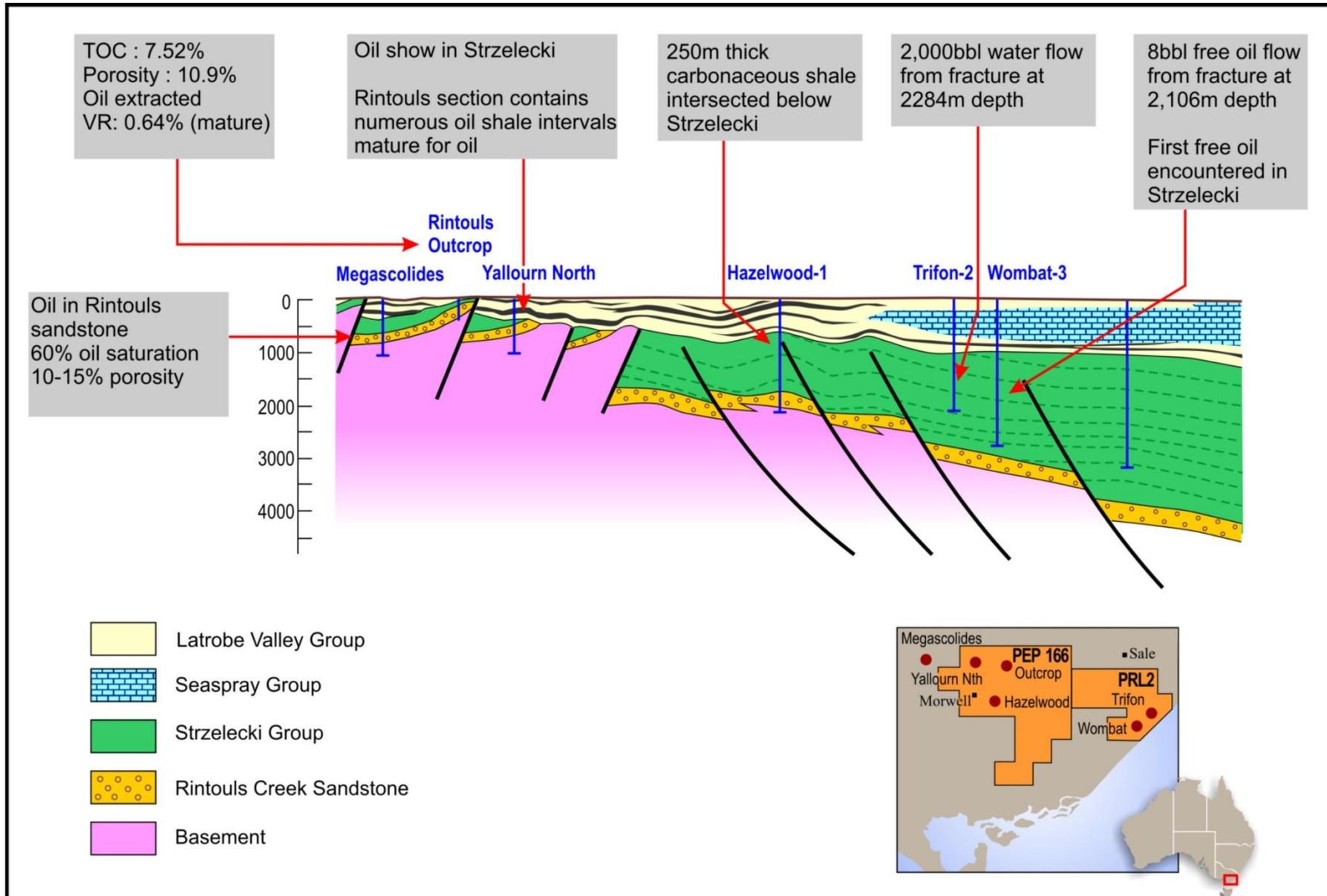
Similar geochemical signatures



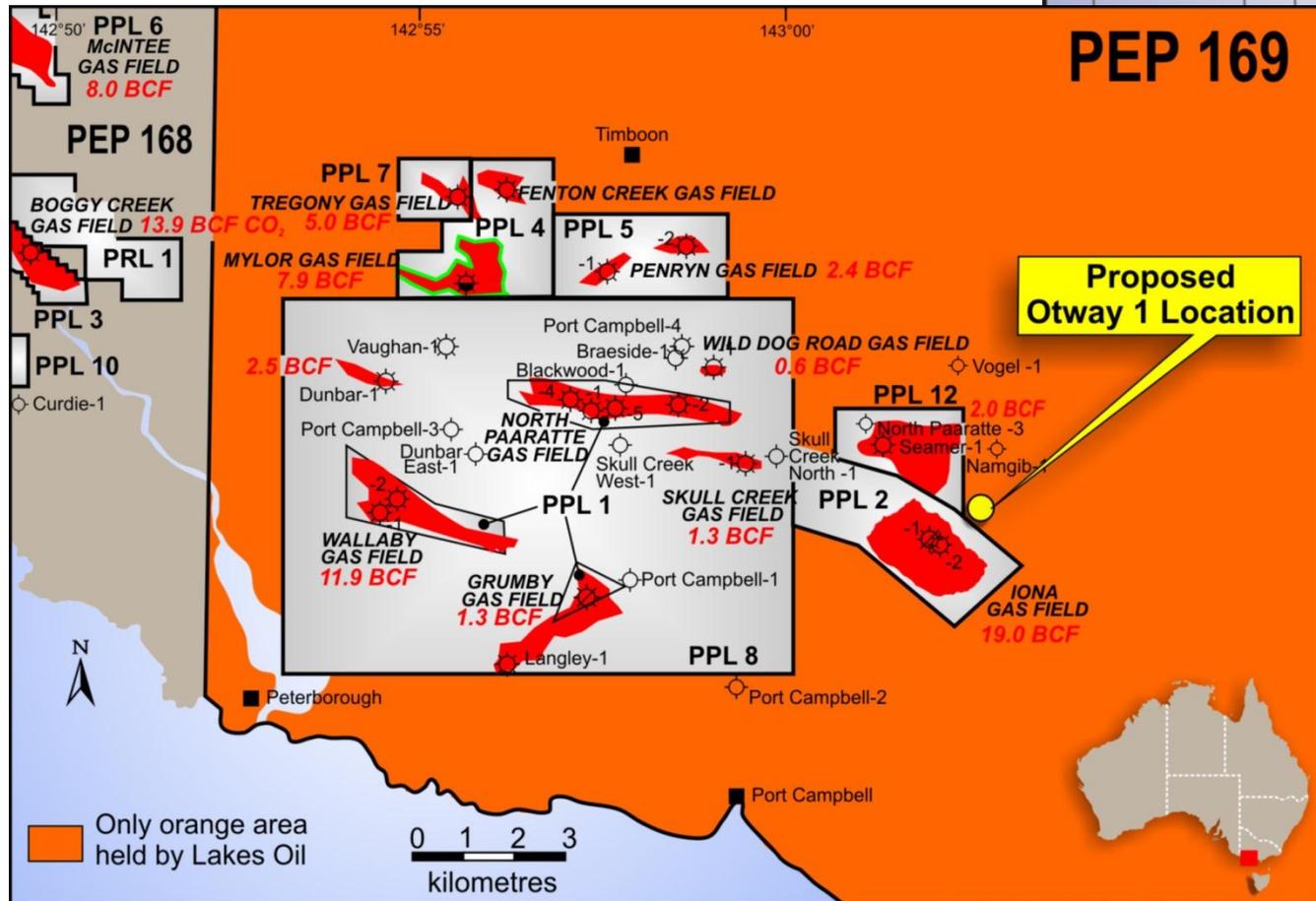
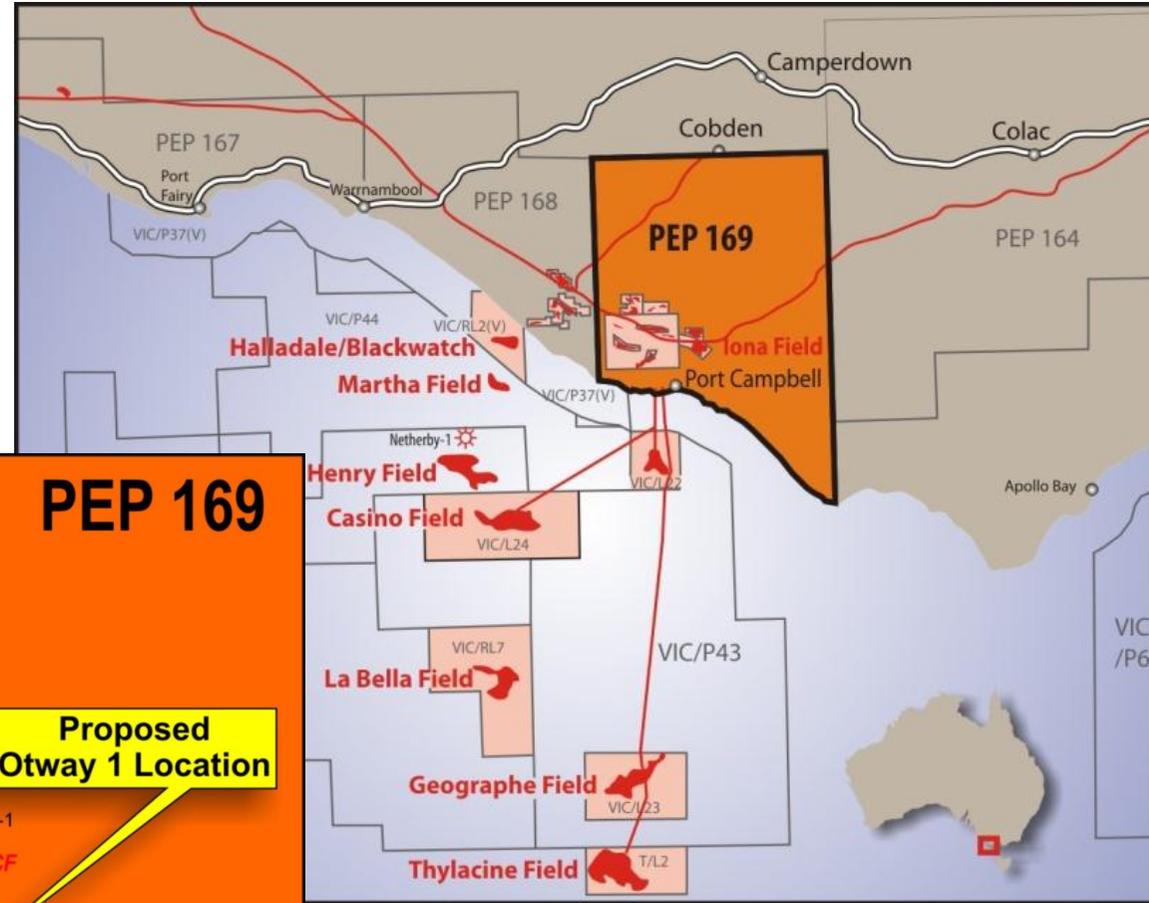
- WOMBAT 3
- BOUNDARY CK 2
- YALLOURN NTH

Victoria – Onshore Strzelecki Oil Identifies New Rintouls Oil Play

- ▶ Conventional wisdom is that oil is generated in the Latrobe Group
- ▶ Lakes has discovered oil in the Strzelecki and Rintoul Creek Group



Victoria - Otway 1



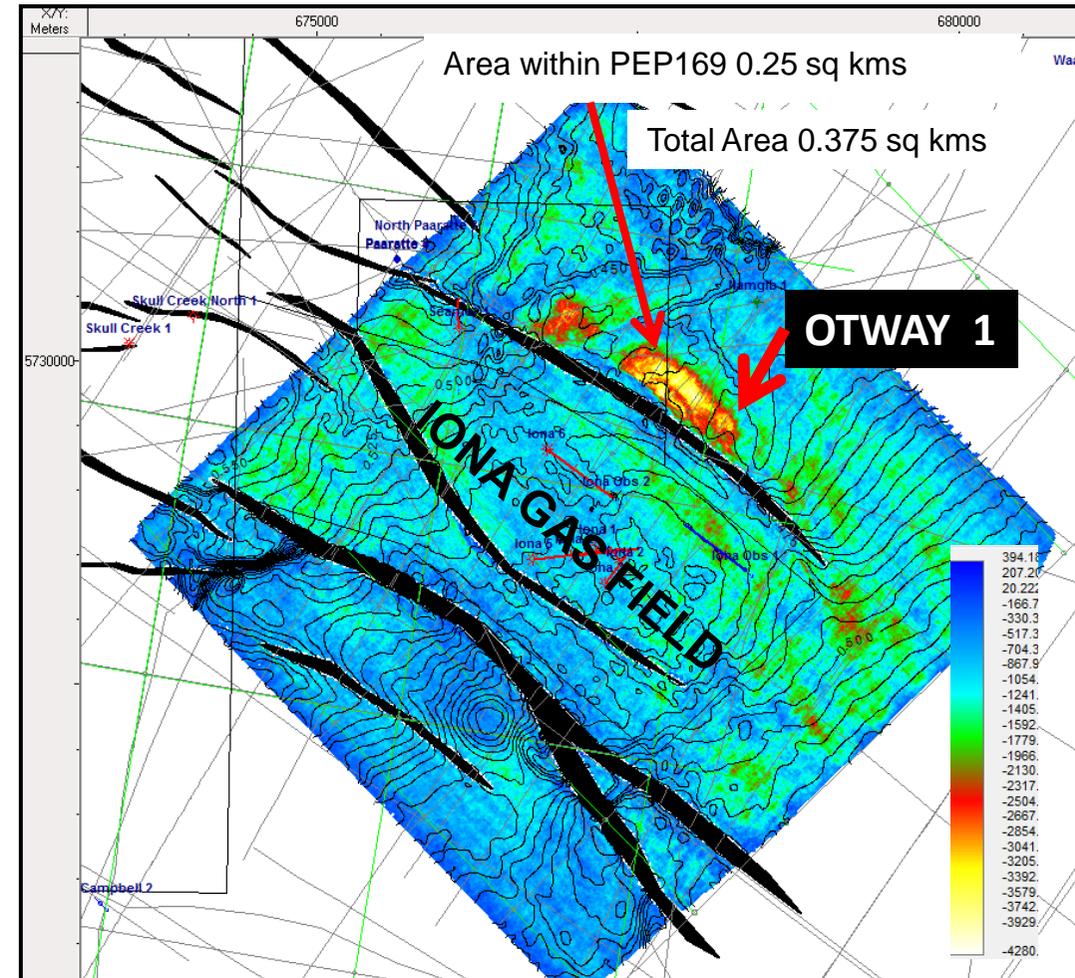
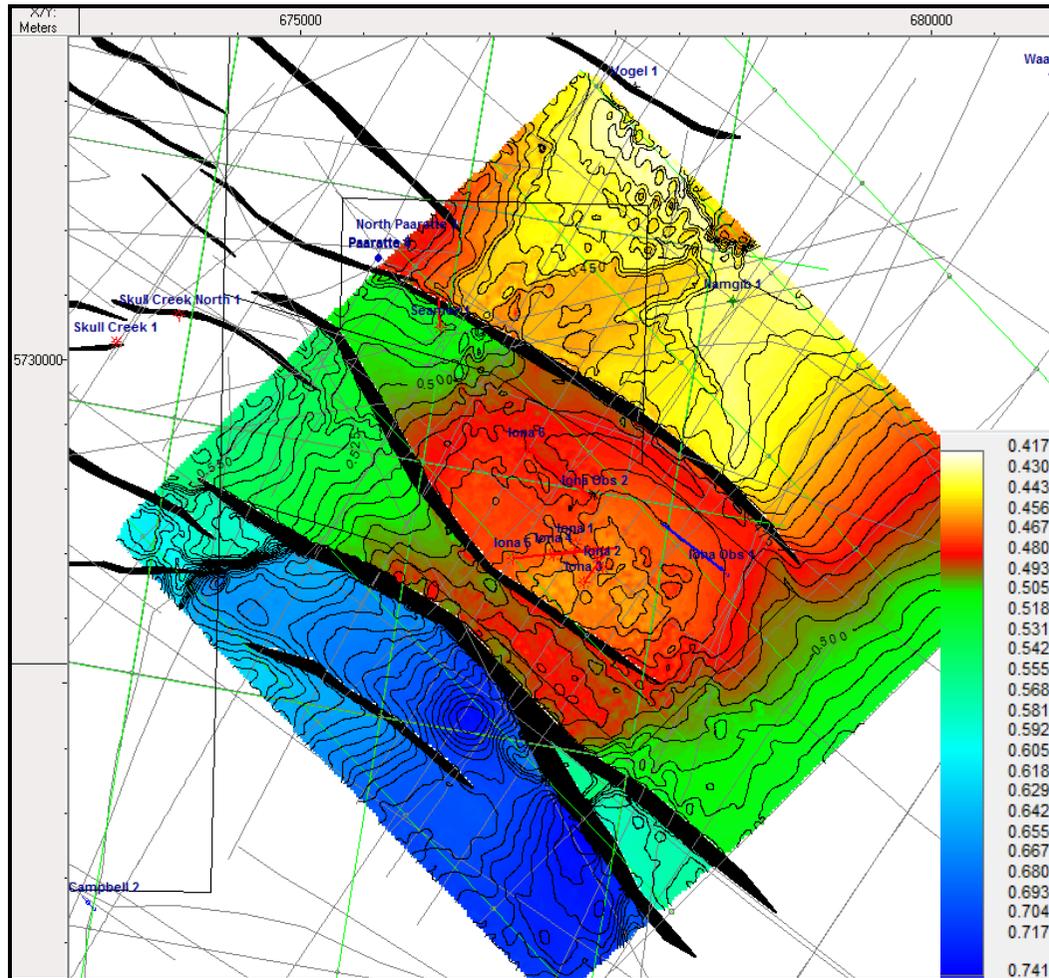
Victoria – Drilling Otway 1 in Feb 2013 , Beside Iona Gas Plant

- ▶ PEP169 Otway 1 Prospect to drill in Feb 2013
- ▶ Armour has already earned a 51% interest
- ▶ Located in a proven WNW hydrocarbon fairway in Otway Basin Victoria
- ▶ Beside existing infrastructure
 - ▶ Beside Iona Gas Plant
- ▶ Connected to eastern Australian gas network
- ▶ Previous Moreys 1 gas/condensate discoveries
- ▶ Tight gas and condensate discovery in the upper Eumerella Formation
- ▶ Otway 1 targeting 5-10 mmcfd gas flows



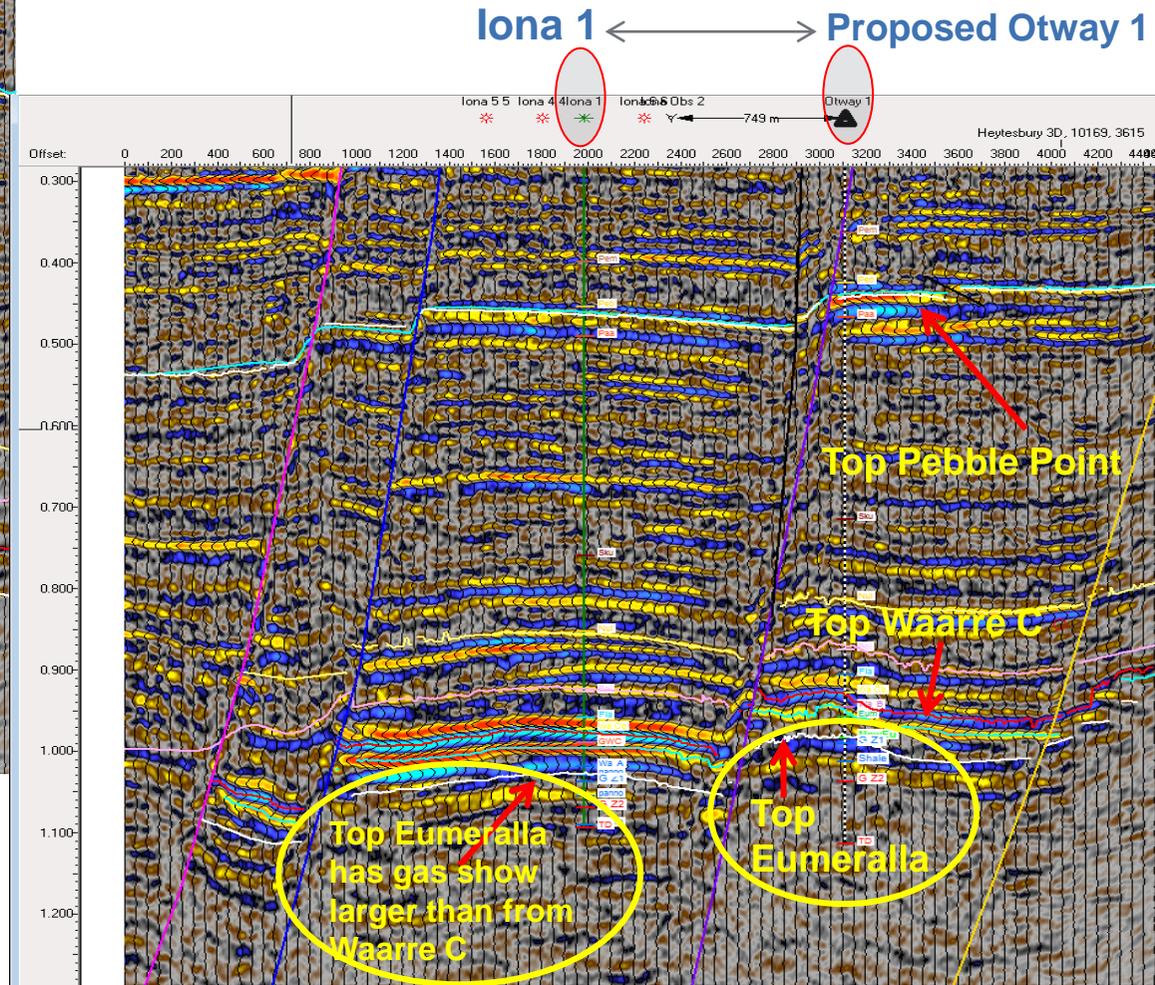
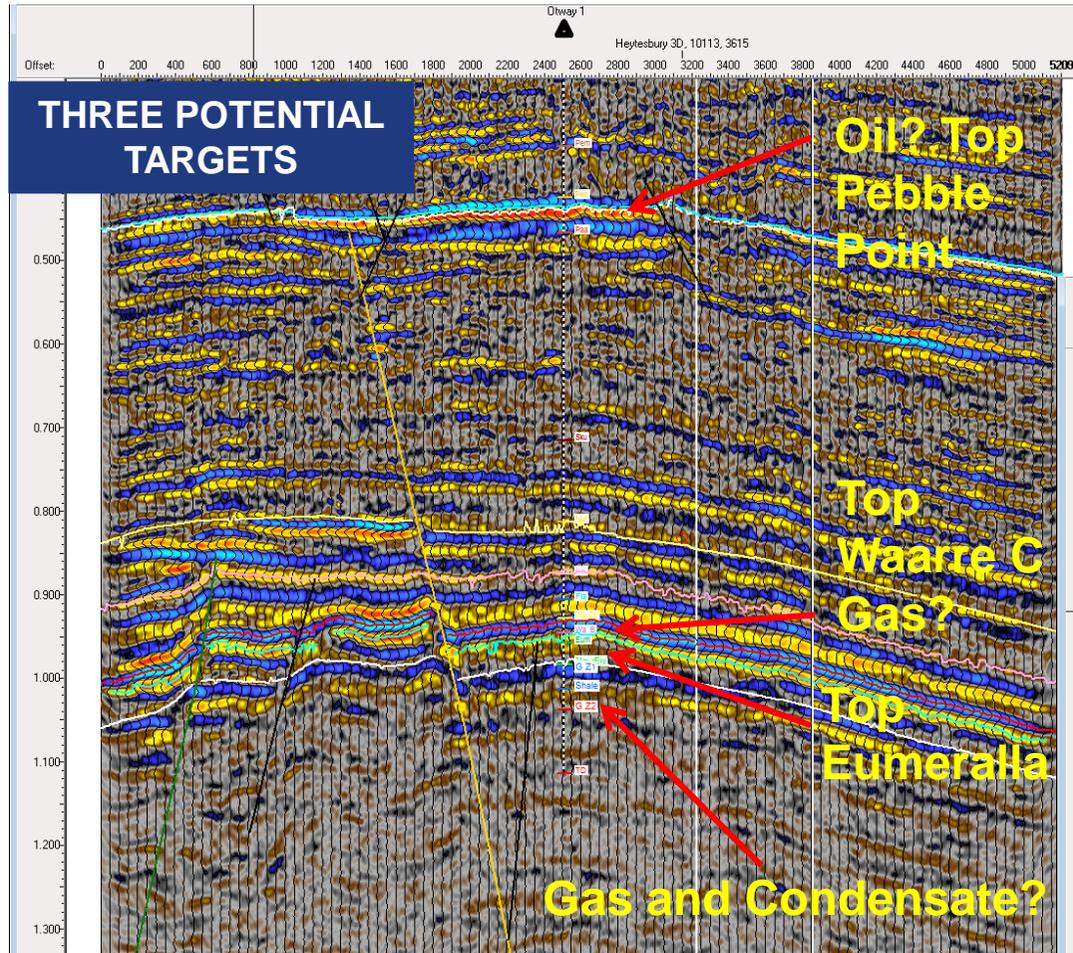
Time Structure Map Indicates Area of Potential Reservoir

Amplitude Map Indicates Gas and Oil Potential



Victoria – Strong Oil and Gas Prospects on Seismic at Otway 1

Proposed Otway 1



Thick Eurmerella Formation Offers Unconventional Gas/Condensate Upside

Eumerella Formation– Otway Basin PEP 169 51% Armour

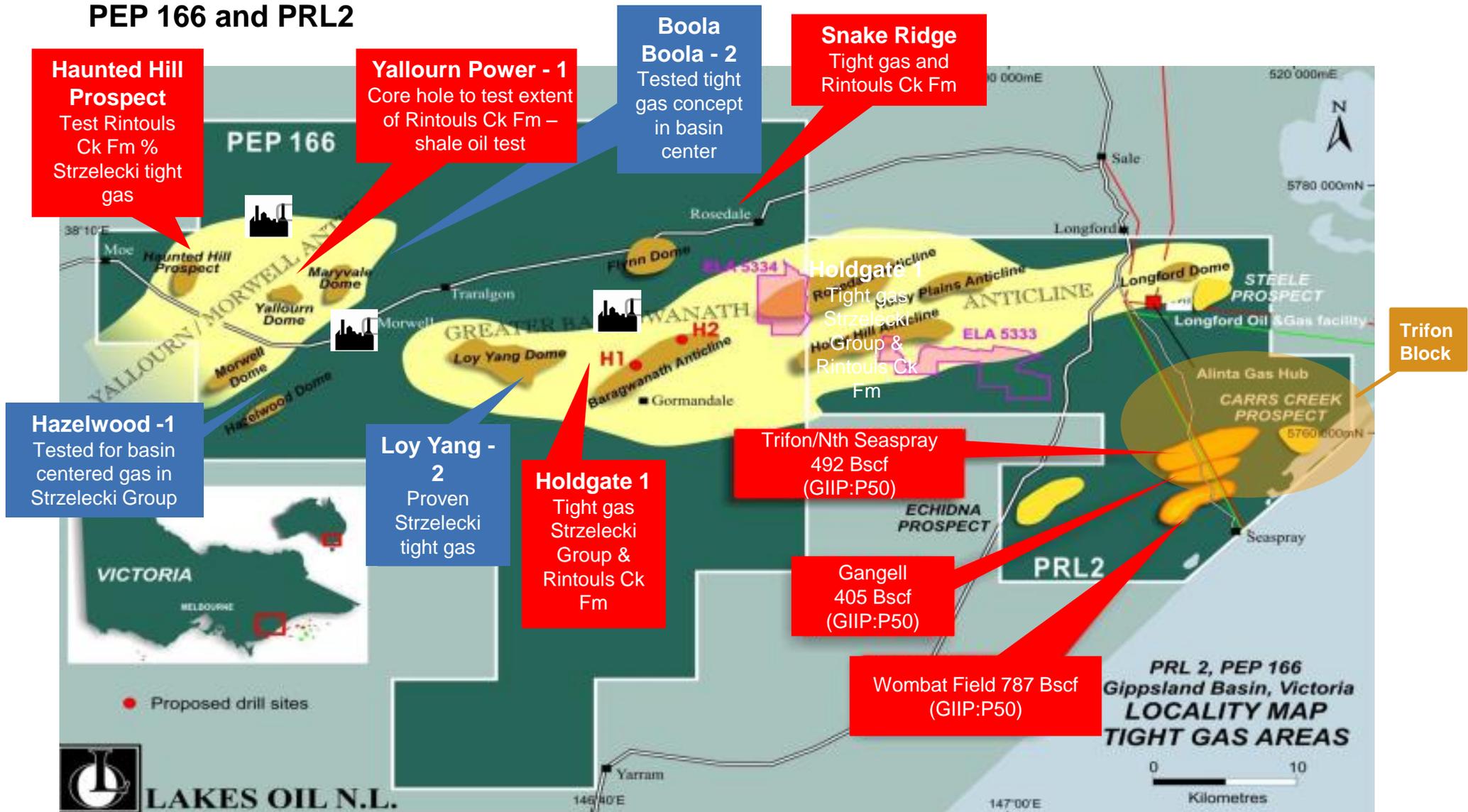
- ▶ 30 bbls / 1 mmcf gas - doubles the value



Victoria - Extensive Gas Potential Adjacent to Pipelines and Power Stations, Onshore Gippsland



PEP 166 and PRL2



Gas flare from PRL2, Wombat Field Gippsland Basin

- ▶ Tests on the Wombat 1, 2 and 3 wells realised flows of up to 2 MMcf per day from up to 27 zones over 650m within the thick Strzelecki Group
- ▶ Wombat 2 originally drilled in 2004 with a sustainable gas flow of 0.68 MMcf per day
- ▶ Following a refrac and open flow test in 2009, Wombat 2 flowed at an initial estimated rate of 4.3 MMcf per day and stabilised at 1,350,000 cfd
- ▶ Impressive upside from horizontal laterals and multi-stage fracs
- ▶ Potential for 30 MW power station development using just 2PK p.a. – 1 well @ 600mmcfd gas flows



2013 High Level Work Program Planning



	2013				Budget
	Q1	Q2	Q3	Q4	(thousands)
Northern Territory					
EP 171 and EP 176					
Gravity survey (airborne)	█				\$700
Additional geophysical studies		█ █			\$500
Drilling (2 x Glyde sub-basin wells)			█ █		\$3,000
Shale gas well				█ █	\$2,500
Queensland					
ATP1087 and ATP1107					
Seismic (250km)		█ █ █			\$2,500
Native Title Payment	█				\$250
Drilling (3 x vertical, 1 x lateral - fraced)		█ █ █ █			\$13,000
Victoria					
PEP 166 and PEP 169					
Otway 1		█			\$1,250
Holdgate 2			█ █ █		\$4,250
Total overheads, officers, fees and salaries					\$4,300
Project Development and Marketing					\$1,700
					\$33,950

1 Large net acreage position covers a province

2 Fully funded exploration program

3 Close to infrastructure with commercialization opportunities – over 400 PJ pa

4 Gas demand for QLD LNG plants to double in next three years

5 Early entry advantage into key hydrocarbon province

6 Existing shows and flows, proven hydrocarbon system

7 Strong liquids potential in Cooper Eromanga analogue

8 Applying proven shale drilling technology

9 41.3 Tcf and 2.2 bbls Prospective Resource in northern Australia

10 Pro-active stakeholder engagement and low social impact

11 Proven and experienced Board and management team

Strategic investment in Lakes Oil (ASX: LKO)

- ▶ In 2011 Armour acquired 900mm shares (13% of issued capital) at 0.25 cents per share

- ▶ Two Armour Directors on the Lakes Oil board

- ▶ Farm-in rights to PEP 166 (Baragwanath Anticline, Flynn Dome, Yallourn Dome, Loy Yang Dome, Morwell Dome):
 - 25% ownership after year 1 - upon expenditure \$4.25mm, 2 wells
 - 51% total ownership after year 2 - upon additional expenditure \$4.75mm, 1 well

- ▶ Farm-in rights to PEP 169, Otway Basin
 - \$2.5mm expenditure on Moreys well has earned 51% interest, April 2012
 - 51% of \$5mm expenditure on 2 additional wells, late 2012 - \$2.5mm

- ▶ 3 year option to acquire 50% of Lakes Oil's interest in the Trifon and Gangell Blocks in PRL2 and a 25% interest in the balance of PRL2 for a total of \$30m

APPENDICES

QLD - Previous Wells and Seismic Provide Shale Target Definition

