28 June 2012

Lochard Energy Group PLC
("Lochard" or the "Company")

Operational Update

The board of Lochard is pleased to update shareholders on progress on the following matters

- Determination of the final payment in respect of the sale of the drilling fluid business
- Settlement of the outstanding litigation with Senergy
- Production at Athena and short term funding arrangements
- Progress with farm-outs for Thunderball and Moby assets
- Change of auditor

Final payment for the sale of the drilling fluids business

Lochard is pleased to announce the deferred element of the purchase consideration for the sale of the drilling fluids business has been agreed at A$13.9 million.

This takes the aggregate purchase consideration to A$37.65 million, A$23.75 of which was received in April 2011. A further A$2 million was received September 2011 and the remaining A$11.9 million has now also been received..

Settlement of litigation

Since 2008, Zeus Petroleum Limited, ("Zeus") a wholly owned subsidiary of the Lochard Group has been defending litigation brought by Senergy UK Limited ("Senergy") concerning Zeus's contractual obligations in connection with the non use of a rig in the North Sea.

On 15 December 2011, it was announced that, following a trial in the High Court in London, judgment on the facts of the case had been made in favour of Senergy and against Zeus. Although the quantum of the damages was not assessed by the High Court the claim from Senergy amounted to US$12 million including costs (estimated at US$1.5m).

The board of Lochard is pleased to announce that after negotiation, a full and final agreement has been reached between all the relevant parties for Zeus to pay US$9 million in damages including costs. This amount will be paid in monthly installments commencing at the end of August 2012 and ending in February 2013.

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Athena and funding

The Athena field is situated in block 14/18b in the Outer Moray Firth area of the UKCS, lying approximately 18 km west of the Claymore and Scapa fields and the associated production facilities.

Lochard, through its ownership of Zeus, has a 10 per cent interest in the Athena field where the operator and largest owner is the London listed Ithaca Energy PLC (“Ithaca”).

First oil started flowing at Athena in late May 2012 with Ithaca reporting production flow rates of 22,000 bopd (2,200 bopd net to Lochard). On 21 June Ithaca revised its estimate in light of production start up issues to a current rate of 12,000 bopd (1,200bopd net to Lochard). Based on the latest information available to them your directors do not believe production rates will increase from the current level before the end of the year.

The reserve base at Athena, as evaluated by Sproule Associates earlier in the year, was determined at 26.10 mmboe (2P) gross (2.61 mmboe net to Lochard). The economic reserve base will become clearer as production rates settle down and overall reservoir performance can be assessed.

To fund part of Lochard’s participation in the Athena field Lochard’s previous management borrowed US$14 million from Gemini Oil & Gas Fund II, L.P. (“Gemini”). Under the terms of the Gemini loan agreement Lochard is required to repay Gemini US$28 million plus a 5% residual royalty on gross production (“Gemini Royalty”).

The first US$14 million is repayable at the rate of 50 per cent of production revenue, after which the repayment rate falls to 20 per cent of production revenues until $28 million is repaid, after which the Gemini Royalty is due.

Based on current production levels and oil prices your board expects to have repaid the first US$14 million of the Gemini loan by February 2013 and the second $14 million by November 2014.

The delays in first oil, the associated cost overruns and the lower than planned initial production rates together with the calls on Athena production income to satisfy both the Senergy settlement and the Gemini loan and Gemini Royalty payments, could leave the Company short of working capital during the summer months should there be an interruption in Athena production. Accordingly the board has entered into a £3 million draw down facility (“Draw-Down Facility”) with Henderson Global Investors (“Henderson”) on terms summarised below.

Draw down facility

Henderson has agreed to provide the Company a conditional £3 million facility, which the board of Lochard would be able to draw down in the event of a working capital shortfall, caused for example by a temporary delay in the shipment of oil from Athena. The Draw Down Facility would be available for use until 30 September 2013, after which any drawn down amounts together with rolled up interest and any repayment charge due would become payable.

The facility has a 5 per cent commitment fee payable on signing. Other than this and the costs associated with setting up the facility the Company would only pay for the Draw-Down Facility as it is used.

The principle behind the facility is to provide the Company with protection in the event of a temporary working capital shortfall but to give the providers of the Draw-Down Facility the returns equivalent to those of shareholders. This is because, had it not been for the restrictions imposed by the Takeover Code, both the Company and Henderson would have preferred that the Company issued Lochard ordinary shares to cover any funding shortfall but Henderson are currently interested in 28.99% of the Company’s issued share capital.

Draw-downs would be in units of approximately £1 million and attract an interest rate of 12 per cent per annum. Repayments of drawn down amounts would attract a repayment charge of an additional 5 per cent.

In the event that the Lochard share price rises during the life of the Draw Down Facility from a base of 7.25p a repayment fee, equal to the increase in the share price, up to a maximum increase of 7.25p, on the drawn down portion of the facility, less interest charged, the 5 per cent commitment fee, and the 5 per cent repayment fees, would be payable.

Henderson has indicated that where permissible and practical they would be prepared to allow other Lochard shareholders to participate in the Draw-Down facility.

Related Party Transaction

The provision of the Draw-Down Facility is a related party transaction for the purpose of the AIM Rules for Companies as Henderson is a significant shareholder in Lochard and Jamie Brooke is a director of the Company and also an employee of Henderson.

The Independent Directors, being Clive Carver, Mike Rose, Peter Kingston and Peter Youd, have considered alternative sources of funding, including bank debt and the issue of equity, and have concluded that such alternatives would be not available to the Company on terms more beneficial than those offered by Henderson

The Independent Directors consider, having consulted with the Company's nominated adviser, finnCap, that the terms of the Draw-Down Facility are fair and reasonable insofar as the Company's shareholders are concerned.

Thunderball and Moby Farm out

Now Athena has commenced production the board’s focus is on the Thunderball and Moby discoveries. The Company has a commitment to drill Thunderball by the end of February 2013. Lochard has previously announced the commencement of a farm out process for both its Thunderball and Moby discoveries.

The Canadian Imperial Bank of Commerce (“CIBC”) has been retained to assist in finding and concluding farm-out arrangements for both the Thunderball and Moby discoveries. A data room is being prepared and we are pleased to report early interest from a number of parties.

27th UK Round

Lochard submitted a number of bids for North Sea licenses in the recent 27th round and has recently discussed these with the UK Department for Energy and Climate Change. Final decisions on license awards are not expected until Autumn 2012.

Change of auditors

With immediate effect BDO have become the auditors to the Company and its subsidiaries. BDO will conduct all group company audits for the year ending 30 June 2012.

Other matters

On the basis of strong local legal advice Lochard has reluctantly agreed to pay the claim of the previous Chief Executive for A$1.3 million in respect of the termination of his employment.

Comments

Clive Carver, non-executive chairman said.

"We are delighted to draw a line under a number of difficult and protracted issues which could have undermined the future success of the Company.

Despite some of the commercially questionable arrangements entered into by the previous management the business is about to start receiving oil revenues and is better placed for future success. The income from production from Athena should place the Company in a strong position to consider its strategic options later in the year."

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A copy of this announcement will be available from www.lochardenergy.com. The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.