

14 January 2013

ASX Limited  
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## **Lochard Energy Group Plc**

### **Update on Athena, farm out of licences and other matters**

Lochard Energy Group Plc (“**Lochard**” or the “**Company**”) (AIM: LHD, ASX: LHD) is pleased to provide the following update.

#### **Producing asset**

##### ***Athena***

Production from Athena has increased to a level approaching 11,000 bopd gross (1,100 bopd net to Lochard) at the end of December. Lochard’s income from Athena production is averaged some \$1.7 million per month after deductions for Athena operating costs for the three months to 31 December 2012. To date there has been no water break through.

#### **Other assets**

##### ***Thunderball***

After funding the costs of the Senergy settlement and the Gemini loan repayments, Lochard cannot on its own fund a well at Thunderball.

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Additionally, the Directors of Lochard have concluded, principally because of the costs of the Senergy settlement and the Gemini loan, the Company will not have the financial capacity to meet the requirements of the Department of Energy and Climate Change (“DECC”) to continue as a North Sea operator until towards the end of 2013 and into 2014, when cash balances are expected to be significantly larger from the continued production income from Athena.

Consequently, Lochard no longer qualifies as operator of Licence P1611 including the “Thunderball” natural gas discovery and is therefore currently unable, without operator status and funding, to drill the commitment well specified under the current license to appraise the Thunderball discovery.

Despite considerable efforts to bring in a partner over a prolonged period, no third party has been prepared to meet the cost of drilling in the time available.

Discussions are currently underway with DECC to determine the future of Licence P1611 but it is expected for the reasons noted above this Licence will lapse.

***Promote licenses: Blocks 9/17 & 22, 14/17 and 3/5 & 10c***

The previously announced farm-in by Strike Oil, an associate company of PGS, into 40 per cent of licence P1861, which covers blocks 3/5 & 3/10c, was approved by DECC on 9 January 2013. The Lochard interest in this asset is now 50 per cent.

Agreement in principle has been reached with another North Sea operator (“New Operator”), for the New Operator to become the operator at 9/17b & 22b, 14/17, and 3/5 & 10c and for the New Operator to carry Lochard’s and Aimwell’s share of development costs for 12 months from January 2013. In return Lochard will transfer to the New Operator a proportion of its current interests in these blocks.

Discussions are continuing between Lochard, the New Operator and DECC with a view to converting these promote licences into traditional style licences. Lochard expects these discussions will be concluded in the next few weeks.

Promote licences 16/8c, 14/27b and 13/16b & 17 have lapsed.

## **Funding**

### ***Senergy settlement***

To date \$6.5 million of the \$9 million total has been paid to Senergy. The balance of \$2.5 million is scheduled to be repaid by the end of February 2013.

### ***Gemini loan***

Since production commenced at Athena some \$6.8 million of the \$28 million total Gemini debt has been repaid at the rate of 50 per cent of gross production revenues. \$21.2 million remains outstanding of which \$7.2 million is to be repaid at the rate of 50 per cent of gross production revenues and \$14 million at the rate of 20 per cent of gross production revenues.

## **Strategy**

### ***Formal Sale Process***

The Lochard board continues to believe shareholders would be best served by being part of a larger entity with a more diverse portfolio of oil and gas exploration and production assets. With the expected simplification of the Group's asset portfolio and its improving financial position the Group is now better placed to attract interest from a broader range of potential merger partners.

### ***Cost savings***

While the Formal Sale Process continues the Board has decided to embark upon further cost cutting reflecting the simpler nature of the Group.

With the end of its North Sea operator status Lochard has been able to make significant future savings by terminating contracts with third parties no longer required. Additionally, for the next 12 months, Lochard expects to cease funding the technical and development work at the promote licences to be operated by the New Operator.

## **ASX listing**

In December 2012, the Board resolved to apply to be de-listed from the Australian Securities Exchange (ASX). On 14 December 2012 an application was made to the ASX to this effect.

The key reasons supporting Lochard's request to be removed from the Official List of ASX are summarised below:

- (a) **Low level of shares/shareholders on its Australian register:** Only 6.5% of Lochard's total issued shares are held on its Australian register.
  
- (b) **Lack of liquidity in trading of Lochard shares on ASX:** Since being admitted to ASX, there has been a very low level in trading of Lochard's shares in comparison to the volumes traded on AIM.
  
- (c) **Costs of ASX listing outweigh the benefits:** Lochard's Board considers it is in the best interests of its shareholders for Lochard to delist from ASX because the costs associated with maintaining the listing outweigh the benefits derived by a small portion of its shareholders.
  
- (d) **Lochard will continue to be listed on AIM:** Lochard is also listed on AIM and has no plans to delist from AIM. If Lochard is removed from the Official List of ASX, shareholders on Lochard's Australian register who wish to retain an investment in Lochard will have the opportunity to transfer their shares to the UK register where they will still be traded on AIM. Shareholders wishing to do this should contact their broker.

If Lochard's application to delist is accepted, it will establish a facility to allow shareholders registered on its Australian register to offer to sell their shares on AIM for no less than three months after the delisting from ASX.

A letter will shortly be sent to all ASX shareholders informing them of the Company's intention to be removed from the official list of ASX, and notifying them of the availability of the facility through which they may offer to sell their shares on AIM.

Lochard will also relocate all financial and administrative functions to the UK.

### ***Board composition***

Peter Youd, who is based in Australia, and Mike Rose, who has led Lochard's technical work, have in tandem with the changes outlined above agreed to step down from the Board with effect from 14 January 2013. Both have given the Company many years of valuable service.

Going forward, the Board will comprise Clive Carver, Non-executive Chairman, with Jamie Brooke and Peter Kingston as Non-executive Directors. Jamie Brooke will become chairman of the audit committee and Clive Carver will remain chairman of the remuneration committee. Peter Kingston will be the Company's technical expert under the AIM Rules for Companies and Lochard's representative on the Technical and Joint Operating committees for the Athena asset.

### ***Clive Carver, Non-executive Chairman, said***

*"These events mark the final stages in the clearing up of Lochard's legacy issues. We expect the business will shortly consist of a single producing asset and carried interest in the near term on some potentially exciting new licences."*

*"On completion of these changes, we anticipate the path to finding a suitable merger partner under the ongoing Formal Sale Process will become easier and more rewarding for Lochard shareholders."*

### **For further information, call:**

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## **Qualified Person Statement**

In accordance with AIM Note for Mining and Oil & Gas Companies, and ASX Listing Rules 5.11, 5.12 and 5.13 Lochard discloses that Peter Kingston, a non-executive director of Lochard and the Chief Operating Officer of Lochard's operating subsidiary Zeus Petroleum Limited, is the qualified person that has reviewed the technical information contained in this press release.

Peter Kingston is a member of the Society of Petroleum Engineers (SPE) and has 47 years' operating experience in the upstream oil industry. For much of that period he has been a practicing reservoir engineer and has routinely reviewed corporate oil and gas reserve submissions at Board level since 1984. Peter Kingston consents to the inclusion of the information in the form and context in which it appears.

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