Research as a Service

# Armour Energy Limited

**Update Report**

## A spin-out returns the focus to Armour

**Armour Energy Limited (AJQ.ASX) is a junior energy producer and explorer with assets across northern, southern and eastern Australia. Pending the successful demerger and IPO of its Northern Basins' assets via McArthur Oil & Gas ('MOG'), AJQ will benefit from a restructured balance sheet after the injection of up to $40mn (asset transaction proceeds) and stronger focus on its Surat and Cooper basins programmes on an independently funded basis. The gas operating environment points to a persisting supply squeeze and higher prices and AJQ remains well positioned to benefit from planned work programmes over the next 12 months. The company is continuing to evaluate and build what will likely be a multi-year prospect portfolio with drill-ready opportunities. We would note that AJQ will look like a significantly different company post the demerger.**

### 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 moderate risk and early exploration stage prospects with significant, success case growth potential. The company is looking to leverage its production expansion plan at Kincora to service a more aggressive exploration strategy, without recourse to equity markets.

### Back to the future…

With material progress being made on the McArthur Oil & Gas spinout, AJQ will concentrate its spend and activity on production growth and exploration opportunities across the remainder of its portfolio, particularly around Kincora and the Cooper Basin where there remains transformative oil and gas potential to be chased. We would also highlight the Newstead gas storage play – in a tightening gas supply market, midstream assets (storage in particular) are likely to become increasingly important and valuable. After the 1Q'21 equity capital raising the company appears well-funded for anticipated work campaigns with added working capital to be garnered post a successful MOG IPO.

### Valuation – 'fluid' but growing

Our NAV is based on risk-weighted development scenarios and typical unit NPV values across a range of industry outcomes. Where appropriate we apply discretionary probability weightings and scaling to pricing, volume and success factors, which we believe are reasonable given the commercial operating environment and available data. Our NAV (pre MOG IPO) has significantly increased based on look-through adjustments related to third party (NT) asset transactions and more favourable commodity prices. **We assign a risked valuation of $260m (16cps) to AJQ (previously $149mn/9cps)** noting AJQ shareholders could retain a 33.3% interest in the Northern Basins assets via an in-specie distribution as proposed. The value of the NT assets will be determined in the short-term by the capitalisation of MOG pending a successful IPO. We compare valuation scenarios within the body of this report but highlight **the premium to the reference share price (3.2cps) under all scenarios. The share price likely reflects the discounted value of the Queensland assets and Kincora growth strategy only.** The debt refinancing resulting from a successful IPO should provide the company with a strong platform to deliver the embedded asset value within the growth portfolio. Valuing early phase exploration and growth assets is a subjective exercise and subject to potentially significant change on delivery of growth targets and exploration results.

We highlight a scenario valuation based on the successful demerger of the Northern Basins assets and AJQ being in a net debt free position, of 8-10cps.

**Energy exploration & production**

**13th September 2021**

### Share details

| | |
|---|---|
| ASX Code | AJQ |
| Share price (13 Aug) | $0.032 |
| Market Capitalisation | $51.3M |
| Shares on issue | 1,604M |
| Cash (est. as at 30-Jun) | ~$2.4M |
| Free Float | ~69% |

### Share performance (12 months)


### Upside Case

- Above expectation results from Kincora gas growth programme…more gas, higher price, lower capex
- Successful divestment 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

### Board of Directors

| | |
|---|---|
| Brad Lingo | CEO |
| Nick Mather | Executive Chairman |
| Stephen Bizzell | Non-Executive Director |
| Roland Sleeman | Non-Executive Director |
| Eytan Uliel | Non-Executive Director |

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***The analyst holds shares**

## Demerging can support price discovery and unlock value

Armour is making material progress on its planned demerger and IPO of its Northern Basins' assets into an independent entity, McArthur Oil & Gas.

The critical aims of the demerger are to -

- Realise the inherent value embedded in the gas potential of the portfolio, through a stand-alone, independently financed vehicle;
- Restructure Armour's balance sheet whilst providing additional working capital for the company to pursue and accelerate its Cooper and Surat basins programmes;
- Retain exposure to the value uplift in the Northern Basins' portfolio for AJQ shareholders, via an in-specie distribution.

It appears to be a favourable time to consider the MOG IPO, with the Federal and Territory governments supporting exploration and developments through the NT and a return to activity, with a number of drilling and evaluation campaigns already underway. Although the specific Beetaloo Basin (Kyalla focussed) activity may not provide a direct look-through we'd see positive results as a comparative reference to the potential commercial opportunities.

Recent corporate activity (acquisition of Pangaea JV assets by Empire Energy [EEG.ASX] and Tamboran Resources [TBN.ASX] IPO) provides high level benchmarks against the prospectivity and opportunity set of the NT plays.

We have addressed the demerger option in our Flash Note (3-Mar), commenting -

It's proposed that MOG will *"…enter into a conditional agreement to acquire…the Northern Basins' business (from Armour) for $40mn plus a minimum 33.3% retained interest by AJQ shareholders."*

*"…(w)hilst asset diversification can be beneficial through providing meaningful growth options, in small energy companies with constrained capital resources, multiple plays can often lead to assets being effectively stranded for long periods, capping comparative valuations as the marginal investment dollar seeks leverage through cleaner and purer exposures to the desired play…in this case the northern basins including the McArthur-Beetaloo options, the cornerstone of the Federal Government's gas led economic recovery.*

*The northern assets already host conventional discoveries at Glyde and Cow Lagoon, have a current portfolio of 193 leads and prospects with 4.4Tcf of Prospective Resource potential; and up to >32Tcf and 1.2Bnb across the entire acreage spread. Demerging can also assist Armour by retiring a significant portion (or all) of its existing debt. In this case separating the parts could realise a greater sum."*

Assuming a successful demerger and IPO, Armour will be a significantly different company by end of 2021 as a refocussed Surat and Cooper basins E&P company, set to benefit from the persisting east coast gas supply squeeze and rising gas prices.

We would add this note is not primarily about evaluating the potential of the proposed MOG IPO other than at a high level. There is significant detail around the assets in the company's ASX releases and would refer investors to more detailed evaluation of the plays and opportunities in any pre-IPO investor education report and offer documentation.

**Our discussion of AJQ assumes the successful completion of the demerger as proposed.**

## Value rising

Our NAV (pre MOG IPO) has significantly increased based on look-through adjustments related to third party (NT) asset transactions and more favourable commodity prices. **In absolute terms our A$mn value of the portfolio increases to $263mn (16cps), previously $149mn (11cps) but offset by the larger issued capital base post the March capital raise.**

We value AJQ using estimated unit values on reserves and; contingent and prospective resources after conversion factors to determine a probability weighted (scaled) 2P equivalent ($2P_{eq}$) on which we apply a unit gas/liquids multiplier. The commodity price assumption is the critical aspect of this methodology and a key sensitivity. Discounts and scaling factors are subject to change as the company delivers the next phase of exploration results and changes to operating conditions.

**Exhibit 1: AJQ NAV – a significant NAV premium remains post demerger adjustments**

| | | | Pr | A$mn | A$/share | |
|---|---|---|---|---|---|---|
| Queensland | | | | | | |
| Kincora | Various | 100% | 50% | $71 | $0.04 | RaaS development scenario on 2P volumes |
| Newstead storage | | 100% | 50% | $13 | $0.01 | With 'risked' expansion |
| Exploration | Various | 100% | | $10 | $0.01 | Includes conventional and unconventional opportunities…nominal only |
| Northern Australia | | | | | | |
| MacArthur Basin | Various | 100% | | $187 | $0.12 | Using risk weighted and scaled 2C and Best Case Prospective Resources |
| Cooper Basin | | | | | | |
| Exploration | Various | 100% | | $10 | $0.01 | Nominal only |
| Victoria | | | | | | |
| Wombat-Trifon | PRL 2 | 15% | 25% | $10 | $0.01 | Based on a risk weighted development model and ascribed 2C volumes |
| Otway-1 | PEP 169 | 51% | 6% | $3 | <$0.01 | Drill-ready opportunity with low economic threshold…likely to be small (but potentially profitable) |
| Other | | | | $3 | <$0.01 | Includes a 5.98% LKO shareholding |
| | | | | **$306** | **$0.19** | |
| **Net debt (est as at 31-Mar)** | | | | ($38) | ($0.02) | |
| **Corporate** | | | | ($5) | ($0.00) | |
| **TOTAL** | | | | **$263** | **$0.16** | |
| Shares issued (mn)* | | 1,604 | | | | |

Source: RaaS analysis; Risked values based on look through Probabilities of Success (POS) for drilling and weighted by a RaaS risk overlay. Weightings at RaaS discretion.

Despite the below expectation results from the current work programmes at Kincora, production enhancement and fracking campaigns do have the capacity to materially alter our project assumptions and weightings over the next 12 months or so.

We note that beyond Kincora, most of the remaining portfolio is early-stage exploration and ascribed values are subject to potentially significant change related to drilling results – both direct and indirect.

We have made adjustments to our NAV based on:

- The slower progress on Kincora field works defers some of the production increase as previously modelled and lowers the NPV on softer FY21 and early FY22 volume assumptions;
- Debt repayments made to end-Mar;
- The recent equity capital raise - we have raised issued capital to 1,604mn shares as a working estimate.
- A reset and revaluation of the Northern Basins' assets on upgraded NSAI resource estimates and commodity prices.

Since the publication of our last note, we have adjusted our reference commodity price assumption which, being forward curve based, represent a significant upgrade to previous estimates

The near term part of the both the Brent and WTI curves increased by ~US$12-15/b winding back to parity at the end of the curves (2029 and 2026 respectively).

Crude oil prices have rallied strongly through 2Q and the forward curves (as of 1-Jul), underpinned a significant increase in our short-term crude oil assumptions, with positive implications for realised LNG prices and the implied Wallumbilla netback reference benchmark.

**Exhibit 2: Commodity price assumptions…a 2Q 'post-COVID' increase**

| NEW | 1/07/2021 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | FY32 | FY33 | FY34 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| WTI | US$/b | **37.17** | **51.88** | 69.98 | 63.56 | 59.22 | 56.28 | 54.60 | 53.89 | 53.84 | 53.95 | 54.27 | 59.27 | 65.56 | 68.52 | 70.00 |
| Brent | US$/b | **54.85** | **54.69** | 72.29 | 67.08 | 63.54 | 61.05 | 59.59 | 59.08 | 59.01 | 61.05 | 65.04 | 69.02 | 73.01 | 75.00 | 75.00 |
| AUD | | **0.6794** | **0.7474** | 0.7498 | 0.7500 | 0.7489 | 0.7474 | 0.7475 | 0.7492 | 0.7500 | | | | | | |
| OLD | 5/04/2021 | | | | | | | | | | | | | | | |
| WTI | US$/b | | 50.59 | 58.59 | 55.39 | 53.15 | 51.78 | 50.93 | 50.47 | 50.43 | 50.54 | 50.85 | 54.81 | 61.43 | 67.14 | 70.00 |
| Brent | US$/b | | 53.57 | 62.23 | 59.37 | 57.61 | 56.42 | 55.61 | 55.17 | 54.99 | 57.47 | 62.48 | 67.49 | 72.50 | 75.00 | 75.00 |
| AUD | | | 0.7452 | 0.7621 | 0.7622 | 0.7622 | 0.7622 | 0.7592 | 0.7531 | 0.7500 | | | | | | |
| % Change | | | | | | | | | | | | | | | | |
| WTI | | | **3%** | **19%** | **15%** | **11%** | **9%** | **7%** | **7%** | **7%** | **7%** | **7%** | **8%** | **7%** | **2%** | |
| Brent | | | **2%** | **16%** | **13%** | **10%** | **8%** | **7%** | **7%** | **7%** | **6%** | **4%** | **2%** | **1%** | | |
| AUD | | | **0%** | **-2%** | **-2%** | **-2%** | **-2%** | **-2%** | **-1%** | | | | | | | |

Source: eia.gov; investing.com; barchart.com; analyst assumptions

AEMO (the Australian Energy Market Operator) gas data for CY2021 to date indicates stronger gas demand year-on-year with consumption running some seven days ahead of 2020 on a daily comparative basis – there is no evidence of demand destruction at this point.

AEMO has released its Mar-2021, Gas Statement of Opportunities (GSOO) related to the south-eastern and eastern states markets.

https://aemo.com.au/energy-systems/gas/gas-forecasting-and-planning/gas-statement-of-opportunities-gsoo

In summary the GSOO forecasts

- *"…an improved gas supply outlook compared to last year (2020), largely due to a commitment to the Port Kembla Gas Terminal (PKGT) in NSW…estimated to inject up to 500TJd into the domestic market."*
- The PKGT is expected to defer previous shortfall forecasts out to at least 2026, *"…provided first gas is delivered ahead of winter 2023 and other committed field developments and pipeline expansions proceed as planned".*
- If there is delay *"…southern supply scarcity risks have emerged for winter 2023 under certain conditions"*.
- The shortfall risk is projected as occurring *"…one year earlier* (than previously projected, *due to more rapid decline in producers' forecasts of maximum daily production from legacy southern fields*".

Therein for us, lies the underpinning uncertainty. Current projections as modelled rely on the delivery of committed or to be committed projects in the time frame as advised AND at the capacity as designed. Gas is a finite resource and battling the decline curve has become more difficult.

The industry remains capital constrained, particularly at the small end of the market and key supply hubs like the Cooper and Gippsland basins are mature and we think, subject to significant risk with respect to decline mitigation expenditure.

It's our view that the nominal Victorian shortfall impacting from mid-2023 could be an optimistic outlook.

It is also worth highlighting GSOO commentary

- *"…the gas sector in eastern and south-eastern Australia is on the cusp of transformation, with changes in consumption patterns* (and) *alternate supply sources being actively developed"*.
- Industrial demand for natural gas is not expected to grow in the next 20 years *"…and could potentially reduce significantly as industrial users decarbonise"*.
- Gas demand could become 'peakier'.
- Gas is still expected to play a critical role in electricity generation.

We are an advocate for the premise that renewables work better with gas. An interesting point in the GSOO analysis suggests that *"…(w)hile the volume of gas consumed for generating electricity is forecast to decline, the value of that generation is expected to increase".*

A concluding comment from the GSSO –

*"There are numerous initiatives underway at both federal and state government level that could change the gas landscape and impact the outlook described here, including the Australian Government's gas fired recovery plan."*

We also highlight the BNE spot gas pricing over July ranging between $9.00-20.00/gj (averaging $15.00/gj) – the supply side of the gas equation continues to be under significant pressure.

## A new suit of Armour?

Post demerger the Armour portfolio will represent a leverage exposure to a more 'traditional' oil and gas business with a different operational dynamic and opportunity set. Although significant exploration leverage remains embedded in the play set, the asset base will be located within mature, developed, infrastructure hubs without the early-stage, nominally higher risk overlay associated with the Northern Basins unconventional plays.

**Exhibit 3: Armour will retain more of a traditional flavour…but importantly could be debt free**

Armour Energy

- Focussed on Surat & Cooper Basins
- Large operated acreage holder in Surat & Cooper
  - Surat Basin = 3,000 $km^2$
  - Cooper Basin = 10,876 $km^2$
- Active production enhancement work programme
- Surat Reserves[1]
  - 150 PJ (2P sales gas)
  - 1.2 mmbbls (2P liquids)
- Contingent Resources = 46 PJ (2C sales gas)
- Current production = 6-7 TJ/day
- Newstead Gas Storage
  - Proven, operating gas storage facility
  - Opportunity to commercialize under-utilized asset
- Debt-free and recapitalised

McArthur Oil & Gas

- Focused on McArthur/Beetaloo/South Nicholson Basins
- Largest Net Acreage holder in McArthur Basin
  - McArthur Basin = 89,000 $km^2$ (Net)
  - South Nicholson Basin = 7,900 $km^2$ (Net)
- Active conventional gas discovery development focus
- Prospective Resources = 34 TCF Gas (Best estimate)
  - 30 TCF unconventional / 4.4 TCF conventional
  - 1.2 billion barrels oil & liquid hydrocarbons
- Contingent Conventional Resources = Up to 10 BCF 3C
- Well capitalised for starting Northern Basin conventional developments

Source: Company data; we note current Kincora production is <6TJd

We highlight **Exh. 3** as being indicative of the different look. The portfolio would (will) still comprise the Surat operations (Kincora, Surat Deeps and Newstead gas storage), with a stronger focus on the Cooper Basin and the somewhat stranded southern assets, where we continue to see significant potential. Importantly the injection of c.$40mn from the MOG IPO would potentially render the company net debt free, with a stronger working capital position to pursue (and accelerate?) programmes planned for the Surat in particular and the Cooper basins.

**Exhibit 4: A pro-forma NAV (post demerger)…the value proposition remains**

| | | A$mn | A$/share | |
|---|---|---|---|---|
| Queensland | | $100-120 | $0.06-0.07 | Upside from successful 2Q Kincora programmes |
| Cooper Basin | | $10-20 | $0.01 | Potentially securing a farm-in partner and commencing evaluation activities |
| Victoria | | $15-20 | $0.01 | |
| Other | | $3 | <$0.01 | Includes a 5.98% LKO shareholding |
| | | **$128-163** | **$0.08-0.10** | |
| **Net debt** | | 0 | 0 | Assuming successful MOG IPO |
| **Corporate** | | ($5) | ($0.00) | |
| **TOTAL** | | **$123-158** | **$0.08-0.10** | |
| Shares issued (mn)* | 1,604 | | | |

It's worth highlighting that whilst the notional asset value of AJQ is reduced, shareholders would still be able to benefit from the inherent upside in the Northern assets as per the spin-out arrangements whereby MOG will –

*"…enter into a conditional agreement to acquire…the Northern Basins' business (from Armour) for $40mn plus a minimum 33.3% retained interest by AJQ shareholders."*

The capitalisation of MOG at the time of listing is expected to be c.$105mn, or a minimum of $35mn to AJQ shareholders.

The aggregate value to shareholders would be $158-193mn ($0.10-0.12/share) with the potential for a significant uplift through MOG on an acceleration of drilling activity that may not have been possible under a retained asset scenario, without the possibility of additional equity funding.

The proforma NAV would still represent a strong value proposition particularly related to Surat Basin gas growth potential, but importantly highlights a vastly improved financial position…operating revenue would be channelled back into the assets rather than for debt servicing.

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## Kincora needs a kick-start

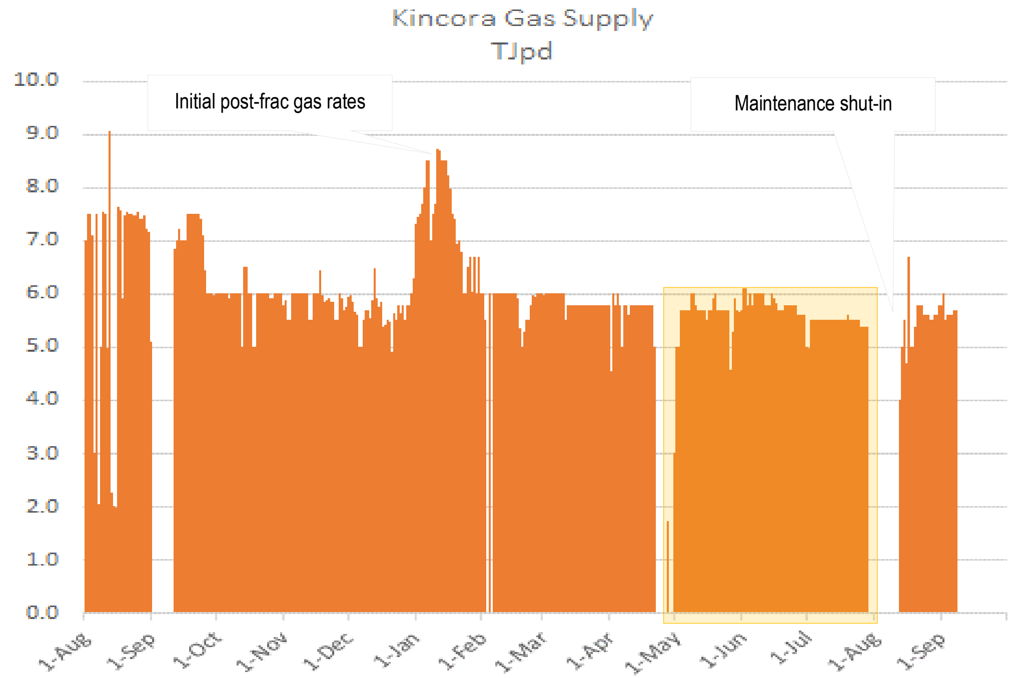
We addressed the initial results of the Kincora well stimulation campaign in our Update Report (18-Jan), with the initial results delivering the beginnings of operational improvement.

| | |
|---|---|
| **Horseshoe-1** | Produced gas to 260mcfd whilst still recovering frack fluid |
| **Horseshoe-2** | Producing gas to 160mcfd with condensate whilst recovering frack fluid |
| **Warroon-1** | Gas to 400mcfd with free-flowing condensate at 15bpd |

Kincora field production rates had improved from a base of 6TJd and were heading towards 9TJd with the initial three wells still in the phase of recovering frack fluid…we had strong cause for optimism.

Production rates over the subsequent period to 30-Jun have been disappointing and the activity has not provided the benefits as forecast and expected.

**Exhibit 5: Field deliverability has fallen away – remedial works are in train**




Source: AEMO data

The fracking campaign has ticked a number of operational and geological positives but it seems the gas growth upside will be harder to win than originally considered

To recap the programme to date - the initial results, particularly in the Basal Rewan Formation have been strongly encouraging as an undeveloped, by passed gas zone. Importantly this zone is showing **higher permeability and sustained bottom hole pressure than other producing zones** – that can only mean more gas at higher rates on an EUR basis.

As noted in the operations update of 9-Mar *"…(t)he 2019 Myall Creek 5A and the 2020 Horseshoe (and) Warroon stimulation results have established the potential for significant new pay from the **Black Alley/Bandanna** and the **Basal Rewan** across the Kincora acreage".*

It's worth highlighting that the Basal Rewan is still a low permeability, tight zone requiring fracking.

The poorer than expected results from the campaign were reported as resulting from a frack fluid issue rather than the frack design or geological factors. A fluid additive has been identified as generating residual hydrated polymers in the frack zone, occluding the permeability and restricting fluid flow.

Remedial frack work is being evaluated for the next phase of works. Management is currently seeking resolution from the service contractor regarding the frac campaign and subsequent underperformance of the wells.

Importantly, it's worth noting that despite the disappointing results of the frack campaign, it's believed to be an engineering/frack fluid issue unrelated to the geology…the gas has not disappeared **and 2P sales gas reserves stand at ~150PJ**, with an uncontracted reserves position of >100PJ.

The artificial lift programme (production enhancement) delivered as per expectation with four wells completed successfully.

Installation of pumps led to enhanced gas rates on a mechanical basis by simply removing the weight of the overlying fluid which was supressing and constraining gas recovery.

Whilst the gas play is somewhat challenging, the advantage AJQ retains is the infrastructure position related to processing (a plant at Kincora), location (connected directly into the Wallumbilla hub) and gas storage option at Newstead.

We note that the company continues to make progress on a suite of production enhancements opportunities at Kincora, despite capital constraints. However, the pace, timing and magnitude of planned campaigns will now be subject to adjustment based on financing availability (partnering and the success of the McArthur Oil & Gas IPO).

We expect further commentary on the Surat and Cooper basins outlook over the next few weeks.

## Softer 2Q numbers offset by higher prices…growth pushed back

AJQ delivered significant progress across a range of corporate initiatives but operational performance was softer on continuing issues at Kincora, where the daily rate was softer. Offsetting the lower sales volumes were stronger realised prices, particularly gas. We expect gas prices to remain favourable given the supply constraints currently manifesting the east coast markets.

**Exhibit 6: June quarter highlights and comments**

| Production and revenue | | | 4Q'20 | 1Q'21 | 2Q'21 | FY21 |
|---|---|---|---|---|---|---|
| Production was down QoQ ostensibly on poorer deliverability from Kincora. | Production (PJe) | | 0.8 | 0.7 | 0.6 | 2.5 |
| | **Sales (PJe)** | | **0.8** | **0.7** | **0.5** | **2.5** |
| Weaker quarterly production offset by stronger realised prices – up 12% QoQ per gj€ | Sales Revenue ($mn) | | 4.2 | 4.5 | 4.4 | 17.5 |
| | **Debt ($mn)** | | **57.9** | **42.4** | **39.1** | |
| Lower gas volumes on under-performing remedial works but a 35% lift in oil production QoQ. | Gas (TJ) | | | 562.6 | 483.5 | |
| | *Ave gas rate TJd* | | | *6.25* | *5.31* | |
| | LPG (t) | | | 860 | 906 | |
| | Oil (b) | | | 2,129 | 2,873 | |
| | Condensate (b) | | | 9,017 | 7,817 | |
| Improving commodity prices – gas up 18%, liquids up 13% | Gas ($/gj) | | | $6.1 | $7.1 | $5.9 |
| | LPG ($/t) | | | $578 | $490 | |
| | Oil & Condensate ($/b) | | | $78.8 | $89.4 | |

| Development, exploration and appraisal | |
|---|---|
| Improving but commissioning issues persist | Management is pursuing the frac service company regarding the production under-performance since the completion of the three-well campaign in early 2021. AJQ iseeking an agreement from the contractor to *"…undetake rectification works"* on the wells in question. This action is continuing.<br>*Most certainly we suggest the company will require redress and would require some clarity on the issues prior to progressing further well intervention through the remainder of 2021. The production growth targets as outlined in a May-2021 presentation are at risk, particularly with planned 2Q capital expenditures of ~$1.1mn versus the (then) proposed budget of $7.5mn.* |
| **Corporate** | |
| Demerger of the Northern assets via a spin-out and IPO of McArthur Oil & Gas are progressing | Ahead of the demerger and IPO and post 30-Jun, AJQ completed a 20,000km$^2$, multi-phase airborne survey to underpin the high-grading of the existing leads and prospects portfolio forpotentially further geochemical and geophysical evaluation.<br>The campaign included acquiring an airborne geochemical survey, with the aim of detecting and delineating the presence of gas chimneys as indicators of subsurface hydrocarbons accumulations.<br>The survey was completed on 28-Jul with processed data expected to be to hand by end-Aug. |
| Exploration, evaluation and development expenditure for the period was ~$1.1k | Activity was primarily focussed on refining and defining the prospect inventory of the Surat and Cooper basins tenements and progressing anumber of opportunities to drill-ready status.<br>Using its existing 3D seismic data, AJQ has identified the potential for significant gas bearing targets adjacent to the Myall Creek Field (Surat Basin). The company is confident the interpretation, based on tying to adjacent and analogue gas signatures, supports its interpretation represents the presence of gas-bearing sands. Work has commenced on a programme of additional 3D acquisition.<br>*We refer investors to the company's PESA presentation (ASX release) of 15-June.* |
| Cash and working capital | The cash balance as at 30-Jun was $2.4mn.<br>*It's likely significant field activity will be determined by the timning and success of the McArthur Oil & Gas IPO and spin-out of the northern assets.* |
| COVID | We understand the company has not been significantly impacted by the recent COVID related lock-down and restrictions. We would note that there still remains some risk to timing and conducting of field activity through further or continuing COVID imposts despite gas being a nominated essential service. Cross-border travel remains subject to significant pre-conditions and quarantine periods. |

Source: Company data; *Analyst commentary*

## Exhibit 7: Financial Summary

nm = not meaningful
na = not applicable

| ARMOUR ENERGY LTD | | AJQ |
|---|---|---|
| YEAR END | | June |
| NAV | A$cps | $0.16 |
| SHARE PRICE | Acps | $0.032 |
| MARKET CAP | A$mn | 51.3 |
| ORDINARY SHARES | M | 1,604 |
| OPTIONS | M | |

| COMMODITY ASSUMPTIONS | | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Realised liquids price | US$/b | 66.26 | 64.16 | 65.82 | 64.61 |
| Realised gas price | US$/mcf | 5.76 | 6.00 | 6.16 | 6.04 |
| Realised LPG Price | A$/t | 484 | 468 | 481 | 472 |
| Exchange Rate | A$:US$ | 0.6989 | 0.7468 | 0.7710 | 0.7712 |

| RATIO ANALYSIS | | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Shares Outstanding | M | 779 | 1,604 | 1,604 | 1,604 |
| EPS (pre sig items) | Acps | (1.5) | 0.5 | 0.1 | 1.1 |
| EPS (post sig items) | Acps | | | | |
| PER (pre sig items) | x | na | 6.9x | 28.6x | 0.0x |
| OCFPS | Acps | (10.3) | (7.1) | 8.3 | 14.4 |
| CFR | x | na | -0.5x | 0.4x | 0.0x |
| DPS | Acps | | | | |
| Dividend Yield | % | | | | |
| BVPS | Acps | 59.0 | 32.5 | 37.1 | 58.9 |
| Price/Book | x | nm | nm | nm | nm |
| ROE | % | (23%) | 11% | 3% | 18% |
| ROA | % | (8%) | 6% | 1% | 11% |
| (Trailing) Debt/Cash | x | 8.3x | 24.6x | 15.4x | 3.1x |
| Interest Cover | x | nm | #DIV/0! | 1.9x | 11.2x |
| Gross Profit/share | Acps | 8.1 | -0.4 | 7.2 | 20.4 |
| EBITDAX | A$M | 10.4 | 2.1 | 14.0 | 35.4 |
| EBITDAX Ratio | % | | | | |

| EARNINGS | A$000s | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenue | | 23,208 | 17,963 | 33,646 | 60,414 |
| Cost of sales | | (16,931) | (18,557) | (22,109) | (27,695) |
| **Gross Profit** | | **6,277** | **(595)** | **11,537** | **32,719** |
| Other revenue | | 2,879 | 602 | 0 | 0 |
| Other income | | 123 | 98 | 44 | 325 |
| Exploration written off | | (520) | 0 | 0 | 0 |
| Finance costs | | (5,276) | 0 | (2,776) | (2,382) |
| Impairment | | 0 | 0 | 0 | 0 |
| Other expenses | | (15,810) | 8,624 | (9,019) | (8,384) |
| EBIT | | (4,257) | 8,030 | 5,294 | 26,716 |
| **Profit before tax** | | **(9,410)** | **8,128** | **2,562** | **24,659** |
| Taxes | | (403) | (731) | (769) | (7,398) |
| **NPAT Reported** | | **(9,812)** | **7,396** | **1,794** | **17,262** |
| Underlying Adjustments | | | | | |
| **NPAT Underlying** | | | | | |

| CASHFLOW | A$000s | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| **Operational Cash Flow** | | **11,223** | **5,994** | **28,436** | **47,677** |
| Net Interest | | (5,153) | 98 | (3,150) | (2,057) |
| Taxes Paid | | 0 | 0 | 0 | 0 |
| Other | | (24,375) | (17,217) | (18,279) | (26,631) |
| **Net Operating Cashflow** | | **(7,999)** | **(11,321)** | **13,307** | **23,102** |
| Exploration | | (529) | (2,011) | 0 | 0 |
| PP&E | | 0 | (9,435) | 0 | 0 |
| Petroleum Assets | | (16,686) | (30) | (6,750) | (5,000) |
| Net Asset Sales/other | | 17,842 | 22,588 | 8,500 | 0 |
| **Net Investing Cashflow** | | **627** | **11,112** | **1,750** | **(5,000)** |
| Dividends Paid | | | | | |
| Net Debt Drawdown | | (2,250) | (18,799) | (14,193) | (10,450) |
| Equity Issues/(Buyback) | | 7,457 | 20,463 | 0 | 0 |
| Other | | | | | |
| **Net Financing Cashflow** | | **5,207** | **(675)** | **(14,193)** | **(10,450)** |
| **Net Change in Cash** | | **(2,165)** | **(884)** | **864** | **7,652** |

| BALANCE SHEET | A$000s | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Cash & Equivalents | | 7,060 | 2,362 | 3,226 | 10,878 |
| PP&E & Development | | 58,368 | 69,174 | 75,231 | 81,555 |
| Exploration | | 35,209 | 43,384 | 43,384 | 43,384 |
| **Total Assets** | | **115,792** | **126,133** | **134,405** | **151,059** |
| Debt | | 58,009 | 49,753 | 33,381 | 21,718 |
| **Total Liabilities** | | **69,804** | **74,069** | **74,884** | **56,585** |
| **Total Net Assets/Equity** | | **45,988** | **52,064** | **59,522** | **94,474** |
| Net Cash/(Debt) | | (50,949) | (39,691) | (30,155) | (10,839) |
| Gearing dn/(dn+e) | | 53% | 43% | 34% | 10% |

| PRODUCTION | | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Condensate/Crude Oil | kboe | 55.2 | 43.0 | 62.6 | 99.4 |
| Nat Gas | PJ | 2.7 | 2.1 | 4.2 | 8.0 |
| LPG | kt | 4.2 | 3.2 | 8.7 | 16.6 |
| **TOTAL** | **kboe** | **527** | **418** | **825** | **1,549** |

| | | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Product Revenue | A$mn | 23.2 | 18.0 | 33.6 | 60.4 |
| Cash Costs | A$mn | 15.7 | 16.4 | 19.7 | 25.0 |
| Ave Price Realised | A$/boe | 44.02 | 42.93 | 40.80 | 38.99 |
| Cash Costs | A$/boe | 29.73 | 39.24 | 23.84 | 16.15 |
| **Cash Margin** | | **32%** | **9%** | **42%** | **59%** |

| | | Reserves | | | Contingent | |
|---|---|---|---|---|---|---|
| Net To AJQ | | 1P | 2P | 3P | 1C | 2C |
| **Kincora Reserves** | | | | | | |
| Sales Gas | PJ | 67.4 | 150.3 | 321.1 | | |
| LPG | kt | 139 | 310 | 663 | | |
| Condensate | kb | 670 | 1,493 | 3,191 | | |
| Oil | kb | 246 | 1,221 | 2,640 | | |
| **MacArthur Basin plays** | | | | | | |
| Conventional | PJ | | | | 2.5 | 6.2 |
| **Wombat-Triton** | | | | | | |
| Sales Gas | PJ | | | | 437 | 818 |
| **Otway-1** | | | | | | |
| Sales Gas | PJ | | | | | 35 |

| Prospective Resources | | 1U | 2U | 3U |
|---|---|---|---|---|
| **MacArthur Basin plays** | | | | |
| Conventional | PJ | 1,351 | 4,990 | 31,081 |
| Unconventional | PJ | 3,950 | 31,185 | 345,634 |
| TOTAL | PJ | 5,301 | 36,175 | 376,715 |

| EQUITY VALUATION | Interest | Pr | A$mn | A$/share |
|---|---|---|---|---|
| **Queensland** | | | | |
| Kincora | Various | 50% | $72 | $0.04 |
| Exploration | Various | | $10 | $0.01 |
| Newstead Gas Storage | | 50% | $13 | $0.01 |
| **Northern Australia** | | | | |
| McArthur Basin | Various | 1% | $187 | $0.12 |
| **Cooper Basin** | | | | |
| Exploration | Various | | $10 | $0.01 |
| **Victoria** | | | | |
| Wombat - Trifon | PRL 2 | 25% | $10 | $0.01 |
| Otway-1 | PEP 169 | 6% | $3 | $0.00 |
| **Other** | | | $3 | $0.00 |
| | | | $307 | $0.19 |
| Net cash/(debt) | | | ($38) | ($0.03) |
| Corporate costs | | | ($5) | ($0.00) |
| **TOTAL** | | | **$264** | **$0.16** |
| **Shares on issue (mn)** | | | **1,604** | |

Source: RaaS Advisory, Company data

**Please Note**: These financial forecasts reflect a gas production growth scenario, which needs to be delivered to support our earnings and value estimates

# 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: 6th May 2021

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

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