



Armour Energy Limited

1 February 2013

Armour Energy Increases Stake in Lakes Oil

Highlights:

- **Armour Energy takes a further 175,830 \$10 Notes in Lakes Oil**
- **Total stake in Lakes Oil now represents 18.6% (fully diluted)**
- **Armour Energy's farm-in agreements and options to acquire interests in PRL2 continue**
- **Ongoing, active work program in Victoria (subject to permitting)**

The Board of Armour Energy Ltd (Armour, ASX: AJQ) is pleased to announce that it has increased its stake in Lakes Oil NL (Lakes, ASX: LKO) by subscribing to convertible notes in the shortfall from the recent rights issue. Armour has taken a further 175,830 \$10 notes in Lakes Oil.

The notes convert at 0.2 cents on a 5,000 shares for one note basis and mature on 30 November 2014. The notes attract a 10% interest rate payable half yearly in arrears in cash and, at Armour's election, are convertible to shares at 0.2 cents per share each six months over a two year period commencing 30 November 2012. Details of the terms and conditions of the notes are contained in Lakes' Prospectus (now closed) lodged with ASIC on 23 October 2012.

In parallel with Armour's increased investment, Hancock Prospecting Pty Ltd's subsidiary, Timeview Enterprises Pty Ltd, has invested \$4.25m in Lakes and Professor Ian Plimer, one of Australia's most prominent and accomplished geologists has been appointed to the Lakes' Board. Professor Plimer is Emeritus Professor at the The University of Melbourne, where he was Professor and Head of the School of Earth Sciences (1991 – 2005), and was also Professor of Mining Geology at the University of Adelaide (2005-2012).

Armour Energy and Hancock Prospecting Pty Ltd each now hold, on a fully diluted basis, 18.6% of Lakes. Prior to acquisition of the additional 175,830 notes, Armour held 900 million Lakes shares and 69,170 Lakes Notes (representing a 15.07% interest in the company).

Lakes' key assets are:

- **PEP166 in the Onshore Gippsland Basin where, in addition to its stake in Lakes, Armour holds a 25% interest and a right to earn up to 51% by drilling an additional well or, alternatively, expending \$4.75 million on exploration. The main target within PEP166 is the extensive gas resources reservoired in the Strzelecki Group and oil in the Rintoul Creek Sandstone;**

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- **PRL2 in the Onshore Gippsland Basin where, over the next 2 years (or potentially longer, depending upon extensions resulting from regulatory delays), Armour has options to acquire in its own right half of Lakes' project interest in the Trifon and Gangell blocks within PRL2 and a 25% interest in the balance of PRL2. Alternatively, Armour may match Beach Petroleum's farm-in agreement on PRL2 under certain conditions; and**
- **PEP169 in the Otway Basin where Armour holds a direct 51% interest. PEP169 hosts the 2012 Moreys 1 gas and condensate discovery and the promising Otway 1 target.**

Lakes also holds mineral exploration licences over brown coal in the Latrobe Valley near Yallourn, with JORC exploration potential coal tonnage for three leases of between 3.77 and 5.72 billion tonnes¹.

Armour and Lakes are targeting gas and oil discoveries in the onshore sections of the Gippsland Basin, predominantly in the Strzelecki Group and the Rintoul Creek Sandstone. Armour and Lakes believe the bulk of the Gippsland Basin's oil and gas reserves which form the basis for BHP and Esso's massive offshore production activities are at least partially derived from the Rintoul Creek Sandstone and that the Rintouls Creek Sandstone offers significant onshore oil potential to Lakes and Armour.

The sands and shales of the Strzelecki Group are highly prospective in Lakes' tenements. Initial flows in the Wombat field have flowed up to 4.5 million cubic feet per day from the Strzelecki Group. Live oil flowed from a natural fracture in Wombat 3 believed to be sourced from Rintoul Creek Sandstone from a deep source beneath the total depth of the well.

Lakes has outlined some 1.68 trillion cubic feet of contingent resources in the Strzelecki Group in PRL2² and is targeting further resources on resumption of exploration work in the area. Work programmes in this area are presently delayed due to a Victorian fracking moratorium and finalisation of Beach Petroleum's farm-in activity, if any.

Gas resources of PRL2 and other targets are well placed for sale within Victoria, for power generation or industrial uses. The projects are surrounded by existing infrastructure including gas pipelines and power stations.

The main target structure in PEP166 is the Baragwanath Anticline which extends for 70 kilometres east-west from west of the Yallourn Power Station in the west to Boundary Creek, east of the Longford gas plant in PRL2 in the east. The structure is believed to host potentially large and extensive gas resources in the Strzelecki Group and potential oil accumulations in the Rintoul Creek Sandstone.

Armour believes that access to advanced fracking and well stimulation and drilling techniques and the experience of its technical team will contribute to early achievement of commercial gas and oil flows from the onshore section of the Strzelecki Group.

¹ Source: Lakes Oil 2012 Annual Report (page 16).

² Resource estimates are made by global independent consultants, Gaffney, Cline and Associates.

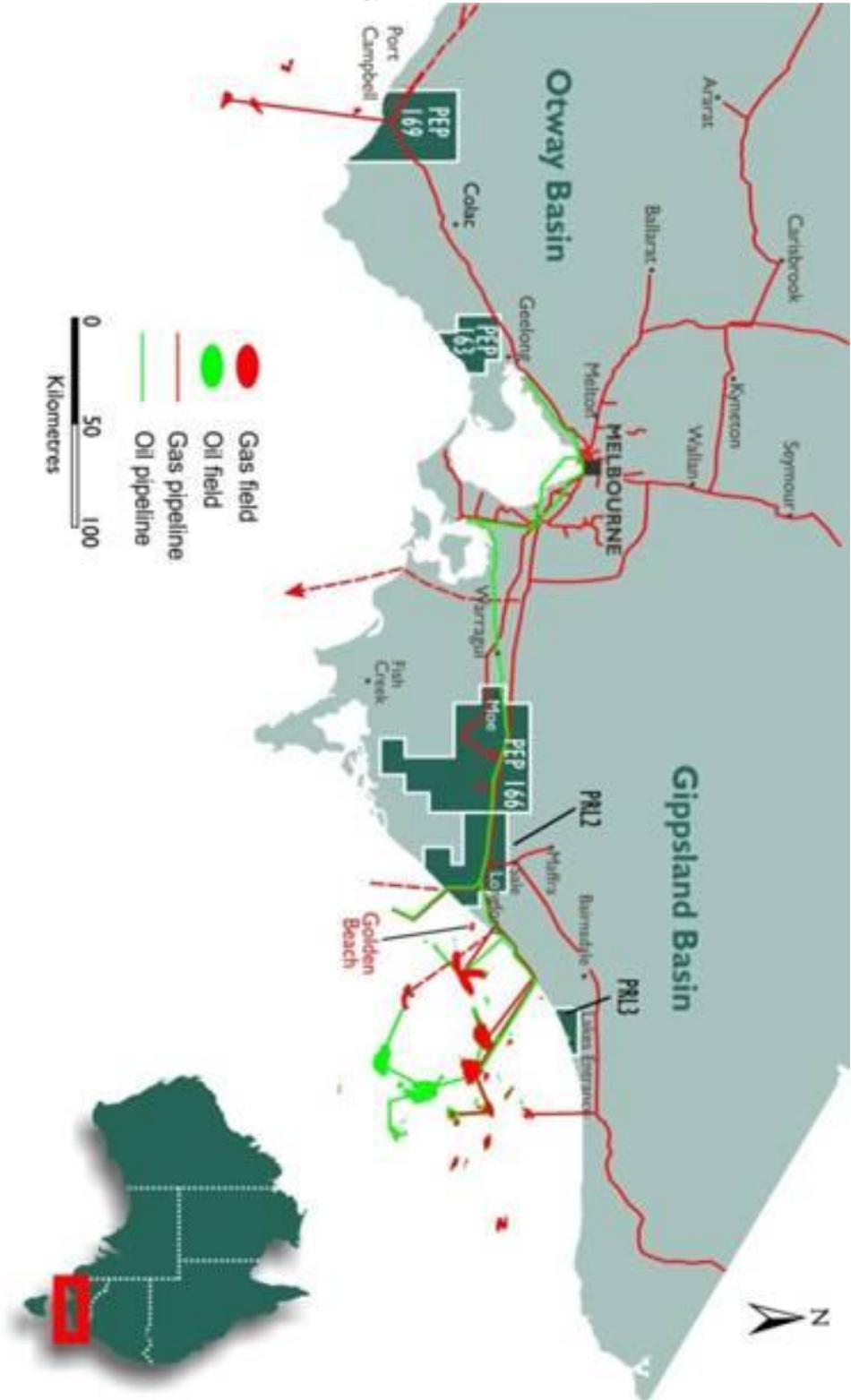


Armour is participating at the current 51% level in the drilling of Otway 1 well in PEP169 north of Port Campbell in western Victoria. Drilling of the well is currently scheduled for early March 2013. The well, located beside Origin's Iona Gas plant, is targeting commercial gas flows from the Waarre Sandstone and Eumeralla Formation.

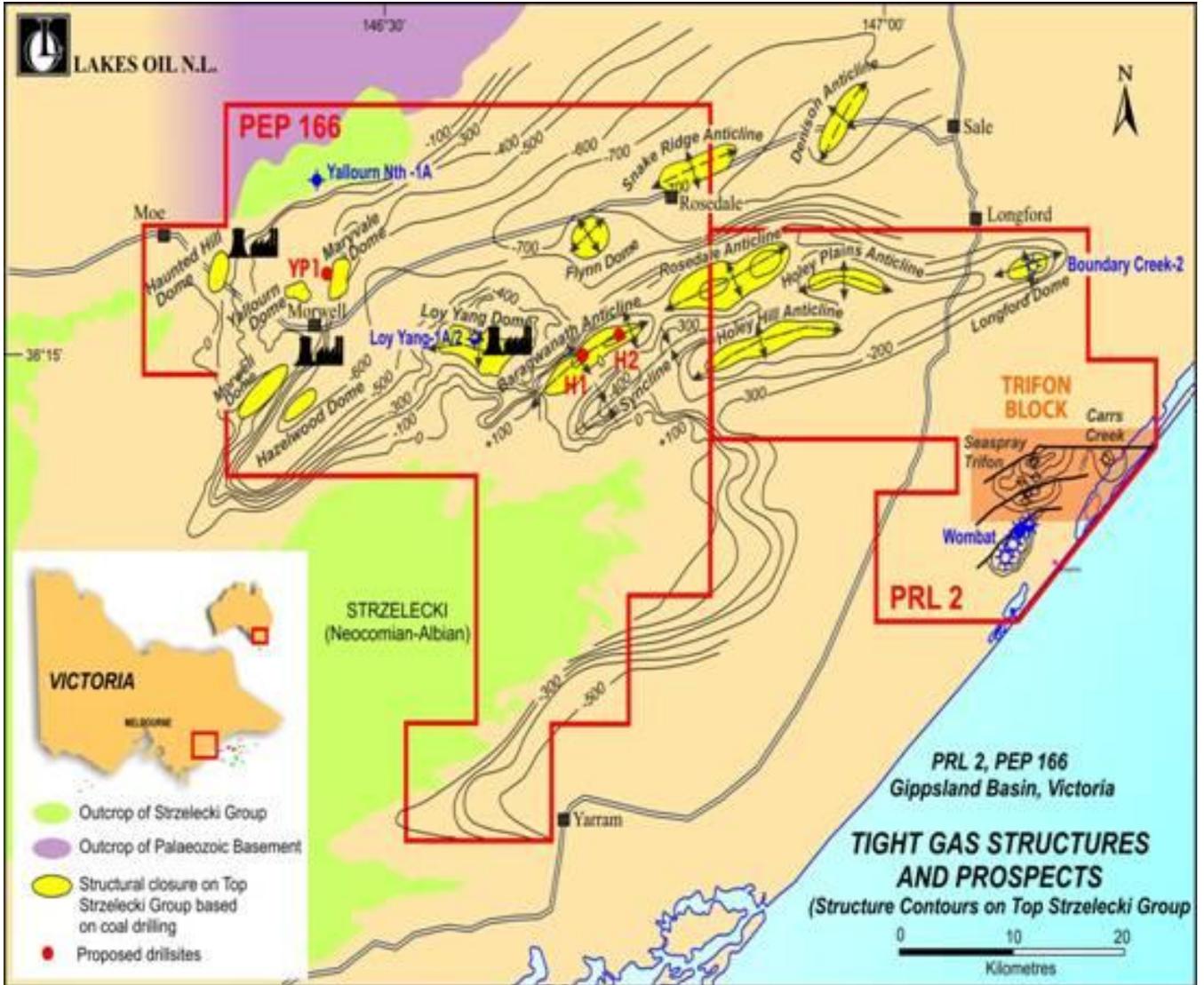
A handwritten signature in blue ink, appearing to read "K. Schlobohm", with a long horizontal flourish extending to the right.

On behalf of the Board
Karl Schlobohm - Company Secretary

Location of Lakes Oil and Armour Energy tenements in Victoria



PEP166 and PRL2 Tight Gas Structures and Prospects





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.armouenergy.com.au or by following on Twitter at [@Armour_Energy](https://twitter.com/Armour_Energy).

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