

QUARTERLY ACTIVITIES REPORT FOURTH QUARTER 2010

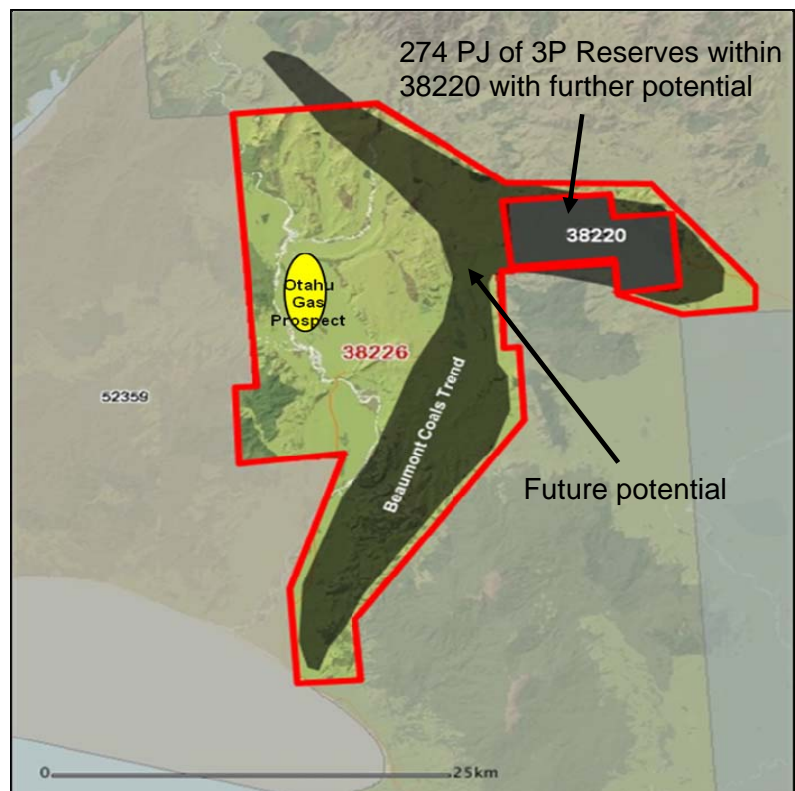
28th January 2011

HIGHLIGHTS

- 60% upgrade to certified 3P gas reserves with Net 3P reserves increased from 173 PJ to 274 PJ
 - Drilling commenced at Ohai coal seam gas pilot project
 - Awarded additional onshore Taranaki permit
 - Continued preparations for drilling first onshore Taranaki Basin well
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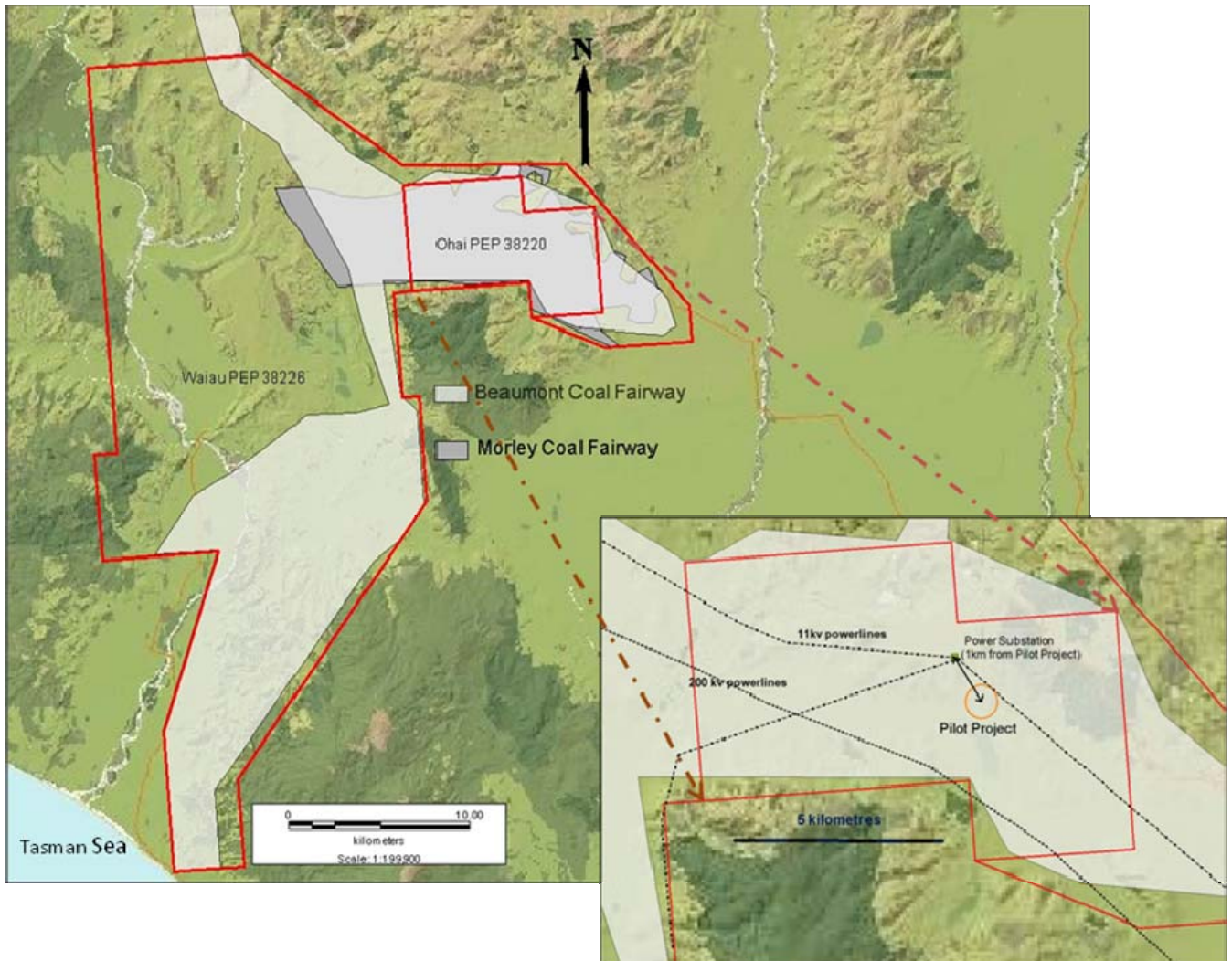
COAL SEAM GAS ACTIVITIES

Interim 3P gas reserves increased during the quarter from 173 petajoules (PJ) to 274 PJ within PEP 38220 (Ohai). This followed the completion of step out well OM#4 and subsequent data review by independent consultants, MHA Petroleum Consultants LLC, based in Denver USA. The increase in 3P reserves applies only to L&M's Ohai permit area and does not include any of the potential gas resources from within the adjoining permit, PEP 38226 (Waiau). It is anticipated that further exploration work within the Waiau acreage will contribute significantly to future reserves upgrades.



LME Coal Seam Gas Permits – Ohai & Waiau

All necessary regulatory and environmental consents were granted for the Ohai pilot project with drilling commencing December 2010. The results from the pilot will greatly assist in optimising well design and spacing for the future development of the area. Near term cash flow opportunities from pilot gas production via power generation into the nearby electricity grid are being investigated. Once drilling is completed, well surface and subsurface production equipment will be installed with production scheduled to commence early March 2011.

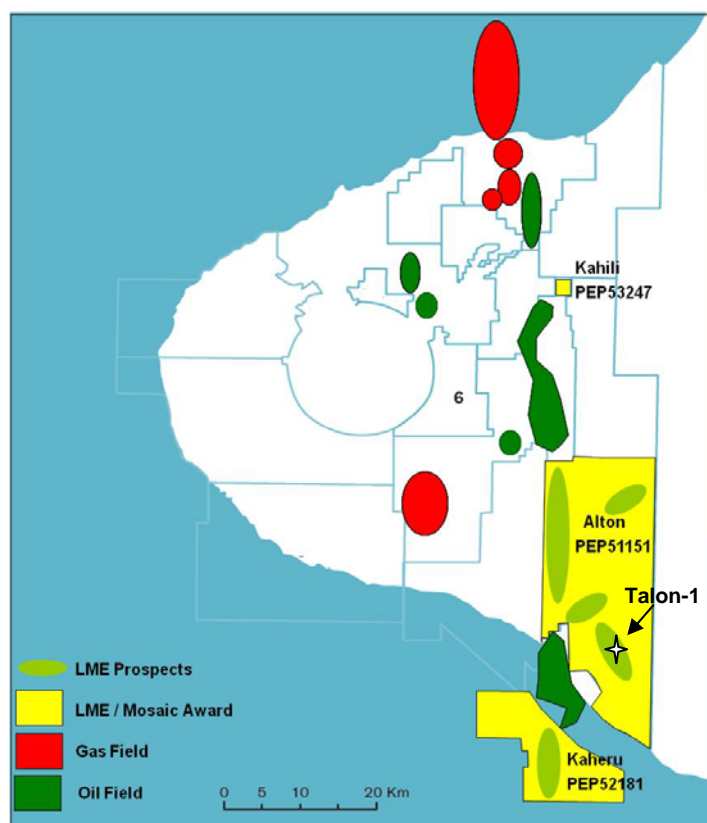


LME Coal Seam Gas Permits – Pilot project and adjacent power infrastructure

CONVENTIONAL OIL AND GAS ACTIVITIES

The company has expanded its exposure to New Zealand's only commercially proven producing basin following the award of **PEP 53247 (Kahili)**. This latest award increases the Company's interests within the Taranaki region to three permits. The participants in the permit are L&M Energy Limited (25%), and Australian based Mosaic Oil NZ Limited (75%). As there is an existing on-site processing facility and pipeline connecting to the gas network which remains under a care and maintenance programme by Vector Ltd, any future discoveries can be rapidly commercialised. The joint venture will commence the acquisition of 30km of new seismic and reprocess approximately 160km of existing data in order to identify a suitable drilling target by the end of the year.

Pre-drill planning activities are continuing for the Talon-1 well in **PEP 51151 (Alton)**, located in the onshore Taranaki Basin. The well is designed to test a Manutahi Formation shallow oil prospect lying to the northwest of Origin Energy's Kauri Field, producing from the same formation. Drilling is expected to start May this year.



L&M Energy permits and nearby oil and gas fields

CORPORATE

Due to the company's increased focus on Coal Seam Gas, the functions of the dual Managing Director structure were rationalised. Mr Kent Anson was appointed sole Managing Director.

At the end of the quarter the company has NZ\$8.75 million dollars of cash available to undertake its work programs.

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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 focused on the development of commercial coal seam gas resources and discovering major conventional oil and gas resources. The Company holds equity interests in over 10,000 km² of exploration acreage contained within nine New Zealand exploration permits and is well funded for its current work programmes.

