

ASX Announcement

22 December 2016

Gas Sales Agreements executed with Australia Pacific LNG for Armour's Kincora Project

Highlights:

- **Armour has secured a strong counterparty for initial gas offtake arrangements to underpin restart of Kincora Project.**
- **Agreements will provide strong cash flow certainty over the early years of Armour's transition to a production company with contracted gas volumes of up to 3.65PJ/a.**
- **Agreements provide gas volume and delivery timing flexibility during the Kincora Project restart phase.**

The Directors of Armour Energy Limited (Armour; ASX:AJQ) are pleased to announce that Armour has executed gas sales agreements with Australia Pacific LNG Marketing Pty Limited (Australia Pacific LNG) for the supply of gas from Armour's Kincora Project to Australia Pacific LNG over a minimum 5 year period.

The key benefits to Armour flowing from the agreements with Australia Pacific LNG are:

- Australia Pacific LNG is a strong counterparty gas buyer, being a joint venture between three leading oil and gas companies (Origin Energy, ConocoPhillips, and Sinopec);
- The agreement provides Armour delivery flexibility during the restart commissioning period;
- The agreed pricing provides Armour with cash flow certainty for 1.8PJ/a over the first 5 years;
- Armour has retained the right to supply the broader gas market, including a wide range of industrial customers, wholesale customers and traders and other LNG producers, after commitments to Australia Pacific LNG have been met; and
- Convenient delivery point of the Wallumbilla Gas Hub.

Commenting on these gas sales agreements, Armour's Executive Chairman, Nick Mather said: "We are pleased to have secured an offtaker of the quality of Australia Pacific LNG as our foundation customer for the Kincora Project. With these agreements in place, we can move forward with confidence on the Kincora Project restart with strong known cashflows underpinning the early years of the project."

Kincora Project Restart - Gas Production & Sales Program

The supply of gas from the Kincora Project to Australia Pacific LNG and others is planned as follows:

- Phase 1 is the commencement of gas production (ie the restart), commissioning and then increase production rate to 9 TJ per day (3.3 PJs per annum) with production initially from the

Newstead storage facility and then various wells across the fields that were last in operation. First gas production and commencement of gas sales is targeted to be achieved by June 2017, and the balance of the restart program (including commencement of associated liquids production) is planned to be completed by August/September 2017.

- Phase 2 will involve the drilling of new wells plus workovers and stimulations of existing wells to achieve an increase in gas production to 20 TJ per day over a period of 12 to 18 months from first gas production. This production rate is 80% of the Kincora Gas Plant name plate capacity and, subject to operational performance, further production increase will be explored to achieve 100% plant capacity subject to having confidence in plant reliability. Associated liquids production from the project historically averaged 9,942 barrels of condensate per PJ of gas produced, and 2,066 tonnes of LPG per PJ of gas produced. Based on these historical production rates, at a gas production rate of 20 TJ per day, liquids production is expected to reach 198 barrels of condensate and 41 tonnes of LPG per day. Projected condensate and LPG figures are based on the information contained in the Company's ASX release of 19 July 2016.

The key activities and their expected timing for the Kincora Project restart program are set out in Figure 1 below.

Target schedule	2Q16			3Q16			4Q16			1Q17			2Q17			3Q17			4Q17			
	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	
1 Restart planning and estimate																						
2 Site preparation & Operational Readiness																						
3 Emu Apple Oil (inspections, tests, restart)																						
4 First Oil (despatch)																						
5 PPL3 IP run, data evaluation, Restart risk assessment, Connection agreement																						
6 PPL3 repairs																						
7 PPL3 end of line modifications																						
8 Phase 1 Restart - commence production and ramp-up to 9TJ/day																						
8.1 Restart of Newstead gas process stream																						
8.2 First Gas Sales - ex Newstead																						
8.3 Kincora Gas Plant - LPG system (restart)																						
8.4 Restart field production (restart existing 22 wells)																						
8.5 LPG & Condensate Production & Sales																						
9 Phase 2 Restart - ramp-up to 20TJ/day over next 12 to 18 months																						
9.1 Drill new wells, stimulate and workover existing wells																						ongoing...

Figure 1 – Kincora restart program

Newstead Gas Storage

A key component of Armour's gas supply strategy for the Australia Pacific LNG offtake arrangements and for other customers going forward is the Newstead Gas Storage Facility. The Newstead storage facility currently holds approximately 2.3 PJ of treated gas (sales quality) which is expected to require minimal re-processing (compression and dehydration) before sending to market at Wallumbilla. Newstead has a total capacity of ~7.5 PJs. The facility provides significant benefits through flexibility of operations plus commercial benefits by providing:

- back-up capacity when upstream production facilities experience both unplanned and planned shutdowns;
- capacity to store gas when prices are low, waiting for higher prices to maximise revenue;

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- capacity to maximise sales opportunity during seasonal price cycle and trading activities, specifically sales into the peaking electricity market during the December to March period; and
- opportunistic supply when spot cargoes for LNG experience price spikes.

Further, the injection and withdrawal rates at the storage facility are expected to be improved through de-bottlenecking and process augmentation, and Armour intends to commence detailed studies on this once gas sales have commenced.

A handwritten signature in blue ink, appearing to read "K. Schlobohm".

On behalf of the board
Karl Schlobohm
Company Secretary

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