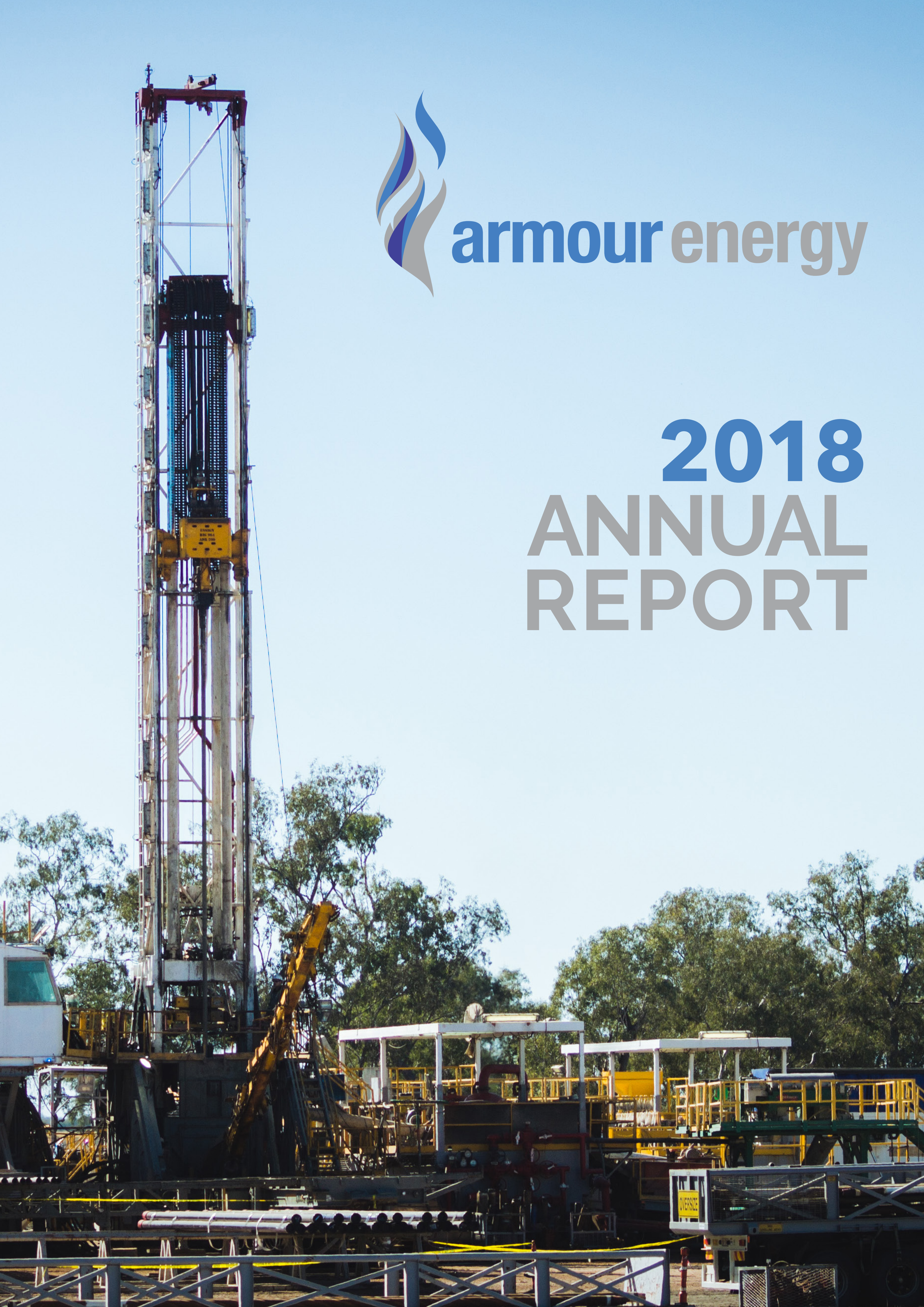
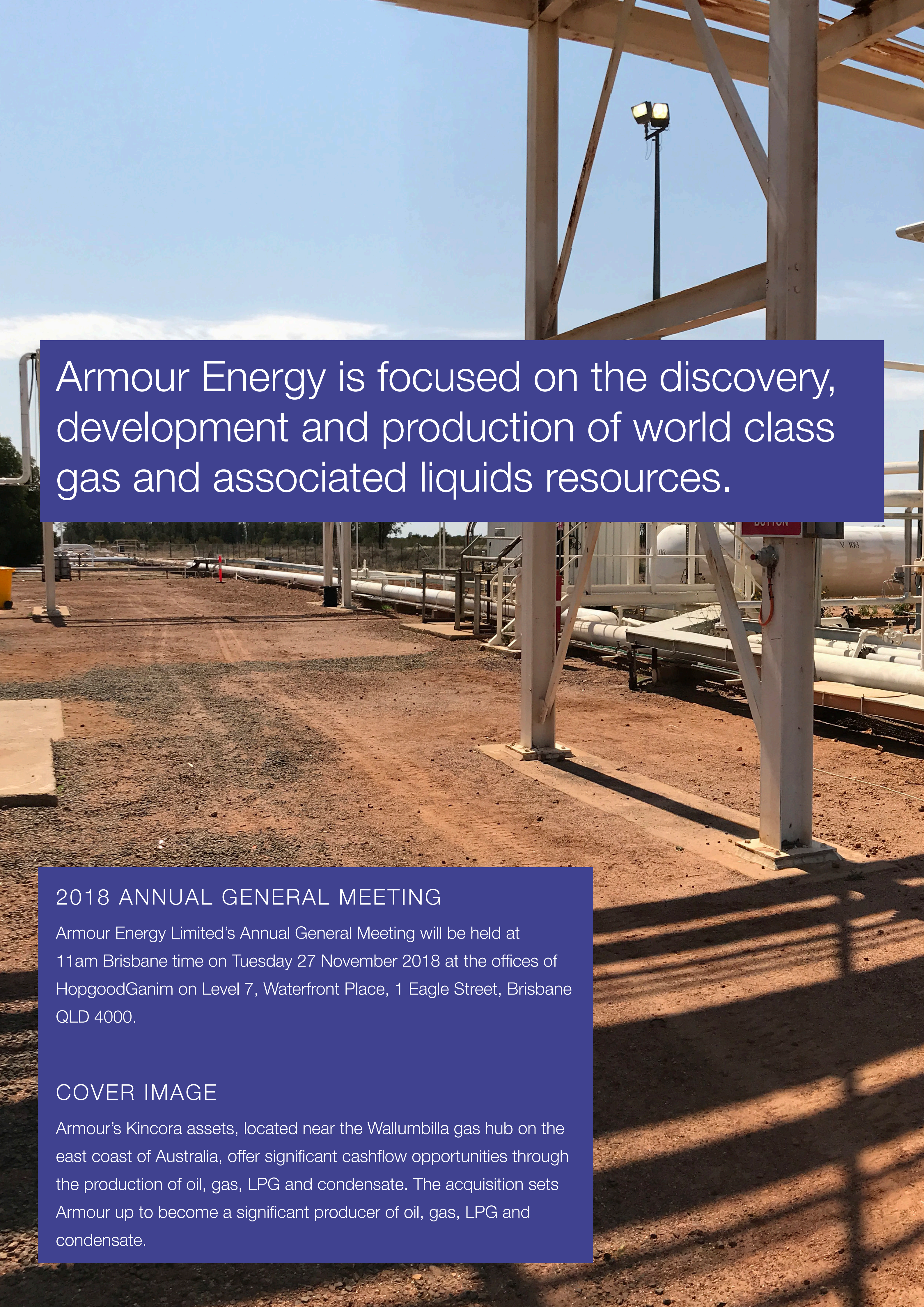


armour energy

2018 ANNUAL REPORT



Armour Energy is focused on the discovery, development and production of world class gas and associated liquids resources.

2018 ANNUAL GENERAL MEETING

Armour Energy Limited's Annual General Meeting will be held at 11am Brisbane time on Tuesday 27 November 2018 at the offices of HopgoodGanim on Level 7, Waterfront Place, 1 Eagle Street, Brisbane QLD 4000.

COVER IMAGE

Armour's Kincora assets, located near the Wallumbilla gas hub on the east coast of Australia, offer significant cashflow opportunities through the production of oil, gas, LPG and condensate. The acquisition sets Armour up to become a significant producer of oil, gas, LPG and condensate.

CONTENTS

CHAIRMAN'S REPORT

DEAR SHAREHOLDERS,

The past 12 months have seen Armour Energy establish itself as a reliable, consistent producer of oil and gas via its Kincora Project near Roma in the Surat Basin, Queensland. This has been a pivotal step in the Company's long-held ambition to evolve from a pure greenfields junior explorer to an established exploration and development company with reliable revenue streams derived from in-house production capabilities.

As predicted some years ago, Australia's east coast domestic gas market supply and demand dynamic is currently very favourable to Armour's emergence as a gas supplier. One focus for Armour in the coming year will be to increase its field and plant production capacity to meet expected market demands. The Company is aiming to do this by drilling further production wells within the next 12 months, and de-bottlenecking and upgrading the Kincora gas plant.

More specifically, Armour's priority tasks at Kincora over the coming year include:

- plans to drill and bring into production an additional 3 wells which will be part funded under the Australian Government's GAP grant of up to $6 million;
- increasing production to safely and reliably deliver up to 20 TJ/day of gas to the Australian east coast gas market;
- continuing the development and implementation of maintenance programs across the Kincora facilities to ensure safe and reliable production; and
- continued exploration of the numerous leads identified by the Company's geological team.

The Surat Basin has been recognised internationally as a part of a prolific oil and gas province which has been producing both oil and natural gas since the 1970's. I am confident that ongoing innovation in seismic survey acquisition and reprocessing, together with improved drilling and completion techniques at which I believe Armour to be at the forefront of, will help Armour to continue developing this oil and gas region via the continued expansion of the Company's resources and reserves.

Medium to longer-term plans for Kincora include re-working and re-perforating existing production wells acquired as part of the project package and continuing the ongoing exploration and production well program. Importantly, work will also include the commencement of preliminary exploration activities on the Company's new tenements adjacent to the existing project footprint. In this regard, I am pleased to recognise recent state and federal government initiatives aimed at improving or fast-tracking the supply of gas to the domestic market. For Armour, this has resulted in the Company acquiring numerous new tenements as a result of the Queensland Government's new land release tender process, and a cost co-contribution grant as a result of the Federal Government's Gas Acceleration Program.

Further, with the removal of the temporary ban on fraccing by the Northern Territory Government, the Company is now also progressing its plans for its northern Australian acreage, which already contains estimated prospective resources and drill-ready targets.

Armour's McArthur Basin project area represents the largest and most important part of the Northern, Central and Southern McArthur Basin where the thickest and most oil and gas prone sections of the McArthur and Tawallah groups are present. The recent announcement by Jemena of the completion of construction of the Northern Gas Pipeline, and its expected commissioning in late 2018, is a significant enabler for Armour's upstream gas projects in the Northern Territory. It is expected to provide additional and large-scale market access for the gas resources identified by Armour Energy and other explorers in the Northern Territory by connecting this new petroleum province to the growing east coast gas markets.

I would like to take this opportunity to thank my fellow Board members and the Company's dedicated executive team for another year of hard work, and also the Company's shareholders and convertible noteholders for their continued support and patience during this transformative period in the Company's history. I look forward to further and material progress being made over the next 12 months.

Yours sincerely,

NICHOLAS MATHER
CHAIRMAN

REVIEW OF OPERATIONS

EXECUTIVE SUMMARY

Armour Energy Limited (**Armour**, **Armour Energy**, the **Company**) and its controlled entities (the **Group**) is focused on the exploration for world class and production of, gas and associated liquids resources.

The 2018 financial year has again been a busy period for the Group and has seen the business achieve many major planned milestones as it continues its path to become one of the Surat Basin's most prominent Oil and Gas producers. The Kincora Gas Plant has been recommissioned, dry and wet gas circuits are operational, and the Group is now consistently producing and selling 9 TJ/day of gas plus associated liquids.

Given the Group's extensive surface and sub-surface assets, the Group is well positioned to bring significant new gas volumes to market and assist in alleviating east coast gas market issues. The Company considers this view to be shared at the Federal and State Government levels, as demonstrated through the recent Gas Acceleration Program grant award and the recent granting of further exploration acreage in the Surat Basin.

The Group is a growing and successful domestic energy producer. In addition to the 9 TJ/d currently being produced into the Roma to Brisbane Gas Pipeline to support the East Coast domestic gas market, the Group is also producing 170 barrels of oil and condensate per day, and 14 tons per day of Liquid Petroleum Gas (**LPG**). A local Queensland company transports oil and condensate to the Lytton refinery in Brisbane, and our LPG is purchased from the Kincora Gas Plant and on-sold in Queensland, New South Wales and South Australia for transport, heating and agricultural enterprises.

The Group expects to continue to achieve more milestones next year as we continue to mature phase 3 of the 4-phase growth strategy. During the next year, the Group intends to conclude engineering studies on the Kincora Gas Plant and complete the Myall 4A well and commence production and sales from that well. Both activities are critical path items to progressing to the phase 3 gas production target of 20 TJ/day.

KEY ACHIEVEMENTS

SURAT BASIN

- Kincora Project – annual revenue increased to $14.75m, an increase from $0.62m in the previous financial year.
- Kincora Project – phase 1 and 2 of the Group's growth plan have been successfully completed, with phase 3 underway and progressing.
- Kincora Project – significant Reserves and Resources upgrades.
- Kincora Gas Plant was successfully restarted, is now fully operational and processing 9 TJ/day with capacity to increase.
- The Myall Creek Well 4A – drilled, stimulated and ready to connect to production for commercial sales.
- Kincora Exploration – the Group was awarded further Roma shelf petroleum exploration acreage near its Kincora production facilities.

UGANDA

- A funding arrangement between Armour Energy and DGR Global was implemented, with DGR taking a majority interest of 83.18% with an obligation of carrying the work program for the first two years.
- Activities for the first year of exploration under the licence commenced, including desk top studies, purchase of previously gathered seismic data and reprocessing of same, plus soil sampling being organised in the near future and plans are being implemented for 2D seismic to be carried out in year two of the licence.

CORPORATE

- Execution of Australian Government Gas Acceleration Program (**GAP**) funding agreement, with first instalment of $2.3 million received.
- Execution of a $6.8 million environmental bonding funding facility with Tribeca Global Natural Resources Credit Fund.
- After the balance sheet date, the Company announced a fully underwritten Accelerated non-renounceable Rights Issue to raise approximately $10.1 million in funds through the issue of 101 million new shares.

SUSTAINABILITY

SOCIAL AND CORPORATE RESPONSIBILITY

During the year, the Group invested in additional resources across multiple disciplines of Corporate, Subsurface and Geology, Operations, Land Access and Health and Safety. The Group now has 44 employees, of which 11 are women. The additional resources were required to support the Kincora Project and assist with achieving the milestones set out in the Group's growth strategy.

The Group's remuneration policy is designed to attract, motivate and retain personnel by identifying and rewarding high performers and recognising the contribution of each person to the continued growth and success of the Group.

Where possible, the Group will recruit local business, contractors and employees that can support the Kincora Project. A strong presence in the Roma community is a key focus for the Group, including fostering positive relationships with other key stakeholders such as land owners, governments and community groups.

HEALTH, SAFETY AND ENVIRONMENT

For the 2018 financial year, the Kincora Project recorded nil reportable prescribed incidents and received no formal notices or penalties from regulatory authorities. An inspection by the Department of Natural Resources and Mines in May 2018 identified two non-compliance regarding the Armour Pipeline Management System and appropriate remedial actions have been agreed with the Inspectorate. As per the previous 2017 reporting period, the company TRIFR (Total Reportable Incident Frequency Rate) remained at nil throughout the reporting period.

REVIEW OF OPERATIONS (CONT.)

SUSTAINABILITY (CONT.)

HEALTH, SAFETY AND ENVIRONMENT (CONT.)

A third-party audit of the Armour Energy HSEMS (HSE Management System) for compliance with the Petroleum and Gas Act 2004 was undertaken in July 2017 with all findings being actioned and closed out.

The Group's operations are subject to environmental regulation under federal and state legislation. For the year ended 30 June 2018, the Kincora Project recorded nil reportable environmental incidents and nil notices or penalties were received from a regulator in regard to Armour's activities. An inspection by the Department of Environment and Science identified one non-compliance and appropriate remedial actions have been taken.

The Group has focused on improving environmental management across the Kincora Project through the continued development of our environmental management framework in order to assure that the Group continues to meet all federal and state environmental obligations.

STRATEGY AND PROGRESSION

The Group has presented a 4-Phase growth strategy and is working to deliver against the target milestones. To date, Phases 1 and 2 have been completed, with the current Phase 3 focusing on reaching our target of 20 TJ/d. The Group currently has gas production and sales of 9TJ/ day from its existing wells and Newstead Gas Storage Facility. Gas sales are currently to Australia Pacific LNG under the Group's existing Gas Sales Agreements for gas volumes of up to 3.65PJ/a. With an existing agreement to access Run 2 on APA's Wallumbilla facility at up to 30 TJ/day, any new production as wells come onstream can be quickly commercialised. In addition to gas sales, the Group's production and sales of oil, condensate and LPG provides a revenue uplift of approximately 25% on gas sales.

The Group's 4-phase growth strategy is presented over the page. In summary it shows that Phases 1 and 2 have been completed, Phase 3 is the current focus being to increase production and revenues, and Phase 4 being future growth opportunities is currently being considered and planned. The current Phase 3 focus of increasing production involves drilling of new wells and looking to improve production from existing wells.

The Myall Creek 4A well has been drilled and is planned to be on production by early October 2018. A further 3 production wells are planned to be drilled in the Kincora Project area and connected to production by June 2019. This is in line with the Group's stated strategy and the requirements of the Federal Government's Gas Acceleration Program grant. Elements of Phase 4 are being planned, specifically with respect to infrastructure development and production development across existing Petroleum Leases, and also exploration in Authorities to Prospect (ATPs).

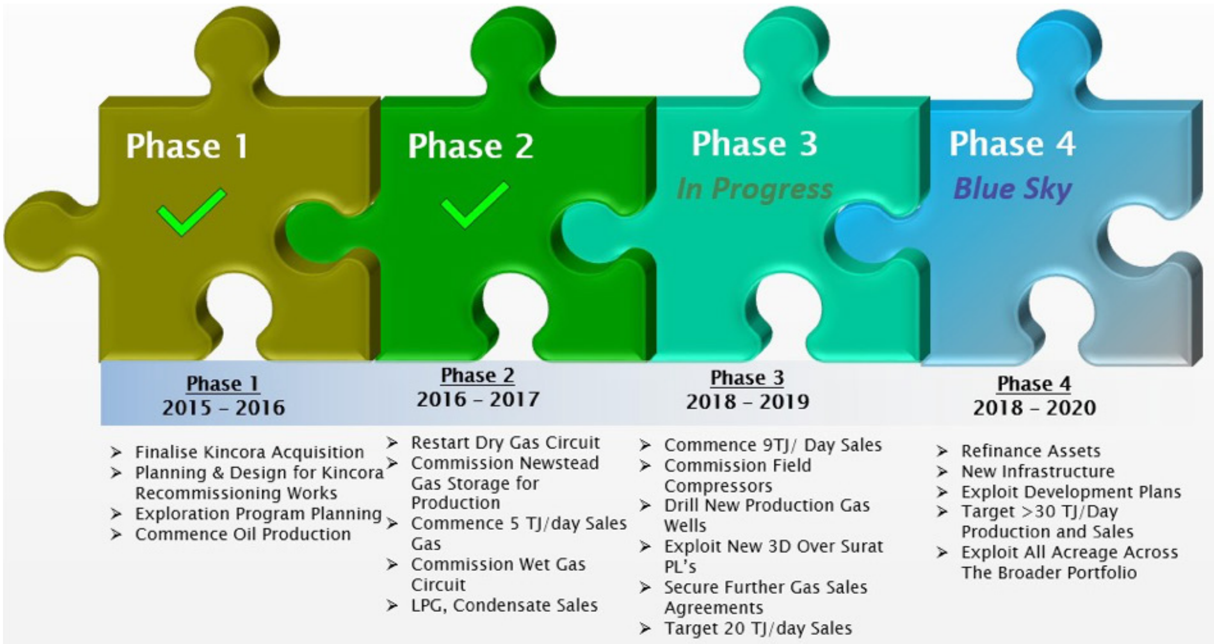


FIGURE 1
Armour's *4 Phases of Growth* plan

Of benefit to the Group, the East Coast gas market currently has a shortage of supply and several independent reviews forecast this shortage to continue. The Group aims to take advantage of this position and to achieve its goal of 20 TJ/day, in the near term.

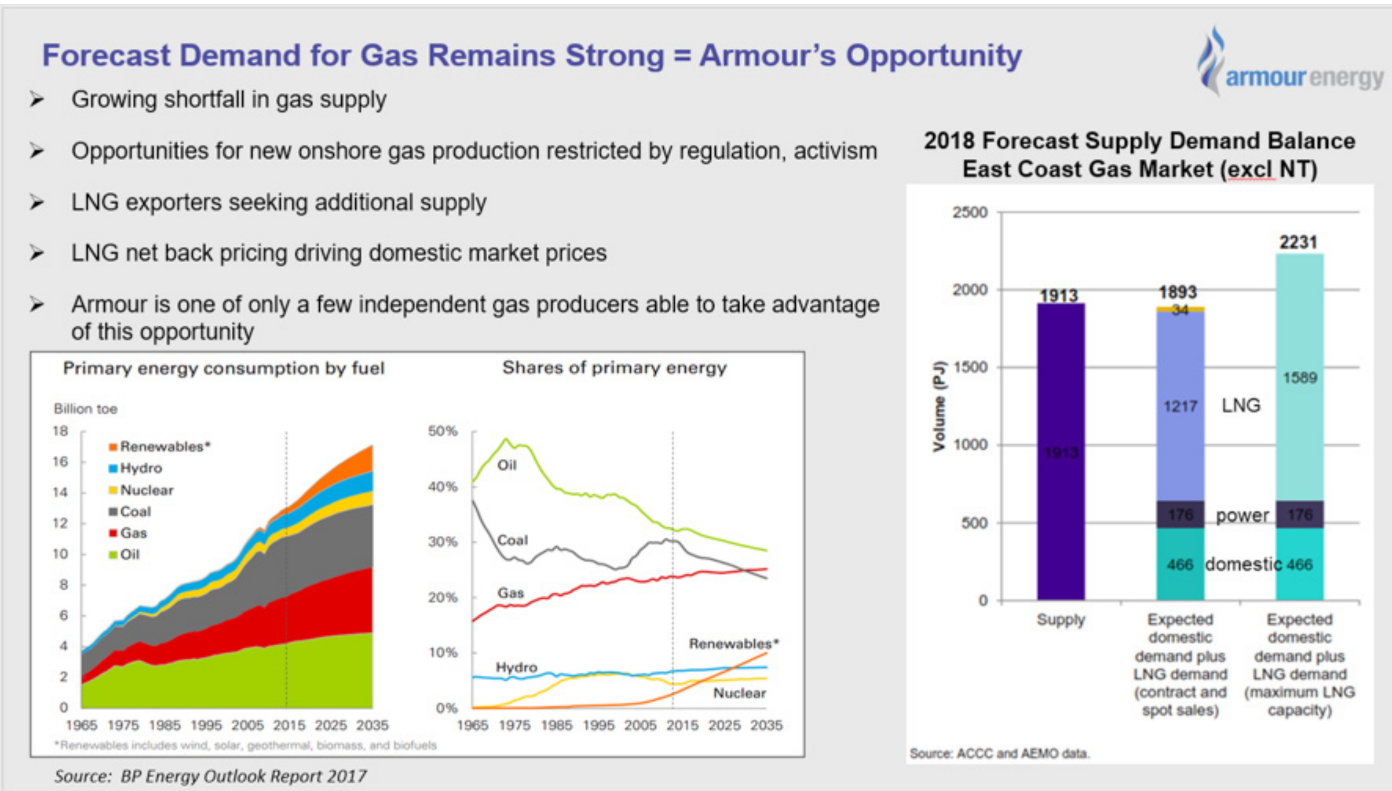


FIGURE 2
East Coast Gas Demand, BP Energy Outlook Report 2017

REVIEW OF OPERATIONS (CONT.)

STRATEGY AND PROGRESSION (CONT.)

The Group's infrastructure is well located and accesses the Wallumbilla Hub. The Group can also trade its non-contracted gas on the South East Queensland Gas Supply Hub where there is an active market for daily, weekly and monthly quantities of gas.

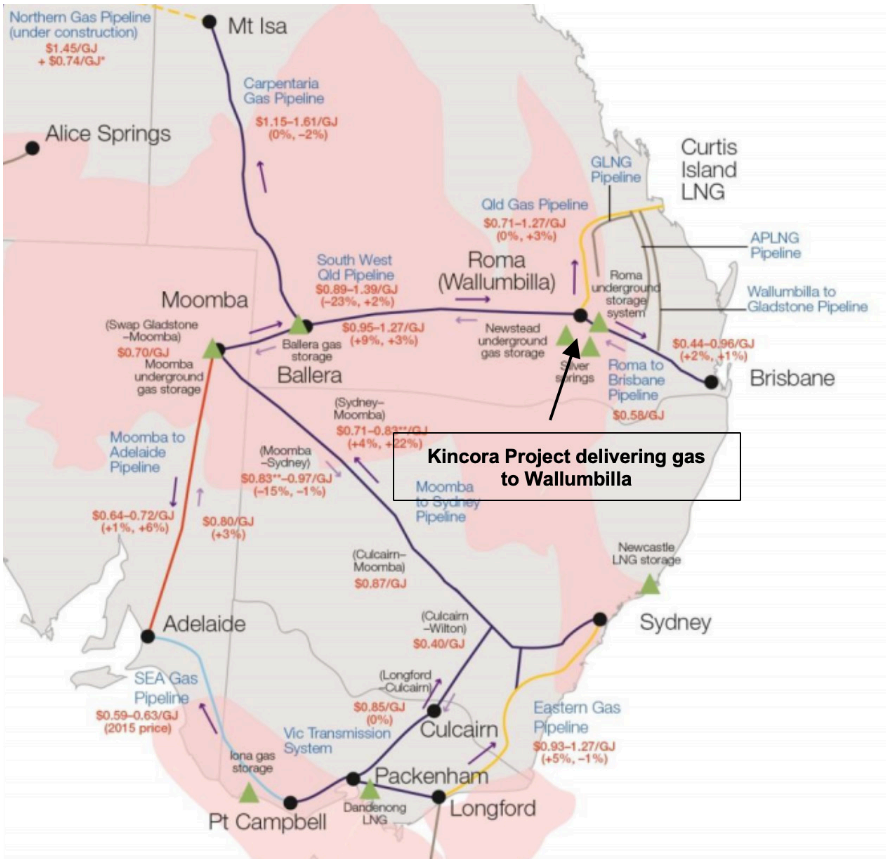


FIGURE 3
East Coast infrastructure,
Source: ACCC Dec 17

Further, gas production is predicted to play a more important role in the transition of the national electricity supply market. With the increase in renewable and distributed generation, and the progressive decommissioning of traditional coal fired power stations, gas fired generation and large-scale energy storage will become an increasing part of a stable energy market.

The ongoing discovery of gas resources and reserves that are close to existing infrastructure and market will become highly sought after, both for the provision of grid stabilisation services, synchronous generation, coupled with large scale storage, for peaking power. The award of new gas tenure in the Surat region during this year, in addition to increasing reserves and the availability of gas storage at Newstead aligns the Group as a long-term participant in the growing clean energy market.

While Queensland maintains a focus on the development of known gas reserves for LNG export, the Queensland Government has also recognised the need to preserve gas for supporting manufacturing and power generation. Through this, the Group has been awarded ATP2032, a "domestic only" gas exploration tenure, which continues to attract interest from future customers.

Demand for natural gas is growing and supply is being managed from existing production and enhanced through new exploration activities. According to the Australian Competition and Consumer Commission (ACCC) in the Gas Inquiry 2017-2020, July 2018 Interim Report still indicates that gas price remains in the high $8/GJ to $11/GJ range. The Group, being directly connected to the East Coast Domestic Market, via its pipeline from the Kincora Gas Plant to Run 2 on APA's Roma to Brisbane Pipeline at Wallumbilla, ensures the Group will have continued access to these market prices (ACCC, 2018 - Gas Inquiry 2017-2020, Interim Report 2018, p. 15). The Group's access to Wallumbilla also enables rapid commercialisation of new gas production, as well as the opportunity to utilise its Newstead Gas Storage Facility to participate in the large-scale energy storage market and seasonal commercial opportunities.

FINANCIAL PERFORMANCE

The 2018 financial year has been transformational for the Group and seen commencement of sales of Gas, LPG and Condensate from the Group's Kincora Gas Plant. Gas sales from the Newstead Storage facility commenced in September 2017, and gas from field production from end December 2017. The Group has a four-phase strategy for growth, with the commencement of 9 TJ/day gas sales in phase 3 achieved in February 2018. Sales of LPG and Condensate commenced at the start of February 2018 and production commenced at higher rates than first expected. Current gas production is predominantly from existing wells with liquid rich gas, therefore providing LPG and condensate by-products which are contributing strongly to sales revenue.

The performance of the existing wells that have been brought back into production has been stronger than expected, with the wells having recharged during the period they were shut-in since the previous operator ceased production in 2012 and the Group recommencing production in 2018.

The Group generated sales of $14.75 million during the year ended 30 June 2018, which represents an increase of $14.13 million from the prior year. A gross profit from operations of $3.97 million was achieved, which was offset by the main expenditure areas of general and admin, financing costs, and pre-production costs and income tax, giving a total loss after income tax for the Group of $11.56 million.

The loss for the year includes the following significant items:

- Sales of gas, condensate, LPG and crude oil from the Kincora project. Gas sales commence in September 2017 from the Group's Newstead Storage Facility. In December 2017, field production commenced which gave rise to LPG and Condensate inventory, which has been sold from February 2018 onwards. Crude oil production has been consistent, subject to occasional maintenance shutdowns since August 2016.
- Cost of goods sold of $10.8 million represent Kincora operating costs from the point of production in September 2017. Costs prior to this are classified as Pre-Production costs.
- Financing costs of $8.9 million mainly represents interest expense, issue costs and amortisation expense relating to convertible notes.
- Other expenditure items are consistent from the prior year and include employment expenses, legal, marketing, regulatory and compliance, and general administrative costs.

REVIEW OF OPERATIONS (CONT.)

FINANCIAL PERFORMANCE (CONT.)

ASSETS

Total assets increased by $9.8 million from $91.7 million to $101.5 million, and include:

- cash and cash equivalents of $5.1 million;
- other current assets, including Receivables & Inventory of $3.9 million;
- financial assets comprising cash-backed security deposits and bank guarantees of $12.6 million;
- exploration assets of $48.9 million, which primarily consists of the Group's Northern Territory and North Queensland assets; and
- oil and gas assets of $31 million which comprise all the land, licences and physical assets within the Kincora Project.

LIABILITIES

Total liabilities increased by $14 million from $42.7 million to $56.7 million, and include:

- trade payables, leases and other miscellaneous of $8.2 million;
- convertible note liability at amortised cost, including accrued interest payable of $39 million;
- rehabilitation provision of $6.7 million and the present value of the deferred consideration payable to Origin Energy relating to the purchase of the Kincora Project of $2.8 million.

EQUITY

Total equity decreased by $4.2 million from $49.0 million to $44.8 million, and include:

- higher contributed equity of $5.1 million resulting from equity raisings during the period October to December 2017;
- higher reserves due to the change in fair value of the Group's shareholding in Lakes Oil NL, net of tax of $1.5 million, and increase in the convertible note reserve of $0.5 million; offset by
- increases in accumulated losses due to the reported loss for the period.

CASHFLOW

The Group reported net cash outflow from operating activities of $0.3 million for the period. The Group expects to be in a positive operating cashflow position going forward, with gas sales expected to steadily increase from the current rate of 9 TJ/d to our target of 20 TJ/d.

Cashflows from investing activities primarily represents the Group's restart of the Kincora processing plant, and drilling of the Group's first development well at Myall Creek 4a. This expenditure was offset by the receipt of the Gas Acceleration Program grant funding from the Federal Government of $2.5 million (including GST).

Cashflows from financing activities relate to the receipt of funding under equity raisings and convertible note borrowings, offset by transaction costs and payment of convertible note interest.

OPERATIONS REVIEW

KINCORA PROJECT – SIGNIFICANT PROGRESS

After five years in care and maintenance by Origin Energy as the previous operator, the Kincora Gas Plant was recommissioned by the Group during the 2018 financial year. This began with the dry gas circuit coming into production with gas from the Newstead storage facility in September 2017, and the wet gas circuit or LPG circuit operational at the end of December 2017. Since then, the Group has been focused on increasing production and in February 2018 production from existing wells and Newstead storage achieved 9 TJ/day and this has been maintained since then. The Group aims to be producing up to 20 TJ/d in 2019 from increased production through drilling new wells and potentially increasing production from existing wells.

Importantly, the Group is well positioned in relation to South East Queensland market and has existing production and pipeline infrastructure in place. Future production wells strategically drilled close to existing in-field infrastructure can be rapidly connected into the east coast pipeline network, which is a big positive for the Company and all stakeholders, including investors and shareholders

During the year, the Group invested in additional resources across multiple disciplines of corporate, subsurface and geology, operations, land access, health and safety plus Kincora based operations and maintenance personnel. This has set up the Group to manage all aspects of the 4-phase growth strategy.

Whilst Kincora Gas Plant operations have only been under way for 6 months since the completion of the restart, there has been significant progress made in understanding the nuances of operating the old plant, and constant development of operational capabilities is being undertaken to seek efficiency and production improvements. Opportunities for improvement include compression upgrades to maximise production from existing wells.

During the 2018 financial year, the Group made significant progress in its growth strategy and completed phase 2 initiatives:

- The restart of the Dry Gas Circuit was completed in September 2017. This involved production from Newstead Gas Storage and delivered the Group's first sales at 5 TJ/day. The quality of gas in the Newstead Storage facility enabled that gas to be run through the dehydration and sales gas compression processes of the Kincora Gas Plant. This enabled gas production and sales to commence while the restart work on the more complex wet gas circuit continued.
- The restart of the Wet Gas Circuit was completed in December 2017. This involved the restart of gas production from existing wells across the Kincora Project area and the restart of the wet gas or LPG circuit within the Kincora Gas Plant. Initial production and sales was intermittent at 7 TJ/day over the first month of recommissioning while operational issues were being addressed.
- In February 2018 the processing of wet gas stabilised and production was increased to yield sales of 9 TJ/day plus sales of LPG and condensate. This rate has been maintained since then.

REVIEW OF OPERATIONS (CONT.)

OPERATIONS REVIEW (CONT.)

KINCORA PROJECT – SIGNIFICANT PROGRESS (CONT.)

Phase 3 focuses on increasing production above 9 TJ/day with a target to safely and reliably deliver 20 TJ/day of gas to the Australian east coast gas market. Key elements to delivering the 20 TJ/day include the subsurface development plan, bringing on new production wells and performing engineering studies on the Kincora Gas Plant, to obtain a deep understanding of its performance and potential production bottlenecks.

The subsurface team has developed the subsurface plan, and a significant number of wells across multiple fields are now in the inventory catalogue.

The next year includes plans to drill and bring into production an additional 3 wells which will be part funded under the Australian Government's GAP grant of up to $6 million (of which $2.3 million net of GST has already been received).

KINCORA RESERVES AND RESOURCES UPGRADE

During the year the Group reassessed its Reserves and Resources for its operated Roma Shelf Assets, Queensland as part the Kincora project. New reserves and resources were primarily associated with the deep tight gas sandstone plays that remain entirely underexploited and through the acquisitions of minority working interest(s) in certain petroleum licenses.

The commercialisation of the Kincora Project has been reviewed and evaluated in accordance with the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PMRS) guidelines, resulting in Reserves as follows.

Total Reserves Myall Creek and Other Fields[1]	1P	2P (1P+2P)	3P (1P+2P+3P)
Estimated Net Total Gas (BCF)	33.4	58.5	160.3
Estimated Net Total Gas (PJ)	35.2	61.7	169.1
LPG Yield (Tonne)	72,721	127,447	349,182
Condensate Yield (BBL)	349,976	613,349	1,680,470

TABLE 1 - Kincora Project estimated aggregated quantities of Petroleum Reserves

TABLE 1 NOTES

1. Petroleum Reserves are classified according to SPE-PRMS.
2. Petroleum Reserves are stated on risked net basis with historical production removed.
3. Excludes Waldegrave JV area.
4. Petroleum Reserves are stated inclusive of previous reported estimates.
5. Petroleum Reserves are net to Armour with no shrinkage applied, but estimated to be 5%.
6. BCF = billion cubic feet, LPG = liquefied petroleum gas, PJ = petajoules, kbbl = thousand barrels, kTonne = thousand tonnes; conversion: 1.055 PJ/BCF.
7. 1P = Total Proved; 2P = Total Proved + Probable; 3P = Total Proved + Probable + Possible.
8. LPG Yield 2065 tonnes/petajoules, Condensate Yield 9938 barrels/petajoules.

The Group is planning to drill 3 further wells by the end of the 2018-2019 financial year at its Kincora Project, in addition to the well recently completed in the Myall Creek field where the Group currently holds 46 PJs of 2P reserves attributed to the Permian Upper and Lower Sandstones.

Additionally, the Group's independent expert, SRK Consulting (Australasia) Pty Ltd, has estimated 5.1 PJs 2C, 18.6 PJs 3C and Best Estimate 40 PJs Prospective Resources[1] in the overlying Triassic Rewan Formation in the Myall Creek Field.

As part of the Myall Creek drilling campaign, new wells will be completed for production from both the Permian Tinowon and overlying Triassic Rewan Formation, as these formations appear to represent one continuous 300 metre saturated hydrocarbon interval beneath the regional Snake Creek Shale seal. The Rewan Formation 2C and 3C Contingent and Best Estimate Prospective Resources are categorized primarily due to a lack of connected wells to compression in the field, historical poor well design and historical production techniques. Currently, the Rewan Formation is completed open-hole in the Company's Horseshoe-3 and connected to sales in the Myall Creek Field.

The recommended well program in the Myall Creek Field may include the Triassic Rewan in the hydraulic completion strategy with the Permian Upper and Lower Tinowon. Any testing, completions and flows of hydrocarbons would move the current Rewan Contingent Resources to a 1P-2P-3P Reserves, Prospective Resources to a Contingent status and sustainably update the Reserves and Resources in the Myall Creek Field.

The Group's independent resource auditor SRK supports the proposed stimulation and completion programs over the Rewan and Tinowon Formation sandstones and believes the Group's operations are aligned to achieve good individual well production rates over the longer-term life of the field. SRK recommended completion over the Rewan Formation to progress the Resources to Reserves subject to economic production being achieved. Upon success of flowing hydrocarbons from the Rewan Formation, SRK will consider this reservoir more generally aligned with similar locations within the Myall Creek 3D area and that using the current well design the Rewan Formation should be added into the Myall Creek Field Development Plan.

TECHNICAL STATEMENT – PETROLEUM RESERVES

The Group's previously reported Bowen-Surat Basin Reserves Report in March 2017 documents total petroleum net Reserves classified in accordance with SPE-PRMS guidelines of 53.9 2P BCF. An update to this report released 14 May 2018 by SRK Consulting (Australasia) Pty Ltd, documents the Reserves Update based upon the Group's successful acquisition of Santos Limited's (Santos) working interests in various petroleum licences and QGC Pty Ltd's (**QGC**) 50% interest in ATP 647 in the Surat-Bowen Basin (**Table 1**).

1: The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

REVIEW OF OPERATIONS (CONT.)

OPERATIONS REVIEW (CONT.)

KINCORA RESERVES AND RESOURCES UPGRADE (CONT.)

TECHNICAL STATEMENT – PETROLEUM RESERVES (CONT.)

The Reserves upgrade in PLs 21, 22, 27, 30, 71, 264, 512 and ATP 647 are from acquisition working interest, as previously reported by the Group, which now owns 100% working interest in these license areas and excludes the non-operated Waldegrave JV Area (Table 2). The estimated aggregated quantities of petroleum reserves to be recovered from existing wells and through future capital are listed in Table 1 on the previous page and exclude 5% production processing fuel and provisional flaring.

The independently verified Reserves Update Report compiled by SRK Consulting (Australasia) Pty Ltd details a high degree of confidence in the commercial producibility of Permian, Triassic and Jurassic aged reservoirs previously discovered and produced in operated granted petroleum licenses using 2D-3D seismic, historic and modern well data, reservoir pressure data, electric logs and rock properties from chip & core samples, gas composition analysis, hydraulic stimulation results, analysis of historical well production, decline curve analysis, offset field production data and prior production data from wells before the Kincora Gas Plant was shut-in by the previous operator, Origin Energy. The reported Reserves are used in connection with estimates of commercially recoverable quantities of petroleum only and in the most specific category that reflects an objective degree of uncertainty in the estimated quantities of recoverable petroleum. The Petroleum Reserves are reported net of fuel and net to the Group to the APA Group metered sales connection to the Roma to Brisbane Pipeline (Run 2) at Wallumbilla and the report discloses the portion of petroleum Reserves that will be consumed as fuel in production and lease plant operations. The Group will be using calibrated metering and gas chromatographs at the Kincora Gas Plant as a reference point for the purpose of measuring and assessing the estimated petroleum Reserves from the produced gas.

The economic assumptions used to calculate the estimates of Petroleum Reserves are commercially sensitive to the Kincora Project. The methodology used to determine the economic assumptions are based upon strategic objectives that include, but not limited to, new drills, workovers, recompletes and surface facility modifications to ramp up to and maintain a 20 TJ/day production profile for 15 years. The ramp up from current production at 9 TJ/day to 20 TJ/day is planned to be achieved by first half of 2019. The sanctioned development model includes a starting and ending monthly schedule of working/net interest capital expenditure to develop and maintain the petroleum Reserves, operational expenditure to develop and produce the Petroleum Reserves, fixed Petroleum Reserve prices under-contract and escalated Petroleum Reserve futures based upon Wallumbilla Hub prices, tax/royalty sensitivities, revenue from gross and net petroleum production yields and cash flow from petroleum production yields and summation of discounted cash flows.

The Petroleum Reserves are located on granted petroleum licences with approved environmental authorities and financial assurances. The Group has a social licence to operate and relevant surface access agreements are in-place.

The Group is the owner and operator of the Kincora Project and PPL3 sales gas pipeline which connects the Kincora Gas Plant to the Wallumbilla gas hub via the connection agreement with APA. The Group holds granted Petroleum Licenses over the reported estimates of Petroleum Reserves, associated gathering and field compressors. The basis for confirming the commercial producibility and booking of the estimated petroleum Reserves is supported by actual historic production & sales and/or formation tests. The analytical procedures used to estimate the petroleum reserves were decline-curve analysis to 50 thousand cubic feet a day, historic production data and relevant subsurface data including, formation tests, 2D-3D seismic surveys, well logs and core analysis that indicate significant extractable petroleum.

The proposed extraction method of the estimated Petroleum Reserves will be through approved conventional drilling and, where applicable, hydraulic stimulation techniques to accelerate production, commingle the productive zones and extract volumes from tight gas zones. Wellbores will be cased and cemented with a high-pressure wellhead completion. Petroleum will be recovered through 2-3/8” production tubing and gathered to field compression sites for delivery to the Kincora Gas Plant.

Petroleum lease(s)	Main fields/site name	Group working interest (%)	JV partner working interest (%)
PLs 21, 22, 27	Kincora Project Area	100%	-
PL 264	Emu Apple Oil	100%	-
ATP 647	Myall Creek East	100%	-
PLs 14, 53, 70	Kincora Project Area	100%	-
PL 227	Horseshoe	100%	-
PL 511	Myall Creek	100%	-
PL 71P	Parknook (Production)	100%	-
PL 71E	Parknook (Exploration)	80%	Bounty - 20%
ATP 754	ATP 754	50%	Bounty - 50%
PL 30	Riverslea	90%	AGL - 10%
PL 512	Major Field	84%	AGL - 16%
PCA(A) 157	Weribone Pooling Area	50.64%	AGL - 28.71%; Senex - 20.65%
PCA(A) 157	Bainbilla Pooling Area	24.75%	AGL - 75.25%
PLs 10W, 11W, 12W, 28, 69, 89, 320W, 321	Waldegrave	46.25%	Southernpec - 53.75%
PL 11 SC East Exclusion Zone	Snake Creek	25%	Southernpec - 75%

TABLE 2 - Kincora Project petroleum tenures

REVIEW OF OPERATIONS (CONT.)

OPERATIONS REVIEW (CONT.)

KINCORA RESERVES AND RESOURCES UPGRADE (CONT.)

(A) TRIASSIC REWAN FORMATION CONTINGENT RESOURCES IN THE MYALL CREEK FIELD

The Group engaged the services of SRK Consulting (Australasia) Pty Ltd to provide independent expert reports on the operated Resources and Prospective Resources associated within the Company's 100% working interest petroleum licenses PL 227 and PL 511 (Myall Creek 3D area) in the Kincora Project reported on 14 May 2018 (refer Table 3). These Contingent Resources are in addition to the Myall Creek Reserves.

Contingent Gas Resources Rewan Formation, Myall Creek Field	1C	2C (1C+2C)	3C (1C+2C+3C)
Estimated Net Total Gas (BCF)	1.3	4.8	17.6
Estimated Net Total Gas (PJ)	1.4	5.1	18.6
LPG Yield (Tonne)	2,832	10,457	38,343
Condensate Yield (BBL)	13,630	50,326	184,529

TABLE 3 - Bowen-Surat estimated net aggregated quantities of Contingent Resources

TABLE 3 NOTES

1. Contingent Resources are classified according to SPE-PRMS.
2. Contingent Resources are stated on a risked net basis with historical production removed.
3. Contingent Resources are stated inclusive of previous reported estimates.
4. Petroleum Reserves have no shrinkage applied, estimated to be 5%.
5. BCF = billion cubic feet, LPG = liquefied petroleum gas, PJ = petajoules, kbbl = thousand barrels, kTonne = thousand tonnes; conversion: 1.055 PJ/BCF.
6. 1C = Total Proved; 2C = Total Proved + Probable; 3C = Total Proved + Probable + Possible.
7. LPG Yield 2065 tonnes/petajoules, Condensate Yield 9938 barrels/petajoules.

(B) PL 71 CONTINGENT RESOURCES

In August 2017, Armour Energy (Surat Basin) Pty Ltd (**Armour Surat**) and Ausam Resources Pty Ltd (**Bounty**) entered into a binding Heads of Agreement and subject to DNRM approval, with terms stating Bounty agrees to transfer its 20% interest in the PL 71 Exploration JOA such that Armour Surat becomes the 100% working interest owner. Armour Surat is currently operator of PL71 Exploration with an 80% working interest and a 100% working interest in PL71 Production. Additional updates and material changes on the contingent resources will be released once DNRM has approved the license transfer.

Contingent Resources PL71	1C	2C (1C+2C)	3C (1C+2C+3C)
Estimated Net Total Gas (BCF)	5.0	24.5	72.3
Estimated Net Total Gas (PJ)	5.2	25.8	76.3
LPG Yield (Tonne)	10,806	53,332	157,555
Condensate Yield (BBL)	52,004	256,663	758,246

TABLE 4 - Bowen-Surat estimated net aggregated quantities of Contingent Resources

TABLE 4 NOTES

1. Contingent Resources are classified according to SPE-PRMS.
2. Contingent Resources are stated on a risked net basis with historical production removed.
3. Contingent Resources are stated inclusive of previous reported estimates.
4. Petroleum Reserves have no shrinkage applied, estimated to be 5%.
5. BCF = billion cubic feet, LPG = liquefied petroleum gas, PJ = petajoules, kbbl = thousand barrels, kTonne = thousand tonnes; conversion: 1.055 PJ/BCF.
6. 1C = Total Proved; 2C = Total Proved + Probable; 3C = Total Proved + Probable + Possible.
7. LPG Yield 2065 tonnes/petajoules, Condensate Yield 9938 barrels/petajoules.

The basis for confirming the existence of a significant quantity of potentially moveable hydrocarbons and the determination of a discovery is based upon stand-alone appraisal and appraisal pilot production from the Parknook, Warroon and Namarah wells and fields within PL71 (refer Table 4). These wells and fields will continue to produce from the Showgrounds and Rewan hydrocarbon conventional and tight gas reservoirs. This historic production to-date is estimated to be 13.3 BCF, 269.2k condensate (bbls) and 44.7 LPG (tonnes). Upon recommissioning of the Kincora Plant, certain wells and facilities will be brought back into production in the PL71 fields. Ongoing analysis of existing 2D lines and well data, historic technology that has actively developed the area to-date, does allow for certain future new drill locations to be inventoried and new access negotiations are expected to commence in the next 12 months that would allow for new drilling of both conventional and tight gas reservoirs. A modern 3D seismic survey over PL71 is under consideration as this technique will improve subsurface understanding, control and further mature the petroleum license. Wellbores will be designed to protect aquifers and deviated drilling may be used to lessen the overall impact to surface owners, environmental receptors, strategic cropping and to consolidate surface infrastructure where applicable.

KINCORA GAS PLANT

In December 2017 the Group completed the restart activities on the Kincora Gas Plant and moved into production. The plant restart was broken into two components, being the restart of the dry and wet gas circuits. The dry gas circuit was completed first in September 2017, which achieved first production from the Newstead storage facility and generated revenue through the Group's gas sales agreement with Australia Pacific LNG (APLNG).

In December 2017, the second circuit was restarted and first production from existing wells acquired from Origin Energy commenced, which increased gas production volumes and provided revenue from associated gas liquids of LPG and condensate.

The Group also undertook redesign and process improvement engineering as part of the restart works, providing the Group with the unique flexibility of being able to utilise the Newstead Storage Facility and produce from the dry gas circuit only. This redesign work is significant as it provides a powerful risk mitigation strategy for the Group if unforeseen issues arise with the LPG section of the plant or encounter interruptions with field production.

REVIEW OF OPERATIONS (CONT.)

OPERATIONS REVIEW (CONT.)

KINCORA GAS PLANT (CONT.)

The next phase of the plant restart activities includes ramping up gas production to 20 TJ/d, which aligns to Phase 3 of the Group's wider growth strategy. This production rate is 66% of the name plate capacity of the plant, and subject to operational performance, further production ramp up will be explored to achieve 100% capacity subject to having confidence in plant reliability.

Associated liquids production historically averaged 9942 barrels of condensate per PJ of gas, and 2066 tonnes of LPG per PJ of gas, and at 20 TJ per day liquids production are expected to achieve 198 barrels of condensate and 41 tonnes of LPG per day. These condensate and LPG figures are based on the information contained in the ASX release of 19 July 2016.

FIGURE 4
Kincora Gas Plant

MYALL CREEK 4A WELL (100% OWNED, PL511)

The Group's first production well in the Kincora Field Development Program is the Myall Creek 4A well which has been located and designed on the basis of the Myall Creek 3D survey, historical well data, the application of modern extraction techniques, deep (>1800-meters) tight gas sandstone geology in a liquid rich trend and proximity to existing infrastructure.

The Myall Creek 4A, successfully drilled in June 2018, penetrated through the regional Triassic aged Snake Creek Shale seal into the prognosed 300-metre gross Triassic and Permian gas charged window at 1848 metres depth. Significant quantities of hydrocarbons were subsequently recorded between 1848 metres and the top of the Basement at 2148 metres.

The regionally productive Triassic Sandstones, Showgrounds Sandstone and Rewan Formation, had gas shows of 4% to 60%, and the targeted Permian Tinowon and Wallabella sandstones had gas shows of up to 100%. Gas chromatograph readings recorded a liquid (condensate and LPG) rich gas composition.

In August 2018, the Group successfully completed the multi-stage hydraulic stimulation program on the well within the highly prospective sandstone intervals of the Permian and Triassic formations below 1850-metres. The aim of this extraction program was to enable commingled production from stacked hydrocarbon saturated Triassic and Permian sandstones.

Instantaneous gas rates were varying between approximately 0.6 MMCFD and 1.7 MMCFD on various choke settings during flow back/slugging through 4-1/2-inch casing.

In mid-September 2018 a static gradient survey was taken in the wellbore and recorded bottom-hole pressures consistent with over-pressured virgin reservoir conditions. Bottom-hole flowing pressures from the unconventional tight gas sands to the wellbore through the application hydraulic stimulations are under analysis. Additional data from actual sales production is needed to characterize the effectiveness of well flow performance versus hydraulic stimulation design.

A string of 2-3/8-inch tubing has been installed and the well has been handed over to the Kincora Operations Team for commissioning through a new 4-inch pipeline that connects the well to the Myall Creek Compressor station. At the time of handover, the Myall Creek 4A well had approximately 2600 psi of shut-in wellhead pressure and is ready for sales contribution to the domestic market.

FIGURE 5
Myall Creek Well 4A

FIGURE 6
Ensign Rig 964 at Myall Creek Well 4A

REVIEW OF OPERATIONS (CONT.)

OPERATIONS REVIEW (CONT.)

KINCORA EXPLORATION – AWARDED FURTHER PETROLEUM ACREAGE

The Group has been formally awarded the Authority to Prospect No. 2032 (**ATP2032**) on the Roma Shelf, in the Surat Basin. The Group has been notified by the Queensland Department of Natural Resources and Mines that it now holds 100% of ATP2032 which is located immediately to the north of the Group's PL22 and within close proximity to the Kincora Gas Plant.

The Authority to Prospect covers 318 square kilometres or 105 sub-blocks over the prospective Roma Shelf. The ATP was awarded with the condition that gas produced will be for supply to the Australian domestic market only, which aligns with the Group's current production from the Kincora Gas Plant in to the Roma to Brisbane Gas Pipeline.

ATP2032 is immediately adjacent to the Group's existing production licences and associated infrastructure, meaning that any commercial discovery within the tenure could be readily connected to the Kincora Gas Plant and thus to into Queensland's domestic market.

On 26 September 2018, the Company announced that it was awarded two additional exploration blocks and is the preferred tenderer on Petroleum Land Release Areas PLR201718-2-6 and PLR201718-2-7. Both areas are considered to be prospective for gas and liquids, and in close proximity to the existing gas infrastructure associated with the Kincora Gas Plant.

Figure 7 shows a map indicating the Group's Surat Basin leases including ATP2032 and the new preferred tenderer blocks. **Table 5** shows the Group's holdings across its Roma Shelf interests.

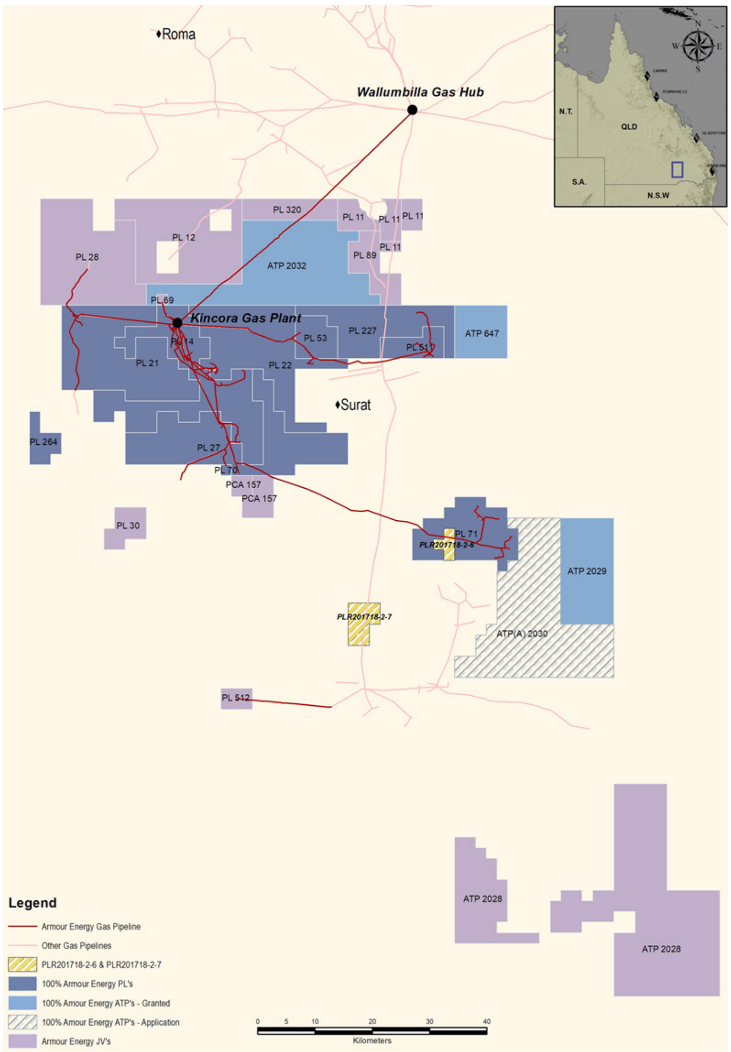


FIGURE 7
Map showing Armour's Roma Shelf, Surat Basin leases including ATP2032

Tenement	Armour Surat Operated	Armour Surat Interest
PL 14	*	100%
PL 53	*	100%
PL 70	*	100%
PL 511	*	100%
PL 227	*	100%
PPL 3	*	100%
PPL 20	*	100%
PPL 63	*	100%
Newstead Gas Storage	*	100%
PL 21	*	100%
PL 22	*	100%
PL 27	*	100%
PL 71 (production)	*	100%
PL 264	*	100%
PL 30	*	90%
PL 512	*	84%
PPL 22	*	84%
PL 71 (exploration)	*	80%
ATP 1190 (Weribone)	*	50.64%
ATP 2028	*	50%
ATP 2029	*	100%
ATP 647	*	100%
ATP 2032	*	100%
ATP(A) 2030	*	100%
PL 28		46.25%
PL 69		46.25%
PL 89		46.25%
PL 320W		46.25%
PL 11W		46.25%
PL 12W		46.25%
PL 11 Snake Creek East Exclusion Zone		25%
ATP 1190 (Bainbilla)		24.748%

TABLE 5 - Tenements in the Roma Shelf on the Surat Basin

REVIEW OF OPERATIONS (CONT.)

OPERATIONS REVIEW (CONT.)

NORTHERN TERRITORY & NORTHERN QUEENSLAND

NORTHERN TERRITORY

In September 2016, the Northern Territory Government announced a moratorium on hydraulic fracturing of onshore unconventional reservoirs including the use of hydraulic fracturing for exploration, extraction and production, including Diagnostic Fracture Injection Testing. In April 2018 the Chief Minister of the Northern Territory announced that the moratorium was lifted, and all 135 recommendations made in the final report of the independent Scientific Inquiry into Hydraulic Fracturing of Onshore Unconventional Reservoirs in the Northern Territory will be adopted. In a further media release in July 2018, the Northern Territory Government released its plan to implement those recommendations. The Group intends to resume exploration once these recommendations are implemented. Figure 8 shows the Group's Northern Territory acreage.

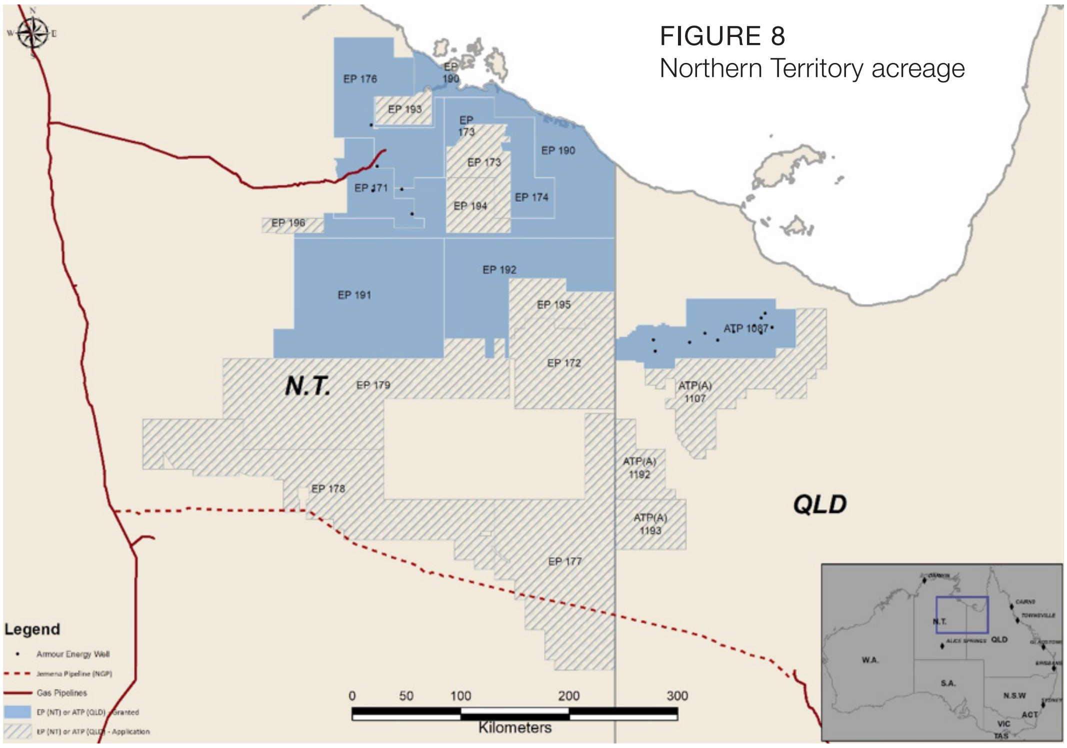


FIGURE 8
Northern Territory acreage

The Group's McArthur Basin project area represents the largest and most important part of the Northern, Central and Southern McArthur Basin where the thickest and most oil and gas prone sections of the McArthur and Tawallah groups are present. Figure 9 over the page shows the deep oil and gas plays within the McArthur Basin that the Group intends to resume exploitation of during phase 3 of the Group's growth strategy.

NORTHERN QUEENSLAND

ATP 1087 is the Group's 100% owned highly prospective shale gas play in the Isa Super Basin, with 18.7 TCF best estimate prospective gas resources[2] (refer table 6), well understood rock properties of up to 11% Total Organic Content, and stacked play opportunities.

2: The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

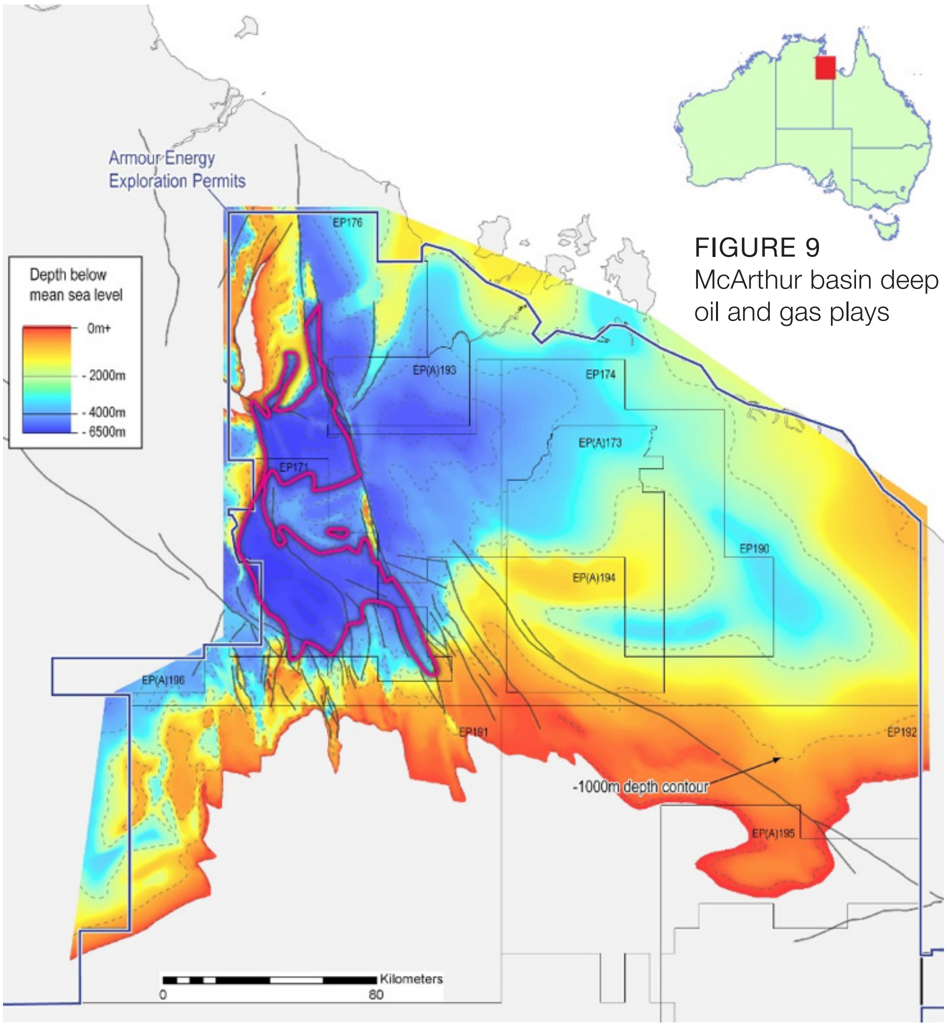


FIGURE 9
McArthur basin deep oil and gas plays

The Group has drilled 6 wells to date in ATP1087, including the Egilabria-2 well, which was an Australian first of achieving flows from a hydraulically stimulated lateral well in shale. The Group has acquired extensive seismic and other geological data during its tenure and has drill ready targets to achieve large scale production in the future.

Plans for ATP1087 within the Group's phase 3 growth strategy includes appraisal work to establish commercial flow rates, and to acquire further seismic data and drill an exploration well deeper into the basin.

The Group's 100% owned Northern Australia acreage best estimate prospective gas resource within shale formations is 57 TCF[3] (refer **table 6** over the page). The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations.

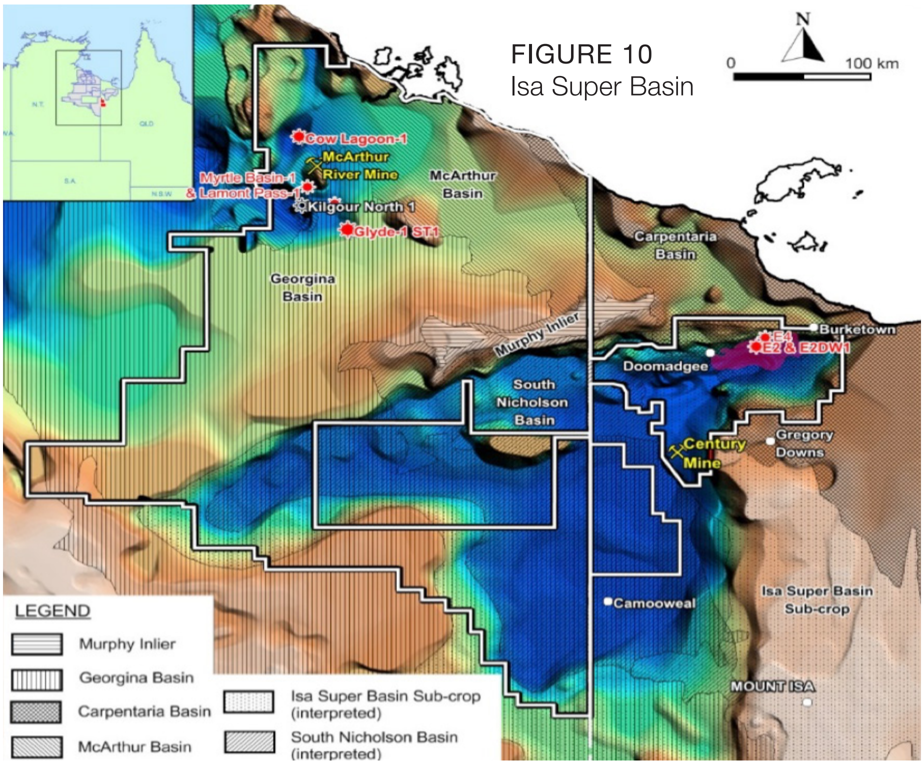


FIGURE 10
Isa Super Basin

3: The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

REVIEW OF OPERATIONS (CONT.)

OPERATIONS REVIEW (CONT.)

NORTHERN TERRITORY & NORTHERN QUEENSLAND (CONT.)

NORTHERN QUEENSLAND (CONT.)

These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Best estimate prospective gas resources (recoverable) – NT/ QLD	
NT unconventional gas	**Tscf**
Barney Creek Shale (EP171, 176) (1)	13.0
Wollogorang Shale, Tawallah Group (5)	6.9
McDermott Shale, Tawallah Group (5)	10.1
NT conventional gas	
All leads and prospects (1)(2)(3) (5)	4.9
NT total gas prospective resources	**34.9**
QLD unconventional gas	
Lawn Shale (ATP1087) (6)	8.1
Riversleigh Shale (ATP1087) (7)	14.0
QLD total gas prospective resources	**22.1**
NT/QLD gas prospective resources	**57.0**

TABLE 6 - Best estimate prospective gas resources (recoverable) – NT and QLD combined. Refer ASX release on 21 September 2015 for full details.

TABLE 6 FOOTNOTES

1. MBA Report, Conventional and Unconventional Prospective Resource Estimate EP 171 & EP 176, NT, October 2011
2. D&M Report, Prospective Resources Attributed to Certain Prospects in Various License Blocks, NT, April 2013
3. SRK Report, Coxco Dolomite Resource Evaluation Batten Trough, McArthur Basin, EP 171, 176, 190, NT, November 2013
4. MBA Report, Unconventional Prospective Resource Assessment, ATP (A) 1087, QLD, November 2011
5. SRK Report, SRK Report, Conventional and Unconventional Resource Assessment of the Wollogorang and McDermott Formations – Tawallah Group, NT, September 2015
6. SRK Report, Lawn Hill Formation Prospective Gas Resources ATP 1087, QLD, September 2015
7. SRK Report, Riversleigh Siltstone Formation Prospective Gas Resources ATP 1087, QLD, September 2015

UGANDA PROJECT

During the year, the Group concluded negotiations with the Government of Uganda and was granted the exploration licence for the Kanywataba block on the signing of the Production Sharing Agreement with the Government of Uganda.

The Kanywataba block is located at the southern end of Lake Albert in the Albertine Graben where approximately 115 wells have been drilled, and 101 wells encountered hydrocarbons delivering an 88% success rate on economic discoveries. To date, discoveries in the Albertine Graben total approximately 6.5 billion barrels of oil initially in place, with estimated recovery being 1.5 billion barrels and oil being light to medium gravity (30-35 API) with associated wet and dry gas. The Albertine Graben is a Rift Basin, a geological formation known to host a third of the world's oil reserves and similar geology to the Gippsland Basin in Victoria, Australia. The Albertine Graben is considered to provide world class reservoir qualities, multiple reservoirs and less than 40% of the Albertine Graben has been evaluated. Production licenses have been awarded to Total, Tullow and CNOOC on blocks to the north of the Kanywataba block, on the east coast of Lake Albert.

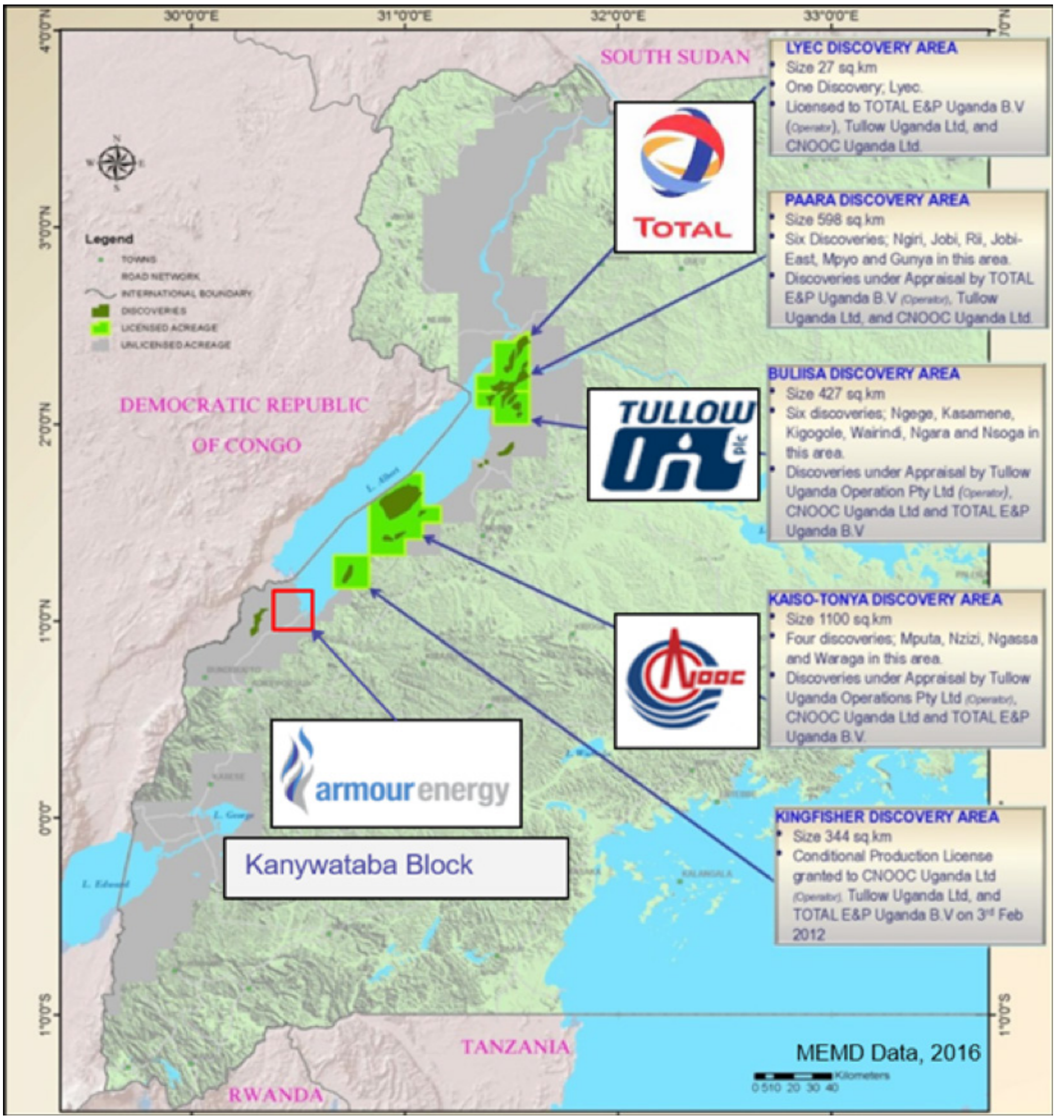


FIGURE 11
Location of the Group's Kanywataba block

REVIEW OF OPERATIONS (CONT.)

OPERATIONS REVIEW (CONT.)

UGANDA PROJECT (CONT.)

Based on the Highly Prospective Oil Columns Kanywataba Block internal report dated 13 September 2017, the Group has assessed the prospectivity of the block and estimates low, best and high unrisked prospective oil resource to range from 646 to 969 MMBBLS[4] of oil in place across 7 prospects each with potential stacked reservoirs. The Group considers the main resource risk to be potential loss of hydrocarbon charge, and on that basis considers prospects 2 and 3 to represent the most prospective targets.

Kanywataba Block	Unrisked Prospective Oil Resource Estimate (MMBLS)		
Prospect Number	Low	Best	High
Stacked 1	479	599	719
Stacked 2	86	107	128
Stacked 3	59	74	89
Stacked 4	1	2	2
Stacked 5	2	2	3
Stacked 6	13	16	19
Stacked 7	7	9	11
SUM ALL PROSPECTS	646	808	969

TABLE 7 - Unrisked prospective oil resource estimates

TABLE 7 FOOTNOTE

Competent Persons Statement: Resource estimates have been compiled from data provided by the Company's Chief Geologist, Mr Luke Titus. 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. Mr Titus has over 20 years of relevant experience in both conventional and unconventional oil and gas exploration in various international hydrocarbon basins. Mr Titus has sufficient experience that is relevant to Group reserves and resources to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules 5.11. Mr Titus consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

CAUTIONARY STATEMENT - The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

4: The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

A crude oil export pipeline is under construction from the Hoima District (centrally located in the Ugandan oil discoveries region) to the port of Tanga in Tanzania with completion targeted in 2020. Also, the Government of Uganda is negotiating the construction of a refinery to provide petroleum products for Uganda and its regional neighbours.

The exploration licence will be for a 2-year period and subject to completing the work program for that period, the licence is renewable for another 2-year period. The first period work program involves undertaking geological and geophysical works, reviewing existing data and reprocessing seismic data, and the acquisition of 100 line kilometres of 2D seismic. On completion of the work in the first period, the tenement can be renewed for a second 2-year period that involves a minimum work program of undertaking geological, geophysical and geochemical studies plus drilling one exploration well. The second period work program will require commitment to further expenditure in the event that the tenement is renewed.

The Company has agreed, subject to Government of Uganda consent, to transfer the tenement to a project specific company in which the Company will have a 16.82% interest and DGR Global, a major shareholder in the Company, shall hold the other 83.18% interest in the transferee entity. Until the time of transfer to a project specific company, or if such transfer does not occur, the Company and DGR Global have agreed that the beneficial interest in the Kanywataba Block will be split 16.82% the Company and 83.18% DGR Global.

In consideration for the beneficial interest split DGR Global has agreed to meet tenement expenditure and work program commitments for the first 2-year period of exploration and indemnify the Company for these costs. The expenditure commitments agreed to by DGR are to fund US$873,000 for a Performance Guarantee, US$442,000 to complete the grant of the lease and US$1.98m for years 1 and 2 exploration commitments.

CORPORATE ACTIVITIES

GAS ACCELERATION PROGRAM

During the year Armour Energy (Surat Basin) Pty Ltd (Armour Surat) executed an agreement with the Federal Government under the Gas Acceleration Program (GAP) for a total of $6 million. GAP provides grants to businesses to accelerate direct investment in onshore natural gas projects and provides funding on a cost-contribution basis of up to 50% of a participant's eligible drilling costs. Armour Surat was awarded a GAP grant of $6m which it expects to provide approximately 40% of its costs for the drilling, completion (including stimulation) and connection costs for its 4 well Kincora Area Development Program scheduled to be completed by June 2019.

Armour Surat received the initial GAP grant payment of $2.3 million (net of GST) in June 2018, with subsequent payments to be received over the next 12 months at the completion of project milestones. The 4 well program is designed to facilitate the delivery of an estimated 6.9 PJ of gas to market within the GAP program horizon (to 30 June 2020), with a total of 14 PJ of gas production expected over the life of the wells. This production is planned to come from the Group's existing Kincora reserves.

REVIEW OF OPERATIONS (CONT.)

CORPORATE ACTIVITIES (CONT.)

TRIBECA FACILITY

Subsequent to the year end, the Company and subsidiary, Armour Surat have entered into a credit facility agreement (Tribeca Facility Agreement) with Equity Trustees Limited (in its capacity as the trustee of the Tribeca Global Natural Resources Credit Fund) and Tribeca Global Natural Resources Credit Master Fund (together Tribeca) for the provision by Tribeca of an environmental bonding finance facility to Armour Surat (the Tribeca Facility).

Pursuant to the terms of the Tribeca Facility, Tribeca will lend up to A$6,800,000. The Tribeca Facility is secured by a guarantee from the Company, a second ranking specific security over two (2) bank accounts controlled by Westpac Banking Corporation (the Credit Accounts) in the name of Armour Surat, and a second ranking featherweight security interest over all of the present and after-acquired property of Armour Surat.

The Credit Accounts contain the funds against which Westpac Banking Corporation has issued unconditional bankers' undertakings in favour of the State of Queensland, to guarantee the environmental obligations of Armour Surat to the Department of Natural Resources and Mines (DNRM). The Tribeca Facility may be paid down through monies in the Credit Accounts as and when the banker's undertakings expire or are returned by the State of Queensland.

The Tribeca Facility will provide Armour Surat with a source of further working capital to facilitate its continued development of its Kincora Gas Project. The Tribeca Facility has a 9% per annum coupon rate payable by the Company quarterly in arrears on amounts drawn and in addition, the Company has agreed to grant to Tribeca 41,000,000 unlisted options to subscribe for ordinary shares (Options) with an exercise price of A$0.166. The Options will expire on the third anniversary of the first drawdown date under the Tribeca Facility.

As at the date of this report, a total of $6,563,932 has been drawn from the facility. The balance is expected to be drawn by early October 2018.

NON-RENOUNCEABLE ENTITLEMENTS OFFER

In August 2018 the Company announced an Accelerated Non-Renounceable Entitlements Offer to both institutional and eligible retail shareholders, on the basis of 1 new fully paid ordinary share for every 4 shares held at an issue price of $0.10 per share (New Share), to raise approximately $10.1 million (before costs of the entitlement offer). The Entitlement Offer consisted of an entitlement offer to institutional shareholders and raised approximately $2.65 million and an entitlement offer to retail shareholders, which subsequently raised approximately $3.27 million.

The Entitlement Offer was fully underwritten by Samuel Holdings Pty Ltd (as Trustee), an entity associated with the Company's Chairman Nicholas Mather. The shortfall amount of $4.21 million is in the process of being placed by the underwriter.

COMPETENT PERSONS STATEMENT

CONSENTS

The resources information in this report are based on, and fairly represent, data and supporting documentation prepared by, or under the supervision, of Dr Bruce McConachie. Dr McConachie is an Associate Principal Consultant of SRK Consulting (Australasia) Pty Ltd and has a PhD (Geology) from QUT and is a member of AusIMM, AAPG, PESA and SPE. The Resources information in this ASX announcement was issued with the prior written consent of Dr McConachie in the form and context in which it appears.

Resource reviews were 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 20 years of relevant experience in both conventional and unconventional hydrocarbon exploration & production in the US and multiple international 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.

SPE-PRMS

Society of Petroleum Engineer's Petroleum Resource Management System - Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be discovered accumulations, resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

PRMS provides guidelines for the evaluation and reporting of petroleum reserves and resources.

UNDER PRMS

"Reserves" are those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability.

"Contingent Resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies.

REVIEW OF OPERATIONS (CONT.)

COMPETENT PERSONS STATEMENT (CONT.)

UNDER PRMS (CONT.)

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

“Prospective Resources” are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both a chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

Previous reported information on the Contingent Resources in this report relate to Armour Energy’s Surat Basin PLs and ATPs is based on an independent review conducted by RISC Operations Pty Ltd (RISC) 2015 Independent Technical Specialist Report Roma Shelf dated 30 September 2015 and SRK Consulting (Australasia) Pty Ltd Myall Creek Contingent Resources Report PLs 227 and 511 (19 July 2016) and SRK Consulting (Australasia) Pty Ltd PL 71 Contingent Resources Report- Parknook, Namarah and Warroon area (19 July 2016) and Armour Energy Target Statement dated 7 October 2015 related to Armour Energy’s Surat Basin PLs and ATPs is based on the Annexure A - Independent Expert Report review conducted by BDO Corporate Finance (QLD) Ltd and fairly represents the information and supporting documentation reviewed.

All of the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. The estimates referred to in this report relating to the Kincora Project Reserves and Resources Upgrades are based on the reports listed below.

REPORTS

1. AEP021_Armour Surat Basin Reserves Update_Rev1, May 14, 2018
2. AEP022_Armour Basal Rewan Contingent Resource Estimation_Rev2, May 14, 2018
3. AEP022_Surat Prospects and Leads Resources_Main_Rev1, May 14, 2018
4. AEP022_Surat Prospects and Leads Resources_ATP754_Rev1, May 14, 2018
5. AEP022_Surat Prospects and Leads Resources_ATP1190_Rev1, May 14, 2018
6. AEP022_Surat Prospects and Leads Resources_PL71 Exploration_Rev1, May 14, 2018

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (herein referred to as the **Group**), consisting of Armour Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2018.

DIRECTORS

The names and details of the Group's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Nicholas Mather

Matthew Beach (resigned 16 May 2018)

Stephen Bizzell

Roland Sleeman

William (Bill) Stubbs

Eytan Uliel (appointed 20 November 2017)

The details of the Directors in office at the date of this report are as follows.

NICHOLAS MATHER

EXECUTIVE CHAIRMAN / *APPOINTED 18 DECEMBER 2009*

BSC (HONS, GEOL), MAUSIMM

Mr Mather's special area of experience and expertise is the generation of and entry into undervalued or unrecognised resource exploration opportunities. He has been involved in the junior resource sector at all levels for more than 25 years. In that time he has been instrumental in the delivery of major resource projects that have delivered significant gains to shareholders. As an investor, securing projects and financiers, leading exploration campaigns and managing emerging resource companies Mr Mather brings a wealth of valuable experience.

In addition to being an Executive Chairman, Mr Mather is also a member of the remuneration committee. During the past three years Mr Mather has also served as a director of the following listed companies:

- DGR Global Limited*
- Lakes Oil NL*
- Aus Tin Mining Limited*
- Dark Horse Resources Limited*
- SolGold plc, which is listed on the London Stock Exchange (LSE) and Toronto Stock Exchange (TSX)*
- IronRidge Resources Limited, which is listed on the London Stock Exchange (AIM)*

* Current directorships

WILLIAM (BILL) STUBBS

NON-EXECUTIVE DIRECTOR / *APPOINTED 18 DECEMBER 2009*

LLB

Mr Stubbs is a lawyer of 35 years' experience and is currently the Chairman of DGR Global Limited. He was the co-founder of the legal firm Stubbs Barbeler and has practiced extensively in the area of Commercial Law including Stock Exchange listings and all areas of mining law.

Mr Stubbs has held the position of Director of various public companies over the past 25 years in the mineral exploration and biotech fields. He is also the former Chairman of Alchemia Limited, and Bemax Resources NL which discovered and developed extensive mineral sands resources in the Murray Basin. He was the founding Chairman of Arrow Energy NL which originally pioneered coal seam gas development in Queensland's Bowen and Surat Basins from 1998, and is now a world-wide coal seam gas company.

Mr Stubbs is a member of the audit and risk committee, and a member of the health, safety and environment committee.

Mr Stubbs has also served as a director of the following listed and public companies:

- DGR Global Limited (Non-Executive Chairman)*
- Lakes Oil NL*

* Current directorships

ROLAND SLEEMAN

NON-EXECUTIVE DIRECTOR / *APPOINTED 11 OCTOBER 2011*

B.ENG (MECH), MBA

Mr Sleeman has 34 years' experience in oil and gas as well as utilities and infrastructure. Mr Sleeman has served in senior management roles, including with Eastern Star Gas Limited as Chief Commercial Officer and AGL as General Manager of the Goldfields Gas Pipeline.

Mr Sleeman has extensive engineering and business experience including negotiation of gas sales agreements that provided a foundation for development of the North West Shelf Project, commercialisation of new gas and power station opportunities and management of major gas transmission pipeline infrastructure. Mr Sleeman has provided specialist commercial, regulatory and project development advice to both public and private sectors.

Mr Sleeman is the chair of the remuneration committee, and the chair of the health, safety and environment committee.

Mr Sleeman has not served as a Director of any other listed company in the last three years.

DIRECTORS' REPORT (CONT.)

STEPHEN BIZZELL

NON-EXECUTIVE DIRECTOR / *APPOINTED 9 MARCH 2012*

B.COMM, MAICD

Mr Bizzell is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd.

Mr Bizzell was previously an Executive Director of Arrow Energy Limited from 1999 until its acquisition by Shell and Petro China, for $3.5 billion in August 2010. He was instrumental in Arrow Energy's corporate and commercial success and its growth form a junior explorer to a large integrated energy company. He was also a co-founder and Non-Executive Director of Bow Energy Limited until its takeover for $0.55 billion in January 2012. He has had further experience in the unconventional oil and gas sector as a Director of Dart Energy Limited, Apollo Gas Limited, and UIL Energy Limited.

Mr Bizzell qualified as a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Tax division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 20 years' corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies.

Mr Bizzell is chair of the audit and risk committee, and a member of the remuneration committee. During the past three years Mr Bizzell has also served as a Director of the following listed companies:

- Diversa Limited (resigned 6 October 2016)
- Renascor Resources Limited* (formerly Renaissance Uranium Limited)
- Stanmore Coal Limited*
- Aumake International Limited (formerly Titan Energy Services Limited - resigned 14 April 2016)
- Laneway Resources Limited* (formerly Renison Consolidated Mines NL)
- UIL Energy Limited*

* Current directorships

MATTHEW BEACH

NON-EXECUTIVE DIRECTOR / *FROM 8 JUNE 2017 TO 16 MAY 2018*

B.COMM, CA

Mr Beach is a Partner at private equity and alternative asset manager, M.H. Carnegie & Co (MHC), and was appointed as their nominee on the Armour Board. Mr Beach is a finance and investment professional with over 20 years' experience in acquiring, building and selling businesses across a range of industries, both domestically and internationally.

He was the founding CEO of Global Aviation Asset Management (GAAM), an international aircraft leasing business.

Matthew grew GAAM from a start-up to a fleet of 53 commercial aircraft, valued at $2bn, and successfully sold the portfolio to the NYSE-listed FLY Leasing Limited in October 2011. He also has experience as an Executive Director at the Liberman Family's LJCB Investment Group, one of Australia's largest family offices. He is experienced in capital markets transactions, preparing businesses for IPO, managing the underwriting of equity capital raisings and preparing bidder's statements for ASX takeovers.

Mr Beach has not served as a Director of any other listed company in the last three years.

EYTAN ULIEL

NON-EXECUTIVE DIRECTOR / *APPOINTED 20 NOVEMBER 2017*

Mr Uliel is a finance executive with extensive oil and gas industry experience. Since 2015 he has served as Commercial Director of Bahamas Petroleum plc, a UK-listed company with conventional oil exploration acreage offshore The Bahamas. From 2009 – 2014 Eytan was Chief Financial Officer and Chief Commercial Officer of Dart Energy Limited, an ASX listed company that had unconventional gas assets (coal bed methane and shale gas) in Australia, Asia and Europe, and Chief Commercial Officer of its predecessor company, Arrow International Limited, a Singapore based company that had unconventional gas assets primarily in Asia and Australia.

From 2006 – 2008 Eytan was the Asian Regional Head of the Corporate & Structured Finance Group at Babcock & Brown. Prior to that, from 1999-2006 Eytan was with Carnegie, Wylie & Company, where he was most recently Managing Director responsible for the firm's Asian activities. Eytan commenced his career as a corporate lawyer, with leading Australian law-firm Freehills.

Eytan's experience is in mergers and acquisitions, capital raisings and general corporate advisory work, with oil and gas industry-specific experience in public market takeovers and transactions, private treaty acquisitions, and farm-in / farm-out transactions. He has also previously served as Chairman and chair of the audit committee of Easycall International Limited (dual ASX- and SGX-listed), director and chair of the audit committees of Strike Energy Limited (ASX-listed) and Jasper Investments Limited (SGX-listed), an alternate director of Thakral Corporation Limited (SGX-listed), a director of CH4 Gas Limited (ASX-listed until merged with Arrow Energy Limited), and an alternate director of Neverfail Springwater Limited (ASX-listed). Eytan was also previously a director and member of the audit committee of Lonely Planet Publications Pty Ltd, and a director of various Arrow / Dart entities across Asia and Europe.

Mr Uliel is a member of the audit and risk committee.

Mr Uliel has not served as a Director of any other listed company in the last three years.

DIRECTORS' REPORT (CONT.)

KARL SCHLOBOHM / COMPANY SECRETARY

B.COMM, B.ECON, M.TAX, CA, FGIA

Mr Schlobohm is a Chartered Accountant with over 25 years' experience across a wide range of industries and businesses. He has extensive experience with financial accounting, corporate governance, company secretarial duties and board reporting. He currently acts as the Company Secretary for ASX-listed DGR Global Limited, Dark Horse Resources Limited, Aus Tin Mining Limited, LSE- and TSX-listed SolGold plc and AIM-listed (LSE) IronRidge Resources Limited.

DIRECTORS' INTERESTS

As at the date of this report, the interests of the Directors in the shares and options of Armour Energy were:

	Number of ordinary shares	Number of options over ordinary shares	Number of convertible notes
Nicholas Mather	3,647,968	1,500,000	9,813,550
William (Bill) Stubbs	413,183	750,000	-
Roland Sleeman	58,333	750,000	-
Stephen Bizzell	1,320,174	6,500,000	10,130,239
Eytan Uliel	-	-	-

CORPORATE STRUCTURE

Armour Energy Limited (**Armour**) is a company limited by shares that is incorporated and domiciled in Australia. It was converted to a public company on 14 January 2011 and became an ASX-listed company on 26 April 2012.

PRINCIPAL ACTIVITIES

The Group is focused on the discovery and production of world class oil and gas assets, as well as exploration for economically viable reserves of both conventional and unconventional natural oil and gas. The Group is currently focused on developing its valuable East Coast Australia oil and gas assets, strategically located on the Roma Shelf in the Surat Basin, Queensland. The Group's 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.

DIVIDENDS PAID OR RECOMMENDED

No dividends were declared or paid during the financial year or since the end of the year.

REVIEW AND RESULTS OF OPERATIONS

The loss after income tax for the Consolidated Entity for the year ended 30 June 2018 was $11,557,788 (2017 loss: $11,474,692). The review of operations for the year is discussed in this Annual Report under the heading Review of Operations.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Group that occurred during the financial year under review not otherwise disclosed in this report or the financial statements of the Group for the financial year.

FUTURE LIKELY DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Planned developments in the operations of the Group and the expected results of those operations, as well as the Group's corporate strategy in subsequent financial years have been discussed where appropriate in the Annual Report under the Review of Operations section.

There are no further developments of which the Directors are aware which could be expected to affect the results of the Group's operations and plans, other than information which the Directors believe comment on, or disclosure of, would prejudice the interests of the Group.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The Group is subject to significant environmental regulation in relation to its operations. The group has conducted an extensive review of the environmental status of the Surat Basin processing plant and associated exploration and production fields, used for the production of oil, gas, LPG and condensate, and has estimated the potential costs for future restoration and abandonment to be $6,688,065.

The Group has complied with the conditions of its various Environmental Licences to Operate under the Environmental Protection Act 1994, through the implementation of its Health, Safety & Environmental Management System (HSEMS) and assurance processes. During the financial year, no non-compliances were reported that has resulted in environmental harm as a result of Group Activities.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under s 237 of the *Corporations Act 2001* (Cth)[1] for leave to bring proceedings on behalf of the Group or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under s 237 of the *Corporations Act*.

1: Known herein as the *Corporations Act.*

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2018 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act* and its regulations. This information has been audited as required by s 308(3C) of the *Corporations Act*. The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group, and includes the executive team.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration policy
3. Non-Executive Director remuneration arrangements
4. Executive remuneration arrangements
5. Group performance and the link to remuneration
6. Executive contractual arrangements
7. Equity instruments disclosures
8. Debt instruments disclosures
9. Other transactions with key management personnel

(1) INDIVIDUAL KEY MANAGEMENT PERSONNEL DISCLOSURES

KEY MANAGEMENT PERSONNEL

DIRECTORS

- Nicholas Mather - Executive Chairman
- William (Bill) Stubbs - Non-Executive Director
- Roland Sleeman - Non-Executive Director
- Stephen Bizzell - Non-Executive Director
- Matthew Beach - Non-Executive Director (resigned 16 May 2018)
- Eytan Uliel - Non-Executive Director (appointed 20 November 2017)

EXECUTIVES

- Roger Cressey - Chief Executive Officer (from 12 September 2017)
- Peter Ashford - Chief Commercial Officer (to 20 July 2018)
- Karl Schlobohm - Company Secretary
- Peter Harding-Smith - Chief Financial Officer (from 14 August 2017 to 27 April 2018)
- Priy Jayasuriya - Interim Chief Financial Officer (from 1 July 2017 to 13 August 2017, and 28 April 2018 to 23 July 2018)
- Richard Aden - Chief Financial Officer (from 23 July 2018)
- Richard Fenton - General Manager - Access, Infrastructure and Planning (from 16 July 2018)
- Luke Titus - Chief Geologist (from 16 April 2012)

Other than the above, there were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

(2) REMUNERATION POLICY

The Group's remuneration policy is designed to attract, motivate and retain Executives and Non-Executive Directors by identifying and rewarding high performers and recognising the contribution of each person to the continued growth and success of the Group.

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team. The Board assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. Such officers are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Group. Further details on the remuneration of Directors and Executives are set out in this Remuneration Report.

The Group aims to reward the Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group. The Board's policy is to align Director and Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives. In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is separate and distinct.

(3) NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders. The Group's specific policy for determining the nature and amount of remuneration of Board members of the Group is as outlined below.

The Constitution of the Group provides that the Non-Executive Directors are entitled to remuneration as determined by the members in general meeting to be paid as to a fixed amount for each Director. Additionally, Non-Executive Directors are entitled to be reimbursed for properly incurred expenses. The maximum aggregate remuneration is currently set to $500,000 per annum.

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Group may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect would be to exceed the maximum aggregate amount payable to Non-Executive Directors. A Non-Executive Director is entitled to be paid travelling and other expenses properly incurred by them in attending Director's or general meetings of the Group or otherwise in connection with the business of the Group. All Directors have the opportunity to qualify for participation in the Employee Share Option Plan, subject to the approval of shareholders.

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT.)

(3) NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS (CONT.)

The rights, responsibilities and remuneration terms for each Non-Executive Director are set out in a letter of appointment, pursuant to which:

- Directors are granted the rights to access Group information, and the right to seek independent professional advice.
- Directors are provided with a Deed of Access and Indemnity.
- Directors are provided with coverage under the Group's Directors and Officers insurance policy.
- Directors are made aware of the Group's Corporate Governance policies and procedures.
- Directors are currently entitled to remuneration of $50,000 per annum, plus reasonable expenses for travel and accommodation.
- There are no fixed terms or notice periods.

The remuneration of Non-Executive Directors for the year ended 30 June 2018 is detailed in this Remuneration Report.

(4) EXECUTIVE REMUNERATION ARRANGEMENTS

The Group aims to reward the Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- link reward with the strategic goals and performance of the Group;
- align the interests of Executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

The remuneration of the Executives may from time to time be fixed by the Board. The remuneration will comprise a fixed remuneration component and also may include offering specific short and long-term incentives, in the form of:

- performance based salary increases and/or bonuses; and/or
- the issue of options.

The remuneration of the Executives employed by the Group for the year ended 30 June 2018 is detailed in this Remuneration Report.

(5) GROUP PERFORMANCE AND THE LINK TO REMUNERATION

During the financial year, the Group has generated losses as its principal activity was the discovery and production of world class oil and gas assets, as well as exploration for economically viable reserves of both conventional and unconventional natural oil and gas.

Armour Energy Limited listed on the ASX on 26 April 2012. The closing share price as at 30 June 2018 was $0.09.

	2014	2015	2016	2017	2018
Share price at year end	$0.16	$0.05	$0.06	$0.07	$0.09
Dividend declared	1,939,917	115,040	153,569	572,600	14,748,819
Profit (loss)	(1,694,418)	(6,575,074)	(18,873,927)	(11,474,692)	(12,198,333)

As the Group was previously in the exploration and development stage, the link between remuneration, Group performance and shareholder wealth was tenuous. Share prices are subject to the influence of oil and gas prices and market sentiment toward the sector, and as such increases or decreases may occur quite independent of Executive performance or remuneration. As the Group is currently in the production and development stage, the link between Group performance and shareholder wealth will be strongly linked.

(6) EXECUTIVE CONTRACTUAL ARRANGEMENTS

It is the Board's policy that employment agreements are entered into with all Executives and employees.

All Executive employment agreements have three months (or less) notice periods. Salaried Executives are entitled to their statutory entitlements of accrued annual leave and long service leave together with any superannuation on termination. No other termination payments are payable.

ROGER CRESSEY - CHIEF EXECUTIVE OFFICER (FROM 12 SEPTEMBER 2017)

The Group has an Executive Service Agreement with Mr Cressey, which took effect on 21 November 2011.

- Mr Cressey is entitled to a base remuneration of $375,000 per annum, exclusive of superannuation.
- Mr Cressey is entitled to participate in the issue of incentive options in Armour Energy Limited in accordance with the Company's Employee Share Option Scheme.
- Both the Group and Mr Cressey are entitled to terminate the contract upon giving three (3) months written notice.
- The Group is entitled to terminate the agreement immediately upon Mr Cressey's insolvency or certain acts of misconduct.
- Mr Cressey is entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, responsibilities or authority.
- Mr Cressey is entitled to a bonus at the discretion of the Board, having regard to his performance, and that of the Company. It is intended that the Board will establish a set of agreed Key Performance Indicators for the determination and measurement of future employment-related bonuses, and will also establish a suitable grant of employment related options.

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT.)

(6) EXECUTIVE CONTRACTUAL ARRANGEMENTS (CONT.)

NICHOLAS MATHER - EXECUTIVE CHAIRMAN

Mr Mather is entitled to receive Director's remuneration of $210,000 per annum from the Company for his services as an Executive Chairman. Bonus payments are at the discretion of the remuneration committee.

OTHER EXECUTIVES

Employment contracts entered into with other Executives contain the following key terms.

Event	Company policy
Performance based salary increases and/or bonuses	Board discretion
Short and long-term incentives, such as options	Board discretion
Resignation / notice period	3 months
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination, outside industrial regulation (i.e. 'golden handshakes')	None

The base remuneration, inclusive of superannuation, included in the contractual arrangements to other management personnel is set out below.

	Base remuneration including Superannuation	
Name	Salary	Maximum bonus payable
Karl Schlobohm	$50,000	-
Priy Jayasuriya*	$50,000	-
Richard Aden*	$340,000	$102,000
Richard Fenton*	$340,000	$102,000
Peter Harding-Smith*	$301,125	$90,000
Peter Ashford*	$359,708	$107,912
Luke Titus*	$260,595	$78,179

* Mr Harding-Smith ceased employment on 27 April 2018.
* Mr Ashford ceased employment on 20 July 2018.
* Mr Jayasuriya was interim CFO from 1 July 2017 to 13 August 2017, and 28 April 2018 to 23 July 2018.
* Mr Aden was appointed on 23 July 2018.
* Mr Fenton was appointed on 16 July 2018.
* Mr Titus was appointed on 16 April 2012 and recently classified a KMP.

The Group has an incentive scheme which rewards employees for contributing to the overall performance of the Group.

The underlying objective of the incentive arrangements is to:

- ensure employees understand the Group's business drivers, objectives and performance;
- strengthen the involvement and focus of employees in achieving the business' objectives; and
- improve teamwork, communication and interaction among employees.

Under the incentive scheme, the Group may at its discretion, on an annual basis, pay a bonus to permanent employees who are employed by the Group on the final day of the relevant financial year (that is, 30 June).

The maximum amount of bonus that will be paid to each employee in any year is set out in the employee's contract of employment.

The actual amount of bonus paid to each individual employee will be dependent on:

- as to 70% of the potential maximum, the individual employee's performance relative to pre-agreed key performance indicators ('KPIs'); and
- as to 30% of the potential maximum, overall corporate performance compared to predetermined corporate performance targets but subject to satisfactory personal performance.

In 2018, no bonuses were paid or granted for the financial year.

The proportion of performance-based payments paid/ payable or forfeited to key management personnel entitled thereto is as follows.

	Performance payment paid 2018	Performance payment forfeited 2018
Karl Schlobohm	-%	100%
Priy Jayasuriya	-%	100%
Richard Aden	-%	100%
Richard Fenton	-%	100%
Peter Harding-Smith	-%	100%
Peter Ashford	-%	100%
Luke Titus	-%	100%

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT.)

(6) EXECUTIVE CONTRACTUAL AGREEMENTS (CONT.)

REMUNERATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

The below table represents the remuneration for Directors and Other Key Management personnel for the period 30 June 2017 and 2018.

		Short term benefits		Post-employ ment	Share based payments		Total	% Options/ shares	% Performance related
Name	Year	Salary & fees $	Bonus $	Super-annuation $	Options $	Shares $	$		
Current Directors									
Nicholas Mather	2018	210,000#	-	-	-	-	210,000	-%	-%
	2017	210,000	-	-	97,804	-	307,804	31.80%	-%
William Stubbs	2018	50,000	-	-	-	-	50,000	-%	-%
	2017	50,000	-	-	48,902	-	98,902	49.4%	-%
Roland Sleeman	2018	50,000	-	-	-	-	50,000	-%	-%
	2017	50,000	-	-	48,902	-	98,902	49.4%	-%
Stephen Bizzell	2018	50,000	-	-	-	-	50,000	-%	-%
	2017	127,876	-	-	97,804	-	225,679	43.30%	-%
Matthew Beach*	2018	47,848	-	-	-	-	47,848	-%	-%
	2017	-	-	-	20,390	-	20,390	100%	-%
Eytan Uleil	2018	29,167	-	-	-	-	29,167	-%	-%
	2017	-	-	-	-	-	-	-%	-%
Key Management Personnel									
Robbert de Weijer*	2018	-	-	-	-	-	-	-%	-%
	2017	227,365	-	11,623	-	-	238,988	-%	-%
Roger Cressey	2018	434,847		26,245	76,519		537,611	14.2%	
	2017	330,223	-	30,435	84,756	-	445,415	19%	-%
Peter Ashford*	2018	350,396	-	32,528	41,116		424,040	9.7%	
	2017	14,469	-	4,215	-	-	18,684	-%	-%
Karl Schlobohm	2018	50,000	-	-	12,715	-	63,986	19.9%	-%
	2017	50,000	-	-	28,252	-	78,252	36.10%	-%
Priy Jayasuriya	2018	12,201	-	-	18,197	-	30,398	59.9%	-%
	2017	50,000	-	-	28,252	-	78,252	36.10%	-%
Peter Harding-Smith*	2018	200,446	-	18,589	29,133	-	248,168	11.7%	-%
	2017	-	-	-	-	-	-	-%	-%
Luke Titus	2018	237,986	-	22,609	50,972	-	311,568	16.4%	-%
	2017	237,986	-	22,609	84,756	-	345,351	24.5%	-%
Total Remuneration	2018	**1,451,176**	**-**	**77,362**	**177,679**	**35,000**	**1,741,217**		
	2017	**1,109,933**	**-**	**46,273**	**455,062**	**-**	**1,611,268**		

* Mr de Weijer resigned on 30 September 2016. Mr Beach resigned on 16 May 2018. Mr Ashford ceased employment on 20 July 2018. Mr Harding-Smith ceased employment on 27 April 2018. Mr Uliel was appointed on 20 November 2017. Mr Jayasuriya was interim CFO from 1 July 2017 to 13 August 2017, and 28 April 2018 to 23 July 2018.
# $35,000 of which was paid by the issuance of shares

No performance based-payments to Key Management Personnel were paid or granted during 2018 (2017: nil).

For the year ended 30 June 2018 no salary and fees were taken as convertible notes in lieu of cash (2017: $470,524).

(7) EQUITY INSTRUMENT DISCLOSURES

OPTIONS GRANTED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2018

Options may be issued to Directors and Executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of Directors and Executives of the Group to align comparative shareholder return and reward for Directors and Executives.

During the year ended 30 June 2018 there were 5,500,000 options granted as remuneration to Key Management Personnel (2017: 5,250,000). Details of all options on issue over unissued ordinary shares in Armour Energy Limited at 30 June 2018 to Key Management Personnel as remuneration are set out below.

	Grant date	Grant number	Exercise price	Expiry date	Vest date	Number vested	% vested	Value per option at grant date #	Exer-cised in current year	Exer-cised in prior years	Balance at 30 June 2018
R Cressey	29/03/16	900,000	$0.20	29/03/21	1/3 each anniversary	600,000	66.67%	$0.064	0	0	900,000
K Schlobohm	29/03/16	300,000	$0.20	29/03/21	1/3 each anniversary	200,000	66.67%	$0.064	0	0	300,000
P Jayasuriya	29/03/16	300,000	$0.20	29/03/21	1/3 each anniversary	200,000	66.67%	$0.064	0	0	300,000
R Cressey	29/03/16	900,000	$0.35	29/03/21	1/3 each anniversary	600,000	66.67%	$0.059	0	0	900,000
K Schlobohm	29/03/16	300,000	$0.35	29/03/21	1/3 each anniversary	200,000	66.67%	$0.059	0	0	300,000
P Jayasuriya	29/03/16	300,000	$0.35	29/03/21	1/3 each anniversary	200,000	66.67%	$0.059	0	0	300,000
R Cressey	29/03/16	900,000	$0.50	29/03/21	1/3 each anniversary	600,000	66.67%	$0.056	0	0	900,000
K Schlobohm	29/03/16	300,000	$0.50	29/03/21	1/3 each anniversary	200,000	66.67%	$0.056	0	0	300,000
P Jayasuriya	29/03/16	300,000	$0.50	29/03/21	1/3 each anniversary	200,000	66.67%	$0.056	0	0	300,000
N Mather	19/12/16	500,000	$0.22	14/12/19	19/12/16	500,000	100%	$0.066	0	0	500,000
S Bizzell	19/12/16	500,000	$0.22	14/12/19	19/12/16	500,000	100%	$0.066	0	0	500,000
B Stubbs	19/12/16	250,000	$0.22	14/12/19	19/12/16	250,000	100%	$0.066	0	0	250,000
R Sleeman	19/12/16	250,000	$0.22	14/12/19	19/12/16	250,000	100%	$0.066	0	0	250,000
N Mather	19/12/16	500,000	$0.27	14/12/19	19/12/16	500,000	100%	$0.65	0	0	500,000
S Bizzell	19/12/16	500,000	$0.27	14/12/19	19/12/16	500,000	100%	$0.65	0	0	500,000
B Stubbs	19/12/16	250,000	$0.27	14/12/19	19/12/16	250,000	100%	$0.65	0	0	250,000
R Sleeman	19/12/16	250,000	$0.27	14/12/19	19/12/16	250,000	100%	$0.65	0	0	250,000
N Mather	19/12/16	500,000	$0.32	14/12/19	19/12/16	500,000	100%	$0.64	0	0	500,000
S Bizzell	19/12/16	500,000	$0.32	14/12/19	19/12/16	500,000	100%	$0.64	0	0	500,000
B Stubbs	19/12/16	250,000	$0.32	14/12/19	19/12/16	250,000	100%	$0.64	0	0	250,000
R Sleeman	19/12/16	250,000	$0.32	14/12/19	19/12/16	250,000	100%	$0.64	0	0	250,000
M Beach	31/05/17	250,000	$0.22	14/12/19	31/05/17	250,000	100%	$0.22	0	0	250,000
M Beach	31/05/17	250,000	$0.27	14/12/19	31/05/17	250,000	100%	$0.27	0	0	250,000
M Beach	31/05/17	250,000	$0.32	14/12/19	31/05/17	250,000	100%	$0.32	0	0	250,000
R Cressey	31/07/17	466,666	$0.22	14/12/19	31/07/17	466,666	100%	$0.31	0	0	466,666
P Ashford	31/07/17	500,000	$0.22	14/12/19	31/07/17	500,000	100%	$0.31	0	0	500,000
P Jayasuriya	31/07/17	66,666	$0.22	14/12/19	31/07/17	66,666	100%	$0.31	0	0	66,666
L Titus	31/07/17	300,000	$0.22	14/12/19	31/07/17	300,000	100%	$0.31	0	0	300,000
R Cressey	31/07/17	466,667	$0.27	14/12/19	31/07/17	466,667	100%	$0.27	0	0	466,667
P Ashford	31/07/17	500,000	$0.27	14/12/19	31/07/17	500,000	100%	$0.27	0	0	500,000
P Jayasuriya	31/07/17	66,667	$0.27	14/12/19	31/07/17	66,667	100%	$0.27	0	0	66,667
L Titus	31/07/17	300,000	$0.27	14/12/19	31/07/17	300,000	100%	$0.27	0	0	300,000
R Cressey	31/07/17	466,667	$0.32	14/12/19	31/07/17	466,667	100%	$0.25	0	0	466,667
P Ashford	31/07/17	500,000	$0.32	14/12/19	31/07/17	500,000	100%	$0.25	0	0	500,000
P Jayasuriya	31/07/17	66,667	$0.32	14/12/19	31/07/17	66,667	100%	$0.25	0	0	66,667
L Titus	31/07/17	300,000	$0.32	14/12/19	31/07/17	300,000	100%	$0.25	0	0	300,000
P Harding-Smith	08/01/18	500,000	$0.22	14/12/19	08/01/18	500,000	100%	$0.23	0	0	500,000
P Harding-Smith	08/01/18	500,000	$0.27	14/12/19	08/01/18	500,000	100%	$0.19	0	0	500,000
P Harding-Smith	08/01/18	500,000	$0.32	14/12/19	08/01/18	500,000	100%	$0.16	0	0	500,000

Value per option at grant date is calculated using the Black-Scholes option pricing model, which takes into account factors such as the option exercise price, the share price at the date of issue and volatility of the underlying share price and the time to maturity of the option (refer note 22(d)).

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT.)

(7) EQUITY INSTRUMENT DISCLOSURES (CONT.)

PERFORMANCE SHARES

There are nil performance shares on issue over unissued ordinary shares in Armour Energy Limited as at 30 June 2018 (2017: nil).

SHARES ISSUED ON EXERCISE OF REMUNERATION OPTIONS

There were nil options exercised during the year that were previously granted as remuneration (2017 nil).

SHAREHOLDINGS

Details of all ordinary shares in Armour Energy Limited at 30 June 2018 held by Key Management Personnel is set out below.

	Balance 1 July 2017	Granted as compensation	Options Exercised	Net change other#	Balance 30 June 2018
Directors					
Nicholas Mather	3,126,831	-	-	521,137	3,647,968
William Stubbs	354,158	-	-	59,025	413,183
Roland Sleeman	60,000	-	-	(1,667)	58,333
Stephen Bizzell	1,131,578	-	-	188,596	1,320,174
Matthew Beach	-	-	-	-	-
Eytan Uliel	-	-	-	-	-
Other Key Management Personnel					
Roger Cressey	1,453,753	-	-	242,291	1,696,044
Peter Ashford	-	-	-	-	-
Karl Schlobohm	208,365	-	-	140,922	349,287
Priy Jayasuriya	72,377	-	-	12,062	84,439
Peter Harding-Smith	-	-	-	-	-
Luke Titus	-	-	-	-	-
Total	**6,407,062**	**-**	**-**	**1,162,366**	**7,569,428**

"Net change other" above includes the balance of shares held on appointment / resignation, shares issued in lieu of authorised bonuses, and shares acquired or sold for cash on similar terms and conditions to other shareholders.

There were no shares held nominally at 30 June 2018.

OPTION HOLDINGS

	Balance 1 July 2017	Granted as remuneration	Options exercised	Net change other#	Balance 30 June 2018	Total vested	Total vested and exercisable	Total vested and un-exercisable
Directors								
Nicholas Mather	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000	-
William Stubbs	750,000	-	-	-	750,000	750,000	750,000	-
Roland Sleeman	750,000	-	-	-	750,000	750,000	750,000	-
Stephen Bizzell	6,500,000	-	-	-	6,500,000	6,500,000	6,500,000	-
Matthew Beach	750,000	-	-	-	750,000	750,000	750,000	-
Eytan Uliel	-	-	-	-	-	-	-	-
Other Key Management Personnel								
Roger Cressey	2,900,000	1,400,000	-	(200,000)	4,100,000	4,100,000	4,100,000	-
Peter Ashford	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
Karl Schlobohm	950,000	-	-	(50,000)	900,000	900,000	900,000	-
Priy Jayasuriya	950,000	200,000	-	(50,000)	1,100,000	1.100,000	1,100,000	-
Peter Harding-Smith*	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
Luke Titus	2,900,000	900,000	-	(1,100,000)	2,700,000	2,700,000	2,700,000	-
Total	17,950,000	5,500,000	-	(1,400,000)	22,050,000	20,950,000	22,050,000	-

"Net change other" above includes the balance of options held on appointment / resignation, options acquired or sold for cash on similar terms and conditions to other shareholders, and options that have expired unexercised.
* The options held by Mr Harding-Smith are valid for 90 days following the termination date of 27 April 2018.

There were no share options held nominally at 30 June 2018 (2017: nil)

(8) DEBT INSTRUMENT DISCLOSURES

CONVERTIBLE NOTES ISSUED FOR THE YEAR ENDED 30 JUNE 2018

	Balance 1 July 2017	Granted as compensation	Converted into shares	Net change other#	Balance 30 June 2018
Directors					
Nicholas Mather	9,287,049	-	-	526,501	9,813,550
William Stubbs	-	-	-	-	-
Roland Sleeman	-	-	-	-	-
Stephen Bizzell	9,425,280	-	-	704,959	10,130,239
Matthew Beach	-	-	-	-	-
Eytan Uliel	-	-	-	-	-
Other Key Management Personnel					
Roger Cressey	2,414,332	-	-	180,579	2,594,911
Peter Ashford	-	-	-	-	-
Karl Schlobohm	588,905	-	-	44,046	632,951
Priy Jayasuriya	490,754	-	-	36,706	527,460
Peter Harding-Smith	-	-	-	-	-
Luke Titus	-	-	-	-	-
Total	**22,206,320**	**-**	**-**	**1,492,791**	**23,699,111**

"Net change other" above includes the balance of convertible notes acquired for cash on the same terms and conditions to other note holders, and capitalised interest.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT.)

(9) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Mr Stephen Bizzell (a Director), is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. The Group entered into an agreement with Bizzell Capital Partners Pty Ltd as Lead Manager for the capital raising program detailed in an ASX announcement on 16 December 2016. Under the agreement, a management fee was payable of one (1) percent of the funds raised under the offer, a placement fee of five (5) percent of all new shares issued, an underwriting fee of five (5) percent of the value of shares underwritten in the entitlement offer, and an option fee of five (5) million options were issued.

No management fee, underwriting fee or placement fee was payable with respect to amounts subscribed by DGR Global Limited or amounts sub-underwritten by DGR Global Limited under the entitlement offer and Bizzell Capital Partners was responsible for selling fees, stamping fees and sub-underwriting fees it had to pay out of the fees to other brokers or to sub-underwriters of the offers. The gross fees paid under this agreement for the year ended 30 June 2018 was $704,100 (2017: $838,410).

In the year ended 30 June 2017, the Group also paid Bizzell Capital Partners a corporate advisory fee of $77,875 for his involvement in the 2015 and 2016 events of the takeover offer by Westside Corporation, the proportional takeover offer by American Energy Partners, the farm-out agreement with American Energy Partners, and the DGR Finance Facility. No amounts were payable in the year ended 30 June 2018.

Bizzell Capital Partners held 5,000,000 underwriting options as at 30 June 2018, as well as 10,130,239 convertible notes, purchased on the same terms and conditions as all other noteholders.

Mr Matthew Beach, a former director of Armour Energy, provided services to MHC via a contracting agreement with part of his remuneration based on the performance of MHC Fund Services 2A Pty Ltd as trustee for Carnegie Private Opportunities Fund No. 2A (**CPOF2**) and profitability of MHC. MHC Fund Services 2A Pty Ltd currently owns 125,807,782 Convertible Notes, totalling $13,838,856 in Armour Energy but has no current shareholding in Armour Energy. MHC is the manager of CPOF2 and holds 2,000,000 unlisted options in Armour Energy Limited.

Other than the above, there were no other transactions with Key Management Personnel for the year ended 30 June 2018.

END OF REMUNERATION REPORT (AUDITED).

DIRECTORS' MEETINGS

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows.

	Board		Audit & Risk Management Committee		Remuneration & Nomination Committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Nicholas Mather	9	8	-	-	-	-
Stephen Bizzell	9	9	2	2	1	-
Roland Sleeman	9	8	-	-	1	1
Bill Stubbs	9	8	2	2	1	1
Matthew Beach	8	7	2	2	-	-
Eytan Uliel	5	5	-	-	-	-

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR

Each of the Directors, the Chief Executive Officer and Secretary of the Group has entered into a Deed with the Group whereby the Group has provided certain contractual rights of access to books and records of the Group to those Directors. The Group has insured all of the Directors. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The *Corporations Act* does not require disclosure of the information in these circumstances. The Group has not indemnified or insured its auditor.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

ENVIRONMENTAL BONDING FUNDING FACILITY

As announced on 26 July 2018, Armour Energy (Surat Basin) Pty Ltd (the **Company**) has entered into a credit facility agreement (**Tribeca Facility Agreement**) with Tribeca Investment Partners Pty Ltd, Equity Trustees Limited (in its capacity as the trustee of the Tribeca Global Natural Resources Credit Fund) and Tribeca Global Natural Resources Credit Master Fund (**Tribeca**) for the provision by Tribeca of an environmental bonding finance facility to Armour Surat (the **Tribeca Facility**).

Pursuant to the terms of the Tribeca Facility, Tribeca will lend up to A$6,800,000 on a second ranking secured basis to the Company. The Tribeca Facility has a 9% per annum coupon rate payable by the Company quarterly in arrears on amounts drawn and in addition, the Company has agreed to grant to Tribeca 41,000,000 unlisted options to subscribe for ordinary shares (**Options**) with an exercise price of A$0.166. The Options will expire on the third anniversary of the first drawdown date under the Tribeca Facility.

DIRECTORS' REPORT

ENTITLEMENT OFFER

On 8 August 2018 the Company announced an Accelerated Non-Renounceable Entitlements Offer to both institutional and eligible retail shareholders, on the basis of 1 new fully paid ordinary share for every 4 shares held at an issue price of $0.10 per share (**New Share**), to raise approximately $10.1 million (before costs of the entitlement offer).

The Entitlement offer consisted of an entitlement offer to institutional shareholders and raised approximately $2.65 million and an entitlement offer to retail shareholders, which subsequently raised approximately $3.27 million. Approximately 101,293,985 New Shares were offered under the Entitlement Offer.

The entitlement offer was fully underwritten by Samuel Holdings Pty Ltd (as Trustee), an entity associated with the Company's Chairman Nicholas Mather. The shortfall amount of $4.21 million is in the process of being placed by the underwriter.

FURTHER ROMA SHELF PETROLEUM ACREAGE

The Group has been formally awarded the Authority to Prospect No. 2032 (**ATP2032**) on the Roma Shelf, in the Surat Basin as detailed in Company's announcement on 12 September 2018. The Group has been notified by the Queensland Department of Natural Resources and Mines that it now holds 100% of ATP2032 which is located immediately to the north of Group owned PL22 and within close proximity to the Kincora Gas Plant.

The Authority to Prospect (**ATP**) covers 318 square kilometres or 105 sub-blocks over the prospective Roma Shelf. The ATP was awarded with the condition that gas produced will be for supply to the Australian domestic market only, which aligns with the Group's current production from the Kincora Gas Plant in to the Roma to Brisbane Gas Pipeline.

ATP 2032 is immediately adjacent to the Group's existing production licences and associated infrastructure, meaning that any commercial discovery within the tenure could be readily connected to the Kincora Gas Plant and thus to into Queensland's domestic market.

On 26 September 2018, the Company announced that it was awarded two additional exploration blocks and is the preferred tenderer on Petroleum Land Release Areas PLR201718-2-6 and PLR201718-2-7. Both areas are considered to be prospective for gas and liquids, and in close proximity to the existing gas infrastructure associated with the Kincora Gas Plant.

Apart from the above, the Directors are not aware of any other significant changes in the state of affairs of the Group after the balance date that are not covered in this report.

NON-AUDIT SERVICES

Non-audit services by the Group's auditor BDO Audit Pty Ltd are compatible with the general standards of independence for auditors imposed by the *Corporations Act*. Non-audit services were provided in relation to the acquisition of Surat Basin assets. For the year ended 30 June 2018 $10,000 was paid or payable (2017: $15,028). The Directors are satisfied that the provision of non-audit services did not compromise the auditor independence requirements of the *Corporations Act*.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Group support and have adhered to the principles of corporate governance. The Group's corporate governance statement has been released as a separate document and is located on our website at

www.armourenergy.com.au

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 53.

OPTIONS

At the date of this report, the unissued ordinary shares of Armour Energy Limited under option are as follows.

Grant date	Date of Expiry	Exercise price	Number under option
29 March 2016	29 March 2021	$0.20	3,150,000
29 March 2016	29 March 2021	$0.35	3,150,000
29 March 2016	29 March 2021	$0.50	2,250,000
19 December 2016	14 December 2019	$0.22	1,500,000
19 December 2016	14 December 2019	$0.27	1,500,000
19 December 2016	14 December 2019	$0.32	1,500,000
19 December 2016	30 August 2018	$0.20	5,000,000
1 June 2017	29 May 2020	$0.22	666,666
1 June 2017	29 May 2020	$0.27	666,667
1 June 2017	29 May 2020	$0.32	666,667
31 May 2017	14 December 2019	$0.22	250,000
31 May 2017	14 December 2019	$0.27	250,000
31 May 2017	14 December 2019	$0.32	250,000
31 July 2017	14 December 2019	$0.22	2,524,998
31 July 2017	14 December 2019	$0.27	2,525,001
31 July 2017	14 December 2019	$0.32	2,525,001
8 January 2018	14 December 2019	$0.22	500,000
8 January 2018	14 December 2019	$0.27	500,000
8 January 2018	14 December 2019	$0.32	500,000

Option holders do not have any rights under the options to participate in any share issue of Armour Energy Limited or any other entity. There were no options exercised up to the date of this report.

DIRECTORS' REPORT (CONT.)

Signed in accordance with a resolution of Directors:

NICHOLAS MATHER
EXECUTIVE CHAIRMAN
BRISBANE, 28 SEPTEMBER 2018

AUDITOR'S INDEPENDENCE DECLARATION

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

Level 10, 12 Creek Street
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 of Armour Energy Limited for the year ended 30 June 2018, 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* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

T J KENDALL

DIRECTOR
BDO AUDIT PTY LTD
BRISBANE, 28 SEPTEMBER 2018

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $	2017 $
Sale of Goods	2	14,748,819	618,276
Cost of Goods Sold		(10,773,299)	(165,414)
Gross profit		**3,975,520**	**452,862**
Other revenue	2	22,849	12,941
Other income	2	162,135	106,797
General and administrative expenses		(4,671,721)	(4,314,448)
Exploration expenditure written off		(4,107)	(1,032,946)
Finance costs	4	(8,927,249)	(3,501,195)
Other expenses		(355,281)	(988,461)
Pre-production costs		(2,316,136)	(2,210,242)
Loss before income tax	4	**(12,113,990)**	**(11,474,692)**
Income tax (expense)/ benefit	5	556,202	-
Loss for the year attributable to owners of Armour Energy Ltd		**(11,557,788)**	**(11,474,692)**
Other comprehensive income			
Item that may be reclassified to profit or loss			
Change in fair value of financial assets at fair value through Other Comprehensive Income	13	2,125,000	-
Income tax on items that may be reclassified to profit or loss		(637,500)	-
Other comprehensive income for the year, net of tax		**1,487,500**	**-**
Total comprehensive income for the year attributable to owners of Armour Energy Ltd		**(10,070,288)**	**(11,474,692)**

		Cents	Cents
Basic earnings per share	8	(3.2)	(3.5)
Diluted earnings per share	8	(3.2)	(3.5)

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 AS AT 30 JUNE 2018

	Notes	2018 $	2017 $
Current assets			
Cash and cash equivalents	9	5,104,627	7,711,840
Trade and other receivables	10	2,385,069	395,737
Inventories	11	1,388,333	961,300
Other current assets	12	159,594	405,915
Total current assets		**9,037,623**	**9,474,792**
Non-current assets			
Other financial assets	13	12,560,501	9,969,788
Exploration and evaluation	15	48,903,126	48,596,996
Property, plant and equipment	14	32,466	22,468
Oil and gas assets	16	30,987,611	23,670,848
Total non-current assets		**92,483,704**	**82,260,100**
Total assets		**101,521,327**	**91,734,892**
Current liabilities			
Trade and other payables	17	7,621,297	3,476,008
Interest Bearing Liabilities	18	69,355	2,057,799
Convertible notes	18	1,543,466	829,716
Provisions	19	1,130,249	66,569
Other current liabilities	20	178,806	442,558
Total current liabilities		**10,543,173**	**6,872,650**
Non-current liabilities			
Convertible notes	18	37,511,879	26,388,489
Interest Bearing Liabilities	18	67,167	-
Provisions	19	8,553,277	9,422,738
Total non-current liabilities		**46,132,323**	**35,811,227**
Total liabilities		**56,675,496**	**42,683,877**
Net assets		**44,845,831**	**49,051,015**
Equity			
Issued capital	21	96,367,882	91,301,423
Reserves	23	7,474,762	5,188,617
Retained earnings/ (accumulated losses)		(58,996,813)	(47,439,025)
Total equity attributable to owners of Armour Energy Ltd		**44,845,831**	**49,051,015**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

FINANCIAL REPORT (CONT.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Issued Capital	Retained earnings	Fin. Assets Revaluation Reserve	Convertible Note Reserve	Performance Shares Reserve	Performance Rights Reserve	Option Reserve	Total equity
Balance at 1 July 2016	**87,435,000**	**(35,964,333)**	**(4,297,300)**	**-**	**125,000**	**125,000**	**3,408,826**	**50,832,193**
Loss for the year	-	(11,474,692)	-	-	-	-	-	(11,474,692)
Total comprehensive income for the year	**-**	**(11,474,692)**	**-**	**-**	**-**	**-**	**-**	**(11,474,692)**
Value of conversion rights - convertible notes, net of issue costs	-	-	-	4,944,695	-	-	-	4,944,695
Share based payments	-	-	-	-	-	-	882,396	882,396
Shares issued during the year	1,000,002	-	-	-	-	-	-	1,000,002
Share issue costs	(182,690)	-	-	-	-	-	-	(182,690)
Litigation settlement shares sold	3,049,111	-	-	-	-	-	-	3,049,111
Balance at 30 June 2017	**91,301,423**	**(47,439,025)**	**(4,297,300)**	**4,944,695**	**125,000**	**125,000**	**4,291,222**	**49,051,015**
Loss for the year	-	(11,557,788)	-	-	-	-	-	(11,557,788)
Other comprehensive income	-	-	1,487,500	-	-	-	-	1,487,500
Total comprehensive income for the year	**-**	**(11,557,788)**	**1,487,500**	**-**	**-**	**-**	**-**	**(10,070,288)**
Value of conversion rights - convertible notes, net of issue costs	-	-	-	457,627	-	-	-	457,627
Share based payments	-	-	-	-	-	-	341,018	341,018
Shares issued during the year	5,256,156	-	-	-	-	-	-	5,256,156
Share issue costs	(270,995)	-	-	-	-	-	-	(270,995)
Recognition of deferred tax assets relating to share issue costs	81,298	-	-	-	-	-	-	81,298
Balance at 30 June 2018	**96,367,882**	**(58,996,813)**	**(2,809,800)**	**5,402,322**	**125,000**	**125,000**	**4,632,240**	**44,845,831**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		13,711,037	569,350
Payments to suppliers and employees		(6,126,900)	(8,219,954)
Payments for production		(8,035,624)	(165,414)
Interest received		170,623	106,670
Other income		22,849	13,068
Net cash (outflow) from operating activities	**1**	**(258,015)**	**(7,696,280)**
Cash flows from investing activities			
Payments for property, plant and equipment		(18,759)	(1,851)
Reduction in security deposits		-	72,820
Investments in security deposits		(441,511)	(75,000)
Payments for exploration and evaluation assets		(433,609)	(663,531)
Payments for Oil and gas assets		(11,909,298)	(6,050,375)
Research and Development funds in relation to oil and gas assets		1,958,526	457,516
Research and Development funds in relation to exploration assets		26,592	67,363
Grant funds received in relation to Oil and gas assets		2,551,555	-
Net cash (outflow) from investing activities		**(8,266,504)**	**(6,193,058)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		3,752,307	4,067,383
Proceeds from borrowings	2	6,870,000	21,882,416
Transaction costs on the issue of shares and notes		(685,409)	(1,220,799)
Repayment of borrowings	2	(4,019,592)	(3,311,223)
Net cash inflow from financing activities		**5,917,306**	**21,417,777**
Net (decrease) increase in cash and cash equivalents		(2,607,213)	7,528,439
Cash and cash equivalents at the beginning of the financial year		7,711,840	183,401
Cash and cash equivalents at end of year	**9**	**5,104,627**	**7,711,840**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

FINANCIAL REPORT (CONT.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for Armour Energy Limited (the **Company**) and its controlled entities (collectively known as the **Group**).

CORPORATE INFORMATION

The financial report of the Group for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 28 September 2018.

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

The nature of the operations and principal activities of the Group are described in the **Directors' Report**.

BASIS OF PREPARATION

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act*. The Group is a for-profit consolidated entity for financial reporting purposes under Australian Accounting Standards.

The financial report is presented in Australian dollars ($).

COMPLIANCE WITH IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (**AIFRS**). Compliance with AIFRS ensures that the financial statements and notes of Armour Energy Limited comply with International Financial Reporting Standards (**IFRS**) and interpretations.

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 year ended 30 June 2018 the Group generated a consolidated loss of $11,557,788 and incurred operating cash outflows of $258,015. As at 30 June 2018 the Group had cash and cash equivalents of $5,104,627, net current liabilities of $1,505,550, and net assets of $44,845,831.

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. reducing its level of capital expenditure through farm-outs and/or joint ventures;
3. reducing its working capital expenditure;
4. applying for eligible Research and Development tax refund receipts, and other grant funding;
5. generating cash flows from Oil and Gas assets; and
6. 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.

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. On 26 July 2018, Armour (Surat Basin) Pty Ltd (Armour Surat) secured an Environmental Bonding Funding Facility with Tribeca Investment Partners Pty Ltd, for the provision of an environmental bonding finance facility to Armour Surat (the Tribeca Facility) to a limit of A$6,800,000. As at the date of this report, the facility is drawn down to A$6,563,932.
2. On 8 August 2018, the Company announced an accelerated non-renounceable entitlement offer, on the basis of 1 new fully paid ordinary share for every 4 shares held which will raise approximately $10.1 million (before costs) which will primarily be used, together with operational cash flows, to support the drilling of the Group's 2018/19 Kincora area development well program, commencing with Myall Creek Well 4A, the progress of which has previously announced to the ASX. Approximately $5.9 million has been raised from existing shareholders under the entitlement offer at the date of this report, with the shortfall of approximately $4.2 million currently being placed by the underwriter.
3. The Company has access (subject to continuing to meet grant conditions) to up to a further approximately $3.7 million of funding towards its production drilling activities under the federal government's Gas Acceleration Program (GAP) grant scheme. The Company has entered into a grant funding agreement with the federal government for up to $6 million. To date approximately $2.3 million has been received.
4. The Company has access to raising up to a further $6.4 million pursuant to its previously approved convertible notes facility.
5. Going forward, the Group expects to generate operating cashflow surpluses from its oil and gas production activities.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amount and classification of liabilities that might be required should the Group not be able to achieve the matters set out above and thus be able to continue as a going concern.

FINANCIAL REPORT (CONT.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

BASIS OF PREPARATION (CONT.)

REPORTING BASIS AND CONVENTIONS

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report.

ACCOUNTING POLICIES

(A) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2017:

Reference	Title	Application date of standard	Application date for the Group
AASB 15	Revenue from Contracts with Customers	1 January 2018	1 July 2017
AASB 9	Financial instruments	1 January 2018	1 July 2013
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1 January 2018	1 July 2017
AASB 2016-3	Amendments to Australian Accounting Standards - Clarifications to AASB 15	1 January 2018	1 July 2017
AASB 2016-1	Amendments to Australian Accounting Standards - Recognition of Deferred Tax for Unrealised Losses	1 January 2017	1 July 2017
AASB 2016-2	Amendments to Australian Accounting Standards - Disclosure Initiatives: Amendments to AASB 107	1 January 2017	1 July 2017
AASB 2017-2	Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle	1 January 2017	1 July 2017

AASB 15 Revenue from Contracts with Customers was early adopted by the Group from 1 July 2017, to provide reporting consistency to the gas production revenues that commenced during the financial year, and are disclosed throughout this financial report. Given the Group previously had limited revenue, the impact of the early adoption has been insignificant.

The adoption of the remaining standards and interpretations in the above table did not have any material impact on the current or any prior period and is not likely to materially affect future periods.

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2018. On evaluating these standards and interpretations, management do not expect a material impact upon the financial statements on their adoption.

The Group anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

Information of new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

Reference	Title	Application date of standard	Application date for the Group
AASB 16	Leases	1 January 2019	1 July 2019
AASB 2016-5	Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions	1 January 2018	1 July 2018
AASB 2016-6	Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018	1 July 2018
AASB 2017-1	Amendments to Australian Accounting Standards - Transfers of Investment Property. Annual improvements 2014-2016 Cycle and Other Amendments	1 January 2018	1 July 2018
AASB 2017-3	Amendments to Australian Accounting Standards - Clarifications to AASB 4	1 January 2018	1 July 2018
AASB 2017-6	Amendments to Australian Accounting Standards - Prepayment Features with Negative Compensation	1 January 2019	1 July 2019
AASB 2017-7	Amendments to Australian Accounting Standards - Long-term Interests in Associates and Joint Ventures	1 January 2019	1 July 2019
AASB 2018-1	Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle	1 January 2019	1 July 2019
AASB 2018-2	Amendments to Australian Accounting Standards - Plan Amendment, Curtailment or Settlement	1 January 2019	1 July 2019
AASB 17	Insurance Contracts	1 January 2021	1 July 2021

(B) BASIS OF CONSOLIDATION

SUBSIDIARIES

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

FINANCIAL REPORT (CONT.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

ACCOUNTING POLICIES (CONT.)

(B) BASIS OF CONSOLIDATION (CONT.)

SUBSIDIARIES (CONT.)

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in the profit or loss.

(C) FOREIGN CURRENCIES

The consolidated financial statements are presented in Australian dollars, which is also the Group's functional currency and the Group's presentation currency. The Group does not have any foreign operations.

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss and other comprehensive income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 9 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured.

(D) BUSINESS COMBINATIONS

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 9 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured.

(E) OPERATING SEGMENTS

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This may include start-up operations which are yet to earn revenues.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(F) CASH AND CASH EQUIVALENTS

For the consolidated Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

FINANCIAL REPORT (CONT.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

ACCOUNTING POLICIES (CONT.)

(G) TRADE AND OTHER RECEIVABLES

Receivables generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(H) INVENTORIES AND CONSUMABLES

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour, and an appropriate proportion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

The cost of Oil and Gas inventory includes direct materials, direct labour, transportation costs and variable and fixed overhead costs related to production activities.

Consumables comprise drilling and production consumables that are valued at cost on a first in first out basis.

(I) FINANCIAL INSTRUMENTS

CLASSIFICATION

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flow. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

MEASUREMENT

FINANCIAL ASSETS

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(III) DEBT INSTRUMENTS

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group's debt instruments are classified as Amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(IV) EQUITY INSTRUMENTS

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

(V) IMPAIRMENT

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

FINANCIAL LIABILITIES

All financial liabilities are carried at amortised cost due to the following:

- the financial liabilities are not held for trading and therefore not required to be measured at FVTPL; and
- the entity has not elected to measure the financial liability at FVTPL.

Financial liabilities carried at amortised cost are initially measured at fair value including transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. The Group's convertible notes have been treated as non-derivative financial liability carried at amortised cost. On initial recognition of the convertible note, the liability and equity components are identified and separately measured.

FINANCIAL REPORT (CONT.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

ACCOUNTING POLICIES (CONT.)

(I) FINANCIAL INSTRUMENTS (CONT.)

MEASUREMENT (CONT.)

FINANCIAL LIABILITIES (CONT.)

The fair value of the liability component of the convertible notes is deducted from the fair value of the instrument as a whole, and the residual amount is recognised as an equity conversion right and not subsequent remeasured. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the notes.

Details on how the fair value of financial instruments is determined are disclosed in note 5.

(J) PROPERTY, PLANT AND EQUIPMENT AND OIL AND GAS ASSETS

Property, plant & equipment, and oil and gas assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant & equipment constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate portion of fixed and variable costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial year in which they are incurred.

DEPRECIATION

The depreciable amount of all property, plant & equipment, and oil and gas assets is depreciated over their useful life to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of assets are set out below.

Class of property, plant & equipment	Depreciation
Motor vehicles	20% straight line
Office equipment	20%-33.3% straight line
Plant and equipment	20% straight line
Oil and gas assets	3.33%-33.33% diminishing value

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

DERECOGNITION

Items of property, plant and equipment, and oil and gas assets are derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(K) EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

A provision is raised against exploration and evaluation expenditure where the Directors are of the opinion that the carried forward net cost may not be recoverable or the right of tenure in the area lapses. The increase in the provision is charged against the results for the year. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Costs of site restoration are provided over the life of the area from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that restoration will be completed within one year of abandoning the site. As the Group is in early stage exploration and site disturbance is minimal, no provision has been recorded.

FINANCIAL REPORT (CONT.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

ACCOUNTING POLICIES (CONT.)

(L) IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(M) TRADE AND OTHER PAYABLES

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition.

(N) PROVISIONS AND EMPLOYEE BENEFITS

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Provisions for rehabilitation and abandonment of Oil and Gas assets are measured at the cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of rehabilitation activities includes the removal of facilities, abandonment of wells and restoration of affected areas.Typically, the obligation arises when the asset is installed at the production location.

(N) PROVISIONS AND EMPLOYEE BENEFITS

EMPLOYEE BENEFITS

(I) WAGES, SALARIES AND ANNUAL LEAVE

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(II) OTHER LONG-TERM EMPLOYEE BENEFITS

The liability for long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wages and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows

(III) DEFINED CONTRIBUTION SUPERANNUATION EXPENSE

Contributions to defined contribution superannuation plans are expensed in the period in which they were incurred.

(O) LEASES

Leases of property, plant & equipment where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the year.

Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

(P) SHARE CAPITAL

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

FINANCIAL REPORT (CONT.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

ACCOUNTING POLICIES (CONT.)

(Q) SHARE BASED PAYMENTS

The Group may provide benefits to Directors, employees or consultants in the form of share-based payment transactions, whereby services may be undertaken in exchange for shares or options over shares ("equity-settled transactions").

The fair value of shares and options granted to Directors, employees and consultants is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the recipients become unconditionally entitled to the instruments. For options, fair value is determined using a Black-Scholes option pricing model.

(R) FAIR VALUE MEASUREMENT

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(S) REVENUE

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. Revenue is recognised at an amount that reflects the consideration that the consolidated entity is expected to be entitled to in exchange for transferring goods or services to a customer, using a five-step model for each revenue stream.

Revenue recognition with respect to the group's specific business activities are as follows:

SALE OF GOODS

The Group satisfies its performance obligation at the point in time when control of oil and gas products has transferred to the customer. Specifically:

- for oil and LPG sales this is when the products are collected by truck at the production site; and
- for gas sales this is at the point of the custody meter transfer at Run 2 of the Roma to Brisbane Pipeline (RBP).

INTEREST

Interest revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

(T) INCOME TAX

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

FINANCIAL REPORT (CONT.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

ACCOUNTING POLICIES (CONT.)

(T) INCOME TAX (CONT.)

Deferred tax is calculated at the tax rates expected to apply to the period when the asset is realised or liability is settled based on tax rates (and laws) that have been enacted or substantially enacted by the reporting date.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences and unused tax losses can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Current and deferred tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(U) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(V) EARNINGS PER SHARE

Basic earnings per share is calculated as net profit (loss) attributable to owners of the Armour Energy Limited, adjusted to exclude any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the year, adjusted for any bonus element.

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:

- the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(W) BORROWING COSTS

Borrowing costs are interest and other costs incurred in connection with borrowing funds. Borrowing costs that are directly attributable to the acquisition of an asset or liability are capitalised as part of the cost base of the asset or liability. All other borrowing costs are expensed in the period in which they are incurred.

(X) COMPARATIVES

For the year ended 30 June 2018, the Group reclassified expenditure relating to the Kincora Project, Surat Basin as a mix of pre-production and production costs. Expenditure associated with the Kincora Project to the point of production (September 2017) has been reclassified as Pre-production costs, with expenditure from this point onwards classified as Cost of Goods Sold.

Reclassifications to the consolidated statement of profit or loss and other comprehensive income for the comparative period ended 30 June 2017 are as follows.

Statement of profit or loss and other comprehensive income	Previous classification Reported 2017 $	Reclassifications $	Revised classification June 2017 $
Administration & Consulting expenses	(1,842,231)	1,842,231	-
Depreciation	(627,905)	627,905	-
Employee benefits expenses	(1,290,149)	1,290,149	-
Legal expenses	(554,163)	554,163	-
General and administrative expenses	-	(4,314,448)	(4,314,448)
Share based payments	(882,396)	882,396	-
New business development	(78,927)	78,927	-
Acquisition and divestment	(27,138)	27,138	-
Other expenses	-	(988,461)	(988,461)
Maintenance	(457,653)	457,653	-
Pre-Production costs (previously named 'Gas operating costs')	(1,752,589)	(457,653)	(2,210,242)

FINANCIAL REPORT (CONT.)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

ACCOUNTING POLICIES (CONT.)

(Y) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

KEY ESTIMATES - IMPAIRMENT

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Where applicable, value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

KEY JUDGEMENTS - EXPLORATION & EVALUATION ASSETS

The Group performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. These reviews are based on detailed surveys and analysis of drilling results performed to balance date.

The Directors have assessed that for the exploration and evaluation assets recognised at 30 June 2018, the facts and circumstances do not suggest that the carrying amount of an asset may exceed its recoverable amount. In considering this the Directors have had regard to the facts and circumstances that indicate a need for impairment as noted in Accounting Standard AASB 6 “Exploration for and Evaluation of Mineral Resources”.

Exploration and evaluation assets at 30 June 2018 were $48,903,126 (2017: $48,596,996).

KEY JUDGEMENTS - DEFERRED TAX ASSETS

In determining the recoverability of the recognised deferred tax assets, management has assessed that it will be utilised through eligible expenditure under the research and development grant. To the extent that the Group does not have sufficient eligible expenditure the ability to utilise the net deferred tax assets could be impacted.

KEY JUDGEMENTS - CONVERTIBLE NOTES

The Group’s convertible notes have been treated as a financial liability, in accordance with the principles set out in AASB 9. The key criterion for liability classification is whether there is an unconditional right to avoid delivery of cash for another financial asset to settle the contractual obligation.

The terms and conditions applicable to the convertible notes require the Group to settle the obligation in either cash, or in the Company’s own shares.

The notes are convertible into ordinary shares of the parent entity, at the option of the holder, or repayable on 30 September 2019. The conversion rate is one share for each note held, but subject to adjustments for reconstructions of equity. Management determined that these terms give rise to a compound financial instrument having characteristics of both equity and liability. The initial fair value of the liability portion of the notes was determined using a market interest rate for an equivalent non-convertible note at the issue date. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity, net of income tax, and not subsequently remeasured.

KEY JUDGEMENTS - PROVISION FOR REHABILITATION

The Group's restoration and abandonment obligations for the Surat Basin processing plant and associated exploration and production fields is treated as a non-current liability in accordance with AASB 137 - Provisions, Contingent Liabilities and Contingent Assets. The restoration and abandonment liability is valued by an independent expert in accordance with legislative requirements, and is reviewed at each reporting period. For the provision recognised at 30 June 2018, the facts and circumstances do not suggest that the carrying amount of the provision has changed.

KEY JUDGEMENTS - GOVERNMENT GRANTS

The Group was a successful applicant under the Federal Government Gas Acceleration Program (GAP), which is designed to provide businesses with funding grants to accelerate the responsible development of onshore natural gas for domestic gas consumers. The GAP grant will enable the Group to accelerate development of its Kincora Project reserves by accelerating the delivery of 3 production wells in the 2018/2019 drilling program. The Group received the first tranche of funding in June 2018.

AASB 120 - Accounting for Government Grants and Disclosure of Government Assistance defines grants related to assets as government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held. In accordance with AASB 120, Management has determined that it is appropriate to deduct any grant monies received from the carrying amount of the asset.

FINANCIAL REPORT (CONT.)

NOTE 2: REVENUE AND OTHER INCOME

	2018 $	2017 $
(a) Sales revenue:		
- Sale of petroleum products (Kincora Project)	14,748,819	618,276
Total sales revenue	**14,748,819**	**618,276**
(b) Interest revenue:		
- Deposits held with financial institutions	162,477	106,160
- Australian taxation office	(342)	510
- Interest from financial assets not at fair value	-	127
Total interest revenue	**162,135**	**106,797**
(c) Other Income:		
- Fuel tax credit	22,849	14,306
- Profit/ (loss) on sale of fixed assets	-	(1,365)
Total Other Income	**22,849**	**12,942**

NOTE 3: OPERATING SEGMENTS

The Group has identified its operating segment based on the internal reports that are reviewed and used by the Board (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group 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 year ended 30 June 2018, Management identifies the Group as having two reportable segments, being exploration activities (Exploration & Evaluation), and the production and development of oil, gas, LPG and condensate in the Surat Basin, Queensland (Production & Development), and will report on these segments accordingly.

The chief decision makers review the financial performance of the Group 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.

INTER-SEGMENT TRANSACTIONS

An internally determined cost base is set for all intersegment services provided. All such transactions are eliminated on consolidation into the Group’s financial statements.

SEGMENT ASSETS

Segment assets are clearly identifiable based on their nature and physical location.

SEGMENT LIABILITIES

Liabilities are allocated to segments where there is a direct nexus between the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the whole Group and are not allocated. Segment liabilities include trade and other payables and certain provisions.

UNALLOCATED ITEMS

The following items of income, expenses, assets and liabilities are not allocated to operating segments as they are not considered core to the operation of any segment.

- corporate head office costs and salaries of non-site based staff; and
- proceeds from capital raisings, and associated convertible note debt.

	Exploration & Evaluation $	Production & Development $	Unallocated $	Total $
2018				
Segment Revenue				
Sales	-	14,748,819	-	14,748,819
Total segment revenue	**-**	**14,748,819**	**-**	**14,748,819**
Reconciliation of segment Gross profit				
Cost of sales	-	(10,773,299)	-	(10,773,299)
Total segment gross profit	**-**	**3,975,520**	**-**	**3,975,520**
Reconciliation of segment result to Group net loss before tax				
Pre-production costs		(2,316,136)	-	(2,316,136)
Impairment of exploration assets	(4,107)	-	-	(4,107)
Amortisation of convertible notes	-	-	(2,292,657)	(2,292,657)
Amortisation of convertible note issue costs	-	-	(750,925)	(750,925)
Convertible note coupons	-	-	(5,666,559)	(5,666,559)
Unwinding of deferred consideration	-	(34,825)	-	(34,825)
Income tax (expense) benefit	-	-	556,202	556,202
Other income	-	22,849	162,135	184,984
Other expenses	-	(584,647)	(4,624,638)	(5,209,285)
Profit (Loss) for the year	**(4,107)**	**1,062,760**	**(12,616,441)**	**(11,557,788)**
Segment Assets & Liabilities				
Segment assets	54,022,045	46,411,160	-	100,433,205
Reconciliation of segment assets to Group assets				
Intersegment eliminations	-	-	-	-
Unallocated assets	-	-	1,088,122	1,088,122
Total Group assets	**54,022,045**	**46,411,160**	**1,088,122**	**101,521,327**
Segment liabilities	-	(15,821,268)	-	(15,821,268)
Reconciliation of segment liabilities to Group liabilities				
Intersegment eliminations	-	-	-	-
Convertible note liabilities	-	-	(39,055,344)	(39,055,344)
Unallocated liabilities	-	-	(1,798,884)	(1,798,884)
Total Group liabilities	**-**	**(15,821,268)**	**(39,055,344)**	**(56,675,496)**

FINANCIAL REPORT (CONT.)

NOTE 4: PROFIT / (LOSS)

	2018 $	2017 $
Finance cost		
- Interest expense	201	4,213
- Financing fees	115,242	1,396,318
- Convertible note coupons	5,666,559	1,484,187
- Convertible note issue costs	817,765	9,102
- Amortisation of convertible notes	2,292,657	490,578
- Unwinding of provision for contingent consideration	34,825	116,797
Depreciation of Property, Plant & Equipment		
- Office equipment	5,692	2,271
- Motor vehicle	120	23,818
- Plant and equipment	14,385	17,493
Depreciation of Oil and Gas assets		
- Depreciation expense classified as pre-production costs	136,457	584,323
- Depreciation expense classified as cost of goods sold	722,027	-
Defined contribution superannuation expense	224,549	119,984
(Gain) loss on foreign exchange	16,126	(2,759)

NOTE 5: INCOME TAX EXPENSE

	2018 $	2017 $
(a) Component of income tax expense (benefit)		
Income tax expense (benefit) is made up of:	-	-
Current tax	-	-
Deferred tax	(556,202)	-
	(556,202)	-
Components of tax expense on other comprehensive income comprise:		
Deferred tax	637,500	

(b) The prima facie tax on profit/ (loss) before income tax is reconciled to the income tax expense as follows:

	2018 $	2017 $
Prima facie tax on profit / (loss) before income tax at 30% (2016: 30%)	(3,634,197)	(3,442,407)
Add tax effect of:		
Deferred tax asset utilised following R&D cash back	727,877	192,456
Expenses not deductible for tax purposes	5,351	
Other	141,117	345,074
Share based payments	102,306	264,719
Tax losses not recognised	2,101,344	2,603,757
Foreign exploration costs	-	23,678
Fines and penalties	-	12,723
Income tax expense/ (benefit)	(556,202)	-

(c) Reconciliation of net deferred tax

2018	Opening Balance $	Net charged to income $	Net charged to other comprehensive income $	Net charged to equity $	Net charged to goodwill (business combination) $	Closing balance $
Deferred tax asset						
Carried forward losses	13,059,533	(863,291)	-	-	-	12,196,242
Accruals/ provisions	36,643	108,438	-	-	-	145,081
Property, Plant & Equipment	13,082	(510)	-	-	-	12,572
Capital raising costs through P&L	257,203	(53,446)	-	-	-	203,757
Capital raising costs in equity	1,188	(16,963)	-	81,298	-	65,523
Provision for rehabilitation	1,378,837	-	-	-	-	1,378,837
Available for sale financial assets	781,330	-	(637,500)	-	-	143,830
Amortisation of Convertible Notes	147,173	687,797	-	-	-	834,970
Potential benefit at 30%	**15,674,989**	**(137,975)**	**(637,500)**	**81,298**	**-**	**14,980,812**
Deferred tax liability						
Exploration & Evaluation assets	(14,014,292)	462,999	-	-	-	(13,551,293)
Oil & Gas assets	(1,660,697)	231,178	-	-	-	(1,429,519)
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Potential benefit at 30%	**(15,674,989)**	**694,177**	**-**	**-**	**-**	**(14,980,812)**
Net deferred tax	**-**	**556,202**	**(637,500)**	**81,298**	**-**	**-**
Deferred tax assets not recognised						
Unused tax losses	23,122,984	7,004,480	-	-	-	30,127,464
Provision for rehabilitation	1,040,451	-	-	-	-	1,040,451
Tax benefit at 30%	**7,249,031**	**2,101,344**	**-**	**-**	**-**	**9,350,375**

2017	Opening Balance $	Net charged to income $	Net charged to other comprehensive income $	Net charged to equity $	Net charged to goodwill (business combination) $	Closing balance $
Deferred tax asset						
Carried forward losses	12,490,005	569,528	-	-	-	13,059,533
Accruals/ provisions	135,753	(99,110)	-	-	-	36,643
Property, Plant & Equipment	13,082	-	-	-	-	13,082
Capital raising costs through P&L	322,185	(64,982)	-	-	-	257,203
Capital raising costs in equity	1,891	(703)	-	-	-	1,188
Provision for rehabilitation	1,066,702	312,135	-	-	-	1,378,837
Available for sale financial assets	956,518	(175,188)	-	-	-	781,330
Amortisation of Convertible Notes	-	147,173				147,173
Potential benefit at 30%	**14,986,136**	**688,853**	**-**	**-**	**-**	**15,674,989**
Deferred tax liability						
Exploration & Evaluation assets	(13,914,291)	(100,001)	-	-	-	(14,014,292)
Oil & Gas assets	(1,071,845)	(588,852)	-	-	-	(1,660,697)
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Potential benefit at 30%	**(14,986,136)**	**688,853**	**-**	**-**	**-**	**(15,674,989)**
Net deferred tax	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax assets not recognised						
Unused tax losses	14,443,794	8,679,190	-	-	-	23,122,984
Provision for rehabilitation	1,040,451	-	-	-	-	1,040,451
Tax benefit at 30%	**4,645,274**	**2,603,757**	**-**	**-**	**-**	**7,249,031**

FINANCIAL REPORT (CONT.)

NOTE 5: INCOME TAX EXPENSE (CONT.)

In order to recoup carried forward losses in future periods, either the Continuity of Ownership Test (COT) or Same Business Test must be passed. The majority of losses are carried forward at 30 June 2018 under COT.

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

(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;

(ii) the Company continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the Company in realising the losses.

(d) Petroleum resource rent tax

On 19 March 2012, the Australian Government passed through the Senate, the Petroleum Resource Rent Tax Act 2012, with application to certain profits arising from petroleum extracted in Australia. In broad terms, the tax is imposed on a project-by-project basis. This tax applies to upstream mining operations only, and the effective rate of Petroleum Resource Rent Tax is 22.5%. This tax is considered to be an “income tax” for the purposes of AASB 112. Certain transition measures are contained in the legislation which can give rise to deductions in future years by adopting fair value, for Petroleum Resource Rent Tax purposes. Affected entities had until 31 December 2013, to exercise an election to adopt fair value as opposed to cost, in determining their future deductions. The Group is not in the production phase yet and is currently below the taxable threshold. Accordingly, the Group has not exercised its election, nor have fair value modelling and valuations been performed.

NOTE 6: DIVIDENDS AND FRANKING CREDITS

There were no dividends paid or recommended during the year or since the end of the year (2017: nil). There are no franking credits available to shareholders of Armour Energy Limited (2017: nil).

NOTE 7: REMUNERATION OF AUDITORS

	2018 $	**2017 $**
Audit services (BDO Audit Pty Ltd)		
Audit and review of financial statements	74,000	61,000
Non assurance services (entities related BDO Audit Pty Ltd)		
Financial modelling services	10,000	-
Independent reviews of Surat Basin acquisition	-	15,028
	84,000	**76,028**

NOTE 8: EARNINGS PER SHARE (EPS)

(A) EARNINGS

	2018 $	2017 $
Earnings used to calculate basic and diluted EPS (After tax)	(11,557,788)	(11,474,692)

(B) WEIGHTED AVERAGE NUMBER OF SHARES AND OPTIONS

	2018 Number	2017 Number
Weighted average number of ordinary shares outstanding during the year, used in calculating basic earnings per share	383,160,387	325,207,701
Weighted average number of dilutive options outstanding during the year	-	-
Weighted average number of ordinary and potential ordinary shares outstanding during the year, used in calculating diluted earnings per share	**383,160,387**	**325,207,701**

Options are not considered dilutive as they are currently out of the money. Options may become dilutive in the future.

NOTE 9: CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Current assets		
Cash at bank and in hand	5,059,171	7,705,236
Other cash and cash equivalents	45,456	6,604
	5,104,627	**7,711,840**

Other cash and cash equivalents includes bank accounts held by operated Joint Ventures which are controlled by the Group.

NOTE 10: TRADE AND OTHER RECEIVABLES

	2018 $	2017 $
Trade receivables	2,373,729	105,365
GST Receivable		269,334
Other receivables	10,306	10,305
Pending cash calls	1,034	10,733
	2,385,069	**395,737**

Receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. No impairment loss has been recorded for the current and previous financial year.

Due to the short term nature of these receivables, their carrying value is assumed to approximate fair value. The maximum exposure to credit risk is the carrying value of receivables. Collateral is not held as security, and the receivables are not exposed to foreign exchange risk. No receivables were past due or impaired (2017: nil).

FINANCIAL REPORT (CONT.)

NOTE 11: INVENTORIES

	2018 $	2017 $
Oil and Gas inventory		
Gas inventory	707,321	944,085
Oil inventory	22,287	3,087
LPG inventory	12,483	-
Materials and consumables	646,242	14,128
	1,388,333	**961,300**

NOTE 12: OTHER CURRENT ASSETS

	2018 $	2017 $
Prepayments	159,594	405,915
	159,594	**405,915**

NOTE 13: OTHER FINANCIAL ASSETS

	2018 $	2017 $
Security deposits	1,355,594	1,184,594
Financial assets at fair value through other comprehensive income	4,252,000	2,127,000
Financial Assurances	6,952,907	6,658,194
	12,560,501	**9,969,788**
Movements in financial assets at fair value through other comprehensive income		
Opening balance at 1 July	2,127,000	2,127,000
Fair value adjustments through other comprehensive income	2,125,000	-
	4,252,000	**2,127,000**

Financial assets at fair value through other comprehensive income comprise investments in the ordinary capital of Lakes Oil NL and Aus Tin Mining Limited, listed on the Australian Securities Exchange. Refer to note 5 for fair value disclosures. Security deposits and financial assurances are measured at amortised cost.

CLASSIFICATION OF ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

For equity securities that are not held for trading, the Group has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss. These securities are presented separately in the consolidated statement of financial position.

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	2018 $	2017 $
Plant and equipment		
Gross value	89,664	89,664
Accumulated depreciation	(86,231)	(71,847)
	3,433	17,817
Motor Vehicles		
Gross value	140,878	140,878
Accumulated depreciation	(140,878)	(140,757)
	-	121
Office Equipment		
Gross value	91,735	61,540
Accumulated depreciation	(62,702)	(57,010)
	29,033	4,530
Total written down value	**32,466**	**22,468**

RECONCILIATION OF CARRYING AMOUNTS AT THE BEGINNING AND END OF THE YEAR

	Plant and equipment $	Motor vehicles $	Office Equipment $	Total $
Year ended 30 June 2018				
Opening net book amount	17,817	121	4,530	22,468
Additions	-	-	30,195	30,195
Depreciation charge	(14,384)	(121)	(5,692)	(20,197)
Closing net book amount	3,433	-	29,033	32,466

	Plant and equipment $	Motor vehicles $	Office Equipment $	Total $
Year ended 30 June 2017				
Opening net book amount	35,310	23,939	4,950	64,199
Additions	-	-	1,851	1,851
Depreciation charge	(17,493)	(23,818)	(2,271)	(43,582)
Closing net book amount	17,817	121	4,530	22,468

NOTE 15: EXPLORATION AND EVALUATION ASSETS

	2018 $	2017 $
Exploration and evaluation	48,903,126	48,596,996
Movements in carrying amounts		
Balance at the beginning of the year	55,342,267	55,460,719
Additions	336,829	981,857
Research & Development grants relating to exploration	(26,592)	(67,363)
Exploration expenditure written off	(4,107)	(1,032,946)
	55,648,397	55,342,267
Provision for impairment	(6,745,271)	(6,745,271)
Balance at the end of the year	**48,903,126**	**48,596,996**

FINANCIAL REPORT (CONT.)

NOTE 15: EXPLORATION AND EVALUATION ASSETS (CONT.)

	2018 $	2017 $
Movements in provision for impairment amounts		
Balance at the beginning of the year	(6,745,271)	-
Provisions (raised)/ released	-	(6,745,271)
Provision for impairment at the end of the year	**(6,745,271)**	**(6,745,271)**

PROVISION FOR IMPAIRMENT OF EXPLORATION AND EVALUATION ASSETS

On 30 August 2016, the Victorian Government announced a permanent ban on the exploration and development of all onshore unconventional gas in Victoria, including hydraulic fracturing and coal seam gas. The Government also plans to legislate an extension of the current moratorium on the exploration and development of conventional onshore gas until 30 June 2020, with hydraulic fracturing to remain banned. During this time, the Government will undertake extensive scientific, technical and environmental studies on the risks, benefits and impacts of onshore gas. Following this announcement, the Group carried out an impairment review of the Victorian exploration and evaluation assets, and as a result, an impairment loss was recognised in the profit or loss in the year ended June 2017.

NOTE 16: OIL AND GAS ASSETS

	2018 $	2017 $
Oil and gas assets		
Cost	37,537,394	25,084,101
Accumulated Depreciation	(1,814,145)	(955,737)
R&D grants relating to Oil and gas assets	(2,416,043)	(457,516)
Gas Acceleration Program grants	(2,319,595)	-
	30,987,611	**23,670,848**
Movements in carrying amounts		
Balance at the beginning of the year	23,670,848	17,147,690
Additions	12,453,368	7,200,671
Prior year development assets capitalised	-	364,326
Depreciation charge	(858,484)	(584,323)
R&D grants relating to Oil and gas assets	(1,958,526)	(457,516)
Gas Acceleration Program grants relating to Oil and gas assets	(2,319,595)	-
	30,987,611	**23,670,848**

NOTE 17: TRADE AND OTHER PAYABLES

	2018 $	2017 $
Current liabilities		
Trade payables	5,596,257	2,030,376
Accrued expenses	1,982,723	1,445,632
GST Payable	41,751	-
Other tax liabilities	566	-
	7,621,297	**3,476,008**

Trade payables are non-interest bearing and are generally on 30-60 days terms. Due to the short-term nature of these payables, their carrying value is assumed to approximate fair value.

NOTE 18: INTEREST-BEARING LIABILITIES

	2018 $	2017 $
Current Liabilities		
Interest bearing liabilities - secured		
DGR Loan Facility	-	2,057,799
	-	**2,057,799**
Unsecured		
Convertible notes	1,543,466	829,716
Total unsecured current borrowings	**1,543,466**	**829,716**

	2018 $	2017 $
DGR Loan Facility		
Movements in carrying amounts		
Opening balance at 1 July	2,057,799	12,872,618
Principal	-	408,169
Conversion of loan into convertible notes	-	(9,400,000)
Repayments	(1,000,000)	(3,189,543)
Capitalised interest	58,227	1,366,555
Conversion of loan into shares	(1,116,026)	-
Balance at 30 June	**-**	**2,057,799**

	2018 $	2017 $
Bizzell Capital Partners Loan Facility		
Movements in carrying amounts		
Opening balance at 1 July	-	-
Principal	-	1,067,860
Conversion of loan into convertible notes	-	(1,000,000)
Repayments	-	(132,508)
Capitalised interest	-	64,648
Balance at 30 June	**-**	**-**

Convertible notes - secured

	2018 $	2017 $
Convertible notes - current		
Movements in carrying amounts		
Opening balance at 1 July	829,716	-
Coupon interest accrued	5,666,559	1,447,318
Coupons repaid in cash	(2,872,609)	629
Coupons capitalised into notes	(2,079,634)	(618,231)
Amounts withheld from payments due to no TFN declarations	(566)	
Balance at 30 June	**1,543,466**	**829,716**

	2018 $	2017 $
Non-current Liabilities		
Convertible notes - secured	**37,511,879**	**26,388,489**

FINANCIAL REPORT (CONT.)

NOTE 18: INTEREST-BEARING LIABILITIES (CONT.)

	2018 $	2017 $
Convertible notes - non current		
Movements in carrying amounts		
Opening balance at 1 July	26,388,489	-
Face value of convertible notes issued for consideration	6,870,000	21,304,158
Issue costs of convertible note – liability component	(412,200)	(1,524,576)
Other equity securities – value of conversion rights, net of issue costs	(457,627)	(4,944,695)
Coupons capitalised into convertible notes	2,079,634	618,231
Amortisation of convertible notes	2,292,657	490,578
Amortisation of issue costs	750,926	44,793
Conversion of debt into convertible notes	-	10,400,000
Balance at 30 June	**37,511,879**	**26,388,489**

CAPITAL LEASES

	2018 $	2017 $
Current financial liabilities		
Capital Leases	69,355	-
Non-current financial liabilities		
Capital Leases	67,167	-
	136,522	-

	2018 $	2017 $
Payable - minimum lease payments		
- not later than 12 months	76,620	-
- between 12 months and five years	78,136	-
	154,756	-
Less future finance charges	(18,234)	-
Present value of minimum lease payments	**136,522**	-

The finance leases commenced during the year ended 30 June 2018 and relate to geological software licences. The liabilities comprise a 12 and 36 month lease. Upon completion of the 12 and 36 month terms, a final payment of $1.00 will be required to finalise the conversion to a Perpetual Licence.

(A) SECURITY DISCLOSURES

DGR LOAN FACILITY

The DGR Loan Facility was secured by a first ranking security and mortgage over unsecured Surat Basin Assets and a fixed and floating charge over the assets of Armour Energy Limited and subsidiaries and the assets of those subsidiaries. The security was removed following repayment of the loan facility.

CONVERTIBLE NOTES

The Convertible Notes are secured over all assets of Armour Energy Limited.

The principal terms of the Convertible Notes are as follows:

- Number of notes issued: 375,200,950 (as at 30 June 2018)
- Issue price: Face value of $0.11 per convertible note
- Interest rate: 15% per annum
- Interest payment: Interest 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
- Maturity date: 30 September 2019
- Conversion terms: Conversion at any time at the convertible note holder's election into one ordinary share in Armour subject to usual adjustment mechanisms in certain circumstances

(B) RISK EXPOSURES

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in **note 27.**

NOTE 19: PROVISIONS

	2018 $	2017 $
Current Provisions		
Employee benefit obligations	130,249	66,569
Deferred consideration	1,000,000	-
	1,130,249	**66,569**
Non-current Provisions		
Employee benefits	55,972	44,602
Restoration and abandonment	6,688,065	6,603,722
Deferred consideration	1,809,240	2,774,414
	8,553,277	**9,422,738**

	2018 $	2017 $
Deferred consideration - Current		
Opening balance at 1 July	-	-
Consideration payable within 12 months, reclassified from non-current	1,000,000	-
Balance at 30 June	**1,000,000**	

	2018 $	2017 $
Restoration and abandonment		
Opening balance at 1 July	6,603,722	6,603,722
Increase in provision	84,343	-
Balance at 30 June	**6,688,065**	**6,603,722**

	2018 $	2017 $
Deferred consideration - Non-current		
Opening balance at 1 July	2,774,414	2,657,618
Increase in the discounted amount arising due to time and the effect of any change in the discount rate	34,825	116,797
Amounts reclassified as current liabilities	(1,000,000)	-
Balance at 30 June	**1,809,239**	**2,774,415**

FINANCIAL REPORT (CONT.)

NOTE 19: PROVISIONS (CONT.)

PROVISION FOR EMPLOYEE BENEFITS

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

This current provision includes the total amount accrued for annual leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current provision includes the liability for long service leave not expected to be settled within 12 months of the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the corporate bond rate. Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service.

PROVISION FOR RESTORATION AND ABANDONMENT

A provision has been recognised for the costs to be incurred for the restoration and abandonment of the Surat Basin processing plant and associated exploration and production fields, used for the production of oil, gas, LPG and condensate. It is anticipated that the sites will require restoration in approximately 26 years. The value of the provision will be assessed at each reporting period and revaluations made when required.

DEFERRED CONSIDERATION

On 1 September 2015 Armour Energy (Surat Basin) Pty Ltd, a subsidiary of Armour Energy Limited, entered into agreements to acquire the Kincora Project from Oil Investments Pty Ltd (Origin Energy). The combined agreements totalled a purchase price of $10 million plus $3 million deferred consideration, which was contingent on first gas. As the Group achieved first gas in September 2017, this consideration is classified as deferred. The deferred element consists of three $1m payments to be made on the 1st, 2nd and 3rd anniversary of first gas. As the first payment will be due and payable in September 2018, $1m has been classified as a current liability.

NOTE 20: OTHER LIABILITIES

	2018 $	**2017 $**
Other current liabilities		
Calls in advance	-	228,734
Future bank guarantees to be lodged	178,806	178,806
Joint venture liabilities	-	35,018
	178,806	**442,558**

NOTE 21: ISSUED CAPITAL

(A) ISSUED AND PAID UP CAPITAL

	2018 $	2017 $
405,175,941 (2017: 336,015,972) ordinary shares fully paid	102,395,244	97,139,088
Share issue costs	(7,993,030)	(7,722,035)
Recognition of deferred tax asset relating to share issue costs	1,965,668	1,884,370
	96,367,882	**91,301,423**

Ordinary shares participate in dividends and the proceeds on winding up of Armour Energy Limited. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on show of hands.

(B) MOVEMENTS IN ORDINARY SHARE CAPITAL

Details	Number of shares	$
Balance at 1 July 2016	322,858,077	87,435,000
AEGPAS share selldown ($0.076 per share - 01/09/16)	-	3,049,111
Placement allotment ($0.076 per share - 26/04/17)	13,157,895	1,000,002
Share issue costs	-	(182,690)
Balance 30 June 2017	**336,015,972**	**91,301,423**
Shares issued for cash ($0.076 per share - Entitlement offer)	36,624,559	2,783,467
Shares issued for cash ($0.076 per share - Placement)	12,747,895	968,840
DGR loan amounts converted into shares ($0.076 per share)	14,684,560	1,116,026
Trade payables converted into shares ($0.076 per share)	2,093,269	159,089
Shares issued for cash received in prior year ($0.076 per share)	3,009,660	228,734
Share issue costs	-	(270,995)
Recognition of deferred tax asset relating to share issue costs	-	81,298
Balance 30 June 2018	**405,175,915**	**96,367,882**

(C) OPTIONS

As at 30 June 2018 there were 29,875,000 unissued ordinary shares under option, held as follows:

- 3,150,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2016) at an exercise price of 20 cents. One third of the options vest at each anniversary of grant, and expire 29 March 2021.
- 3,150,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2016) at an exercise price of 35 cents. One third of the options vest at each anniversary of grant, and expire 29 March 2021.
- 2,250,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2016) at an exercise price of 50 cents. One third of the options vest at each anniversary of grant, and expire 29 March 2021.
- 1,500,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2017) at an exercise price of 22 cents. The options vested immediately on grant, and expire 14 December 2019.
- 1,500,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2017) at an exercise price of 27 cents. The options vested immediately on grant, and expire 14 December 2019.

FINANCIAL REPORT (CONT.)

NOTE 21: ISSUED CAPITAL (CONT.)

(C) OPTIONS (CONT.)

- 1,500,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2017) at an exercise price of 32 cents. The options vested immediately on grant, and expire 14 December 2019.
- 5,000,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued for commercial consideration during the year ended 30 June 2017) at an exercise price of 20 cents. The options vested immediately on grant, and expire 30 August 2018.
- 666,666 unlisted options to take up one ordinary share in Armour Energy Limited (issued for commercial consideration during the year ended 30 June 2017) at an exercise price of 22 cents. The options vested immediately on grant, and expire 29 May 2020.
- 666,667 unlisted options to take up one ordinary share in Armour Energy Limited (issued for commercial consideration during the year ended 30 June 2017) at an exercise price of 27 cents. The options vested immediately on grant, and expire 29 May 2020.
- 666,667 unlisted options to take up one ordinary share in Armour Energy Limited (issued for commercial consideration during the year ended 30 June 2017) at an exercise price of 32 cents. The options vested immediately on grant, and expire 29 May 2020.
- 250,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued for board services during the year ended 30 June 2017) at an exercise price of 22 cents. The options vested immediately on grant, and expire 14 December 2019.
- 250,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued for board services during the year ended 30 June 2017) at an exercise price of 27 cents. The options vested immediately on grant, and expire 14 December 2019.
- 250,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued for board services during the year ended 30 June 2017) at an exercise price of 32 cents. The options vested immediately on grant, and expire 14 December 2019.
- 2,524,998 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2018) at an exercise price of 22 cents. The options vested immediately on grant, and expire 14 December 2019.
- 2,525,001 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2018) at an exercise price of 27 cents. The options vested immediately on grant, and expire 14 December 2019.
- 2,525,001 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2018) at an exercise price of 32 cents. The options vested immediately on grant, and expire 14 December 2019.
- 500,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2018) at an exercise price of 22 cents. The options vested immediately on grant, and expire 14 December 2019.
- 500,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2018) at an exercise price of 27 cents. The options vested immediately on grant, and expire 14 December 2019.
- 500,000 unlisted options to take up one ordinary share in Armour Energy Limited (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2018) at an exercise price of 32 cents. The options vested immediately on grant, and expire 14 December 2019.

(D) PERFORMANCE SHARES

As at 30 June 2018 there was nil Performance Shares of Armour Energy Limited on issue (2017: nil).

(E) PERFORMANCE RIGHTS

As at 30 June 2018 there was nil Performance Rights of Armour Energy Limited on issue (2017: nil).

(F) CAPITAL RISK MANAGEMENT

Management controls the capital of the Group in order to provide capital growth to shareholders and ensure the Group can fund its operations and continue as a going concern. The Group's capital comprises equity and convertible notes as shown on the consolidated statement of financial position.

There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risk and adjusting its capital structure in response to changes in these risks and the market. These responses include the management of share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

NOTE 22: SHARE-BASED PAYMENTS

(A) TYPES OF SHARE-BASED PAYMENT PLANS

EMPLOYEE SHARE OPTION PLAN (ESOP)

Share options are granted to employees. The employee share option plan is designed to align participants' interests with those of shareholders by increasing the value of the Armour Energy Limited's shares. When a participant ceases employment prior to the vesting of their share options, the share options are forfeited after 90 days unless cessation of employment is due to termination for cause, whereupon they are forfeited immediately or death.

The Group prohibits KMP's from entering into arrangements to protect the value of unvested ESOP awards.

The contractual life of each option granted is generally three (3) years.

There are no cash settlement alternatives. Each option can be exercised from vesting date to expiry date for one share with the exercise price payable in cash.

FINANCIAL REPORT (CONT.)

NOTE 22: SHARE-BASED PAYMENTS (CONT.)

(B) SUMMARIES OF SHARE-BASED PAYMENT PLANS

SUMMARY OF EMPLOYEE SHARE OPTIONS GRANTED

The following table illustrates the number (no.) and weighted average exercise prices (WAEP) of, and movements in, share based payment share options granted during the year under the employee share option plan.

	2018 WAEP	2018 No.	2017 WAEP	2017 No.
Outstanding at the beginning of the year	$0.16	15,250,000	$0.38	23,510,000
Granted during the year	$0.27	9,075,000	$0.27	5,250,000
Forfeited during the year	$0.50	(900,000)	$0.50	(8,880,000)
Expired during the year	$0.30	(550,000)	$0.24	(4,630,000)
Outstanding at the end of the year	$0.29	22,875,000	$0.16	15,250,000
Exercisable at the end of the year	**$0.29**	**20,025,000**	**$0.15**	**8,950,000**

In 2018, 9,075,000 share options were issued to employees and Directors under the Armour Energy Employee Share Option Plan (2017: 5,250,000). The options outstanding at 30 June 2018 have a weighted average remaining contractual life of 1.94 years and exercise price of $0.29.

(C) OTHER OPTION ISSUES

The following table illustrates the number (no.) of, and movements in, other options issued for commercial consideration during the year.

	2018 No.	2017 No.
Balance at the beginning of the year	7,000,000	-
Granted during the year	-	7,000,000
	7,000,000	**7,000,000**

Options granted in 2017 for commercial consideration include:

- 5,000,000 unlisted options to take up one ordinary share in Armour Energy Limited at an exercise price of $0.20. The options were granted to Bizzell Capital Partners as an underwriting fee for nil cash consideration pursuant to a capital raising mandate dated 23 August 2016.
- 2,000,000 unlisted options to take up one ordinary share in Armour Energy Limited at various prices (refer note 3 for details). The options were granted to MH Carnegie in lieu of any fees for their consent to be provided for the recently announced increase in the proposed issue of convertible notes, consent to be provided for amendments to their redemption rights, and in lieu of the requirement for the Company to issue options for a further MH Carnegie nominee to the Board.

(D) SHARE BASED PAYMENT PRICING MODEL

The fair value of the equity settled share-based payments granted (including ESOP) is estimated using a Black-Scholes options pricing model taking into account the terms and conditions upon which the instruments were granted. The following table details the inputs to the models used for the years ended 30 June 2018 and 2017.

	2018	2017
Employee share options		
Weighted average exercise price	$0.27	$0.27
Weighted average life of the option	2.30 years	2.93 years
Underlying share price	$0.081 - $0.098	$0.074 - $0.078
Expected share price volatility	84.15% - 105.37%	109.31% - 193.10%
Risk free interest rate	1.74% - 1.92%	1.65% - 2.00%
Number of options issued	9,075,000	5,250,000
Value (Black-Scholes) per option	$0.016 - $0.031	$0.025 - $0.066
Total value of options issued	**$236,768**	**$313,803**

	2018 $	2017 $
Employee share options		
Share based payments expense recognised in statement of profit or loss and other comprehensive income	**236,768**	**313,803**

	2018	2017
Other options		
Weighted average exercise price	-	$0.22
Weighted average life of the option	-	2.07 years
Underlying share price	-	$0.074 - $0.078
Expected share price volatility	-	109.31% - 176.10%
Risk free interest rate	-	1.65% - 1.88%
Number of options issued	-	7,000,000
Value (Black-Scholes) per option	-	$0.029 - $0.048
Total value of options issued	**-**	**$305,343**

	2018 $	2017 $
Other options		
Share based payments expense recognised in statement of profit or loss and other comprehensive income	**-**	**305,343**

The Company has a long history of share transactions by which to gauge the Company's share price volatility, and this data provides some indication of the expected future volatility of the Company's share price. The share price volatility is measured by collating the historical share prices over a 2 year period prior to the date of the option issue. The relative percentage of each share price movement against the share price, determines the combined volatility over the period.

As at 30 June 2018, there were 33,850,000 options held by Key Management Personnel, of which 32,750,000 were vested and exercisable (2017: 30,100,000 and 24,100,000 respectively).

FINANCIAL REPORT (CONT.)

NOTE 23: RESERVES – NATURE AND PURPOSE

(A) SHARE-OPTION RESERVE, PERFORMANCE SHARES RESERVE AND PERFORMANCE RIGHTS RESERVE

The share option reserve, performance shares reserve and performance rights reserve (collectively “share based payments”) is used to recognise the grant date fair value of share based payments issued to employee and other service providers.

(B) FINANCIAL ASSETS REVALUATION RESERVE

The Group has elected to recognise changes in the fair value of certain investments in equity securities in other comprehensive income. These changes are accumulated in a separate reserve within equity. The entity does not have any policy on transferring amounts from this reserve to another reserve or to retained earnings when the relevant equity securities are sold.

	2018 $	2017 $
Balance 1 July	(4,297,300)	(4,297,300)
Revaluation - gross	2,125,000	-
Deferred tax	(637,500)	-
Balance 30 June	**(2,809,800)**	**(4,297,300)**

(C) CONVERTIBLE NOTE RESERVE

Convertible notes are measured at amortised cost using the effective interest rate method. The Group’s convertible notes have been treated as a non-derivative financial liability, and on recognition of the convertible note, the liability and equity components are identified and separately measured. The fair value of the liability component of the convertible notes is deducted from the fair value of the instrument as a whole, and the residual amount is recognised as an equity conversion right and not subsequently remeasured.

This equity conversion right is treated as a convertible note reserve until such time as the right is either converted into share capital or paid in cash.

NOTE 24: CASH FLOW INFORMATION

(A) RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2018 $	2017 $
Profit (Loss) after income tax	(11,557,788)	(11,474,692)
Share based payments	376,019	882,396
Depreciation and amortisation	878,681	627,905
Exploration expenditure written off/ impaired	4,107	1,032,946
Interest expense on convertible notes	5,666,559	618,231
Amortisation of convertible notes & issue costs	3,043,581	499,680
Unwinding of deferred consideration	34,825	116,797
Expenses classified as financing activities	66,840	595,994
Financing fees capitalised to loan	58,227	1,369,903
Expenses classified as investing activities	-	(309,132)
Change in operating assets and liabilities*		
(Increase) decrease in trade and other receivables	(2,086,816)	39,536
(Increase) decrease in other current assets	244,580	(420,367)
(Increase) decrease in deferred tax assets	(556,202)	-
Increase (decrease) in trade and other payables	3,438,833	(1,436,875)
(Decrease) increase in provisions	130,539	161,398
Net cash inflow (outflow) from operating activities	**(258,015)**	**(7,696,280)**

* Net of amounts relating to oil and gas, and exploration and evaluation assets.

Equity settled share based payment transactions are disclosed in note 22. Conversion of debt and interest expense to convertible notes is disclosed in note 18.

Apart from the above, there are no other non-cash financing and investing activities to disclose.

(B) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Opening 2017 $	Cash flows $	Additions $	Transaction Costs $	Equity settled $	Amort-isation of Con. Notes $	Accrued interest in the period $	Capital-ised interest $	Other * $	Closing 2018 $
Convertible note liability	26,388,489	6,870,000	-	(412,200)	(457,627)	3,043,581	-	2,079,634	-	37,511,877
Convertible note coupons	829,716	(2,872,609)	-	-	-	-	5,666,559	(2,079,634)	(566)	1,543,466
Lease liabilities	-	(146,983)	281,797	-	-	-	-	-	1,708	136,522
Loans	2,057,799	(1,000,000)	-	-	(1,116,026)	-	-	58,227	-	-
	29,276,004	**2,850,408**	**281,797**	**(412,200)**	**(1,573,653)**	**3,043,581**	**5,666,559**	**58,227**	**1,142**	**39,191,865**

* Other includes: convertible note coupon amount of $566 is coupon interest withheld from a noteholder due to no tax file number declared, and lease liabilities of $1,708 represents the GST receivable due on payments made.

FINANCIAL REPORT (CONT.)

NOTE 25: RELATED PARTY TRANSACTIONS

(A) ULTIMATE PARENT

Armour Energy Limited is the ultimate legal parent of the Group, and listed on the ASX on 26 April 2012.

(B) KEY MANAGEMENT PERSONNEL

Details relating to key management personnel, including remuneration paid are detailed in the Remuneration Report, and summarised below.

	2018 $	2017 $
Short term benefits	1,451,176	1,109,933
Post employment	77,362	46,273
Share based payments	212,679	455,062
	1,741,217	**1,611,268**

(C) TRANSACTIONS WITH RELATED PARTIES

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

Related Party		Sales to related parties	Purchases from related parties	Other transactions with related parties
DGR Global Ltd (i)	2018	-	456,000	-
	2017	-	456,000	-
Bizzell Capital Partners (ii)	2018	-	704,100	-
	2017	-	916,285	-

(i) The Group has a commercial arrangement with DGR Global Limited for the provision of various services, whereby DGR Global provides resources and services including the provision of its administration staff, its premises (for the purposes of conducting the Group's business operations), use of existing office furniture, equipment and certain stationery, together with general telephone, reception and other office facilities ("Services"). In consideration for the provision of the Services, the Group pays DGR Global a monthly management fee of $38,000 (2017: $38,000). For the year ended 30 June 2018 $456,000 (2017: $456,000) was paid or payable to DGR Global Limited for the provision of the Services. The total amount outstanding at year end was $273,833 (2017: $39,841). DGR Global Limited held 95,809,298 convertible notes totalling $10,539,023 as at 30 June 2018, purchased on the same terms and conditions as other noteholders.

(i) Mr Stephen Bizzell (a Director), is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. The Group entered into an agreement with Bizzell Capital Partners Pty Ltd as Lead Manager for the capital raising program detailed in an ASX announcement on 16 December 2016. Under the agreement, a management fee was payable of one (1) percent of the funds raised under the offer, a placement fee of five (5) percent of all new shares issued, an underwriting fee of five (5) percent of the value of shares underwritten in the entitlement offer, and an option fee of five (5) million options exercisable at 20 cents each.

No management fee, underwriting fee or placement fee was payable with respect to amounts subscribed by DGR Global Limited or amounts sub-underwritten by DGR Global Limited under the entitlement offer and Bizzell Capital Partners was responsible for selling fees, stamping fees and sub-underwriting fees it had to pay out of the fees to other brokers or to sub-underwriters of the offers. The gross fees paid under this agreement for the year ended 30 June 2018 were $704,100 (2017: $838,410). In the year ended 30 June 2017, the Group also paid Bizzell Capital Partners a corporate advisory fee of $77,875 for his involvement in the 2015 and 2016 events of the takeover offer by Westside Corporation, the proportional takeover offer by American Energy Partners, the farm-out agreement with American Energy Partners, and the DGR Finance Facility. No amounts were payable in the year ended 30 June 2018.

As at 30 June 2018, Bizzell Capital Partners held 10,130,239 convertible notes (2017: 9,425,280), purchased on the same terms and conditions as all other noteholders. Mr Matthew Beach, a former director of Armour Energy, provided services to MHC via a contracting agreement with part of his remuneration based on the performance of CPOF2 and profitability of MHC. MHC Fund Services 2A Pty Ltd currently owns 125,807,782 convertible notes, totalling $13,838,856 in Armour Energy but has no current shareholding in Armour Energy. MHC holds 2,000,000 unlisted options in Armour Energy Limited. The outstanding balances at each relevant year end are unsecured, interest free and settlement occurs in cash.

Other than the above, there were no other transactions with Key Management Personnel for the year ended 30 June 2018.

(D) LOANS FROM RELATED PARTIES

In the prior financial year, the Group entered into a short-term, debt finance facility with DGR Global for the acquisition of the Surat Basin Assets of Origin Energy. The DGR Global loan facility was available to the Group until 30 September 2019 (the termination date), and was fully secured at an interest rate of 15 per cent per annum. The total amount outstanding at year end was nil (2017: $2,057,799). The transactions associated with the financing facility are detailed below.

Transaction	2018	2017
DGR Finance Facility		
Interest - paid in cash	-	-
Interest - capitalised to loan	58,227	1,366,555
Loan establishment fee	-	-
	58,227	**1,366,555**

KANYWATABA BLOCK, UGANDA

On 19 September 2017, the Group announced that it had been granted the exploration licence for the Kanywataba Block in the Albertine Graben in Uganda. The exploration licence is for a 2 year period and subject to completing the work program for that period, the licence is renewable for another 2 year period. The first period work program involves undertaking geological and geophysical works, reviewing existing data and reprocessing seismic data, and the acquisition of 100 line kilometres of 2D seismic.

FINANCIAL REPORT (CONT.)

NOTE 25: RELATED PARTY TRANSACTIONS (CONT.)

(D) LOANS FROM RELATED PARTIES (CONT.)

KANYWATABA BLOCK, UGANDA (CONT.)

On completion of the work in the first period, the tenement can be renewed for a second 2 year period that involves a minimum work program of undertaking geological, geophysical and geochemical studies plus drilling one exploration well. The second period work program will require commitment to further expenditure in the event that the tenement is renewed. The Group has agreed, subject to Government of Uganda consent, to transfer the tenement to a project specific company in which the Group will have a 16.82% interest and DGR Global shall hold the other 83.18% interest in the transferee entity.

Until the time of transfer to a project specific company, or if such transfer does not occur, the Group and DGR Global have agreed that the beneficial interest in the Kanywataba Block will be split 16.82% Armour and 83.18% DGR Global. In consideration for the benefical interest split DGR Global has agreed to meet tenement expenditure and work program commitments for the first 2 year period of exploration and indemnify the Group for these costs.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK.

FINANCIAL REPORT (CONT.)

NOTE 26: CAPITAL COMMITMENTS

(A) 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 set out in the table below.

	2018 $	2017 $
Less than 12 months	95,964,000	84,551,587
Between 12 months and 5 years	3,649,478	14,471,940
	99,613,478	**99,023,527**

$93 million of the exploration commitments that are due within 12 months relate to the Group's Queensland tenement, ATP 1087. This tenement has a 6 year term, expiring 31 December 2018. Over the past 6 years, the Group has spent over $30 million on drilling, hydraulic stimulation, well testing, gravity survey and other geological studies within this tenement. The Group has lodged a special amendment with the Department of Natural Resources, Mines & Energy to retain ATP 1087 and surrender a portion of the tenement, with a new term and work program. Management has a high degree of confidence that this special amendment will be successful, and therefore the remaining $93 million of short-term commitments will not be required.

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.

(B) CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows.

	2018 $	2017 $
Not later than one year	13,234,796	-
Later than one year and not later than 5 years	-	-
Later than 5 years	-	-
Total minimum capital commitments:	**13,234,796**	-

The capital commitments relate to executed Gas Acceleration Program (GAP) with the federal government, which aims to increase gas supply to the domestic gas market. The agreed work program consists of accelerating one production well and drilling three additional production wells at the Group's Kincora Project. The four wells must be drilled by 30 June 2019 in order to qualify for the maximum grant funding of $6 million.

(C) OPERATING LEASE COMMITMENTS

Operating leases contracted for but not recognised in the financial statements are as follows.

	2018 $	2017 $
Not later than one year	169,610	-
Later than one year and not later than 5 years	274,573	-
Later than 5 years	-	-
Total minimum capital commitments:	**444,183**	-

The operating lease is for nine motor vehicles, commenced in 2018 and is a 3-year lease with payments monthly in advance. Either party may terminate the Master Facility Agreement by giving thirty (30) days' written notice to the other party.

An early termination amount is payable and is the present value as at the date of termination of any residual value of the Vehicle assumed by the leasing company in calculating the Payments, determined by applying the Discount Rate plus their administrative fee.

There is the option to purchase at any time during the term by paying the leasing company the Early Termination Amount together with any interest or other amounts then due and payable under this Agreement.

NOTE 27: FINANCIAL RISK MANAGEMENT

(A) GENERAL OBJECTIVES, POLICIES AND PROCESSES

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note. The Group's financial instruments consists of deposits with banks, receivables, other financial assets, payables, borrowings and convertible notes.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out over the page.

FINANCIAL REPORT (CONT.)

NOTE 27: FINANCIAL RISK MANAGEMENT (CONT.)

(B) CREDIT RISK

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Group. The Group's objective is to minimise the risk of loss from credit risk exposure.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance data to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk is reviewed regularly by the Board. It arises from exposure to receivables as well as through deposits with financial institutions.

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

As at 30 June 2018, included in trade receivables is one significant debtor accounting for approximately 70% (2017: nil) of the total trade receivables.

The Group's cash at bank is spread across multiple Australian financial institutions to mitigate credit risk, such as Macquarie Bank (local currency short term rating A-2), ANZ (local currency short term rating A-1+) and Westpac (local currency short term rating A-1+).

Financial assurances are held with both Westpac and Macquarie Bank.

(C) LIQUIDITY RISK

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet financial obligations as they fall due. The objective of managing liquidity risk is to ensure, as far as possible, that the Group will always have sufficient liquidity to meets its liabilities when they fall due, under both normal and stressed conditions.

Liquidity risk is reviewed regularly by the Board.

For further details on liquidity risk refer to the tables below.

	Weighted av. int rate %	< 1 year $	1-5 years $	> 5 years $	Carrying amount $
30 June 2018					
Trade & other payables	-	7,621,297	-	-	7,621,297
Interest bearing liabilities	15	69,355	67,167	-	136,522
Convertible notes	15	1,543,466	37,511,879	-	39,055,345
Other liabilities	-	178,808	-	-	178,808
		9,412,926	**37,579,046**	**-**	**46,991,972**

	Weighted av. int rate %	< 1 year $	1-5 years $	> 5 years $	Carrying amount $
30 June 2017					
Trade & other payables	-	3,476,008	-	-	3,476,008
Interest bearing liabilities	15	2,057,799	-	-	2,057,799
Convertible notes	15	829,716	26,388,489	-	27,218,205
Other liabilities	-	442,558	-	-	442,558
	30	**6,806,081**	**26,388,489**	**-**	**33,194,570**

Interest payable on convertible notes is due in March and September each year. The convertible notes mature on 30 September 2019.

The Group manages liquidity risk by monitoring forecast cash flows and liquidity ratios such as working capital. The Group had financing facilities available at balance date, as detailed below.

(I) FINANCING ARRANGEMENTS

The Group had no access to undrawn borrowing facilities at the end of the reporting period (2017: nil).

(D) MARKET RISK

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments and investments in listed securities. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). The Group does not have any material exposure to market risk other than interest rate risk and price risk on available for sale financial assets.

INTEREST RATE RISK

Interest rate risk arises principally from cash and cash equivalents. The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters while optimising the return.

For further details on interest rate risk refer to the tables over the page.

FINANCIAL REPORT (CONT.)

NOTE 27: FINANCIAL RISK MANAGEMENT (CONT.)

(D) MARKET RISK

INTEREST RATE RISK (CONT.)

2018	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Total carrying amount $	Weighted average effective interest rate %
(i) Financial assets					
Cash and cash equivalents	5,104,627	-	-	5,104,627	-
Trade and other receivables	-	-	2,385,069	2,385,069	-
Available for sale financial assets	-	-	4,250,000	4,250,000	-
Security deposits and financial assurances	7,530,140	-	778,362	8,308,502	2.35
Total financial assets	**12,634,767**	**-**	**7,413,431**	**20,048,198**	**2.35**
(ii) Financial liabilities					
Trade and other payables	-	-	(7,620,734)	(7,620,734)	-
Capital leases	-	(136,522)	(136,522)	(273,044)	8.25
Borrowings	-	-	-	-	-
Convertible notes	-	(39,055,345)	-	(39,055,345)	15.00
	-	**(39,191,867)**	**(7,757,256)**	**(46,949,123)**	**15.00**

2017	Floating interest rate $	Fixed interest rate $	Non-Interest bearing $	Total carrying amount $	Weighted average effective interest rate %
(i) Financial assets					
Cash and cash equivalents	7,711,840	-	-	7,711,840	-
Trade and other receivables	-	-	395,738	395,738	-
Available for sale financial assets	-	-	2,127,000	2,127,000	-
Security deposits and financial assurances	7,235,427	-	607,362	7,842,789	2.25
Total financial assets	**14,947,267**	**-**	**3,130,100**	**18,077,367**	**2.25**
(ii) Financial liabilities					
Trade and other payables	-	-	(3,476,009)	(3,476,009)	-
Capital leases	-	-	-	-	-
Borrowings	-	(2,057,799)	-	(2,057,799)	15.00
Convertible notes	-	(27,218,206)	-	(27,218,206)	15.00
Total financial liabilities	**-**	**(29,276,005)**	**(3,476,009)**	**(32,752,014)**	**30.00**

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk. This demonstrates the effect on the profit and equity which could result from a change in these risks. At 30 June 2018 the effect on profit and equity as a result of changes in the interest rate at that date would be as follows.

	2018 $	2017 $
Change in profit and equity		
- Increase in interest rate by 1%	51,046	77,118
- Decrease in interest rate by 1%	(51,046)	(77,118)

(E) FAIR VALUE

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 30 June 2018.

	Level 1 $	Level 2 $	Level 3 $	Total $
2018				
Financial assets (liabilities) at fair value through other comprehensive income	4,252,000	-		4,252,000
2017				
Financial assets (liabilities) at fair value through other comprehensive income	2,125,000	-		2,125,000

With the exception of convertible notes, the fair values of financial assets and liabilities approximate their carrying amounts principally due to their short-term nature or the fact that they are measured and recognised at fair value.

The fair value of the liability component of convertible notes is based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk. The following is quantitative information about the significant unobservable inputs used in level 3 fair value measurements and how they impact fair value:

- Risk adjusted discount rate: 22% - an increase in the risk adjusted discount rate of 100bps would decrease fair value by $263,885; a decrease in the risk adjusted discount rate of 100bps would increase fair value by $263,885.

Discount rates for the convertible notes are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

	2018		2017	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Convertible notes	39,055,345	41,272,024	27,218,205	32,322,390

Financial assets at fair value through other comprehensive income are measured based on quoted securities.

NOTE 28: CONTINGENT ASSETS AND LIABILITIES

(A) CONTINGENT LIABILITIES

(I) EXPLORATION LIABILITIES - ARMOUR ENERGY LIMITED

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.

FINANCIAL REPORT (CONT.)

NOTE 28: CONTINGENT ASSETS AND LIABILITIES (CONT.)

(A) CONTINGENT LIABILITIES (CONT.)

(I) EXPLORATION LIABILITIES - ARMOUR ENERGY LIMITED (CONT.)

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 preceding financial year; and
- 1.5% of the exploration costs incurred in the Shared Area within the preceding financial year.

(II) MHC REDEMPTION RISK

Armour Energy Limited (the **Company**) has issued 375,200,950 convertible notes with a face value of $0.11 (**Notes**). The Notes have a maturity date of 30 September 2019. The largest Noteholder is M.H. Carnegie & Co Pty Limited (**MHC**), who holds 125,807,782 Notes with a face value of $0.11 (MHC Notes). MHC is also the Placement Note Holder Manager. Under the terms of the Note Deed, MHC holds an early redemption right if the Company has not appointed a CEO / Managing Director who is satisfactory to MHC, acting reasonably (**Early Redemption Right**). A dispute exists with MHC over whether the Company has appointed a CEO / Managing Director who is satisfactory to MHC, acting reasonably, in appointing Roger Cressey as CEO.

Pursuant to the terms of a legal deed between the Company and MHC, if Mr Cressey is replaced by the Company before 30 November 2018 and a dispute still exists between the Company and MHC in relation to the new appointment, then the parties will submit to an arbitration process after that date. If Mr Cressey remains the CEO through until 31 December 2018, or if a dispute otherwise still exists between the Company and MHC with regards to the appointment of a CEO by the Company, then MHC will have the right to exercise their Early Redemption Right. If the Early Redemption Right can be exercised by MHC and is exercised by MHC, then MHC would be entitled to give 20 business days' notice requiring the Company to redeem the MHC Notes at a premium within 60 days. At present, assuming that no Notes held by MHC are converted or otherwise disposed of, this would require a payment to be made by the Company to MHC of approximately $15.5m. Redemption can also be satisfied via a transfer of the Notes to a third party.

Other than the above, the Group had no other contingent assets or liabilities at 30 June 2018.

NOTE 29: CONTROLLED ENTITIES

Controlled Entities	Country of Incorporation	Principal Activity	Principal Place of Business	Percentage Owned 2018	Percentage Owned 2017
Parent Entity:					
Armour Energy Limited	Australia	Petroleum Exploration	Northern Australia	100%	100%
Subsidiaries of Armour Energy:					
Ripple Resources Pty Ltd	Australia	Mineral Exploration	Northern Australia	100%	100%
Armour Energy (Victoria) Pty Ltd	Australia	Petroleum Exploration	Victoria	100%	100%
Armour Energy (Surat Basin) Pty Ltd	Australia	Oil and gas production	Queensland	100%	100%
AEGPAS Pty Ltd	Australia	Dormant Company	Queensland	100%	100%

NOTE 30: PARENT COMPANY

The *Corporations Act* requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by Regulation 2M.3.01 which requires the following limited disclosure in regard to the parent entity (Armour Energy Limited). The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the accounting policy described in note 1.

	2018 $	2017 $
Statement of Financial Position		
Current assets	672,557	7,981,870
Non-current assets	91,505,712	71,587,174
	92,178,269	79,569,044
Current liabilities	3,189,800	4,154,065
Non-current liabilities	37,562,892	26,429,062
	40,752,692	30,583,127
Net Assets	**51,425,577**	**48,985,917**

	2018 $	2017 $
Issued capital	96,367,871	91,301,412
Convertible Note Reserve	5,402,322	4,944,695
Available-for-sale financial assets	(2,809,800)	(4,297,300)
Option reserve	4,632,240	4,291,222
Performance shares	125,000	125,000
Performance Options	125,000	125,000
Retained earnings	(53,054,555)	(47,504,112)
Total shareholders' equity	**51,425,578**	**48,985,917**
Loss for the year	13,550,444	15,135,076
Total comprehensive income	**13,550,444**	**15,135,076**

(B) GUARANTEES ENTERED INTO BY THE PARENT ENTITY

Cross guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

(C) CONTRACTUAL COMMITMENTS

There were no contractual commitments for the acquisition of property, plant and equipment entered into by the parent entity at 30 June 2018 (2017: nil).

(D) CONTINGENT LIABILITIES

The parent entity has no contingent liabilities, other than those disclosed in note 28.

FINANCIAL REPORT (CONT.)

NOTE 31: SIGNIFICANT EVENTS AFTER THE REPORTING DATE

ENVIRONMENTAL BONDING FUNDING FACILITY

As announced on 26 July 2018, Armour Energy (Surat Basin) Pty Ltd (the **Company**) has entered into a credit facility agreement (**Tribeca Facility Agreement**) with Tribeca Investment Partners Pty Ltd, Equity Trustees Limited (in its capacity as the trustee of the Tribeca Global Natural Resources Credit Fund) and Tribeca Global Natural Resources Credit Master Fund (**Tribeca**) for the provision by Tribeca of an environmental bonding finance facility to Armour Surat (**the Tribeca Facility**).

Pursuant to the terms of the Tribeca Facility, Tribeca will lend up to A$6,800,000 on a second ranking secured basis to the Company. The Tribeca Facility has a 9% per annum coupon rate payable by the Company quarterly in arrears on amounts drawn and in addition, the Company has agreed to grant to Tribeca 41,000,000 unlisted options to subscribe for ordinary shares (**Options**) with an exercise price of A$0.161. The Options will expire on the third anniversary of the first drawdown date under the Tribeca Facility.

ENTITLEMENT OFFER

On 8 August 2018 the Company announced an Accelerated Non-Renounceable Entitlements Offer to both institutional and eligible retail shareholders, on the basis of 1 new fully paid ordinary share for every 4 shares held at an issue price of $0.10 per share (**New Share**), to raise approximately $10.1 million (before costs of the entitlement offer).

The Entitlement Offer consisted of an entitlement offer to institutional shareholders and raised approximately $2.65 million and an entitlement offer to retail shareholders, which subsequently raised approximately $3.27 million. Approximately 101,293,985 New Shares were offered under the Entitlement Offer.

The Entitlement Offer was fully underwritten by Samuel Holdings Pty Ltd (as Trustee), an entity associated with the Company's Chairman Nicholas Mather. The shortfall amount of $4.21 million is in the process of being placed by the underwriter.

FURTHER ROMA SHELF PETROLEUM ACREAGE

The Group has been formally awarded the Authority to Prospect No. 2032 (**ATP 2032**) on the Roma Shelf, in the Surat Basin as detailed in Company's announcement on 12 September 2018. The Group has been notified by the Queensland Department of Natural Resources and Mines that it now holds 100% of ATP2032 which is located immediately to the north of Group owned PL22 and within close proximity to the Kincora Gas Plant.

The Authority to Prospect (ATP) covers 318 square kilometres or 105 sub-blocks over the prospective Roma Shelf. The ATP was awarded with the condition that gas produced will be for supply to the Australian domestic market only, which aligns with the Group's current production from the Kincora Gas Plant in to the Roma to Brisbane Gas Pipeline.

ATP 2032 is immediately adjacent to the Group's existing production licences and associated infrastructure, meaning that any commercial discovery within the tenure could be readily connected to the Kincora Gas Plant and thus to into Queensland's domestic market.

On 26 September 2018, the Company announced that it was awarded two additional exploration blocks and is the preferred tenderer on Petroleum Land Release Areas PLR201718-2-6 and PLR201718-2-7. Both areas are considered to be prospective for gas and liquids, and in close proximity to the existing gas infrastructure associated with the Kincora Gas Plant.

Apart from the above, the Directors are not aware of any other significant changes in the state of affairs of the Group after the balance date that are not covered in this report.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Armour Energy Limited, I state that:

In the opinion of the Directors:

1. the financial statements and notes of Armour Energy Limited for the financial year ended 30 June 2018 are in accordance with the *Corporations Act*, including:
   - giving a true and fair view of its financial position as at 30 June 2018 and its performance for the year ended on that date; and
   - complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
2. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1;
3. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, as disclosed in note 1; and
4. the remuneration disclosures contained in the Remuneration Report comply with s 300A of the *Corporations Act*.
5. Armour Energy Ltd and its wholly owned subsidiaries have entered into a deed of gross guarantee under which Armour Energy Ltd and its subsidiaries guarantee the debts of each other.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with s 295A of the *Corporations Act* for the financial year ended 30 June 2018.

On behalf of the board,

NICHOLAS MATHER
EXECUTIVE CHAIRMAN
BRISBANE, 28 SEPTEMBER 2018

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 REPORT

To the members of Armour Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Armour Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

a) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
b) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 REPORT (CONT.)

Material uncertainty related 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 group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying value of oil and gas assets

Key audit matter	How the matter was addressed in our audit
Refer to Note 16 in the financial report. The carrying value of oil and gas assets represents a significant asset of the company and assessing whether facts or circumstances exist to suggest that impairment indicators were present, and if present, whether the carrying amount of this asset may exceed its recoverable amount was considered a key audit matter. This assessment involves significant judgement applied by management.	Our audit procedures included: • Evaluating management's assessment if any impairment indicators in accordance with AASB 136 *Impairment of Assets* have been identified across the Group's oil and gas projects • Selecting a sample of capitalised expenditure additions and agreeing to supporting documentation • Visiting the Kincora Gas Plant and LPG Plant and Infrastructure in Surat Basin to verify the existence of oil and gas assets • Assessing management's accounting treatment of Gas Acceleration Program grants received during the year.

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

Carrying value of exploration and evaluation assets

Key audit matter	How the matter was addressed in our audit
Refer to Note 15 in the financial report. The carrying value of the Groups exploration and evaluation asset is impacted by the Groups ability, and intention, to continue to explore this asset. The carrying value of the exploration and evaluation asset is a key audit mater due to: • The significance of the total balance • The level of procedures undertaken to evaluate managements application of the requirements *of AASB 6 Exploration for the Evaluation of Mineral Resources* ('AASB 6') in light of any Indicators of impairment that may be present.	We evaluated management's assessment of each impairment indicator in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*, our testing included amongst other things: • Obtaining from management a schedule of areas of interest held by the Group and selected a sample of tenements and assessed as to whether the Group had rights to tenure over the relevant exploration areas by obtaining supporting documentation such as license agreements and also considered whether the Group maintains the tenements in good standing • Reviewing budgets and evaluating assumptions made by the Group to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the areas of interest were planned • Assessing management's determination that exploration activities have not yet progressed to the point where the existence or otherwise of an economically recoverable mineral resource may be determined through discussions with management, and review of the Group's ASX announcements and minutes of directors' meetings • Reviewing the directors' assessment of the carrying value of the exploration and evaluation costs, ensuring that management have considered the effect of potential impairment indicators, commodity prices and the stage of the Group's project also against the standard of AASB 6.

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 REPORT (CONT.)

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 38 to 48 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Armour Energy Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

T J Kendall
Director

Brisbane, 28 September 2018

ADDITIONAL INFORMATION

SHAREHOLDER INFORMATION

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 24 September 2018.

(A) DISTRIBUTION SCHEDULE

	Ordinary shares		Convertible notes at $0.11 per note		Unlisted options exercisable at $0.195 on various dates	
	Number of holders	Number of shares	Number of holders	Number of options	Number of holders	Number of options
1-1,000	53	7,446	-	-	-	-
1,001-5,000	129	456,290	-	-	-	-
5,001-10,000	228	1,894,521	-	-	-	-
10,001-100,000	847	33,019,564	10	877,836	-	-
100,001+	419	429,368,075	62	373,347,523	7	3,150,000
Total	1,676	464,745,896	72	374,225,359	7	3,150,000

	Unlisted options exercisable at $0.215 on various dates		Unlisted options exercisable at $0.265 on various dates		Unlisted options exercisable at $0.315 on various dates	
	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options
(1-1,000)	-	-	-	-	-	-
(1,001-5,000)	-	-	-	-	-	-
(5,001-10,000)	-	-	-	-	-	-
(10,001-100,000)	11	591,666	11	591,667	11	591,667
(100,001+)	11	3,849,998	9	3,850,001	9	3,850,001
(Total)	22	4,441,664	20	4,441,668	20	4,441,668

(cont. over page)

	Unlisted options exercisable at $0.345 on or before 29 March 2021		Unlisted options exercisable at $0.495 on or before 29 March 2021		Unlisted options exercisable at $0.161 on or before 31 July 2021	
	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options
(1-1,000)	-	-	-	-	-	-
(1,001-5,000)	-	-	-	-	-	-
(5,001-10,000)	-	-	-	-	-	-
(10,001-100,000)	-	-	-	-	-	-
(100,001+)	7	3,150,000	6	2,250,000	1	41,000,000
(Total)	7	3,150,000	6	2,250,000	1	41,000,000

The number of investors holding less than a marketable parcel of shares is 157, with a total of 338,736 securities. The Directors also wish to advise that as a result of the entitlement offers made in September 2017 and in August 2018, the conversion ratio for all unlisted Convertible Notes on issue has been adjusted to 1.0047. That is, for every 100,000 Convertible Notes held, the holder will currently receive 100,470 Armour Energy ordinary shares on conversion.

Similarly, the strike price of the various unlisted options on issue has been adjusted as follows:

Number	Strike Price	Expiry Date
3,150,000	$0.195	29 March 2021
3,150,000	$0.345	29 March 2021
2,250,000	$0.495	29 March 2021
1,750,000	$0.215	14 December 2019
1,750,000	$0.265	14 December 2019
1,750,000	$0.315	14 December 2019
666,666	$0.215	29 May 2020
666,667	$0.265	29 May 2020
666,667	$0.315	29 May 2020
2,024,998	$0.215	14 December 2019
2,025,001	$0.265	14 December 2019
2,025,001	$0.315	14 December 2019
41,000,000	$0.161	31 July 2021

ADDITIONAL INFORMATION (CONT.)

SHAREHOLDER INFORMATION (CONT.)

(B) TWENTY LARGEST HOLDERS

Rank	Name	Balance	% IC
1	DGR Global Limited	111,899,712	24.08
2	Mr Paul Cozzi	20,130,000	4.33
3	Rookharp Investments Pty Limted	15,094,213	3.25
4	Lachlan Gold Ltd	15,000,000	3.23
5	HSBC Custody Nominees (Australia) Limited	10,482,968	2.26
6	J P Morgan Nominees Australia Limited	8,355,147	1.80
7	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd DRP	8,141,618	1.75
8	Citicorp Nominees Pty Limited	7,967,866	1.71
9	K J Hayes Corporation Pty Ltd	7,000,000	1.51
10	Rookharp investments Pty Ltd	6,907,895	1.49
11	CF2 Pty Ltd	6,258,301	1.35
12	CPS Control Systems Pty Limited	5,094,773	1.10
13	Hayes Pastoral Corporation Pty Ltd	5,000,000	1.08
14	Mr Ronald Geoffrey Phillips	4,605,000	0.99
15	Avanteos Investments Limited	4,504,112	0.97
16	LGL Trustees Limited	4,319,000	0.93
16	J Barlow Consultants Pty Ltd	4,319,000	0.93
17	Finn Air Holdings Pty Ltd	3,972,617	0.85
18	Sixth Erra Pty Ltd	3,598,376	0.77
19	Kabila Investments Pty Limited	3,504,801	0.75
20	Mr Thomas Charles Goodwin & Mrs Susan Maree Goodwin	3,500,000	0.75
	Top 20	259,655,399	55.88
	Total	464,745,896	100.00

(C) SUBSTANTIAL SHAREHOLDERS

The Company is aware of the following substantial holdings:

Name	Number of shares	Current %
DGR Global Limited	111,899,712	24.08%

(D) VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

(E) RESTRICTED SECURITIES

There are no restrictions over any security holdings as at 30 June 2018.

INTERESTS IN TENEMENTS

As at the date of this report, the Group has an interest in the following tenements.

Tenement	Interest (%)	Grant date	Application date	Expiry date	Term	Held by
EP 171	100	29/06/11	N/A	28/06/19	5 years	Armour Energy Limited
EP 176	100	29/06/11	N/A	Under renewal	5 years	Armour Energy Limited
EP 172 (A)	100	N/A	19/12/09	N/A	5 years	Armour Energy Limited
EP 173 (A)	100	N/A	19/12/09	N/A	5 years	Armour Energy Limited
EP 174	100	06/12/12	N/A	31/12/19	5 years	Armour Energy Limited
EP 177 (A)	100	N/A	06/04/10	N/A	5 years	Armour Energy Limited
EP 178 (A)	100	N/A	06/04/10	N/A	5 years	Armour Energy Limited
EP 179 (A)	100	N/A	06/04/10	N/A	5 years	Armour Energy Limited
EP 190	100	06/12/12	N/A	31/12/19	5 years	Armour Energy Limited
EP 191	100	03/10/13	N/A	31/12/20	5 years	Armour Energy Limited
EP 192	100	03/10/13	N/A	31/12/20	5 years	Armour Energy Limited
EP 193 (A)	100	N/A	13/08/10	N/A	5 years	Armour Energy Limited
EP 194 (A)	100	N/A	13/08/10	N/A	5 years	Armour Energy Limited
EP 195 (A)	100	N/A	13/08/10	N/A	5 years	Armour Energy Limited
EP 196 (A)	100	N/A	13/08/10	N/A	5 years	Armour Energy Limited
ATP 1087 (A)	100	21/12/12	N/A	Under renewal	6 years	Armour Energy Limited
ATP 1107 (A)	100	N/A	30/05/12	N/A	4 years	Armour Energy Limited
ATP 1192 (A)	100	N/A	01/10/14	N/A	4 years	Armour Energy Limited
ATP 1193 (A)	100	N/A	01/10/14	N/A	4 years	Armour Energy Limited
EPM 19833	100	11/02/13	N/A	10/02/19	3 years	Ripple Resources Pty Ltd
EPM 19835	100	11/09/13	N/A	10/09/20	2 years	Ripple Resources Pty Ltd
EPM 19836	100	11/09/13	N/A	10/09/20	2 years	Ripple Resources Pty Ltd
EPM 25504	100	10/11/14	N/A	09/11/20	3 years	Ripple Resources Pty Ltd
EPM 25505	100	11/08/15	N/A	10/08/20	2 years	Ripple Resources Pty Ltd
EPM 25802	100	20/05/15	N/A	19/05/20	2 years	Ripple Resources Pty Ltd
EPM 26018	100	04/02/16	N/A	03/02/19	3 years	Ripple Resources Pty Ltd
EPM 26020	100	15/02/16	N/A	14/02/19	3 years	Ripple Resources Pty Ltd
EPM 26022	100	15/02/16	N/A	14/02/19	3 years	Ripple Resources Pty Ltd
EPM 26497	100	N/A	20/10/17	N/A	3 years	Ripple Resources Pty Ltd
ELM 30494	100	08/04/15	N/A	07/04/21	6 years	Ripple Resources Pty Ltd
ELM 30810	100	15/02/15	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 30817	100	15/02/15	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 30818	100	15/02/15	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 31012	100	30/09/16	N/A	29/09/22	6 years	Ripple Resources Pty Ltd

ADDITIONAL INFORMATION (CONT.)

INTERESTS IN TENEMENTS (CONT.)

Tenement	Interest (%)	Grant date	Application date	Expiry date	Term	Held by
PL 14	100	06/05/76	N/A	31/05/19	12 years	Armour Energy (Surat Basin) Pty Ltd
PL 53	100	13/12/90	N/A	12/12/21	10 years	Armour Energy (Surat Basin) Pty Ltd
PL 70	100	07/07/94	N/A	06/07/21	5 years	Armour Energy (Surat Basin) Pty Ltd
PL 511	100	19/06/15	N/A	18/06/25	10 years	Armour Energy (Surat Basin) Pty Ltd
PL 227	100	30/03/06	N/A	31/03/26	20 years	Armour Energy (Surat Basin) Pty Ltd
PL 71 (prod)	100	16/12/93	N/A	15/12/24	10 years	Armour Energy (Surat Basin) Pty Ltd
PL 71 (expl)*	80	16/12/93	N/A	15/12/24	10 years	Armour Energy (Surat Basin) Pty Ltd
PL 21	100	21/04/83	N/A	18/04/19	15 years	Armour Energy (Surat Basin) Pty Ltd
PL 22	100	23/06/83	N/A	31/05/24	20 years	Armour Energy (Surat Basin) Pty Ltd
PL 27	100	30/08/84	N/A	31/08/26	21 years	Armour Energy (Surat Basin) Pty Ltd
PL 264	100	03/12/25	N/A	31/12/19	16 years	Armour Energy (Surat Basin) Pty Ltd
PL 11W*	46.25	03/04/69	N/A	28/02/11	21 years	Armour Energy (Surat Basin) Pty Ltd
PL 11 Snake Creek*	25	03/04/69	N/A	28/02/11	21 years	Armour Energy (Surat Basin) Pty Ltd
PL 12W*	46.25	03/04/69	N/A	28/02/21	10 years	Armour Energy (Surat Basin) Pty Ltd
PL 28	46.25	06/12/84	N/A	30/11/20	21 years	Armour Energy (Surat Basin) Pty Ltd
PL 69	46.25	09/12/93	N/A	Under Renewal	12 years	Armour Energy (Surat Basin) Pty Ltd
PL 89	46.25	07/12/95	N/A	06/12/19	10 years	Armour Energy (Surat Basin) Pty Ltd
PL 320*	46.25	12/05/15	N/A	11/05/45	30 years	Armour Energy (Surat Basin) Pty Ltd
PL 30	90	19/09/85	N/A	08/07/27	21 years	Armour Energy (Surat Basin) Pty Ltd
PL 512	84	19/6/15	N/A	18/06/20	5 years	Armour Energy (Surat Basin) Pty Ltd
PPL 3	100	5/8/76	N/A	N/A	N/A	Armour Energy (Surat Basin) Pty Ltd
PPL 20	100	9/12/93	N/A	N/A	N/A	Armour Energy (Surat Basin) Pty Ltd
PPL 63	100	12/12/99	N/A	N/A	N/A	Armour Energy (Surat Basin) Pty Ltd
PPL 22	84	15/12/94	N/A	N/A	N/A	Armour Energy (Surat Basin) Pty Ltd
ATP 1190 W*	50.64	27/02/15	N/A	28/02/19	4 years	Armour Energy (Surat Basin) Pty Ltd
ATP 1190 B*	24.75	27/02/15	N/A	28/02/19	4 years	Armour Energy (Surat Basin) Pty Ltd
ATP 647 (Block 2656)	100	31/07/01	N/A	Under Renewal	12 years	Armour Energy (Surat Basin) Pty Ltd
ATP 2030A (A)	100	N/A	20/04/2017	N/A	N/A	Armour Energy (Surat Basin) Pty Ltd
ATP 2032A (A)	100	N/A	08/12/2017	N/A	N/A	Armour Energy (Surat Basin) Pty Ltd
ATP 2028	50	05/07/18	N/A	31/07/19	1 year	Armour Energy (Surat Basin) Pty Ltd
ATP 2029	100	05/07/18	N/A	31/07/19	1 year	Ausam Resources Pty Ltd

Tenement	Interest (%)	Grant date	Application date	Expiry date	Term	Held by
PEP 169	51		N/A			Armour Energy Limited (Joint Venture with Lakes Oil NL)
PEP 166	25		N/A			Armour Energy Limited (Joint Venture with Lakes Oil NL)
Kanywataba Block (Uganda)	100	14/09/17	N/A	14/09/19	2 years	Armour Energy Limited

* Refers to interests that have a beneficial interest.
(A) Refers to ‘application lodged’

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK.

CORPORATE DIRECTORY

DIRECTORS
Nicholas Mather (Executive Chairman)
Matthew Beach (resigned 16/5/2018) [Non-Executive Director]
Stephen Bizzell (Non-Executive Director)
Roland Sleeman (Non-Executive Director)
William (Bill) Stubbs (Non-Executive Director)
Eytan Uliel (appointed 20/11/2017) [Non-Executive Director]

COMPANY SECRETARY
Karl Schlobohm

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

BANKERS
Macquarie Bank Limited (Brisbane Branch)
Level 16A, Central Plaza One
345 Queen Street
Brisbane QLD 4000
Australia

SHARE REGISTRY
Link Market Services Limited
Level 21
10 Eagle Street
Brisbane QLD 4000
Phone: +61 1300 554 474
Fax: +61 2 9287 0303

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

COUNTRY OF INCORPORATION
Australia

STOCK EXCHANGE LISTING
Australian Securities Exchange (ASX Limited)
ASX Code: AJQ

INTERNET ADDRESS
www.armourenergy.com.au

AUSTRALIAN BUSINESS NUMBER
60 141 198 414

TWITTER
@armour_energy

REGISTERED OFFICE AND PRINCIPAL BUSINESS ADDRESS
Armour Energy Limited
Level 27
111 Eagle Street
Brisbane QLD 4000
Phone: +61 7 3303 0680
Fax: +61 7 3303 0681

dg

Armour Energy Limited

ABN 60 141 198 414
www.armourenergy.com.au