

ASX Announcement

Operational and Corporate Update

18 October 2022

The Directors of Armour Energy Limited (ASX: AJQ, the Company) are pleased to provide the following operational and corporate update.

Highlights

- Surat Basin in-wellbore (IWB) program to restore production is progressing well
- Kincora plant maintenance shut-down completed on time, on budget
- Enterprise North-1 drill planning progressing on schedule
- Armour has secured \$5m of funding primarily used to repay and restructure existing debt facilities and for progressing the IWB program
- Other corporate activities being advanced to fund 2023 work programs including well optimisation initiatives and process improvements

Surat “In-Well-Bore” Work Program

Armour’s H2 2022 IWB program was designed to target a range of opportunities to restore production, arrest premature decline and access bypassed pay.

The well workover and recompletion at Myall Creek 5a is progressing well. Despite complications retrieving the bottom hole packer assembly and some delays due to substantial unseasonal rainfall events, the workover and subsequent return to production is expected to be concluded by late October.



Myall Creek #5A Workover – September 2022

Other rigless well interventions, including additional well perforations and the installation of a plunger lift system, have been successfully completed. The IWB



programme also includes a rod pump install on an existing oil well and the installation of 6 automated intermitter units which is currently on track for early November.

Preparations for the connection of an existing stranded well are proceeding with first gas expected from this well in late November.



Parknook #03 Plunger Lift Install – September 2022

The H2 '22 work programme remains on track to restore gas production to over 5TJ/Day at an estimated cost significantly lower than current production costs per mscf/day.

Other Operations

Over the last quarter, plant uptime at Kincora continues to exceed 95%, despite flooding at some field locations.

In late September, the Armour operations team successfully executed the annual maintenance shutdown at Kincora Plant. All activities were safely completed on time, on budget with no incidents and the Kincora Plant is back on line.



Kincora shut down team – September 2022

Funding Arrangements Update

Armour has entered into subscription agreements with DGR Global Ltd (\$4.0m), Bizzell Capital Partners Pty Ltd (\$0.3m) and BAM Opportunities Fund Pty Ltd (\$0.34m), raising \$4.64m.

This funding has been provided by way of a placement of redeemable exchangeable notes issued by Armour's subsidiary, McArthur Oil and Gas Ltd (MOG), at an issue price per note of \$1.00 and otherwise on the terms and conditions set out in the Redeemable Exchangeable Note Trust Deed (including those terms as extracted in Annexure A) (**MOG Notes**).

MOG and Armour intend to obtain all necessary approvals and consents to allow for the exchange of the MOG Notes being subscribed for by DGR Global, Bizzell Capital Partners, BAM Opportunities Fund and the existing MOG Notes already on issue (together with any accrued and unpaid interest) into Armour Convertible Notes on the terms and conditions summarised in Annexure B (**Armour Convertible Notes**). Approvals and consents expected to be required for the exchange of MOG Notes for Armour Convertible Notes will be sought from Armour shareholders and the holders of Armour's secured amortising notes (**Secured Notes**).

This funding enables Armour to continue to optimize the value of its substantial asset base including pursuing several small production enhancement projects in the Surat area. Armour appreciates the continued confidence shown in the company's ability to realise significant value from its diverse portfolio of assets by DGR Global, Bizzell Capital Partners and BAM Opportunities Fund.

Share Placement

The company has received a firm commitment from Tenstar Trading Limited for the placement of 51.45m new shares at an issue price of \$0.0065 which represents a premium of 8.3% to the last traded price of \$.006 on 12 October 2022 and a 4% premium to the 5 day volume weighted average price. All New Shares issued pursuant to the placement will rank equally with the Company's existing shares on issue. Funds raised, together with existing funds will be used for general working capital requirements.

Secured Notes

The Company has made a \$2.475 million principal amortisation payment to the holders of the Company's Secured Amortising Notes (Secured Notes). The remaining face value of the Secured Notes outstanding following the principal and interest payment that was made on 29 September 2022 is now \$22,442,200 (original face value of the Secured Notes at the time of issue was \$55,000,000).

Tribeca Environmental Bonding Facility

A Standstill Deed has been entered into with respect to the Tribeca Natural Resources Fund environmental bonding facility allowing for repayment of the remaining principal and interest by Armour by the earlier of 15th November 2022 or 3 days after required approvals are received for the issue of Armour Convertible Notes. The company has recently made principal and interest payments on this facility of \$2.5m leaving an outstanding principal of approximately \$1.7m.

Other Corporate Initiatives

Armour is also continuing to pursue a number of other corporate, commercial and work program initiatives with the aim of recapitalising the balance sheet and realising near term value from its portfolio of projects.

A number of initiatives are being progressed including; preparation and planning for drilling Enterprise North-1 in the Otway Basin (Armour 51% and operator); a new gas sales agreement (GSA) to commence at the end of the present GSA in November '23; well optimisation and process improvement programme to lift production to 10TJ/Day by June '23; commercial opportunities for the Newstead Gas Storage Facility and the sale of non-core assets.

This announcement has been authorised and approved by the Board of Armour Energy for lodgement with ASX.

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Annexure A

SUMMARY TERMS OF ISSUE OF MOG NOTES

McArthur Oil & Gas Ltd

Redeemable Exchangeable Note Term Sheet

Issuer	McArthur NT Pty Ltd ACN 649 856 315
Parent Company	McArthur Oil & Gas Ltd (MOG or Parent Company) (or such other company that holds all the shares issued in the capital of the Issuer) which intends to undertake an IPO raising and apply for quotation on ASX.
Offering	Redeemable Exchangeable Notes (Notes) to be issued by the Issuer pursuant to the Note Trust Deed and which will be exchangeable into shares in the Parent Company (subject to the Condition Precedent for Exchange).
Issue size	Up to 32,000,000 Notes (\$32,000,000). The Notes may be issued in two or more tranches.
Purpose	Funds raised by the issue of the Notes will finance exploration work programs, general working capital and costs of the issue.
Issue Price	Face Value of \$1.00 per Note
Maturity Date	31 October 2022.
Security / Ranking	<p>Unsecured Subordinated.</p> <p>The Notes will constitute direct and unsecured obligations of the Issuer and will rank subordinated and be junior to the secured amortising notes issued by Armour Energy Limited (Secured Amortising Notes).</p> <p>Subject to the subordination to the Secured Amortizing Notes, each Note otherwise ranks for payment in a winding up of the Issuer:</p> <ol style="list-style-type: none"> 1) equally and proportionally with each Note; and 2) ahead of all subordinated debts of the Issuer and ordinary shareholders.
Status	The Notes are direct and unsecured debt obligations of the Issuer.
Coupon Rate	15% per annum coupon rate accrued and capitalised monthly from the Issue Date.
Interest Payment Dates	The coupon on the Notes will be capitalised to Exchange, the Maturity Date or Redemption Date.



Exchange	<p>Each Note (and any accrued and unpaid interest due and capitalized) will, subject to satisfaction of the Condition Precedent below, exchange into fully paid ordinary shares of the Parent Company contemporaneous with the issue of the IPO shares such that the shares received in exchange for the Notes will be shares offered under an 'Exchange Offer' pursuant to the IPO prospectus.</p> <p>The Exchange price upon automatic exchange will be a 20% discount to the IPO price per share.</p>
Condition Precedent for Exchange	<p>The Exchange of the Notes for Parent Company Shares is subject to and conditional upon Armour obtaining any necessary shareholder approvals for the purposes of ASX Listing Rule 11.4.1(b).</p>
Noteholder Redemption	<p>Repayment of Face Value and any unpaid interest at the Maturity Date or in the event an Exit Event occurs, or the Issuer commits an Event of Default.</p>
Early Redemption Event	<p>The Company may give a Redemption Notice in the event of an Exit Event.</p> <p>Exit Event means that if at any time on or before the Maturity Date, an off-market bid, a market bid, scheme of arrangement, or offer or invitation is made to all holders of ordinary shares to purchase or otherwise acquire ordinary shares and the bid, scheme or offer becomes unconditional, and the offeror has at least 50% of the voting power (as defined by the Corporations Act) in Armour.</p> <p>Notwithstanding the issue of a Redemption Notice, a Holder may give an Exchange Notice (which may be expressed to be subject to Exit Event completing) in respect of any of its Notes which are the subject of the Redemption Notice up to the before the relevant Redemption Date (or such later time as the Company may agree with the relevant Holder), and only Notes for which Exchange Notices have not been so given or are treated as having not been given will be Redeemed on the specified Redemption Date. In the event of an Exchange Notice being given in relation to an Exit Event, the Exchange Price will be equivalent of a 25% discount to the average price per ordinary share being paid for Ordinary Shares under the Exit Event calculated on a fully diluted basis.</p>
Transaction Documents	<p>The parties have entered into the following definitive agreements to document the Note issuance outlined in this Term Sheet (Transaction Documents):</p> <ul style="list-style-type: none"> • Redeemable and Exchangeable Note Deed; and • Note Trust Deed.
Events of Default	<p>Customary events of default are to be incorporated in the Transaction Documents for a transaction of this nature,</p>

	including but not limited to payment, redemption or Exchange breaches, covenant breaches cross defaults, and insolvency events.
Covenants	Customary covenants are to be incorporated in the Transaction Documents applicable to the Issuer and the Parent Company for a transaction of this nature.
No Dividends	No dividends may be declared or paid whilst the Notes are on issue.
ASX Listing	The Parent Company will undertake to use reasonable endeavours to undertake an IPO and ASX listing or other liquidity event for Noteholders and will provide updates to Noteholders on progress in this regard every 6 months.
Escrow	In the event of an IPO and ASX listing, the Noteholder will agree to enter into such ASX restriction agreements or voluntary escrow deeds as ASX or the lead managers to the ASX IPO require, provided the restriction period does not exceed three months following quotation (for voluntary escrow) or as is otherwise required by ASX.
Parent Company Interposition	<p>The Issuer and the Parent Company are currently wholly owned direct subsidiaries of Armour. The Issuer has been formed to hold all the Northern Territory and North Queensland assets of Armour outlined in the Armour Energy ASX release of 3 March 2021 and the transfer of these assets has been applied for and is pending approval of this transfer with the Northern Territory and the Queensland Governments.</p> <p>Following the approval and completion of the transfer (and in the case of pending permit applications, the grant of the exploration permit and the Parent Company is interposed) to the Issuer of the assets, Armour will transfer all of the outstanding shares in the Issuer to the Parent Company such that the Issuer becomes a wholly owned subsidiary of the Parent Company.</p> <p>Until such time as these transfers of the currently granted exploration permits in the Northern Territory and interposition is completed, the Parent Company must remain dormant so that no stamp duty is incurred either on the transfer of the assets to the Issuer or upon the IPO of the Parent Company.</p>
Voting Rights	Until Exchange, the Notes do not give a Noteholder voting rights or dividend rights.
Investor Eligibility	The Notes are being offered to 'sophisticated investors', 'professional investors' (under the Corporations Act) and investors who are exempt to disclosure requirements.
Note Trustee	Centec Securities Pty Ltd

Annexure B

ROPOSED TERMS OF ISSUE OF ARMOUR ENERGY LTD CONVERTIBLE NOTES

Subject to receipt of all necessary approvals and consents, it is intended for the MOG Notes to be exchanged for Armour Energy Convertible Notes.

The key proposed terms of the Convertible Notes are:

- Three (3) year maturity
- Initially unsecured but upon completion of the proposed FIIG Bond repayment to have first ranking security (subject to any required tenement level security requirements to support Gas Sale Agreements and prepayments).
- Non-amortising (principal repayable at maturity)
- Convertible at any time by the holders at the higher of 0.9c per share or a 50% premium to the issue price of any equity capital raising undertaken prior to 31 December 2022.
- 10% coupon, payable half yearly in arrears in cash or shares at Armour election, at a 10% discount to the trailing 30-day VWAP
- Terms otherwise customary for this type of instrument.

Further Terms of Issue of the Convertible Notes are set out below:

Issuer	Armour Energy Limited ACN 141 198 414
Offering	Convertible Notes (Notes) to be issued by the Issuer pursuant to the Note Trust Deed and which will be convertible into shares in the Issuer (subject to the Condition Precedent for Exchange).
Issue size	Up to 50,000,000 Notes (\$50,000,000). The Notes may be issued in two or more tranches.
Purpose	Funds raised by the issue of the Notes will be to meet payments due on the secured amortising notes issued by Armour Energy (FIIG Secured Amortising Notes) including their refinance, exploration work programs, payment of outstanding creditors, general working capital and costs of the issue.
Issue Price	Face Value of \$1.00 per Note
Term	3 years
Maturity Date	31 July 2025
Security / Ranking / Status	Initially the Notes will constitute direct and unsecured obligations of the Issuer and will rank subordinated and be junior to the secured amortising notes issued by Armour Energy. It is the intention for the FIIG Secured Amortising Notes to be repaid and upon repayment, the Notes will be senior secured obligations of the Issuer (subject to any required tenement level security requirements to support Gas Sale Agreements and prepayments).

	<p>Subject to the initial subordination to the FIIG Secured Amortizing Notes, each Note otherwise ranks for payment in a winding up of the Issuer:</p> <p>(1) equally and proportionally with each Note; and</p> <p>(2) ahead of all subordinated debts of the Issuer and ordinary shareholders.</p>
Coupon Rate	<p>10% per annum coupon rate, accrued from the Issue Date.</p> <p>Interest is payable either in cash or, at Armour's election, by the issue to the Noteholder of Armour ordinary shares, issued at a 10% discount to the 30-day volume weighted average price (VWAP) of Armour shares traded on the ASX up to the Interest Payment Date.</p>
Interest Payment Dates	<p>The coupon on the Notes will be payable half yearly for the half year periods to 30 April and 31 October on the following dates:</p> <ul style="list-style-type: none"> - 15 May 2023; - 15 November 2023; - 15 May 2024; - 15 November 2024; - 15 May 2025; - 15 November 2025; <p>and will be payable for the period from the last Interest Payment Date to the Maturity Date or Redemption Date.</p>
Conversion	<p>Each Note (and any accrued and unpaid interest due and capitalized) will, subject to satisfaction of the Condition Precedent below, be convertible at the holder's election into fully paid ordinary shares of the Issuer at the higher of a price of 0.9 cents per share or a 50% premium to the issue price of any equity capital raising undertaken by the Issuer prior to 31 December 2022.</p> <p>A Noteholder may exercise conversion rights in relation to some, or all, of their Notes at any time (subject to satisfaction of the Condition Precedent for Conversion).</p>
Conversion Protections	<p>Notes will be subject to standard anti-dilution adjustments including share consolidations, share splits, rights issues, bonus issues and reorganisations.</p>
Condition Precedent for Conversion	<p>The Conversion of the Notes for Armour Energy Shares is subject to and conditional upon Armour obtaining any necessary shareholder approvals for the purposes of ASX Listing Rules.</p>
Noteholder Redemption	<p>Repayment of Face Value and any unpaid interest at the Maturity Date or in the event an Exit Event occurs, or the Issuer commits an Event of Default.</p>

Early Redemption Event	<p>The Company may give a Redemption Notice in the event of an Exit Event.</p> <p>Exit Event means that if at any time on or before the Maturity Date, an off-market bid, a market bid, scheme of arrangement, or offer or invitation is made to all holders of ordinary shares to purchase or otherwise acquire ordinary shares and the bid, scheme or offer becomes unconditional, and the offeror has at least 50% of the voting power (as defined by the Corporations Act) in Armour.</p> <p>Notwithstanding the issue of a Redemption Notice, a Holder may give an Exchange Notice (which may be expressed to be subject to Exit Event completing) in respect of any of its Notes which are the subject of the Redemption Notice up to the before the relevant Redemption Date (or such later time as the Company may agree with the relevant Holder), and only Notes for which Exchange Notices have not been so given or are treated as having not been given will be Redeemed on the specified Redemption Date. In the event of an Exchange Notice being given in relation to an Exit Event, the Exchange Price will be equivalent of a 25% discount to the average price per ordinary share being paid for Ordinary Shares under the Exit Event calculated on a fully diluted basis.</p>
Transaction Documents	<p>The parties have entered into the following definitive agreements to document the Note issuance outlined in this Term Sheet (Transaction Documents):</p> <ul style="list-style-type: none"> • Convertible Note Deed; and • Security Trust Deed.
Events of Default	<p>Customary events of default are to be incorporated in the Transaction Documents for a transaction of this nature, including but not limited to payment, redemption or Conversion breaches, covenant breaches cross defaults, and insolvency events.</p>
Covenants	<p>Customary covenants are to be incorporated in the Transaction Documents applicable to the Issuer and the Parent Company for a transaction of this nature.</p>
No Dividends	<p>No dividends may be declared or paid whilst the Notes are on issue.</p>
Voting Rights	<p>Until Conversion, the Notes do not give a Noteholder voting rights or dividend rights.</p>
Investor Eligibility	<p>The Notes are being offered to 'sophisticated investors', 'professional investors' (under the Corporations Act) and investors who are exempt to disclosure requirements.</p>
Note Trustee	<p>Centec Securities Pty Ltd</p>

Disclaimer

This ASX Release contains “forward looking statements” concerning the financial condition, results of operations and business of Armour Energy Limited (Armour) and Lakes Blue Energy NL (Lakes). All statements other than statements of fact or aspirational statements, are or may be deemed to be “forward looking statements”. Often, but not always, forward looking statements can generally be identified by the use of forward looking words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “continue”, “outlook”, and “guidance”, or other similar words and may include, without limitation, statements regarding plans, strategies and objectives of management, future or anticipated production or construction commencement dates and expected costs, resources or reserves, exploration results or production outputs. Forward looking statements are statements of future expectations that are based on management’s current expectations and assumptions and known and unknown risks and uncertainties that could cause the actual results, performance or events to differ materially from those expressed or implied in these statements. These risks include, but are not limited to price fluctuations, actual demand, currency fluctuations, drilling and production results, commercialisation reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

