ARMOUR ENERGY LIMITED
ABN: 60 141 198 414

HALF-YEAR FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

CORPORATE INFORMATION

DIRECTORS
Nicholas Mather
William (Bill) Stubbs
Roland Sleeman
Stephen Bizzell

COMPANY SECRETARY
Karl Schlobohm

REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE
Armour Energy Ltd
Level 27, 111 Eagle Street
Brisbane, QLD 4000
P: +61 7 3303 0620
F: +61 7 3303 0681

SOLICITORS
Hopgood Ganim Lawyers
Level 8, Waterfront Place
1 Eagle Street
Brisbane, QLD 4000

SHARE REGISTER
Link Market Services Limited
Level 15, ANZ Building
324 Queen Street
Brisbane, QLD 4000

AUDITORS
BDO Audit Pty Ltd
Level 10, 12 Creek Street
Brisbane, QLD 4000

COUNTRY OF INCORPORATION
Australia

STOCK EXCHANGE LISTING
Australian Securities Exchange Ltd
ASX Code: AJQ

INTERNET ADDRESS
www.armourenergy.com.au

AUSTRALIAN BUSINESS NUMBER
60 141 198 414

DIRECTORS' REPORT

Your Directors present their report on the company for the half-year ended 31 December 2016. Armour Energy Limited (the "Company" or "Armour") is a public company limited by shares that is incorporated and domiciled in Australia.

DIRECTORS

The names of the Directors in office at any time during or since the end of the period are:

Nicholas Mather
William (Bill) Stubbs
Roland Sleeman
Stephen Bizzell

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

REVIEW OF OPERATIONS AND ACTIVITIES

Armour Energy (Armour) is focused on the discovery and development of world class gas and associated liquids resources. During the half year Armour commenced oil production from the Emu Apple field and is rapidly progressing towards commencing gas and liquids production from its recently acquired Kincora project in Queensland. Armour also has a substantial tenement position 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. 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's permit areas in northern Australia, are characterised by low population densities, cooperative stakeholders and aspects of the natural environment suited to the exploration and development of a major future hydrocarbon province. The Company is focusing on the recommencement of gas and liquids production from the Kincora project in Queensland and the exploration of the McArthur, South Nicholson and Georgina Basins in the Northern Territory and Queensland, and in the onshore Gippsland Basin in Victoria, for gas and associated petroleum liquids. Armour places considerable importance on close liaison with traditional owners and all stakeholders.

Armour will progress exploration of its 133,000 square kilometres (33 million acres) tenement area while maintaining a prudent approach to capital management, low-cost, high value work programs and partnering on appropriate terms. Exploration will focus on staged de-risking of large unconventional gas and liquids plays while pursuing early cash flow opportunities.

Armour's recent acquisition of petroleum (oil and gas) resources, tenures, production and transportation infrastructure assets will enable the Company to become a significant producer of gas, LPG, condensate and oil on the Roma Shelf, Surat Basin, in Queensland. The production facilities include field gas compression, extensive gathering systems, the Kincora gas processing plant, and a dedicated pipeline to the Roma to Brisbane Pipeline at Wallumbilla. The assets also include the Newstead (underground) gas storage facility and other potential gas storage facilities. Furthermore, the assets include a number of oil fields with associated facilities.

The experienced Board of the Company includes three 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 into a significant gas exploration and development company.

The loss after income tax for the half-year ended 31 December 2016 was $4,235,454 (31 December 2015: loss of $5,659,020).

REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

HIGHLIGHTS

- Kincora Project– oil production re-commences at Emu Apple and first shipment sold.
- Kincora Project, Roma Shelf in the Surat Basin – Armour now on title for all tenements.
- Kincora Project - Armour exercises its pre-emptive rights to acquire Santos' interests in Armour - operated assets.
- Kincora Project - restart program advanced.
- Kincora Project – 510% increase in 2C contingent resources in the Myall Creek, Parknook, Namarah and Warroon fields.
- Gas Sales Agreements executed with Australia Pacific LNG for Armour's Kincora Project.
- Cornerstone Investor secured for comprehensive capital raising program of up to $40m.
- Continue to investigate commercial opportunities regarding Newstead gas storage.
- Settlement reached with AEGP Australia, under which the Company effectively took ownership of approximately 40million Armour shares, which it subsequently divested for approximately $3million in proceeds.
- Roger Cressey appointed as Acting CEO until such time as the CEO position is reconsidered.

PROJECT ACTIVITIES

Restart of Oil Production at the Kincora Project

During the six months, Armour recommenced oil production from the Emu Apple field, which is part of the Company's Kincora Project assets. Production during the half year was steady, and averaged 42.1 barrels of oil per day. Operating cost per barrel of oil, including transportation cost to the refinery, was $21.50 per barrel.

Oil production from the Emu Apple field and facility are as follows:

	Oil production (bbl)	Oil sales (bbl)
Gross	4,158	4,029
Armour's 90% share	3,742	3,626

Table 1: Oil production and sales

Armour has entered into a Sale and Purchase Deed with Santos to acquire its interest in PL264 which includes the Emu Apple field and facility (more detail on this follows). On completion of the Sale and Purchase Deed, Armour's holding of Emu Apple will increase to 100%; expected Q1 2017.

Photo1: Oil production facility at Emu Apple, Kincora Project

Armour's first load of crude oil was collected by crude oil road tanker (approx. 53,000 litres or 333 bbls) from Emu Apple on 23 September 2016 and taken to Brisbane's Caltex Refinery.

Photo 2: First load of crude oil from Emu Apple being collected on 22 September 2016.

REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

Kincora Project, Roma Shelf in the Surat Basin – Armour is now on title for all tenements

As announced on 2 September 2016, Armour is now on title for all 17 production licences, 3 exploration licences and 4 pipeline licences at the Kincora Project site. The project area covers over 3000km^2 of prospective acreage, and includes infrastructure connecting directly into the major gas hub on the east coast at Wallumbilla, Queensland. The overall replacement value of the Kincora infrastructure is estimated at more than $250 million. This infrastructure includes the 100% owned Newstead gas storage facility with a capacity of 7.5 PJs and which has 2.3 PJs of sales quality gas currently stored in it. In July 2016, Armour announced an independently verified 510% increase in 2C resources to 105 PJs attributed to Myall Creek, Parknook, Namarah and Warroon Fields (Figure 1).

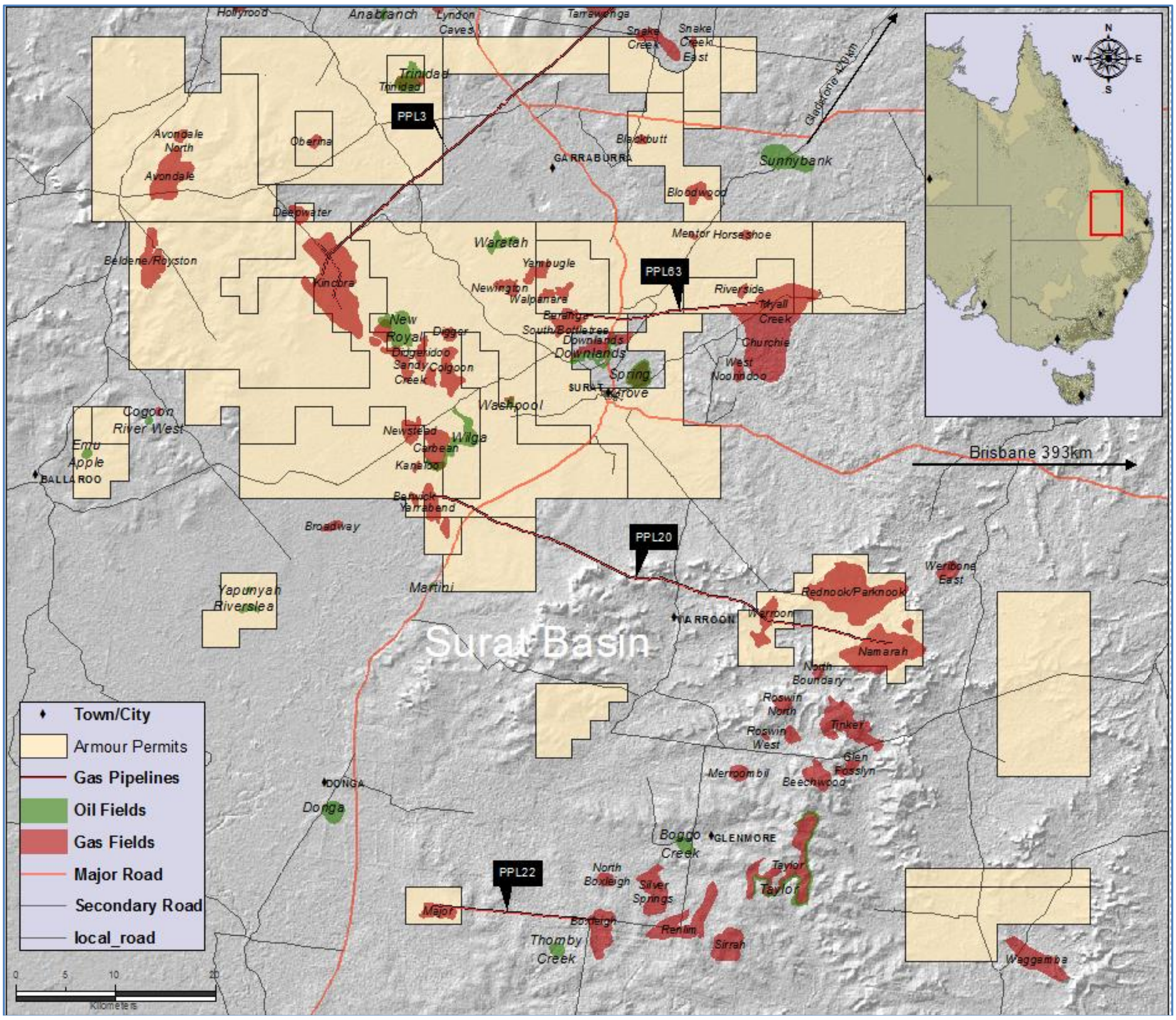

Figure 1: 2016 Armour Energy Bowen-Surat Lease position.

Armour exercises pre-emptive rights to acquire Santos' interests in Armour-operated assets at the Kincora Project

As announced on 6 December 2016, Armour has entered into a Sale and Purchase Deed in respect of its pre-emptive rights with Santos' interests in the Armour-operated tenements on the Company's Roma Shelf, Surat Basin, Queensland.

On completion of the Sale and Purchase Deed, Armour's holding in five (5) petroleum leases around the Kincora Gas Plant will increase to 100% ownership, enabling the Company to more effectively operate its assets across these leases and enjoy 100% of the upside these tenements offer. Armour will also increase its percentage holding on another four (4) leases.

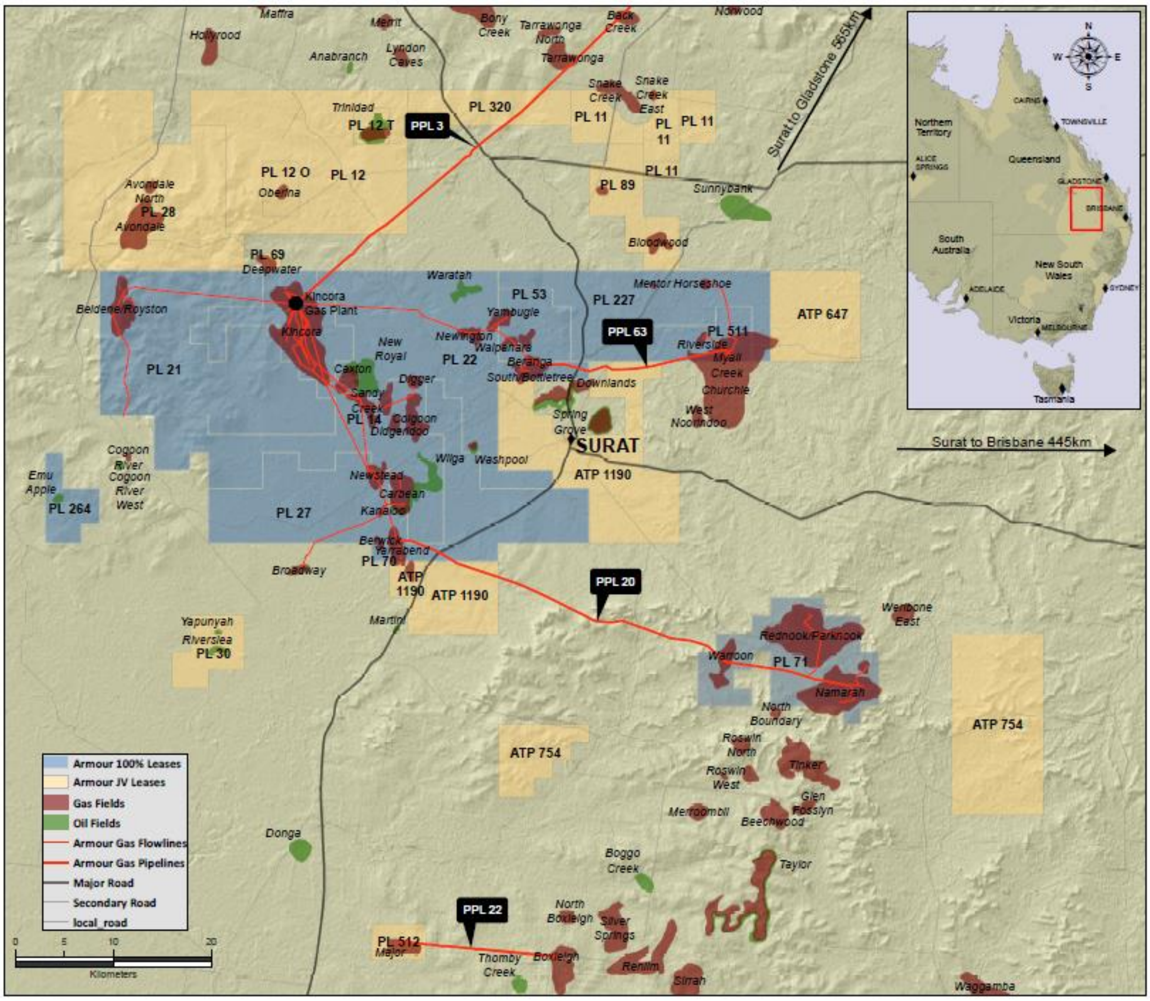

Figure 2: Map showing Armour's Kincora Project lease position after the expected completion of the Sale and Purchase Deed with Santos (blue shaded area)

Table 2 shows the percentage holding that Armour will have after completion of the Sale and Purchase Deed with Santos. Figure 2 (above) shows a map indicating the Armour's Surat Basin leases including the 100% holdings post completion of the Sale and Purchase Deed.

Tenement	Field Name	Armour Operated	Armour Interest Prior to Pre-Empt	Armour Interest After Pre-Empt
PL 14	Kincora	*	100%	100%
PL 53	Kincora	*	100%	100%
PL 70	Kincora	*	100%	100%
PL 511 (formerly PL 174)	Kincora	*	100%	100%
PL 227	Horseshoe	*	100%	100%
PPL 3	n/a	*	100%	100%
PPL 20	n/a	*	100%	100%
PPL 63	n/a	*	100%	100%
Newstead Gas Storage	Newstead	*	100%	100%
PL 21 (see note)	Kincora	*	87.5%	100%

REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

Tenement	Field Name	Armour Operated	Armour Interest Prior to Pre-Empt	Armour Interest After Pre-Empt
PL 22 (see note)	Kincora	*	87.5%	100%
PL 27 (see note)	Kincora	*	87.5%	100%
PL 71 (production) (see note)	Parknook	*	90.0%	100%
PL 264 (see note)	Emu Apple	*	90.0%	100%
PL 30 (see note)	Riverslea	*	75%	90%
PL 512 (formerly PL 74) (see note)	Major	*	69%	84%
PPL 22 (see note)	n/a	*	69%	84%
PL 71 (exploration) (see note)	Parknook	*	72%	80%
ATP 1190 (formerly ATP 471)	Weribone	*	50.64%	50.64%
ATP 754	ATP754	*	50%	50%
ATP 647 (Block 2656)	Myall Creek East		50%	50%
PL 28	Waldegrave		46.25%	46.25%
PL 69	Waldegrave		46.25%	46.25%
PL 89	Waldegrave		46.25%	46.25%
PL 320 (formerly PL 10W)	Waldegrave		46.25%	46.25%
PL 11W	Waldegrave		46.25%	46.25%
PL 12 W	Waldegrave		46.25%	46.25%
PL 11	Snake Creek East		25%	25%
ATP 1190 (formerly ATP 471)	Bainbilla		24.748%	24.748%

(Note: Leases the subject of the Sale and Purchase Deed with Santos.)

Table 2: Armour tenements at the Company's Kincora Project, Roma Shelf, Queensland

Restart program advanced for the Kincora Project

Armour announced on 22 December 2016 that the Company had consolidated and updated its multi-phase restart program for gas production as announced on 21 July 2016, into a two-phase restart program.

The consolidated program is as a result of looking at optimisations in order to ramp up production as rapidly as practically possible. The two-phase gas production restart program is now projected as follows:

- Phase 1 is the commencement of gas production (ie "the restart"), commissioning and then increase production rate to 9TJ per day (3.3PJs per annum) with production initially from the Newstead storage facility and then various wells across the fields that were last in operation by Origin in 2012. First gas production and commencement of gas sales is targeted to be achieved by June 2017, and the balance of the restart program (including commencement of associated liquids production) is planned to be completed by August/September 2017.

- Phase 2 will involve the drilling of new wells plus work-overs and stimulations of existing wells to achieve an increase in gas production to 20TJ per day (7.3PJs per annum) over a period of 12 to 18 months from first gas production. This production rate is 66% of the Kincora Gas Plant name plate capacity, and further production increase will be investigated to target 100% plant capacity. Associated liquids production from the project historically averaged 9,942 barrels of condensate per PJ of gas produced, and 2,066 tonnes of LPG per PJ of gas produced. Based on these historical production rates, at a gas production rate of 20TJ per day, liquids production is expected to reach 198 barrels of condensate and 41 tonnes of LPG per day in Phase 2. Projected condensate and LPG figures are based on the information contained in the Company's ASX release of 19 July 2016.

REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

The key activities and their expected timing for the Kincora Project restart program are set out in Figure 3 below.

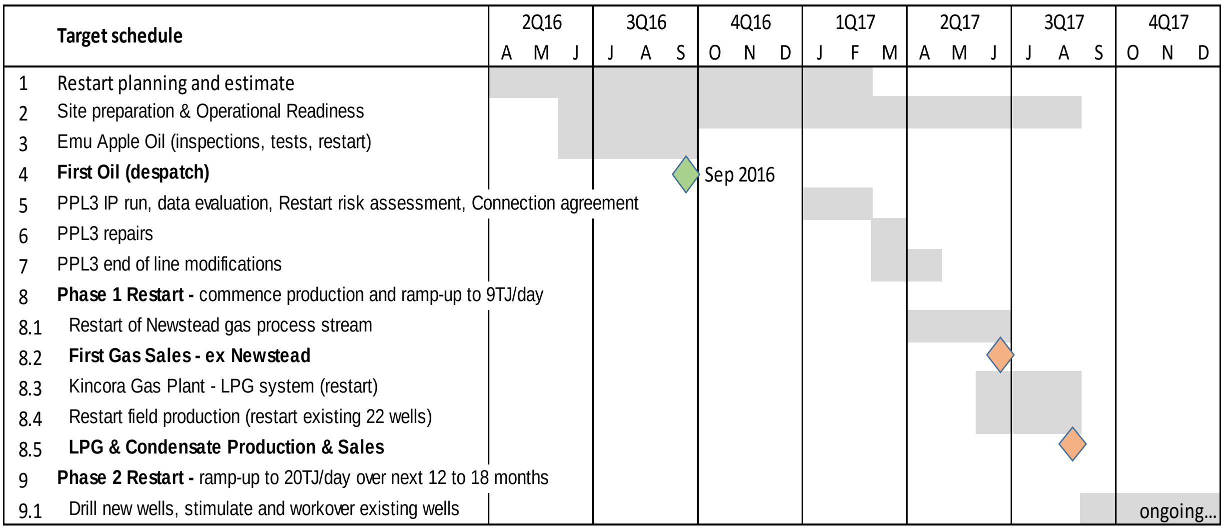

Figure 3: Kincora restart program schedule

510% Increase in 2C Contingent Resources in Armour's Myall Creek, Parknook, Namarah and Warroon Fields near Roma, Queensland

On 19 July 2016, the Company announced the results of an independent resources review of certain of its licence areas within its Kincora Project in the Surat Basin, Queensland. The 2C contingent resources (net to Armour) in the Myall Creek, Parknook, Namarah and Warroon Fields) have increased from 15 PJs to 92 PJs. The overall total 2C contingent gas resource (net to Armour) of the broader Kincora project area is now 105 PJs.

Armour has a 100% working interest in the Myall Creek petroleum licenses PL511 and PL227, which cover an area of 78km^2, and a 90% working interest in the Parknook, Namarah and Warroon Fields (petroleum license PL71, covering an area of 134 km^2) (Figure 2). The recoverable resource estimates have been classified as contingent resources and Table 2 indicates Armour's net share of remaining recoverable products.

2C contingent resources will be reclassified to 2P reserves upon demonstrating economic viability following the re-start of the Kincora Gas Plant. Since acquiring these assets the Armour team has been working on re-start plans and is currently intending to achieve first gas production by the end of Q2 2017. This will involve gas from the Newstead storage facility which should require minimal processing to meet sales gas specification as it was already processed prior to injection into storage.

REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

The balance of the re-start will involve recommissioning of the LPG system at the Kincora Gas Plant and this is expected to be completed during Q2 2017, which is when Armour intends to bring the Myall Creek and other fields back into production.

Category	Total Net Resources [1]			
	Gas (BCF)	Gas (PJ)	LPG (kTonne)	Condensate (kbbl)
Total Proved (1C)	**26**	**27**	**56**	**270**
Total Proved + Probable (2C)	**87**	**92**	**190**	**913**
Total Proved + Probable + Possible (3C)	**222**	**234**	**483**	**2,326**

Table 3 -Total Net Contingent Gas Resource Estimation- Myall Creek, Parknook, Namarah and Warroon Fields

Table 3 Notes:

1. Contingent Resources are classified according to SPE-PRMS (Society of Petroleum Engineers – Petroleum Resource Management System).
2. Contingent Resources are stated on a risked net basis with historical production removed.
3. Contingent Resources stated are inclusive of previous estimates reported by Armour.
4. Contingent resources exclude plant operating fuel used during operations estimated at 7%
5. Contingent Resources are stated exclusive of minor overriding royalty and net profit interest.
6. BCF = billion cubic feet, LPG = liquefied petroleum gas, PJ = petajoules, kbbl = thousand barrels, kTonne = thousand tonnes; Conversion 1.055 PJ/BCF.

The 2C contingent resources (net) from Table 2 above are split as follows:

		Myall Creek 2C (net) PL511 and PL227	**Parknook, Namarah and Warroon 2C (net) PL71**	**Total 2C (net)**
Gas	**PJ**	60	32	92
LPG	**kTonnes**	125	65	190
Condensate	**Kbbls**	600	313	913

Further technical details of the work undertaken by SRK Consulting (Australasia) Pty Ltd are outlined in the ASX release of 19 July 2016.

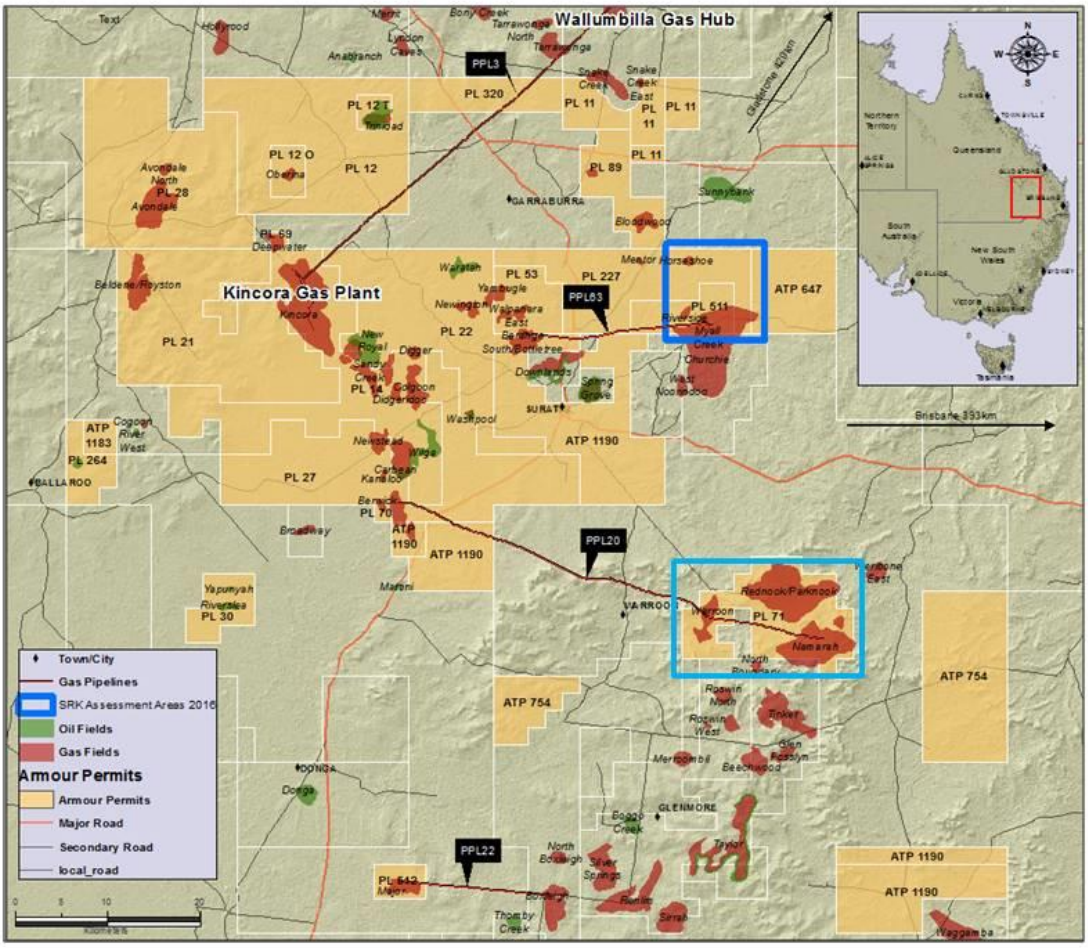

Figure 4: Upper Tinowon & Wallabella Sandstone Contingent Gas Resource Area, Armour Energy operated 100% WI PL 511 & PL 227; Showgrounds & Rewan Contingent Gas Resource Area, Armour Energy operated 90% WI PL 71

Gas Marketing Strategy & Newstead Storage Facility

Armour has direct access to the Wallumbilla gas hub through its Kincora to Wallumbilla Pipeline (KWP) under Queensland Petroleum Pipeline Licence number 3 (PPL 3). As a result, Armour has access to the Australian east coast market, providing it with the opportunity to negotiate gas sales arrangements with a wide range of gas users across the market, including a range of industrial customers, wholesale customers, traders and LNG producers.

The Newstead storage facility currently holds approximately 2.3PJ of treated gas (sales quality) which is expected to require minimal re-processing (compression and dehydration) before sending to market at Wallumbilla. Newstead has a total capacity ~7.5PJs. The facility provides significant benefits through flexibility of operations plus commercial benefits through providing:

- back-up capacity when upstream production facilities experience both unplanned and planned shutdowns;
- capacity to store gas when prices are low, waiting for higher prices to maximise revenue;
- capacity to maximize sales opportunity during seasonal price cycle and trading activities, specifically sales into the peaking electricity market during the December to March period;
- opportunistic supply when spot cargoes for LNG and electricity producers experience price spikes.

REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

Further, the injection and withdrawal rates can be improved through de-bottlenecking and augmentation, and Armour intends to commence detailed studies on this once gas sales has commenced.

Additional storage opportunities exist in a number of depleted reservoirs across the tenements. Armour will investigate the potential to create additional storage capacity from these depleted reservoirs.

Gas sales agreements executed with Australia Pacific LNG for Armour's Kincora Project

On 22 December 2016, the Company announced it had executed gas sales agreements with Australia Pacific LNG Marketing Pty Limited (Australia Pacific LNG) for the supply of gas from Armour's Kincora Project to Australia Pacific LNG over a minimum of a five (5) year period.

The agreements provide Armour with a clearer path to cash flow certainty for 1.8PJ/a over the first five years and will bring confidence to the restart with strong known cash flows underpinning the early years of the project. The key benefits to Armour flowing from the agreements with Australia Pacific LNG are:

- Australia Pacific LNG is a strong counterparty gas buyer, being a joint venture between three leading oil and gas companies (Origin Energy, ConocoPhillips, and Sinopec);
- the agreement provides Armour delivery flexibility during the restart commissioning period;
- the agreed pricing provides Armour with cash flow certainty for gas delivered up to 1.8PJ/a over the first 5 years;
- Armour has retained the right to supply the broader gas market, including a wide range of industrial customers, wholesale customers and traders and other LNG producers, after commitments to Australia Pacific LNG have been met; and
- convenient delivery point at the Wallumbilla Gas Hub.

After the contractual commitments to Australia Pacific LNG have been met, Armour has retained the right to supply the broader gas market including a wide range of industrial customers, wholesale customers and traders, and LNG producers.

Settlement with AEGP Australia

During the six months the Company reached a settlement agreement with AEGP Australia Pty Ltd (AEGP) following the ruling by the Queensland Supreme Court on 14 July 2016 ordering specific performance by AEGP of its obligations under the Farm-out Agreement between Armour and AEGP, in respect of the Northern Territory petroleum exploration permits.

Under the Farm-out Agreement, Armour was to receive an upfront cash payment of US$13m and a subscription by AEGP to a further A$3.5m in Armour shares at 20 cents per share. Following the death of AEGP Director and US affiliate American Energy Partners (AEP) founder, Chairman and CEO Aubrey McClendon on March 2nd 2016, AEGP found itself in a position which rendered it incapable of performance of its obligations pursuant to the Queensland Supreme Court order.

A wholly owned subsidiary of AEGP, AEGPAS Pty Ltd (AEGPAS) held 40,063,785 shares in Armour. Given the prevailing circumstances and lack of certainty, Armour agreed to acquire AEGPAS from AEGP at no cost in settlement of AEGP's obligations to Armour. AEGP also waived its right to earn up to a 75% interest in Armour's Northern Territory tenements, allowing Armour to retain a 100% interest in these assets.

During the six months, Armour successfully divested the shares held by AEGPAS, realising approximately $3.05million in proceeds to the Company. These proceeds were largely used to finalise settlements due to Origin for the Kincora Project.

REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

Management Changes

On 30 September 2016, the Company advised that Robbert de Weijer had resigned his position as Chief Executive Officer of the Company. Armour's Chief Operating Officer, Mr Roger Cressey, agreed to act as CEO for the Company on an interim basis, until such time as the CEO position is reconsidered.

Roger has been employed as an executive of Armour since 2011. He has over 30 years' experience in engineering construction and project management, including over 20 years within the oil and gas industry, having held senior project management roles with OSD Pipelines, Transfield Services and Caltex Refineries.

Over the course of the last 12 months, Roger has been instrumental in Armour's ongoing process of acquiring title to, and evaluating and planning for the operational aspects of, the Kincora Project on the Roma Shelf.

AUDITOR'S INDEPENDENCE DECLARATION

The Directors received an independence declaration from the auditor of Armour Energy Limited. This is attached on page 14 of this report.

Signed in accordance with a resolution of the Board of Directors.

Nicholas Mather
Executive Chairman

Brisbane
15 March 2017

COMPETENT PERSONS STATEMENTS

Information on the estimated prospective resources relating to Armour Energy Limited exploration permits in northern Queensland and the Northern Territory, Australia, is based on an independent analysis conducted by SRK Consulting (Australasia) Pty Ltd and fairly represents the information and supporting documentation reviewed. The review was carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the supervision of Dr. Bruce McConachie. Dr. McConachie meets the requirements of qualified petroleum reserve and resource evaluator as defined in Chapter 19 of the ASX Listing Rules and consents to the inclusion of this information in this release. The evaluation date and confirmation for the estimates for the new reports was 21 September 2015.

Information on the Contingent Resources relating to Origin's southern Surat Basin PLs and ATPs is based on an independent review conducted by RISC Operations Pty Ltd (RISC) and fairly represents the information and supporting documentation reviewed. The review was carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the supervision of Mr. Bruce Gunn, Principal Advisor with RISC, a leading independent petroleum advisory firm. Mr. Gunn is a member of the SPE and his qualifications include a Bachelor of Science (Hons.) in Earth Sciences from Flinders University in South Australia and a Master of Science from the University of Cape Town, he has more than 30 years of relevant experience. Mr. Gunn meets the requirements of qualified petroleum reserve and resource evaluator as defined in Chapter 19 of the ASX Listing Rules and consents to the inclusion of this information in this release.

The estimated prospective resource review was carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the supervision of Mr. Luke Titus, Chief Geologist, Armour Energy Limited. Mr. Titus qualifications include a Bachelor of Science from Fort Lewis College, Durango, Colorado, USA and he is an active member of AAPG and SPE. He has over 17 years of relevant experience in both conventional and unconventional oil and gas exploration in various international hydrocarbon basins. Mr. Titus meets the requirements of qualified petroleum reserve and resource evaluator as defined in Chapter 19 of the ASX Listing Rules and consents to the inclusion of this information in this release.

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF ARMOUR ENERGY LIMITED

As lead auditor for the review of Armour Energy Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

T J Kendall
Director

BDO Audit Pty Ltd

Brisbane, 15 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2016

	Notes	31 December 2016 $	31 December 2015 $
Sales		161,517	-
Cost of Sales		(46,360)	-
Gross Profit		**115,157**	**-**
Other Income	3	30,698	32,647
Revenue and other income		**30,698**	**32,647**
Administration and consulting expense		(1,815,344)	(1,294,279)
Depreciation		(316,157)	(28,111)
Employee benefits expenses		(566,924)	(677,896)
Legal Expenses		(397,630)	(168,611)
Finance costs		(1,152,463)	(671,414)
Share based payments expense		(740,402)	(63,665)
Takeover defence		-	(1,085,022)
New business development		(29,892)	(1,423,666)
Acquisition and divestment		-	(869,949)
Loss before income tax		**(4,872,957)**	**(6,249,966)**
Income tax benefit (expense)	4	637,503	590,946
Loss for the year		**(4,235,454)**	**(5,659,020)**
Items that will not be reclassified to profit or loss			
Change in fair value of financial assets at fair value through Other Comprehensive Income		**2,125,00**	**-**
Income tax on items that will be reclassified to profit or loss		**(637,503)**	**-**
Other comprehensive income for the half-year, net of tax		**1,487,497**	**-**
Total comprehensive income for the half-year		**(2,747,957)**	**(5,659,020)**

Earnings per share	**Notes**	**Cents/ share**	**Cents/ share**
Basic earnings per share	5	(1.3)	(1.8)
Diluted earnings per share	5	(1.3)	(1.8)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the Half-Year ended 31 December 2016

	Notes	31 December 2016 $	30 June 2016 $
Current assets			
Cash and cash equivalents	6	1,193,528	183,401
Trade and other receivables		280,030	269,850
Other current assets		522,488	454,106
Inventory		954,989	961,695
Total current assets		**2,951,035**	**1,869,052**
Non-current assets			
Other financial assets	7	12,026,293	9,991,696
Property, plant and equipment		40,026	64,199
Exploration and evaluation assets	8	49,071,742	48,715,448
Oil & gas assets	9	19,704,775	17,147,690
Total non-current assets		**80,842,836**	**75,919,033**
Total assets		**83,793,871**	**77,788,085**
Current liabilities			
Trade and other payables		4,223,739	4,533,194
Interest bearing liabilities	10	5,352,929	12,872,618
Convertible notes	11	84,038	-
Provisions		77,625	109,934
Other current liabilities		178,806	178,806
Total current liabilities		**9,917,137**	**17,694,552**
Non-current liabilities			
Convertible notes	11	10,616,151	-
Provisions	12	9,326,971	9,261,340
Total non-current liabilities		**19,943,122**	**9,261,340**
Total liabilities		**29,860,259**	**26,955,892**
Net assets		**53,933,612**	**50,832,193**
Equity			
Issued capital	13	90,222,579	87,435,000
Other equity securities		2,321,395	-
Reserves		1,589,425	(638,474)
Accumulated losses		(40,199,787)	(35,964,333)
Total equity attributable to owners of Amour Energy Ltd		**53,933,612**	**50,832,193**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2016

	Issued capital	Other Equity Securities	Accumulated losses	Financial Assets Revaluation Reserve	Performance Shares Reserve	Performance Rights Reserve	Option Reserve	Total Equity
	$	$	$	$	$	$	$	$
Balance at 1 July 2015	**83,880,979**	**-**	**(17,090,406)**	**(2,809,800)**	**125,000**	**125,000**	**3,131,696**	**67,362,469**
Loss for the year	-	-	(5,659,020)	-	-	-	-	(5,659,020)
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	(5,659,020)	-	-	-	-	(5,659,020)
Shares issued during the year	3,425,675	-	-	-	-	-	-	3,425,675
Share issue costs	(1,654)	-	-	-	-	-	-	(1,654)
Share based payments	-	-	-	-	-	-	63,665	63,665
Balance at 31 December 2015	**87,305,000**	**-**	**(22,749,426)**	**(2,809,800)**	**125,000**	**125,000**	**3,195,361**	**65,191,135**
Loss for the year	-	-	(13,214,907)	-	-	-	-	(13,214,907)
Other comprehensive income	-	-	-	(1,487,500)	-	-	-	(1,487,500)
Total comprehensive income for the year	-	-	(13,214,907)	(1,487,500)	-	-	-	(14,702,407)
Shares issued during the year	130,000	-	-	-	-	-	-	130,000
Share issue costs	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	213,465	213,465
Balance at 30 June 2016	**87,435,000**	**-**	**(35,964,333)**	**(4,297,300)**	**125,000**	**125,000**	**3,408,826**	**50,832,193**
Loss for the year	-	-	(4,235,454)	-	-	-	-	(4,235,454)
Other comprehensive income	-	-	-	1,487,497	-	-	-	1,487,497
Total comprehensive income for the year	-	-	(4,235,454)	1,487,497	-	-	-	(2,747,957)
Value of conversion rights – convertible notes	-	2,387,730	-	-	-	-	-	2,387,730
Issue cost of convertible notes	-	(66,335)	-	-	-	-	-	(66,335)
Shares acquired as litigation settlement	-	-	-	-	-	-	-	-
Litigation settlement shares sold	2,970,270	-	-	-	-	-	-	2,970,270
Issue costs of litigation settlement shares	(182,691)	-	-	-	-	-	-	(182,691)
Share based payments	-	-	-	-	-	-	740,402	740,402
Balance at 31 December 2016	**90,222,579**	**2,321,395**	**(40,199,787)**	**(2,809,803)**	**125,000**	**125,000**	**4,149,228**	**53,933,612**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2016

	31 December 2016 $	31 December 2015 $
Cash flows from operating activities		
Payments to suppliers and employees	(3,705,226)	(4,378,587)
Interest received and other income	29,333	32,647
Interest and other costs of finance paid	(256,552)	(639,971)
Net cash outflows from operating activities	**(3,932,445)**	**(4,985,911)**
Cash flows from investing activities		
(Payments for) / Reduction in security deposits	90,402	(13,388,632)
Purchase of property, plant and equipment	-	(2,299)
Purchase of Oil and Gas assets	(1,698,302)	(8,363,637)
Payments for exploration and evaluation assets	(620,879)	(1,080,756)
R&D funds received in relation to exploration assets	-	1,366,478
Net cash outflow from investing activities	**(2,228,779)**	**(21,468,846)**
Cash flows from financing activities		
Proceeds from share issues	2,970,269	3,384,462
Proceeds from convertible notes	2,974,754	-
Transactions cost on the issue of shares	-	(1,654)
Proceeds from borrowings	1,226,328	15,295,381
Net cash inflow from financing activities	**7,171,351**	**18,678,189**
Net increase in cash and cash equivalents	**1,010,127**	**(7,776,568)**
Cash and cash equivalents at beginning of period	183,401	8,533,160
Cash and cash equivalents at end of period	**1,193,528**	**756,592**

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

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

Note 1. Basis of preparation of half-year financial statements

Corporate information

The financial report of Armour Energy Limited (the "Company") the half-year ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 15 March 2017.

Armour Energy Limited is a public company limited by shares that is incorporated and domiciled in Australia. The Company's registered office is located at Level 27, 111 Eagle Street, Brisbane, QLD 4000.

Basis of preparation

This general purpose financial report for the half-year ended 31 December 2016 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This half-year report does not include all the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial statements. Accordingly, this half-year financial report is to be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in this half-year financial report as compared with the most recent annual financial report with the exception of accounting for Treasury Shares.

Treasury Shares

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back, litigation settlement or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Armour Energy Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Armour Energy Limited.

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.

For the half year ended 31 December 2016, the Group generated a consolidated loss of $4,235,454 and incurred operating cash outflows of $3,932,445. As at 31 December 2016 the Group had cash and cash equivalents of $1,193,528, net current liabilities of $6,966,102, and net assets of $53,933,612.

The ability of the Group to continue as a going concern is dependent upon the Group being able to manage its liquidity requirements by taking some or all of the following actions:

(1) Raising additional capital or securing other forms of financing, as and when necessary to meet the levels of expenditure required to meet the Group's working capital requirements;
(2) Conversion to equity or other longer term debt, of amounts payable to DGR Global Limited, Directors and other related parties;
(3) Reducing its level of capital expenditure through farm-outs and/or joint ventures;
(4) Reducing its working capital expenditure;
(5) Applying for eligible Research and Development tax refund receipts;
(6) Generating cash flows from Oil and Gas assets; and
(7) Disposing of non-core assets.

These conditions give rise to a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

Notwithstanding the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis after having regard to the following matters:

(1) As outlined in the Company's ASX releases of 21 November 2016 and 16 December 2016, the Company continues to pursue the overall capital raising initiatives to raise up to $40 million in several tranches. At 31 December 2016, the Company had raised approximately $13.3 million by issuing convertible notes. Subsequent to 31 December 2016, the Company issued an additional 15,145,455 convertible notes to raise $1,666,000. The Company is working towards satisfying the conditions precedent in the agreement with M.H. Carnegie & Co. in order to receive the $5 million tranche of funding by 31 March 2017.

(2) The Company plans to undertake a pro-rata non-renounceable entitlement offer of ordinary shares to existing shareholders on a 1 for 6 entitlement basis at an issue price of 7.6c per share to raise approximately $4.05 million (Entitlement Offer). The Entitlement Offer is to be fully underwritten by Bizzell Capital Partners Pty Ltd, an entity associated with Armour Director Stephen Bizzell.

Note 2. Segment Information

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.

For the period ended 31 December 2016 there is no material change in segments. Going forward, once production commences, management expects to identify the Company as having two reportable segments, being exploration for shale oil and gas in Australia, and the production of oil, gas LPG and condensate in the Surat Basin, Queensland, and will report on these segments accordingly.

The chief operating decision makers reviews the financial performance of the company on a monthly basis. The accounting policies adopted for internal reporting to the chief operating decision makers are consistent with those adopted in the financial statements.

	31 December 2016 $	31 December 2015 $
Note 3. Profit/ (Loss)		
Profit (loss) for the half-year includes the following items:		
(a) Interest revenue from:		
- Term deposits with financial institutions	22,426	32,606
- Australian Taxation Office	4	41
(b) Other income:		
- Fuel tax credits	8,268	-
Finance costs		
- Interest expense	1,065,184	453,792
- Establishment costs	21,649	186,179
- Unwinding of discount – contingent consideration	65,630	31,443
Depreciation		
- Oil & Gas assets	291,983	-
- Office equipment	1,132	4,867
- Motor vehicles	14,204	14,204
- Plant and equipment	8,838	9,040
Defined contribution superannuation expense	54,603	64,053

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

	31 December 2016 $	31 December 2015 $
Note 4. Income Tax Expense		
(a) Component of income tax expense (benefit)		
Income tax expense (benefit) is made up of:		
Current tax	-	-
Deferred tax	(637,503)	(590,946)
	(637,503)	**(590,946)**
Components of tax expense / (benefit) on other comprehensive income comprise:		
Deferred tax	**(637,503)**	**-**
(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% (2015: 30%)	(1,461,887)	(1,874,990)
Add tax effect of:		
Share based payments	222,121	31,463
Expenses not deductible for tax purposes	-	-
Foreign exploration costs	6,461	427,100
Fines and penalties	10,681	-
Tax losses not recognised	586,121	324,691
Other	-	1
Deferred Tax Asset utilised following R&D cash back	-	500,789
	(637,503)	(590,946)
Less tax effect of:		
Permanent differences	-	-
Income tax expense / (benefit)	**(637,503)**	**(590,946)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2016

Note 4. Income Tax Expense (continued)

(c) Reconciliation of Net deferred tax

31 December 2016	Opening balance 1 July 2016 $	Net charged to income $	Net charged to other comprehensive income $	Net charged to equity $	Net charged to goodwill (business combination) $	Closing balance 31 Dec 2016 $
Deferred tax asset						
Carried forward losses	12,490,005	1,531,031	-	-	-	14,021,036
Accruals / Provisions	135,753	(92,995)	-	-	-	42,758
Property, Plant & Equipment (Armour)	13,082	-	-	-	-	13,082
Capital raising costs through P&L	322,185	(57,397)	-	-	-	264,788
Capital raising costs in equity	1,891	(703)	-	-	-	1,188
Provision for rehabilitation	1,066,702	312,135	-	-	-	1,378,837
Financial assets at fair value through Other Comprehensive Income	956,518	(175,188)	(637,503)	-	-	143,827
Intercompany loans (outside Armour Group)	-	214,473	-	-	-	214,473
AEP Farm-out arrangement	-	352,646	-	-	-	352,646
Potential benefit at 30%	**14,986,136**	**2,084,002**	**(637,503)**	**-**	**-**	**16,432,635**
Deferred tax liability						
Exploration and evaluation assets	(13,914,291)	(2,526,853)	-	-	-	(16,441,144)
Property, Plant & Equipment (Surat Basin)	(1,071,845)	1,080,354	-	-	-	8,509
Financial assets at fair value through P&L	-	-	-	-	-	-
Potential benefit at 30%	**(14,986,136)**	**(1,446,499)**	**-**	**-**	**-**	**(16,432,635)**
Net deferred tax	**-**	**637,503**	**(637,503)**	**-**	**-**	**-**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2016

Note 4. Income Tax Expense (continued)

30 June 2016	Opening Balance 1 July 2015 $	Net Charged to income $	Net charged to other comprehensive income $	Net charged to equity $	Net charged to goodwill (business combination) $	Closing Balance 30 June 2016 $
Deferred tax asset						
Carried forward losses	14,256,261	(1,766,256)	-	-	-	12,490,005
Accruals / Provisions	114,746	15,907	-	-	5,100	135,753
Property, Plant & Equipment (Armour)	13,082	-	-	-	-	13,082
Capital raising costs through P&L	77,470	244,715	-	-	-	322,185
Capital raising costs in equity	424,365	(422,474)	-	-	-	1,891
Provision for rehabilitation	-	(312,135)	-	-	1,378,837	1,066,702
Financial assets at fair value through Other Comprehensive Income	135,600	183,418	637,500	-	-	956,518
Potential benefit at 30%	**15,021,524**	**(2,056,825)**	**637,500**	**-**	**1,383,937**	**14,986,136**
Deferred tax liability						
Exploration and evaluation assets	(16,199,054)	2,284,763	-	-	-	(13,914,291)
Property, Plant & Equipment (Surat Basin)	-	312,092	-	-	(1,383,937)	(1,071,845)
Financial assets at fair value through P&L	-	-	-	-	-	-
Potential benefit at 30%	**(16,199,054)**	**2,596,855**	**-**	**-**	**(1,383,937)**	**(14,986,136)**
Net deferred tax	**(1,177,530)**	**540,030**	**637,500**	**-**	**-**	**-**

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. The majority of losses are carried forward at 30 June 2016 under COT.

Deferred tax assets which have not been recognised as an asset, will only be obtained if:

- The Group derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
- The Group continues to comply with the conditions for deductibility imposed by the law; and
- No changes in tax legislation adversely affect the Group in realising the losses.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

	31 December 2016 $	31 December 2015 $
Note 5. Earnings Per Share (EPS)		
(a) Earnings		
Earnings used to calculate basic and diluted EPS	(4,235,454)	(5,659,020)

	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	322,858,077	309,866,926
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	**322,858,077**	**309,866,926**

Options are not considered dilutive due to the losses made by the Company. Options may become dilutive in the future.

Note 6. Cash and Cash Equivalents

	31 December 2016 $	31 December 2015 $
Cash at bank on hand	1,167,634	175,637
Joint Venture bank accounts held as operator	25,894	7,764
	1,193,528	**183,401**

Note 7. Financial Assets

	31 December 2016 $	31 December 2015 $
NON-CURRENT		
Security deposits	1,109,201	1,179,522
Financial assets at fair value through Other Comprehensive Income	4,252,000	2,127,000
Financial assurances	6,665,092	6,685,174
	12,026,293	**9,991,696**
Movements in financial assets at fair value through Other Comprehensive Income		
Opening balance at the beginning of period	2,127,000	4,252,000
Fair Value adjustments through Other Comprehensive Income	2,125,000	(2,125,000)
Closing balance at the end of the period	**4,252,000**	**2,127,000**

Financial assets at fair value through Other Comprehensive Income comprise investments in the ordinary issued capital of Lakes Oil NL and Aus Tin Mining Limited, listed on the Australian Securities Exchange. Financial assets at fair value are measured at level 1 on the fair value hierarchy.

All other financial assets approximate fair value.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

	31 December 2016 $	30 June 2016 $
Note 8. Exploration and Evaluation Assets		
Carrying amount at the beginning of period	55,460,719	55,156,524
Additions	356,294	1,735,283
Research & Development grants relating to exploration	-	(1,366,478)
Exploration expenditure written off	-	(64,610)
	55,817,013	55,460,719
Provision for impairment	(6,745,271)	(6,745,271)
Carrying amount at the end of period	**49,071,742**	**48,715,448**
Note 9. Oil & Gas Assets		
Oil & Gas Assets		
Cost	19,034,698	17,154,778
Accumulated Depreciation	(663,397)	(371,414)
	18,371,301	**16,783,364**
Development assets		
Cost	1,333,474	364,326
	19,704,775	**17,147,690**
Movements in carrying amounts		
Balance at the beginning of the year	17,147,690	-
Additions	2,849,068	17,519,104
Depreciation charge	(291,983)	(371,414)
	19,704,775	**17,147,690**
Note 10. Interest Bearing Liabilities		
DGR Loan Facility	4,861,073	12,872,618
Loan from Bizzell Capital Partners ("BCP")	491,856	-
	5,352,929	**12,872,618**

The DGR Loan Facility is secured by a first ranking security and mortgage over Surat Basin Assets and a fixed and floating charge over the assets of Armour Energy Ltd and subsidiaries and the assets of those subsidiaries. The loan facility is available until 30 September 2019 at an interest rate of 15% per annum. The BCP loan agreement has a facility limit of $1.3 million, is unsecured at an interest rate of 15% per annum and otherwise is on similar terms to the DGR Loan Facility.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

Note 11. Convertible Notes

Armour Energy Ltd issued 120,974,908 $0.11 convertible notes to raise $13,307,240 on 16 December 2016. Each note is convertible into one ordinary shares in Armour Energy at the Noteholder's election up until 30 September 2019. The notes have a coupon of 15% per annum and interest is paid half yearly in arrears and the interest may be paid in certain circumstances at Armour's election by the issue of further convertible notes. The convertible notes are secured over all assets of Armour and will have equal ranking security proportionally with the existing DGR Global Loan Facility. The convertible notes are presented in the balance sheet as follows:

	31 December 2016 $	30 June 2016 $
Current Liability		
Accrued interest	**84,308**	**-**
Non-Current Liability		
Face value of convertible notes issued	13,307,240	-
Issue costs of convertible note – liability component	(303,359)	-
Other equity securities – value of conversion rights	(2,387,730)	-
	10,616,151	**-**

Note 12. Provisions

Restoration and abandonment	6,603,722	6,603,722
Contingent consideration	2,723,249	2,657,618
	9,326,971	**9,261,340**

Contingent consideration relates to the acquisition of oil and gas assets in the year ended 30 June 2016 (refer to note 16). Contingent consideration is measured at fair value being the present value of the expected cash outflows due to the vendors on the 1st, 2nd and 3rd anniversary of first gas from any of the assets acquired under the business combination. This is a level 3 measurement in the fair value hierarchy. The key assumptions used in this calculation are the timing of first gas sales and the discount rate used. First gas is expected in the first half of 2017. The post tax discount factor is 5%. The maximum amount payable is $3,000,000. The fair value of contingent consideration will vary between the carrying value and the maximum amount payable should first gas sales be earlier than anticipated or the discount rate be lower than 5%. Movements in fair value are taken to profit or loss as finance costs.

Note 13. Issued Capital

(a) Issued and paid up Capital

322,858,077 (2016: 322,858,077) ordinary shares fully paid	96,060,245	93,089,975
Share issue costs	(7,722,036)	(7,539,345)
Recognition of deferred tax asset relating to share issue costs	1,884,370	1,884,370
	90,222,579	**87,435,000**

(1) On 16 August 2016, Armour Energy acquired AEGPAS Pty Ltd (AEGPAS) from AEGP Australia Pty Ltd at no cost in settlement of AEGP Australia Pty Ltd.'s obligation to Armour Energy. AEGPAS held 40,063,785 shares in Armour Energy. During the period, Armour Energy sold 38,368,495 resulting in 1,695,290 shares outstanding at 31 December 2016. Subsequent to 31 December 2016 the remaining shares were sold by February 2017.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

Note 13. Issued Capital (continued)

(b) Reconciliation of issued and paid-up capital	**Number of Shares**	**$**
At 1 July 2016	322,858,077	87,435,000
Shares acquired as litigation settlement	(40,063,785)	-
Litigation settlement shares sold	38,368,495	2,970,270
Cost of shares issued for ($0.20 per share – 4/11/16)	-	(182,691)
	321,162,787	**90,222,579**
Treasury Shares		
Shares acquired as litigation settlement	40,063,785	-
Litigation settlement shares sold	(38,368,495)	-
	1,695,290	**-**
Total shares on issue at 31 December 2016	**322,858,077**	**90,222,579**

Note 14. Future Exploration Commitments

The Group 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 Group. The commitments are as follows:

	31 December 2016 $	**30 June 2016 $**
Less than 12 months	27,043,899	27,043,899
Between 12 months and 5 years	35,699,876	35,699,876
	62,743,775	**62,743,775**

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Group has the option to negotiate new terms or relinquish the tenements. The Group also has the ability to meet expenditure requirements by joint venture or farm-in agreements.

Note 15. Contingent Assets and Contingent 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 EP 174, EP 190, EP 191 and EP 192, the Company is required to pay the greater of either $5,000 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 proceeding financial year; and
- 1.5% of exploration costs incurred in the Shared Area within the preceding financial year.

Oil and Gas Liabilities

Under the agreement between Armour Energy (Surat Basin) Pty Ltd and Oil Investments Pty Ltd (Origin) for the purchase of the Surat Basin assets, there is a deferred and contingent consideration element to the agreement which consists of three $1 million payments to be made on the 1st, 2nd and 3rd anniversary of first gas.

On the strength of the 2.3 PJ of sales gas acquired as at the transaction date, it is fully anticipated that the Company will be required to pay to Origin the deferred and contingent consideration.

There are no other contingent assets and liabilities at 31 December 2016.

Note 16. Acquisition of Oil and Gas Assets

On 1 September 2015 Armour Energy (Surat Basin) Pty Ltd, a subsidiary of Armour Energy Limited, entered into agreements to acquire the interests in the assets tabled below from Oil Investments Pty Ltd (Origin). The tabled assets comprise the Kincora Gas Plant and adjoining lands, which will provide the gas, LPG and condensate processing and gas compression facilities for the Surat Basin project.

Asset	Interest
PL 14	100%
PL 53	100%
PL 511 (formerly PL 174)	100%
PL 227	100%
PPL 3	100%
PPL 20	100%
PPL 63	100%
Newstead Gas Storage	100%
Kincora Gas Plant terminal (all plant & equipment)	100%
Kincora Utilities (all plant & equipment)	100%
Kincora Paddock (all plant & equipment)	100%
Gas Satellite Field Kit	100%
PL 28	46.25%
PL 69	46.25%
PL 89	46.25%
PL 320 (formerly PL 10W)	46.25%
PL 11W	46.25%
PL 12 W	46.25%
PL 11 Snake Creek East Exclusion Zone	25%
PL 21	87.5%

Note 16. Acquisition of Oil and Gas Assets (continued)

Asset	Interest
PL 22	87.5%
PL 27	87.5%
PL 71	90.0%
PL 264	90.0%
ATP 1190 (formerly ATP 471)	50.64%
PL 30	75%
PL 512 (formerly PL 74)	69%
PPL 22	69%
PL 71 (exploration)	72%
ATP 647 (Block 2656)	50%
ATP 754	50%
ATP 1190 (Bainbilla) (formerly ATP 471)	24.748%

The combined agreements totalled a purchase price of $10 million plus $3 million deferred consideration, contingent on first gas (see note 12c). The acquisition has been separated into two components being a business combination, and an asset acquisition in accordance with the provisions set out in AASB 3 *Business Combinations*. The total consideration to date is $10,925,764 of which $7,703,278 was in relation to the Business Combination comprising the Kincora Gas Plant and related infrastructure, and $3,222,486 was in relation to other oil and gas investments in the exploration and development phases.

Details of the acquisition were finalised in the 30 June 2016 annual report. There have been no changes upon finalisation of the purchase price allocation during the period.

Note 17. Events after the Reporting Date

On 16 January 2017, 4,545,455 unlisted convertible notes at 11 cents were issued as part of the overall capital raising initiatives outlined in the Company's ASX releases of 21 November 2016 and 16 December 2016.

On 30 January 2017, an additional 9,100,000 unlisted convertible notes at 11 cents were issued as part of the overall capital raising initiatives outlined in the Company's ASX releases of 21 November 2016 and 16 December 2016.

On 6 February 2017, 1,900,000 unlisted employment options exercisable at 20 cents expired.

On 16 February 2017, an additional 1,500,000 unlisted convertible notes at 11 cents were issued as part of the overall capital raising initiatives outlined in the Company's ASX releases of 21 November 2016 and 16 December 2016.

On 24 February 2017, 2,330,000 unlisted employment options exercisable at 26 cents expired.

Other than the items noted above, the Directors are not aware of any significant changes in the state of affairs of the Group or events after reporting date that would have a material impact on the half-year financial report for the period ended 31 December 2016.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The attached financial statements and notes are in accordance with the *Corporations Act 2001* including:

    (i) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting; and Revenue

    (ii) giving a true and fair view of the Company's financial position as at 31 December 2016 and of its performance for the half-year ended on that date.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.

Nicholas Mather
Executive Chairman

Date: 15 March 2017

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Armour Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Armour Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Armour Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Armour Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(b) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about 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. Our conclusion is not modified in respect of this matter.

BDO Audit Pty Ltd

BDO

Tim Kendall

T J Kendall

Brisbane, 15 March 2017