



QUARTERLY ACTIVITIES REPORT – THIRD QUARTER 2011

31st October 2011

HIGHLIGHTS

- Ohai CSG production testing continuing
 - New CSG appraisal programme at Kaitangata (activity commenced post third quarter)
 - Drill program completed at Talon-1 providing significant geological data for future work programs
 - Significant technical and seismic work completed across other permits
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CONVENTIONAL OIL AND GAS ACTIVITIES

In July, the onshore Taranaki Basin Talon-1 well (**PEP 51151 (Alton)**) was drilled according to the pre-defined drilling plan, with no Lost Time Incidents (LTI) and minimal environmental impact.

Although the well successfully intersected over 75m of good quality Manutahi reservoir, the well was plugged and abandoned on the 23rd July after no significant hydrocarbon shows were observed within the target interval.

However, the well provided valuable geological data that will be incorporated into the technical database for the permit and the Company will work with the Joint Venture to formulate a forward strategy for exploring this highly prospective 482.4 km² acreage.

Talon-1 is the first well to be drilled in PEP51151 which contains multiple drilling targets ranging from shallow oil targets similar in size to Talon-1 to deep, potentially large, gas condensate opportunities.

As announced on 13th July, LME was free carried for the full cost of drilling Talon-1 through an arrangement with new entrant, New Zealand Energy Corp who have also identified a number of highly attractive drilling targets within PEP51151.

PEP 52181 (Kaheru) is located in the offshore Taranaki Basin and covers an area of 311.9.5 km². LME retains 15% equity and is part of a joint venture with ROC Oil (50% and Operator), Tag Oil (Offshore) Limited (20%) and AGL Upstream Gas (MOS) Pty Limited (15%) (a wholly owned subsidiary of AGL Energy Limited). The permit has existing 3D seismic coverage, including over the block's primary prospect, the large Kaheru structure, which has multiple potential reservoir targets. The reprocessing of the Kaheru 3D seismic dataset has been completed and interpretation of preliminary data is continues.

PEP 53247 (Kahili) is located in the onshore Taranaki Basin. The participants in the permit are L&M Energy Limited (25%), and Australian based Mosaic Oil NZ Limited (75%), a wholly owned subsidiary of AGL Energy Limited. The joint venture has completed the acquisition of 30km 2D seismic spread across three separate lines. Furthermore, over 300km of existing 2D seismic data has also been reprocessed. The entire seismic data package will now be interpreted over the coming months with a view to identifying a suitable drilling target in Q4 2011.

UNCONVENTIONAL OIL AND GAS ACTIVITIES

PEP 38220 (Ohai), Mid July a small work programme was executed on the pilot vertical production well, OM#5. The aim of the programme was to clean out the well to total depth and also optimise the down-hole pumping equipment. The programme was executed as planned and the well then re-equipped and put back onto production.

As recently reported, production rates from OM#5 to date are lower than modelled and an additional work-over and testing programme is now underway. The programme is aimed at determining the variances between actual and modelled production rates.

Once resolved, LME then intends to commit to the remaining large capital expenditure items for the pilot power station on the basis of a positive outcome from this testing process. Outstanding procurement and construction activities will occur upon the establishment of reliable production data with completion of the station being timed so as to be available in line with the power station fuel gas requirements.

Subsequent to the Quarter, LME announced a new CSG appraisal programme commencing within **PEP 38219 (Kaitangata)**, located 60km south of Dunedin. The first well to be drilled, Wangaloa-1, is at a current depth of 510m and is being drilled to test the coal seam gas potential from five sub-bituminous coal horizons (Capstick, Jordan, Kai Main, Carson and Shore).

South Canterbury permit, **PEP 52605** was awarded to the Company on the 20th September 2011. The permit covers an area of 3,600km² and is for an initial term of 5yrs.

CORPORATE

At the end of the quarter the company has NZ\$1.7 million dollars of cash available to undertake its work programs. A further \$1.6 million was received in October in respect to reimbursement of the Talon-1 well costs.

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About L&M Energy Limited

L&M Energy Limited is a New Zealand based company dual listed on the ASX and NZX stock exchanges. The Company is focused on the commercial development of unconventional and conventional oil and gas resources. The Company holds equity interests in over 8,200 km² of exploration acreage contained within eight New Zealand exploration permits.

