

1<sup>st</sup> February 2022

# Armour Energy

## Off and running in the Surat

Armour Energy Limited (ASX:AJQ) is a junior energy producer and explorer with assets across northern, southern and eastern Australia. With a strategy of increasing its focus on its Surat and Cooper basins programmes, the company is progressing well through the initial phase of Surat workover activity. We highlight the innovative financing and partnering agreements enabling the company to undertake the production enhancement strategy, capturing upside whilst preserving capital and minimising equity dilution. Initial results are encouraging. The gas operating environment underpins a strong economic opportunity with a continuing supply squeeze and persisting high prices. AJQ remains well positioned to benefit from planned work programmes over the next 12 months. Success in the Surat campaign in particular can deliver tangible production upside and lift confidence weightings across what will likely be a multi-year prospect portfolio.

### Business model

Armour Energy is a junior oil and gas company holding a production base with expansion options; and an extensive exploration portfolio across three Australian states. The portfolio consists of exploration and development plays, reflecting a mix of relatively moderate risk and early exploration-stage prospects with significant, success-case growth potential. The company has commenced its production expansion plan for the Surat Basin, funded by innovative partnering/financing deals (*refer RaaS note – 6 December*).

### A Surat ‘first look’ is very encouraging

The anticipated Surat production enhancement campaign is making good progress as per the recent operational update with significant encouragement from the Warroon-1 (W-1) fracture re-stimulation and Myall Creek-2 (MC-2) workover activity. The W-1 re-stimulation has been successfully completed with clean-out and stabilisation activity under way. We note the ‘frack size’ is nearly 3.5x greater than that conducted previously (Nov-2020) ... the well is being given a strong chance to flow. Preliminary results are likely to be to hand in three-four weeks. The MC-2 well has been completed and reconnected to the gas-gathering infrastructure with a 30-day test under way. Initial gas rates ranging between 200-300mcf/d are very positive and encouraging. The previously undeveloped Tinowon-C zone, representing ‘new bypassed pay’, has been completed and is ready for future stimulation works. A decision on the timing and priority of any fracking will be made post the testing period. Kincora output has remained broadly steady through the current workover period at around 5.0TJ/d and we highlight the inherent upside that can be captured on improving gas throughput in a plant with ullage and operating on a dominantly fixed-cost basis.

### Valuation

**We retain a risked valuation of \$265mn (14cps) ascribed to AJQ** noting the **significant NAV premium to the reference share price (1.9cps)**, which reflects an overly discounted value of the Queensland assets awaiting success outcomes from the current production enhancement activity. **Comparative reserve metrics highlight the relative undervaluing of the company’s reserves base to peers but gas in the ground needs to be developed – a re-rating likely awaits tangible delivery of the gas growth strategy.** In our view, the most attractive assets in the current gas market are those already in production with incremental (and material) growth opportunities. We note that AJQ fits that template.

#### Share Details

ASX code	AJQ
Share price (31-Jan)	\$0.019
Market capitalisation	\$35.6M
Shares on issue	1,872M
Forecast net debt at 31-Dec	\$32M
Free float	~69%

#### Share Performance (12-months)



#### Upside Case

- Above expectation results from Surat production enhancement programme ... more gas, higher price, lower capex
- Successful demerger and IPO of Northern Basins assets supporting stronger balance sheet and working capital for growth projects
- Persisting tightness in gas markets driving ‘stronger for longer’ gas prices

#### Downside Case

- Gas growth is not delivered to expectation
- Current operating environment persists and all projects continue to be impacted by COVID-related restrictions
- Senior Secure Amortising Notes covenants require additional equity capital or asset divestment

#### Catalysts

- Continuing positive results from the Surat drilling and evaluation programme current under way
- Definition and progress on the demerger proposal

#### Company Contact

Brad Lingo (CEO) +61 7 3303 0620  
blingo@armourenergy.com.au

#### RaaS Contact

Andrew Williams +61 417 880 680  
andrew.williams@raasgroup.com

# FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6<sup>th</sup> May 2021

### About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: [finola.burke@raasgroup.com](mailto:finola.burke@raasgroup.com)

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

**What Financial Services are we authorised to provide?** RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

The distribution of this FSG by RaaS is authorized by BR.

### Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

### Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

### How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

### Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

### Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below.

BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

### Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

#### DISCLAIMERS and DISCLOSURES

This report has been commissioned by Armour Energy Ltd and prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory has been paid a fee to prepare this report. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2021 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.