



QUARTERLY ACTIVITIES REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2013

ASX CODE: AJQ

SHARES ON ISSUE
300,767,196

LISTED OPTIONS
57.7 million

MARKET CAPITALISATION
\$54m (at AUD\$0.18)

DIRECTORS

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HIGHLIGHTS

- **First successful application of multi-stage, hydraulically stimulated, horizontal well technology in the Australian shale gas industry as the Egilabria 2 DW1 lateral well in Queensland commences continuous gas flows.**
- **Oil and gas discovery at the Lamont Pass 3 well in the Northern Territory, where oil bearing Barney Creek Shale was intersected from 260 metres to 780 metres. The discovery was reported to the Northern Territory Government in accordance with the Northern Territory Petroleum Act, 1994.**
- **Grant of EP191 and EP192 in the Northern Territory increases Armour Energy's granted tenement footprint in the Northern Territory by 86%.**
- **Revised assessment of unconventional Mean Prospective Resources in the Northern Territory following successful 2013 exploration.**
- **Exercise of Farm-in Rights for Lakes Oil NL's PRL2 in the on-shore Gippsland Basin, Victoria.**



PROJECT AND EXPLORATION ACTIVITIES

Queensland Exploration Activities

Egilabria 2 and Egilabria 2 DW1 Wells – Results to Date

As previously reported, the Egilabria 2 vertical well was spudded on 12 May 2013, and terminated and cased in mid-August at 2102 metres. The hydraulic stimulation of the E2 DW1 lateral well was undertaken during the period from 31 August to 13 September 2013. A total of eight stages were originally targeted and twelve zones were hydraulically stimulated. The majority of proppant was placed in the middle four stages covering the top 66 metres of the organic rich 137m thick Lawn Hill Shale. The historic 1991 Egilabria 1 well to the west recorded a 125 metre thick section of Lawn Hill Shale with highest gas noted (up to 8%) in this uppermost section. The Egilabria 2 well is located within the Company's 100% owned Queensland tenement ATP 1087, as indicated in **Figure 1**.

On 4 November 2013, Armour Energy reported that that initial gas flows to surface and a flare of at least 2 feet had been observed from the Egilabria 2 well following the finalisation of the drilling and hydraulic stimulation of the lateral section. Continuous gas flows were being observed in conjunction with flow back of fluids injected during the stimulation of the vertical well. At the time the well had flowed back 44% of stimulation fluids, which were continuing to flow at a rate of approximately 13 barrels per day in conjunction with initial volumes of gas (at open choke and zero (0) psi pressure observed at the surface separator). The gas flow rate was not measured, but a sustained flare of at least 2 feet was observed.

As reported to the market on 6 December 2013, the Company ceased flowback operations from Egilabria 2, collected water and gas samples from the well separator, and commenced a pressure build-up test which is expected to continue into early 2014. Armour recovered 45% of stimulation fluids injected into the well before shutting-in the well. Following the shut-in, the well continued to build up surface pressure, which is encouraging, and indicates that a connection to the reservoir was created through the hydraulic stimulation operations in the highly prospective Lawn Hill Shale.

When operations resume in Queensland in 2014 after the wet season, Armour will retrieve the downhole gauges measuring pressure data which will provide valuable reservoir information that the Company will use to progress its future development strategies and hydraulic stimulation designs in ATP 1087. The Company plans also to re-commence flow testing at Egilabria 2 using artificial lift techniques (e.g., siphon string installation, Nitrogen lifting) to clean up recoverable stimulation fluids towards obtaining an unencumbered gas flow rate.

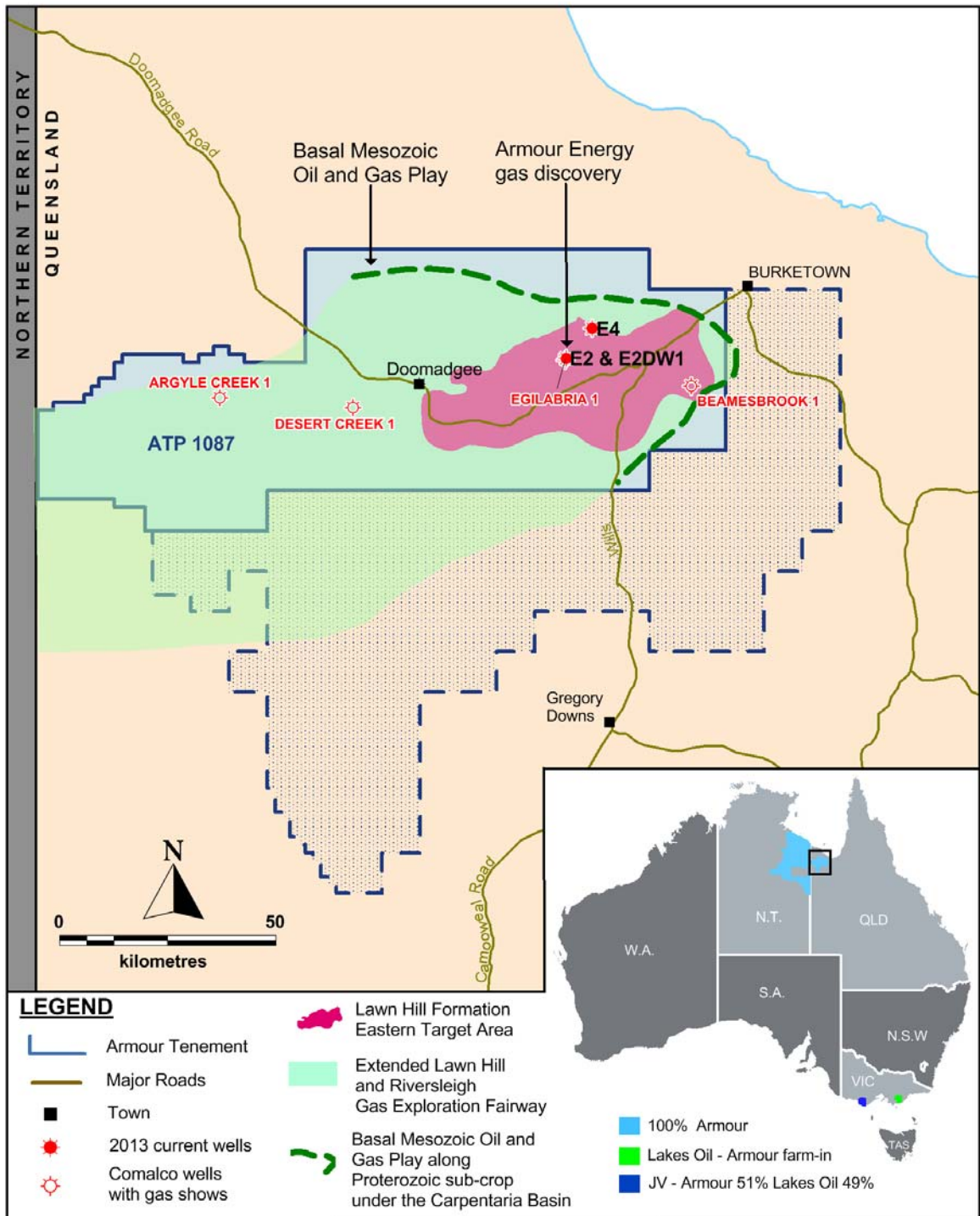


Figure 1: Location of the Egilabria 2 well site within ATP 1087, Queensland.

Northern Territory Exploration Activities

Armour Energy Granted EP191 and EP192 in Northern Territory

On 2 October 2013, the Company advised that it had been granted exploration tenements EP191 and EP192 over a combined area of 24,700km² (6.1 million acres) in the Northern Territory, as indicated by **Figure 2**. This increased the Company's granted Northern Territory tenement footprint by 86%.

The granting of EP191 and EP192 will allow Armour to extend its exploration program into the southern portion of the McArthur Basin and east towards the Isa Superbasin in ATP 1087, Queensland, where the Company's on-going exploration programs are targeting the Lawn Hill and Riversleigh Shale formations.

Ongoing studies and reviewed core hole data have identified additional shale source rock prospectivity in the Wollgorang and McDermott Formations of the Tawallah Group in the newly granted tenements. Live oil was reported within the McDermott Formation in the GSD7 well drilled by BHP in northern EP191 in 1995. The oil was described as coming from carbonate veining within evaporitic dolostone and dolomitic mudstone between 550 and 620 metres depth.

The recognition of hydrocarbon generation from these formations demonstrates the potential for deeper hydrocarbon accumulations below the Barney Creek Shale in EP171 and EP176, also held by Armour.

Additionally, Armour believes the Wollgorang and McDermott Formations are key exploration targets in EP's 174, 190, 191 and 192. These 100% owned Armour tenements contain a number of large surface expressed basins, synclines and anticlines based on regional magnetics.

In 2014, the Company will commence a series of feasibility and regional studies that will examine the hydrocarbon potential of the Wollgorang and McDermott Formations to generate leads and prospects and to high-grade areas for enhanced geophysical survey acquisition.

Lamont Pass 3 Vertical Well

On 5 October 2013 the Company spudded the Lamont Pass 3 well located 50km south of the Myrtle Sub-basin, and 25km north of the Glyde 1 (ST1) gas discovery made by Armour Energy in 2012 (**Figure 3**).

While drilling on air at 260 metres, the Company first noted gas and associated oil indications with minor fluorescence and hydrocarbon cut. Prior to setting casing at 304 meters, significant connection gases were reported, up to 25 times the background gas levels. Core drilling then proceeded through the Lower Lynott formation. Hydrocarbon cut and fluorescence continued to be observed between 391 and 534 metres with a number of core sections taken and preserved for further analysis.

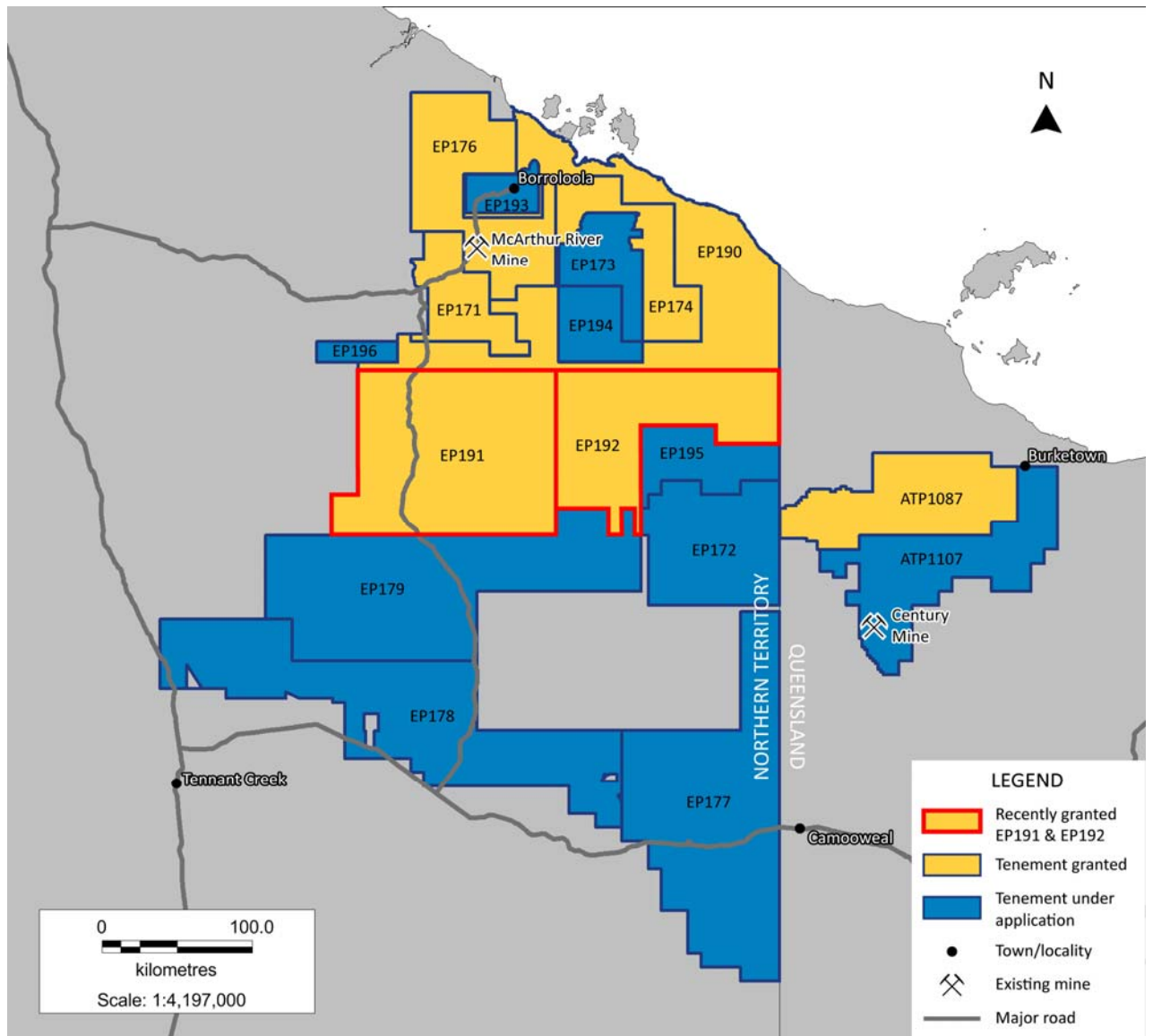


Figure 2: Location of Armour Energy tenements, Northern Territory.

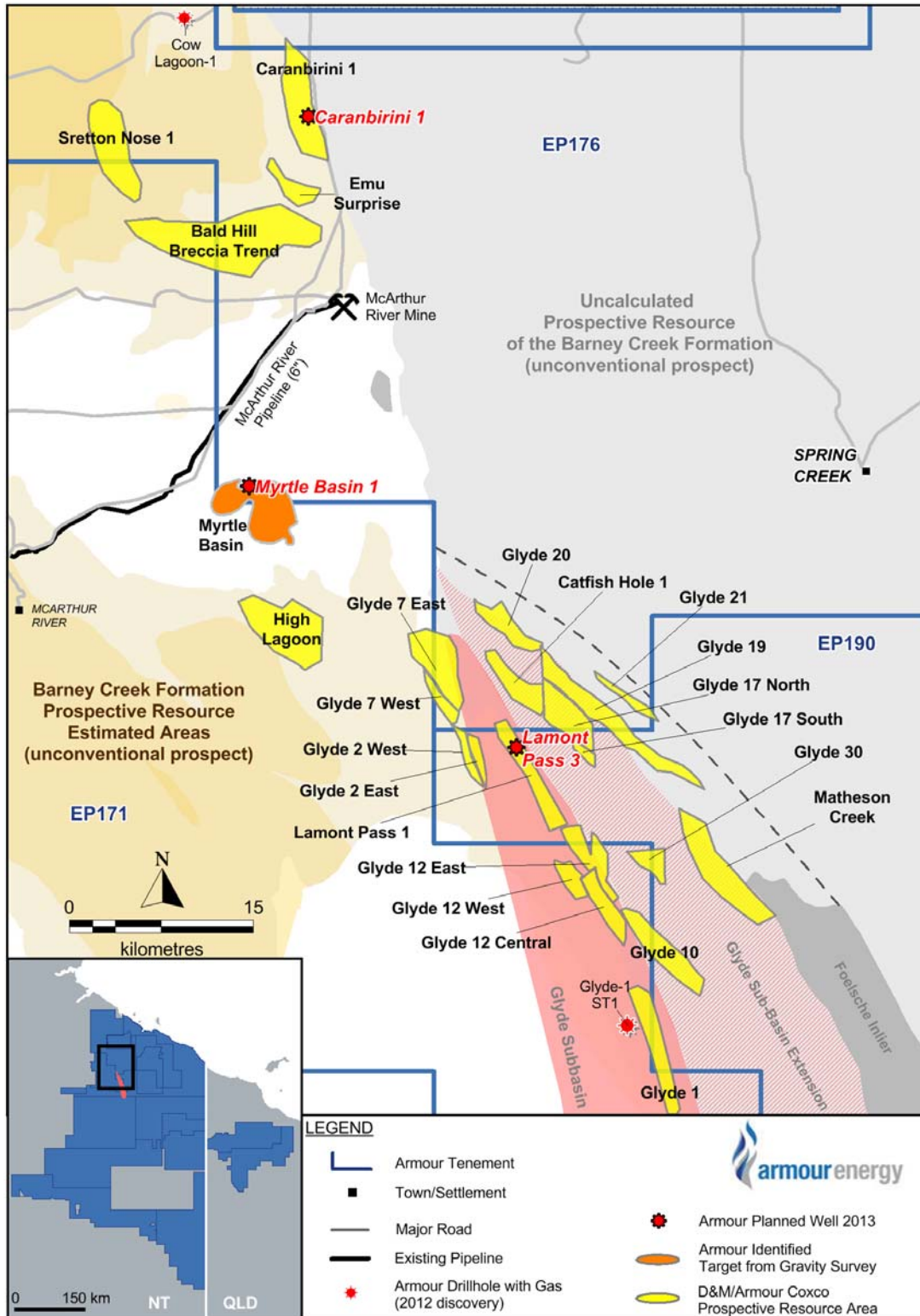


Figure 3: Myrtle Sub-basin and Glyde Sub-basin location map.

At a depth of 535 metres the well penetrated live oil in fractures and continued to encounter minor shows of background gas. Core samples of the oil zone were taken for further lab analysis.

On 13 November 2013, the Company reported that the Lamont Pass 3 well was at a depth of 922 metres progressing towards a planned total depth of approximately 1,200 metres. At that point the well continued to encounter bitumen, as well as blooming, milky and streaming oil cuts, and live oil in the Barney Creek Shale source rock. Chips from core samples placed into nipple dishes from various depths and treated with chlorethane (which draws out oil) clearly display the existence of hydrocarbons under florescence. Refer to **Figures 4 to 7** below.

The well penetrated a continuous section of oil-bearing Barney Creek Shale from 260 meters to 780 meters. Core barrels with hydrocarbon odour were retrieved, connection and background gases were observed with associated live oil in fractures, interbedded dolomites and consistent oil cuts from the Barney Creek Shale source rock.

Parts of the Batten Trough and Glyde Sub-basin underlie EP 190 and the associated oil-bearing Barney Creek Shale source rock in addition to the recently identified Wollogorang and McDermott Shale source rocks of the Tawallah Group that underlie EP 191 and EP 192. Refer location map at **Figure 2**.

On 6 December 2013, the Company reported that it had terminated the drilling of the Lamont Pass 3 well at a depth of 1275 metres, and had plugged and abandoned it in line with its defined exploration program. Due to the multiple oil shows observed throughout the Barney Creek Shale while drilling the well, the Company reported an oil and gas discovery to the Northern Territory Government for this interval in accordance with the NT Petroleum Act based on:

- (a) observing connection gases of up to 100 units by gas chromatography;
- (b) encountering 520m of oil bearing Barney Creek Shale substantiating liquids potential noted previously by MBA Petroleum Consultants; and
- (c) reaching a total depth of 1,275m collecting 970m of core samples to characterise the geology of the Glyde Sub-Basin.



Figure 4: Photo of blooming, milky and streaming cuts from the oil bearing Barney Creek Shale, 434m.



Figure 5: Photo of 2-1/2" core sample with live oil shows at 535m.

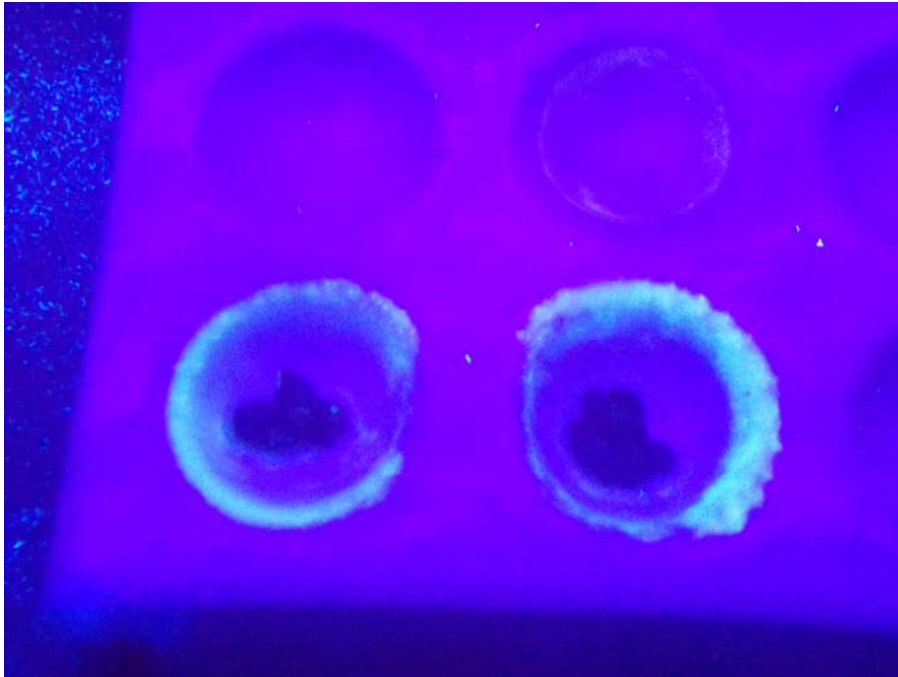


Figure 6: Photo of residual ring cuts from oil-bearing Barney Creek Shale source rock, 696m.



Figure 7: Core photo of organic rich oil-bearing Barney Creek Shale source rock, 710m.

Reassessment of Northern Territory Conventional Mean Prospective Gas Resources

On 28 November 2013, the Company advised that third-party resource estimates had been updated following the Company's 2013 Northern Territory exploration program.

SRK Consulting (Australasia) Pty Ltd estimated 2,870 Bscf (3,496 PJ) of Mean Prospective Resources, unrisks, on fifty-five (55) of Armour's targeted prospects and leads. These estimates were made in accordance with the Society of Petroleum Engineers (SPE) Petroleum Resource Management System (PRMS) guidelines, and as of 26 November, 2013.

These estimates include and compare to the previous twenty-three (23) targets assessed by DeGolyer and MacNaughton in accordance with SPE PRMS guidelines and as of 1 April 2013 (refer **Table 1** below).

This type of conventional gas accumulation was discovered by Armour in the Glyde 1 ST lateral well in the Coxco Dolomite of the Teena Formation, a conventional, free-flowing reservoir in the Batten Trough, McArthur Basin. The Glyde 1 ST1 lateral well was tested in August 2012 and flowed up to 3.3 million standard cubic feet per day equivalent (MMscf/d) at a pressure of 125 psi during 45 minutes of testing on a 16/64 inch choke.

The Coxco prospects and leads were defined by SRK based on extensive studies of surface geology, well data, regional geophysical data, and integration of the extensive airborne gravity and magnetic surveys completed by the Company. The location of EP171, 176 and 190 within Armour's broader Northern Australian portfolio is illustrated in **Figure 2** above.

Assessor	Low Estimate (Bscf)	Most Likely Estimate (Bscf)	High Estimate (Bscf)	Mean Estimate (Bscf)	Low Estimate (PJ)*	Most Likely Estimate (PJ)*	High Estimate (PJ)*	Mean Estimate (PJ)*
DeGolyer and MacNaughton (as of 1 April 2013)	191.5	255.6	345.9	264.4	233.2	311.3	421.3	322.0
SRK Consulting (as of 26 November 2013)	890	2,254	5,708	2,870	1,084	2,745	6,952	3,496

*Based on Glyde 1 ST1 gas chromatography data or a conversion of 1.218 GJ/Mscf

Table 1: Estimates of Conventional Gas Prospective Resources, unrisks, in Coxco Dolomite, EPs 171, 176 and 190 within the Batten Trough

Victorian Exploration Activities

Armour Energy Exercises Farmin Rights for PRL2

On 20 December 2013, Armour Energy reported that it had exercised a right to farmin to Petroleum Retention Lease 2 in Victoria (PRL2), held by Lakes Oil NL (ASX: LKO).

The farmin agreement will give Armour Energy the right to obtain up to a 50% working interest in the highly prospective PRL2 as part of a two stage farmin program. Armour Energy may withdraw from the agreement without cost.

PRL2, located in the onshore Gippsland Basin in Victoria, is considered prospective for both tight and conventional gas accumulations and is in close proximity to existing infrastructure and markets (**Figure 8**). PRL2 covers several tight conventional reservoirs in the Strzelecki Formation of the Gippsland Basin, onshore in Victoria. The southern half of PRL2 is considered by Armour Energy to be geologically very similar to the highly productive offshore section of the Gippsland Basin.

Numerous wells have been drilled within PRL2 by Lakes Oil in the past and have encountered gas and/or oil. Successful stimulation of the reservoir in vertical drill holes in the Wombat Field, within PRL2, has led to several encouraging flow tests in 2009 and 2010.

Armour Energy holds the view that the presence of gas-bearing columns in excess of 500 metres thick across seven targeted structures in the Strzelecki Formation indicates potential for early definition of commercial reserves of gas. At the Wombat Field alone, four wells have been drilled and 3C Resources of 628 Bcf of gas (2C 329Bcf) were reported by Lakes Oil in 2010.

Armour Energy's right to farmin to PRL2 arose following the withdrawal (announced by Lakes Oil in August 2013) of Beach Energy Limited ("Beach") and Somerton Energy Limited from their Farmin Agreement with Lakes Oil relating to PRL2 ("Beach Agreement"). Pursuant to a separate agreement between Armour Energy and Lakes Oil dated 2 December 2011, Armour Energy had the right to match the Beach Agreement in the event of a withdrawal by Beach.

Having exercised this right, Armour Energy:

- is now Operator of PRL2;
- has an immediate, initial 15% working interest in PRL2, subject to using its best endeavours to undertake a \$10m work program within 12 months ("Phase 1 Program");
- can earn an additional 35% working interest (giving a total working interest of 50%), subject to making an election to do so within 2 years and then undertaking a further \$40m work program over an indefinite time period; and
- may withdraw from the agreement provided it transfers its 15% working interest in PRL2 back to Lakes Oil and resigns as Operator.

Due to a moratorium on hydraulic fracturing in Victoria, the Phase 1 Program and Armour Energy's right to carry it out are currently suspended. Armour Energy has however sought to engage in discussions with Lakes Oil to revise the terms of the farmin agreement and work program with a view to accelerating commercialisation of the hydrocarbon resources of PRL2.

Subject to permitting, Armour Energy as Operator of the PRL2 Joint Venture intends to drill the unstimulated Wombat 5 lateral well to confirm the natural productivity of the porous and permeable upper section of the Strzelecki Formation.

Armour Energy is Lakes Oil's largest shareholder holding approximately 19.9% of the issued share capital, which together with converting notes also held by Armour Energy (as well as those held by other parties) amounts to a fully diluted ownership interest of approximately 18.9%. Armour Energy has also earned 51% ownership, and is Operator of, PEP169 and 25% ownership of PEP166 in Victoria, also held by Lakes Oil.

As previously announced, Armour Energy and Lakes Oil intend to drill the vertical exploration well Otway 1 in PEP169 in the first half of 2014 for which land access has been secured and planning and approvals processes are well advanced.

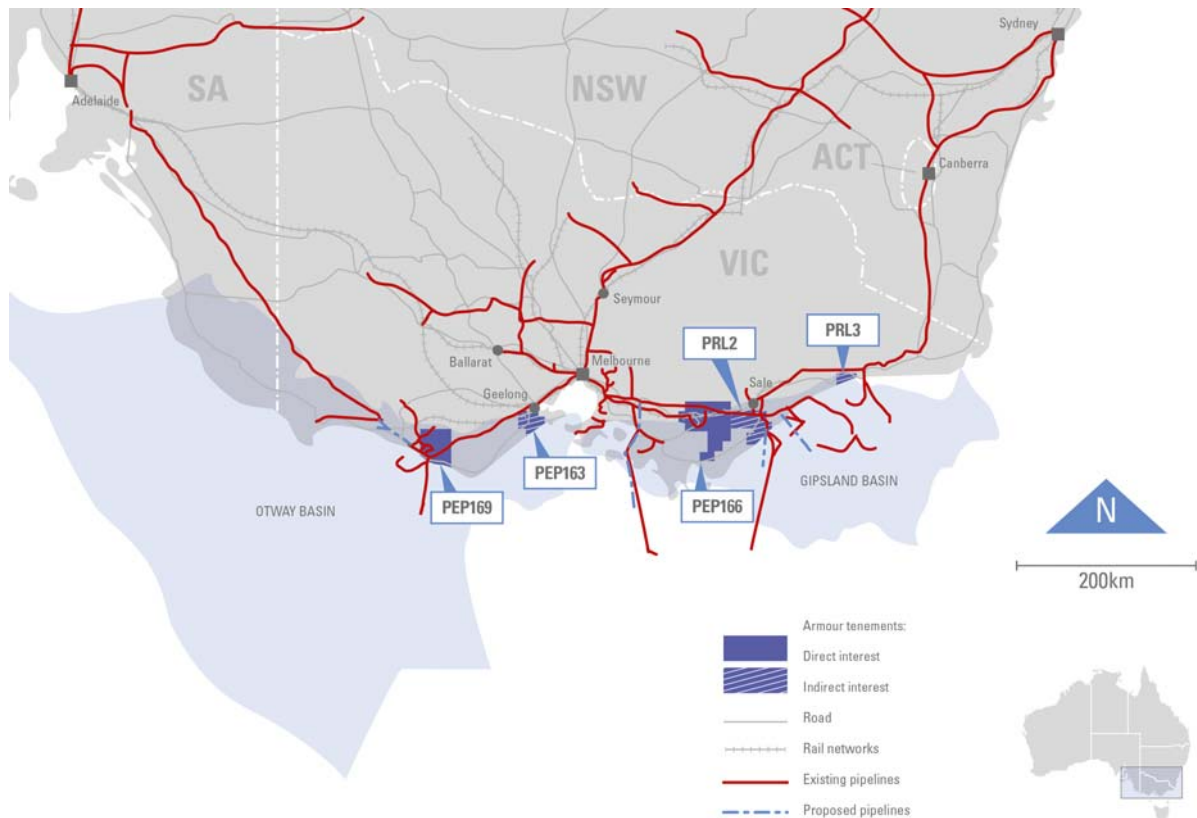


Figure 8: Map of Armour Energy's interests in Victorian tenements (direct and indirect).

HEALTH, SAFETY AND ENVIRONMENT

Queensland

Operations concluded in November in Queensland with a continuation of the good safety record - no recordable incidents were reported. The fourth quarter period activities included final stages of fracture stimulation, demobilisation of all drilling, fracture stimulation, operations including camp and civil engineering crews without issue. Sites were partially rehabbed (including 4 x 2ML frac ponds and all fracture stimulation flowback fluid was removed to MMG Century ponds as per the amended MMG Century Environmental Authority. Sites have been prepared for 2014 activities.

The Annual Safety Report for Queensland was compiled and submitted to the Petroleum & Gas Inspectorate as required.

Northern Territory

Operations were largely concluded in the Northern Territory during the quarter, notwithstanding the onset of heavy rains. With careful management, all contractors were safely demobilised and released from site with the only outstanding issue being the final rehab for Lamont Pass 3 being held over until the 2014 dry season.

A serious recordable incident was recorded in the Northern Territory associated with an employee of a civil engineering contractor. A 4WD vehicle was rolled over injuring the driver who was subsequently hospitalised in Darwin. The incident was reported to the Petroleum & Gas Inspectorate in the Northern Territory and the incident was subject to a formal ICAM process. No further action has been requested from Armour Energy by the Northern Territory Inspectorate on this incident to date. The Injured Party has been released from hospital and is recuperating well at her home near Cairns. No issues have been reported with the ongoing rehabilitation program to date.

ACTIVITIES PLANNED FOR NEXT QUARTER

Armour continues to analyse data from its successful 2013 drilling campaign in Queensland and the Northern Territory. This data will be used to finalise the plans for the 2014 northern drilling campaign.

During the next quarter in Victoria, the Otway-1 exploration well is planned to be drilled by Lakes Oil. Otway-1 is located in PEP169 in the Otway basin of which Armour holds 51%. If the well is successful, gas could potentially be monetised through one of the nearby gas plants.

INTERESTS IN TENEMENTS FOR THIS QUARTER

TYPE	LOCATION	NAME	OWNER	INTEREST
Acquired During Quarter				
EPP 191	Northern Territory	Wallhollow	Armour Energy	100%
EPP 192	Northern Territory	Wollogorang	Armour Energy	100%
EPM 19833	Queensland	Bowthorn	Ripple Resources	100%
EPM 19835	Queensland	Shadforth East	Ripple Resources	100%
EPM 19836	Queensland	Shadforth	Ripple Resources	100%
EL 29837	Northern Territory	Catfish Hole	Ripple Resources	100%
EL 29951	Northern Territory		Ripple Resources	100%
EL 29952	Northern Territory		Ripple Resources	100%
EL 29954	Northern Territory		Ripple Resources	100%
EL 29955	Northern Territory		Ripple Resources	100%

Held at Beginning of Quarter

EPP 171	Northern Territory	Abner Range	Armour Energy	100%
EPP 174	Northern Territory	Robinson River 2	Armour Energy	100%
EPP 176	Northern Territory	Ryans Bend	Armour Energy	100%
EPP 190	Northern Territory	Calvert	Armour Energy	100%
ATP 1087	Queensland	South Nicholson	Armour Energy	100%
PEP 169	Victoria	Moreys	Lakes Oil	51%
PEP 166	Victoria	Holdgate	Lakes Oil	25%
PRL2	Victoria		Lakes Oil	15%

EPM	Exploration Permit - Minerals
EL	Exploration Licence
EPP	Exploration Permit - Petroleum
ATP	Authority to Prospect
PEP	Petroleum Exploration Permit
PRL	Petroleum Retention Lease



On behalf of the Board
 Karl Schlobohm
 Company Secretary

The MBA Petroleum Consultant' resource estimates used in this announcement, where indicated, were compiled by MBA Petroleum Consultants and detailed in the Independent Expert's Report, Replacement Prospectus dated 20 March 2012 for Armour Energy (Chapter 9).

Dr. Bruce McConachie is a full-time employee of SRK Consulting (Australasia) Pty Ltd, is a member of SPE, is qualified in accordance with the requirements of the ASX listing rules, and has consented to the use of the SRK Consulting (Australasia) Pty Ltd resource figures in the form and context in which they appear in this announcement.

DeGolyer and MacNaughton is qualified in accordance with the requirements of the ASX listing rules and has previously consented to the use of the DeGolyer and MacNaughton resource figures in the form and context in which they appear in this announcement.

Raymond L Johnson Jr., employee and General Manager Reservoir Development for Armour Energy, is qualified in accordance with the requirements of the ASX listing rules, is a member of SPE, and has consented to the use of the Armour Energy resource figures in the form and context in which they appear in this announcement in accordance with Listing Rule 5.42.

ABOUT AMOUR ENERGY

Armour Energy is focused on the discovery and development of world class gas and associated liquids resources in an extensive hydrocarbon province in northern Australia which was first discovered in the early 1990s. This region has only recently had its shale potential identified by Armour Energy. Today's business environment with strong domestic and global demand for gas, gas prices trending towards LNG netback combined with proven shale extraction technologies and world class personnel, provides the Company with an extraordinary opportunity to define and ultimately develop a major new gas province.

Armour Energy's permit areas in northern Australia, which are all 100% owned, are characterised by low population densities, cooperative stakeholders and a natural environment suited to the exploration and development of a major future hydrocarbon province. 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.

In its 2012 exploration program, Armour Energy encountered gas in the first two of its Northern Territory project areas, with both conventional and unconventional gas shows and flows encountered. The Glyde 1 well, which was drilled with an unfracted lateral, flowed at 3.3 million standard cubic feet per day during flow testing.

In June 2013, Armour Energy entered into a Heads of Agreement with APA to work towards transportation of up to 330 Petajoules a year of gas in the existing upgraded and future APA pipeline network to undersupplied coastal Queensland LNG and Sydney markets.

See www.armourenergy.com.au for more information.