

Armour Energy Ltd

AJQ AU / AJQ.AX

SNAPSHOT

▶ **Market Cap**
US\$59m
A\$64.1m

▶ **Avg Daily Turnover**
US\$0.08m
A\$0.09m

▶ **Free Float**
66.9%
200.66m shares

Important: The recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

Moderate Volatility

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	0.9%	1.6%	0.0%
Absolute	-5.4%	-1.9%	17.8%

Major shareholders

	% held
DGR Global Limited	25.0
Och-Ziff Capital Management Group LLC	11.7
JPMorgan Asset Management Holdings Inc.	8.0

Light it up, Egilabria 2 Flares

Armour Energy is focussed on the discovery and development of gas and associated liquids resources in a recently recognised hydrocarbon province in northern Australia. It has conventional and unconventional acreage positions including 133,000km² of granted licences and applications across the South Nicholson, Georgina, and MacArthur basins.

Drilling in Queensland ▶

AJQ has designed an exploration program to define up to 9Tcf of potential gas resources and reserves in its acreage north of Mt Isa, Queensland. The company is currently drilling a vertical exploration well in ATP1087 (Egilabria 2) targeting the Lawn Shale at 1810m. Gas shows and flares have been seen from the well at multiple depths, and the Lawn Shale appears to be thicker than expected. AJQ has identified an independently certified mean prospective resource of 22.5 Tcf from the shale, and is targeting another 18Tcf of potential from overlying and underlying formations.

Updated NT Resources ▶

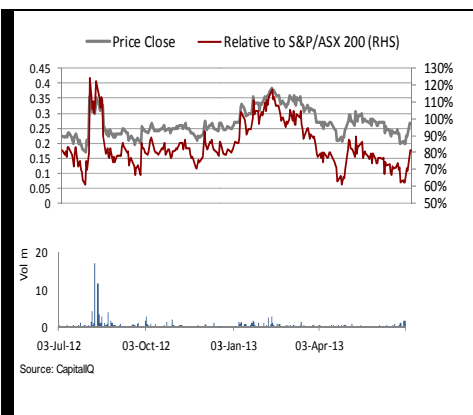
AJQ's Macarthur Basin acreage in the Glyde Sub-basin has been independently assessed to have 322PJ of mean prospective conventional resources (unrisked) and 12.5PJ of 3C conventional gas resources in the Coxco Dolomite.

This was based on the drilling results of Glyde 1 ST1 well last year. AJQ believes there is much greater potential for shale gas resources in the Barney Creek formation, which is host to numerous oil and gas shows and has an assessed resource potential of 18.6Tcf.

Why we are watching ▶

AJQ is in the midst of a four well campaign in its 100% owned ATP1087 acreage comprising 3 vertical wells and 1 lateral. Following Egilabria 2, AJQ will move to drill and frac the lateral before the other two verticals. We believe further gas shows, fracture stimulation success and liquids shows will be key results.

On current granted acreage in the NT and Qld, AJQ is trading at an EV/acre of ~\$8.34. On total acreage including applications, AJQ is trading at <\$1/ac. Given recent deals have been done at ~A\$11-37/acre, for early stage exploration in the area, we see significant upside if the resource can be proved up.

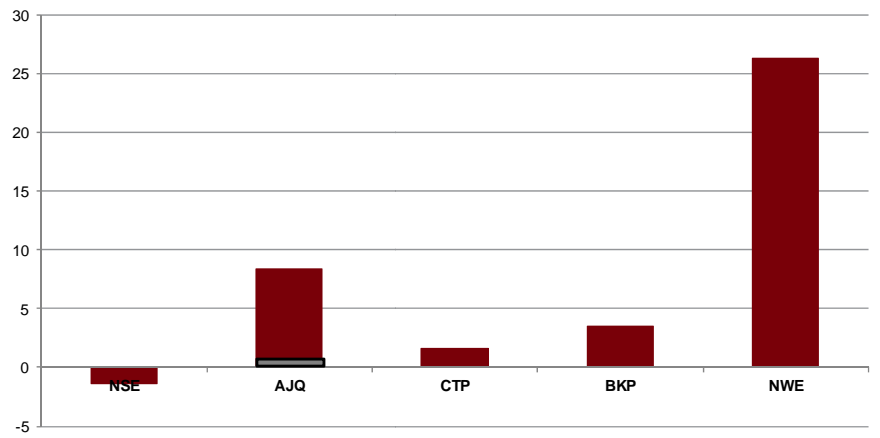


Upcoming Milestones

	Q2	2013		2014	Budget (\$000s)
		Q3	Q4	Q1	
Northern Territory (EP 171 and EP 176)					
Drilling (3x Glyde sub basin wells)					6000
Queensland (ATP1087)					
Seismic (250 km)					4000
Drilling (3xvertical, 1xlateral - fraced)					14000
Victoria (PEP 169)					
Drilling (1 well)					1250
					25250

SOURCES: RBS MORGANS, COMPANY REPORTS

Figure 1: EV/Net acre (A\$)



SOURCES: RBS MORGANS, IRESS, COMPANY REPORTS

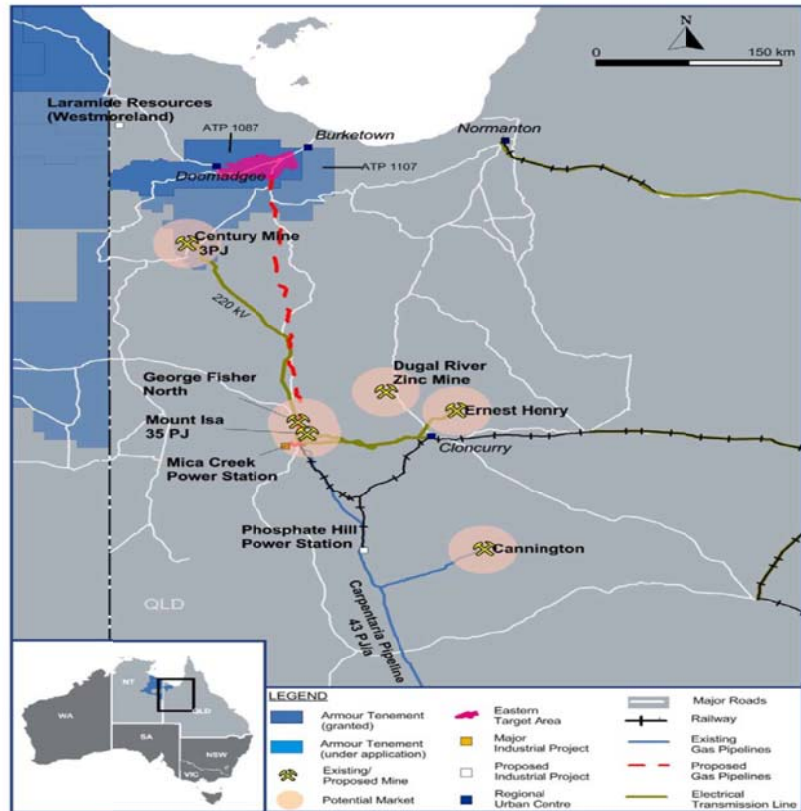
Note: AJQ EV/Net acre is equivalent to less than \$1 for total acreage including pending and applications

Gas flare from Egilabria 2 well



SOURCES: RBS MORGANS, COMPANY REPORTS

ATP 1087 location map



SOURCES: RBS MORGANS, COMPANY REPORTS

QUEENSLAND			
BRISBANE	(07) 3334 4888	PORT MACQUARIE	(02) 6583 1735
BUNDABERG	(07) 4153 1050	SCONE	(02) 6544 3144
CAIRNS	(07) 4222 0555	SYDNEY – LEVEL 9	(02) 8215 5000
CALOUNDRA	(07) 5491 5422	SYDNEY – LEVEL 33	(02) 8216 5111
CAPALABA	(07) 3245 5466	SYDNEY – MACQUARIE STREET	(02) 9125 1788
CHERMSIDE	(07) 3350 9000	SYDNEY – MACQUARIE STREET (Parramatta)	(02) 9615 4500
EDWARD STREET	(07) 3121 5677	SYDNEY – REYNOLDS EQUITIES	(02) 9373 4452
EMERALD	(07) 4988 2777	WOLLONGONG	(02) 4227 3022
GLADSTONE	(07) 4972 8000		
GOLD COAST	(07) 5581 5777	ACT	
IPSWICH	(07) 3202 3995	CANBERRA	(02) 6232 4999
MACKAY	(07) 4957 3033		
MILTON	(07) 3114 8600	VICTORIA	
NOOSA	(07) 5449 9511	MELBOURNE	(03) 9947 4111
REDCLIFFE	(07) 3897 3999	BRIGHTON	(03) 9519 3555
ROCKHAMPTON	(07) 4922 5855	CAMBERWELL	(03) 9813 2945
SPRING HILL	(07) 3833 9333	CARLTON	(03) 9066 3200
SUNSHINE COAST	(07) 5479 2757	FARRER HOUSE	(03) 8644 5488
TOOWOOMBA	(07) 4639 1277	GEELONG	(03) 5222 5128
TOWNSVILLE	(07) 4725 5787	RICHMOND	(03) 9916 4000
YEPPON	(07) 4939 3021	SOUTH YARRA	(03) 9098 8511
		TRARALGON	(03) 5176 6055
		WARRNAMBOOL	(03) 5559 1500
NEW SOUTH WALES			
SYDNEY	(02) 8215 5055	WESTERN AUSTRALIA	
ARMIDALE	(02) 6770 3300	PERTH	(08) 6462 1999
BALLINA	(02) 6686 4144		
BALMAIN	(02) 8755 3333	SOUTH AUSTRALIA	
CHATSWOOD	(02) 8116 1700	ADELAIDE	(08) 8464 5000
COFFS HARBOUR	(02) 6651 5700	NORWOOD	(08) 8461 2800
GOSFORD	(02) 4325 0884		
HURSTVILLE	(02) 9570 5755	NORTHERN TERRITORY	
MERIMBULA	(02) 6495 2869	DARWIN	(08) 8981 9555
NEUTRAL BAY	(02) 8969 7500		
NEWCASTLE	(02) 4926 4044	TASMANIA	
NEWPORT	(02) 9998 4200	HOBART	(03) 6236 9000
ORANGE	(02) 6361 9166		

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STATUTORY DISCLOSURES

RBS Morgans Corporate Limited was a Co-Lead Manager to the Armour Energy Limited initial public offer in April 2012 and received fees in this regard

RECOMMENDATION STRUCTURE

For a full explanation of the recommendation structure, refer to our website at https://www.rbsmorgans.com/research_disclaimer.

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