

## Armour Energy Limited

27 July 2020

### Acceleration of Contingent Farmin Payments from Santos

#### Highlights:

- **Armour and Santos have amended the South Nicholson Basin Farmin Agreement.**
- **Amendments deliver work programme benefits and accelerate and crystalize contingent permit transfer payments.**
- **Santos will assume responsibility and expense for obtaining award of outstanding permit applications.**
- **Immediate cash payment of \$A6 million by Santos to Armour replacing future contingent permit payments.**
- **Santos free carry of Armour for the A\$64.9 million work programme remains unchanged.**

The Directors of Armour Energy Limited (ASX: AJQ; **Armour**, the “**Company**”) are pleased to announce a significant amendment to the Farmin Agreement (the “**Farmin Agreement Amendment**”) between the Company and Santos QNT Pty Ltd (**Santos**), a wholly-owned subsidiary of Santos Ltd (ASX: STO) covering the South Nicholson Basin Project. These amendments are aimed at accelerating the permit award process and the crystallization and acceleration of contingent permit transfer payments to the Company. The Company refers to the previous ASX announcement of 4 December 2019 announcing the completion of the South Nicholson Basin Farmin Agreement with Santos.

Armour’s South Nicholson Basin exploration project area covers approximately 10.07 million acres as per the map in the attached Appendix 1 (the “**Farmin Permits**”). Under the Farmin Agreement, Santos has the right to earn a 70% interest in Armour’s North Queensland tenements, being ATP1087 (granted), and the application permit areas in Queensland ATP1107, ATP1192 and ATP1193 and the Northern Territory tenements EP172 and EP177 (collectively the “**Application Areas**”).

#### Acceleration of South Nicholson Basin Project Carried Work Programme

Under the Farmin Agreement, Santos has committed to free carry Armour for farmin programme expenditures on all tenements of up to a capped amount of A\$64.9 million – the Total Capped Amount. Under the original terms of the Farmin Agreement, the Total Capped Amount was required to be allocated to defined farmin programme activities and expenditure amounts across each of the Farmin Permits including the Application Areas.

With a view to providing greater flexibility, and an accelerated pathway to demonstrating the resource potential of the South Nicholson Basin Project, Santos and the Company have agreed to amend the Carried Work Programme as set out in Appendix 2. Santos’ commitment to free carry Armour for the amended Carried Work Programme expenditure across the tenements up to a capped amount of A\$64.9 million remains unchanged.

## Accelerated Payment of Cash Permit Award & Transfer Payments

Under the original Farmin Agreement, the Company retained the obligation and costs associated with securing the award of each of the Application Areas, and Santos had the conditional obligation to potentially make contingent payments totalling up to A\$15 million to the Company upon the award of the permits on terms satisfactory to Santos and the subsequent approval of the transfer of the permit interests for the Application Areas to Santos.

Pursuant to the Farmin Agreement Amendment, Santos will make a one-off, unconditional accelerated cash payment of \$A6 million in total in full consideration of all future contingent permit transfer payments covering the Application Areas. The accelerated payment will be made by Santos by 31 July 2020.

In conjunction with this unconditional payment, Santos will lead all activities and negotiations (including Native Title negotiations) and assume the responsibility and expense for pursuing the award of the outstanding Application Areas. This accelerated payment is not subject to the previous obligations of being subject to refund if the transfer of an interest in any of the Application Areas is not approved, or if the permit conditions on award are not acceptable to Santos. Under the current operational impacts stemming from the COVID-19 pandemic, the Company estimates that the timeframe required to complete the activities necessary to secure the award of each of the Application Areas (including all of the Native Title and land access negotiations) would likely have been a further 3 to 4 years, and would have required further expenditures by Armour in excess of \$500,000 to \$750,000 per annum.

In light of the operational and logistical impacts of the COVID-19 pandemic, the Company is of the view that with Santos's more significant corporate and operational presence in the Northern Territory, and with Santos taking responsibility for pursuing the award of each of the Application Areas, the timing and probability of award of the each of the Application Area permits is greatly increased, the cost to the Company in pursuing the award of the Application Areas is reduced, and the acceleration of the one-off, unconditional transfer payment of A\$6 million is significantly beneficial and accretive to Armour on a fully-risked basis.

Armour Energy's CEO, Brad Lingo said:

***"We are very pleased with the progress that Santos is making on the South Nicholson Basin Project. Santos' commitment to take on the responsibility for securing the award of the application areas and to crystallize and accelerate the contingent permit transfer payments is a clear demonstration of their commitment to the project. This is especially notable in the current environment, and given the significant operational impacts of the COVID-19 pandemic. These amendments significantly de-risk and advance the progress of the carried work programme providing Armour with a clear pathway to demonstrating the very significant resource potential of the South Nicholson Basin."***

***"Receipt of these accelerated payments together with the proceeds from the sale of the Murrungama Block to APLNG achieves the asset transaction proceeds projected as part of the Company's current capital raising. A substantial portion of the proceeds from both these transactions will be used to strengthen the Company's balance sheet and reduce outstanding debt."***



*This Announcement is Authorised by the Board of Directors*

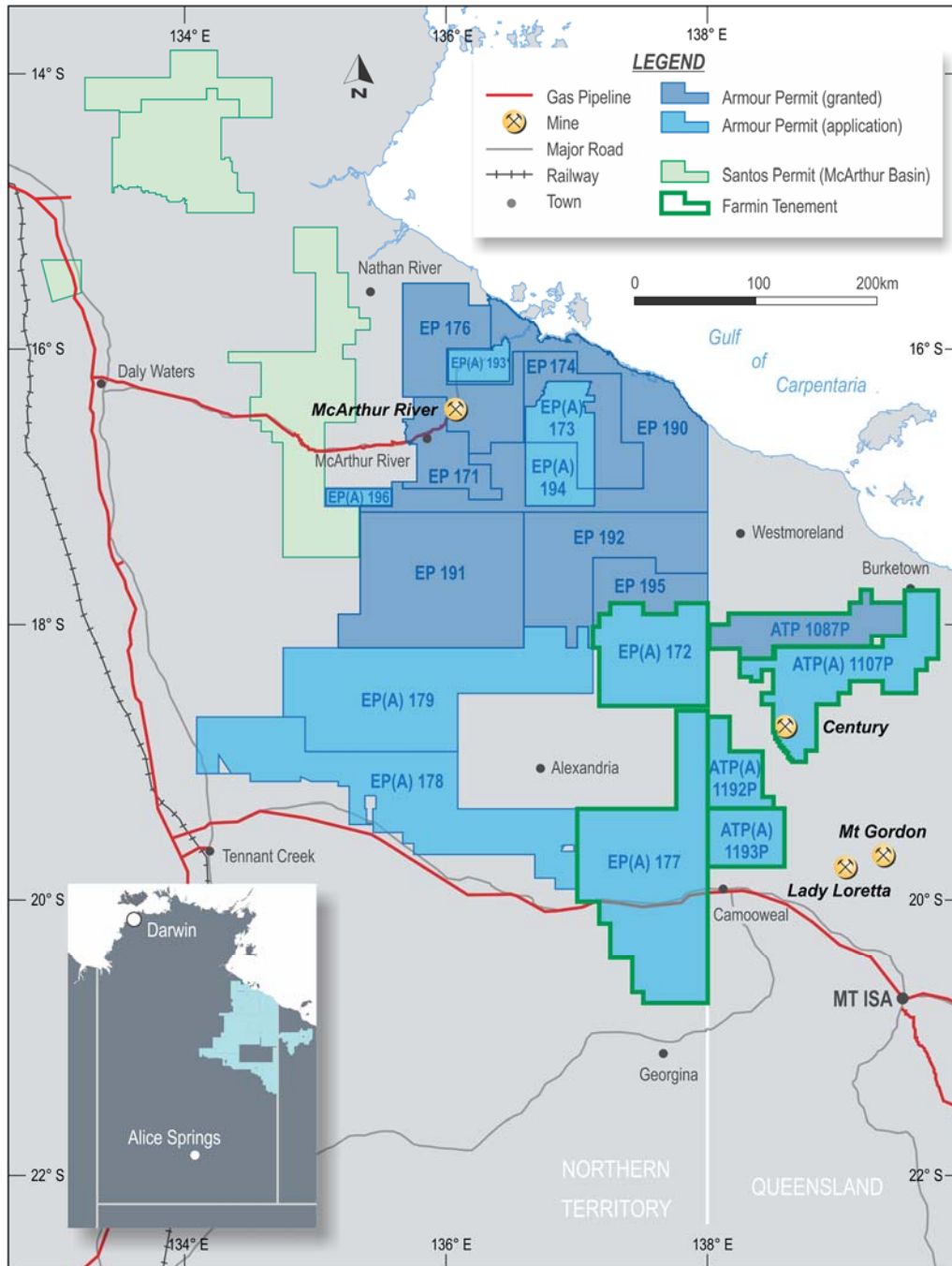
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**APPENDIX 1**  
**South Nicholson Basin Exploration Project Area**



**Map showing the Santos Farmin Permits within the green border**

**APPENDIX 2**  
**South Nicholson Basin Exploration Project**  
**Carried Work Programme**

Farmin Permit	Permit Cap	Farmin Programme		
		Firm May be varied across permits by agreement	Firm (Flexible Across Permits) To maintain permit compliance while supporting optimal exploration program	Contingent
ATP 1087	A\$12.5m	Drill 1 Significant Well	Acquire and process up to 800 line kms of new 2D seismic and/or magnetotelluric data, or equivalent potential field surveying (e.g. airborne gravity gradiometry)  Drill up to 10 shallow aquifer wells to a total depth of between 100-150m (or shallower if sufficient water is encountered)  Drill up to 4 core holes to enable seismic ties and undertake laboratory analysis of core samples  Geological and geophysics studies GG&A	If a Significant Well encounters an interval that Santos considers capable of passing a PRMS discovery test, sidetrack as a horizontal well and undertake fracture stimulation and flow testing.
ATP 1107	A\$3.2m			
ATP 1192	A\$20.7m	Drill 1 Significant Well *		
ATP 1193	A\$9.5m	*		
EP 172	A\$9.5m			
EP 177	A\$9.5m			

\*subject to clause 6.3 of the FIA