



ASX Announcement

Quarterly Activities Report

For the period ended 31 March 2021

Highlights:

- Proposed demerger and IPO of Northern Basin Assets into McArthur Oil & Gas announced
- Reduced Secured Amortising Notes by \$8.0 million to \$42.4 million and amended terms
- Successfully completed \$11.5 million capital raise via private placement
- Completed sale of South Nicholson Basin interest to Santos for \$12.16 million
- Quarterly sales revenue of \$4.5 million
- Average gas production of 6.3 TJ/day

In March 2021, Armour Energy Limited ("Armour" or "the Company") released a Capital Raising Presentation, which highlighted the 2021 priorities focusing on delivering Armour's growth strategy. The 2021 priorities are:

1. Unlock value for shareholders through demerger and **IPO of Northern Basin Assets**
2. Materially **reduce debt** and renegotiate terms
3. Extract value through **commercialisation of under-utilised**, operationally ready assets
4. **Reduce operating cost base** across the business and improve profitability
5. Generate **positive free cash flow** to cover all operating and corporate costs and provide capital for new investment
6. Build **Surat and Cooper exploration pipeline** by end of 2021
7. **High grade portfolio** – Consolidate, unitise and rationalise across the portfolio
8. Demonstrate tangible improvement in **HSE performance and culture** across the business

Armour is fully focussed on delivering value for shareholders by demonstrating the value of its high-quality assets in its core areas of interest – the Surat and Cooper Basins – and unlocking value for shareholders through the proposed demerger and IPO of the Northern Basin Assets. Armour, like many other companies, continues to be affected operationally and financially by COVID-19, however the Company continues to manage its costs and seeks to maximise its revenue.

Key performance metrics	March Q3 FY21	December Q2 FY21	March Q3 FY20	Qtr. on Qtr. Change	FY21 YTD
Total production (PJ)	2.5	2.3	3.3	9%	7.4
Total sales volume (PJ)	2.6	2.1	3.2	24%	7.4
Total sales revenue (\$ million)	4.5	4.2	5.9	2%	13.0
Average realised gas price (\$/GJ)	6.0	5.9	5.5	2%	5.6
Debt (\$ million) ¹	42.4	49.3	59.0	(15%)	42.4

¹ Includes Secured Amortising Notes and Tribeca Facilities

FINANCIAL PERFORMANCE

Sales Revenue

Total sales revenue of \$4.5 million was 7% higher than the prior quarter largely due to increased volumes produced and sold. Realised prices were also slightly higher in Quarter 3 of the 2021 financial year which also contributed to higher total sales for the quarter.

\$ million	March Q3 FY21	December Q2 FY21	Qtr. on Qtr. Change
Gas	3.0	3.3	(9%)
LPG	0.6	0.4	50%
Oil	0.2	0.1	100%
Condensate	0.7	0.4	75%
Total Sales Revenue	4.5	4.2	7%

Sales Volume & Average Realised Prices

Quarterly sales volumes were higher than prior quarter for all products except LPG. This was due to wells being offline during the previous quarter for stimulation work as part of the 2020 Work Program.

Average realised pricing across all products was \$9.0/GJe, an increase of 21% on the prior quarter, primarily due to higher average oil, condensate and LPG prices.

	March Q3 FY21	December Q2 FY21	Qtr. on Qtr. Change
Volumes			
Gas (TJ)	562.6	527.2	5%
LPG (Tonnes)	860.0	901.0	(5%)
Oil (Bbl)	2,129.3	2,139.6	0%
Condensate (Bbl)	9,017.0	6,670.4	35%
Prices			
Sales Gas (\$/GJ)	6.0	5.9	1%
LPG (\$/tonne)	577.8	372.2	55%
Oil and Condensate (\$/Bbl)	78.8	60.5	30%
All products (\$/GJe)	9.0	8.7	21%

Capital Expenditure

Capital expenditure of \$2.0 million reflects annual rents, prepayments of airborne surveys for the Northern Basin and finalisation of the 2020 Work Program.

\$ million	March Q3 FY21	December Q2 FY21	Qtr. on Qtr. Change
Exploration and Appraisal	0.9	1.8	(57%)
Development, Plant and Equipment	1.1	6.0	(81%)

Sources and Uses of Funds

The below is an update on the Sources and Uses of Funds based on physical cash inflows and outflows for the 2-month period ending 31 March 2021 compared to the investor presentation released on 18 March 2021.

\$ million	Feb – Mar FY21 Actuals	Feb – Mar FY21 Forecast	Feb – Jun FY21 Forecast
Opening cash	4.1	4.1	4.1
Sources of funds			
Kincora operating revenues	3.6	3.7	8.0 – 9.0
Proceeds from capital raising	8.7	7.5	7.5 – 11.0
Proceeds from anticipated Surat farm-in work commitments	-	-	6.0 – 9.0
Proceeds from completed asset transactions	9.2	9.2	9.2
Net proceeds from anticipated asset transactions	-	-	10.0 – 15.0
Use of funds			
Kincora operating costs	2.1	3.4	7.5 – 8.5
Kincora Plant capital expenditure & engineering	0.1	0.7	1.0 – 2.0
Kincora area 2021 work program	0.0	0.5	6.0 – 9.0
Exploration expenditure	0.4	0.8	2.0 – 3.0
Permit license fees	0.1	0.5	1.0
Corporate G&A	1.3	1.2	3.0 – 4.0
Demerger transaction costs	0.0	-	1.0
Costs of capital raise	0.3	0.6	0.6
Funding costs (including interest payable)	1.1	1.1	2.3
Secured amortising notes debt reduction, plus fees	8.0	8.0	10.0
Cash on hand and working capital	12.3	7.7	10.4 - 16.4

Related Party Transactions

The March quarter related party transactions totalled \$0.2 million. Like the previous quarter, the related party transactions during this period related to director fees, administrative overheads, charges for rent and IT expenses for the purposes of 6.1 and 6.2 of Appendix 5B.

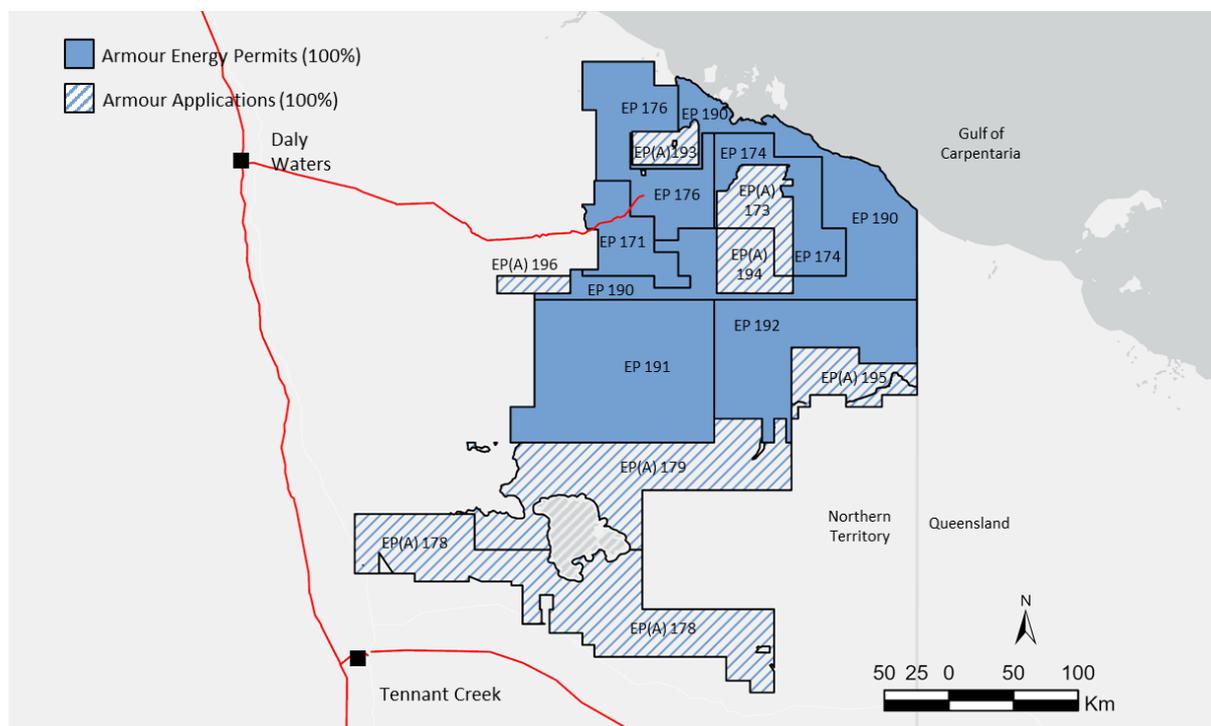
\$AUD millions	March Q3 FY21	December Q2 FY21	Qtr. on Qtr. Change
Director fees	0.1	0.1	(12%)
Admin overheads	0.1	0.1	-

CORPORATE AND COMMERCIAL

Proposed Demerger and IPO of Northern Basin Assets

As announced 3 March 2021, Armour plans to unlock the value of the Northern Basin exploration assets through a proposed demerger and IPO into McArthur Oil & Gas. Armour is currently the leading operator in the McArthur Basin and is the 100% owner and operator of six granted

Exploration Permits (EPs) and seven Exploration Permit Applications, which cover approximately 89,000 km² in the Northern Territory and is the operator of a material position in the South Nicholson Basin in NW Queensland with one Exploration Permit Application in the South Nicholson Basin covering approximately 7,900 km².



Armour has incorporated a new company, McArthur Oil & Gas Ltd (MOG), to hold the Northern Basin Assets. Armour proposes to demerge and list MOG separately on the Australian Stock Exchange (ASX) with a planned Initial Public Offering and capital raise of \$60-\$65 million. This will fund the acquisition of the Northern Basin oil and gas assets from Armour and fund forward exploration work for MOG.

Armour plans to use the proposed total consideration of \$40 million cash from MOG for the acquisition of Northern Basin Assets to retire outstanding debt.

Northern Territory

During the quarter, Armour lodged Retention License Applications (RLAs) in the Northern Territory (covering 491 km²) over conventional gas discoveries in this area. These RLAs cover Armour's 100% owned EP 171 and EP 190. This was an important first step towards securing production licenses for existing gas discoveries from work performed from 2012 to 2015. If granted, these licenses will allow these assets to contribute to the current gas shortage and the Northern Territory's and Federal Government's "Gas Led Recovery" objectives, by providing local gas to local businesses and communities.

Debt Reduction

During Quarter 3 of the 2021 financial year, the Company materially reduced long-term debt by \$8 million to \$42.4 million – a 15% reduction from the previous quarter – and from the beginning of the 2021 financial year the Company has reduced long-term debt down from \$50.8 million.

The sale of the additional South Nicholson Basin (SNB) permit interests to Santos QNT Pty Ltd (Santos) for \$12.16 million settled in February. Over the last 12-months, Armour received \$33.25 million in cash proceeds in relation the South Nicholson Basin Project while only reducing its acreage position by 35%.

Armour made an accelerated amortisation payment of \$6.1 million on the Secured Amortising Notes (or Notes) following the SNB transaction with Santos. At the end of the quarter, the Amortised Face Value of the Notes was \$793.63 per Note, down from the initial \$1,000.

In March, Armour received notification from the Queensland Department of Environment and Science confirming a reduction in the estimated rehabilitation costs for the Surat Basin projects by \$1.1 million. This allows Armour to reduce its financial assurances held and reduce the outstanding debt under the financial facility with Tribeca. This will bring the amount of outstanding debt with Tribeca down to \$5.6 million.

Successful \$11.5 million Capital Raise

Armour announced on 18 March 2021 the successful completion of a \$11.5 million private placement to institutional and sophisticated investors.

The placement shares are at an issue price of \$0.035 which represented a discount of 12.5% to the last traded price prior to the announcement of \$0.040 on 15 March 2021 and a 10.2% discount to the 15-day volume weighted average price. All New Shares issued pursuant to the capital raising will rank equally with the Company's existing shares on issue.

For every four New Shares issued under the Placement, the holder will also receive one free attaching option. The options are the existing listed option series (ASX:AJQOA) which are exercisable at \$0.05 and expiring 29 February 2024.

Funds will be used for the Northern Basin Assets demerger and IPO costs as well as exploration expenditure, Kincora project production well interventions and gas processing facilities maintenance, servicing and ensuring compliance with debt facilities, the costs of the offer and general working capital.

Amendments to the conditions of the Secured Amortising Notes

As announced 31 March 2021, Armour received approval from Noteholders for amendments to the Conditions of the Secured Amortising Notes. The approved amendments include:

1. New Note principal amortisation schedule to reflect the \$11.4 million reduction in aggregate outstanding principal value of the Notes by way of unscheduled amortisation payments already made by Armour;
2. Amendments to Financial Undertakings, including the Debt Service Cover Ratio, the Leverage Ratio and the cash balances Armour must maintain;
3. Amendments to increase a certain limit on incurring Financial Indebtedness;
4. The creation of a new Interest Reserve Account which requires Armour to maintain a certain balance;
5. Amendments to the early redemption of Notes provisions;
6. Amendments to the payment timeframes for the unscheduled amortisation payments; and

7. Consent from the Noteholders to extend the due date for the environmental bonding finance facility

These amendments provide Armour the runway required to execute the proposed McArthur Oil & Gas demerger and IPO. In turn, upon success of the demerger and IPO, Armour intends to use the consideration received to retire its outstanding debt.

Update of the Surat 2020 Work Program

The 2020 three well stimulation campaign (Horseshoe #2, Horseshoe #4 and Warroon #1) continued to deliver low side production volumes over the quarter. A diagnostic remedial frac treatment trial was performed on all three wells in early February to attempt to accelerate the recovery of frac fluids by dissolving residual hydrated polymers from the frac fluid. This treatment was not as effective as hoped and the frac fluid issue is currently under technical reviews. As announced on 18 March 2021, the gel in the fracs failed to breakdown following the proppant placement in respect of the three wells, impacting matrix flow and causing low-side outcomes. The Company has issued a dispute notice to the contractor in regards to the services provided in respect of the wells.

The artificial lifts and plunger lift systems also delivered as part of the 2020 work program are responding in-line with expectations, providing production adds and assisting with reducing operational costs and allowing remote optimisation.

As noted in the Capital Raise presentation released on 18 March 2021, the Company has \$1.3m of invoices currently under dispute. An application was made to the Supreme Court of Queensland seeking clarification of the interpretation of the dispute resolution clause in the contract. These proceedings are not considered material by the Company.

2021 Work Program

Armour is using both new and existing data to finalise its candidates for the 2021 Work Program which is expected to commence in mid 2021.

OTHER CORPORATE UPDATES

Investor Relations

A copy of recent presentations can be found at:

<https://www.armourenergy.com.au/presentations/>.

**Authorised by the Board of Directors
On behalf of the Board
Karl Schlobohm
Company Secretary**

Competent Persons Statement

Forward Looking Statement

This announcement may contain certain statements and projections provided by or on behalf of Armour Energy Limited (Armour) with respect to the anticipated future undertakings. These forward-looking statements reflect various assumptions by or on behalf of Armour. Accordingly, these statements are subject to significant business, economic and competitive uncertainties and contingencies associated with exploration and/or production which may be beyond the control of Armour which could cause actual results or trends to differ materially, including but not limited to price fluctuations, exploration results, resource estimation, environmental risks, physical risks, legislative and regulatory changes, political risks, project delay or advancement, ability to meet funding requirements, factors relating to property title, native title and aboriginal heritage issues, dependence on key personnel, share price volatility, approvals and cost estimates. Accordingly, there can be no assurance that such statements and projections will be realised.

Armour makes no representations as to the accuracy or completeness of any such statement of projections or that any forecasts will be achieved.

Additionally, Armour makes no representation or warranty, express or implied, in relation to, and no responsibility or liability (whether for negligence, under statute or otherwise) is or will be accepted by Armour or by any of their respective officers, directors, shareholders, partners, employees, or advisers as to or in relation to the accuracy or completeness of the information, statements, opinions or matters (express or implied) arising out of, contained in or derived from this presentation or any omission from this presentation or of any other written or oral information or opinions provided now or in the future to any interested party or its advisers. In furnishing this information, Armour undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise.

Nothing in this material should be construed as either an offer to sell or a solicitation of an offer to buy or sell securities. It does not include all available information and should not be used in isolation as a basis to invest in Armour Energy Limited.

Appendix A

Interests in Tenements this Quarter

TYPE	LOCATION	OWNER	INTEREST
PL 14	Queensland	AE (SB) P/L	100.00%
PL 53	Queensland	AE (SB) P/L	100.00%
PL 70	Queensland	AE (SB) P/L	100.00%
PL 511	Queensland	AE (SB) P/L	100.00%
PL 227	Queensland	AE (SB) P/L	100.00%
PPL 3	Queensland	AE (SB) P/L	100.00%
PPL 20	Queensland	AE (SB) P/L	100.00%
PPL 63	Queensland	AE (SB) P/L	100.00%
PL 28	Queensland	AE (SB) P/L	46.25%
PL 69	Queensland	AE (SB) P/L	46.25%
PL 89	Queensland	AE (SB) P/L	46.25%
PL 320	Queensland	AE (SB) P/L	46.25%
PL 321 Waldegrave	Queensland	AE (SB) P/L	46.25%
PL 12	Queensland	AE (SB) P/L	46.25%
PL 321 Snake Creek	Queensland	AE (SB) P/L	25.00%
PL 21	Queensland	AE (SB) P/L	100.00%
PL 22	Queensland	AE (SB) P/L	100.00%
PL 27	Queensland	AE (SB) P/L	100.00%
PL 71	Queensland	AE (SB) P/L	100.00%
PL 264	Queensland	AE (SB) P/L	100.00%
PL 30	Queensland	AE (SB) P/L	90.00%
PL 512	Queensland	AE (SB) P/L	84.00%
PPL 22	Queensland	AE (SB) P/L	84.00%
ATP 647 (PCA 246)	Queensland	AE (SB) P/L	100.00%
Newstead Gas storage ¹	Queensland	AE (SB) P/L	100.00%
ATP 1190 (PCA157, Weribone)	Queensland	AE (SB) P/L	50.64%
ATP 1190 (PCA157, Bainbilla)	Queensland	AE (SB) P/L	24.75%
ATP 2028	Queensland	AE (SB) P/L	50.00%
ATP 2029	Queensland	AE (SB) P/L	100.00%
ATP 2030	Queensland	AE (SB) P/L	100.00%
ATP 2032	Queensland	AE (SB) P/L	100.00%
ATP 2034	Queensland	AE (SB) P/L	100.00%
ATP 2035	Queensland	AE (SB) P/L	100.00%
ATP 2041	Queensland	AE (SB) P/L	100.00%
EP 171	Northern Territory	Armour Energy Ltd	100.00%
EP 174	Northern Territory	Armour Energy Ltd	100.00%
EP 176	Northern Territory	Armour Energy Ltd	100.00%
EP 190	Northern Territory	Armour Energy Ltd	100.00%
EP 191	Northern Territory	Armour Energy Ltd	100.00%
EP 192	Northern Territory	Armour Energy Ltd	100.00%
PEP 169 ²	Victoria	Armour Energy Ltd	51.00%
PEP 166 ²	Victoria	Armour Energy Ltd	25.00%
PRL 2 ²	Victoria	Armour Energy Ltd	15.00%
EL 30817	Northern Territory	Ripple Resources P/L	100.00%

TYPE	LOCATION	OWNER	INTEREST
EL 30818	Northern Territory	Ripple Resources P/L	100.00%
EL 31012	Northern Territory	Ripple Resources P/L	100.00%
EL 30494	Northern Territory	Ripple Resources P/L	100.00%
EPM 19833	Queensland	Ripple Resources P/L	100.00%
EPM 19835	Queensland	Ripple Resources P/L	100.00%
EPM 19836	Queensland	Ripple Resources P/L	100.00%
EPM 25504	Queensland	Ripple Resources P/L	100.00%
EPM 25505	Queensland	Ripple Resources P/L	100.00%
EPM 25802	Queensland	Ripple Resources P/L	100.00%
EPM 26497	Queensland	Ripple Resources P/L	100.00%
EPM 26018	Queensland	Ripple Resources P/L	100.00%
EPM 26020	Queensland	Ripple Resources P/L	100.00%
EPM 26022	Queensland	Ripple Resources P/L	100.00%
PEL 112	South Australia	Holloman Petroleum Pty Ltd	100.00%
PEL 444	South Australia	Holloman Petroleum Pty Ltd	100.00%
PRL 50	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 51	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 52	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 53	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 54	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 55	South Australia	Cordillo Energy Pty Ltd	100.00%
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PRL 70	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 71	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 72	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 74	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 75	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 124	South Australia	Cordillo Energy Pty Ltd	100.00%
PRL 248	South Australia	Cordillo Energy Pty Ltd	100.00%

Notes:

1. The Newstead Storage Facility sits mostly within PL27 and also straddles PL 14. It is a depleted underground natural gas reservoir that is currently utilised as a storage facility; i.e. it is used for injection and withdrawal of gas. The Newstead Storage Facility has a capacity of approximately 7.5PJ of gas.
2. Joint Venture with Lakes Oil NL

Glossary

AE (SB) P/L	Armour Energy (Surat Basin) Pty Ltd
ATP	Authority to Prospect
Bbl	Barrels - the standard unit of measurement for all oil and condensate production. One barrel = 159 litres or 35 imperial gallons
EL	Exploration Licence
EPP	Exploration Permit - Petroleum
FY	Financial Year
GJ	Gigajoule = 10 ⁹ joules
GJe	Gigajoule equivalent
LPG	Liquid petroleum gas
PCA	Potential Commercial Area
PEL	Petroleum Exploration Licence
PEP	Petroleum Exploration Permit
PJ	Petajoule
PL	Petroleum Lease
PPL	Petroleum Pipeline Licence
PRL	Petroleum Retention Lease/Licence
Q, Qtr	Quarter
TJ	Terajoule
TJ/day	Terajoules per day
YTD	Year to date