Lochard Energy Group Plc

Directors’ report and financial statements

Registered number 5209284

30 June 2012

Contents

Chairman's Statement

Introduction

The year to 30 June 2012 was clearly eventful. Rarely does a company have so much to contend with in such a short time.

Your company had both notable successes and failures in the period under review, all of which are detailed below. The net effect of these is that Lochard is now well placed to capitalise on its exploration successes with a significant stake in a valuable and producing North Sea asset.

Your board's focus now is to maximise shareholder value, however that may be delivered.

Athena

Lochard has a 10 per cent interest in the Athena field, which was originally identified as a prospect in 2005 by Mike Rose, a non-executive director of Lochard, and his business partner Bob Frost. Athena is the Company's flagship asset.

Athena started production in May 2012 and is currently producing at a daily rate generally averaging between 10-11,000 bopd (1,000-1,100 net to Lochard), with the field continuing to produce dry oil. Lochard's pro rata contribution to the Athena operating costs are running at some $1 million per month and are expected to continue at this level for the remainder of the year.

Lochard, through Ithaca, has entered into an off-take agreement with BP Oil International Limited. Under the terms of this contract Lochard receives payment for each month's production delivered to the Nigg Oil Terminal ("Nigg") within 45 days of the end of each production month. The first three deliveries have been offloaded at Nigg and the first payments have been received.

Athena potential

Athena is currently producing in the first stage of a potential two stage development. The Field Development Plan ("FDP") calls for a review of production performance with the Department of Energy and Climate Change ("DECC") approximately a year after field start-up. The Athena field under stage one consists of four producing wells and one water injection well. A decision on a second stage would be made after the DECC review, if the field partners believe it is commercially justified.

Athena is currently producing at full capacity from two of the four production wells. Of the two underperforming wells, one (P1) appears to be suffering from a physical blockage in the downhole completion and the other (P2), which is a highly deviated well is producing at a lower rate than initially anticipated.

The operator has now completed an assessment of the benefits of performing a rig based workover on well P1 to improve short term production capacity from P1. It has been agreed amongst the field partners that, based on the limited reservoir history available such a repair may not result in any significant reserves or value improvement and the expense cannot be justified at present.

The emphasis should now be on gaining more and better reservoir performance before evaluating in due course a second stage of development. Another two well slots are available to extend the production drainage locations within the reservoir and, possibly, to optimize the locations of water injection wells, thereby optimizing the ultimate oil recovery from the field..

Chairman's Statement (continued)

Although the current production is partially curtailed by the P1 physical well limitations, the reservoir performance information to date indicates, in Lochard's opinion, that there are no material factors that would affect the reserve potential of the field. The reserve base of the asset, which has considered the current well production problems, has been quantified at a proved developed producing (1P) level by Sproule Associates in an updated report issued on 3 September 2012 at 17.9 mmbbl gross (1.79 mmbbl net to Lochard). This is based on the existing wells when working effectively. A copy of the Sproule Associates report can be found on the Lochard website (www.lochardenergy.com).

Sproule Associates quantify proven plus probable (2P) reserves at 26.10 mmbbl gross (2.61 mmbbl net to Lochard) but this may require investment in due course in at least one more well.

Over the longer term, the Lochard Board believes there is the potential to increase reserves significantly following further drilling activity deploying the two extra drilling slots available for use.

Thunderball

After Athena, Thunderball, which is a predominantly dry gas discovery in the Scapa formation, is Lochard's next most developed asset. The Thunderball discovery has been well tested at a significant rate of 34 mmscfd and 200 bcpd, and requires appraisal drilling to quantify significant upside potential.

The board estimates the cost of the well to be drilled to satisfy the terms of the license to be some £16 million. This well would appraise the gas discovery but also investigate the presence of oil in the Buzzard formation, which underlies the Scapa reservoir.

Other Assets

Lochard has interests in a further eight blocks. Further details on Athena, Thunderball and all of Lochard's other assets are set out in the Operational Review.

Payment for the Drilling Fluids business

In June 2012 the Company successfully secured an additional $13.9 million deferred consideration, in respect of the disposal of the drilling fluids business. $2 million of this had been paid on account in September 2011 and the final $11.9 million was received in June 2012.

Court case

In June 2012 the board drew a line under the long-standing litigation involving Zeus Petroleum Limited ("Zeus"), a 100 per cent subsidiary of Lochard, and settled the case for an aggregate payment of $9 million, which is to be paid in monthly installments between August 2012 and February 2013.

The litigation centered on whether the former management had committed Zeus to hire a rig to drill Blocks 14/11 and 13/12. Zeus's contention was it had not. The High Court in London found Zeus had made such a commitment. Neither of these blocks are still held by Zeus.

Given the forthright opinion of the trial judge it is disappointing, more strenuous attempts were not made to settle the case earlier and at a lower cost to the Company.

Chairman's Statement (continued)

The Requisition

Any meaningful review of the past financial year has to deal with the requisition by Lochard shareholders in April 2012 to remove the former executive management (the "Requisition"), which resulted in the then executive management team being voted out of the Company. The background to the Requisition was very publicly told at the time and I do not intend to go over old ground.

Given the strength of feeling among the shareholder base against the former management, the outcome of any vote should have been clear. To put the Company through the very public Requisition process in these circumstances was unnecessary and costly.

Despite the former management spending some £250,000 of the Company's money in an effort to defeat the Requisition, only some 4 per cent of the shares not already held by the former management voted to keep them in place.

Following the Requisition and based on firm Australian legal advice the board was compelled to pay the former Chief Executive A$1.3 million (£0.9 million). Lochard shareholders may have their own views on whether, except for the constraints of Australian employment law, such a payment was appropriate.

Financial position

Gemini Facility repayments

The former management entered into a facility with Gemini Oil & Gas Fund II, L.P. ("Gemini") to help fund Lochard's portion of the Athena development costs ("Gemini Facility"). Under the Gemini Facility Lochard borrowed $14 million and has the obligation to repay $28 million. The repayments under the Gemini Facility are linked to gross production income. The first $14 million is to be repaid at the rate of 50 per cent of gross production, with the first payments in August 2012. The second $14 million is to be repaid at the rate of 20 per cent of the subsequent gross production revenues.

Based on current Athena production levels the board expects the first $14 million to have been repaid by the summer 2013 and the second $14 million by the first half of 2015. Thereafter a royalty of 5 per cent of gross production income is payable to Gemini until in aggregate Lochard has received payment for 20 million barrels when the royalty falls to 2.5 per cent -until 95% of reserves have been produced when the royalty falls to zero.

Henderson facility

The requirement to simultaneously fund the litigation settlement, meet the Gemini Facility repayments at the higher rate and to fund the anticipated workover costs at Athena meant that until summer 2013 Lochard would have been susceptible to any unexpected costs or disruption in production income.

The board therefore secured a conditional draw down debt facility from Henderson Global investors ("Henderson"), the Company's largest shareholder, which would allow the Group to draw down up to £3 million.

The draw down facility is 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 had 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.

Chairman's Statement (continued)

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 UK Takeover Code both the Company and Henderson would have preferred the Company issued Lochard ordinary shares to cover any funding shortfall. However, Henderson are currently interested in 28.99% of the Company's issued share capital and were not permitted to go beyond 29.9 per cent without making an offer for all Lochard shares.

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.

A repayment fee would be payable in the event the Lochard share price rises during the life of the draw down facility from a base of 7.25p. Such repayment fee would be 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.

Board appointments and strategic direction

In April 2012, immediately after the Requisition, Lochard had only one non-executive director, Mike Rose. Mike's first act was to re-appoint the two non-executive directors, Jamie Brooke and Peter Youd, who had been removed without justification in the lead up to the Requisition. Additionally, Peter Kingston was appointed as a non-executive director and I was appointed non-executive chairman.

The board now possesses geological, operational and financial experience, and I am pleased to report it has worked well both in dealing with the legacy issues and with current operational matters. Further details on the directors and our experience are set out after the Operational Review.

The strategic objective of the board is to maximise shareholder value however this may be achieved, including seeking merger partners. On 3 September 2012 the Company announced that it had entered a Formal Sale Process, as defined by the UK Takeover Panel. The Board took this decision to ascertain whether greater shareholder value could be obtained from a single corporate transaction rather than a series of farm-outs on our promising development assets.

Until the outcome of any merger discussions are clear it is not the intention of the board to appoint an executive management team, as we believe this could be to the disadvantage of Lochard shareholders.

Outlook

The difficulties of the past have been quantified and are now behind us. The future success of the Group depends in the first instance on the operational performance of the Athena field, and then the deal we strike on developing Thunderball.

Our immediate strength comes from the continuing cashflows from our interest in the Athena field, which after summer 2013 are expected to become substantial. Over the medium term the Group should also benefit from exploiting our other assets

Clive Carver

Clive Carver
Non-executive chairman
20 September 2012

Operational Overview

Following the sale of the drilling fluids business in April 2011 the Company changed its name to Lochard Energy Group PLC and concentrated on its oil and gas assets in the UK North Sea, all held by Lochard's 100% owned subsidiary Zeus Petroleum Limited ("Zeus').

During the year, production of Lochard's first oil from the Athena field commenced during May 2012, with Operator Ithaca reporting initial gross production flow rates of 22,000 bopd. On 21 June Ithaca revised its estimate in light of production start-up issues to a current rate of 10-11,000 bopd (1,000-1,100bopd net to Lochard).

The Proven + Probable (2P) reserve base at Athena, as evaluated by Sproule Associates recently, has been determined at 26.10 mmbbl gross (2.61 mmbbl net to Lochard), but this may require investment in due course in at least one more well. The economic reserve base will become clearer as production rates settle down and overall reservoir performance can be assessed. The Field Development Plan agreed with the UK Government calls for a review of field performance after about one year of production on the basis of which proposals would be put forward to optimise production and recoverable reserves from the field. Lochard believes there is scope for additional reserves based on its own and the Sproule independent evaluation of the Athena geological model.

OIL & GAS ASSETS

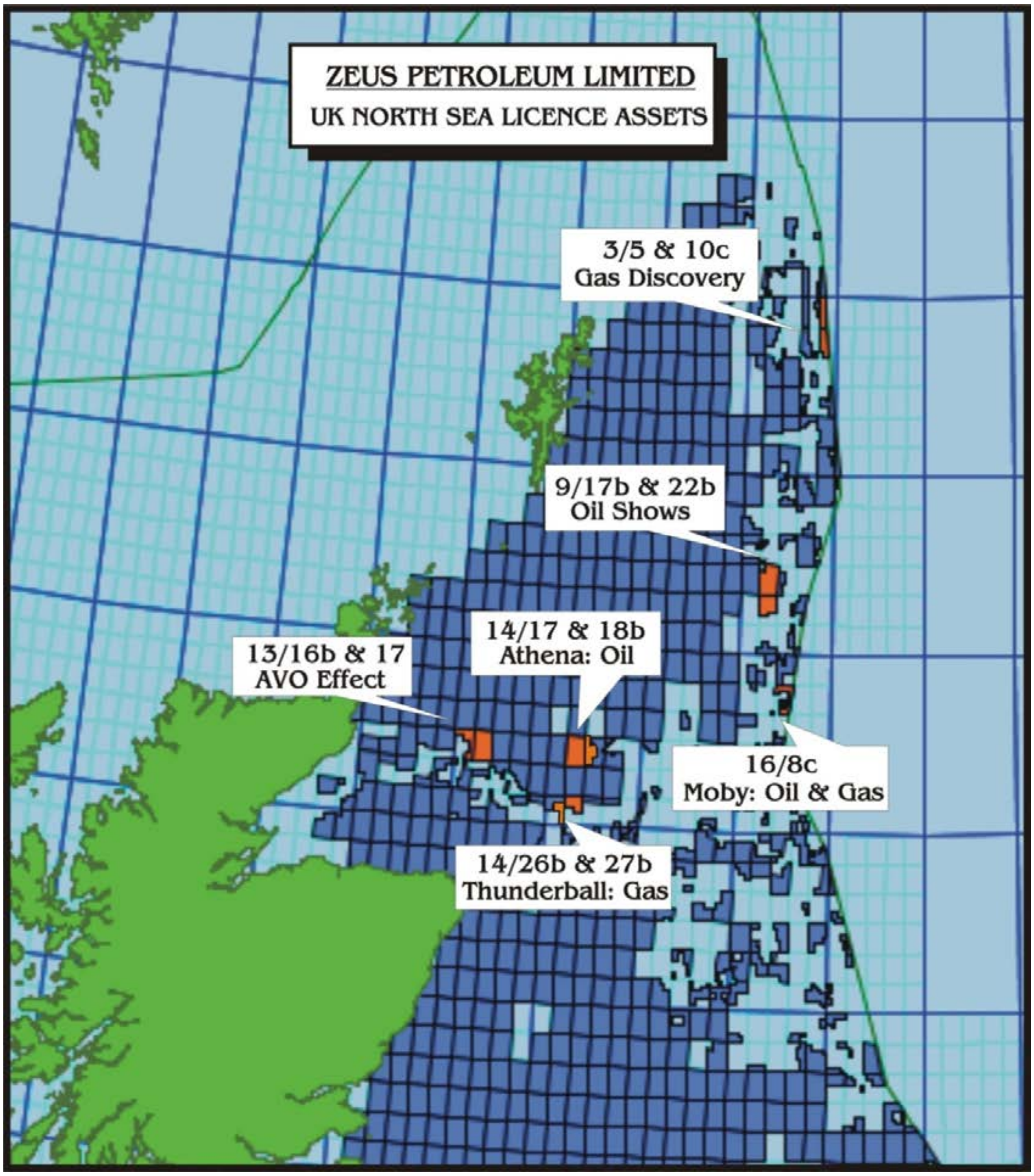
Zeus is a 100% owned subsidiary of Lochard Energy UK Limited which is a 100% owned subsidiary of Lochard Energy Group PLC.

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 exciting 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.

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

Operational Overview (continued)



Map of Zeus North Sea Licence Blocks

Operational Overview (continued)

Production Asset

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. 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, with further wells to be considered after twelve months of production. The Field commenced production in May 2012. Operator Ithaca reported initial gross production flow rates of 22,000 bopd, however, on 25 June, Ithaca announced that the field was producing at a gross rate of approximately 12,000 bopd in light of a suspected blockage in the production tubing of the P1 well. The field is currently producing at a daily rate generally averaging between 10-11,000 bopd (1,000-1,100 bopd net to Lochard), with the field continuing to produce dry oil.

The lower than expected field production rate has been mainly caused by mechanical problems with P1 and, to a lesser extent, lower than expected production from P2. The former appears to be suffering from plugging, where flow is restricted, probably through the downhole equipment. Various remedial operations have been deployed to remove the restriction and production from the well has been increased from 400 bopd to more than 700 bopd. P2 has lower than expected production capacity possibly due to localised, natural reservoir characteristics at the well. The operator has now completed an assessment of the benefits of performing a rig based workover to improve short term production capacity from well P1. It has been agreed amongst the field partners that based on the limited reservoir history available such a repair may not result in any significant reserves or value improvement and the expense cannot presently be justified..

The emphasis should now be on gaining more and better reservoir performance before evaluating in due course whether a second stage of development is commercially beneficial. Another two well slots are available to extend the production drainage locations within the reservoir and, possibly, to optimize the locations of water injection wells, thereby optimizing the ultimate oil recovery from the field.

The operational problems resulting in reduced production levels do not necessarily have any bearing on the ultimate amount of oil reserves that may be recovered. Reservoir performance over the next year or so will give greater insight into the main reservoir characteristics which will determine reserves and further development options to optimise field recovery. The Scapa Field, which may be the closest analogy to Athena has seen significant reserve upgrades as production has progressed.

The Proven + Probable (2P) reserve base at Athena, as evaluated by Sproule Associates recently, was determined at 26.10 mmbbl gross (2.61 mmbbl net to Lochard), but this may require investment in due course in at least one more well.

Lochard and Sproule both see reserve potential in additional areas to the north and south of the current producing wells, but this can only be confirmed after a sustained period of oil production and an analysis of the associated oil and water production data. The Field Development Plan calls for a review of field performance after about one year of production on the basis of which, if the field partners conclude that further investment is commercially justified, proposals would be put forward to the UK Government to optimise production and recoverable reserves from the field. In view of the lower than expected production rates from the field, the time required to make an informed judgement may now be extended beyond one year. Lochard believes there is scope for additional reserves based on its own and the Sproule independent evaluation of the Athena geological model.

Zeus Licence interests as at 30 June 2012

LICENCE P1293 (Block 14/18b) Athena, Zeus 10%; Sproule CPR Reserves

Reserve Category	Athena Reserves (Gross 100%) MMstb	Athena Reserves (Net to Zeus) MMstb
Proved + Probable (2P)	26.1	2.61
Proved + Probable + Possible (3P)	44.7	4.47

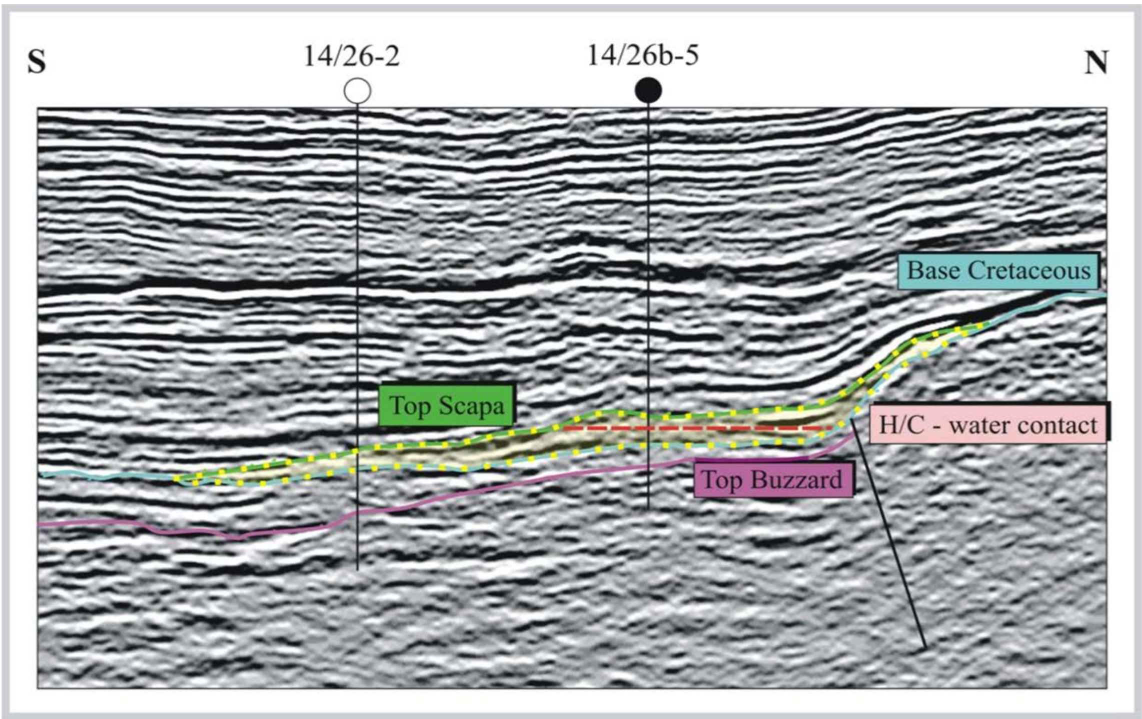
Operational Overview **(continued)**

Appraisal Blocks

1. 14/26b 'Thunderball'

Thunderball is a predominantly dry gas discovery requiring appraisal drilling prior to evaluating commercial viability. 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. New seismic data has significantly improved the understanding of the discovery which can now be mapped with some confidence 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. Block 14/27b was acquired in the 26th licensing round to protect any further upside.

There is also a further exploration target for oil located immediately below the gas-bearing horizon in the Jurassic Buzzard sands.
In-house prospective resources range (minimum-mid-maximum cases) – all recoverable
(Thunderball): 118-311-425 BCF.gas (mid prospective resources c.50% on block)
(Buzzard): 11-74-148 MMBBL.oil (mid prospective resources c.90% on block)



New North to South Seismic line over the 14/26b-5 Thunderball discovery well

Operational Overview (continued)

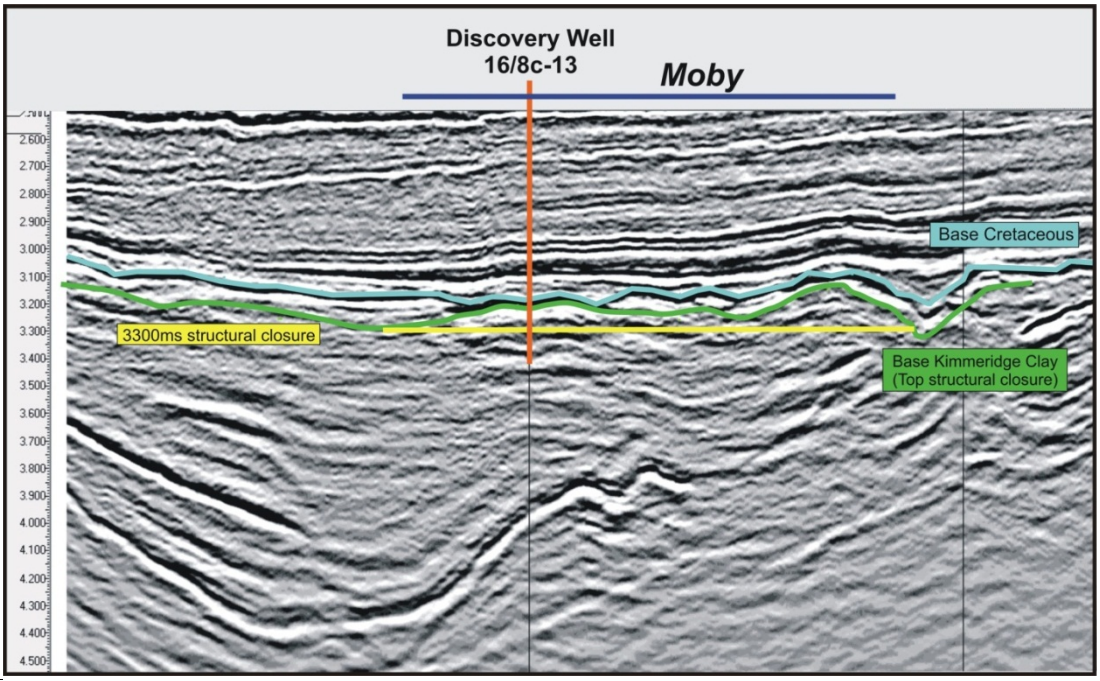
2. 16/8c 'Moby'

Moby is a light oil and gas discovery in high quality Miller Sands close to the Miller and Brae infrastructure. 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 at a depth of about 3,300 metres. 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.

A new simplified but robust structure has been mapped by Zeus for the Moby accumulation, utilizing the latest seismic data supplied by our partner PGS. This has revealed the possibility of increased field area and higher resource potential. Stand alone development may be viable but there may be greater potential for a development integrated with development from other small fields nearby. Further appraisal drilling is required and this would involve substantial investment. A funding partner will be required to meet this cost and to operate the well - a joint dataroom for this asset will be opening shortly with partner PGS.

In-house prospective resources range (minimum-mid-maximum cases) – all recoverable
(Moby): 17-57-86 MMBBL plus 22-125-422 BCF (mid prospective resources c.80% on block)



New NW to SE Seismic line over the 16/8c-13 Moby discovery well

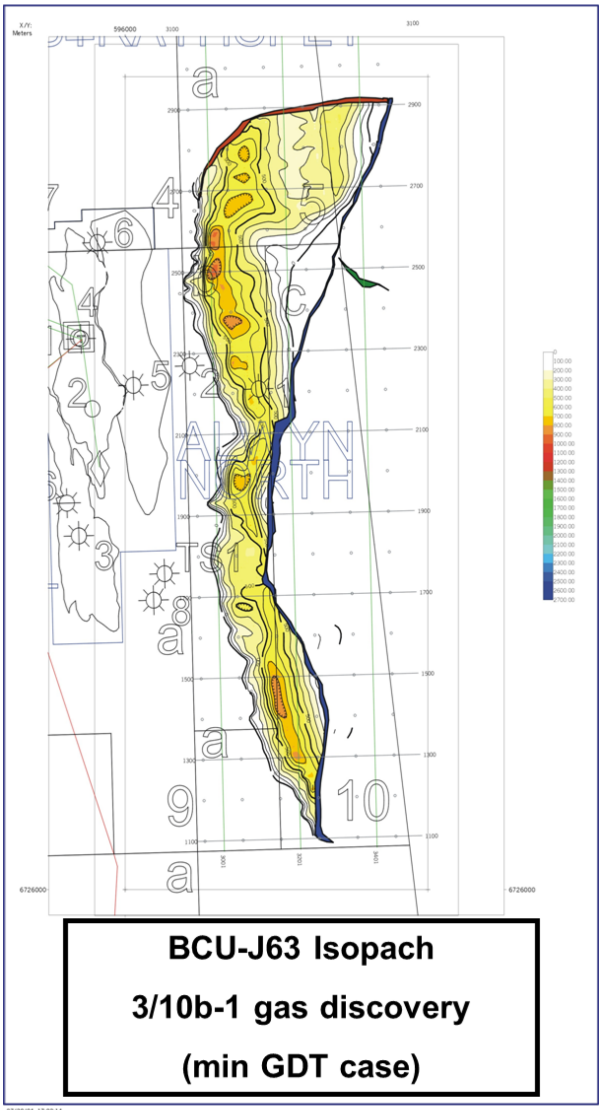
Operational Overview (continued)

3. 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. Both blocks are located adjacent to the Alwyn Fields and facilities which are operated by Total.

Zeus has carried out scoping studies to see if modern drilling and engineering techniques could potentially increase flowrates to commercial levels – but with little encouragement. However current focus on the block is centred on the shallower Tertiary sand potential which is looking positive and may yield significant potential. Zeus intends to seek to continue the licence until 2015 with the consent of the UK Department for Energy and Climate Change.

In-house prospective resources range (minimum-mid-maximum cases) – all recoverable
(3/10b-1): 480-1057-2196 BCF. (mid case c.95% on block)



Thickness Map of 3/10b-1 gas discovery

Operational Overview (continued)

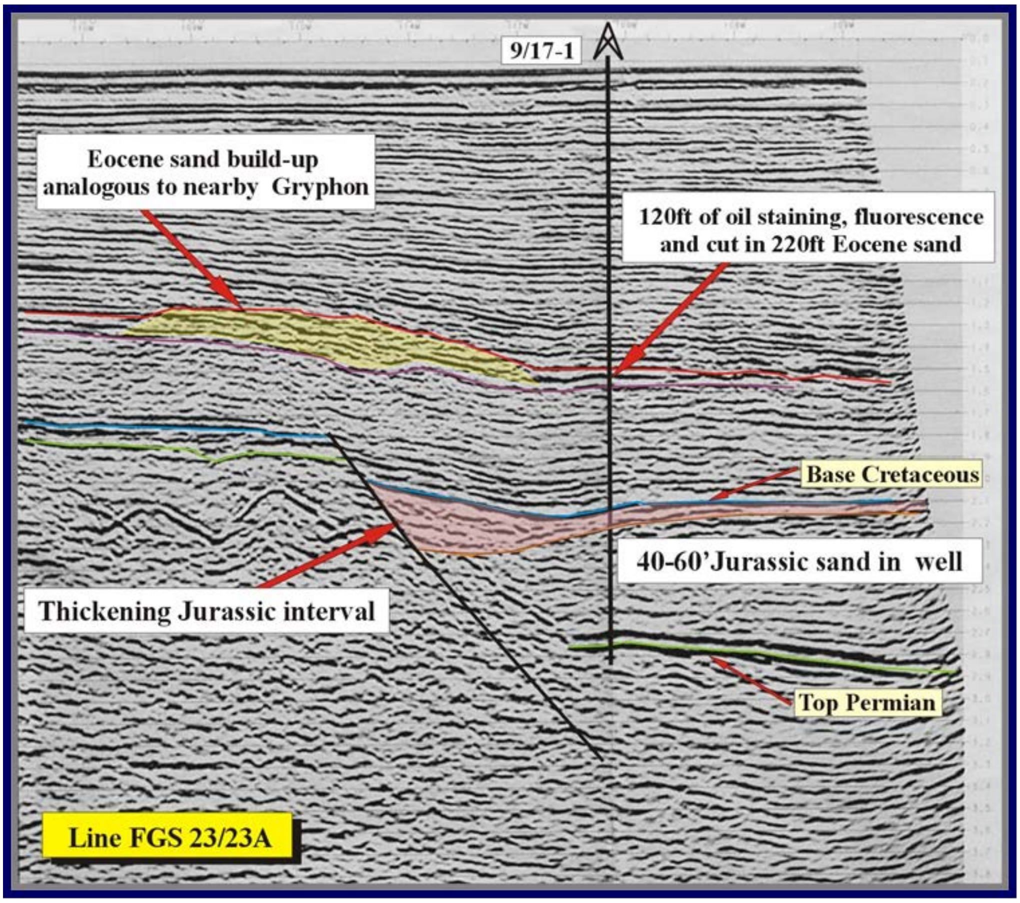
Exploration Blocks

1. 9/17b & 22b

Quintana drilled well 9/17-1 in 1972, which encountered a 220ft thick Tertiary Balder sand from 4280-4500ftmd with excellent reservoir properties and hydrocarbon shows (brown oil stain, white-fair yellow live oil fluorescence and fast cut with yellow cut fluorescence) over the upper 120ft. An eight-fold increase in gas levels was also recorded while drilling which is also usually a positive sign of live hydrocarbons. 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.

Lochard thinks that it is very likely that the well is an 'unrecognized oil' discovery. Zeus intends to shoot new 3D seismic over the blocks in conjunction with its partner PGS - in late 2012/early 2013 - and to seek to continue the licence until 2015 with the consent of the UK Department for Energy and Climate Change. As evaluation of this block is still 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.



West to East 2d Seismic line over the 9/17-1 well

Operational Overview (continued)

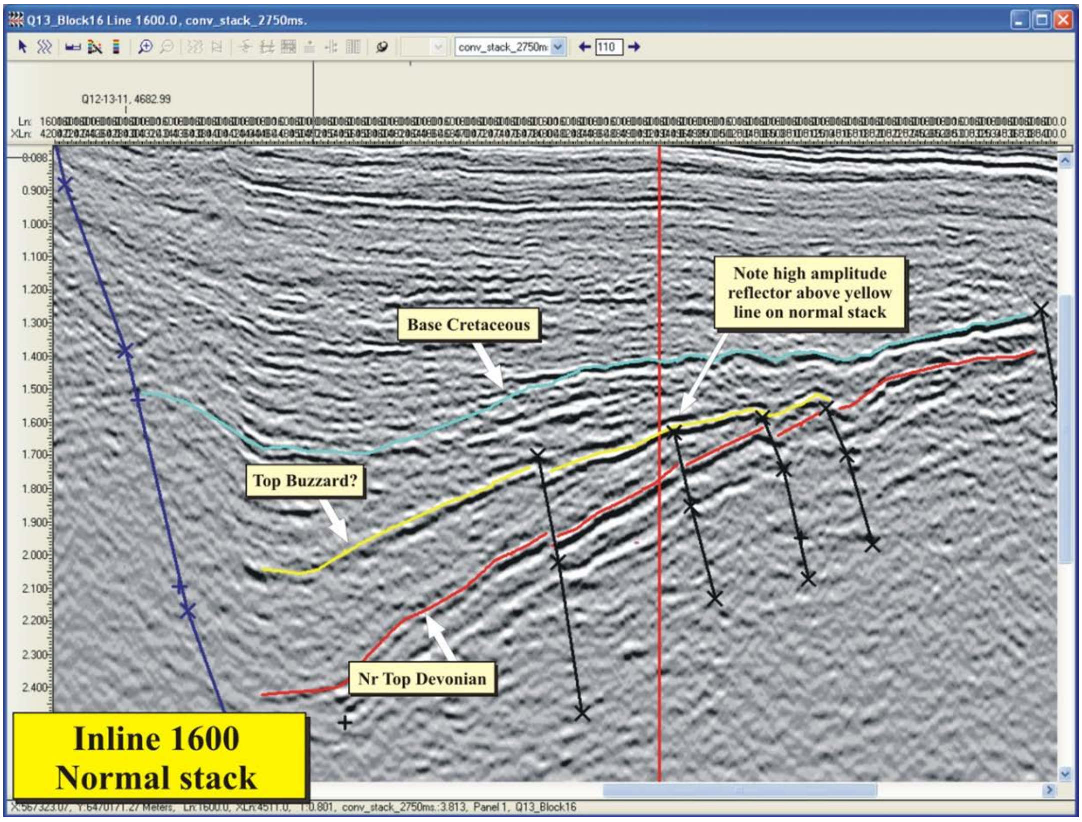
2. 13/16b & 17

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 may be a potential direct hydrocarbon indicator.

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.

Recent mapping - based on all seismic datasets in the area - has upgraded the reserve potential of this large exploration play.

In-house prospective resources range (minimum-mid-maximum cases) – all recoverable.
(Jurassic): 65-410-1111 MMBBL. (mid prospective resources c. 85% on block)
(Cretaceous): 16-140-1135 MMBBL (mid prospective resources 100% on block)



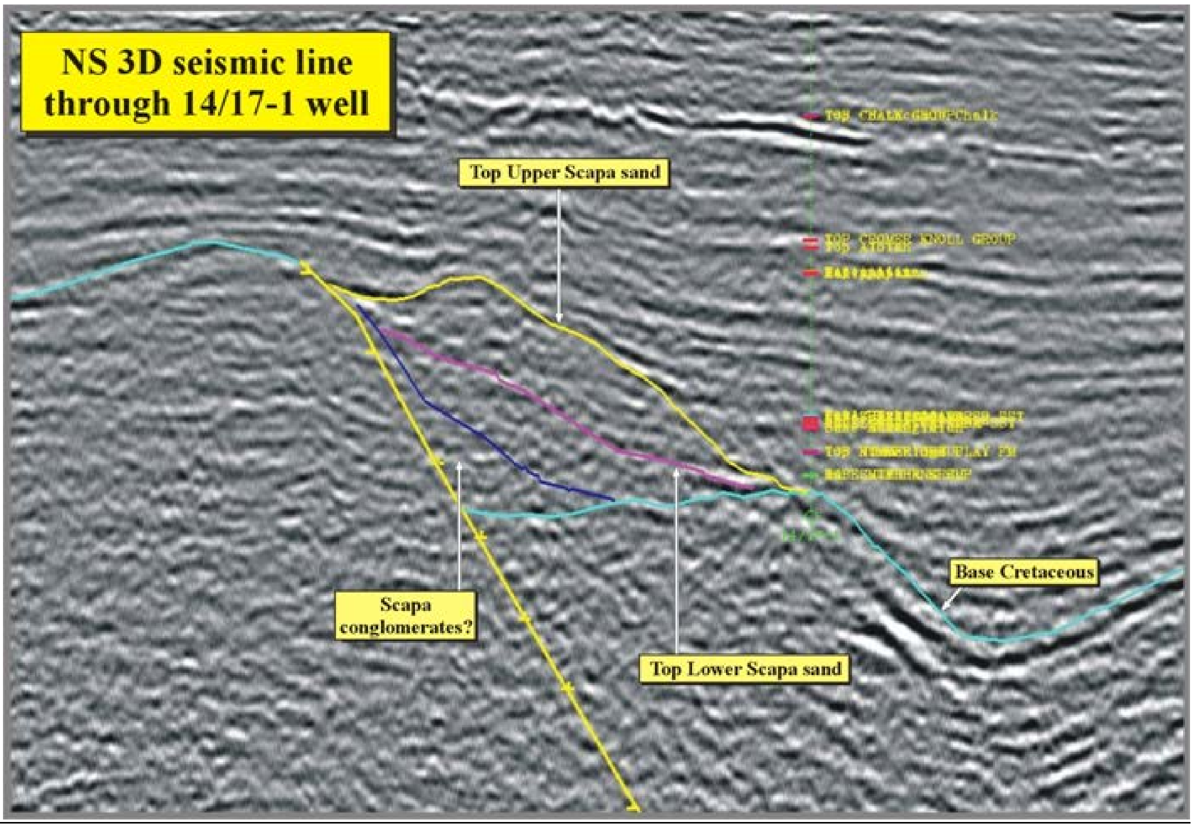
West to East Seismic line over the Buzzard Sandstone Prospect located in the south of 13/16b & 13/17 blocks

Operational Overview **(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 the immediate work programme will concentrate on mapping newly acquired 3d seismic data recently received from partner PGS which should help to identify additional seismic packages similar to those seen in the Athena and Scapa fields.

As evaluation is still 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 15-30mmbbl 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. New seismic has shown this not to be the case so this block will likely be relinquished in early 2013.

Operational Overview **(continued)**

OUTLOOK

The Athena field finally came on stream with first oil in May 2012, which was a very significant event for the Company. This is our first offshore oilfield development and was originated in-house by our current technical team. Although production has not been what was initially expected from Athena, current rates are still delivering more than 1,000 bopd net to the Company and Lochard does not believe that reserve potential has been affected by these early production restrictions. Lochard is hopeful that production performance over the next year or two will confirm reserve potential closer to the independent Sproule estimates, which are based on a less conservative view of the field from that presented in the Field Development Plan.

The start of production from Athena provides Lochard with a stream of cash flow which will increase as various short term liabilities are settled. Further development potential may be identified and agreed in the next two years.

Peter Kingston, Non-executive Director
20 September 2012

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.

Clive Carver, FCA, MCT

Non-Executive Chairman (51)

Mr Carver is a Fellow of the Institute of Chartered Accountants in England and Wales and is a qualified corporate treasurer. Between 1986 and 2011 he worked in the City of London, initially in investment banking with Kleinwort Benson and Price Waterhouse Corporate Finance, and latterly for a number of corporate stockbrokers, including Williams de Broe where he was head of Corporate Finance and Corporate Sales and finnCap where he was one of the founding team and a main board director and Head of Corporate Finance. Mr. Carver is Chairman of Roxi Petroleum plc, an AIM listed oil and gas exploration and production company operating in Kazakhstan. Mr Carver was appointed on 18 April 2012 as Non-Executive Chairman and also Chairs the Remuneration Committee.

Michael Rose, B Sci (Geology/Chemistry)

Non-executive Director (54)

Mr Rose is a geologist who has held a number of technical and managerial positions in over 30 years of 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 is a Director of oil & gas company Aimwell Energy Limited. Mr Rose was appointed as a director on 1 February 2007..

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

Non-executive Director (57)

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. Mr Youd was initially appointed to the board on 5 June 2009, removed on 29 February 2012 and re-appointed on 18 April 2012.

James Brooke, CA.

Non-executive Director (40)

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 joined the Board as a representative of Henderson and was appointed on the 14th December 2010 and serves on the Remuneration Committee and the Audit Committee. During this financial year he was removed on 29 February 2012 and re-appointed on 18 April 2012.

Board of directors *(continued)*

Peter Kingston, (BA (Hon) Oxford).

Non-executive Director (69)

Mr Kingston has been directly engaged in the strategic development of oil companies for 27 years. Most recently, he has been Deputy Chairman and Senior Independent Director of SOCO International plc between 1997 and June 2011, being Chairman of the Audit and Remuneration Committees. He has also been Executive Chairman of Tower Resources plc, an AIM listed oil and gas exploration company from 2006 until the end of March 2012. He is a consultant in the field of environmental and social management and hold memberships with the Society of Petroleum Engineers and the Institute of Directors. Mr Kingston was appointed on 18 April 2012 and serves on the Remuneration Committee and the Audit Committee.

Haydn L Gardner, B App Sci (Chemistry)

Managing Director (51)

Mr Gardner was removed from the board by a shareholder resolution on 13 April 2012.

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

Executive Director (51)

Mr McCrabb was removed from the board by a shareholder resolution on 13 April 2012.

Company Secretary

Nerida Schmidt was appointed to the position of company secretary of Lochard Energy Group Plc on 29 May 2012. She has been a Certified Practising Accountant for over 20 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 2012 and the auditor's report thereon.

Results and Dividends

The Group result for the year was a loss of A$8.120 million *(30 June 2011: profit of A$7.323 million)*.

No final dividend has been declared or recommended as at 30 June 2012 or as at the date of this report (*2011: A$nil).*

No interim dividends have been paid (*2011: A$nil*).

Principal Activities

The principal activities during the year of the Group were the participation in oil & gas assets including trading and investments.

A more detailed review of the business can be found in the Operational Overview commencing on page 1.

Outlook

This is discussed in the Chairman's Statement.

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 by contracting with the majority of vendors in $US. All product sales are contracted in $US.

Liquidity Risk

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

Credit Risk

There is minimal credit risk for the Company or the Group.

Directors' report *(continued)*

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 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 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 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

The 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 Group's operations make it subject to further foreign currency fluctuations and such fluctuations may materially affect the 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 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 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 Group and key employees.

Environmental and Other Requirements

The 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 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 Group. There can be no assurance all permits which the 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 Group might undertake. Although the 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 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 Group's business is dependent on retaining the services of its Directors, senior management and other key personnel and consultants. Whilst the Board has sought to and will continue to ensure the Directors and any key employees and consultants are appropriately incentivised, their services cannot be guaranteed. The Group has a small management team and the loss of any Director, key employee or consultant 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

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 may seek acquisitions that they believe 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

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 2012	30 June 2011
C. Carver	-	-
M. Rose	3,781,570[1]	3,781,570[1]
P.R. Youd	40,000[2]	-
J. Brooke	86,651,883[3]	62,190,075[3]
P. Kingston	-	-
H.L. Gardner (Removed 13 April 2012)	-	16,428,422[4]
L.C. McCrabb (Removed 13 April 2012)	-	-

1. 1,000,000 of these shares are held by Mr Rose's wife, Mrs Tracey Rose. The balance are held directly by Mr Rose.
2. These shares are held by Mr Youd's wife, Mrs Terri Youd.
3. Mr Brooke is an employee of Henderson Global Investors ("Henderson"). Funds managed by Henderson have an interest in ordinary shares of the Company as shown above.
4. 16,428,421 of these shares are held by Gardner Marketing Pty Ltd as trustee for the Gardner Family Trust. Mr Gardner is a director of Gardner Marketing Pty Ltd. The balance is held directly by Mr Gardner.

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 28.

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 52 days *(2011: 44 days).*

Political and Charitable Donations

The Group made no political nor charitable donations during the year *(2011: 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 will continue to make resources available to operate in a safe and environmentally responsible manner.

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)*

Events since the balance sheet date

There are no known subsequent events of a material nature other than the following:

On 3 September 2012 Lochard announced that the Board had unanimously decided to initiate a formal sale process for the entire issued and to be issued share capital of the Company. The Company will conduct the formal sale process through its adviser, CIBC. Interested parties will be required to enter into a non-disclosure agreement with the Company on reasonable terms satisfactory to the Board and on the same terms, in all material respects, as the other interested parties, before being permitted to participate in the process. The Company then intends to provide all participants who have entered into such non-disclosure agreements with access to a dataroom and other relevant information with which to evaluate making an offer.

Substantial Shareholdings

As at 13 July 2012 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	**86,651,883**	28.99
Merchant Securities	**21,614,120**	7.23
R J Barby Esq	**19,880,671**	6.65
Gardner Marketing Pty Ltd	**16,428,421**	5.50
Seren Capital Management	**15,348,500**	5.14
SVM Asset Management	**10,491,194**	3.51

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 appoint BDO LLP 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

Clive Carver

Clive Carver
Non executive Chairman

20 September 2012

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 five 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 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.

Board Meetings

The Directors held 25 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 while in office	No. of meetings attended
C.N. Carver (appointed 18 April 2012)	**9**	**9**
M. Rose	**25**	**24**
P.R. Youd (removed on 29 February 2012 and re-appointed on 18 April 2012)	**22**	**18**
J. Brooke (removed on 29 February 2012 and re-appointed on 18 April 2012)	**22**	**19**
P. Kingston (appointed 18 April 2012)	**9**	**9**
H.L. Gardner (removed 13 April 2012)	**16**	**16**
L.C. McCrabb (removed 13 April 2012)	**16**	**16**

In addition, 4 circular resolutions were signed by the Board.

Monitoring of senior executive's performance

It is the policy of the Board to conduct an evaluation of the performance of senior executives annually. An evaluation of the senior executives took place in 2012 in line with this process.

Corporate governance statement *(continued)*

Principle 2 – Structure the board to add value

Composition of the Board

The Board is comprised of five non-executive directors.

Name	Role	Non-executive	Independent
C.N. Carver	Non-Executive Chairman since 18 April 2012	Yes	Yes
M. Rose	Non-executive director since 2007	Yes	No
P.R. Youd	Non-executive director since 2009, removed on 29 February 2012 and re-appointed on 18 April 2012	Yes	Yes
J. Brooke	Non-executive director since December 2010, removed on 29 February 2012 and re-appointed on 18 April 2012	Yes	No
P. Kingston	Non-Executive Director since 18 April 2012	Yes	Yes
H.L. Gardner	Removed by shareholder resolution 13 April 2012	No	No
L.C. McCrabb	Removed by shareholder resolution 13 April 2012	No	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 has a majority of independent directors and 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. The skills and expertise of Directors is disclosed on pages 11 and 12.

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 Chairman prior to incurring any expense on behalf of the Company.

All Directors have direct access to the Company Secretary.

Monitoring of the Board's performance

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 Chairman. Directors whose performance is unsatisfactory are asked to retire. An evaluation of the Directors took place in 2012 in line with this process.

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.

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' meetings.

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 has adopted a Code of Conduct which is available on the Group's website.

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.

Diversity Policy

The Company has established a Diversity Policy, which includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress towards achieving them. A summary of the Company's Diversity Policy is available on the Company's website. The Board has set measurable objectives for achieving gender diversity.

The proportion of women employees and consultants in the whole organisation, women in senior executive positions and women on the Board are set out in the following table:

	Proportion of women
Whole organisation	2 out of 7 (28%)
Senior Executive positions	2 out of 7 (28%)
Board	0 out of 5 (0%)

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 three non-executive directors James Brooke and Peter Kingston and is chaired by Peter Youd. Earlier in the year it was comprised of Mike Rose and Peter Youd with Peter Youd as Chairman. 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.

Corporate Governance Statement *(continued)*

The Audit Committee held two meetings 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 while in office	No. of meetings attended
M. Rose	**2**	**2**
P.R Youd	**2**	**2**

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 Chairman 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 Company aims to ensure the Chair 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.

Corporate Governance Statement *(continued)*

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.

Management has documented the risk management and internal control system to manage the Company's material business risks and has reported to the Board that those risks are being managed effectively. Management has also assured the Board that the Group maintains a sound system of internal financial controls, including suitable monitoring procedures and that the system is operating effectively in all material respects in relation to financial reporting tasks.

Principle 8 – Remunerate fairly and responsibly

Remuneration Committee

The Remuneration Committee is formally constituted with written terms of reference. The Committee is comprised of three non-executive directors James Brooke and Peter Kingston and is chaired by Clive Carver. Earlier in the year it was comprised of Mike Rose and Peter Youd with Mike Rose as Chairman. 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 27.

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

Name	**No. of meetings while in office**	**No. of meetings attended**
C. Carver	**1**	**1**
M. Rose	**1**	**1**
P.R. Youd	**1**	**1**
J. Brooke	**1**	**1**
P. Kingston	**1**	**1**

Non-Executive Directors receive fees which are determined by the Board within the aggregate limit set by the shareholders at a General Meeting. All Non-Executive Directors will receive remuneration by way of fees and receive no retirement benefits excluding statutory superannuation, if applicable.

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 subject to the provisions of the UK City Code on Takeovers and Mergers. Additionally, 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 three non-executive directors. The Committee is chaired by Clive Carver.

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

There are no executive Directors at the time of this report. The components of the executive directors' remuneration packages of executive Directors that have been terminated in this financial year were a basic salary, superannuation/pension contribution and a motor vehicle. The basic remuneration was reviewed annually. The Group does not pay bonuses.

Share options

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

Pensions

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

Directors' Remuneration (audited)

30 June 2012	Salary and fees A$ 000's	Other monetary benefits A$ 000's	Termin-ation 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 %
C.N. Carver	13	-	-	-	-	-	13	-	-
M Rose	56	-	-	-	-	-	56	-	-
P.R. Youd	35	-	-	-	-	-	35	-	-
J.D. Brooke	8	-	-	-	-	-	8	-	-
P Kingston	5	-	-	-	-	-	5	-	-
H.L. Gardner (i)	366	-	1,219	-	41	-	1,626	-	-
L.C. McCrabb (i)	97	-	47	11	-	-	155	-	-
	580	-	1,266	11	41	-	1,898	-	-
30 June 2011									
H.L. Gardner (i)	416	18	-	-	14	13	461	1,500	2.9
C.R. McGuckin (ii)	352	-	1,159	15	12	13	1,551	1,500	0.8
L.C. McCrabb	149	-	-	28	-	4	181	500	2.4
M Rose	41	-	-	-	-	2	43	250	5.1
P.R. Youd	41	-	-	-	-	-	41	-	-
J.D. Brooke	-	-	-	-	-	-	-	-	-
	999	18	1,159	43	26	32	2,277	3,750	1.4

(i) Removed by shareholder resolution on 13 April 2012
(ii) Resigned 5 May 2011

No amount of the Director's remuneration for the years ended 30 June 2012 and 30 June 2011 was performance related.

Directors' remuneration report *(continued)*

Other monetary benefits included:

(i) A motor vehicle allowance.

(ii) Payment of long service leave.

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

Non-Executive Directors receive fees which are determined by the Board within the aggregate limit set by the shareholders at a General Meeting. All Non-Executive Directors will receive remuneration by way of fees and receive no retirement benefits excluding statutory superannuation, if applicable.

Director Share Options (audited)

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 2012 was 7.13p *(2011: 11.65p)* and the high and low share prices during the year were 16.38p and 7.13p 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 2012					
M Rose	22-10-2007	250,000	-	250,000	16.5p
		250,000	-	250,000	
30 June 2011					
M Rose	22-10-2007	250,000	-	250,000	16.5p
		250,000	-	250,000	

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.

Directors' remuneration report *(continued)*

Service Contracts

Service contracts have been entered into with non executive directors as follows:

- Peter Kingston & Associates Limited and Mr Peter Kingston dated 29 August 2012 for the services provided by Peter Kingston as non executive director of Lochard Energy Group Plc and as a director and Chief Operating Officer of Zeus Petroleum Limited ("Zeus"). The agreement may be terminated by one month's notice in writing by Mr Kingston or by the Company, notwithstanding that the Company may terminate without liability by summary notice in the case of serious or repeated breach or non-observance of obligations to the Company or Zeus, fraud or dishonesty, bankruptcy or similar, disqualification from acting as a director, or resignation from the board of Zeus without agreement. The agreement terminates automatically in the case where Mr Kingston is not re-elected or resigns as a director of the Company. The agreement provides that Mr Kingston receives £12,000 per annum for services as a director of the Company and Zeus and £15,000 per annum in respect of other services provided under the agreement. In addition, Mr Kingston is paid a daily rate of £1,000 exclusive of VAT in relation to any work undertaken in excess of 3 calendar days per month. On termination Mr Kingston is only entitled to accrued fees as at the date of termination and reimbursement of any expenses properly incurred prior to that date.
- ELK Associates LLP and Mr Clive Carver dated 17 April 2012 for the services provided by Clive Carver as non executive chairman of Lochard Energy Group Plc and as director of Lochard Energy Limited and Zeus Petroleum Limited. The agreement may be terminated by one month's notice in writing by Mr Carver or by the Company, notwithstanding that the Company may terminate without liability by summary notice in the case of serious or repeated breach or non-observance of obligations to the Company, fraud or dishonesty, bankruptcy or similar or disqualification from acting as a director. The agreement terminates automatically in the case where Mr Carver is not re-elected or resigns as a director of the Company. The agreement provides that Mr Carver receives £40,000 per annum for services as a director of the Company. In addition, Mr Carver is paid a daily rate of £1,000 exclusive of VAT in relation to any work undertaken in excess of 4 calendar days per month. On termination Mr Carver is only entitled to accrued fees as at the date of termination and reimbursement of any expenses properly incurred prior to that date.
- Mr Peter Youd dated 18 April 2012 for the services provided by Peter Youd as non executive director of Lochard Energy Group Plc. The agreement may be terminated by one month's notice in writing by Mr Youd or by the Company, notwithstanding that the Company may terminate without liability by summary notice in the case of serious or repeated breach or non-observance of obligations to the Company, fraud or dishonesty, bankruptcy or similar or disqualification from acting as a director. The agreement terminates automatically in the case where Mr Youd is not re-elected or resigns as a director of the Company. The agreement provides that Mr Youd receives A$42,000 per annum for services as a director of the Company. In addition, Mr Youd is paid a daily rate of A$2,000 exclusive of VAT in relation to any work undertaken in excess of 3 calendar days per week. On termination Mr Youd is only entitled to accrued fees as at the date of termination and reimbursement of any expenses properly incurred prior to that date.
- Mr Jamie Brooke has been provided with a Letter of Appointment dated 17 June 2012 which provides that in consideration of him acting as a non executive director of the Company effective 18 April 2012 his employer, Henderson Global Investors ("Henderson") are to be paid £27,000 per annum. In addition, Henderson will be paid a daily rate of £1,000 exclusive of VAT in relation to any work undertaken in excess of 3 calendar days per month.
- Mr Mike Rose was provided with a Letter of Appointment dated 1 February 2007 which provided that in consideration of him acting as a non executive director of the Company effective 1 February 2007 he is to be paid A$32,500 per annum. The appointment may be terminated at any time in writing by Mr Rose or by the Company, notwithstanding that the appointment ceases automatically if Mr Rose ceases to be or is disqualified from acting as a director by virtue of the Articles of Association or by operation of law, bankruptcy or similar or absence for more than 6 months from board meetings without permission. The appointment may also be terminated at any time by a resolution of shareholders of the Company.

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.

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 2012 which comprises the group statement of financial position and company statement of financial position, the group statement of comprehensive income, the group statement of cash flows, the group statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 auditor's 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 statement of directors' responsibilities, 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 website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2012 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 matters 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.

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.

Scott Knight (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London

United Kingdom

20 September 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement
for the year ended 30 June 2012

	Note	**2012 A$ 000’s**	2011 A$ 000’s
Continuing operations			
Revenue on trading operations		**1,811**	20
Revenue		**1,811**	20
Cost of sale on trading operations		**(1,167)**	(28)
Depreciation and amortisation expense		**(1,013)**	(8)
Changes in inventory		**1,069**	-
Accretion expense		**(13)**	-
Cost of sales		**(1,124)**	(28)
Gross profit/(loss)		**687**	(8)
Other income		**49**	-
Administrative expenses	5(a)	**(14,374)**	(4,274)
Operating loss		**(13,638)**	(4,290)
Finance income	*5(b)*	**5,968**	110
Finance expense	*5(b)*	**(90)**	(198)
Loss before tax		**(7,760)**	(4,378)
Income tax (expense)/credit	*6*	**(360)**	74
Loss before discontinued operation for the financial year		**(8,120)**	(4,304)
Discontinued operation			
Profit from discontinued operation (net of income tax)	*4*	-	11,627
(Loss)/Profit for the financial year		**(8,120)**	7,323
Attributable to:			
Equity holders of the parent		**(8,120)**	7,331
Non-controlling interests		-	(8)
(Loss)/Profit for the financial year		**(8,120)**	7,323
Earnings per share			
Basic (loss)/profit per share (cents per share)	*7*	**(2.9)**	2.9
Diluted (loss)/profit per share (cents per share)	*7*	**(2.9)**	2.9

Consolidated statement of comprehensive income
for the year ended 30 June 2012

	2012 A$ 000's	2011 A$ 000's
(Loss)/Profit for the year	**(8,120)**	7,323
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**889**	(3,209)
Other comprehensive income for the year	**889**	(3,209)
Total comprehensive income for the year	**(7,231)**	4,114
Attributable to:		
Equity holders of the parent	**(7,231)**	4,122
Non-controlling interests	**-**	(8)
	(7,231)	4,114

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 2012

Group	Issued capital A$ 000's	Share premium account A$ 000's	Other equity A$ 000's	Share based payment reserve A$ 000's	Translation reserve A$ 000's	Accumulated losses A$ 000's	Total A$ 000's	Non-controlling interests A$ 000's	Total equity A$ 000's
1 July 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
Shares issued	3,624	1,419	-	-	-	-	5,043	-	5,043
Share issue costs	-	(387)	-	-	-	-	(387)	-	(387)
Profit/(loss) for the year	-	-	-	-	-	(8,120)	(8,120)	-	(8,120)
Translation adjustment for the year	-	-	-	-	889	-	889	-	889
30 June 2012	**32,732**	**33,067**	**(2,047)**	**886**	**(2,563)**	**(19,023)**	**43,052**	**-**	**43,052**

Statement of changes in equity

for the year ended 30 June 2012

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 2010	29,108	32,035	833	(26,546)	35,430
Share based payments	-	-	53	-	53
Loss for the year	-	-	-	15,684	15,684
30 June 2011	29,108	32,035	886	(10,862)	51,167
Shares issued	3,624	1,419	-	-	5,043
Share issue costs	-	(387)	-	-	(387)
Share based payments	-	-	-	-	-
Profit/(Loss) for the year		-	-	4,136	4,136
30 June 2012	**32,732**	**33,067**	**886**	**(6,726)**	**59,959**

Consolidated statement of financial position

at 30 June 2012

	Note	Consolidated 2012 A$ 000's	A$ 000's	Company 2011 A$ 000's	A$ 000's
Current assets					
Cash and cash equivalents	*8*	**9,534**	12,548	**9,527**	8,640
Trade and other receivables	*9*	**1,803**	14,595	**245**	14,822
Inventories	*10*	**1,086**	-	**-**	-
Interest bearing loans receivable	*14*	**-**	-	**56,029**	33,555
Prepayments		**21**	113	**21**	103
Total current assets		**12,444**	27,256	**65,822**	57,120
Non-current assets					
Investments	*11*	**-**	-	**-**	-
Oil and gas intangible assets	*12*	**-**	42,693	**-**	-
Property, plant and equipment	*13*	**64,394**	145	**17**	26
Other financial assets		**-**	-	**-**	-
Deferred tax assets	*6*	**170**	218	**170**	218
Other intangible assets and goodwill	*15*	**-**	-	**-**	-
Total non-current assets		**64,564**	43,056	**187**	244
Total assets		**77,008**	70,312	**66,009**	57,364
Liabilities					
Current liabilities					
Trade and other payables	*16*	**10,773**	2,208	**1,362**	242
Interest bearing loans and borrowings	*17*	**-**	-	-	-
Other financial liabilities	*18*	**11,768**	10,252	**-**	-
Income tax payable	*6*	**3,868**	1,442	**3,868**	1,442
Employee benefits	*19*	-	376	-	361
Provisions	*20*	**-**	113	**-**	-
Total current liabilities		**26,409**	14,391	**5,230**	2,045
Non-current liabilities					
Interest bearing loans and borrowings	*17*	**-**	-	-	-
Other financial liabilities	*18*	**5,005**	6,142	-	-
Employee benefits	*19*	**-**	-	-	-
Provisions	*20*	**1,722**	-	-	-
Deferred tax liabilities	*6*	**820**	4,152	**820**	4,152
Total Non-current liabilities		**7,547**	10,294	**820**	4,152
Total liabilities		**33,956**	24,685	**6,050**	6,197
Net assets		**43,052**	45,627	**59,959**	51,167
Equity					
Equity attributable to equity holders of the parent					
Issued capital	*21*	**32,732**	29,108	**32,732**	29,108
Share premium		**33,067**	32,035	**33,067**	32,035
Other equity	*23*	**(2,047)**	(2,047)	**-**	-
Other reserves	*23*	**(1,677)**	(2,566)	**886**	866
Accumulated losses	*23*	**(19,023)**	(10,903)	**(6,726)**	(10,862)
		43,052	45,627	**59,959**	51,167
Non-controlling interests		**-**	-	-	-
Total equity		**43,052**	45,627	**59,959**	51,167

These financial statements were approved by the Board of Directors on 20 September 2012 and were signed on its behalf by:

Clive Carver *Chairman*

Consolidated statement of cash flows

for the year ended 30 June 2012

	Note	**Consolidated**		Company	
		2012		2011	
		A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Profit/(loss) for the financial year		**(8,120)**	7,323	**4,136**	15,684
Adjustments for:					
Depreciation and amortisation of plant and equipment	*13*	**15**	676	**9**	2
Amortisation of development and abandonment costs	*12*	**998**	-	**-**	-
Accretion expense	*20*	**13**	-	**-**	-
Net unrealised foreign exchange losses/(gains)		**87**	147	**(2,650)**	213
Gain on sale of oil & gas assets		**(13)**	-	-	-
Impairment of loan to subsidiary company	*14*	**-**	-	-	2,772
Employee share option costs		**-**	53	-	53
Gain on settlement of debt		**(36)**	-	**(36)**	-
Settlement of legal dispute	*5(a)*	**8,718**	-	**-**	-
Net finance income	*5(b)*	**(5,968)**	(59)	**(5,471)**	(4,714)
Income tax expense/(credit)		**584**	(73)	**584**	(74)
Gain on sale of business, net of tax		-	(11,873)	-	(17,273)
		(3,722)	(3,806)	**(3,428)**	(3,337)
Changes in assets and liabilities:					
Decrease/(increase) in receivables		**(1,801)**	(399)	**(41)**	43
(Increase)/decrease in inventory		**(1,069)**	1,508	**-**	-
(Increase)/decrease in current tax assets		**-**	-	**-**	-
Decrease in prepayments		**91**	97	**82**	(24)
(Decrease)/increase in payables		**(707)**	(2,960)	**979**	(2,027)
Increase in provisions		**(376)**	141	**(361)**	(75)
		(3,862)	(1,613)	**659**	(2,803)
Interest paid		**-**	-	**-**	-
Income tax paid		**(1,302)**	-	**(1,302)**	-
		(1,302)	-	**(1,302)**	-
Net cash flows (used in)/from operating activities		**(8,886)**	(5,419)	**(4,071)**	(5,420)
Cash flows from investing activities					
Interest received		**90**	59	**90**	59
Dividend received		**-**	-	-	748
Payment of cash bonds		**-**	-	-	(28)
Proceeds from disposal of investment		**-**	-	-	23,998
Payment of subsidiary loans		**-**	-	-	(8,144)
Payments (receipts) of loan repayments		**-**	-	**(14,359)**	(3,723)
Development expenditure		**(15,744)**	(14,490)	-	-
Purchase of property, plant and equipment		**-**	(28)	-	-
Proceeds from the disposal of development expenditure		**330**	-	-	-
Disposal of drilling fluids business net of cash	*4*	**14,657**	23,998	**14,657**	-
Net cash flows used in (from) investment activities		**(667)**	9,539	**388**	12,910
Cash flow from financing activities					
Proceeds from issue of share capital		**5,043**	-	**5,043**	-
Cost of issue of share capital		**(388)**	-	**(388)**	-
Proceeds from borrowings		**1,969**	11,293	-	-
Repayment of borrowings		**-**	(8,270)	-	-
Payment of finance lease liabilities		**-**	(292)	-	-
Net cash flows (used in)/from financing activities		**6,624**	2,734	**4,655**	-
Net decrease in cash and cash equivalents		**(2,929)**	6,849	**972**	7,490
Cash and cash equivalents at beginning of the year		**12,548**	5,800	**8,640**	1,282
Effect of exchange rate fluctuations on cash held		**(85)**	(101)	**(85)**	(132)
Cash and cash equivalents at end of year		**9,534**	12,548	**9,527**	8,640

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 2012 were authorised for issue by the Board of Directors on 20 September 2012 and the Statements of financial positions were signed on the Board's behalf by Clive Cliver. Lochard Energy Group Plc is a public limited company incorporated in England and Wales and domiciled in Australia, it principal place of business is Suites 6 & 7, 61 Hampden Road, Nedlands, 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 principle accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRS").

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

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

All uncertainties noted in the financial statements for the year ended 30 June 2011 have now been resolved.

The Directors have prepared cash flow forecasts for the Group for the period to 30 September 2013 based on their assessment of the prospects of the Group's operations.

The cash flow forecasts are based upon estimates of future operating expenditure for and production from the Athena field and upon assumptions of future oil prices. They include a base case and also take into account possible adverse variances in trading conditions. Cash outflows includes settlement of litigation and repayments as required on the Gemini Loan and rely on the utilisation of the Henderson Drawdown facility.

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Basis of consolidation *(continued)*

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.

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 non-controlling shareholder's interest, without a change in control arising, the transaction affects equity only.

Jointly controlled assets

Jointly controlled assets are arrangements in which the Group holds an interest on a long term basis and which are jointly controlled by the Group and one or more co-venturers under a contractual arrangement. The Group's exploration, development and production activities are generally conducted jointly with other companies in this way. Since these arrangements do not constitute entities in their own right, the consolidated financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Group's interests.

Notes *(continued)*

1 Accounting policies *(continued)*

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 24 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 12 is A$64.377million at 30 June 2012 (*2011: A$42.693million*).

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 12.

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.

(iii) Sale of Oil and Gas

Revenue from the sales of oil and gas is recognised when the Group has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Group will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer. Where the buyer has a right of return, the Group defers recognition of revenue until the right to return has lapsed.

Oil and Gas Exploration Assets

The Group follows the "successful efforts" method of accounting for exploration and evaluation costs. All licence/project acquisitions, exploration, borrowing 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 except those that relate to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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 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.

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Goodwill *(continued)*

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

(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.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments and other financial assets *(continued)*

(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 2012 to foreign exchange risk, based on foreign exchange rates as at 30 June 2012 and sensitivity of +/-10%:

	30 June 2012 rate	-10% cents	+10% cents
A$/$US	101.59cents	91.43cents	117.49cents
£GBP /$A	65.07cents	58.56cents	71.58cents

2012	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 - USD	5	-	-
Cash at bank - GBP	127	14	(12)
Financial liabilities			
Trade and other payables - USD	8,956	995	(814)
Trade and other payables - GBP	936	104	(85)
Other financial liabilities - USD (see note 18)	16,773	1,864	(1,525)
Total increase/(decrease)		2,977	(2,436)

Notes *(continued)*

2 Financial risk management *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk (continued)

2011	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 - 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 18)	16,394	1,839	(1,476)
Total increase/(decrease)		3,114	(2,518)

Company

The Company does not have a material 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:

	2012 A$ 000's	2011 A$ 000's
Fixed rate instruments	**-**	-
Cash at bank	**9,534**	12,548
Variable rate instruments	**-**	-
	9,534	12,548

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 2012	**+100BP Profit or loss A$ 000's**	**-100BP Profit or loss A$ 000's**
Cash at bank	**(176)**	**176**

30 June 2011	+10.0% Profit or loss A$ 000's	-10.0% Profit or loss A$ 000's
Cash at bank	(125)	125

(iii) Commodity risk

Under the terms of the Gemini loan (see note 18) 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$511,189. If oil prices decrease by 10% the Group's payment will decrease by A$562,308.

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 2012, Directors (including director related entities) hold 30.3% of ordinary shares (2011: 8.1%).

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 parties who the directors believe are 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 2012, the Group had a significant credit risk exposure to the following:

	Group		**Company**	
	2012	2011	**2012**	2011
	A$ 000’s	A$ 000’s	**A$ 000’s**	A$ 000’s
Ageing of trade receivables at the reporting date was:				
Not past due	**1,803**	756	**14**	759
Past due 0-30 days	**-**	-	**-**	-
Past due 31-120 days	**-**	-	**231**	224
	1,803	756	**245**	983

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:

	2012 A$ 000's	2011 A$ 000's
Financing facilities available		
At reporting date, the following financing facilities were in place:		
- Loan note facility (refer note 17)	**4,610**	-
- Other financial facility (refer note 18)	**13,780**	13,214
	18,390	13,214
Facilities used at reporting date:		
- Loan note facility (refer note 17)	**-**	-
- Other financial facility (refer note 18)	**13,780**	11,326
Total facilities used at reporting date	**13,780**	11,326
Facilities unused at reporting date:		
- Loan note facility (refer note 17)	**4,610**	-
- Other financial facility (refer note 18)	**-**	1,888
Total facilities unused at reporting date	**4,610**	1,888

On 28 June 2012 the Board entered into a conditional £3 million (A$4.61 million) draw down facility ("Draw-Down Facility") with Henderson Global Investors ("Henderson") whereby 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. At the date of this report, no funds had been drawn down on the facility. Please refer note 17.

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

Notes *(continued)*

2 Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

Group

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 other financial liability is disclosed in note 18.

30 June 2012	**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 (refer note 16)	**10,773**	-	-	-
Other financial liability (refer note 18)	**17,029**	**8,255**	**7,182**	-
	27,802	**8,255**	**7,182**	-

Group

30 June 2011	**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 (refer note 16)	2,208	-	-	-
Other financial liability (refer note 18)	20,736	6,566	2,812	-
	22,944	6,566	2,812	-

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 2012** Carrying amount A$ 000's	**30 June 2012** Fair value A$ 000's	30 June 2011 Carrying amount A$ 000's	30 June 2011 Fair value A$ 000's
Assets carried at amortised cost					
Loans and receivables	9	**1,803**	**1,803**	14,595	14,595
Cash and cash equivalents	8	**9,534**	**9,534**	12,548	12,458
Inventories	10	**1,086**	**1,086**	-	-
		12,423	**12,423**	27,143	27,143
Liabilities carried at amortised cost					
Trade and other payables	16	**10,773**	**10,773**	2,208	2,208
Other financial liabilities	18	**16,773**	**16,773**	16,394	16,394
		27,546	**27,546**	18,602	18,602

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 is based on two principle activities being Oil & Gas Assets and Corporate Services. The comparative information includes the additional activity of the Drilling Fluid Operations which was sold 4 April 2011 (see note 4).

The information reported to the chief operating decision maker is focused on the two (*2011: three*) principle activities. A separate statement of comprehensive income is prepared for the two (*2011: three*) principle activities, being Oil and Gas Assets and Corporate Services (*2011: including Drilling Fluid Services)*, the two *(2011: 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:

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

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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	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	**1,811**	20	**-**	-	**1,811**	14,560
Inter-segment revenues	-	701	-	-	-	90	-	791
Total segment revenues							**1,811**	15,351
Eliminate Inter-segment sales							-	(791)
Drilling fluid business (discontinued)							-	(14,540)
Consolidated revenue							**1,811**	20
Profit / (loss)								
Operating profit/(loss)	-	1,057	**(9,347)**	(968)	**(3,608)**	(3,591)	**(12,955)**	(3,502)
Depreciation, depletion & amortization	-	(677)	**(1,004)**	(6)	**(9)**	(2)	**(1,013)**	(685)
Accretion	**-**	-	**(13)**	-	**-**	-	**(13)**	-
Net interest (expense)/income	-	(408)	**497**	(3,867)	**5,385**	4,714	**5,882**	439
Foreign exchange (losses)/gains	-	(297)	**(1)**	(8,128)	**2,728**	(176)	**2,727**	(8,601)
Income tax expense/(credits)	-	79	-	-	**(360)**	74	**(360)**	153
Segment profit / (loss)	-	(246)	**(9,868)**	(12,969)	**4,136**	1,019	**(5,732)**	(12,196)
Eliminate adjustments on consolidation							**(2,388)**	7,364
Drilling fluid business (discontinued)							**-**	454
Consolidated losses							**(8,120)**	(4,378)

Notes *(continued)*

3 Operating segments *(continued)*

Business Segment	Drilling fluid services (discontinued)		Oil and gas assets		Corporate services		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	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	**5,969**	1,535	**5,471**	4,714	**11,440**	6,284
Foreign exchange gains	**-**	89	**6**	-	**2,732**	-	**2,738**	89
Finance income	**-**	124	**5,975**	1,535	**8,203**	4,714	**14,178**	6,373
Eliminate adjustments on consolidation							**(8,210)**	(6,139)
Drilling fluid business (discontinued)							**-**	(124)
Consolidated finance income							**5,968**	110

Notes *(continued)*

3 Operating segments *(continued)*

Business Segment	Drilling fluid services (discontinued)		Oil and gas assets		Corporate services		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	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)	**(5,472)**	(5,582)	**-**	(22)	**(5,472)**	(6,046)
Foreign exchange (losses)/gains	**-**	(386)	**(7)**	(8,128)	**(89)**	(176)	**(96)**	(8,690)
Finance expense	**-**	(828)	**(5,479)**	(13,710)	**(89)**	(198)	**(5,568)**	(14,736)
Eliminate adjustments on consolidation							**5,478**	13,710
Drilling fluid business (discontinued)							**-**	828
Consolidated finance expense							**(90)**	(198)
Income tax (credit)/expense	**-**	79	**-**	-	**(360)**	74	**(360)**	153
Drilling fluid business (discontinued)							**-**	(79)
Consolidated income tax (credit)/expense							**(360)**	74
Depreciation, depletion and amortization expense	**-**	(678)	**(1,004)**	(6)	**(9)**	(2)	**(1,013)**	(686)
Impairment of plant and equipment	**-**	-	**-**	-	**-**	-	**-**	-
Impairment of oil and gas assets	**-**	-	**-**	-	**-**	-	**-**	-
Drilling fluid business (discontinued)							**-**	-
Consolidated Depreciation and impairment expense							**(1,013)**	(198)
Segment assets	**-**	-	**84,481**	57,991	**66,009**	49,488	**150,490**	107,479
Eliminate adjustments on consolidation							**(73,482)**	(37,167)
Total consolidated assets							**77,008**	70,312
Segment liabilities	**-**	-	**(139,233)**	(106,296)	**(6,050)**	(6,196)	**(145,283)**	(112,492)
Eliminate adjustments on consolidation							**111,327**	87,807
Total consolidated liabilities							**(33,956)**	(24,685)

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.

	2012		2011	
Geographical segments	**Revenue**	**Total assets**	Revenue	Total assets
Australia	**-**	**66,009**	11,225	49,488
New Zealand	-	-	2,032	-
India	-	-	2,075	-
Indonesia	-	-	-	-
United Kingdom	**1,760**	**84,481**	-	57,556
United States of America	**51**	-	20	435
	1,811	**150,490**	15,352	107,479
Eliminate adjustments on consolidation	-	**(73,482)**	(791)	(37,167)
Oil & Gas Assets / Drilling fluid business (discontinued)	-	-	(14,541)	-
Total	**1,811**	**77,008**	20	70,312

Major customer

Revenues were from one major customer of the Oil & Gas segment representing $1.76million of the Group's total revenues *(2011 : one customer of the Drilling fluids segment representing $6.427million of the Group's total revenues).*

Notes *(continued)*

4 Discontinued operation

In April 2011 the Group sold its entire Drilling fluids segment. 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 was 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 was A$21.25 million. As at 30 June 2011 the Group has recognised contingent consideration of A$13.839 million. 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.

In June 2012 the Company successfully secured the additional $13.9 million deferred consideration. $2 million of this had been paid on account in September 2011 and the final $11.9 million was received in June 2012.

	2012	2011
	A$ 000's	A$ 000's
Results of discontinued operation		
Revenue	-	14,540
Expenses	-	(14,865)
Profit/(loss) from operating activities	-	(325)
Income tax	-	79
Profit/(loss) from operating activities, net of tax	-	(246)
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
Attributable to:		
Equity holders of the parent	-	11,635
Non controlling interest	-	(8)

Notes *(continued)*

4 Discontinued operation *(continued)*

In the prior year the loss from discontinued operation of A$0.246 million attributed A$0.238 million to the owners of the Group.

	2012	2011
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
Net cash used in financing activities	**-**	23,994
	-	(5,005)
Net cash flows for the year		
	-	20,882
Basic earnings per share (cents per share)		
Diluted earnings per share (cents per share)	**0.0**	0.0
	0.0	0.0

	A$ 000's	**A$ 000's**
Effect of disposal on the financial position of the Group		
Property, plant and equipment	-	**(8,114)**
Oil and Gas Assets	-	-
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 2012 A$ 000's	2011 A$ 000's
(a) Other administrative expenses			
Personnel expense (c)		**(1,915)**	(2,476)
Occupancy expense		**(62)**	(54)
Settlement of legal dispute	16	**(8,718)**	-
Administrative expense		**(3,679)**	(1,744)
		(14,374)	(4,274)
(b) Finance income and expense			
Interest income on bank deposits		**90**	59
Finance gain on fair valuation of Gemini loan		**5,878**	-
Foreign exchange gains		**-**	51
Finance income		**5,968**	110
Foreign exchange losses		**(90)**	(198)

(c) Personnel expenses		
Wages and salaries	**1,651**	2,267
Directors fees	**209**	90
Defined contribution pensions	**59**	144
(Decrease) in liability for long service leave	**(14)**	(57)
Increase/(Decrease) in liability for annual leave	**10**	(21)
Equity-Settled share based payment transactions	**-**	53
	1,915	2,476

As at 30 June 2012 no employees remained within the group.

Directors Remuneration

Directors' remuneration, by director is separately disclosed in the Directors' remuneration report on pages 27 to 28.

Notes *(continued)*

6 Income tax

The major components of income tax expense are:

	2012 **A$ 000's**	2011 A$ 000's
Income statement		
Current tax	**3,868**	-
Foreign tax	**-**	(62)
	3,868	(62)
Deferred income tax		
Deferred tax liabilities no longer recognised	**-**	-
Relating to origination and reversal of temporary differences	**(3,284)**	(11)
Prior year over/under adjustments	**(224)**	-
	(360)	(11)
Income tax expense/(credit) reported in the income statement (excluding tax on sale of business)	**360**	(74)
Income tax expense from discontinued operation (excluding gain on sale of business)	**-**	(79)
Income tax on gain on sale of business	**-**	6,112
	360	5,961
(Loss)/Profit for the year	**(8,120)**	7,323
Total income tax expense	**360**	5,961
(Loss)/Profit before tax on all operations	**(7,760)**	13,284

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:

	2012 A$ 000's	2011 A$ 000's
Tax on (loss)/profit from all activities at 30% *(2011: 30%)*	**(2,328)**	3,985
Non assessable income	**-**	(1,097)
Non deductible expenses	**95**	15
R&D enhanced relief	**(4,458)**	-
Property plant and equipment temporary differences	**306**	-
Deferred tax on losses not recognised	**7,017**	1,440
Deferred tax asset not previously recognised	**(187)**	-
Utilisation of previously unrecognised tax losses	**-**	(1,001)
Effect of lower basis on gain on sale of discontinued operations	**-**	2,392
Overstated prior year DITL on earn out payment	**(581)**	-
Other provision for income tax	**-**	227
Prior year over/under adjustment	**(224)**	-
Deferred tax asset not recognised on intercompany balances	**720**	-
Income tax expense attributable to activities	**360**	5,961
Income tax expense from continuing operations	**360**	(74)
Income tax expense from discontinued operations	**-**	6,035
Total income tax expense	**360**	5,961

Deferred income tax

Deferred income tax at 30 June 2012 relates to the following:

Consolidated		
Deferred tax liabilities		
Future income tax liability attributable to temporary differences		
Receivables (i)	**-**	4,151
Exchange rate fluctuations on financial assets	**820**	1
	820	4,152
Deferred Tax Assets		
Future income tax benefit attributable to temporary differences		
Payables (ii)	**(139)**	(178)
Unrealised foreign exchange loss on financial assets	**(26)**	(40)
Other	**(5)**	-
	(170)	(218)
Net deferred tax liability	**650**	3,934

(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 2012 relates to the following:

Company	**2012 A$ 000's**	2011 A$ 000's
Deferred tax liabilities		
Future income tax liability attributable to temporary differences		
Unrealised foreign exchange gain on financial assets	**820**	1
Receivables (i)	**-**	4,151
	820	4,152
Deferred Tax Assets		
Future income tax benefit attributable to temporary differences		
Payables (ii)	**(139)**	(178)
Unrealised foreign exchange loss on financial assets	**(26)**	(40)
Other	**(5)**	-
	(170)	(218)
Net deferred tax (asset) / liability	**650**	3,934

(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 2012 the Group had available tax losses of A$94.333million (*2011:A$54.710million).*

Movement in temporary difference during the year

Consolidated

	Balance 30 June 2011 A$ 000	**Recognised in profit or loss A$ 000**	**Disposal of drilling fluid business A$ 000**	**Balance 30 June 2012 A$ 000**
Deferred tax assets				
Payables	(178)	39	-	(139)
Unrealised foreign exchange loss on financial assets	(40)	14	-	(26)
Other	-	(5)	-	(5)
	(218)	48	-	(170)
Deferred tax liabilities				
Receivables	4,151	(4,151)	-	-
Exchange rate fluctuations on financial assets	1	819	-	820
	4,152	(3,332)	-	820

Notes *(continued)*

6 Income tax *(continued)*

Movement in temporary difference during the year

Company

	Balance	**Recognised in profit or loss**	**Balance**
	30 June 2011		**30 June 2012**
	A$ 000	**A$ 000**	**A$ 000**
Deferred tax assets			
Payables	(178)	39	(139)
Unrealised foreign exchange loss on financial assets	(40)	14	(26)
Other	-	(5)	(5)
	(218)	48	(170)
Deferred tax liabilities			
Receivables	4,151	(4,151)	-
Exchange rate fluctuations on financial assets	1	819	820
	4,152	(3,332)	820

7 Earnings per share

	2012 A$ 000's	2011 A$ 000's
Net (loss)/profit: Earnings used in calculating basic earnings per share	**(8,120)**	7,331
Net (loss)/profit: Earnings used in calculating diluted earnings per share	**(8,120)**	7,331

	Number of shares	Number of shares
In thousands of shares		
Weighted average ordinary shares used in calculating basic earnings per share	**281,225**	249,580
Weighted average ordinary shares used in calculating diluted earnings per share	**281,225**	249,580

Basic earnings per share (cents per share)	**(2.9)**	2.9
Diluted earnings per share (cents per share)	**(2.9)**	2.9

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 2012:

	Group		Company	
	2012	2011	**2012**	2011
	A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Cash at bank and in hand	**9,534**	12,548	**9,527**	8,640
	9,534	12,548	**9,527**	8,640

9 Trade and other receivables

	Group		Company	
	2012	2011	**2012**	2011
	A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Trade debtors	**1,789**	-	**-**	-
Sundry debtors	**14**	756	**245**	983
Other receivables (note 4)	**-**	13,839	**-**	13,839
Total receivables (current)	**1,803**	14,595	**245**	14,822

10 Inventories

	Group		Company	
	2012	2011	**2012**	2011
	A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Finished goods	**1,086**	-	**-**	-
Total inventories at lower of cost and net realisable value	**1,086**	-	**-**	-

Finished goods comprises crude oil in the FPSO and in transport tankers and is carried at fair value less costs to sell.

Notes *(continued)*

11 Investments

	Group 2012 A$ 000's	Group 2011 A$ 000's	Company 2012 A$ 000's	Company 2011 A$ 000's
Non-current investments in subsidiaries				
Brought forward balance	-	-	-	8,602
Inter-company loan converted into equity	-	-	-	6,621
Minority interest acquisition	-	-	-	196
Disposal	-	-	-	(15,419)
Investments at cost	-	-	-	-

The principal Group companies at 30 June 2012 are set out below:

Subsidiaries	Principal activity in the year	Proportion of voting rights and shares held 2012	Proportion of voting rights and shares held 2011	Class of share held	Place of incorporation
VRMT Well Services Limited	Dormant	51%	51%	Ordinary	Nigeria
Lochard Energy Limited	Holding company	100%	100%	Ordinary	United Kingdom
Lochard Energy Incorporated	Liquidated	100%	100%	Ordinary	United States of America
Zeus Petroleum Limited	Oil field developments	100%	100%	Ordinary	United Kingdom

Notes *(continued)*

12 Oil and gas intangible assets

	Group		Company	
	2012	2011	**2012**	2011
	A$ 000's	**A$ 000's**	**A$ 000's**	A$ 000's
Non-current oil and gas assets				
Brought forward balance	**42,693**	24,127	-	-
Additions (ii)	**16,013**	17,398	-	-
Capitalised interest (ii)	**3,660**	5,457	-	-
Disposal: Cost or fair value (i)	**(291)**	-	-	-
Transfer to Property, plant and equipment	**(63,667)**	-	-	-
Foreign currency translation adjustment	**1,592**	(4,289)	-	-
Carrying amount	-	42,693	-	-
Cost	-	81,039	-	-
Accumulated impairment	-	(38,346)	-	-
	-	42,693	-	-

(i) During the reporting period, Lochard Energy Inc., a wholly owned subsidiary of Lochard Energy Ltd sold its producing oil and gas assets at Caldwell County, Texas, USA for a total of $A0.33 million. Lochard Energy Inc was subsequently wound up and has no further interests in the USA.

(ii) Development of the Athena oil and gas intangible assets has been completed with first production achieved in May 2012. The assets were ready for their intended use and were reclassified to property, plant and equipment in June 2012.

Notes *(continued)*

13 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 2012						
At 1 July 2011, net of accumulated depreciation and impairment	**113**	**32**	**-**	**-**	**-**	**145**
Additions – Transfer from Oil & gas intangible assets (i)	**63,667**	**-**	**-**	**-**	**-**	**63,667**
Abandonment asset (i)	**1,708**	**-**	**-**	**-**	**-**	**1,708**
Disposals: Cost or fair value	**(113)**	**(30)**	**-**	**-**	**-**	**(143)**
Disposal: Accumulated depreciation	**-**	**27**	**-**	**-**	**-**	**27**
Translation adjustment	**-**	**3**	**-**	**-**	**-**	**3**
Depreciation and amortisation expense	**(998)**	**(15)**	**-**	**-**	**-**	**(1,013)**
At 30 June 2012, net of accumulated depreciation and impairment	**64,377**	**17**	**-**	**-**	**-**	**64,394**
At 30 June 2012						
Cost or fair value	**105,367**	**33**	**-**	**-**	**-**	**105,400**
Accumulated depreciation	**(998)**	**(17)**	**-**	**-**	**-**	**(1,015)**
Accumulated impairment	**(39,992)**	**-**	**-**	**-**	**-**	**(39,992)**
Translation adjustment	**-**	**1**	**-**	**-**	**-**	**1**
Net carrying amount	**64,377**	**17**	**-**	**-**	**-**	**64,394**

(i) Development of the Athena oil and gas assets has been completed with first production achieved in May 2012. In June 2012 costs accumulated in oil and gas intangible assets were transferred to property, plant and equipment and an estimated cost related to the abandonment of the well was recognised.

For the purposes of impairment testing the 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.

On 30 June 2012 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 discounted 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)*

13 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 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)*

13 Plant, property and equipment *(continued)*

Company

	Plant and equipment
	A$ 000's
Year ended 30 June 2012	
At 1 July 2011, net of accumulated depreciation and impairment	**26**
Additions	**-**
Depreciation and amortisation expense	**(9)**
At 30 June 2012, net of accumulated depreciation and impairment	**17**
At 30 June 2012	
Cost or fair value	**30**
Accumulated depreciation and impairment	**(13)**
Net carrying amount	**17**
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)*

14 Interest bearing loans receivable

	Group		Company	
	2012	2011	**2012**	2011
	A$ 000's	**A$ 000's**	**A$ 000's**	A$ 000's
Current				
Loans to controlled entities (i)	**-**	**-**	**56,029**	33,555
Closing balance	**-**	**-**	**56,029**	33,555

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$Nil (2011: A$2.772million) in Lochard Energy. The impairment charge is eliminated on consolidation of the Group result.

Notes *(continued)*

15 Other intangible assets and goodwill

Year ended 30 June 2012	Goodwill A$ 000's	Development Expenditure A$ 000's	Total A$ 000's
At 1 July 2011, net of accumulated amortisation	-	-	-
Additions	-	-	-
Amortisation	-	-	-
Impairment loss	-	-	-
Disposal of Drilling fluids business (see note 4)	-	-	-
At 30 June 2012, net of accumulated amortisation	-	-	-
At 30 June 2012			
Cost	-	-	-
Accumulated amortisation	-	-	
Net carrying amount	-	-	-
Year ended 30 June 2011			
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	-	-	-

Notes *(continued)*

16 Trade and other payables

	Group		Company	
	2012	2011	**2012**	2011
	A$ 000's	A$ 000's	**A$ 000's**	A$ 000's
Current				
Trade and other payables	**1,914**	2,208	**1,362**	242
Settlement of legal dispute	**8,859**	-	**-**	-
	10,773	2,208	**1,362**	242

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.

Settlement of legal dispute

On 8 April 2010, Lochard announced that Senergy UK Limited had brought proceedings in the High Court in London against Zeus Petroleum, a wholly owned subsidiary of the Company and holder of the 10% interest in the Athena oilfield, being the Company's major asset.

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

Since that date, negotiations have resulted in a full and final agreement being reached between all relevant parties whereby Zeus Petroleum will pay US$9million in damages including costs. This amount will be paid in monthly instalments commencing at the end of August 2012 and ending in February 2013. An amount of A$8.8million has been recognised as a liability at the reporting date.

Notes *(continued)*

17 Interest bearing loans and borrowings

Draw down facility

On 28 June 2012 the Board entered into a conditional £3 million (A$4.61 million) draw down facility ("Draw-Down Facility") with Henderson Global Investors ("Henderson") whereby 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 had a 5 per cent commitment fee of GBP 150,000 which was paid on 12 July 2012. There are not other costs associated other than costs associated with setting up the facility.

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.

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.

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.

At the date of this report, no funds had been drawn down on the facility.

Other loans

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).

Notes *(continued)*

18 Other financial liabilities

	Group 2012 A$ 000's	Group 2011 A$ 000's
Current		
Unsecured non-bank project funding	**11,768**	10,252
	11,768	10,252
Non-current		
Unsecured non-bank project funding	**5,005**	6,142
	16,773	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$14 million 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 2012 the loan facility had been fully utilised up to A$13.78 million and the liability has been recorded at its fair value. The difference between A$13.78 million drawn down and the financed liability of A$16.773 million 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.

Lochard recognised a gain on fair valuation of the liability in the current year due to the re-estimation of cashflows due to delays in the timing of first oil production and changes to the pricing curves used in the calculation.

Based on forward curve oil prices at 30 June 2012, an AUD/USD exchange rate of 1.0159, and forecasted oil production the Group expects to repay a total of A$32.466 million *(2011: A$30.114 million)* over the following years:

	2012 A$ 000's	2011 A$ 000's
Within 1 year	**17,029**	20,736
Year 1 to 2	**8,255**	6,566
Beyond year 2	**7,182**	2,812
	32,466	30,114

Notes *(continued)*

19 Employee benefits

Group	Long Service Leave A$ 000's	Annual Leave A$ 000's	Total A$ 000's
At 1 July 2011	255	121	376
Arising during the year	9	32	41
Utilised	(11)	(5)	(16)
Disposal	(253)	(148)	(401)
At 30 June 2012	-	-	-
Current 2012	-	-	-
Non-current 2012	-	-	-
	-	-	-
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

(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)*

20 Provisions

Group	Decommissioning Provision A$ 000's	Land Restoration A$ 000's	Total A$ 000's
At 1 July 2011	113	-	113
Arising during the year (ii)	1,708	-	1,708
Accretion expense	(13)	-	(13)
Translation adjustment	27	-	27
Disposal of oil and gas asset (i)	(113)	-	(113)
At 30 June 2012	1,722	-	1,722
Current 2012	-	-	-
Non-current 2012	**1,722**	**-**	**1,722**
	1,722	**-**	**1,722**
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

Decommissioning provision –

(i) During the reporting period, Lochard Energy Inc., a wholly owned subsidiary of Lochard Energy Ltd sold its producing oil and gas assets at Caldwell County, Texas, USA. The decommissioning provision to restore the land and the surrounds to its previous state was reversed. Lochard Energy Inc was subsequently wound up and has no further interests in the USA.

(ii) Development of the Athena oil and gas intangible assets was completed with first production achieved in May 2012. The provision for decommissioning and abandoning of the assets of A$1.722 million was recognised as at 30 June 2012.

Notes *(continued)*

21 Issued capital

Company

Allotted, called up and fully paid	**No. of shares**	**A$000**
At 30 June 2012	**298,865,616**	**32,732**
At 30 June 2011	249,579,902	29,108

Issue of shares

In February 2012 the Company raised £3.38 million (A$5.043 million), before expenses, by way of an oversubscribed placing by finnCap for new ordinary shares of 5 pence each in the capital of the Company at a price of 7 pence per ordinary share. The placing was undertaken in two tranches, namely (i) a firm placing of 24,958,000 new ordinary shares at 7 pence, raising £1.747 million, and, (ii) a conditional placing of a further 23,327,714 new ordinary shares at 7 pence raising £1.633 million.

In April 2012 the Company issued 1,000,000 ordinary shares of 5p each following the exercise of warrants issued to McCall Aitken McKenzie & Co Limited at a price of 5p per ordinary share.

22 Share based payments

The Company provides 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.

No share options were issued during the reporting period.

Options issued in lieu of payment for services received

No options were issued in lieu of payment for services received during the reporting period.

Non-executive options

No options were issued to non-executive officers of the Company during the reporting period.

Notes *(continued)*

22 Share based payments *(continued)*

Employee options

Details of employee share options as at 30 June 2012 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
1,410,000	-	-	-	1,410,000	16.5p	2-10-2008 2-10-2009 2-10-2010	2-10-2012
4,500,000	-	1,500,000	-	3,000,000	16.5p	22-10-2008 22-10-2009 22-10-2010	22-10-2012
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$Nil (2011: A$0.053million) related to employee and non-executive share based payment transactions in the year.

23 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)*

24 Commitments and contingencies

	2012 A$ 000's	2011 A$ 000's
(a) Lease expenditure commitments		
Operating leases (non-cancellable):		
Minimum lease payments		
- not later than one year	**18**	38
- later than one year and not later than five years	**-**	-
- later than five years	**-**	-
Total operating leases (non-cancellable)	**18**	38

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

(b) Contingent liabilities

Performance bonds

The Group and the Company had provided a bank guarantee on behalf of Lochard Energy Inc in relation to performance bonds. These bonds were cancelled during the reporting period.

The value of the performance bonds in the prior year was A$47thousand.

25 Subsequent events

There are no known subsequent events of a material nature other than the following:

On 3 September 2012 Lochard announced that the Board had unanimously decided to initiate a formal sale process for the entire issued and to be issued share capital of the Company. The Company will conduct the formal sale process through its adviser, CIBC. Interested parties will be required to enter into a non-disclosure agreement with the Company on reasonable terms satisfactory to the Board and on the same terms, in all material respects, as the other interested parties, before being permitted to participate in the process. The Company then intends to provide all participants who have entered into such non-disclosure agreements with access to a dataroom and other relevant information with which to evaluate making an offer.

26 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$59 thousand *(2011: A$144 thousand).*

27 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$4.136 million *(2011: profit of A$15.684million).*

Notes *(continued)*

28 Related party transactions

Key management personnel

Key management personnel are as follows:

C.N. Carver	Non-Executive Chairman since 18 April 2012
M. Rose	Non-executive director since 2007
P.R. Youd	Non-executive director since 2009, removed on 29 February 2012 and re-appointed on 18 April 2012
J. Brooke	Non-executive director since December 2010, removed on 29 February 2012 and re-appointed on 18 April 2012
P. Kingston	Non-Executive Director since 18 April 2012
H.L. Gardner	Removed by shareholder resolution 13 April 2012
L.C. McCrabb	Removed by shareholder resolution 13 April 2012

See Directors remuneration report (page 27)

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$392 thousand *(2011:A$121 thousand)* with Aimwell Energy Ltd, an entity associated with director M. Rose. These transactions were conducted on normal commercial terms and conditions. A$98 thousand was outstanding at 30 June 2012 *(2011:A$61 thousand)*.

Lochard Energy Group Plc conducted business transactions for corporate advice to a value of A$35 thousand (*2011:nil)* with ELK Associates LLP, an entity associated with director Mr Clive Carver. These transactions were conducted on normal commercial terms and conditions. A$35 thousand was outstanding at 30 June 2012 *(2011:A$nil)*.

Lochard Energy Group Plc conducted business transactions for corporate advice to a value of A$22 thousand (*2011:nil)* with Peter Kingston and Associates, an entity associated with director Mr Peter Kingston. These transactions were conducted on normal commercial terms and conditions. A$22 thousand was outstanding at 30 June 2012 *(2011:A$nil)*.

Lochard Energy Group Plc conducted business transactions for corporate advice to a value of A$36 thousand (*2011:A$7 thousand)* with Kingston Vale Pty Ltd, an entity associated with director P.R. Youd. These transactions were conducted on normal commercial terms and conditions. A$20 thousand was outstanding at 30 June 2012 *(2011:A$nil)*.

Lochard Energy Group Plc conducted business transactions for corporate advice to a value of A$98 thousand (*2011:A70 thousand)* with Sarell Pty Ltd, an entity associated with director P.R. Youd. These transactions were conducted on normal commercial terms and conditions. A$Nil was outstanding at 30 June 2012 *(2011:A$nil)*.

Lochard Energy Group Plc leased office premises to a value of A$6 thousand (*2011:A$nil)* with Kara Minerals Pty Ltd, an entity associated with director P.R. Youd. These transactions were conducted on normal commercial terms and conditions. A$3 thousand was outstanding at 30 June 2012 *(2011:A$nil)*.

Notes *(continued)*

28 Related party transactions *(continued)*

Loans from Director-related entities

On 28 June 2012 the Board entered into a conditional £3 million (A$4.61 million) draw down facility ("Draw-Down Facility") with Henderson Global Investors ("Henderson") whereby 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 provision of the Draw-Down Facility is a related party transaction 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 consider, having consulted with the Company's nominated adviser have concluded that the terms of the Draw-Down Facility are fair and reasonable insofar as the Company's shareholders are concerned.

The facility had a 5 per cent commitment fee of GBP 150,000 which was paid on 12 July 2012. There are not other costs associated other than costs associated with setting up the facility.

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.

Transactions with other related parties

Company

Lochard Energy Group Plc has provided loans as listed below:

	2012		2011	
	A$ 000's	**Interest p.a**	A$ 000's	Interest p.a
Interest bearing loans				
Lochard Energy Limited (i) (iii)	**55,681**	**5.25%**	50,313	6.25%
Rheochem Limited (i)	**-**	**-**	-	-
Zeus Petroleum Limited (i) (ii)	**30,450**	**10.00%**	13,343	10.00%
	86,131		63,656	

(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) The carrying value of the loan has been impaired by A$30.102million *(2011:A$30.102million*).

Notes *(continued)*

28 Related party transactions *(continued)*

	2012	2011
	A$ 000's	A$ 000's
Interest revenue		
Lochard Energy Limited	**3,231**	3,129
Rheochem Limited	-	40
Zeus Petroleum Limited	**2,150**	738
	5,381	3,907
Management fees		
Rheochem Limited (i)	**-**	90
Zeus Petroleum Limited (i)	**-**	-
	-	90

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

Notes *(continued)*

29 Auditors' remuneration

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

On 9 July 2012, KPMG Audit Plc resigned as auditors of the Company and BDO LLP was appointed as group auditor on 12 July 2012.

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG Audit Plc and BDO LLP at costs as detailed below:

Auditors' remuneration	**Year ended 30 June 2012 A$ 000's**	Year ended 30 June 2011 A$ 000's
BDO LLP		
Audit of 2012 financial statements	**76**	-
	76	-
KPMG Audit Plc:		
Review of 2012 half-yearly report	**118**	-
Audit of 2011 subsidiaries pursuant to legislation	**22**	-
Audit of 2011 financial statements	**-**	137
Review of 2011 half-yearly reports	**-**	138
Audit of 2010 financial statements	**-**	64
	140	339
Fees payable to the Group's auditor for other services:		
BDO LLP:		
Tax services	**-**	-
Advisory services	**9**	-
	9	-
KPMG Audit Plc:		
Tax services	**18**	27
Advisory services	**191**	66
	209	93

There were no other services provided by BDO LLP or KPMG Audit Plc during their respective periods as auditor.

The Group audit fees are borne by each company.

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 31 August 2012

Category	Number of equity security holders of ordinary shares
1-1,000	27
1,001-5,000	69
5,001-10,000	88
10,000-100,000	206
100,000 and over	106
	496

The number of shareholders holding less than a marketable parcel of ordinary shares is 81.

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 31 August 2012

Rank	Name	Number of ordinary shares held	Percentage of capital held
1	VIDACOS NOMINEES LIMITED <2303>	34,749,632	11.63%
2	HARGREAVE HALE NOMINEES LIMITED <LON>	23,052,284	7.71%
3	PERSHING NOMINEES LIMITED <MGCLT>	22,114,691	7.40%
4	AAA AUSTRALIAN CONTROL A/C	20,663,360	6.91%
5	NORTRUST NOMINEES LIMITED <SLEND>	18,629,715	6.23%
6	J M FINN NOMINEES LIMITED	17,521,321	5.86%
7	BARNARD NOMINEES LTD <SER05C>	14,002,858	4.69%
8	HSBC GLOBAL CUSTODY NOMINEE (UK) LIMITED <934567>	13,983,568	4.68%
9	GOLDMAN SACHS SECURITIES (NOMINEES) LIMITED <ILSEG>	12,146,111	4.06%
10	TD WEALTH INSTITUTIONAL NOMINEES (UK) LIMITED <KKCLT>	9,282,225	3.11%
11	L R NOMINEES LIMITED <NOMINEE>	7,654,645	2.56%
12	BNY MELLON NOMINEES LIMITED <BSDTGUSD>	7,142,857	2.39%
13	BARCLAYSHARE NOMINEES LIMITED	7,063,689	2.36%
14	BNY (OCS) NOMINEES LIMITED	5,996,472	2.01%
15	LION NOMINEES LIMITED <RB>	5,746,819	1.92%
16	W B NOMINEES LIMITED	5,183,214	1.73%
17	JIM NOMINEES LIMITED <JARVIS>	4,031,753	1.35%
18	J P MORGAN CLEARING CORP <CLIENTSK>	3,967,857	1.33%
19	ROBERT EDWARD FROST	3,781,570	1.27%
20	CHASE NOMINEES LIMITED <ATREMIS>	3,676,327	1.23%
Total: Top 20 holders of ORDINARY SHARES		240,390,968	80.43%

Substantial Shareholdings

As at 13 July 2012 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	**86,651,883**	28.99
Merchant Securities	**21,614,120**	7.23
R J Barby Esq	**19,880,671**	6.65
Gardner Marketing Pty Ltd	**16,428,421**	5.50
Seren Capital Management	**15,348,500**	5.14
SVM Asset Management	**10,491,194**	3.51

Additional Information *(continued)*

Offices and officers

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Company Secretary

Nerida Schmidt

Auditors

BDO Audit (WA) Pty Ltd
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SUBIACO WA 6008

Registered Office

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Registrars

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