

Armour Energy Limited

19 December 2016

Kincora Oil & Gas Project Update

The Board of Directors of Armour Energy Limited (“Armour”, or “the Company”, ASX: AJQ) are pleased to provide an update on the progress being made at the Company’s Kincora Project.

Kincora Project Gas Production Restart Program Update

Armour has continued to look at optimisations of its planned program for the restart of gas production at the Kincora Project in order to ramp up as rapidly as practically possible to be operating the Kincora Plant at capacity. As a result, we have now consolidated our initial 3 phase program into a 2 phase plan as follows:

- Phase 1 is the commencement of gas production ramping up to 9 TJ per day (3.3 PJs per annum) with production initially from the Newstead storage facility and then various wells across the fields that were last in operation. First gas production is targeted to be achieved by mid Q1 2017, and the balance of the restart (including associated liquids) to be completed by the end of Q2 2017. At these initial production rates, Armour expects that gas and liquids revenues will meet or exceed the operating costs of the Kincora Project.
- Phase 2 will involve the drilling of new wells plus workovers and stimulations of existing wells to achieve a ramp up of gas production to 20 TJ per day over a period of 12 to 18 months from first gas production. This production rate is 80% of the Kincora Gas Plant name plate capacity 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 Company’s ASX release of 19 July 2016.

The Kincora facilities restart program is scheduled as described in Figure 1.

| Target schedule | 2Q16 | | | 3Q16 | | | 4Q16 | | | 1Q17 | | | 2Q17 | | | 3Q17 | | | 4Q17 | | |
|--|---|---|---|------|---|---|------|---|---|------|---|---|------|---|---|------|---|---|------|---|---|
| | A | M | J | J | A | S | O | N | D | J | F | M | A | M | J | J | A | S | J | A | S |
| 1 Restart planning and estimate | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 2 Site preparation & Operational Readiness | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 3 Emu Apple Oil (inspections, tests, restart) | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 4 First Oil (despatch) | [Gantt bar with diamond marker at Sep 2016] | | | | | | | | | | | | | | | | | | | | |
| 5 MHC CPs (PPL3 IP run, data evaluation, Restart risk assessment, Connection agreement etc) | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 6 PPL3 repairs | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 7 PPL3 end of line modifications | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 8 Phase 1 Restart - commence production and ramp-up to 9TJ/day ⁽¹⁾ | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 8.1 Restart of Newstead gas process stream | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 8.2 First Gas Sales - ex Newstead | [Gantt bar with diamond marker] | | | | | | | | | | | | | | | | | | | | |
| 8.3 Kincora Gas Plant - LPG system (restart) | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 8.4 Restart field production (restart existing 22 wells) | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 8.5 LPG & Condensate Production & Sales | [Gantt bar with diamond marker] | | | | | | | | | | | | | | | | | | | | |
| 9 Phase 2 Restart - ramp-up to 20TJ/day over next 12 to 18 months ⁽¹⁾ | [Gantt bar] | | | | | | | | | | | | | | | | | | | | |
| 9.1 Drill new wells, stimulate and workover existing wells | [Gantt bar ending with 'ongoing...'] | | | | | | | | | | | | | | | | | | | | |

Figure 1 – Kincora restart program

Marketing Strategy & Newstead

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

Armour is currently negotiating with a number of potential customers regarding potential gas sales.

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

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

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



On behalf of the board
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