

Armour Energy Limited

16 October 2014

ATP1087 update

Highlights:

- **Egilabria 2 continuously flared gas from 30 September to 9 October 2014, after all gas flows were routed through the separator.**
- **Gas pressure in the annulus progressively increased to 781 psi. 64% of stimulation fluids have been recovered.**
- **The Egilabria 2 well is believed by Armour to be part of the most promising shale gas prospect in Australia to date.**
- **The Lawn Shale Formation in ATP1087 contains a best estimate gas prospective resource of 18.7TCF (MBA, November 2011).**
- **Third party independent certifier SRK Consulting estimates Contingent Resources relating to the Lawn Hill Shale Formation in Egilabria 2 of 364BCF 3C; 154BCF 2C; 33BCF 1C relating to a 64km² area around Egilabria 2 (SRK Consulting, July 2014).**
- **The Lawn and Riversleigh Shale Formations are expected to have large, continuous fairways estimated to be 1,500km² and 4,000 km² respectively.**
- **MOU relating to future gas sales of up to 7 – 9 PJ per annum entered into with MMG Century.**

The Board of Armour Energy Ltd (Armour, ASX:AJQ) is pleased to provide an update on operations undertaken in ATP1087 and results to date, with a focus on the testing of the Egilabria 2 well, which was drilled to test extraction techniques for gas resources known to be present at the well's location.

Egilabria 2 well – Update on Flowback Recovery and Testing

The aim of the test at Egilabria 2 is to prove the concept that horizontal well technology, together with hydraulic stimulation, can flow hydrocarbons to surface from the Lawn Shale. The well was drilled to test extraction techniques for gas resources known to be present at the well's location. The well is considered to be experimental, testing drilling, completion, stimulation and production techniques. The Egilabria 2 well is located in ATP1087 in North-West Queensland, 300km north of Mt Isa and is 100% owned and operated by Armour (**Figure 4**).

As previously reported on 29 September 2014, the Egilabria 2 well had been continuously flowing gas through the test separator during the recovery of stimulation fluids by means of a downhole PCP (Progressive Cavity Pump).



Further significant progress was made since 29 September 2014, with continuous gas flaring observed (**Figure 1**). The well's annulus pressure at surface increased further to 781psi and was continuing to rise prior to routing all gas through the test separator (**Figure 2**). Following the routing of both annulus and tubing flow through the separator, flows and flares from the well were observed to increase significantly, however a reliable measurement of a stabilised flow rate was not achieved.

A total of 64% of the original 11,400 bbls of stimulation fluids originally pumped into the well have been pumped and flowed back.

The Egilabria 2 well is believed by Armour to be part of the most promising shale gas prospect in Australia to date. Gas samples from previous sample collecting and testing activities indicate more than 90% methane, carbon dioxide content of less than 2% and helium content of approximately 1%. These results have been achieved notwithstanding the fact that Armour believes that only 1 of the 12 fracture stimulation stages may have been successful.

Flow from the well stopped on 9 October 2014 following which the Company has been demobilising operations from the site and investigating the reasons for the stoppage. This is believed to be related to sudden pressure reduction as a result of the testing conditions at the time. These low pressure conditions are not expected to be applied in future commercial production operations.

The Lawn Shale is present in Egilabria 2 between depths of 1,583 and 1,720 metres, at 137m thick, and hosts up to 8% Total Organic Content (TOC). During the drilling of the well in 2013, significant gas shows and flares were encountered between 425 and 1,870 metres vertical depth. However, these are yet to be stimulated or tested, and considerable further potential is considered to be evident at this depth.

Overall Basin Prospectivity in ATP1087

The vertical exploration well Egilabria 4, also drilled in 2013 penetrated the Riversleigh Shale formation below the Lawn Shale formation. The analysis of results from Egilabria 4, combined with other data gathered to date including from Egilabria 2 has concluded that both the Lawn and Riversleigh Shale Formations are highly prospective. The Lawn and Riversleigh Shale Formations are expected to have large, continuous fairways estimated to be 1,500 km² and 4,000 km² respectively. The Lawn Shale in ATP1087 contains a best estimate gas prospective resource of 18.7TCF (MBA, November 2011). Armour believes that basin depocentres at significantly greater depths within these plays will yield substantially improved results compared to Egilabria 2, as a result of higher pressures in the depocentres.

Armour is evaluating forward programs to determine 3C contingent gas resources across the entire Lawn and Riversleigh Shale fairways which cover 1,500 km² and 4,000 km² respectively within ATP1087. Third party independent certifier SRK Consulting estimates Contingent Resources relating to the Lawn Hill Shale Formation in Egilabria 2 of 364BCF 3C; 154BCF 2C; 33BCF 1C relating to a 64km² area around Egilabria 2 (SRK Consulting, July 2014). Armour believes that the entire fairway is prospective for additional resources on this or a better basis.



Monetisation of Resources

A Memorandum of Understanding has been signed with MMG Century Pty Ltd ("MMG") to work together towards gas supply arrangements from Armour's exploration tenements in North West Queensland to MMG's Queensland operations, for up to 7 to 9 Petajoules per annum (**Figure 3**).

Armour continues to investigate other regional market opportunities for gas sales to existing and proposed mining operations, local towns and communities, including power generation facilities. A range of large scale projects are also being evaluated to deliver gas to domestic and overseas markets as an LNG export business.

Conclusions

Overall Armour believes it has made significant progress over the last 2 years in the South Nicholson basin towards the objective of 'cracking the codes' to flow gas at commercial rates. This progress has been made using experimental vertical and lateral drilling techniques using a variety of drilling bits and techniques, lateral casing and cementing strategies, cementing and completion techniques, well logging strategies and fracture stimulation techniques, never before attempted in the area. These techniques have contributed to the successful early results achieved and will be further improved over future drilling and testing programs.

The Company expects that with longer lateral sections and successful multi stage well stimulations, initial flowrates in excess of 10 mmscf per day are possible. As a comparison Armour points to the evolution of shale gas drilling, completion and production strategies adapted by Range Resources Corporation (a US\$11.5B corporation) exploring in the Marcellus Shale (north east USA) where flowrates increased from 30,000 scf per day to 14 mmscf per day over 8 wells spanning 4-5 years. With the benefit of its encouraging early results, Armour intends to continue unlocking these plays as soon as possible with the support of a strong industry partner. Discussions are ongoing in this regard.

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

On behalf of the board

Karl Schlobohm

Company Secretary

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Competent Person's Statement

The resources information in this ASX release is based on, and fairly represents, data and supporting documentation prepared by, or under the supervision, of Dr Bruce McConachie. Dr McConachie is a Principal Consultant of SRK Consulting (Australasia) Pty Ltd and has a PhD (Geology) from QUT and is a member of AusIMM, AAPG, PESA and SPE. The resources information in this ASX announcement was issued with the prior written consent of Dr McConachie in the form and context in which it appears. Resource estimations were prepared by SRK Consulting in accordance with the definitions and guidelines of the 2007 Petroleum Resources Management System (SPE, 2007). Additionally, the PMRS Guidelines 2011 were used to distinguish the Contingent Resources from quantities that should be classified as Unrecoverable. The SRK Consulting report documents the probabilistic methodology used to estimate the Contingent Resources.

It should be noted that the estimated quantities of petroleum that may potentially be recovered by the application of a future development project relates to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

All contingent and prospective resources are 100% to Armour Energy Limited.

About Armour Energy

Armour Energy is focused on the development and production 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. 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.

Further information regarding Armour Energy Limited is available on Armour's website at www.armourenergy.com.au



Figure 1: Egilabria 2 well - ATP 1087, Queensland on 1 Oct 14 (top) and 8 Oct 14 (bottom).



Figure 2: Egilabria 2 well – Well and flow test apparatus.

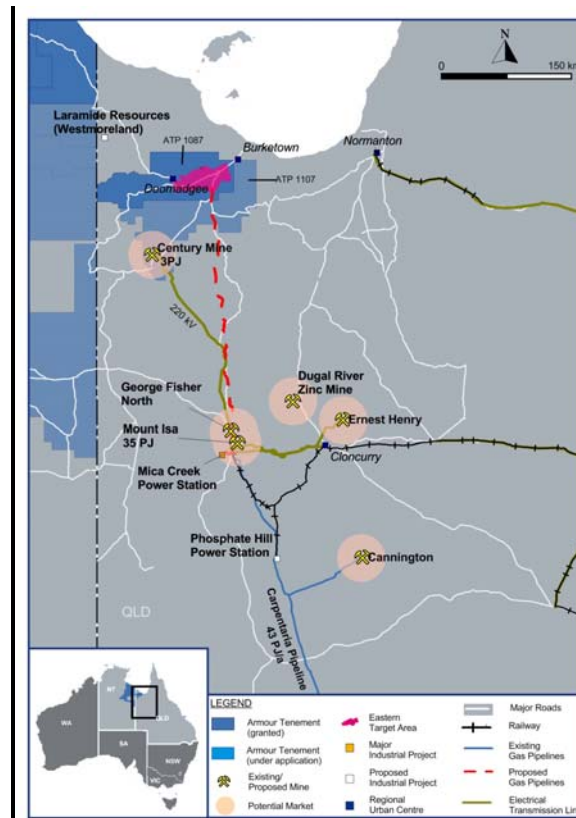


Figure 3: Location of ATP 1087, Queensland.

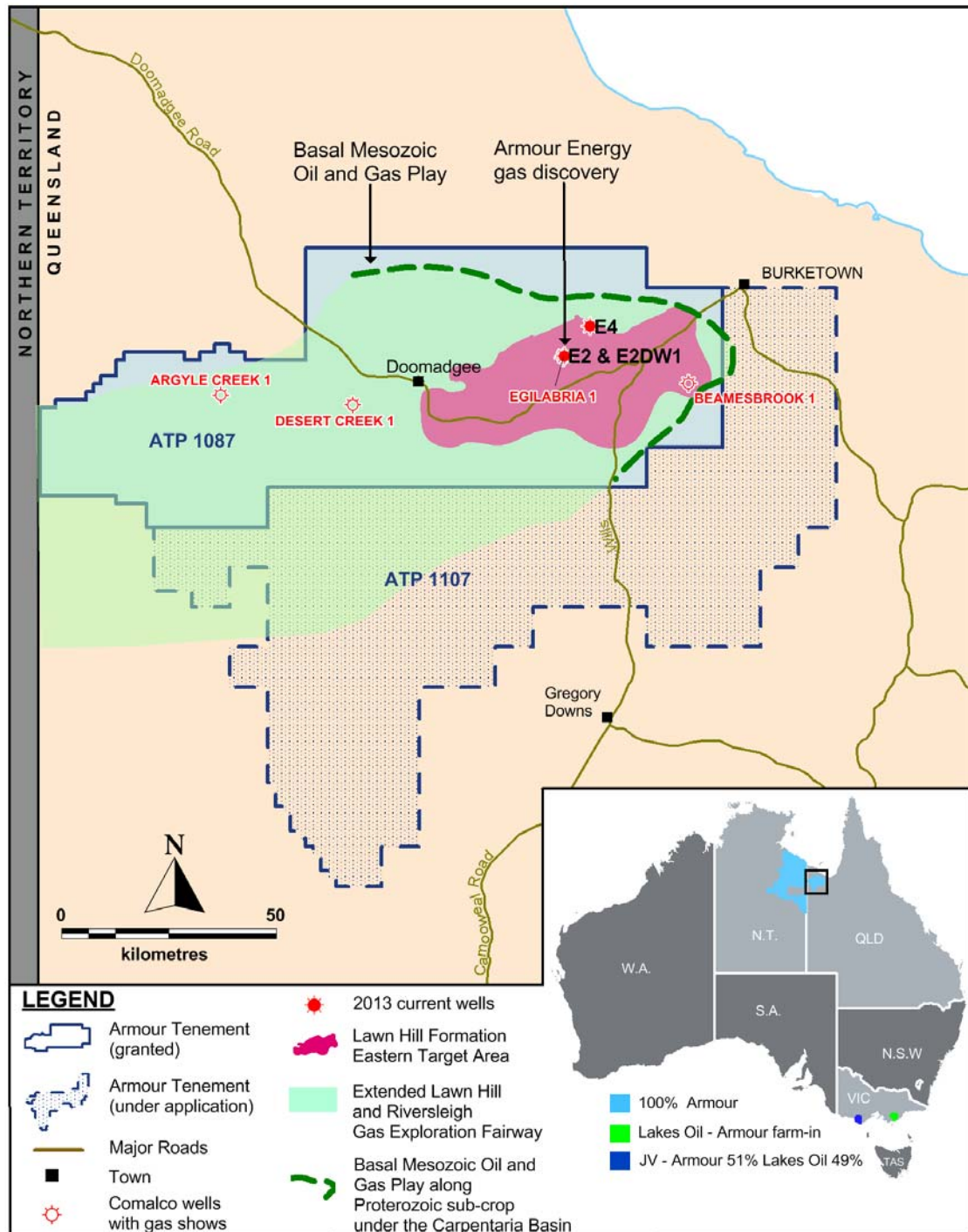


Figure 4: Location of Egilabria 2 and 4 wells, Lawn and Riversleigh Shale fairways - ATP 1087, Queensland.