Lochard Energy Group Plc

Directors' report and financial statements

Registered number 5209284

30 June 2011

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Lochard Energy Group Plc ("Lochard" or "the Company") is listed on the Australian Securities Exchange and is admitted to the Alternative Investment Market (AIM) of the London Stock Exchange.

Lochard Energy Group Plc is company which has a portfolio of investments in a number of oil & gas exploration and development projects which have near term development potential. It has operations in the United Kingdom and United States of America.

Financial highlights

- Sale of drilling fluid business for up to A$45m generated a net profit of A$11.627m.

Operational Highlights

- Athena oilfield granted development approval and nearing completion
- $14 million loan facility secured for the Athena development
- Awarded a 90% interest in nine new North Sea Offshore blocks
- Farm out of 40% interest in six Offshore blocks to PGS in return for 3D Seismic

Chief Executive's Overview

This has been a transformational year for the Company in both name and direction and I am pleased to present the first Annual report in the name of Lochard Energy group PLC .The sale of the drilling fluids business In April 2011 for up to $45m required the Company to change its name and allows the Company to concentrate on its oil and gas assets in the UK North Sea.

During the year Lochard's 100% owned subsidiary Zeus Petroleum was awarded a 90% interest in nine new offshore blocks in the 26th bidding round. This gives the Company various interests in eleven North Sea blocks. It has a well balanced portfolio of assets include the Athena development, discoveries on blocks: 14/26b (Thunderball), 16/8c (Moby) and 3/10c and a large exploration upside over the remaining blocks.

The Athena development is nearing completion with first oil expected before the end of the calendar year. The expected production revenue from this field will provide funding for Lochard's share of planned exploration expenditure on the other blocks. In addition the expected proceeds from the sale of the fluids business will support further exploration activities. Lochard will open a data room for the Thunderball discovery in September with a view to attracting farm in partners to drill the Thunderball and Moby discoveries in H2 2012.

Chief Executive's Overview (continued)

OIL & GAS ASSETS

United Kingdom

Zeus Petroleum Limited is a 100% owned subsidiary of Lochard Energy UK Limited which is a 100% owned subsidiary of Lochard Energy Group PLC.

Zeus was awarded a 90% interest in nine blocks (out of the 10 applied for) in the UK 26th round of offshore licensing in late 2010. To add to the Athena and Thunderball discoveries from previous licencing rounds, a number of appraisal projects and intriguing exploration blocks were added in the round, to make it 11 held UK blocks in total. Zeus holds a 10% interest in the Athena Field and a 50-90% interest in all the remaining blocks. Zeus was unsuccessful in securing farm in partners for its exploration prospect Metis on North Sea block 14/11 and this block was relinquished in December 2010.

Licence	Blocks	Zeus Interest %
P 1293	14/18b (Athena)	10
P 1611	14/26b	90
P1868	14/27b	90
P1867	14/17	50*
P1861	3/5	50*
P1861	3/10c	50*
P1863	9/17b	50*
P1863	9/22b	50*
P1865	13/16b	90
P1865	13/17	90
P1871	16/8c	50*

*subject to completion of farmout and licence assignment to PGS

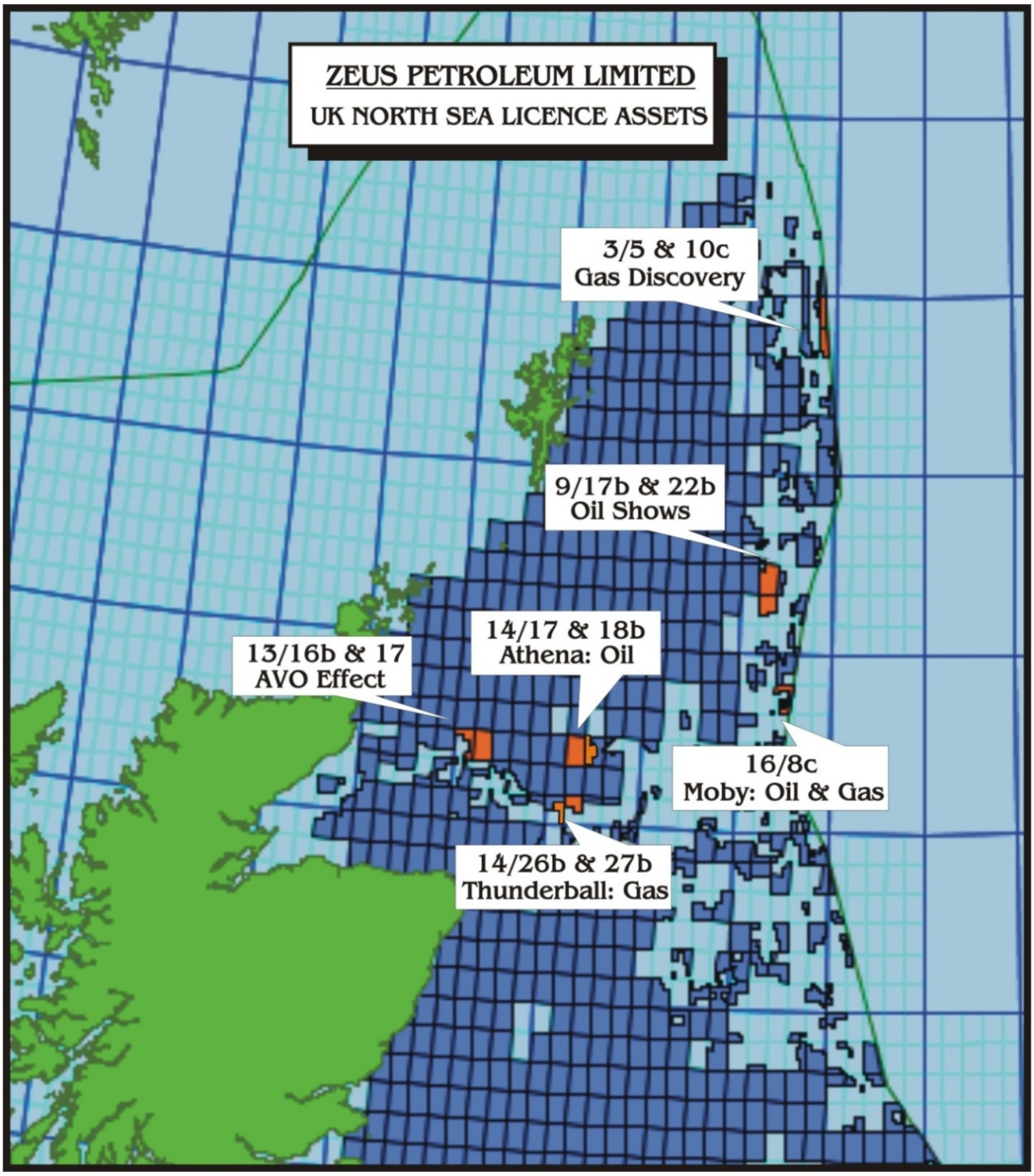
Zeus Licence interests as at 30 June 2011

LICENCE P1293 (Block 14/18b) Athena, Zeus 10%

Athena (Block 14/18b) Reserves

Reserve Category	Athena Reserves (Gross 100%) MMstb	Athena Reserves (Net to Zeus) MMstb
Proved + Probable (2P)	24.4	2.44
Proved + Probable + Possible (3P)	43.88	4.39

Chief Executive's Overview (continued)



Chief Executive's Overview (continued)

Development Block
1. Athena Oilfield 14/18b

The Athena Field lies approximately 180 km north-east of Aberdeen and 18 km west of the Talisman operated Claymore platform. The Field lies entirely within UKCS block 14/18b. This Field is currently under development with first oil due Q4 2011.

Athena is an oil field comprising a thick oil column within the Lower Cretaceous Scapa A Member sandstones. The field development plan consists of an initial four production wells completed with electrical submersible pumps (ESP's) and one water injection well. A further well will be considered after twelve months of production. The four existing production wells are being completed as producers. A water injection well has been drilled. First oil is expected Q4 2011. Initial production rates are estimated at 2200 barrels of oil per day (net to Zeus).

Chief Executive's Overview (continued)

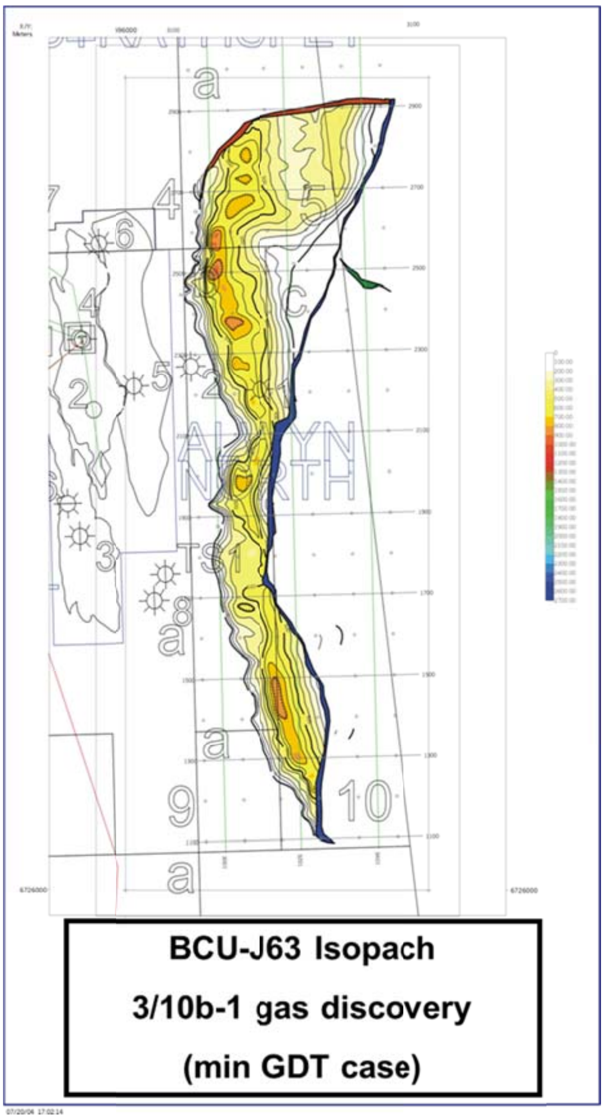
Appraisal Blocks

1. 3/5 & 10c

These blocks contain a BP 1980's Upper Jurassic gas discovery, 3/10b-1, which tested gas at a relatively low flowrate of c.1 mmscfd. A potentially large gas-bearing area has been mapped to the north and south of the well, which was not optimally placed. There are additional untested sands in the well and a gas-water contact was not encountered, leaving plenty of upside. Reservoir parameters of 11% porosity and 10md permeability within a 200ft gross interval should allow modern drilling and engineering techniques to increase flowrates and it is this aspect which will be investigated by the future work programme on the blocks. There is a further lead located to the north of block 3/5. Both blocks are located adjacent to the Alwyn Fields and facilities which are operated by Total.

In-house prospective resources range (minimum-mid-maximum cases) – all recoverable

(3/10b-1): 480-1057-2196 BCF. (mid case c.95% on block)
(3/5 north): 38-166-580 BCF. (mid case c.85% on block)



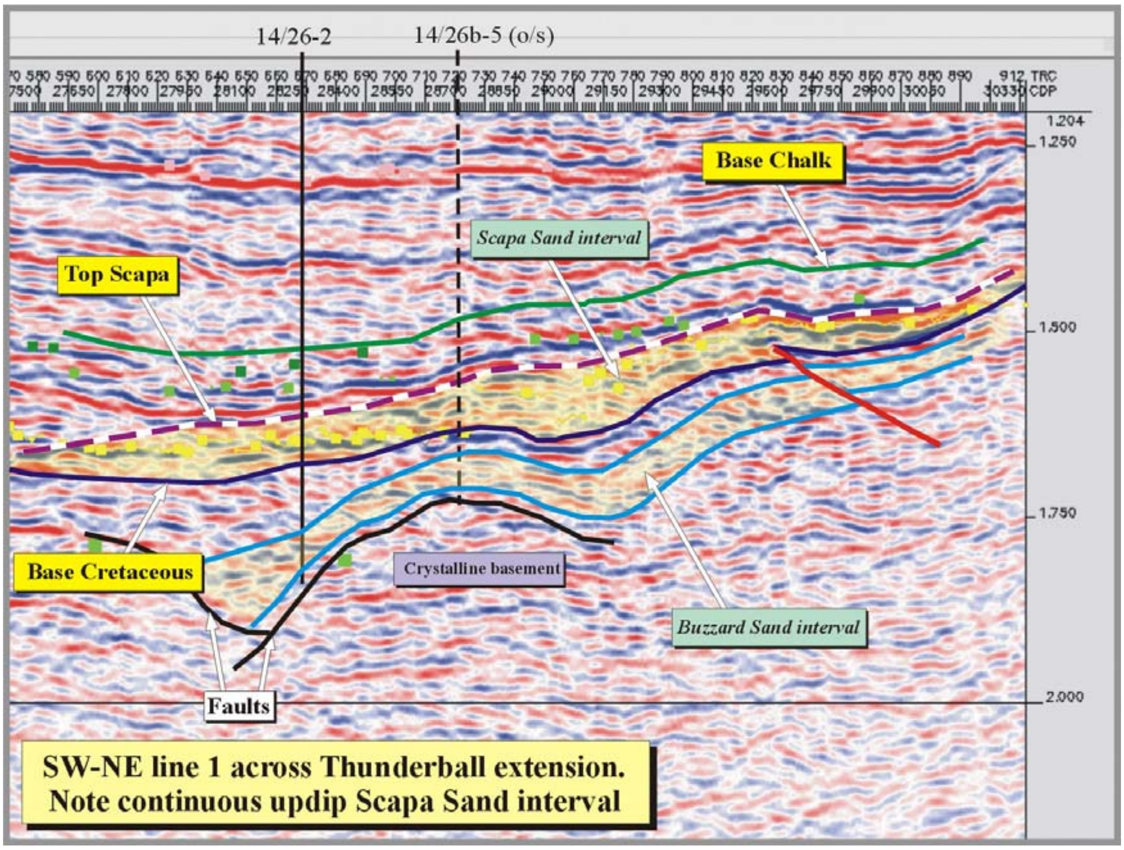
Chief Executive's Overview **(continued)**

2. 14/26b 'Thunderball'

The Thunderball discovery well (14/26b-5) tested at a significant rate of 34 mmscfd and 200 bcpd, and requires appraisal drilling to quantify significant upside potential. The Lower Cretaceous to Upper Jurassic reservoir interval in the discovery well (thought to be Scapa sand) consists of a 97ft gas and 32ft oil column within an overall 450ft gross interval. This can be mapped to continue further updip of the well location, where the reservoir quality of 25% porosity and net to gross ratios of 50% are expected to improve. The ultimate trapping mechanism is uncertain: there is a large structural mid case but with a large stratigraphic upside case. Block 14/27b was acquired in the 26th licensing round to protect the stratigraphic upside.

There is also a further exploration target for oil located immediately below the gas-bearing horizon in the Jurassic Buzzard sands, which at the proposed well location would be both above the hydrocarbon-water contact (6466 ftss) and from evidence in the 14/26b-5 well, expected to be in the same pressure regime. Zeus intends to appraise this discovery via a relatively shallow well as soon as possible.

In-house prospective resources range (minimum-mid-maximum cases) – all recoverable
(Thunderball): 32-318-2398 BCF. (mid prospective resources c.50% on block)
(Buzzard): 10-65-341 MMBBL. (mid prospective resources c.60% on block)



Chief Executive's Overview (continued)

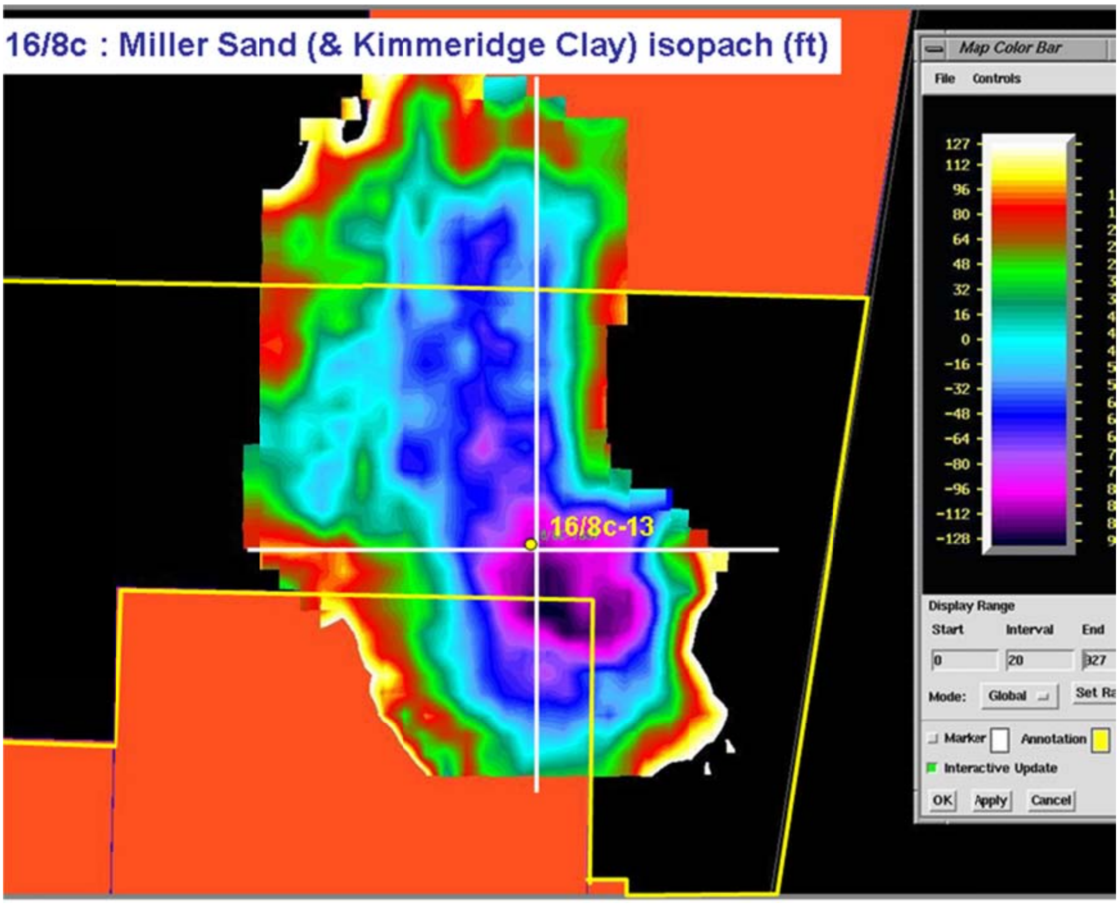
3. 16/8c 'Moby'

The 16/8c-13 well was drilled to test the north-eastern flank of the Kingfisher field by Marathon in 1993. It is sited c.5km NE of the Kingfisher facilities. The well encountered a net thickness of 180 ft of hydrocarbon-bearing sandstone in the Brae Formation Miller sands. Where cored, the Miller Sands show good porosities of 14-18% and permeabilities in the 100's of millidarcies.

Although not tested, fluid samples were recovered by wireline and confirm the interpretation of separate hydrocarbon-bearing zones. With increasing depth, the fluid samples recovered: oil, water then oil and wet gas. The API gravity and GOR of the oil samples increase with depth.

Zeus intends to map the individual sand bodies within the Miller sands, utilizing the internal seismic character from the latest data acquired from PGS. Ultimately, this should enable smart wells to be drilled (e.g. multi-lateral) and efficient development of the hydrocarbons. A thorough engineering review is being undertaken to assess drilling and production options.

In-house prospective resources range (minimum-mid-maximum cases) – all recoverable
(Moby): 15-43-102 MMBBL plus 39-94-204 BCF (mid prospective resources c.70% on block)



Chief Executive's Overview (continued)

Exploration Blocks

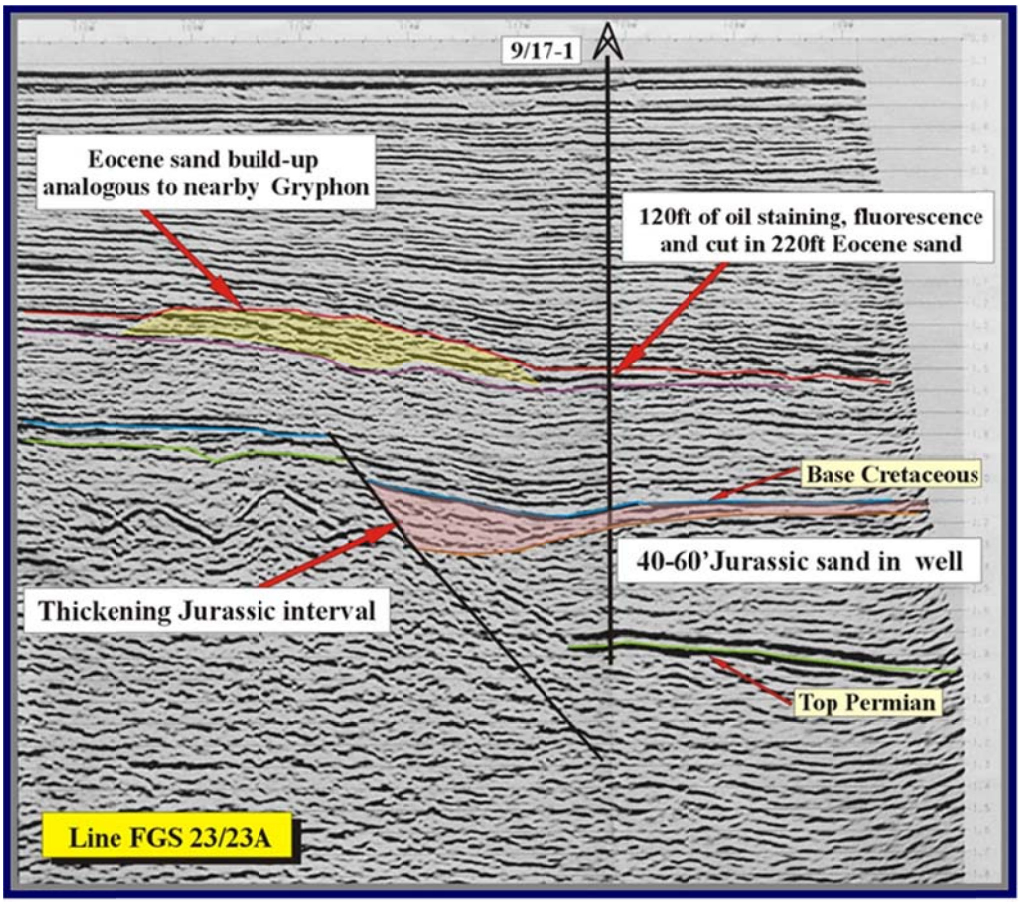
1. 9/17b & 22b

Drilled by Quintana in 1972, this well encountered a 220ft Tertiary Balder sand from 4280-4500ftmd with excellent hydrocarbon shows (brown oil stain, white-fair yellow live oil fluorescence and fast cut with yellow cut fluorescence) over the upper 120ft. A gas peak of 8000ppm was also recorded. The mudlog suggests that the mud weight was overbalanced over the interval.

The main Balder sand body has a net to gross ratio close to 100% and the porosities are in the range of 30-35%. In regard to the reservoir, the well is very similar in appearance to the Gryphon discovery well, 9/18b-7. Additionally, the well is located immediately downdip of a striking seismic analogy to the nearby Gryphon and Harding producing oilfields.

It is thought very likely that the well is an 'unrecognized oil' discovery. Zeus intends to shoot 3D seismic over the blocks in conjunction with its partner PGS in 2012. Prior to that we will carry out a petrophysical review of the old logging data and consider re-dating of the sands where necessary.

As mapping is in progress, resource estimates can only be based on likely areal size, reservoir quality and sand thickness. These suggest that the Eocene sands have the potential to be as large as the adjacent Gryphon Field. Published field reserves for the Gryphon field are currently set at 130mmbbl oil plus 130bcf gas recoverable.



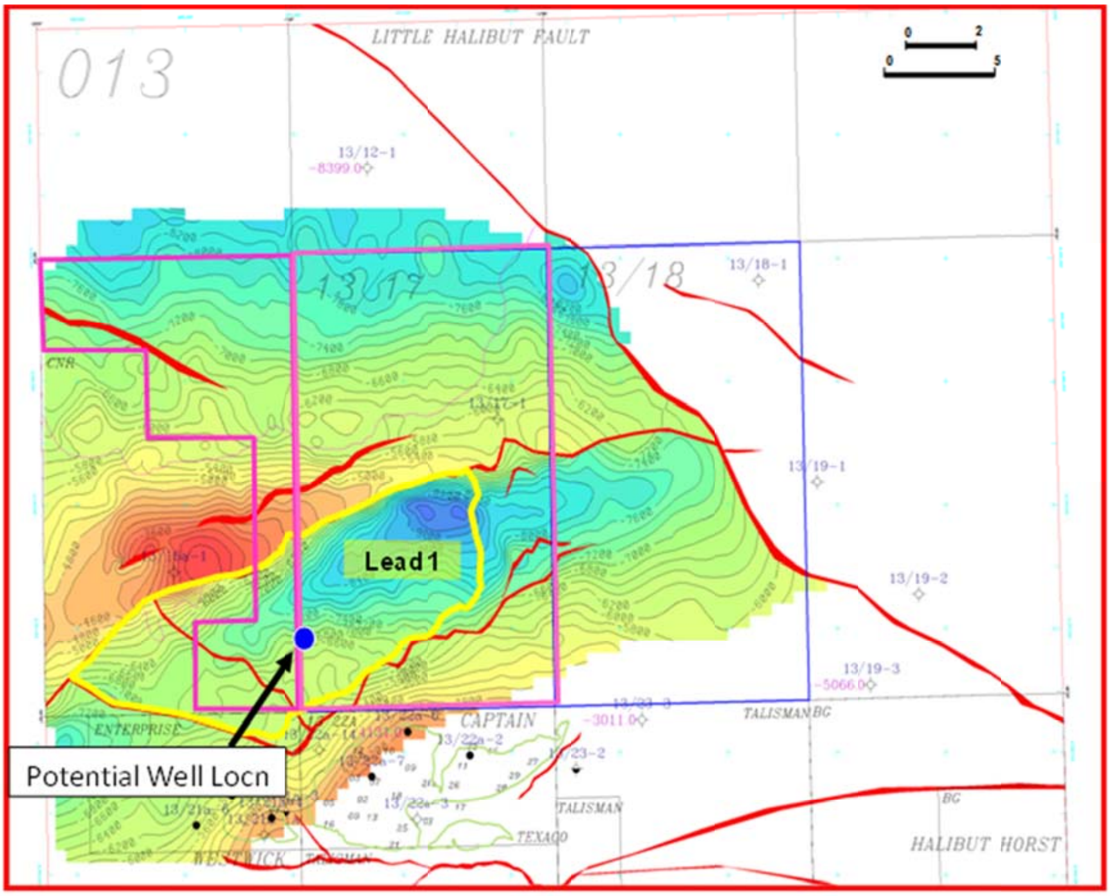
Chief Executive's Overview(continued)

2. 13/16b & 17

The main potential for these blocks exists in a large Upper Jurassic stratigraphic Lead located in the Smithbank Graben just to the north of the Captain Oilfield. The seismic signature is very similar to that seen in the Buzzard field. This potential was first realized on 2D seismic data and recent 3D acquisition has thrown up some intriguing results. There is an AVO effect seen on this seismic which is a potential direct hydrocarbon indicator and so is something that Zeus would like to investigate further.

In addition to the Jurassic, there is further reservoir potential recognized in younger Lower Cretaceous Scapa-type sands, similar to those seen in Athena. A clear sediment wedge, sitting on the base Cretaceous reflector, can be observed on seismic on the downthrown side of the main SW-NE Smithbank fault which traverses blocks 13/16b and 13/17.

In-house prospective resources range (minimum-mid-maximum cases) – all recoverable.
(Jurassic): 121-367-1113 MMBBL. (mid prospective resources c. 70% on block)
(Cretaceous): 16-140-1135 MMBBL (mid prospective resources 100% on block)



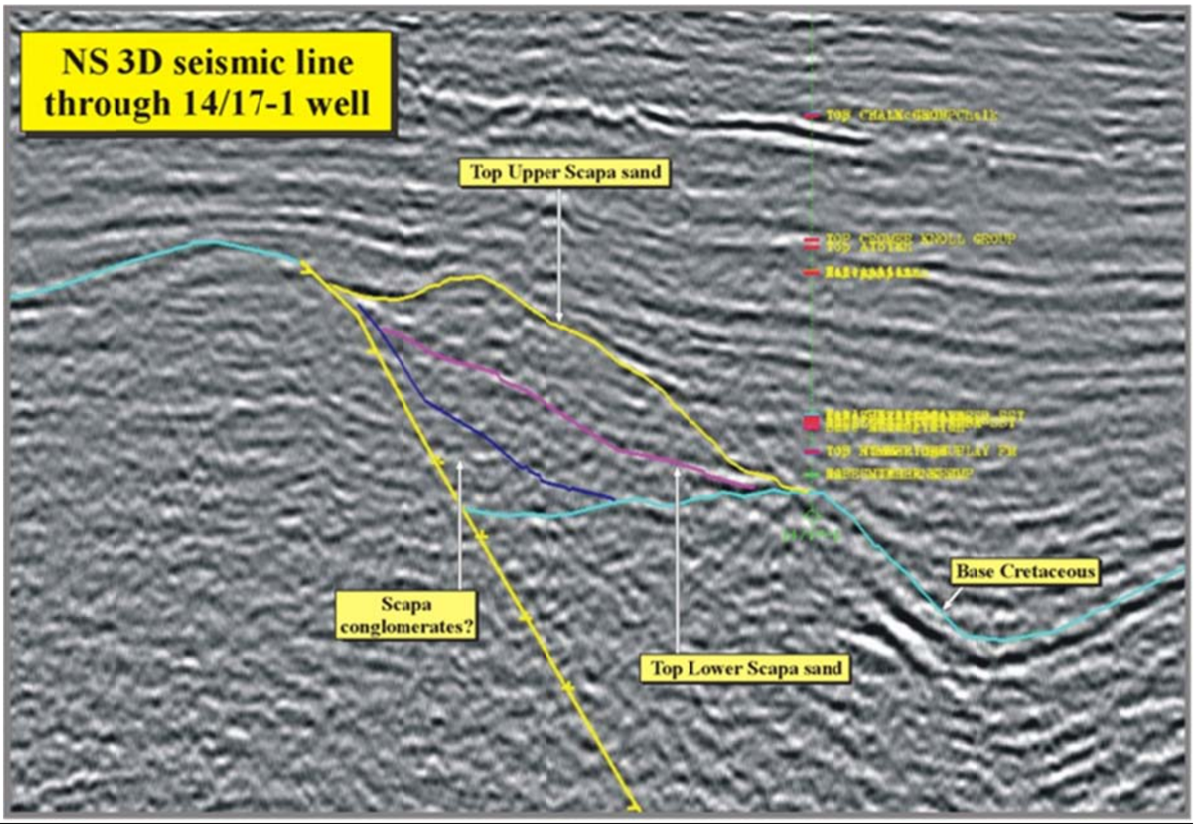
TVDSS: contour int. = 200 **MAP TOP BUZZARD SAND MEMBER DEPTH**

Chief Executive's (continued)

3. 14/17

This block is located immediately on trend and to the West of the Athena field in 14/18b. Both blocks are located in a significant Lower Cretaceous half-graben, adjacent to the Halibut Shelf. This trend is a continuation of that already successfully tested in 14/18b by the Athena wells and further to the east, by the Scapa field itself. Older 3D seismic data has identified leads in the block (see below) but future work will concentrate on mapping new data recently shot which should help to identify additional seismic packages similar to those seen in the Athena and Scapa fields.

As mapping is in progress, resource estimates can only be based on likely areal size, reservoir quality and sand thickness, but it is not unreasonable to assume that a 15-20mmbbl accumulation could be defined.



4. 14/27b (see 14/26b Thunderball)

This block was selected as protection acreage for the existing Thunderball gas discovery in 14/26b which was already licensed to Zeus. 14/27b could contain significant upside potential, located directly up dip of the Thunderball discovery.

Chief Executive's Overview (continued)

USA

Blackwell Project

Lochard's 100% owned subsidiary, Lochard Energy Inc. ("Lochard USA") holds a 65% working interest (48.75% revenue interest) in 6 producing wells and 16 non-producing wells on the Blackwell leases in Caldwell County, Texas, USA. The Company does not intend to participate in any further wells in this field.

Schuster Flats

Lochard USA holds an 18.75% working interest over approximately 34,400 acres in the natural gas and oil leases in the Schuster Flats prospect which is located in the central portion of the Big Horn Basin in the state of Wyoming, USA. The Shuster Flats leases were sold in August for $US 293k.

Bearcat Prospect

Lochard USA holds a 13.75% working interest (10.31% revenue interest) in the 960 acre Bearcat Prospect located in Park County at the north end of the Big Horn Basin in the state of Wyoming, USA. The Company does not intend to participate in any further wells in this field until US gas prices improve and commercial flow rates can be proven from the Two Dot #12-42 well. A re-entry of this well is planned in September.

Change of name

At the general meeting of shareholders held on the 15 April 2011 the company change its name from Rheochem plc to Lochard Energy Group Plc.

Legal dispute

As previously announced, Zeus Petroleum has a legal dispute with Senergy Limited; a UK based drilling company, claiming US$11.907m and £1.822m in respect of contracted works not carried out in accordance with the terms of an alleged contract with Zeus. Since initial contact was made by Senergy, informing Zeus of Senergy's position, a claim has now been lodged in the High Court and Zeus intends to rigorously defend this claim. A court date has been set for 10 October 2011.

While the management of Zeus believe that Senergy's claim is unlikely to succeed, it does give rise to a contingent liability in the Zeus and consolidated group accounts as at 30 June 2011.

Whilst a contingent liability in a subsidiary is deemed to be a contingent liability for group accounting purposes, there is no legal liability attributable to Lochard Energy Group Plc.

Outlook

The Athena development is nearing completion. This will be the first offshore oilfield development for the Company. First oil is expected in Q4 2011 and although it will not make a revenue contribution to our financial year 2010/2011, it should have a major positive impact in the following financial year. Zeus's initial share of oil production is expected to be around 2200 bbls/day.

The earnout from the sale of the fluids business is expected to be $13.8million with potential upside to $21.25 million in total and will be due in May if payable. To date the expected earnout numbers are tracking the proposed budget The Athena revenues provide sufficient funds to the company to further evaluate its appraisal and exploration properties. The earnout payment will provide extra working capital for exploration expenditure. We are reviewing the recently acquired seismic on the Moby discovery and block 14/17 and intend to shoot seismic on blocks 9/17b and 9/22b in 2012.

We eagerly await the opportunity to resolve the Senergy claim in the High Court in October which allows us to move forward as a well-financed North Sea focussed Exploration and Production Company without distraction.

Finally I would like to thank our management team and staff (both past and present) for their hard work and dedication during this transitional year. On behalf of shareholders I would like to thank them for their loyalty and commitment.

Haydn Gardner Chief Executive
31 August 2011

Board of directors

The names and details of the Company’s Directors in office during the financial year and until the date of this report are as follows. The Directors were in office for this entire period unless otherwise stated.

The Board is responsible for all strategic decisions regarding the Group’s business, including approval of commercial strategy, annual budgets, interim and full financial statements and reports, and dividend and accounting policies. It is also responsible for approving all significant capital projects, investments and disposals.

Haydn L Gardner, B App Sci (Chemistry)

Managing Director (50)

Mr Gardner is the founder of Lochard. He graduated with a degree in Applied Science (Chemistry) from Deakin University in 1982. After working as a production chemist with British Drug Houses (Merck) and ICI he joined BHP Petroleum Research in 1988. Whilst there, he implemented a radioactive tracer program for drilling fluids to help characterise subsurface geochemistry of various offshore basins. Mr Gardner has also worked extensively in the mineral processing industry.

Craig R McGuckin, Dip. Minsurv Class 1, Dip Surfmin

Resigned 5th May 2011

Executive Director (50)

Mr McGuckin has over 20 years experience in the mining industry where he has held senior management and board experience in both private and public companies. He has been Mine Manager for Griffin Coal Mining Co Ltd in Australia and Managing Director for exploration drilling contractors Grimwood Davies Holdings Ltd. He holds diplomas in Mine Surveying (Class 1) and Surface Mining, as well as an Unrestricted Quarry Managers certificate.

Lincoln C McCrabb, B App Sci (Chemistry) MAusIMM, MRAusCI

Executive Director (50)

Mr McCrabb has over 20 years experience in chemistry/metallurgy and has held senior positions as Managing Director of Normet Pty Ltd and Oretest Pty Ltd. He graduated with a Degree in Applied Science (Chemistry) from Deakin University in 1982.

Michael Rose, B Sci (Geology/Chemistry)

Non-executive Director (53)

Mr Rose is a geologist who has held a number of technical and managerial positions over 25 years in oilfield exploration, development and operations. He has particular experience of the UK North Sea and has also worked on projects in Holland, Italy, Australia and India. Companies worked for include Amoco, BP, Enterprise Oil, Hardy Oil & Gas, Pentex UK and Petrobras. Mr Rose has been appointed Chair of the Remuneration Committee and serves on the Audit Committee.

Board of directors *(continued)*

Peter Youd, B Bus (Accounting), AICA, AICD

Non-executive Director (56)

Mr Youd is a Chartered Accountant and has extensive experience within the mineral resources, oil and gas services, and mining services industries. For the last 35 years Mr Youd has held a number of senior management positions and directorships for publicly listed and private companies in Australia and overseas. Mr Youd graduated from the W.A. Institute of Technology (now Curtin University of Technology) with a Bachelor of Business. Mr Youd has been appointed Chair of the Audit Committee and serves on the Remuneration Committee.

James Brooke, CA.

Non-executive Director (39)

Mr Brooke is a Chartered Accountant and has over 15 years investment experience in private equity and quoted fund management. He is currently a fund manager at Henderson Global Investors ("Henderson"), a UK based independent fund manager. Mr Brooke has held numerous directorships both in the past and at present for a wide range of public companies in the UK. Jamie has joined the Board as a representative of Henderson and was appointed on the 14th December 2010.

Company Secretary

Adrian Bowers was appointed to the position of company secretary of Lochard Energy Group Plc in August 2004. He has been a Certified Practising Accountant for over 15 years and is a qualified Chartered Company Secretary.

Directors' report

The Directors present their report together with the financial report of Lochard Energy Group Plc ("the Company" or "Lochard"), and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2010 and the auditor's report thereon.

Results and Dividends

The Group result for the year was a profit of A$7.323 million *(30 June 2010: profit of A$2.504 million)*.

No final dividend has been declared or recommended as at 30 June 2011 or as at the date of this report (*2010: A$nil).*

No interim dividends have been paid (*2010: A$nil*).

Principal Activities

The principal activities during the year of the Group were the provision of drilling fluids and drilling fluid engineering services to the oil & gas industry and participation in oil & gas assets including trading and investments.

A more detailed review of the business can be found in the Chief executive's overview commencing on page 1.

Outlook

This is discussed in the Chief executive's overview.

Key Performance Indicators

The key performance indicators are highlighted on page 1, Financial highlights. Following of the disposal of the drilling fluid businesses the key performance indicators will be reviewed once oil production begins.

Financial Risk Management

The major financial risks faced by the Company and Group are interest rate risk, currency risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest Rate Risk

The Company and Group's policy is to manage its interest cost using a combination of variable and fixed rate debt.

Foreign Currency Risk

The Company and Group's profitability can be significantly affected by movements in the $US/$A and $US/£GBP exchange rates.

These exposures arise from sales or purchases of goods and services.

The Group seeks to manage this risk by holding foreign currency and contracting with certain customers in $US.

Liquidity Risk

The Group maintains a balance between continuity of funding and flexibility through the use of cash and term deposits.

Directors' report *(continued)*

Financial Risk Management *(continued)*

Credit Risk

Previously the majority of the Company's and Group's customers are very large oil companies and therefore the recoverability risk tends to be less of the traditional credit nature and more to do with customer satisfaction. However these customers related to the Drilling fluid business that was disposed of during the year (see note 4), as such there is minimal credit risk for the Company or the Group moving forward.

Principle Risks and Uncertainties

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

Fluctuations in Oil and Gas Prices

A longer term fall in oil and gas prices can reduce levels of cash flow for the group which could lead to a reduction in earnings.

Regulatory Approvals

The operations of the Lochard Group and the agreements which it has entered into require approvals, licences and permits from various regulatory authorities, governmental and otherwise (including project specific governmental decrees). The Directors believe the Lochard Group holds or will obtain all necessary approvals, licences and permits under applicable laws and regulations in respect of its main projects and, to the extent they have already been granted, believes it is presently complying in all material respects with the terms of such approvals, licences and permits. However, such approvals, licences and permits are subject to change in various circumstances and further project-specific governmental decrees and/or legislative enactments may be required. There can be no guarantee the Lochard Group will be able to obtain or maintain all necessary approvals, licences and permits may be required and/or all project specific governmental decrees and/or required legislative enactments will be forthcoming.

Title and Title Opinions

The system for obtaining oil and gas leases in regions the Group may operate in is sometimes complex given numerous parties may hold the undivided mineral rights to a particular tract of land. Securing the leases to those rights often requires lengthy negotiation with the various parties. In order to independently verify the parties with whom the Group is dealing are the correct and sole holders of the mineral rights and to analyse a company the Group obtains detailed title opinions from appropriately qualified and experienced lawyers. This can be a lengthy and expensive process and the final opinions are often the subject of numerous qualifications. It is therefore customary such title opinions are not sought until it is proposed to conduct a drilling operation and/or expend significant amounts of money on a particular lease.

Further, some of the leases in which the Group will acquire an interest may have a fixed term and be subject to applications for renewal. The renewal of the term of each permit or licence is usually at the discretion of the relevant lessor. If a lease is not renewed or granted, the Group may suffer significant damage through loss of the opportunity to develop and discover any oil or gas resources on the lease.

Directors' report *(continued)*

Drilling and Operating Risks

Oil and gas drilling activities are subject to numerous risks, many of which are beyond the Group's control. The Group's operations may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment and compliance with government requirements. Drilling may provide unprofitable results, not only with respect to dry wells, but also with respect to wells, which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating costs. Completion of a well does not assure a profit in the investment or recovery of drilling, completion and operating costs. Hazards incidental to the exploration and development of oil and gas properties such as unusual or unexpected formations, pressures, oceanographic conditions or other factors are inherent in drilling and operating wells and maybe encountered by the Group.

Industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures or discharges of toxic gasses, the occurrence of any of which could result in substantial losses to the Group due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties and suspension of operations. Damages occurring as a result of such risks may give rise to claims against the Group. Although the Group believes it or the operator will carry adequate insurance with respect to its operations in accordance with industry practice, in certain circumstances the Group's or operator's insurance may not cover or be adequate to cover the consequence of such events. In addition, the Group may be subject to liability to pollution, blow-outs or other hazards against which the Group or operator does not insure or against which it may elect not to insure because of high premium costs or other reasons. The occurrence of an event is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of operations of the Group. Moreover, there can be no assurance the Group will be able to maintain adequate insurance in the future at rates it considers unreasonable.

Ability to Exploit Successful Discoveries

Oil exploration involves significant risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance oil will be discovered or, even if it is, commercial quantities can be recovered from the Group's licence acreage. No assurances can be given if commercial reserves are discovered the Group will be able to realise such reserves as intended. There is also no assurance the Group may be able to acquire any other commercially significant oil deposits.

Currency Risk

Lochard Group reports its financial results and maintains its accounts in Australian Dollars and the world market for oil and gas services is principally denominated in United States Dollars. The Lochard Group's operations make it subject to further foreign currency fluctuations and such fluctuations may materially affect the Lochard Group's financial position and results.

Directors' report *(continued)*

Economic, Political, Judicial, Administrative, Taxation or Other Regulatory Factors

Oil and gas exploration production activities may be affected in varying degrees by political stability and government regulations relating to the oil and gas industry. Any changes in regulations or shifts in political conditions are beyond the control of the Lochard Group and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to environmental legislation and safety. Lack of political stability, changes in political attitudes and changes to government regulations relating to foreign investment and the oil industry are beyond the control of the Lochard Group and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on various areas, including production, price controls, export controls, income taxes, and expropriation of property, environmental legislation and safety. Operations may also be affected by on-going disturbances, trespass and resultant civil or criminal proceedings against members of the Lochard Group and key employees.

Environmental and Other Requirements

The Lochard Group's operations are subject to the extensive environmental risks inherent in the oil and gas and mining industries.

The current or future operations of the Lochard Group, including development activities and blending operations require permits from various governmental authorities and such operations are and will be governed by laws and regulations governing exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in the construction and operation of dangerous goods storage facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits.

Existing and possible future environmental legislation, regulations and actions could cause significant additional expense, capital expenditures, restrictions and delays in the activities of the Lochard Group. There can be no assurance all permits which the Lochard Group may require for construction of blending plants will be obtainable on reasonable terms or applicable laws and regulations would not have an adverse effect on any project which the Lochard Group might undertake. Although the Lochard Group believes it is in substantial compliance in all material respects with applicable material environmental laws and regulations, there are certain risks inherent in its activities such as accidental spills, leakages or other unforeseen circumstances which could subject the Lochard Group to extensive liability.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions hereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Amendments to current laws, regulations and permits governing operations, or more stringent implementation thereof, could have a material adverse impact on the Lochard Group and cause increases in capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development of new projects.

Dependence on Key Personnel

The Lochard Group's business is dependent on retaining the services of its Directors, senior management and other key personnel. Whilst the Board has sought to and will continue to ensure the Directors and any key employees are appropriately incentivised, their services cannot be guaranteed. The Group has a small management team and the loss of any Director may have an adverse effect on its operational performance, growth plans and ability to raise further funds. The continued involvement of key employees, consultants and Directors is not assured, and the loss of their services to the Group may have a material adverse effect on the performance of the Group.

Directors' report *(continued)*

Market Growth and Industry Data

Information or other statements presented in this document regarding market growth, market size, development of the market and other industry data pertaining to the oil and gas services market and Lochard's business consist of estimates based on data and reports compiled by industry professionals, organisations, analysts or on Lochard's knowledge of its sales and markets. The Directors take responsibility for compiling and extracting but have not independently verified market data provided by third parties or industry or general publications, although they consider such data and publications to be reliable.

Project Development Risks

There can be no assurance that the Group will be able to manage effectively the development of its operations or that the Group's current personnel, systems, procedures and controls will be adequate to support the Group's operation. Any failure of management to manage effectively the Group's growth and development could have a material adverse effect on the Group's business, financial condition and results of operations. There is no certainty that all or, indeed, any of the elements of the Group's current strategy will develop as anticipated.

Operational Risks

The Group's operational targets are subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Group.

The locations of the Group's exploration activities dictate that climatic conditions and infrastructure (or lack thereof) have an impact on operations and, in particular, severe weather and other matters affecting infrastructure, road and transport could disrupt the delivery of supplies, equipment and fuel. It is therefore possible that operation levels might fluctuate. Undisclosed interruptions in the Group's operations due to mechanical or other failures, or industrial relations related to issues, or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

Reserves and Resource Estimates

Reserve and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Historical calculations or estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource and reserve estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional evaluation, the estimates are likely to change. This may result in alterations to development and production plans which may, in turn, adversely affect the Group's operations. Economically recoverable reserves are dependent on oil price and ultimate oil recovery may be less than reserves.

Country Risk

The Group operates in various geographical locations, which introduces both sovereign and domestic economic risks to investors investing in the CDIs for Shares. Investors should be aware that country risks may affect the Group and its operations and assets.

Directors' report *(continued)*

Additional Requirements for Capital

The Group may require additional financial resources to continue funding its future expansion and the evaluation of its projects. No assurance can be given that any such additional financing will be available or that, if available, it will be available on terms acceptable to the Group or its Shareholders. The Group may in the future raise additional funds through public or private financing.

If additional funds are raised through the issue of equity securities, the percentage ownership of the current Shareholders of the Company and Group will be reduced and such securities may, subject to requisite Shareholder approval, have rights, preferences or privileges senior to those of the holders of the Shares then in issue.

If adequate funds are not available to satisfy either short or long-term capital requirements, the Group may be required to limit its operations significantly.

Non controlling minority interests and contractors

Where a non controlling minority interest does not act in the best commercial interest of the venture, it could have a material adverse effect on the interests of the Company and Group.

The Directors are unable to predict the risk of:

- financial failure or default by a participant in any venture to which the Company may become a party;
- insolvency or other managerial failure by any of the contactors used by the Company in its activities; or
- insolvency or other managerial failure by any of the other service provider used by the Company for any activity.

Other Actions by Operators

Lochard is not aware of any legal restriction on joint venture participants or operators selling their interest in the Company's oil and gas assets in which it has an interest to a third party. Should a joint venture participant or operator sell its interest to a third party, there can be no guarantee that the third party does not take action that is detrimental to minority shareholders or may take a different approach to managing its interest.

Should the operator assign its interest as operator to a third party there can be no guarantee that the third party will operate in the same manner, which may result in reduced profitability.

New Projects and Acquisitions

The Group proposes to actively seek acquisitions that may add value to the Group. The acquisition of new business opportunities (whether completed or not) may require the payment of monies (as a deposit and/or exclusivity fee) after only limited due diligence and prior to the completion of any comprehensive due diligence. There can be no guarantee that any proposed acquisition will be completed or be successful. If the proposed acquisition is not completed, monies already advanced may not be recoverable, which may have a material adverse effect on the Group.

If an acquisition is completed, the Board will need to re-assess, at the time, the funding allocated to current projects and new projects, which may result in the Group reallocating funds from other projects and/or the raising of additional capital (if available). Furthermore, notwithstanding that an acquisition may proceed upon the completion of due diligence, the usual risks associated the oil and gas services business and/or oil and gas exploration activities will remain.

Directors’ report *(continued)*

General Risks

Economic Risks

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Group’s exploration, development and production activities, as well as on its ability to fund those activities.

Further, share market conditions may affect the value of the Company’s quoted securities regardless of the Group’s operating performance. Share market conditions are affected by many factors including:

(a) general economic outlook;

(b) interest rates and inflation rates;

(c) currency fluctuations;

(d) changes in investor sentiment toward particular market sectors;

(e) the demand for, and supply of, capital; and

(f) terrorism or other hostilities.

Dividends

There can be no assurance as to the level of any future dividends. The payment and amount of any potential future dividends of the Company are subject to the discretion of the Directors and will depend upon, amongst other things, the Company's earnings, financial position, cash requirements and availability of profits. The Directors have no intention of declaring and paying a dividend in the foreseeable future.

Market Conditions

The market price of the CDIs or Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company and Group or any return on an investment in the Company.

Market perception of junior service and/or exploration companies may change, potentially affecting the value of investors' holdings and the ability of the Company to raise further funds by the issue of further Shares or otherwise.

Securities Investments and Share Market Conditions

The market price of CDIs or Shares could be subject to significant fluctuations due to various factors and events, including any regulatory or economic changes affecting the Group's operations, variations in the Group's operating results, developments in the Group's business or its competitors, or to changes in market sentiment towards the CDIs or Shares. The Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. In addition, stock markets from time to time suffer significant price and volume fluctuations that affect the market prices for securities and which may be unrelated to the Group's operating performance. Any of these events could result in a decline in the market price of CDIs or Shares.

Directors' report *(continued)*

Directors and their interests

The Directors who served during the year and their beneficial interests in the Company's ordinary share capital were as follows:

	30 June 2011	30 June 2010
H.L. Gardner	16,428,422	16,428,422
C.R. McGuckin (Resigned 5 May 2011)	3,286,050	3,286,050
L.C. McCrabb	-	-
M. Rose	3,781,570	3,781,570
P.R. Youd	-	233,000
J. Brooke	-	-

In accordance with the Company's Memorandum and Articles of Association a third of the Directors must retire at the Annual General Meeting and offer themselves for reappointment as a Director of the Company.

There have been no changes to Directors' interests as at the date of this report.

Details of Directors' interest in transactions are set out in note 31.

Payment of Creditors

It is the Group's practice to agree credit terms with all suppliers and to pay all approved invoices within these agreed terms. The average trade creditor days for the year was 44 days *(2010: 49 days).*

Political and Charitable Donations

The Group made no political nor charitable donations during the year *(2010: A$nil)*

Health, Safety and Environmental

The Group continues to place great emphasis on occupational health safety and environmental issues.

The Group recorded no Lost Time Injuries and has had no reportable environmental incidents for the year.

The Group strives for the highest levels of environmental protection and conformance. The Group, prior to disposal of the drilling fluid business held licenses for the storage of dangerous goods at various locations around Australia. There have been no known breaches of license conditions during the period to the date of this report.

The Group will continue to make resources available to operate in a safe and environmentally responsible manner.

Events since the balance sheet date

There are no known subsequent events of a material nature.

Employees

The Group is committed to providing equal opportunities to all employees irrespective of their sex, sexual orientation, marital status, religion, race, age or disability. It is the Group's policy to give positive consideration to disabled persons with respect to application for employment, training, career development and promotion, having regard to each individual's particular aptitudes and abilities.

Directors' report *(continued)*

Substantial Shareholdings

As at 31 August 2011 the Company was aware of the following interests in 3% or more of its issued share capital:

Shareholder	Number of shares	% Holding
Henderson Global Investors	**65,190,075**	26.1
R J Barby Esq	**20,630,671**	8.3
Gardner Marketing Pty Ltd	**16,428,421**	6.6
Amundi Asset Management	**14,616,000**	5.9
Merchant Securities	**12,113,000**	4.9
Waterford Investments Group Ltd	**9,261,829**	3.7

Going concern

The Directors are responsible for considering whether it is appropriate to prepare financial statements on a going concern basis. After making appropriate enquiries the Directors concluded that the Group has adequate resources to continue in operation for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing the financial statements. (see note to the financial statements)

Disclosure of information to auditors

- So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware and;
- Each of the Directors has taken all of the steps that he ought to have taken, as a Director, to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors and authorise the Directors to agree their remuneration will be placed before the forthcoming Annual General Meeting of the Company.

By order of the Board

Haydn Gardner
Director

31 August 2011

Corporate governance statement

The Board of Directors recognise the value of good corporate governance. In this regard the Board acknowledges the guidelines set out and disclosures required by the ASX on corporate governance.

The Board is continually reviewing its corporate governance framework in the light of the development of the Group. As circumstances require or permit, the Board will make appropriate amendments. The corporate governance statement and committee charters are displayed on the Group's web site under the Corporate Governance section.

This statement describes the principles which are being applied and which are not.

Principle 1 – Lay solid foundations for management and oversight

The Board

The Board, comprising three executive directors and two non-executive directors is responsible for the overall strategy and direction of the Group as well as for approving potential acquisitions, major capital expenditure items and financing matters.

Lochard has adopted a Board Charter and a Board Code of Conduct which are available on the Group's website.

The Board meets formally on a regular basis and in addition, ad hoc meetings are called to address specific issues requiring Board approval. At formal meetings the Board reviews trading performance against budget and monitors strategies for the Group's development. The Board is supplied in a timely manner with information in a form and of suitable quality appropriate to enable it to discharge its duties.

The Executive Directors have written service contracts which are terminable upon 24 months notice. The Non-executive Directors have letters of appointment. In accordance with the Company's Articles of Association, one third of the Directors are required to retire by rotation at the annual general meeting.

Monitoring of the Board's performance and communication to shareholders

In order to ensure the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Directors is reviewed annually by the Chief executive officer. Directors whose performance is unsatisfactory are asked to retire.

The Board of Directors aims to ensure that shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- The annual report which is distributed to all shareholders;
- The half-yearly report available to all shareholders ; and
- The annual general meeting and other meetings so called to obtain approval Board action as appropriate.

Board Meetings

The Directors held 12 meetings during the year and up to the date of this report. The following table shows their attendance at the Board meetings.

Name	**No. of meetings attended**
H.L. Gardner	**13**
C.R. McGuckin (resigned 5th May 2011)	**9**
L.C. McCrabb	**13**
M. Rose	**13**
P.R. Youd	**13**
J. Brooke (appointed 14th December 2010)	**9**

In addition, 5 circular resolutions were signed by the Board.

Corporate governance statement *(continued)*

Principle 2 – Structure the board to add value

Composition of the Board

The Board is comprised of two executive directors and three non-executive directors.

Name	Role	Non-executive	Independent
H.L. Gardner	Chief executive officer since 2004	No	No
C.R. McGuckin	Executive director since 2004 (resigned 5th May 2011)	No	No
L.C. McCrabb	Executive director since 2007 Non-executive director from 2004 to 2007	No	No
M. Rose	Non-executive director since 2007	Yes	Yes
P.R. Youd	Non-executive director since 2009	Yes	Yes
J. Brooke	Non-executive director since December 2010	Yes	No

The composition of the Board is subject to review in a number of ways:-

- The Company's articles provide at every annual general meeting, one third of the Directors shall retire from office but may stand for re-election.
- The Board composition is reviewed by the Board when a vacancy arises or if it is considered the Board would benefit from the services from a new director.

The Board does not have a majority of independent directors nor has it appointed an independent chair. The Board considers the current composition of the Board includes an appropriate mix of skills and expertise, relevant to the Group's business.

Independent Directors have the right to seek independent professional advice in the furtherance of their duties as directors at the Company's expenses. Written approval must be obtained from the chief executive officer prior to incurring any expense on behalf of the Company.

All Directors have direct access to all executives and the Company Secretary.

Nomination Committee

The Board of directors believe that the Group is not of a size to warrant a nomination committee and therefore allocate the appropriate time as required at their Directors' meeting.

Corporate Governance Statement *(continued)*

Principle 3 – Promote ethical and responsible decision-making

The Directors, management and staff are expected to perform their duties for the Group in a professional manner and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

The Group does not have an employee code of conduct.

The Group considers itself to be fully aware of its social and environmental responsibilities and implements the highest standards of corporate operations in these regards.

The Group has a Code for Share Dealing which prohibits directors and applicable employees from dealing in the Company’s shares at any time whilst in possession of price sensitive information, during any closed period as defined in the AIM Rules (which covers the 2 month period before the release of the Group’s half year and full year financial results), for any major announcement and the release of the Group’s half year or annual financial results to the ASX/AIM.

Directors and applicable employees must not deal in any of the Company’s shares without advising the Board or executive directors in advance and must receive clearance to deal. All transactions will be reported immediately to the Board, the Company’s Nomad, the ASX and the AIM market in accordance with the requirements of the ASX Listing Rules and the AIM Rules.

Principle 4 – Safeguarding integrity in financial reporting

Audit Committee

The Audit Committee is formally constituted with written terms of reference. The Committee is comprised of two non-executive directors and is chaired by Mr Peter Youd. The Committee meets at least two times a year and receives reports from the Group’s auditors. The Committee also acts as the audit committee for each Group company.

The Committee reviews the interim and final accounts prior to approval by the Board. Additionally the Committee ensures the independence and objectivity of the external auditors and reviews the provision of non-audit services by external auditors. The Committee also reviews significant accounting policies, estimations and changes proposed by management.

The Audit Committee held one meeting during the year and up to the date of this report. The following table shows their attendance at the Audit Committee meetings.

Name	**No. of meetings attended**
M. Rose	**1**
P.R Youd	**1**

The Audit Committee does not have three members as recommended by the ASX corporate governance principles. The Board will continue to monitor the composition of the Audit Committee as the Group’s business develops and further corporate audit needs arise.

Corporate Governance Statement *(continued)*

Principle 5 – Make timely and balanced disclosure

The Company has a policy under which all the Company shareholders and investors have equal access to the Company’s information. The Chief Executive Officer ensures all price sensitive information is disclosed to the AIM and ASX markets in accordance with the continuous disclosure requirements of the AIM Rules and the ASX Listing Rules.

Lochard has adopted a Continuous Disclosure and Shareholder Communication Policy which is available on the Group’s web site.

Information will be communicated to the Company’s shareholders in the following methods:

- Annual report will be sent to shareholders.
- Annual and other general meetings convened for shareholder review and approval of Board proposals
- Continuous disclosure of material changes to AIM and ASX
- Group web site will host all announcements made to the AIM and ASX markets and host the Annual Report and Half Yearly reports as soon as possible after release to the markets.

Principle 6 – Respect the rights of shareholders

Communications with shareholders are given high priority. Communications with shareholders are through the Annual General Meeting and through the Group’s website. The Chief executive officer aims to ensure the chairman of the Audit Committee and the Chair of the Remuneration Committee is available at the Annual General Meeting to answer questions. Every shareholder is sent a full annual report at each year end. Care is taken to ensure any price sensitive information is released to all shareholders, institutional and private, at the same time in accordance with AIM and ASX requirements.

Lochard has adopted a Continuous Disclosure and Shareholder Communication Policy which is available on the Group website.

Principle 7 – Recognise and manage risk

The Board is responsible for ensuring the Group maintains a system of internal financial controls, including suitable monitoring procedures. The objective of the system is to safeguard Group assets, ensure proper accounting records are maintained and the financial information used within the business and for publication is reliable. These systems of control, especially financial control, can only provide reasonable, not absolute, assurance no material loss nor misstatement has occurred.

The internal financial control monitoring procedures undertaken by the Board include the approval of the annual budgets and forecasts, review of monthly financial reports and monitoring of performance against budget, prior approval of all significant expenditure and foreign exchange risk management.

The Board has considered the need for an internal audit function and concluded that given the size of the Group there is no current need for such a function within the Group. The Board will review the need for an internal audit function on an annual basis.

The Chief executive officer assures the Board the Group maintains a sound system of internal financial controls, including suitable monitoring procedures.

Corporate Governance Statement *(continued)*

Principle 8 – Remunerate fairly and responsibly

Remuneration Committee

The Remuneration Committee is formally constituted with written terms of reference. The Committee is comprised of two non-executive directors and is chaired by Mike Rose. This committee is responsible for making recommendations to the Board on the Group's framework of executive director remuneration. The Committee also makes recommendations to the Board on the award of share options to executives and key employees. The Remuneration Report forms part of the Annual Report on page 28.

The Remuneration Committee held one meeting during the year and up to the date of this report. The following table shows their attendance at the Audit Committee meeting.

Name	**No. of meetings attended**
M. Rose	**1**
P.R. Youd	**1**

AUSTRALIAN SECURITIES EXCHANGE DEED OF UNDERTAKING DISCLOSURES

1. Lochard Energy Group Plc is a company incorporated in England and Wales.
2. Lochard Energy Group Plc is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (including substantial holdings and takeovers).
3. Lochard Energy Group Plc is not subject to the provisions of the UK City Code on Takeovers and Mergers. Accordingly the Articles of Association contain limited provisions dealing with a take over of the Company. Lochard Energy Group Plc's Articles of Association are available on the Group's website.

Directors' remuneration report

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the Group's framework of executive remuneration and its costs. The Remuneration Committee operates within defined terms of reference and is comprised of two non-executive directors. The Committee is chaired by Mike Rose.

Remuneration Policy

The policy of the Group is to set levels of remuneration to attract, retain and motivate Executive Directors and key staff. The packages are designed to be competitive in value to those offered to the Directors of similar sized public companies taking into account the performance of the individual and the performance of the Group.

Basic Salary and Benefits

The components of the executive directors' remuneration packages are currently a basic salary, superannuation/pension contribution and a motor vehicle. The basic remuneration is reviewed annually. The Group does not pay bonuses.

Share options

The Group believes it is important to provide incentives for executive directors, key management and employees by the award of share options. The share options are allocated by the Remuneration Committee annually.

Pensions

The Group makes direct contributions to the individual Directors' personal pension schemes.

Directors' Remuneration

30 June 2011	Salary and fees A$ 000's	Other monetary benefits A$ 000's	Termination A$ 000's	Non-monetary benefits A$ 000's	Super-annuation A$ 000's	Share options A$ 000's	Total A$ 000's	Number of options '000's	Value of options as proportion of remuneration %
HL Gardner (i)	416	18	-	-	14	13	461	1,500	2.9
CR McGuckin (ii)	352	-	1,159	15	12	13	1,551	1,500	0.8
LC McCrabb	149	-	-	28	-	4	181	500	2.4
M Rose	41	-	-	-	-	2	43	250	5.1
PR Youd	41	-	-	-	-	-	41	-	-
JD Brooke	-	-	-	-	-	-	-	-	-
	999	18	1,159	43	26	32	2,277	3,750	1.4
30 June 2010									
HL Gardner (i)	413	18	-	-	15	42	488	1,500	8.6
CR McGuckin(ii)	413	66	-	18	15	42	554	1,500	7.6
LC McCrabb	179	-	-	28	-	14	221	500	6.3
M Rose	41	-	-	-	-	7	48	250	14.6
PR Youd	40	-	-	-	-	-	40	-	-
	1,086	84	-	46	30	105	1,351	3,750	7.8

No amount of the Director's remuneration for the years ended 30 June 2011 and 30 June 2010 is performance related.

Directors' remuneration report *(continued)*

Other monetary benefits include:

(i) A motor vehicle allowance.

(ii) Payment of long service leave.

Non monetary benefits include share options, provision of a motor vehicle and medical insurance.

The Board, based on recommendations from the Chief executive officer, determines the remuneration of the non-executive Directors. The non-executive Directors are not involved in any discussion or decision about their own remuneration.

Director Share Options

The Company has a Share Option Plan by which executive Directors and key employees are able to subscribe for ordinary shares in the Company.

During the financial year, no options were granted and no options have been granted since the end of the financial year.

There are no performance conditions relating to Directors' options

The mid market price of the Company's shares at close of business on 30 June 2011 was 11.65p *(2009: 5.0p)* and the high and low share prices during the year were 16.0p and 5.0p respectively.

The share options in force and held by current directors are as follows:

	Date of grant	Number of options brought forward	Exercised during the year	Number of options carried forward	Exercise price £
30 June 2011					
HL Gardner	2-10-2007	1,500,000	-	1,500,000	16.5p
LC McCrabb	2-10-2007	500,000	-	500,000	16.5p
M Rose	22-10-2007	250,000	-	250,000	16.5p
		2,250,000	-	2,250,000	
30 June 2010					
HL Gardner	2-10-2007	1,500,000	-	1,500,000	16.5p
CR McGuckin	2-10-2007	1,500,000	-	1,500,000	16.5p
LC McCrabb	2-10-2007	500,000	-	500,000	16.5p
M Rose	22-10-2007	250,000	-	250,000	16.5p
		3,750,000	-	3,750,000	

All options have an exercise price of 16.5p and were granted during October 2007 and expire during October 2012.
The share options require a cash settlement to subscribe for ordinary shares.

Service Contracts

The executive Directors have entered into service contracts with the Group that are terminable by either party on not less than twenty four months prior notice.

Neither of the non-executive Directors have service contracts. Letters of Appointment provide for an initial period of three years, subject to review.

Statement of Directors’ responsibilities in respect of the Directors’ report and financial statements

The Directors are responsible for preparing the annual financial report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have decided to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit and loss for the period.

In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Group’s and parent company’s transactions and disclose both reasonable accuracy at any time, the financial position of the Group and parent company and enable them to ensure the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditor's report to the members of Lochard Energy Group Plc

We have audited the financial statements of Lochard Energy Group Plc for the year ended 30 June 2010 set out on pages 33 to 90. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 30 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report to the members of Lochard Energy Group Plc *(continued)*

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's and parent company's ability to continue as a going concern. The Group's ability to continue as a going concern is dependent upon the possible outcome of legal proceedings for a claim of A$15.369 million plus interest and costs, which have been brought against Zeus Petroleum Limited, the Group's subsidiary holding its major oil and gas asset. In the event that the litigation claim were to crystallise and a significant liability arise as a result, it could result in the insolvency of the Group or at least the forced disposal of substantially all of its operations. These conditions along with other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty that casts significant doubt on the Group's and the parent company' ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the parent company were unable to continue as a going concern.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Adrian John Wilcox

Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

Consolidated income statement
for the year ended 30 June 2011

	Note	**2011 A$ 000's**	2010 A$ 000's Restated*
Continuing operations			
Revenue on trading operations		**20**	-
Revenue		**20**	-
Cost of sale on trading operations		**(28)**	(45)
Impairment loss on oil & gas assets	*13*	**-**	(119)
Cost of sales		**(28)**	(164)
Gross loss		**(8)**	(164)
Other income		**-**	84
Administrative expenses	5(a)	**(4,274)**	(3,595)
Depreciation expense		**(8)**	(7)
Operating loss		**(4,290)**	(3,682)
Finance income	*5(b)*	**110**	7,737
Finance expense	*5(b)*	**(198)**	(3,076)
(Loss)/profit before tax		**(4,378)**	979
Income tax credit	*6*	**74**	347
(Loss)/profit before discontinued operation for the financial year		**(4,304)**	1,326
Discontinued operation			
Profit from discontinued operation (net of income tax)	*4*	**11,627**	1,178
Profit for the financial year		**7,323**	2,504
Attributable to:			
Equity holders of the parent		**7,331**	4,824
Non-controlling interests		**(8)**	(2,320)
Profit for the financial year		**7,323**	2,504
Earnings per share			
Basic profit per share (cents per share)	*7*	**2.9**	2.1
Diluted profit per share (cents per share)	*7*	**2.9**	2.1

* See note 4.

Consolidated statement of comprehensive income
for the year ended 30 June 2011

	2011 A$ 000’s	2010 A$ 000’s Restated*
Profit for the year	**7,323**	2,504
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**(3,209)**	736
Other comprehensive income for the year	**(3,209)**	736
Total comprehensive income for the year	**4,114**	3,240
Attributable to:		
Equity holders of the parent	**4,122**	5,509
Non-controlling interests	**(8)**	(2,269)
	4,114	3,240

* See note 4.

There are no tax affects on exchange differences arising on translation of foreign operations.

Consolidated statement of changes in equity

for the year ended 30 June 2011

	Issued capital	Share premium account	Other equity	Share based payment reserve	Translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
Group	**A$ 000's**	**A$ 000's**	**A$ 000's**	**A$ 000's**	**A$ 000's**	**A$ 000's**	**A$ 000's**	**A$ 000's**	**A$ 000's**
1 July 2009	26,439	32,035	(2,047)	657	(1,325)	(15,156)	40,603	(4,996)	35,607
Shares issued	2,669	-	-	-	-	-	2,669	-	2,669
Share issue costs	-	-	-	-	-	(258)	(258)	-	(258)
Share based payments	-	-	-	176	-	-	176	-	176
Acquisition of non-controlling interest	-	-	-		-	(7,644)	(7,644)	7,644	-
Profit/(loss) for the year	-	-	-	-	-	4,824	4,824	(2,320)	2,504
Translation adjustment for the year	-	-	-	-	749	-	749	(14)	735
30 June 2010	29,108	32,035	(2,047)	833	(576)	(18,234)	41,119	314	41,433
Share based payments	-	-	-	53	-	-	53	-	53
Profit/(loss) for the year	-	-	-	-	-	7,331	7,331	(8)	7,323
Disposal of minority interest	-	-	-	-	-	-	-	(306)	(306)
Translation adjustment for the year	-	-	-	-	(2,876)	-	(2,876)	-	(2,876)
30 June 2011	**29,108**	**32,035**	**(2,047)**	**886**	**(3,452)**	**(10,903)**	**45,627**	**-**	**45,627**

Statement of changes in equity

for the year ended 30 June 2011

Company	Issued capital A$ 000's	Share premium account A$ 000's	Share based payment reserve A$ 000's	Accumulated losses A$ 000's	Total A$ 000's
1 July 2009	26,439	32,035	657	(23,734)	35,397
Shares issued	2,669	-	-	-	2,669
Share issue costs				(258)	(258)
Share based payments	-	-	176	-	176
Loss for the year	-	-	-	(2,554)	(2,554)
30 June 2010	29,108	32,035	833	(26,546)	35,430
Share based payments	-	-	53	-	53
Profit for the year	-	-	-	15,684	15,684
30 June 2011	**29,108**	**32,035**	**886**	**(10,862)**	**51,167**

Consolidated statement of financial position

at 30 June 2011

	Note	**2011**		2010	
		A$ 000's	**A$ 000's**	A$ 000's	A$ 000's
Current assets					
Cash and cash equivalents	*8*		**12,548**		5,800
Trade and other receivables	*9*		**14,595**		3,283
Inventories	*10*		**-**		8,288
Other financial assets-rental bonds			**-**		11
Non-interest bearing loans receivable	*16*		**-**		88
Prepayments			**113**		205
Total current assets			**27,256**		17,675
Non-current assets					
Oil and gas intangible assets	*13*	**42,693**		24,127	
Property, plant and equipment	*14*	**145**		8,907	
Other financial assets		**-**		1	
Deferred tax assets	*6*	**218**		493	
Prepayments		**-**		26	
Other intangible assets and goodwill	*17*	**-**		2,940	
Total non-current assets			**43,056**		36,494
Total assets			**70,312**		54,169
Liabilities					
Current liabilities					
Trade and other payables	*18*	**2,208**		2,861	
Interest bearing loans and borrowings	*19*	**-**		8,055	
Other financial liabilities	*20*	**10,252**		-	
Income tax payable	*6*	**1,442**		149	
Employee benefits	*21*	**376**		758	
Provisions	*22*	**113**		150	
Total current liabilities			**14,391**		11,973
Non-current liabilities					
Interest bearing loans and borrowings	*19*	**-**		505	
Other financial liabilies	*20*	**6,142**		-	
Employee benefits	*21*	**-**		71	
Provisions	*22*	-		167	
Deferred tax liabilities	*6*	**4,152**		20	
Total Non-current liabilities			**10,294**		763
Total liabilities			**24,685**		12,736
Net assets			**45,627**		41,433
Equity					
Equity attributable to equity holders of the parent					
Issued capital	*23*		**29,108**		29,108
Share premium			**32,035**		32,035
Other equity	*26*		**(2,047)**		(2,047)
Other reserves	*26*		**(2,566)**		257
Accumulated losses	*26*		**(10,903)**		(18,234)
			45,627		41,119
Non-controlling interests			**-**		314
Total equity			**45,627**		41,433

These financial statements were approved by the Board of Directors on 31August 2011 and were signed on its behalf by:

Haydn Gardner *Director*

Company statement of financial position

at 30 June 2011

	Note	**2011** A$ 000's	**2011** A$ 000's	2010 A$ 000's	2010 A$ 000's
Current assets					
Cash and cash equivalents	*8*		**8,640**		1,282
Trade and other receivables	*9*		**14,822**		308
Interest bearing loans receivable			**33,555**		27,709
Non-interest bearing loans receivable	*16*		**-**		88
Prepayments			**103**		54
Total current assets			**57,120**		29,441
Non-current assets					
Plant and equipment		**26**		-	
Investments	*11*	**-**		8,602	
Prepayments		**-**		26	
Deferred tax assets	*6*	**218**		210	
Total non-current assets			**244**		8,838
Total assets			**57,364**		38,279
Liabilities					
Current liabilities					
Trade and other payables	*18*	**242**		2,268	
Income tax payable		**1,442**		-	
Non-interest bearing loans and borrowings		**-**		141	
Employee benefits		**361**		436	
Total current liabilities			**2,045**		2,845
Non-current liabilities					
Deferred tax liabilities		**4,152**		4	
Total Non-current liabilities			**4,152**		4
Total liabilities			**6,197**		2,849
Net assets			**51,167**		35,430
Equity					
Issued capital	*23*		**29,108**		29,108
Share premium			**32,035**		32,035
Other reserves			**886**		833
Accumulated losses			**(10,862)**		(26,546)
Total equity			**51,167**		35,430

These financial statements were approved by the Board of Directors on 31 August 2011 and were signed on its behalf by:

Haydn Gardner
Director

Consolidated statement of cash flows

for the year ended 30 June 2011

	Note	**2011** A$ 000's	**2011** A$ 000's	2010 A$ 000's	2010 A$ 000's
Profit/(loss) for the financial year			**7,323**		2,504
Adjustments for:					
Depreciation and amortisation of plant and equipment			**676**		862
Amortisation of development and abandonment costs			**-**		63
Net unrealised foreign exchange losses/(gains)			**147**		3,598
Impairment of oil & gas assets			**-**		119
Employee share option costs			**53**		176
Gain on settlement of debt			**-**		(6,595)
Net finance income			**(59)**		(616)
Income tax credit			**(73)**		107
Gain on sale of business, net of tax			**(11,873)**		-
			(3,806)		218
Changes in assets and liabilities:					
Decrease/(increase) in receivables		**(399)**		3,089	
(Increase)/decrease in inventory		**1,508**		(764)	
Decrease in prepayments		**97**		75	
(Decrease)/increase in payables		**(2,960)**		(2,698)	
Increase in provisions		**141**		2	
		(1,613)		(296)	
Interest paid		-		(619)	
Income tax paid		-		(688)	
			-		(1,603)
Net cash flows (used in)/from operating Activities			**(5,419)**		(1,385)
Cash flows from investing activities					
Interest received			**59**		122
Development expenditure			**(14,490)**		(1,194)
Purchase of property, plant and equipment			**(28)**		(240)
Payment of cash bonds			**-**		(1)
Disposal of drilling fluids business net of cash	*4*		**23,998**		-
Net cash flows used in (from) investment activities			**9,539**		(1,313)
Cash flow from financing activities					
Proceeds from issue of share capital			**-**		2,411
Proceeds from borrowings			**11,293**		-
Repayment of borrowings			**(8,270)**		(3,083)
Payment of finance lease liabilities			**(292)**		(270)
Net cash flows (used in)/from financing activities			**2,734**		(942)
Net decrease in cash and cash equivalents			**6,849**		(3,640)
Cash and cash equivalents at beginning of the year			**5,800**		9,779
Effect of exchange rate fluctuations on cash held			**(101)**		(339)
Cash and cash equivalents at end of year			**12,548**		5,800

Company statement of cash flows

for the year ended 30 June 2011

	Note	**2011**		2010	
		A$ 000's	**A$ 000's**	A$ 000's	A$ 000's
Profit/(Loss) for the financial year			**15,684**		(2,554)
Adjustments for:					
Net unrealised foreign exchange losses/(gains)			**213**		1,350
Depreciation of non current assets			**2**		
Share option costs			**53**		176
Impairment of loan to subsidiary company	*15*		**2,772**		1,229
Impairment of investment			**-**		1,931
Gain on disposal of business, net of tax			**(17,273)**		-
Net finance income			**(4,714)**		(4,262)
Income tax (credits)/expense			**(74)**		(347)
			(3,337)		(2,477)
Changes in assets and liabilities:					
(Increase)/Decrease in receivables		**43**		(308)	
(Increase)/Decrease in prepayments		**(24)**		14	
(Decrease)/Increase in payables		**(2,027)**		2,012	
(Decrease)/Increase in provisions		**(75)**		(14)	
		(2,083)		1,704	
Interest paid		**-**		-	
Income tax received		**-**		51	
Net cash flows used in operating Activities			**(5,420)**		(722)
Cash flows used in investing activities					
Interest received			**59**		18
Dividend received			**748**		483
Payment of cash bonds			**(28)**		-
Proceeds from disposal of investment			**23,998**		
Provision of loan to subsidiaries			**-**		(2,685)
Payments of subsidiaries loans			**(8,144)**		
Payments (receipts) of loan repayments			**(3,723)**		1,532
Net cash flows used in investing activities			**12,910**		(651)
Cash flows from financing activities					
Proceeds from issue of share capital			**-**		2,411
Net cash flows from financing activities			**-**		2,411
Net increase/(decrease) in cash and cash Equivalents			**7,490**		1,038
Cash and cash equivalents at beginning of the year			**1,282**		232
Effect of exchange rate fluctuations on cash held			**(132)**		12
Cash and cash equivalents at end of year			**8,640**		1,282

Notes

(forming part of the financial statements)

Authorisation of financial statements and statement of compliance with IFRS

The Group's and Company's financial statements for the year ended 30 June 2011 were authorised for issue by the Board of Directors on 31 August 2011 and the Statements of financial positions were signed on the Board's behalf by H Gardner. Lochard Energy Group Plc is a public limited company incorporated in England and Wales and domiciled in Australia, it principal place of business is 46 mews Road Fremantle, Western Australia. The Company's ordinary shares are traded on the Alternative Investment Market (AIM) of the London Stock Exchange and the Australian Securities Exchange (ASX).

The principal accounting policies adopted by the Group and Company are set out in note 1.

1 Accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

As described in more detail below, Zeus Petroleum Limited ("Zeus"), the group company owning the Group's interest in its major oil and gas asset, the Athena oil field, is subject to a significant claim that could result in that entity and the Group being unable to continue realising its assets and discharging its liabilities in the normal course of business if it were found ultimately to be liable for the full amount claimed.

The Directors have prepared cash flow forecasts for the Group for the period to 31 December 2012 based on their assessment of the prospects of the Group's operations, on the assumption that the above matter can be successfully concluded, ie that there is no litigation cash outflow other than legal fees.

The cash flow forecasts are based upon estimates of development expenditure for and production from the Athena field, and anticipate first oil from the fourth quarter of 2011, and upon assumptions of future oil prices and operating costs. They include a base case and also take into account possible adverse variances in trading conditions, Athena development costs and Athena production forecasts (both first oil date and subsequent volumes) and costs that might reasonable occur. Although the group has possible earn-out proceeds from the sale of the oil services business, of up to $21.25 million receivable in May 2012, the forecasts do not assume or rely on any such receipts. The Group, as a result of the initial proceeds of the sale of the oil services division holds a cash balance of $12.5 million at the year-end. It has US$2 million of undrawn committed borrowing facilities.

Based on an assessment of the resulting cash flow pattern, the Directors have satisfied themselves that the Group has a reasonable prospect of being able to operate within in its cash resources.

As discussed in note 27, Zeus is subject to a significant claim for which a contingent liability which could amount to A$15.369 million plus interest and costs if fully crystallised, has been disclosed, but no liability has been recognised in respect of the claim. The amount and timing of any resultant cash outflow is the most significant judgment in the assessment of going concern for the Group. The directors believe that no outflow is probable from this claim and have included none, other than legal fees, in the cash flow forecast. The next judicial hearing on this matter is timetabled for October 2011. Although the directors have received strong legal advice that Zeus should prevail, the directors acknowledge that the ultimate outcome of these legal proceedings cannot currently be determined with certainty. In the event that the claim is successful and requires settlement before Zeus has accumulated enough cash from operations to settle it, estimated to be for the period to April 2012 and assuming base case cash flows from Athena, then Zeus, which represents substantially all of the Group, would be unable to continue realising its assets and discharging its liabilities in the normal course of business. This could lead to the administration of Zeus or at least the disposal of its assets.

Notes *(continued)*

1 Accounting policies *(continued)*

Basis of preparation *(continued)*

Should these circumstances occur, as a result of Lochard Energy Group Plc's guarantee of the Athena Gemini funding repayment, which is based upon Athena production volumes (regardless of Zeus of Lochard Energy Group ownership of Athena) Lochard Energy Group Plc would remain liable in respect to the Gemini entitlement as defined in the loan agreement and would be unable to continue realising its assets and liabilities in the normal course of business and would be reliant on being released from the guarantee by Gemini as part of any disposal or other arrangement.

The directors acknowledge that the Zeus litigation represents a material uncertainty that casts significant doubt upon the group's ability to continue as a going concern and that, therefore, the Group may be unable to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the available funding being insufficient to meet the Group's requirements.

Nevertheless, having given consideration to the uncertainties described above, the directors have a reasonable expectation that the Group will be able to obtain sufficient funding to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Adoption of IFRSs on issue but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Measurement convention

The financial statements are prepared on the historical cost basis except the following assets and liabilities which are stated at their fair value:

- derivative financial instruments,
- financial instruments classified as fair value through the profit or loss or as available-for-sale.

These consolidated financial statements are presented in Australian Dollars (A$), which is the Company's functional currency. All financial information presented in A$ has been rounded to the nearest thousand.

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date control commences until the date that control ceases.

Notes *(continued)*

1 Accounting policies *(continued)*

Basis of consolidation *(continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where there is a change in the proportion of a minority shareholder’s interest, without a change in control arising, the transaction affects equity only.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group’s reporting currency at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to the translation reserve. They are released into the income statement upon disposal.

The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRSs (1 July 2005).

Significant accounting judgments, estimates and assumptions

In applying the Group’s accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Significant accounting estimates

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences if management considers that it is probable future taxable profits will be available to utilise these temporary differences.

Contingent liabilities

Note 27 discloses the contingent liabilities of the Group and Company.

Carrying value of certain assets and liabilities

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Notes *(continued)*

1 Accounting policies *(continued)*

Significant accounting judgments, estimates and assumptions (*continued)*

Oil and gas assets

Exploration and evaluation costs are initially classified and held as intangible fixed assets rather than being expensed. The carrying value of intangible exploration and evaluation assets are then determined. Management considers these assets for impairment at least annually based on an estimation of the recoverability of the cost pool from future revenues of the related oil and gas reserves. The carrying of value of the North Sea assets included within note 13 is A$42.693million at 30 June 2011 (2010: A$23.768million).*Critical accounting estimates and assumptions*

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary, if there are changes in the circumstances on which the estimate was based or as a result of new information. Such changes are recognised in the period in which the estimate is revised.

Critical judgements in applying the Group's accounting policies

The application of the Group's accounting policies may require management to make judgements, apart from those involving estimates, which can have a significant effect on the amounts recognised in the financial statements. Management judgement is particularly required when assessing the substance of transactions which have a complicated structure or legal form.

Allowance for impairment loss on trade receivables and other receivables

Where receivables are outstanding beyond normal trading terms, the likelihood of the recovery of these receivables is assessed by management.

Estimate of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once a year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

Oil and gas valuation

The carrying amounts of certain assets and liabilities are often determined based on management's judgement regarding estimates and assumptions of future events. The reasonableness of estimates and underlying assumptions is reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting period are:

Estimates of reserve quantities

The estimated quantities of oil and gas are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations.

Impairment of oil and gas assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. The carrying amount of oil and gas assets and the assumptions used in the estimation of recoverable amount are discussed in note 13.

Notes *(continued)*

1 Accounting policies *(continued)*

Revenue recognition

Revenue is recognised to the extent it is probable the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue on the sale of drilling fluids is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Rendering of engineering services

Contract revenue is recognised by reference to the stage of completion of a contract. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. When contract revenue cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Oil and Gas Exploration Assets

The Group follows the "successful efforts" method of accounting for exploration and evaluation costs. All licence/project acquisitions, exploration and appraisal costs incurred or acquired on the acquisition of subsidiary, are accumulated in respect of each identifiable project area. Lochard defines a 'successful exploration well' as a well which discovers probable commercial reserves and where development may go ahead in the near term. These costs, which are classified as intangible fixed assets, are only carried forward to the extent they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Pre-licence/project costs are written off immediately. Other costs are also written off unless commercial reserves have been established or the determination process has not been completed. Thus accumulated cost in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences the accumulated costs for the relevant area of interest are transferred from intangible fixed assets to tangible fixed assets as 'Developed oil and gas assets'.

Impairment

Exploration/appraisal assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist. Any impairment arising is recognised in the Income Statement for the year.

Impairment reviews on development/producing assets are carried out on each cash-generating unit identified in accordance with IAS 36 'Impairment of Assets'. Lochard's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

At each reporting date where there are indicators of impairment, the net book value of the cash generating unit is compared with the measurable recoverable amount. If the net book value is higher, then the difference is written off to the Income Statement as impairment. Forecast production profiles are determined on an asset-by-asset basis using appropriate petroleum engineering techniques.

Notes *(continued)*

1 Accounting policies *(continued)*

Oil and Gas Exploration Assets (continued)

Where there has been a charge for impairment in an earlier period, that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

Depletion of developed oil and gas assets

Costs carried in each well are depreciated on a unit of production basis using the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus production in the period. Costs in the unit of production calculation include the net book value of capitalised costs plus estimated future development costs. Changes in estimates of commercial reserves or future development costs are dealt with prospectively.

Decommissioning costs

Where a material liability for the removal of production facilities and site restoration at the end of the field life exists, a provision for decommissioning is recognised. The amount recognised is the net present value of estimated future expenditure determined in accordance with local conditions and requirements. An asset of an amount equivalent to the provision is also added to oil and gas exploration assets and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated asset.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis over the term of the lease.

Finance leases

Leases which effectively transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Income Statement.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised at fair value and subsequently measured at amortised cost less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Notes *(continued)*

1 Accounting policies *(continued)*

Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost is determined on a weighted average basis and includes:

(i) The direct purchase cost of inventory; and

(ii) An allocation of warehouse overheads specifically attributable to bringing the inventory into:

- a saleable condition
- its present location and condition
- a finished goods state.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustments to the tax payable in respect of previous years.

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

• when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable the temporary difference will not reverse in the foreseeable future.

Notes *(continued)*

1 Accounting policies *(continued)*

Income tax *(continued)*

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent it is probable taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries in which case a deferred tax asset is only recognised to the extent it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent it is no longer probable sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent it has become probable future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of. Classification as a discontinued operation occurs upon disposal. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

	Life	Method
Freehold buildings	50 years	Straight line
Plant and equipment	2 ½ – 10 years	Straight line
Motor vehicles	5 years	Straight line
Liquid drilling fluid plant	10-20 years	Straight line

Land is not depreciated.

Notes *(continued)*

1 Accounting policies *(continued)*

Property, plant and equipment *(continued)*

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year-end.

Land and buildings are measured at cost less accumulated depreciation on buildings.

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset which does not generate largely independent cash flows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Plant and equipment impairment losses are recognised in the Consolidated Income Statement.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment excluding deferred tax

Assets which have an indefinite useful life are not subject to amortisation and are tested at each balance sheet date for impairment. Assets subject to amortisation or depreciation are reviewed for impairment whenever there is an indication of impairment to determine whether events or changes in circumstances indicate the carrying amount may not be recoverable. If any such conditions exist, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, estimates are made of the cash flows of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate appropriate to the specific asset or cash generating unit.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

Impairment losses in respect of goodwill are not reversed.

Intangible Assets

Development expenditure

Development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits, being the life of the contract.

The carrying value of an intangible asset arising from development expenditure is tested annually for impairment. If it is determined that the amount is no longer recoverable, this amount identified is written off.

Notes *(continued)*

1 Accounting policies *(continued)*

Trade and other Payables

Trade payables and other payables are recognised at fair value and subsequently measured at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method less any impairment losses.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

Under UK Company Law interim dividends could not be considered obligations until paid.

Provision for restoration of leasehold land

The agreement with the lessor in respect of the leasehold land requires the premises to be restored to the condition which existed prior to the installation of the Group's fixtures, fittings and mud plant.

The provision recognised is based upon the Group's assessment of the cost of the removal of these items. The provision has been discounted to its present value, and will be accreted to its estimated cost over the life of the lease.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income as incurred.

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee entitlements are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options which vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Group and Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and which had not vested by 1 July 2005.

Notes *(continued)*

1 Accounting policies *(continued)*

Share-based payment transactions *(continued)*

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Where equity instruments are granted to persons other than directors or employees the consolidated income statement is charged with the fair value of any goods or services received.

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Investments and other financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments and other financial assets *(continued)*

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arms length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

Recoverable amount

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market determined risk adjusted discount rate.

Notes *(continued)*

2 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, interest rate risk), credit risk and liquidity risk. The Group's risk management policies focus on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group.

Financial risk policies are set by the Board and are reviewed by the Board.

(a) Market risk

(i) Foreign exchange risk

Group

The Group's profitability can be significantly affected by movements in the $US/$A exchange rates, £GBP/$A exchange rate. These exposures arise from purchases of goods and services and holding foreign currency.

Through reference to industry standard practices, and open market foreign currency trading patterns within the past 12 months, the group set the level of acceptable foreign exchange risk.

The Group seeks to manage this risk by holding foreign currency in $US and £GBP.

Sensitivity analysis

The following table does not include intra group financial assets and liabilities. It summaries the sensitivity of the Group's financial assets and liabilities to external parties at 30 June 2011 to foreign exchange risk, based on foreign exchange rates as at 30 June 2011 and sensitivity of +/-10%:

	30 June 2011 rate	-10% cents	+10% cents
A$/$US	105.95cents	95.35cents	116.54cents
£GBP /$A	66.14cents	59.53cents	72.75cents

2011	Carrying amount A$ 000's	Foreign exchange risk -10.0% Profit or loss A$ 000's	+10.0% Profit or loss A$ 000's
Financial assets			
Cash at bank - USD	4,395	488	(399)
Cash at bank - GBP	4,882	543	(444)
Financial liabilities			
Payables - USD	9	1	(1)
Payables - GBP	2,185	243	(198)
Other financial liabilities - USD (see note 20)	16,394	1,839	(1,476)
Total increase/(decrease)		3,114	(2,518)

Notes *(continued)*

2 Financial risk management *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk (continued)

2010	**Carrying amount A$ 000's**	**Foreign exchange risk -10.0% Profit or loss A$ 000's**	**Foreign exchange risk +10.0% Profit or loss A$ 000's**
Financial assets			
Cash at bank	2,678	302	(240)
Receivables	357	31	(23)
Financial liabilities			
Payables	42	(5)	4
Total increase/(decrease)		328	(259)

Company

The Company does not have foreign exchange risk.

Notes *(continued)*

2 Financial risk management *(continued)*

(a) Market risk *(continued)*

(ii) Interest rate risk

Group

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash position.

Profile

At reporting date the interest rate profile of the Group's financial instruments was:

	2011 **A$ 000's**	2010 A$ 000's
Fixed rate instruments	**-**	458
Cash at bank	**12,548**	5,800
Variable rate instruments	**-**	8,102
	12,548	14,360

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would result in a change of profit or loss by the amounts shown below. This analysis assumes that all other factors remain constant.

30 June 2011	**+100BP** **Profit or loss** **A$ 000's**	**-100BP** **Profit or loss** **A$ 000's**
Cash at bank	**(125)**	**125**

30 June 2010	+10.0% Profit or loss A$ 000's	-10.0% Profit or loss A$ 000's
Variable rate instrument	(81)	81

(iii) Commodity risk

Under the terms of the Gemini loan (see note 20) the Group has financial exposure to changing oil prices. If oil prices increase by 10% the Group payments under the loan agreement will increase by A$447,641. If oil prices decrease by 10% the Group's payment will decrease by A$447,641.

Notes *(continued)*

2 Financial risk management *(continued)*

(b) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market conditions and to sustain future development of the business. As at 30 June 2011, Directors hold 8.1% of ordinary shares (2010: 9.5%).

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Directors recognise this is an area in which they may need to develop specific policies should the Group become exposed to wider financial risks as the business continues to develop.

(c) Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral.

Concentrations of credit risk

At 30 June 2011, the Group had a significant credit risk exposure to the following:

	Group		**Company**	
	2011	2010	**2011**	2010
	A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Ageing of trade receivables at the reporting date was:				
Not past due	**756**	2,461	**759**	11
Past due 0-30 days	**-**	265	**-**	-
Past due 31-120 days	**-**	557	**224**	297
	756	3,283	**983**	308

Terms and conditions relating to trade debtors are non-interest bearing and generally on 30-90 day terms.

- No impairment losses or provisions have been recognised for the current or preceding financial period.

Notes *(continued)*

2 Financial risk management *(continued)*

(d) Liquidity risk

Group

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash, term deposits and financial facilities.

The Group is provided banking facilities as listed below:

	2010 **A$ 000's**	2010 A$ 000's
Financing facilities available		
At reporting date, the following financing facilities were in place:		
- Asset finance facility	**-**	500
- Documentary credit facility	**-**	1,500
- Tailored business facility	**-**	1,602
- Fully drawn advance facility	**-**	6,500
- Other financial facility (see note 20)	**13,214**	-
	13,214	10,102
Facilities used at reporting date:		
- Asset finance facility	**-**	292
- Documentary credit facility	**-**	656
- Tailored business facility	**-**	1,602
- Fully drawn advance facility	**-**	6,500
- Other financial facility (see note 20)	**11,326**	-
Total facilities used at reporting date	**11,326**	9,050
Facilities unused at reporting date:		
- Asset finance facility	**-**	208
- Documentary credit facility	**-**	844
- Tailored business facility	**-**	-
- Fully drawn advance facility	**-**	-
- Other financial facility (see note 20)	**1,888**	-
Total facilities unused at reporting date	**1,888**	1,052

Notes *(continued)*

2 Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

Group

The Group currently does not have bank borrowing facilities. All the previous facilities where repaid with the drilling fluid business disposal.

The table below analyses the Group's financial liabilities into relevant maturity grouping based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Description of the repayment terms and interest payable rates on the interest bearing liabilities is disclosed in note 20.

30 June 2011	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	A$ 000's	**A$ 000's**	**A$ 000's**	**A$ 000's**
Trade and other payables	**2,208**	-	-	-
Other financial facility (refer to note 20)	**20,736**	**6,566**	**2,812**	-
	22,944	**6,566**	**2,812**	-

Group

30 June 2010	**Less than 1 year**	**Between 1 and2 years**	**Between 2 and 5 years**	**Over 5 years**
	A$ 000's	**A$ 000's**	**A$ 000's**	**A$ 000's**
Trade and other payables	2,861	-	-	-
Interest bearing liabilities	8,055	505	-	-
	10,916	505	-	-

Notes *(continued)*

2 Financial risk management *(continued)*

(e) Fair Values

Fair value versus carrying amount

The fair value of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

	Note	**30 June 2011**		30 June 2010	
		Carrying amount A$ 000's	**Fair value A$ 000's**	Carrying amount A$ 000's	Fair value A$ 000's
Assets carried at amortised cost					
Loans and receivables	9	**14,595**	**14,595**	3,371	3,371
Cash and cash equivalents	8	**12,548**	**12,458**	5,800	5,800
		27,143	**27,143**	9,171	9,171
Liabilities carried at amortised cost					
Secured bank loans	19	-	-	(8,102)	(8,102)
Trade and other payables	18	**(2,208)**	**(2,208)**	(2,861)	(2,861)
Other unsecured loans	20	-	-	-	-
Other financial liabilities	20	**(16,394)**	**(16,394)**		
Hire purchase liabilities	19	-	-	(292)	(292)
Unsecured bank loans	19	-	-	(166)	(166)
		18,602	**18,602**	(11,421)	(11,421)

Notes *(continued)*

3 Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group which are regularly reviewed by the chief operating decision maker in order to allocate resources and to assess its performance. As a result, following adoption of IFRS 8, the identification of the Group's reportable segments has not changed.

The reporting of external segmental information continues to be the same as in prior years, segment information is analysed on three principle activities being Drilling Fluid Operations, Oil & Gas Assets and Corporate Services.

The information reported to the chief operating decision maker is focused on the three principle activities. A separate statement of comprehensive income is prepared for the three principle activities, being Drilling Fluid Services, Oil and Gas Assets and Corporate Services, the three activities are then summarised into a consolidated statement of comprehensive income.

The Group's reportable segments under IFRS 8 consist of the following Group entities:

Corporate Services	Lochard Energy Group Plc
Drilling Fluid Operations	Rheochem Limited, Rheochem Pacific Limited, Rheochem India Pvt Ltd and PT Rheochem Indonesia.
Oil and Gas Assets	Lochard Energy Limited, Zeus Petroleum Limited and Lochard Energy Inc.

The Drilling Fluid Operations segment was sold on 21st April 2011 (see note 4).

There are varying amounts of transactions between the group entities, all intersegment pricing is determined on an arms length basis.

Notes *(continued)*

3 Operating segments *(continued)*

Business Segment	Drilling fluid services (discontinued)		Oil and gas assets		Corporate services		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
	A$000's	A$000's	A$000's	A$000's	A$000's	A$000's	A$000's	A$000's
Revenue								
Revenue from external customers	14,540	20,318	20	18	-	65	14,560	20,401
Inter-segment revenues	701	1,133	-	-	90	397	791	1,530
Total segment revenues							**15,351**	**21,931**
Eliminate Inter-segment sales							(791)	(1,530)
Drilling fluid business (discontinued)							(14,540)	(20,317)
Consolidated revenue							**20**	**84**
Profit / (loss)								
Operating profit/(loss)	1,057	3,692	(968)	3,300	(3,591)	(5,934)	(3,502)	995
Depreciation & amortization	(677)	(918)	(6)	(7)	(2)	-	(685)	(925)
Net interest (expense)/income	(408)	(637)	(3,867)	(320)	4,714	4,262	439	3,305
Foreign exchange (losses)/gains	(297)	(527)	(8,128)	(6,373)	(176)	(1,350)	(8,601)	(8,250)
Income tax expense/(credits)	79	(454)	-	-	74	347	153	(107)
Segment profit / (loss)	**(246)**	**1,093**	**(12,969)**	**(3,400)**	**1,019**	**(2,675)**	**(12,196)**	**(4,982)**
Eliminate adjustments on consolidation							7,364	7,486
Drilling fluid business (discontinued)							454	(1,524)
Consolidated losses							**(4,378)**	**2,504**

Notes *(continued)*

3 Operating segments *(continued)*

Business Segment	Drilling fluid services (discontinued)		Oil and gas assets		Corporate services		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
	A$000's	A$000's	A$000's	A$000's	A$000's	A$000's	A$000's	A$000's
Segment finance income	35	110	1,535	8,678	4,714	4,258	6,284	13,046
Foreign exchange gains	89	8	-	1,690	-	-	89	1,698
Finance income	124	118	1,535	10,368	4,714	4,258	6,373	14,744
Eliminate adjustments on consolidation							(6,139)	(6,895)
Drilling fluid business (discontinued)							(124)	(112)
Consolidated finance income							**110**	**7,737**

Notes *(continued)*

3 Operating segments *(continued)*

Business Segment	Drilling fluid services (discontinued)		Oil and gas assets		Corporate services		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
	A$000's	A$000's	A$000's	A$000's	A$000's	A$000's	A$000's	A$000's
Segment finance expense	(442)	(741)	(5,582)	(2,678)	(22)	-	(6,046)	(3,419)
Foreign exchange (losses)/gains	(386)	(535)	(8,128)	(8,064)	(176)	(1,345)	(8,690)	(9,944)
Finance expense	(828)	(1,276)	(13,710)	(10,742)	(198)	(1,345)	(14,736)	(13,363)
Eliminate adjustments on consolidation							13,710	9,126
Drilling fluid business (discontinued)							828	1,161
Consolidated finance expense							**(198)**	**(3,076)**
Income tax (credit)/expense	79	(454)	-	-	74	347	153	(107)
Drilling fluid business (discontinued)							(79)	454
Consolidated income tax (credit)/expense							74	347
Depreciation and amortization	(678)	918	(6)	7	(2)	-	(686)	925
Impairment of plant and equipment	-	-	-	-	-	-	-	-
Impairment of oil and gas assets	-	-	-	119	-	-	-	119
Segment assets	-	28,166	57,991	37,212	49,488	34,187	107,479	99,565
Eliminate adjustments on consolidation							(37,167)	(45,396)
Total consolidated assets							**70,312**	**54,169**
Segment liabilities	-	(15,492)	(106,296)	(81,297)	(6,196)	(2,706)	(112,492)	(99,495)
Eliminate adjustments on consolidation							87,807	86,759
Total consolidated liabilities							**(24,685)**	**(12,736)**

Notes *(continued)*

3 Operating segments *(continued)*

Geographical areas

In presenting the information on the basis of geographical areas, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	2011		2010	
Geographical segments	Revenue	Total assets	Revenue	Total assets
Australia	11,225	49,488	15,645	58,520
New Zealand	2,032	-	3,395	1,855
India	2,075	-	2,873	1,959
Indonesia	-	-	-	19
United Kingdom	-	57,556	-	36,684
United States of America	20	435	18	528
	15,352	107,479	21,931	99,565
Eliminate adjustments on consolidation	(791)	(37,167)	(1,530)	(45,396)
Drilling fluid business (discontinued)	(14,541)	-	(20,317)	-
Total	20	70,312	84	54,169

Major customer

Revenues from one customer of the Drilling fluids segment, which was sold in the current year, represents approximately $6.427million (2010: $8.274million) of the Group's total revenues.

Notes *(continued)*

4 Discontinued operation

In April 2011 the Group sold its entire Drilling fluids segment. The segment was not a discontinued operation or classified as held for sale as at 30 June 2010 and the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to sell this division early in 2011 due to the strategic decision to place greater focus on the Group's key competencies, being the development of the Athena oil field.

The maximum consideration payable to Lochard in respect of the disposal is A$45million plus working capital adjustment. The consideration is made up of two elements, firstly a one off payment of A$25.21 million and then subsequent earn-out payments conditional on earnings before income tax, depreciation and amortisation expenses (EBITDA) of the Drilling Fluids Business for the period between 1 March 2011 and 29 February 2012 exceeding agreed levels. Under the terms of the sale and purchase agreement the maximum contingent consideration is A$21,250,000. As at 30 June 2011 the Group has recognised contingent consideration of A$13,839,000. This fair value calculation is based on the forecasted EBITDA for the drilling fluid business and risk adjusted for the potential impact of adverse weather conditions and/or customers changing their current planned work programs.

	2011 **A$ 000's**	2010 A$ 000's
Results of discontinued operation		
Revenue	**14,540**	20,434
Expenses	**(14,865)**	(18,802)
Profit/(loss) from operating activities	**(325)**	1,632
Income tax	**79**	(454)
Profit/(loss) from operating activities, net of tax	**(246)**	1,178
Gain on sale of discontinued operation	**17,986**	-
Income tax on gain on sale of discontinued operation	**(6,112)**	-
Profit/(loss) for the year	**11,627**	1,178
Attributable to:		
Equity holders of the parent	**11,635**	1,161
Non controlling interest	**(8)**	17

Notes *(continued)*

4 Discontinued operation *(continued)*

The loss from discontinued operation of A$0.246million (2010: profit A$1.178million) is attributed A$0.238million (2010: profit A$1.195million) to the owners of the Group.

	2011	2010
Cash flows from (used in) discontinued operation	**A$ 000's**	A$ 000's
Net cash from (used) in operating activities		
Net cash from (used) investing activities	**1,893**	(233)
Net cash used in financing activities	**23,994**	(443)
	(5,005)	(4,356)
Net cash flows for the year		
	20,882	(5,**032**)
Basic earnings per share (cents per share)		
Diluted earnings per share (cents per share)	**0.0**	0.1
	0.0	0.1

	A$ 000's	**A$ 000's**
Effect of disposal on the financial position of the Group		
Property, plant and equipment		**(8,114)**
Inventories		**(6,780)**
Trade and other receivables		**(2,507)**
Intangible assets and goodwill		**(2,940)**
Cash and cash equivalents		**(943)**
Prepayments		**(21)**
Other financial assets		**(22)**
Deferred tax assets		**(481)**
Deferred tax liabilities		**71**
Trade and other payables		**48**
Employee benefits		**449**
Provisions		**177**
Net assets and liabilities disposed of		**(21,063)**
Consideration		
Consideration, contingent	**13,839**	
Consideration, receivable	**1,212**	
Consideration, cash	**23,998**	
Total consideration received		**39,049**
Profit on disposal		**17,986**

Notes *(continued)*

5 Operating profit and finance income and expense

Revenue and expenses from continuing operations

	Notes	Group 2011 A$ 000's	2010 A$ 000's
(a) Other administrative expenses			
Employee benefits expense		**(2,386)**	(1,572)
Occupancy expense		**(54)**	(25)
Administrative expense		**(1,834)**	(1,998)
		(4,274)	(3,595)
(b) Finance income and expense			
Interest income on bank deposits		**59**	18
Gain on settlement of debt	12	**-**	6,595
Foreign exchange gains		**51**	-
Other interest income non-bank		**-**	1,124
Finance income		**110**	7,737
Foreign exchange losses		**(198)**	(3,076)

5 Operating profit and finance income and expense *(continued)*

Personnel expenses	**2011 A$ 000's**	2010 A$ 000's
Wages and salaries	**2,267**	1,252
Defined contribution pensions	**144**	86
Decrease/(Increase) in liability for long service leave	**(57)**	87
(Decrease) in liability for annual leave	**(21)**	(29)
Equity-Settled share based payment transactions	**53**	176
	2,386	1,572

As at 30 June 2011 after disposal of the drilling fluid operations, only 3 employees remained within the group.

Directors Remuneration

Directors' remuneration, by director is separately disclosed in the Directors' remuneration report on pages 28 to 29.

Notes *(continued)*

6 Income tax

The major components of income tax expense are:

	2011 A$ 000's	2010 A$ 000's
Income statement		
Foreign tax	**(62)**	-
	(62)	-
Deferred income tax		
Deferred tax liabilities no longer recognised	**-**	-
Relating to origination and reversal of temporary differences	**(11)**	(347)
	(11)	(347)
Income tax expense/(credit) reported in the income statement (excluding tax on sale of business)	**(74)**	(347)
Income tax expense from discontinued operation (excluding gain on sale of business)	**(79)**	454
Income tax on gain on sale of business	**6,112**	-
	5,961	107
Profit for the year	**7,323**	2,504
Total income tax expense	**5,961**	107
Profit before tax on all operations	**13,284**	2,611

Notes *(continued)*

6 Income tax *(continued)*

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	2011	2010
	A$ 000's	A$ 000's
Tax on Profit from all activities at 30% *(2010: 30%)*	**3,985**	783
Non assessable income	**(1,097)**	-
Non deductible expenses	**15**	61
Deferred tax on losses not recognised	**1,440**	(408)
Utilisation of previously unrecognised tax losses	**(1,001)**	(333)
Effect of lower basis on gain on sale of discontinued operations	**2,392**	-
Other provision for income tax	**227**	4
Income tax expense attributable to activities	**5,961**	107
Income tax expense from continuing operations	**(74)**	(347)
Income tax expense from discontinued operations	**6,035**	454
Total income tax expense	5,961	107

Deferred income tax

Deferred income tax at 30 June 2011 relates to the following:

Consolidated		
Deferred tax liabilities		
Future income tax liability attributable to temporary differences		
Receivables (i)	4,151	(3)
Exchange rate fluctuations on financial assets	(3)	-
Property, plant & equipment	-	(17)
	4,148	(20)
Deferred Tax Assets		
Future income tax benefit attributable to temporary differences		
Payables (ii)	12	324
Unrealised foreign exchange loss on financial assets	(20)	232
Provisions	-	70
Property, plant & equipment	-	23
Tax losses carried forward	-	-
	(8)	493
Net deferred tax liability	4,140	473

(i) Receivables relates to the contingent consideration on gain on sale recognised at 30 June 2011 (note 4).

(ii) Payables relates to annual leave, long service leave and other accruals.

Notes *(continued)*

6 Income tax *(continued)*

Deferred income tax (continued)

Deferred income tax at 30 June 2011 relates to the following:

Company	**2011 A$ 000's**	2010 A$ 000's
Deferred tax liabilities		
Future income tax liability attributable to temporary differences		
Unrealised foreign exchange gain on financial assets	(3)	(4)
Receivables (i)	4,151	-
	4,148	(4)
Deferred Tax Assets		
Future income tax benefit attributable to temporary differences		
Payables (ii)	12	190
Unrealised foreign exchange loss on financial assets	(20)	20
	(8)	210
Net deferred tax (asset) / liability	4,140	206

(i) Receivables relates to the contingent consideration on gain on sale recognised at 30 June 2011 (note 4).

(ii) Payables relates to annual leave, long service leave and other accruals.

As at 30 June 2011 the Group had available tax losses of A$54.710million (*2010:A$41.014million)*.

Movement in temporary difference during the year

Consolidated

	Balance 30 June 2010 A$ 000	**Recognised in profit or loss A$ 000**	**Disposal of drilling fluid business A$ 000**	**Balance 30 June 2011 A$ 000**
Deferred tax assets				
Payables	324	(12)	(135)	178
Unrealised foreign exchange loss on financial assets	76	20	(56)	40
Provisions	70	-	(70)	-
Property, plant & equipment	23	-	(23)	-
Tax loss carried forward	-	-		-
	493	8	(283)	218
Deferred tax liabilities				
Receivables	-	(4,151)	-	(4,151)
Exchange rate fluctuations on financial assets	(3)	3	-	-
Property, plant & equipment	(17)	-	17	-
Intangible assets	-	-	-	-
	(20)	(4,148)	17	(4,151)

Notes *(continued)*

6 Income tax *(continued)*

Movement in temporary difference during the year

Company

	Balance 30 June 2010 A$ 000	Recognised in profit or loss A$ 000	Balance 30 June 2011 A$ 000
Deferred tax assets			
Payables	190	(12)	178
Unrealised foreign exchange loss on financial assets	20	20	40
Tax loss carried forward	-	-	-
	210	8	218
Deferred tax liabilities			
Unrealised foreign exchange loss on financial assets	(4)	4	-
	(4)	4	-

7 Earnings per share

	2011 A$ 000’s	2010 A$ 000’s
Net profit: Earnings used in calculating basic earnings per share	**7,331**	4,824
Net profit: Earnings used in calculating diluted earnings per share	**7,331**	4,824
	Number of shares	Number of shares
In thousands of shares		
Weighted average ordinary shares used in calculating basic earnings per share	**249,580**	226,658
Weighted average ordinary shares used in calculating diluted earnings per share	**249,580**	226,658
Basic earnings per share (cents per share)	**2.9**	2.1
Diluted earnings per share (cents per share)	**2.9**	2.1

Notes *(continued)*

8 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at 30 June 2011:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	A$ 000's	**A$ 000's**	**A$ 000's**	**A$ 000's**
Cash at bank and in hand	12,548	5,800	8,640	1,282
	12,548	5,800	8,640	1,282

9 Trade and other receivables

	Group		Company	
	2011	2010	**2011**	2010
	A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Trade debtors	**-**	3,055	**-**	-
Sundry debtors	**756**	228	**983**	308
Other receivables (note 4)	**13,839**	-	**13,839**	-
Total receivables (current)	**14,595**	3,283	**14,822**	308

10 Inventories

	Group		Company	
	2011	2010	**2011**	2010
	A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Stores and materials – at cost	**-**	8,288	**-**	-
Total inventories at lower of cost and net realisable value	**-**	8,288	**-**	-

Notes *(continued)*

11 Investments

	Group		Company	
	2011	2010	**2011**	2010
	A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Non-current investments in subsidiaries				
Brought forward balance	-	-	8,602	8,901
Reclassification as non interest bearing loan	-	-	-	(299)
Inter-company loan converted into equity	-	-	6,621	-
Minority interest acquisition	-	-	196	-
Disposal	-	-	(15,419)	-
Investments at cost	-	-	-	8,602

The principal Group companies at 30 June 2011 are set out below:

Subsidiaries	Principal activity in the year	Proportion of voting rights and shares held		Class of share held	Place of incorporation
		2011	2010		
VRMT Well Services Limited	Dormant	51%	51%	Ordinary	Nigeria
Lochard Energy Limited	Holding company	100%	100%	Ordinary	United Kingdom
Lochard Energy Incorporated	Oil field developments	100%	100%	Ordinary	United States of America
Zeus Petroleum Limited	Oil field developments	100%	100%	Ordinary	United Kingdom

12 Acquisition of non-controlling interest

Prior year acquisition of remaining 50% of Zeus Petroleum Limited

On 5 March 2010 Lochard Energy Limited ('Lochard UK") entered into a Share Purchase Agreement with Pacific International Management Inc. ('PIM") to acquire the remaining 50% of shares of Zeus Petroleum Limited ("Zeus") for the nominal sum increasing its ownership from 50% to 100%. The transaction was completed on the 31 March 2010.

As part of the transaction to acquire the remaining 50%, Lochard UK acquired from a third party loan notes ("Zeus loan notes") payable by Zeus with a book value of A$10.581million (US$9.731million). Lochard Energy Group Plc released its loan receivable with PIM of A$10.306million (US$9.476million) in exchange for PIM procuring the transfer of the Zeus loan notes to Lochard UK and for settling a loan of A$6.320million (US$5.709million) due from Zeus to PIM. In consideration for settling the loan, PIM purchased one new share in Zeus which was in turn transferred to Lochard UK on the same day.

The Group recognised a credit reducing the Non-controlling interests by A$7.644 million, a reduction of Interest bearing loans receivable of A$10.306million (US$9.476million), and a reduction in Non-interest bearing loans and borrowings payable to third parties of A$16.901 million (US$15.4 million) and in equity a credit to Acquisition of non-controlling interest of A$7.644 million. The Group recognised a gain through the consolidated income statement of A$6.595million (US$5.9million) in respect of this debt settlement transaction on the basis that the fair value of the equity in Zeus acquired both before and after the transaction is A$nil. In accordance with IFRS 27 (2008) the change in non controlling interests affects equity only.

Notes *(continued)*

13 Oil and gas intangible assets

	Group		Company	
	2011	**2010**	**2011**	2010
	A$ 000's	**A$ 000's**	**A$ 000's**	A$ 000's
Non-current oil and gas assets				
Brought forward balance	**24,127**	26,273	**-**	-
Additions	**17,398**	1,194	**-**	-
Capitalised interest	**5,457**	-	**-**	-
Impairment loss oil & gas assets UK	**-**	(119)	**-**	-
Foreign currency translation adjustment	**(4,289)**	(3,221)	**-**	-
Carrying amount	**42,693**	24,127	**-**	-
Cost	**81,039**	58,184	-	-
Accumulated impairment	**(38,346)**	(34,057)	-	-
	42,693	24,127	**-**	-

The oil and gas intangible assets are currently under development with first production scheduled for November 2011.

For the purposes of impairment testing the intangible oil and gas assets are allocated to the Group's cash generating units, which represent the lowest level within the Group at which the intangible oil and gas assets are measured for internal management purposes, which is not higher than the Group's operating segments as reported in note 3. Although viewed for internal reporting purposes as a single operating segment, for the purposes of the North Sea and North American onshore assets, as separately identifiable cash generating units, have been separately assessed for impairment.

On 30 June 2011 the management of Zeus Petroleum Limited tested the oil and gas assets carrying value for impairment against fair value less cost to sell.

The impairment test for the Athena project was based on pre-tax discount cash flows from the project applying a 10% discount rate and Brent forward curve prices. This test determined that the net present value of the Athena assets exceeds the book value.

The key assumptions are sensitive to market fluctuations and the success of future exploration drilling programmes. The most likely factor that will result in a material change to the recoverable amount of the cash generating unit is the successful development of the Athena oil field and results of future exploration drilling, which would determine the licence's future economic potential.

Notes *(continued)*

14 Property, plant and equipment

Consolidated	Oil and gas assets A$ 000's	Plant and equipment A$ 000's	Motor vehicles A$ 000's	Liquid drilling fluid plant A$ 000's	Freehold land and buildings A$ 000's	Total A$ 000's
Year ended 30 June 2011						
At 1 July 2010, net of accumulated depreciation and impairment	**140**	**1,330**	**263**	**4,258**	**2,916**	**8,907**
Additions	**-**	**28**	**-**	**-**	**-**	**28**
Disposals: Cost or fair value	**-**	**(2,708)**	**(541)**	**(7,361)**	**(3,124)**	**(13,734)**
Disposal: Accumulated depreciation	**-**	**1,391**	**278**	**3,103**	**208**	**4,980**
Translation adjustment	**(27)**	**(1)**	**-**	**-**	**-**	**(28)**
Depreciation and amortisation Expense	**-**	**(8)**	**-**	**-**	**-**	**(8)**
At 30 June 2011, net of accumulated depreciation and impairment	**113**	**32**	**-**	**-**	**-**	**145**
At 30 June 2011						
Cost or fair value	**148**	**63**	**-**	**-**	**-**	**211**
Accumulated depreciation and impairment	**-**	**(29)**	**-**	**-**	**-**	**(29)**
Translation adjustment	**(35)**	**(2)**	**-**	**-**	**-**	**(37)**
Net carrying amount	**113**(i)	**32**	**-**	**-**	**-**	**145**

(i) USA oil and gas assets.

Notes *(continued)*

14 Plant, property and equipment *(continued)*

Consolidated	Oil and gas assets A$ 000's	Plant and Equipment A$ 000's	Motor vehicles A$ 000's	Liquid drilling fluid plant A$ 000's	Freehold land and buildings A$ 000's	Total A$ 000's
Year ended 30 June 2010						
At 1 July 2009, net of accumulated depreciation and impairment	148	1,142	264	4,703	3,007	9,264
Additions	-	400	80	14	7	501
Reclassification	-	22	2	-	(24)	-
Translation adjustment	(8)	15	(3)	-	-	4
Depreciation and amortisation Expense	-	(249)	(80)	(459)	(74)	(862)
At 30 June 2010, net of accumulated depreciation and impairment	140	1,330	263	4,258	2,916	8,907
At 30 June 2010						
Cost or fair value	148	2,743	541	7,361	3,124	13,917
Accumulated depreciation and impairment	-	(1,450)	(277)	(3,103)	(184)	(5,014)
Reclassification	-	22	2	-	(24)	-
Translation adjustment	(8)	15	(3)	-	-	4
Net carrying amount	140	1,330	263	4,258	2,916	8,907

Company	Plant and equipment A$ 000's
Year ended 30 June 2011	
At 1 July 2010, net of accumulated depreciation and impairment	**-**
Additions	**28**
Depreciation and amortisation expense	**(2)**
At 30 June 2011, net of accumulated depreciation and impairment	**26**
At 30 June 2011	
Cost or fair value	**28**
Accumulated depreciation and impairment	**(2)**
Net carrying amount	**26**

Notes *(continued)*

15 Interest bearing loans receivable

	Group		Company	
	2011	**2010**	**2011**	2010
	A$ 000's	**A$ 000's**	**A$ 000's**	A$ 000's
Current				
Loans to controlled entities (i)	**-**	**-**	**33,555**	27,709
Closing balance	**-**	**-**	**33,555**	27,709

The Company provides loans to subsidiaries which have no specific terms or conditions. These loans are repayable upon demand.

(i) The Company's net recoverable assets have been impaired by monies due from Lochard Energy Limited. The carrying value of the loan has been reduced resulting in an impairment charge of A$2.772million (2010: A$1.229million) in Lochard Energy. As disclosed in Note 27 to the financial statements there is a further possible impact on the recoverability of the Company's loans to subsidiaries if the contingency there disclosed were to crystallise. The impairment charge is eliminated on consolidation of the Group result.

16 Non interest bearing loans receivable

	Group		Company	
	2011	2010	**2011**	2010
	A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Current				
Non-interest bearing loans	-	88	-	88
Closing balance	-	88	-	88

Notes *(continued)*

17 Other intangible assets and goodwill

	Goodwill	Development Expenditure	Total
Year ended 30 June 2011	**A$ 000's**	**A$ 000's**	**A$ 000's**
At 1 July 2010, net of accumulated amortisation	**2,940**	**-**	**2,940**
Additions	**-**	**-**	**-**
Amortisation	**-**	**-**	**-**
Impairment loss	**-**	**-**	**-**
Disposal of Drilling fluids business (see note 4)	**(2,940)**	**-**	**(2,940)**
At 30 June 2011, net of accumulated amortisation	**-**	**-**	**-**
At 30 June 2011			
Cost	**2,940**	**-**	**2,940**
Accumulated amortisation	**-**	**-**	
Disposal of Drilling fluids business (see note 4)	**(2,940)**	**-**	**(2,940)**
Net carrying amount	**-**	**-**	**-**
Year ended 30 June 2010	**A$ 000's**	**A$ 000's**	**A$ 000's**
At 1 July 2009, net of accumulated amortisation	2,940	63	3,003
Additions	-	-	-
Amortisation	-	(63)	(63)
Impairment loss	-	-	-
At 30 June 2010, net of accumulated amortisation	2,940	-	2,940
At 30 June 2010			
Cost	2,940	377	3,317
Accumulated amortisation	-	(377)	(377)
Net carrying amount	2,940	-	2,940

Notes *(continued)*

18 Trade and other payables

	Group 2011 A$ 000's	Group 2010 A$ 000's	Company 2011 A$ 000's	Company 2010 A$ 000's
Current				
Trade and other payables	**2,208**	2,861	**242**	2,268
	2,208	2,861	**242**	2,268

Trade payables are non-interest bearing, unsecured and are normally settled on 30 day terms from end of month in which the invoice is received.

19 Interest bearing loans and borrowings

	Group 2011 A$ 000's	Group 2010 A$ 000's	Company 2011 A$ 000's	Company 2010 A$ 000's
Current				
Unsecured loans (a)	-	166	-	-
Hire purchase liabilities	-	89	-	-
Bank loan (b) & (c)	-	7,800	-	-
Non-interest bearing loans from controlled entities	-	-	-	141
	-	8,055	-	141
Non-current				
Bank loan (b)	-	302	-	-
Hire purchase liabilities	-	203	-	-
	-	505	-	-
	-	8,560	-	141

All loans were repaid and all hire purchase agreements paid out as part of the disposal of the Drilling fluid business in April 2011 (see note 4). The terms of the interest bearing loans were as follows:

(a) The unsecured loan related to insurance premium funding and had a term of less than 12 months. A flat fixed interest rate of 4.40% was charged on the loan.

(b) The bank loan was repayable based on quarterly principal instalments of $325,000. The loan was secured by a fixed and floating charge over Lochard Limited assets. A variable interest rate of 7.55% per annum was charged on the outstanding balance of the commercial bill loan. The amount of this facility A$1.602million had a term expiring on the 2 January 2012, accordingly A$1.300million was classified as current and A$0.302million as non-current at 30 June 2010.

(c) The bank loan was repayable based on quarterly principal instalments of $75,000. The loan was secured by a fixed and floating charge over Lochard Limited assets. A variable interest rate of 6.90% per annum was charged on the outstanding balance of the commercial bill loan. The amount of this facility A$6.500million was disclosed as current at 30 June 2010 because the facility is subject to annual review in November 2010.

Non-interest bearing loans were at call and unsecured, these were settled prior to 30 June 2011.

All interest bearing bank loans were denominated in Australian dollars.

Notes *(continued)*

20 Other financial liabilities

	2011 A$ 000's	2010 A$ 000's
Current		
Unsecured non-bank project funding	**10,252**	-
Non-current		
Unsecured non-bank project funding	**6,142**	-
	16,394	-

Loan from Gemini Oil & Gas Fund

Gemini Oil & Gas Fund II, LP has agreed, subject to certain conditions, to provide Zeus Petroleum Limited, a fully owned subsidiary of Lochard, with up to US$14m of funding for operations relating to the development of the Athena oil field. Loan interest and repayments are to be paid out of Zeus' future share of the Athena gross oil revenues. Zeus holds a 10% interest in North Sea Block 14/18b which contains the Athena discovery. As at 30 June 2011 the loan has been recorded at fair value.

As at 30 June 2011 A$11.326million had been drawn down on the total loan of A$13.214million. The difference between A$11.362million drawn down and the financed liability of A$16.394million represents imputed accrued interest on the loan. The effective interest rate of the Gemini loan is approximately 84% per annum. The high rate of effective interest rate is due to the financier taking into account the production and project execution risk.

Based on forward curve oil prices at 30 June 2011, an AUD/USD exchange rate of 1.06, and forecasted oil production the Group expects to repay a total of $30.114million on the loan over the following years:

	A$ 000's
Within 1 year	20,736
Year 1 to 2	6,566
Beyond year 2	2,812
	30,114

Notes *(continued)*

21 Employee benefits

Group	Long Service Leave A$ 000's	Annual Leave A$ 000's	Total A$ 000's
At 1 July 2010	383	446	829
Arising during the year	34	40	74
Utilised	(57)	(21)	(78)
Disposal	(105)	(344)	(449)
At 30 June 2011	255	121	376
Current 2011	255	121	376
Non-current 2011	-	-	-
	255	121	376
At 1 July 2009	297	388	685
Arising during the year	152	119	271
Utilised	(66)	(61)	(127)
At 30 June 2010	383	446	829
Current 2010	312	446	758
Non-current 2010	71	-	71
	383	446	829

(a) Long Service Leave is provided for employees in accordance with stated accounting policies, based on industry experience by management.

(b) Annual Leave is provided for employees in accordance with stated accounting policies based on industry experience by management.

Notes *(continued)*

22 Provisions

Group	Decommissioning Provision A$ 000's	Land Restoration A$ 000's	Total A$ 000's
At 1 July 2010	150	167	317
Arising during the year	-	10	10
Translation adjustment	(37)	-	(37)
Disposal of business	-	(177)	(177)
At 30 June 2011	113	-	113
Current 2011	113		113
Non-current 2011	-	-	-
	113	-	113
At 1 July 2009	148	155	303
Arising during the year	-	12	12
Translation adjustment	2	-	2
At 30 June 2010	150	167	317
Current 2010	150	-	150
Non-current 2010	-	167	167
	150	167	317

Decommissioning provision – Lochard Energy Inc. currently operates producing oil and gas assets at Caldwell County, Texas, USA. When Lochard Energy Inc. completes its operations it is required to restore the land and the surrounds to its previous state. As such a provision is made to fund this future restoration.

Notes *(continued)*

23 Share capital

Company

Allotted, called up and fully paid	No. of shares	**A$000**
At 30 June 2011	249,579,902	**29,108**
At 30 June 2010	249,579,902	**29,108**

Issue of shares

No shares were issued in the current financial year.

24 Share based payments

The Company has provided the directors, certain employees and advisors with share options. The options are exercisable at set prices and the vesting and exercisable terms varied to suit each grant of options.

Options issued in lieu of payment for services received

On 7 December 2007 the Company issued a total of 1,000,000 options to subscribe for one new ordinary share per option. The options were exercisable at A$0.84 at any time up to the 7 December 2010. The options were issued at $nil consideration, being issued pursuant to the raising of A$35million and upon admission of the Company to the Australian Stock Exchange. These options have lapsed in the current financial year, 7 December 2010.

On 5 May 2009 the Company granted warrants, to the Broker of the Company upon their appointment, to subscribe for 2 million ordinary shares at the price of 5p per ordinary share in two tranches which were exercisable in the two years from 5 May 2009.

These options have been valued against the fair value of the service provided less any consideration received.

Non-executive options

On the 22 October 2007 the Company issued 500,000 options over un-issued shares to the non-executive Directors. The options have an exercise price of 16.5p. The options vest in three tranches, a third after 12 months, a further third after 24 months and the final third after 36 months from date of grant.

Notes *(continued)*

25 Share based payments *(continued)*

Employee options

Details of employee share options are as follows:

At start of report year	Granted at the date of this report	Lapsed	Exercised	At end of report year	Exercise price	Exercise date from	Exercise date to
705,000	-	-	-	705,000	16.5p	14-9-2008	14-9-2015
120,000	-	-	-	120,000	16.5p	9-2-2009	9-2-2016
120,000	-	-	-	120,000	16.5p	21-2-2008	21-2-2012
1,910,000	-	-	-	1,910,000	16.5p	2-10-2008 2-10-2009 2-10-2010	2-10-2012
4,000,000	-	-	-	4,000,000	16.5p	22-10-2008 22-10-2009 22-10-2010	2-10-2012
50,000	-	-	-	50,000	16.5p	7-01-2009 7-01-2010 7-01-2011	7-01-2013

Share-based payments and options issued in lieu of services

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial option model, taking into account the terms and conditions upon which the options were granted.

The Group recognised total expenses of A$0.053million (2010: A$0.176million) related to employee and non-executive share based payment transactions in the year.

26 Reserves and accumulated losses

The share based payment reserve holds the directly attributable cost of services provided pursuant to the share issue in December 2007 satisfied by way of share based payments and the appointment of a new broker for the Company in May 2009.

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

The other equity reserve comprises a debit resulting from the acquisition of Zeus Petroleum Limited which is a wholly owned subsidiary of Lochard Energy Group Plc.

Notes *(continued)*

27 Commitments and contingencies

	2011 A$ 000's	2010 A$ 000's
(a) Lease expenditure commitments		
Operating leases (non-cancellable):		
Minimum lease payments		
- not later than one year	**38**	336
- later than one year and not later than five years	-	850
- later than five years	-	229
Total operating leases (non-cancellable)	**38**	1,415

The operating leases are entered into for the purposes of leasing company premises and operating equipment for business operations.

	2011 A$ 000's	2010 A$ 000's
(b) Lease expenditure commitments		
Hire purchase agreement:		
Minimum lease payments		
- not later than one year	-	111
- later than one year and not later than five years	-	236
Total minimum hire purchase payments	-	347
- future finance charges	-	(55)
Hire purchase liability	-	292

The hire purchase agreements were a means of funding the purchase of motor vehicles, computer and laboratory equipment for business operations.

	2011 A$ 000's	2010 A$ 000's
Current liability	-	89
Non current liability	-	203
Balance at 30 June	-	292

(i) Operating leases have an average lease term of 7 months (2010: 50 months). All leases from prior years were paid out prior to the sale of the Drilling fluid business and a new lease for the business premises on Mews Road in Fremantle entered into.

(ii) Hire purchase agreements had a term between 4 and 54 months and an average interest rate of 8.03%. These were all paid out as part of the sale of the Drilling fluid business in April 2011 (see note 4).

Notes *(continued)*

27 Commitments and contingencies *(continued)*

(c) Contingent liabilities

Performance bonds

The Group and the Company have provided a bank guarantee on behalf of Lochard Energy Inc in relation to performance bonds. The liability has not been accrued as non-performance of the contracts is unlikely.

The value of the performance bonds is A$47thousand *(2010: A$656thousand)*.

Athena oil field

The Group has a 10% interest in the Athena oil field development through Zeus Petroleum Limited. In September 2010 the Field Development Plan was approved by the UK Department for Energy and Climate Change. First production is planned for Q4 2011 at 22,000 barrels per day. The estimated capital expenditure costs for the next 12 months is A$12.076million.

Senergy Limited

Zeus Petroleum Limited ("Zeus"), a subsidiary company, has been notified that Senergy Limited, a UK based drilling Company, has, on 1 April 2010, commenced proceedings in the High Court in London claiming US$11.907million and £1.822million (approximately A$15.369million) in respect of alleged contracted works not carried out in accordance with the terms of a Letter of Commitment dated May 2008 ("L.O.C"). The claim also includes a rectification agreement claiming an alleged error in the L.O.C. The management of Zeus intend to vigorously defend the claim. The management of Zeus believe that they will successfully defend the claim and that it does give rise to a contingent liability in the Zeus financial statements. No provision has been made for any settlement.

Were the contingent liability in Zeus to crystallise the directors estimate that a significant portion of the A$24.626million loans due from Zeus Petroleum Limited would be irrecoverable.

There is no legal liability attributable to Lochard Energy Limited or Lochard Energy Group Plc.

Were the contingent liability in Zeus to fully crystallise the directors estimate that further provisions in the range of A$13.337million might be required by the Company against amounts due from its subsidiaries.

28 Subsequent events

There are no known subsequent events of a material nature.

29 Pensions

The Group contributes to defined contribution pension schemes for its directors and employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost included in the profit and loss account for the year amounted to A$144 thousand *(2010: A$218 thousand)*.

30 Results of the parent company

As permitted by Section 408 of Companies Act 2006, the Income Statement of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the year amounted to A$15.684million *(2010: loss of A$2.6million)*.

Notes *(continued)*

31 Related party transactions

Key management personnel

Key management personnel are as follows:
HL Gardner-CEO, Executive Director
CR McGuckin-Group General Manager, Executive Director (resigned 5th May 2011)
LC McCrabb-Executive Directive

See Directors remuneration report (page 23)

Transactions with Directors and key management personnel

Purchases

Zeus Petroleum Limited entered into a transaction with Aimwell Energy Limited, a company Mr M Rose has a significant 50% interest in, relating to the award of blocks in the 26th Seaward Licensing Round. Aimwell Energy Limited has a 10% carried interest in the blocks 3/5, 3/10c, 9/17b, 9/22b, 13/16b, 13/17, 14/17, 14/27b, 16/8c and 14/26b Thunderball.

Zeus Petroleum Limited conducted business transactions for geological consulting services to a value of A$121thousand *(2010:A$104thousand)* with Aimwell Energy Ltd, an entity associated with director M. Rose. These transactions were conducted on normal commercial terms and conditions. A$61thousand was outstanding at 30 June 2011 *(2010:A$30thousand)*.

Lochard Energy Group Plc conducted business transactions for corporate advice to a value of A$7thousand (*2010:A$72thousand)* with Kingston Vale Pty Ltd, an entity associated with director P.R. Youd. These transactions were conducted on normal commercial terms and conditions. A$Nil was outstanding at 30 June 2011 *(2010:A$nil)*.

Lochard Energy Group Plc conducted business transactions for corporate advice to a value of A$70thousand (*2010:A$nil)* with Sarell Pty Ltd, an entity associated with director P.R. Youd. These transactions were conducted on normal commercial terms and conditions. A$Nil was outstanding at 30 June 2011 *(2010:A$nil)*.

Transactions with other related parties

Company

Lochard Energy Group Plc has provided loans as listed below:

	2011		2010	
	A$ 000's	**Interest p.a**	A$ 000's	Interest p.a
Interest bearing loans				
Lochard Energy Limited (i) (iii)	**50,313**	**6.25%**	46,906	6.25%
Rheochem Limited (i)	-	-	3,205	4.50%
Zeus Petroleum Limited (i) (ii)	**13,343**	**10.00%**	4,928	10.00%
	63,656		55,039	

(i) The loans are provided at commercial interest rates and are subject to repayment on demand.
(ii) The loan is secured and repayable on demand.
(iii) Lochard Energy Limited the carrying value of the loan has been impaired by A$30.102million *(2010:A$27.330million*).

Notes *(continued)*

31 Related party transactions *(continued)*

Interest revenue		
Lochard Energy Limited	**3,129**	2,152
Rheochem Limited	**40**	111
Zeus Petroleum Limited	**738**	384
	3,907	2,647
Management fees		
Rheochem Limited (i)	**90**	120
Zeus Petroleum Limited (i)	**-**	277
	90	397

(i) Management fees are charged on an arms length basis

Notes *(continued)*

32 Auditors' remuneration

Services provided by the Group's auditor (in tenure as auditor) and associated firms

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG Audit Plc, the Group's auditor for the period, at costs as detailed below:

Auditors' remuneration	**Year ended 30 June 2011 A$ 000's**	Year ended 30 June 2010 A$ 000's
Audit of 2011 financial statements	**137**	-
Review of 2011 half-yearly report	**138**	-
Audit of 2011 subsidiaries pursuant to legislation	-	-
Audit of 2010 financial statements	**64**	101
Review of 2010 half-yearly reports	-	90
Audit of 2010 subsidiaries pursuant to legislation	-	91
Audit of 2009 financial statements	-	198
Audit of 2009 subsidiaries pursuant to legislation	-	44
	339	524
Fees payable to the Group's auditor for other services:		
Tax services	**27**	97
Advisory services	**66**	-
	93	97

There were no other services provided by KPMG Audit Plc during their period as auditor.

The Group audit fees are borne by each company.

Other auditor

Fees payable to Rheochem India Pvt Ltd's auditor for audit of the subsidiary company

	Year ended 30 June 2011 A$ 000's	Year ended 30 June 2010 A$ 000's
Audit of 2010 financial statements	-	5
	-	5
Fees payable to the subsidiary company's auditor for other services: Tax services	-	2

Additional Information *(note, this information does not form part of the audited financial statements)*

Voting rights
Ordinary shares
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Chess Depositary Interests
Each Chess Depository Interest (CDI) represents the full beneficial interest in one underlying ordinary share.
The holders of CDIs are entitled to receive dividends as declared from time to time and receive notice of meetings. CDI holders cannot vote personally at Shareholder meetings they must direct Chess Depository Nominees Pty Ltd to cast proxy votes in accordance with the CDI holders written directions. All shares rank equally with regard to the Company's residual assets.

Options
There are no voting rights attached to the options.

Distribution of equity security holders as at 28 September 2011

Category	Number of equity security holders of ordinary shares
1-1,000	25
1,001-5,000	88
5,001-10,000	123
10,000-100,000	349
100,000 and over	134
	719

The number of shareholders holding less than a marketable parcel of ordinary shares is 11.

Security exchanges
The Company is listed on the AIM of the London Stock Exchange (AIM: LHD) and the Australian Securities Exchange (ASX: LHD).

Place of incorporation
Lochard Energy Group Plc, incorporated in England and Wales, is a publicly listed company limited by shares.

Additional Information *(continued)*

Twenty largest shareholders as at 28 September 2011

Rank	Name	Number of ordinary shares held	Percentage of capital held
1	HARGREAVE HALE NOMINEES LIMITED <LON>	25,902,284	10.38
2	APOLLO NOMINEES LTD <CRE>	25,623,715	10.27
3	PERSHING NOMINEES LIMITED <MGCLT>	20,478,000	8.20
4	NORTRUST NOMINEES LIMITED <SLEND>	18,629,715	7.46
5	GARDNER MARKETING PTY LTD	15,428,421	6.18
6	HSBC GLOBAL CUSTODY NOMINEE (UK) LIMITED <934567>	10,378,903	4.16
7	GOLDMAN SACHS SECURITIES (NOMINEES) LIMITED <ILSEG>	8,558,682	3.43
8	CORPORATE SERVICES (TD WATERHOUSE) NOMINEES LIMITED <KKCLT>	7,229,038	2.90
9	PERSHING NOMINEES LIMITED <LSCLT>	5,750,000	2.30
10	BNY (OCS) NOMINEES LIMITED	5,395,694	2.16
11	NATIONAL NOMINEES LIMITED	5,062,400	2.03
12	PERSHING NOMINEES LIMITED <PSL981>	4,649,368	1.86
13	L R NOMINEES LIMITED <NOMINEE>	4,264,297	1.71
14	CREDIT AGRICOLE CHEUVREUX INTERNATIONAL LIMITED <3439>	4,120,000	1.65
15	SMITH & WILLIAMSON NOMINEES LIMITED	3,930,000	1.57
16	BARCLAYSHARE NOMINEES LIMITED	3,843,544	1.54
17	ROBERT EDWARD FROST	3,781,570	1.52
18	CHASE NOMINEES LIMITED <ARTEMIS>	3,676,327	1.47
19	NORTRUST NOMINEES LIMITED <TDS>	3,505,240	1.40
20	MICHAEL ROSE	2,781,570	1.11
Totals: Top 20 holders of ORDINARY SHARES		182,988,768	73.32

Additional Information *(continued)*

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