



Armour Energy Limited

20 August 2015

Letter of Intent Signed for US\$100m Northern Territory Farmout to American Energy Partners

Highlights:

- American Energy Partners (“AEP”) to apply state of the art US management, exploration and development strategies to unlock 21.5 million acres of Armour’s 34 million acre McArthur Basin, Northern Territory oil and gas exploration project. AEP to spend US\$100 million on work programs over a maximum of 5 years in exchange for a 75% working interest.
- Armour to be free carried 100% during Phase One and receive an upfront cash payment of US\$11million.
- AEP to provide access to US\$100m debt funding for Armour’s share of Phase Two appraisal and development costs.
- Armour to receive bonus payment of US\$7million on grant of one million acres of production licences, or grant and transfer of interests in pending tenements to AEP.
- 3 months exclusivity period.
- AEP and Armour completing definitive agreements.
- 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.
- Armour’s project area with AEP includes the Glyde prospect where Armour flowed 3.3 million standard cubic feet of gas per day from the Coxco Dolomite in 2012, the most important onshore discovery in the NT in the last 30 years.

The Directors of Armour Energy Limited (ASX: AJQ; Armour) are pleased to advise that the Company has executed a non-binding Letter of Intent (“LOI”) with American Energy – Acquisitions LLC, an affiliate of American Energy Partners, LP (“AEP”), whereby AEP and Armour will jointly further the exploration and development of Armour’s extensive oil and gas prone McArthur Basin Project in the Northern Territory of Australia.

Under the LOI, the parties will work towards execution of definitive agreements within 3 months, subject to up to 3 extensions of up to 3 months each, at AEP’s election upon payment of US\$250,000 in cash to Armour for each extension.



Key terms of the LOI include:

- AEP will farm-in to certain granted and pending tenements in the NT owned by Armour (as outlined within the blue border in **Figure 1**) (the “Farmin Tenements”) covering approximately 21.5 million acres, or the northern part of Armour’s dominant northern and central McArthur Basin tenement position. Armour will retain 100% ownership of the southern two tenements covering 7.8 million acres over overlapping Georgina and Southern McArthur Basin tenements, and all of its tenements in north west Queensland covering 5.1 million acres.
- AEP will carry 100% of Armour’s share of expenditure during a single phase work program of US\$100million (“Phase One”), following which the parties will form a joint venture.
- Armour will convey a 75% working interest and operatorship in the Farmin Tenements to AEP, subject to adjustment if the program is not completed. Armour will reclaim operatorship if AEP does not earn at least a 50.1% interest in the tenements.
- AEP will maintain the Farmin Tenements in good standing.
- AEP will pay Armour US\$11million in cash upon closing of the transaction and a further US\$7million upon the earlier of the grant of production licences over at least 1 million acres, or grant and transfer of interests in pending tenements to AEP.

As part of the finalised transaction, Armour will also issue options in an amount equivalent to 5% of the then current number of outstanding shares, exercisable at 20 cents per share expiring on 31 December 2016. AEP will also nominate a Director to be appointed to the Armour Board upon exercise of the options and expenditure of a minimum of US\$25m on the work program.

The work program will be agreed between Armour and AEP and designed to rapidly identify an area with the greatest likelihood of supporting an economic petroleum development over a production area of not less than 1 million acres.

Nick Mather, Armour’s Executive Chairman remarked on the agreement with AEP:

***“The entry of AEP into the LOI with Armour vindicates Armour’s view that the McArthur Basin represents one of the worlds great opportunities for the discovery of a new frontier oil and gas province. Elsewhere in the world, the organic rich Proterozoic Basins in Oman and Siberia host several multi billion barrel fields. In contrast, the McArthur has not really been touched.*”**

The AEP team built Chesapeake Energy, now a household name in the US oil and gas industry, and I fully expect AEP to apply the same effort to the McArthur and deliver the technical outcomes for which they are renowned.”

Armour Energy CEO, Robbert de Weijer said:

“Armour is excited to be entering into a mutually beneficial partnership with one of the world’s most capable companies with unrivalled experience unlocking major unconventional oil and gas plays. We are looking forward to seeing a substantial lift in investment and activity levels in the McArthur Basin, on terms which represent very attractive value for Armour’s shareholders. This transaction is a major milestone in the development of our company.”

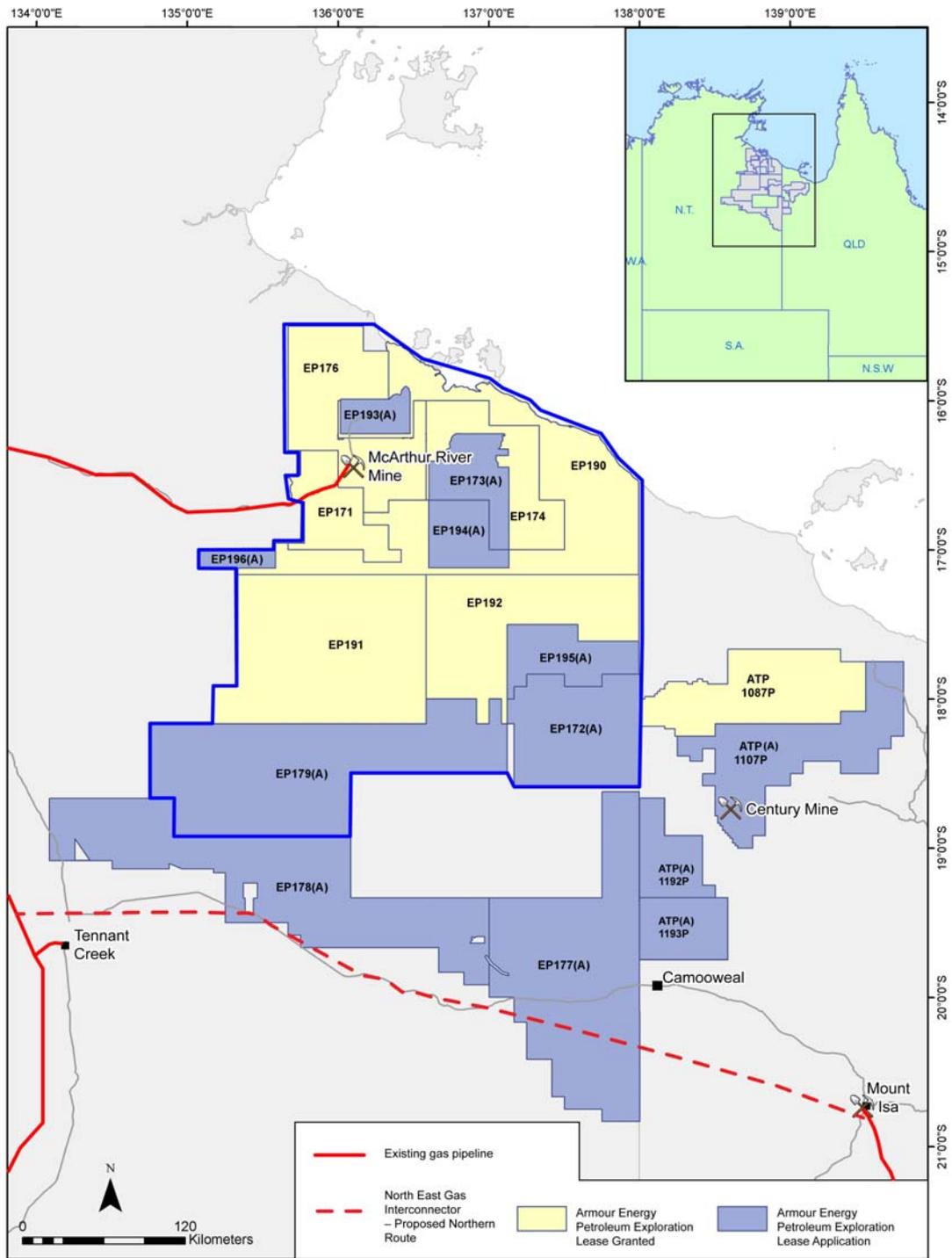


Figure 1: Armour’s Northern Territory tenement area, with the proposed AEP Farm-in area within the blue border



About American Energy Partners

American Energy Partners is an oil and natural gas operating and asset management company located in Oklahoma City, Oklahoma. It seeks to deliver best-in-class financial and operating results to investors and partners through industry-leading capabilities in developing and managing oil and natural gas assets in premier onshore US and international oil and natural gas fields. Founded in April 2013 by Aubrey K. McClendon, AEP has grown to more than 650 employees and has raised over US\$17 billion in equity and debt across nine direct investment vehicles.

Previously, Mr McClendon was co-founder, chairman and CEO of Chesapeake Energy Corporation from 1989 until 2013. Under his leadership, Chesapeake grew from a start-up to the 2nd largest producer of natural gas and the 11th largest oil producer in the US. Under McClendon, the company was widely credited with leading the US energy oil and natural gas unconventional resource revolution.

Further information regarding AEP is available on their website at www.americanenergypartners.com

About Armour Energy

Armour Energy is focused on the discovery and development of world class gas and associated liquids resources in an extensive and recently recognised hydrocarbon province in northern Australia. This region has only recently had its shale potential identified by Armour Energy. The domestic and global demand for gas, combined with the new shale extractive technologies and experienced personnel, provides Armour with an extraordinary opportunity to define and ultimately develop a new liquids rich gas province.

Armour Energy's permit areas are characterised by low population densities, cooperative stakeholders and aspects of the natural environment suited to the exploration and development of a future gas and liquids province. Armour places considerable importance on close liaison with traditional owners and all stakeholders.

Armour Energy is focusing on the exploration of the McArthur, South Nicholson and Georgina Basins in the Northern Territory and Queensland, and in the onshore Gippsland Basin in Victoria in joint venture with Lakes Oil, for gas and associated petroleum liquids.

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

A handwritten signature in blue ink, appearing to read "K. Schlobohm", is written over a horizontal line.

On behalf of the board
Karl Schlobohm
Company Secretary

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