

Armour Energy Limited

24 August 2012

Exploration and Operations Update

Highlights:

Glyde #1 Lateral Well

- Testing on 10 August confirmed a gas flow of 3.33 million standard cubic feet per day equivalent (mmscf/d) at 125 psi pressure after 10 minutes on a one inch choke.
- Horizontal perforated casing placed over 648-840 metres down hole gas bearing zone.
- Well is temporarily suspended awaiting future completion and production testing.
- Independent resource assessment underway for Glyde #1 and Glyde Sub Basin.
- Gas comp 77% Methane, 11% Ethane, 11% Propane, 0.8% Butane, 0.2% Pentane, Neg CO₂.
- Highly prospective resource target in the Glyde Sub Basin of over 500km².
- Increased resource target priority at Cow Lagoon and Glyde Sub Basin.
- Link to gas flare video <http://www.youtube.com/watch?v=7z7V1bPSQWQ&feature=youtu.be>

Northern Territory Operations & Exploration Update

- Total NT planned expenditure of AUD17.264M for the 2012 field program exceeded by AUD2.3M (13.7%) at AUD19.571M including provisions to end August 2012.
- Five well drilled of eight planned for 2012 field program.
- Increased costs in mobilisation, drilling activities, geological data acquisition, transport and accommodation and infrastructure establishment and investment.
- Drilling contractor in NT currently suspended.
- Increased costs also due to hard formations, deeper and thicker prospective sections and access difficulties.
- Substantial Research & Development refund expected within 6 months.

Victorian Operations & Exploration Update

- Planning for Otway 1 Victoria underway.
- Hole planned beside Iona gas plant targeting Warre Sands and Eumarella Formation.

The Directors of Armour Energy Ltd (ASX: AJQ) wish to provide an update on progress of its exploration and operational activities, including the Glyde #1 lateral well which has been drilled in the 100% Armour Energy owned EP 171 in the Northern Territory. The Glyde #1 well is located approximately 61kms south of

McArthur River Zinc Mine in the Batten Trough of the McArthur Basin.

Glyde #1 Lateral Well

The well was terminated at a measured depth of 840m with the well orientated close to a horizontal trajectory at a vertical depth of circa 500m. Gas concentrations remained high throughout the drilling of the dolomites and dolomitic shales encountered until drilling was terminated late on 13 August 2012. A full suite of logs was then collected from the well.

The well has since been cased with solid casing through the vertical and curved sections of the well in conjunction with two separate stages of perforated casing which have been installed along the near horizontal lateral section of the well (refer Figure 1).

The solid casing section of the well was then cemented into place and a temporary cement plug placed inside the solid casing as per regulatory requirements for temporary suspension of the well. The well will now await final completion and production testing where the temporary plug will be removed allowing final cleanup of the well and production testing.

Armour Energy will now commence a resource analysis in relation to the Glyde #1 lateral well and then progress to an independent resource report. Armour Energy will also progress further analysis of the overall Glyde Sub Basin area to gain further understanding of the extent of the gas bearing formation and structure encountered in the Glyde #1 lateral well, and also the potential repetition of similar wells. An independent resource evaluation of the highly prospective Glyde Sub Basin which covers approximately 500km² will be prepared (refer Figure 4).

The Glyde #1 lateral well first encountered gas flow from the dolomitic shales in the lower section of the Barney Creek Formation on Friday 10th August 2012 as the well approached the estimated down hole location of the historic 1979 GR-9 mineral exploration core hole. Gas flows then continued from a 190m lateral near horizontal section of the well that is oriented close to horizontal.

The gas constituents from this interval were 77% Methane (C1), 11% Ethane (C2), 11% Propane (C3), 0.6% n-Butanes (C4), 0.2% n-Pentanes (C5) with negligible Carbon Dioxide. This analysis is based on gas chromatography during drilling of the interval.

Flow tests were carried out on 10th August. After 45 minutes of testing the total flow on a 16/64 inch choke from the Glyde #1 lateral well was 606 thousand standard cubic feet per day equivalent (mscf/d) at 412 psi pressure. A surface shut in, pressure of 554 psi was observed after flowing on a 16/64 inch choke for 30 minutes.

After 10 minutes of testing with a full open choke of 64/64 inch, the Glyde #1 lateral well was flowing at 3.33 million standard cubic feet per day equivalent (mmscf/d) at a pressure of 125 psi. This reading validated the high unimpeded flow potential of this reservoir as observed during drilling with gas chromatography readings.

The Company is conducting an assessment of several data sets including radiometry, airphoto interpretation, gravity and magnetics over the Glyde Sub Basin between Glyde and Cow Lagoon in order to plan seismic surveys and resource evaluation in conjunction with drilling.

Operations Review & Exploration Update

By way of guidance the Company advises that to date a total exploration expenditure of approximately AUD19.6M has been incurred in the Northern Territory including expected costs to the end of August. Significant components of this arise from, or are directly related to, a drilling rig contract which the company has currently suspended and one off infrastructure costs, geological data collection, seismic surveys and accommodation and transport costs.

The Company also wishes to advise that in accordance with the terms of the drilling rig contract, Armour Energy has suspended the drilling contractor from conducting further operations. In that regard Armour Energy has identified and notified detailed grounds of dissatisfaction giving rise to the suspension. The drilling rig contractor disputes the suspension.

The planned and budgeted original 2012 program in the Batten Trough included two (2) wells at Cow Lagoon, two (2) at Glyde (the site of the historic gas discovery in 1979) two (2) at Kilgour, one (1) at Abner, one (1) at Batten Creek; a total of eight (8) wells.

- Planned expenditure for the 2012 program was AUD17.3M and projected final expenditure is AUD19.6M, including additional costs of AUD600K associated with suspension and casing of the Glyde #1 well as a future producer. The overall increased costs of the 2012 drilling program in the Northern Territory, including one-off infrastructure and establishment, geological reconnaissance and assessment, seismic collection and interpretation and environmental baseline and community consultation costs, is expected to be AUD2.3M (13.7%) in excess of budget.
- A significant amount of this expenditure has been expended on the one-off establishment of infrastructure, including camps and access roads, seismic data collection and collection of baseline geological data which will continue to provide utility for the ongoing exploration and development program on the highly prospective Batten Trough of the Proterozoic aged MacArthur Basin, in the Northern Territory and equivalents to the east in Queensland, under application by Armour Energy.
- The Cow Lagoon well was drilled to twice the anticipated depth due to unforeseen thicker prospective sections, and this activity consumed the budget of both Cow Lagoon wells. A prospective recoverable resource of approximately 100 bcf was outlined as a result of encountering a substantial tight gas column at Cow Lagoon.
- A deep well was planned for Kilgour #1 but was terminated at 1,142 metres depth due to water ingress from the Lynott Formation.
- At Glyde, the original plan to drill a single vertical well and a lateral well was carried out and completed. The vertical well encountered significant gas shows and drilling of the lateral well resulted in the discovery of substantial gas flows up to 3.3mm mmscf/day.
- Abner #1 was also planned for 1,800 metres but not drilled due to apparent similarities with Kilgour #1. Kilgour South and Batten Creek have also not been drilled due to the likely unsuitability of the drilling rig used by the contractor. However, access roads and drill pads were also prepared for Abner #1 and Kilgour South.
- The overall cost of supporting infrastructure including access tracks for seismic, drill pads and access roads suitable for transport of the drilling equipment has been AUD3.14M. The largest single infrastructure cost has been the cost of construction of 70km of access road to the Glyde well site

costing approximately AUD1.9M. A significant amount of this increased cost arises from matters that are subject of the currently suspended drilling rig contract.

- The costs associated with transport and accommodation total AUD2.75M against a budget of AUD2.0M. This was as a result of higher staffing rates by contractors and sub-contractors and higher service quality imposed by industry standards.
- A total of AUD1.8M was expended on the collection of baseline geological data (formation evaluation), to advance the forward exploration program, and will have ongoing utility.

Expenditure areas	Planned expenditure	Projected final expenditure
Mobilisation ^A	\$ 850,000	\$ 1,264,669
Drilling ^B	\$ 11,114,000	\$ 9,786,334
Sub-Total (drilling)	\$ 11,964,000	\$ 11,051,002
Infrastructure Investment ^C	\$ 1,000,000	\$ 3,144,561
Formation Evaluation	\$ 1,500,000	\$ 1,779,113
Seismic ^D	\$ 800,000	\$ 845,734
Transport & Accommodation ^E	\$ 2,000,000	\$ 2,751,308
Total	\$ 17,264,000	\$ 19,571,719

Note A: Planned expenditure includes fraccing equipment mobilisation of AUD500K. No fraccing was completed and costs associated with actual mobilisation are costs under the suspended drilling rig contract. Actual costs also include a provision for demobilization.

Note B: Estimate based on independent advice for 8 wells, including 1 lateral and fracc. Budgeted AUD11.96M compared to an actual of AUD11.05M. The program actually drilled 4 wells and 1 lateral. Drill costs are costs under the suspended drilling rig contract.

Note C: Estimate was based on original appraisal of infrastructure requirement. The total investment in infrastructure is in excess of that planned due to additional costs arising from the suspended drilling rig contract, and are based on amendments to road design and rig requirements.

Note D: 1/3 of the formation evaluation costs are attributable to well drilling costs and 2/3 are attributable to baseline geological data acquisition for the project which will have future utility.

Note E: Estimate was based on AUD100 per day for 30 people for 190 days. Actual was AUD135 per day and numbers exceeded allowance for 130 days. 2/3 of this amount is attributable to well drilling activities with 1/3 attributable for the establishment of infrastructure and seismic.

Armour Energy expects to lower operating costs during future operations in the Northern Territory by:

- (i) Reducing camp accommodation and transport costs;
- (ii) Minimising formation evaluation costs;
- (iii) Lower requirements for additional access infrastructure; and
- (iv) Shorter and more efficient mobilization.



Victorian Operations

In Victoria, Armour Energy is continuing to advance preparations for the drilling of the Otway 1 well in the Otway Basin, beside the Iona Gas Plant. Armour Energy holds a 51% ownership of PEP169. Costs of drilling the Otway 1 well will be shared 51/49 with Lakes Oil NL in which Armour Energy holds a 12.5% shareholding interest.

The Otway 1 well is expected to be drilled in the next quarter and has primary and secondary objectives for gas and condensate in the Warre Sands and the underlying Eumeralla Formation at circa 1500 metres and circa 2100 metres depth respectively.

Armour Energy and Lakes Oil drilled Moreys 1 to the north west in PEP 169 in April 2012, and discovered condensate and gas in a thin sand at the top of the Eumeralla Formation. The prognosis for Otway 1 is considered more favourable, and the well cost is budgeted at AUD2.5M.

Research and Development

Armour Energy has successfully applied and received payment of \$111,000 for eligible 2011 expenditure that qualifies under the Commonwealth's Research and Development (R&D) tax incentive.

Armour Energy has engaged a financial consultant to assist it in preparing and reviewing the relevant documentation to support Armour Energy's eligible expenditure under the Commonwealth's R&D tax incentive for the financial year ended 30 June 2012. The extent of the R&D tax incentive available to the Company is currently being assessed, but is expected to be substantial.

A handwritten signature in blue ink, appearing to read "K. Schlobohm", is positioned above the typed name of the Company Secretary.

On behalf of the board
Karl Schlobohm
Company Secretary

The resource estimates used in this announcement related to Cow Lagoon have been compiled by Raymond L Johnson Jr, General Manager Exploration and Production for Armour Energy, who is qualified in accordance with the requirements of ASX listing rule 5.11 and has consented to the use of the resource figures in the form and context in which they appear in this announcement.

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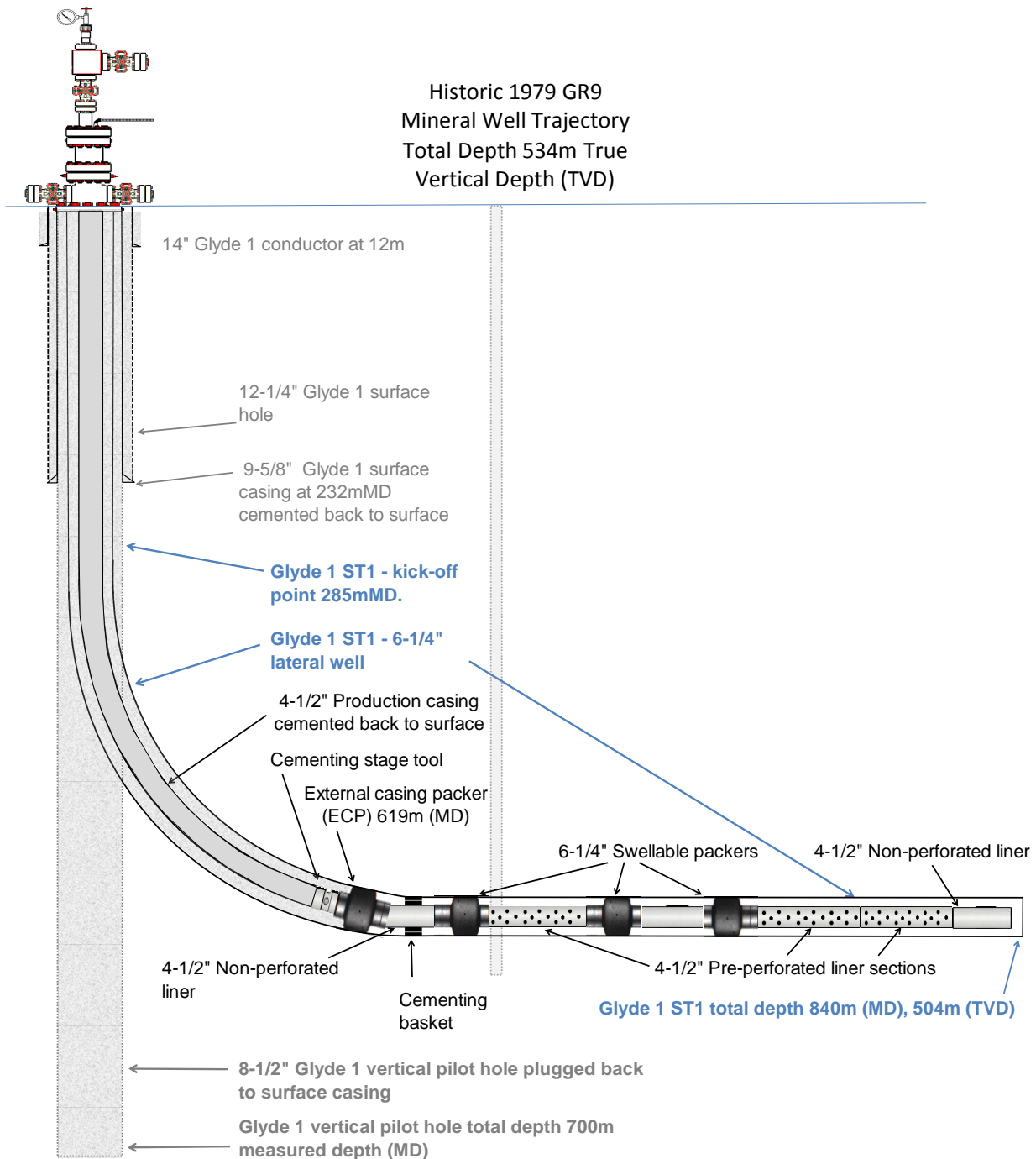


Figure 1: Configuration of the Glyde #1 Lateral well after casing and cementing awaiting completion and production testing



**Figure 2: Gas Flare during Drilling with Compressed Air at Glyde #1 Lateral Well
Measured Well Depth of circa 770m**



**Figure 3: Gas Flare during Testing at Glyde #1 Lateral Well
Measured Well Depth of circa 670m**

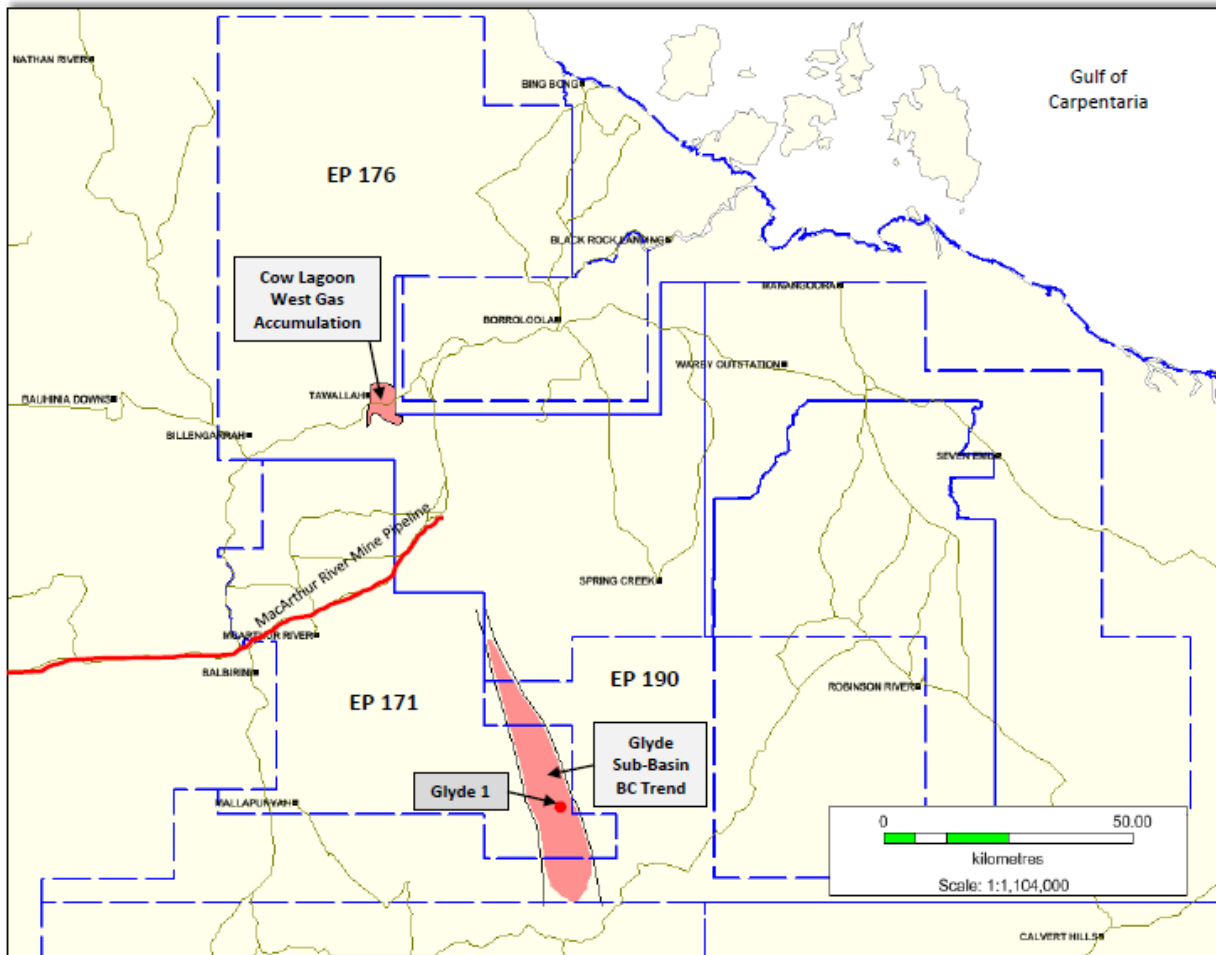


Figure 4: Glyde Sub Basin and Glyde #1 Lateral Well Location



On behalf of the board
 Karl Schlobohm
 Company Secretary

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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 and this approach has led to speedy grant of its key tenements in the Northern Territory. The Company intends to continue to invest this effort.

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.

The Board of the Company includes four past Directors of Arrow Energy, and the same expansive approach to exploration and development that drove Arrow's evolution is planned for Armour Energy. The CEO Mr Philip McNamara has been involved in the development of large coal projects, including most recently as managing Director of Waratah Coal, where he was instrumental in securing \$5.5 billion of financing for the proposed development of the Galilee Basin coal projects. The Company's technical team includes a range of industry experts and seasoned professionals who have been selected to support the Board and the CEO in our goal to build Armour Energy into a significant gas exploration and development company.

Further information regarding Armour Energy Limited, its projects, management team and a copy of its Prospectus are available on the Company's website at www.armourenergy.com.au

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