

Armour Energy (ASX:AJQ)

ASX Announcement

6 July 2022

Strategy and Operational Update and Funding Arrangements

HIGHLIGHTS:

- Armour has secured a \$4.5M funding facility that will be used to optimize the value of its substantial asset base including the funding of several near-term production enhancement projects.
- Other corporate initiatives are being progressed to provide further funding and to realise value from Armour's project portfolio.
- An In-Well-Bore (IWB) production optimisation programme is scheduled to commence in July 2022 and be completed before year end.
- Warroon #1 well production has continued to improve each month since the well was fracture stimulated and has reached a daily high of just under 600 MSCFD.
- Myall Creek #2 well under further review for a potential multi-stage fracture stimulation project.
- Planning progressing for the drilling of Enterprise North 1 well in the Otway Basin.

The Board of Directors of Armour Energy Limited (Armour; the Company; ASX:AJQ) is pleased to provide an update on its strategy, funding activities and current operations.

ARMOUR'S STRATEGY

Armour's strategy to underpin realising the considerable potential value of its extensive project portfolio is based upon a plan to discover additional gas reserves, produce it at higher rates (and at a lower unit production cost), and sell it at higher prices in conjunction with plans to refinance its debt:

- **Discover Additional Gas Resources**

Armour is progressing preparations for exploration programs including completion of a 400km seismic survey and the drilling of 6 wells to test highly rated prospects and leads (including Riverside, Myall Creek North East and Riverslea) within Armour's Surat basin production licenses. Armour is progressing a number of alternate proposals from third parties to fund these activities .

- **Produce for Less**

Targeted increased gas production both from in well bore production enhancement programs (including the near-term in-well-bore program outlined below) and proposed new production wells will reduce unit production costs materially. Armour is also investigating opportunities for production facility sharing and rationalisation in its operating area to further reduce production costs.

- **Sell for More**

Armour is currently progressing alternatives for new gas sales arrangements to operate from November 2023 when the current APLNG gas sales contract finishes. The new gas sales arrangements are expected to result in substantial increases in revenue. Contract gas prices have approximately doubled since Armour's original APLNG gas sales contract was entered into. Armour is also investigating opportunities for forward sales of gas to fund further in-field development of its gas reserves.

- **Debt Restructure**

Armour is continuing to progress its plans to refinance its current debt which once complete will significantly reduce debt servicing cash outflows with a reduction in the current required principal amortisation payments.

FUNDING ARRANGEMENTS UPDATE:

- **DGR Global Facility**

Armour has entered into a funding agreement with Armour's largest shareholder, DGR Global Ltd, for the provision of a \$4.5M facility to be drawn over the next three months.

This funding is to be provided by way of a placement of redeemable exchangeable notes to be issued by Armour's subsidiary, McArthur Oil and Gas Ltd (MOG), at an issue price per note of \$1.00 and otherwise on the terms and conditions set out in the Redeemable Exchangeable Note Trust Deed (including those terms as extracted in Annexure A) (**MOG Notes**).

MOG and Armour intend to obtain all necessary approvals and consents to allow for the exchange of the MOG Notes being subscribed for by DGR and the existing MOG Notes already on issue (together with any accrued and unpaid interest) into Armour Convertible Notes on the terms and conditions summarised in Annexure B (**Armour Convertible Notes**). Approvals and consents expected to be required for the exchange of MOG Notes for Armour Convertible Notes will be sought from Armour shareholders and the holders of Armour's secured amortising notes (**Secured Notes**).

This funding will enable Armour to continue to optimize the value of its substantial asset base including pursuing several small production enhancement projects in the Surat area.

Armour appreciates DGR Global's continued confidence in the company's ability to realise significant value from its diverse portfolio of opportunities.

- **Secured Notes**

The Company has made a \$2.2M principal amortisation payment to the holders of the Company's Secured Amortising Notes (Secured Notes). The remaining face value of the Secured Notes outstanding following the principal and interest payment that was made on 29 June 2022 is now \$24,917,200 (original face value of the Secured Notes at the time of issue was \$55,000,000).

- **Tribeca Environmental Bonding Facility**

An amendment agreement has been entered into extending the maturity date for the Tribeca Natural Resources Fund environmental bonding facility to 20 September 2022.

- **McArthur Oil & Gas Demerger and IPO**

Further revisions to the proposed demerger structure are being considered to ensure that acceptable commercial and taxation outcomes would be achieved following further recent feedback from the Australian Taxation Office that income tax demerger relief is unlikely to be available in relation to the proposed McArthur demerger and IPO transaction.

- **Other Corporate Initiatives**

Armour is also continuing to pursue a number of other corporate initiatives with the aim of realising near term value from its portfolio of projects together with providing potential funding arrangements to enable further work programs to be undertaken to increase production output and undertake further exploration programs.

Initiatives being progressed include potential farm-out arrangements, new gas sales agreements including pre-payment arrangements, commercial opportunities for the Newstead Gas Storage Facility and sale of non-core assets.

OPERATIONS UPDATE

- **In-Well-Bore (IWB) Programme 2H-2022**

Armour has developed a series of "in-well-bore" opportunities planned to be executed over the second half of 2022 in its Queensland Surat assets. The programme is designed to target a range of initiatives to arrest premature decline, restore production and access bypassed pay zones. The programme includes the installation of automated intermitter units, connection of an existing stranded well bore, installation of well head oil pumping facilities, and recompletions including a well clean out, sucker rod pump install and recompletions targeting behind pipe bypassed pay.

The culmination of this work programme is targetting a combined IP30 (initial production rate) uplift of **1.5 MMSCF/D and 10 BBL/D of crude oil**. Works are scheduled to commence from July 2022. Figures 1 to 4 illustrate the types of activities that will be executed.



Fig 1: Warroon #1 Slickline Intervention (Jan 2022)



Fig 2: Myall Creek #4 Pump Installation (Dec 2020)



Fig 3: Horseshoe #2 Workover (Oct 2020)

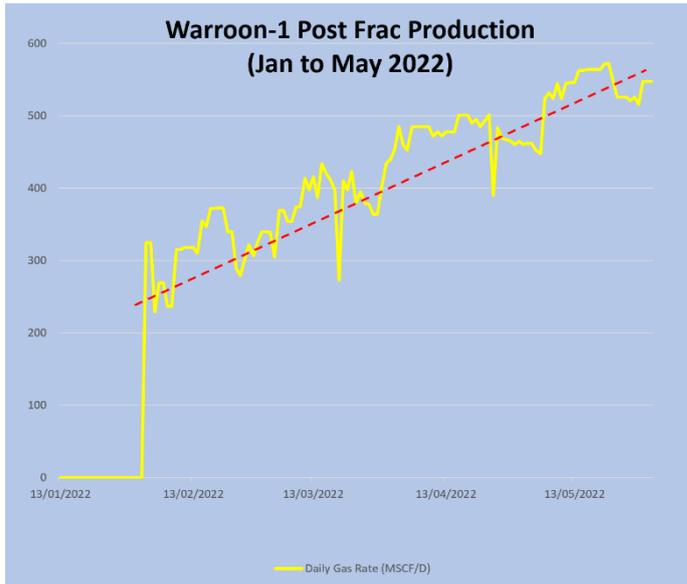


Fig 4: Plunger Lift Installation (June 2021)

■ Warroon #1 Fracture Stimulation Project - Production Update

The Warroon #1 well was successfully fracture stimulated in January 2022. Since then, the well has been steadily recovering frac fluids via the gathering network. The well has now recovered the equivalent total volume of the injected stimulation fluids and gas rates have increased each month since the activity was executed, achieving a high of close to **600 MSCF/D**. Currently rates have stabilised around **550 MSCF/D** with condensate production at **14 BBL/D**.

An intermitter unit is being employed to cycle the well up to 4 times per day to promote liquids recovery. And while this is a positive result, the well is currently being assessed for further optimisation opportunities to improve production. This may include a coil tubing conveyed velocity string or a plunger lift system



Warroon #1 – Post Stimulation Production Performance & Wellhead Metering Facilities

■ Myall Creek #2 Programme Update

Myall Creek #2 continues to flow gas to sales via the Myall Creek compressor station. The Tinowon C has previously been confirmed as a potentially suitable fracture stimulation target. Additional reservoir and petrophysical work is progressing, with data collected, to consider the viability of other intervals for stimulation, namely the Back Alley, Bandana and Basal Rewan formations. Both a single and multi-stage fracture stimulation project are under consideration. The intent is to complete the technical analysis shortly and, if the further fracture stimulation(s) are considered viable, undertake a stimulation program in late Q3-2022/early Q4 pending equipment availability. With the support of our funding partner, Armour will continue to be 100% free carried through the next phase of activity.

■ Emissions Reduction Study

The Emissions Reduction Study being undertaken and funded by PZE Limited has commenced to evaluate emission reduction options within Armour's Surat Basin acreage. This study will also include evaluation of the commercial opportunity for the use of depleted reservoirs for carbon dioxide capture and storage, amongst other initiatives.

■ Enterprise North 1 – Planned Well

Preparations are progressing for the drilling of the Enterprise North 1 well in the Otway Basin following the lifting of the drilling moratorium in Victoria.

The Enterprise North prospect is in Victorian tenement, PEP 169 (Armour 51% interest and operator) and is on trend with the Enterprise 1 discovery (Beach Energy) and Minerva gas field (Cooper Energy).

New transition seismic interpretation has identified the Enterprise North prospect as an analogue of the Enterprise Gas field recently discovered by Beach Energy in the adjacent tenement to PEP169. The Enterprise 1 discovery well flowed on test at 61 million scfd and 2P gas reserves of 161PJ have been assessed (Beach Energy Ltd - ASX release 15 February 2021).

The Enterprise North 1 prospect is well located relative to gas pipeline, processing and storage infrastructure with two nearby gas processing plants with current excess capacity providing a potential near-term processing option to expedite commercialisation of a discovery.

Armour's Executive Chairman, Mr Nicholas Mather commented,

"Armour believes it's substantial asset base is poised for near-and long-term growth. The company's strong acreage positions in the Cooper Basin in South Australia, the Otway Basin in Victoria, the McArthur Basin in the Northern Territory and its production assets in the Surat Basin in Queensland provide it with strategic diversity. Maturing these assets will help support the demands of the East Coast Australian Gas markets."

This Announcement is Authorised by the Board of Directors

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Executives

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Directors

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FORWARD LOOKING STATEMENT Statements & material contained in this ASX Release, particularly those regarding possible or assumed future performance, production levels or rates, commodity prices, resources or potential growth of Armour Energy Limited, industry growth or other trend projections are, or may be, forward looking statements. Such statements relate to future events & expectations and, as such, involve known and unknown risks & uncertainties. Although reasonable care has been taken to ensure facts stated in this Release are accurate and/or that the opinions expressed are fair & reasonable, no reliance can be placed for any purpose whatsoever on the information contained in this document or on its completeness. Actual results & developments may differ materially from those expressed or implied by these forward-looking statements depending on a variety of factors. Nothing in this Release should be construed as either an offer to sell or a solicitation of an offer

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ANNEXURE A
SUMMARY TERMS OF ISSUE OF MOG NOTES

McArthur Oil & Gas Ltd
Redeemable Exchangeable Note Term Sheet

Issuer	McArthur NT Pty Ltd ACN 649 856 315
Parent Company	McArthur Oil & Gas Ltd (MOG or Parent Company) (or such other company that holds all the shares issued in the capital of the Issuer) which intends to undertake an IPO raising and apply for quotation on ASX.
Offering	Redeemable Exchangeable Notes (Notes) to be issued by the Issuer pursuant to the Note Trust Deed and which will be exchangeable into shares in the Parent Company (subject to the Condition Precedent for Exchange).
Issue size	Up to 32,000,000 Notes (\$32,000,000). The Notes may be issued in two or more tranches.
Purpose	Funds raised by the issue of the Notes will finance a security deposit to Armour Energy Limited (Armour) for the acquisition of all of the Northern Basin Assets of Armour, exploration work programs, costs of progressing the Parent Company towards an IPO, general working capital and costs of the issue.
Issue Price	Face Value of \$1.00 per Note
Maturity Date	31 October 2022.
Security / Ranking	<p>Unsecured Subordinated.</p> <p>The Notes will constitute direct and unsecured obligations of the Issuer and will rank subordinated and be junior to the secured amortising notes issued by Armour Energy Limited (Secured Amortising Notes).</p> <p>Subject to the subordination to the Secured Amortising Notes, each Note otherwise ranks for payment in a winding up of the Issuer:</p> <p>(1) equally and proportionally with each Note; and</p> <p>(2) ahead of all subordinated debts of the Issuer and ordinary shareholders.</p>
Status	The Notes are direct and unsecured debt obligations of the Issuer.
Coupon Rate	15% per annum coupon rate accrued and capitalised monthly from the Issue Date.
Interest Payment Dates	The coupon on the Notes will be capitalised to Exchange, the Maturity Date or Redemption Date.
Exchange	Each Note (and any accrued and unpaid interest due and capitalized) will, subject to satisfaction of the Condition Precedent below, exchange into fully paid ordinary shares of the Parent Company contemporaneous with the issue of the IPO shares such that the shares received in exchange for the Notes will be shares offered under an 'Exchange Offer' pursuant to the IPO prospectus.

	The Exchange price upon automatic exchange will be a 20% discount to the IPO price per share.
Condition Precedent for Exchange	The Exchange of the Notes for Parent Company Shares is subject to and conditional upon Armour obtaining any necessary shareholder approvals for the purposes of ASX Listing Rule 11.4.1(b).
Noteholder Redemption	Repayment of Face Value and any unpaid interest at the Maturity Date or in the event an Exit Event occurs, or the Issuer commits an Event of Default.
Early Redemption Event	<p>The Company may give a Redemption Notice in the event of an Exit Event.</p> <p>Exit Event means that if at any time on or before the Maturity Date, an off-market bid, a market bid, scheme of arrangement, or offer or invitation is made to all holders of ordinary shares to purchase or otherwise acquire ordinary shares and the bid, scheme or offer becomes unconditional, and the offeror has at least 50% of the voting power (as defined by the Corporations Act) in Armour.</p> <p>Notwithstanding the issue of a Redemption Notice, a Holder may give an Exchange Notice (which may be expressed to be subject to Exit Event completing) in respect of any of its Notes which are the subject of the Redemption Notice up to the before the relevant Redemption Date (or such later time as the Company may agree with the relevant Holder), and only Notes for which Exchange Notices have not been so given or are treated as having not been given will be Redeemed on the specified Redemption Date. In the event of an Exchange Notice being given in relation to an Exit Event, the Exchange Price will be equivalent of a 25% discount to the average price per ordinary share being paid for Ordinary Shares under the Exit Event calculated on a fully diluted basis.</p>
Transaction Documents	<p>The parties have entered into the following definitive agreements to document the Note issuance outlined in this Term Sheet (Transaction Documents):</p> <ul style="list-style-type: none"> • Redeemable and Exchangeable Note Deed; and • Note Trust Deed.
Events of Default	Customary events of default are to be incorporated in the Transaction Documents for a transaction of this nature, including but not limited to payment, redemption or Exchange breaches, covenant breaches cross defaults, and insolvency events.
Covenants	Customary covenants are to be incorporated in the Transaction Documents applicable to the Issuer and the Parent Company for a transaction of this nature.
No Dividends	No dividends may be declared or paid whilst the Notes are on issue.
ASX Listing	The Parent Company will undertake to use reasonable endeavours to undertake an IPO and ASX listing or other liquidity event for Noteholders and will provide updates to Noteholders on progress in this regard every 6 months.

Escrow	In the event of an IPO and ASX listing, the Noteholder will agree to enter into such ASX restriction agreements or voluntary escrow deeds as ASX or the lead managers to the ASX IPO require, provided the restriction period does not exceed three months following quotation (for voluntary escrow) or as is otherwise required by ASX.
Parent Company Interposition	<p>The Issuer and the Parent Company are currently wholly owned direct subsidiaries of Armour. The Issuer has been formed to hold all the Northern Territory and North Queensland assets of Armour outlined in the Armour Energy ASX release of 3 March 2021 and the transfer of these assets has been applied for and is pending approval of this transfer with the Northern Territory and the Queensland Governments.</p> <p>Following the approval and completion of the transfer (and in the case of pending permit applications, the grant of the exploration permit and the Parent Company is interposed) to the Issuer of the assets, Armour will transfer all of the outstanding shares in the Issuer to the Parent Company such that the Issuer becomes a wholly owned subsidiary of the Parent Company.</p> <p>Until such time as these transfers of the currently granted exploration permits in the Northern Territory and interposition is completed, the Parent Company must remain dormant so that no stamp duty is incurred either on the transfer of the assets to the Issuer or upon the IPO of the Parent Company.</p>
Voting Rights	Until Exchange, the Notes do not give a Noteholder voting rights or dividend rights.
Investor Eligibility	The Notes are being offered to 'sophisticated investors', 'professional investors' (under the Corporations Act) and investors who are exempt to disclosure requirements.
Note Trustee	Centec Securities Pty Ltd

ANNEXURE B

PROPOSED TERMS OF ISSUE OF ARMOUR ENERGY LTD CONVERTIBLE NOTES

Subject to receipt of all necessary approvals and consents, it is intended for the MOG Notes (those already on issue and those subscribed for by DGR Global Ltd) to be exchanged for Armour Energy Convertible Notes.

The key proposed terms of the Convertible Notes are:

- Three (3) year maturity
- Initially unsecured but upon completion of the proposed FIG Bond repayment to have first ranking security (subject to any required tenement level security requirements to support Gas Sale Agreements and prepayments).
- Non-amortising (principal repayable at maturity)
- Convertible at any time by the holders at the higher of 0.9c per share or a 50% premium to the issue price of any equity capital raising undertaken prior to 30 September 2022.
- 10% coupon, payable half yearly in arrears in cash or shares at Armour election, at a 10% discount to the trailing 30-day VWAP
- Terms otherwise customary for this type of instrument.

Further Terms of Issue of the Convertible Notes are set out below:

Issuer	Armour Energy Limited ACN 141 198 414
Offering	Convertible Notes (Notes) to be issued by the Issuer pursuant to the Note Trust Deed and which will be convertible into shares in the Issuer (subject to the Condition Precedent for Exchange).
Issue size	Up to 32,000,000 Notes (\$32,000,000). The Notes may be issued in two or more tranches.
Purpose	Funds raised by the issue of the Notes will be to meet payments due on the secured amortising notes issued by Armour Energy (FIG Secured Amortising Notes) including their refinance, exploration work programs, payment of outstanding creditors, general working capital and costs of the issue.
Issue Price	Face Value of \$1.00 per Note
Term	3 years
Maturity Date	31 July 2025
Security / Ranking / Status	<p>Initially the Notes will constitute direct and unsecured obligations of the Issuer and will rank subordinated and be junior to the secured amortising notes issued by Armour Energy.</p> <p>It is the intention for the FIG Secured Amortising Notes to be repaid and upon repayment, the Notes will be senior secured obligations of the Issuer (subject to any required tenement level security requirements to support Gas Sale Agreements and prepayments).</p> <p>Subject to the initial subordination to the FIG Secured Amortising Notes, each Note otherwise ranks for payment in a winding up of the Issuer:</p> <p>(1) equally and proportionally with each Note; and</p>

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	(2) ahead of all subordinated debts of the Issuer and ordinary shareholders.
Coupon Rate	<p>10% per annum coupon rate, accrued from the Issue Date.</p> <p>Interest is payable either in cash or, at Armour's election, by the issue to the Noteholder of Armour ordinary shares, issued at a 10% discount to the 30-day volume weighted average price (VWAP) of Armour shares traded on the ASX up to the Interest Payment Date.</p>
Interest Payment Dates	<p>The coupon on the Notes will be payable half yearly for the half year periods to 30 June and 31 December on the following dates:</p> <ul style="list-style-type: none"> - 15 January 2023; - 15 July 2023; - 15 January 2024; - 15 July 2024; - 15 January 2025; - 15 July 2025; <p>and will be payable for the period from the last Interest Payment Date to the Maturity Date or Redemption Date.</p>
Conversion	<p>Each Note (and any accrued and unpaid interest due and capitalized) will, subject to satisfaction of the Condition Precedent below, be convertible at the holder's election into fully paid ordinary shares of the Issuer at the higher of a price of 0.9 cents per share or a 50% premium to the issue price of any equity capital raising undertaken by the Issuer prior to 30 September 2022.</p> <p>A Noteholder may exercise conversion rights in relation to some, or all, of their Notes at any time (subject to satisfaction of the Condition Precedent for Conversion).</p>
Conversion Protections	Notes will be subject to standard anti-dilution adjustments including share consolidations, share splits, rights issues, bonus issues and reorganisations.
Condition Precedent for Conversion	The Conversion of the Notes for Armour Energy Shares is subject to and conditional upon Armour obtaining any necessary shareholder approvals for the purposes of ASX Listing Rules.
Noteholder Redemption	Repayment of Face Value and any unpaid interest at the Maturity Date or in the event an Exit Event occurs, or the Issuer commits an Event of Default.
Early Redemption Event	<p>The Company may give a Redemption Notice in the event of an Exit Event.</p> <p>Exit Event means that if at any time on or before the Maturity Date, an off-market bid, a market bid, scheme of arrangement, or offer or invitation is made to all holders of ordinary shares to purchase or otherwise acquire ordinary shares and the bid, scheme or offer becomes unconditional, and the offeror has at least 50% of the voting power (as defined by the Corporations Act) in Armour.</p> <p>Notwithstanding the issue of a Redemption Notice, a Holder may give an Exchange Notice (which may be expressed to be subject to Exit Event completing) in respect of any of its Notes which are the subject of the Redemption Notice up to the before the relevant Redemption Date (or such later time as the Company may agree with the relevant Holder), and only Notes for which Exchange Notices have not been so given or are treated as</p>

	having not been given will be Redeemed on the specified Redemption Date. In the event of an Exchange Notice being given in relation to an Exit Event, the Exchange Price will be equivalent of a 25% discount to the average price per ordinary share being paid for Ordinary Shares under the Exit Event calculated on a fully diluted basis.
Transaction Documents	The parties have entered into the following definitive agreements to document the Note issuance outlined in this Term Sheet (Transaction Documents): <ul style="list-style-type: none"> • Convertible Note Deed; and • Security Trust Deed.
Events of Default	Customary events of default are to be incorporated in the Transaction Documents for a transaction of this nature, including but not limited to payment, redemption or Conversion breaches, covenant breaches cross defaults, and insolvency events.
Covenants	Customary covenants are to be incorporated in the Transaction Documents applicable to the Issuer and the Parent Company for a transaction of this nature.
No Dividends	No dividends may be declared or paid whilst the Notes are on issue.
Voting Rights	Until Conversion, the Notes do not give a Noteholder voting rights or dividend rights.
Investor Eligibility	The Notes are being offered to 'sophisticated investors', 'professional investors' (under the Corporations Act) and investors who are exempt to disclosure requirements.
Note Trustee	Centec Securities Pty Ltd

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