L&M Energy Limited
(formerly L&M Petroleum Limited)

6 month interim financial report for the period ended 30 June 2011

L&M Energy Limited
Interim financial report – 30 June 2011

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Directors' report

The Directors of L&M Energy Limited are pleased to submit the interim financial report for the 6 months ended 30 June 2011.

The names of the Directors' of the Company at any time throughout the period were Mr AG Loudon, Mr D Ellenor, Mr G Hogan, Mr C Lutyens, Mr T Taylor and Mr K Anson.

Review of operations:

(All references are to New Zealand dollars)

Total income of $351,000 was derived throughout the period, primarily from services provided to major projects that the Company operated on behalf of the Alton and Kahili Joint Ventures. Interest income of $93,000 was also earned in the period.

Total costs of $3.5 million were incurred. $744,000 was spent in exploration projects including acquiring and reprocessing seismic data in the Kahili permit as well as continuing work in the offshore Kaheru permit. In addition, $487,000 was written off relating to costs incurred to June on drilling the Talon-1 exploration well in the Alton permit. Non-cash, stock option expense of $712,000 was incurred related to outstanding stock options.

Other expenses, including depreciation, employee related costs, regulatory fees and other corporate overheads totaled $1.5 million in the period.

Overall, the Company reported a loss for the period of $3 million.

During the period the Company explored for conventional oil and gas and coal seam gas in New Zealand. Detailed reviews of activities are included in the quarterly activity reports lodged with the Australian and New Zealand Stock Exchanges (code: LME).

The Ohai coal seam gas pilot project was progressed significantly throughout the period. The Company successfully drilled New Zealand's first in coal seam lateral well which successfully intersected the 1035m long OM#7 lateral well with the OM#5 vertical production well. The drilling of the lateral well was very technically challenging and achieving a successful intersection with the vertical well was a major accomplishment. The Company is continuing to work on the best methods aimed at optimising water flow rates from the coal seam and then commencing gas production. Total expenditure of $2.9 million was spent on the pilot project in the period.

In June the Company commenced the drilling of the Talon-1 exploration well in the Alton permit on behalf of the Joint Venture. The well was completed in July but unfortunately did not encounter any significant hydrocarbons and was plugged and abandoned. Whilst this result was disappointing, we remain optimistic about the future opportunities in our Taranaki permits.

Throughout the period the Company continued to refine its permit holdings. A number of permits were relinquished after a rigorous examination of the technical merits of continuing to hold them. In addition the Company applied for further permit acreage that may hold potential resources. One permit, PEP 52711 located in Waikato, was awarded to the Company in the period.

In summary the period ending 30 June 2011 has been a significant one for the Company and some challenging objectives have been achieved. Whilst we have not achieved all the milestones we would have liked, this is not unusual for projects of the nature we are involved in. The staff and Board will continue to use all our resources and experience to attempt to unlock the very large potential within the permits that we hold.

On behalf of the Board of Directors I would like to thank our staff and shareholders for their continued support.

Auditors Independence Declaration

The Directors' report includes the auditors independence declaration on Page 5 of the financial report.

The Board of L&M Energy Limited authorised these financial statements presented on pages 8 to 30 on 9 September 2011.

K A Anson
For and on behalf of the Board

pwc

The Directors
L&M Energy Limited
9th Floor, St John's House
114 The Terrace
WELLINGTON

9 September 2011

Dear Directors

L&M Energy Limited

In accordance with section 307C of the Corporations Act 2001, I provide the following declaration of independence to the directors of L&M Energy Limited.

As lead partner for the review of the financial statements of L&M Energy Limited for the period ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

Lesley Mackle

Lesley Mackle
Partner

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pwc

Independent Accountants' Report

to the shareholders of L&M Energy Limited

Report on the Interim Financial Statements

We have reviewed the interim condensed financial statements ("financial statements") of L&M Energy Limited and its subsidiary (together "the Group") on pages 9 to 30, which comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and cash flow statement for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Interim Financial Statements

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 June 2011, and its financial performance and cash flows for the period ended on that date.

Accountants' Responsibility

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 30 June 2011 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

We have no relationship with, or interests in, L&M Energy Limited and its subsidiary other than in our capacities as accountants conducting this review and providers of tax compliance services. These services have not impaired our independence as accountants of the Group.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 30 June 2011 and its financial performance and cash flows for the period ended on that date.

Emphasis of matter

We draw attention to note 2(a) to the financial statements which describes material uncertainties relating to the adoption of the going concern assumption in preparation of the financial statements for the period ended 30 June 2011. Our opinion is not qualified in respect of this matter.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an accountants' 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 shareholders, as a body, for our review procedures, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
9 September 2011

Wellington

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Directors declaration

The Directors declare that:

(a) in the Directors' opinion, there are reasonable ground to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) in the Director's opinion, the attached interim financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance according standards and give a true and fair view of the financial position and performance of the Company.

Signed in accordance with a resolution of the Directors.

For and on behalf of the Board:

KA Anson
Managing Director

Wellington, New Zealand
9 September, 2011

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L&M Energy Limited
Consolidated Statement of Comprehensive Income
For the period ended 30 June 2011

	Notes	**30/6/11 Unaudited NZ$'000**	30/6/10 Unaudited NZ$'000
Revenue	6	113	55
Other income	6	238	1,263
		351	1,318
Expenses:			
Employee benefits expense		686	791
Share option compensation expense	16(b)	712	7,137
Depreciation and amortisation expense		53	57
Exploration expenditure		744	2,646
Other expenses	7	1,268	451
Total expenses		3,463	11,082
Finance income	7	73	31
Loss before income tax		(3,039)	(9,733)
Income tax expense	8	-	-
Total comprehensive loss for the period – net of tax		(3,039)	(9,733)
Loss attributable to equity holders of L&M Energy Limited		(3,039)	(9,733)
Basic loss per share	9	$(0.01)	$(0.02)
Diluted loss per share	9	$(0.01)	$(0.02)

The above statement should be read in conjunction with the accompanying notes

L&M Energy Limited
Consolidated Statement of Changes in Equity
For the period ended 30 June 2011

	Notes	Contributed Equity NZ$'000 Unaudited	Share Option Compensation Reserve NZ$'000 Unaudited	Accumulated Profits/ (Losses) NZ$'000 Unaudited	Total Equity NZ$'000 Unaudited
Balance at 1 January 2010		-	-	(459)	(459)
Capital raising costs		(144)	-	-	(144)
Share option compensation		-	7,137	-	7,137
Total comprehensive loss for the period		-	-	(9,733)	(9,733)
Reverse acquisition adjustment		26,295	-	-	26,295
Balance at 30 June 2010		26,151	7,137	(10,192)	23,096
Net proceeds of shares issued	16(a)	10,591	-	-	10,591
Share option compensation		-	894	-	894
Total comprehensive loss for the period		-	-	(3,043)	(3,043)
Balance at 31 December 2010		36,886	8,031	(13,235)	31,682
Net capital raising costs	16(a)	(8)	-	-	(8)
Share option compensation		-	712	-	712
Transfers upon option exercise/forfeiture		3,396	(3,406)	10	-
Total comprehensive loss for the period		-	-	(3,039)	(3,039)
Balance at 30 June 2011		40,274	5,337	(16,264)	29,347

The above statement should be read in conjunction with the accompanying notes

L&M Energy Limited
Consolidated Statement of Financial Position
As at 30 June 2011

	Notes	**30/6/11 Unaudited NZ$'000**	31/12/10 NZ$'000	30/6/10 Unaudited NZ$'000
ASSETS				
Current assets				
Cash and cash equivalents	10	4,244	8,748	1,448
Inventories	12	689	775	787
Trade and other receivables	11	229	134	114
Total current assets		5,162	9,657	2,349
Non-current assets				
Exploration permits		21,526	21,526	21,525
Exploration wells in progress		3,129	277	-
Property, plant and equipment		755	749	805
Intangible assets		3	8	5
Total non-current assets		25,413	22,560	22,335
Total assets		30,575	32,217	24,684
LIABILITIES				
Current liabilities				
Trade and other payables	13	1,198	505	1,573
Provisions	13	30	30	15
Total current liabilities		1,228	535	1,588
Total liabilities		1,228	535	1,588
EQUITY				
Issued capital and reserves attributable to equity holders of the Company				
Contributed equity	16(a)	40,274	36,886	26,151
Accumulated losses	17(a)	(16,264)	(13,235)	(10,192)
Share option compensation reserve	17(b)	5,337	8,031	7,137
Total equity		29,347	31,682	23,096
Total equity and liabilities		30,575	32,217	24,684

.... Director

.... Director

The above statement should be read in conjunction with the accompanying notes

L&M Energy Limited
Consolidated Statement of Cash Flows
For the period ended 30 June 2011

	30/6/11 **Unaudited** **NZ$'000**	30/6/10 Unaudited NZ$'000
Cash flows from operating activities		
Payments to suppliers and employees	(1,144)	(549)
Payment of exploration costs	(1,026)	(2,458)
Interest received	111	31
Net cash outflow from operating activities	(2,059)	(2,976)
Cash flows from investing activities		
Payments for property, plant, equipment and exploration in progress	(2,437)	(15)
Net cash outflow from investing activities	(2,437)	(15)
Cash flows from financing activities		
Costs incurring in capital raising	(8)	(144)
Net cash inflow from financing activities	(8)	(144)
Net decrease in cash and cash equivalents	(4,504)	(3,135)
Cash and cash equivalents at the beginning of the period	8,748	17
Cash introduced	-	4,566
Cash and cash equivalents at the end of the period (note 10)	4,244	1,448
Reconciliation with operating loss		
Operating loss after tax	(3,040)	(9,733)
Non cash items:		
Share option compensation expense	712	7,137
Depreciation and amortisation	53	57
Loan forgiveness	-	(1,164)
Working capital movements		
– Trade and other receivables	(95)	(49)
– Inventory	86	(548)
– Trade and other payables	693	1,241
Classified as investing activities		
– Movement in inventory	(70)	-
– Movement in trade and other payables	(398)	-
Working capital introduced		
– Trade and other receivables	-	429
– Inventory	-	548
– Trade and other payables	-	(1,674)
– Advances	-	780
Net cash outflow from operating activities	(2,059)	(2,976)

The above statement should be read in conjunction with the accompanying notes

1. General Information

L&M Energy Limited (the 'Company') and its subsidiary (L&M Coal Seam Gas Limited) (together the 'Group') are involved in exploring for oil, natural gas and coal seam gas. The Company changed its name from L&M Petroleum Limited to L&M Energy Limited on 11 January 2010.

The Company is incorporated and domiciled in New Zealand. The address of its registered office is Level 9, St John House, 114 The Terrace, Wellington, New Zealand.

These condensed interim financial statements have been approved for issue by the Board of Directors on 9 September 2011.

2. Summary of significant accounting policies

These condensed interim financial statements do not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing activities of the Group as the full financial report. Accordingly, this condensed interim financial report should be read in conjunction with the Annual Financial Report of L&M Energy Limited for the year ended 31 December 2010.

a. Basis of preparation

The financial statements have been prepared in accordance with NZ IAS 34: Interim Financial Reporting and New Zealand Generally Accepted Accounting Practice as applicable for profit-oriented entities. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with NZ IFRS.

The principal accounting policies applied in the preparation of these interim consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2010 except as described below.

Going concern

The use of the going concern assumption is dependent on the ability of the Group to fund its planned future expenditure, the level of which will depend on decisions taken by the Directors in respect of future work programmes.

The Group will seek additional capital to fund further exploration and/or development expenditure. The ability of the Group to obtain further capital is partly dependent on the success of work being undertaken on existing prospects.

The financial statements of the Group have been prepared on a going concern basis. The Directors are confident that this is appropriate because the Group can amend planned expenditure to meet the existing funding available.

However, the nature of the business is such that there is uncertainty around the viability of existing prospects and the ability of the Group to obtain further funding.

These financial statements do not include any adjustments that may need to be made to reflect the situation should the Group be unable to obtain future funding. Such adjustments may include assets being realised at amounts other than the amounts at which they are currently recorded in the statement of financial position. In addition, the Group may have to provide for further liabilities that may arise and to reclassify certain non-current assets as current in the statement of financial position.

Entity reporting

With effect from 26 February 2010 L&M Energy Limited became the legal parent of L&M Coal Seam Gas Limited. This business combination, effected through an exchange of equity interests, has been accounted for as a reverse acquisition in accordance with NZ IFRS 3, "Business combinations".

The key features of this basis of consolidation are:

- the consolidated statement of comprehensive income includes the results of L&M Coal Seam Gas Limited for the period until 26 February 2010, with the addition of the results of L&M Energy Limited from 26 February 2010 (the acquisition date);

- the retained (loss)/earnings recognised in the consolidated financial information reflect the retained earnings of L&M Coal Seam Gas Limited immediately before the business combination and the results of the Group since acquisition date;

- the issued capital recognised in the consolidated financial information represents the value of the L&M Coal Seam Gas Limited's issued equity before the business combination, the fair value of L&M Energy Limited on acquisition date, and the fair value of share capital issued by L&M Energy Limited subsequent to acquisition date; and

- the equity structure appearing in the consolidated financial information reflects the equity structure of the legal parent, L&M Energy Limited including the equity instruments issued to effect the business combination.

Statutory base

L&M Energy Limited is a company registered under the Companies Act 1993. The Company is listed on the Australian and New Zealand stock exchanges and is an Issuer in terms of the Financial Reporting Act 1993.

L&M Coal Seam Gas Limited is a company registered under the Companies Act 1993. It is wholly owned by L&M Energy Limited.

Accounting standards

The following amendment was effective on 1 January 2011 and has been adopted by the Group.

NZ IAS 24 (Revised), 'Related party disclosures', issued in November 2009: It supersedes NZ IAS 24, 'Related party disclosures', issued in 2003 and clarifies and simplifies the definition of a related party. There has been no impact on the Group financial statements as a result of applying the amended standard.

The following new standards and amendments that are not yet effective and have not yet been applied are relevant to the Group. The Group is yet to assess any impact of these changes.

NZ IAS 1, 'Financial statement presentation' was amended to require presentation of items in Other Comprehensive Income on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendments are effective for periods beginning on or after 1 July 2012.

NZ IFRS 9, 'Financial instruments – classification and measurement' addresses the classification of financial assets and liabilities and will replace NZ IAS 39, 'Financial instruments: recognition and measurement'. NZ IFRS 9 has two measurement categories: amortised cost and fair value. This new standard is effective for periods beginning on or after 1 January 2013.

NZ IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as a determining factor in whether an entity should be included within the consolidated financial statements. It also provides additional guidance to assist in determining control where that is difficult to assess. This new standard is effective for periods beginning on or after 1 January 2013.

NZ IFRS 11, 'Joint arrangements' requires classification of joint arrangements by focussing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. This new standard is effective for periods beginning on or after 1 January 2013.

NZ IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interest in other entities, including joint arrangements and special purpose vehicles. This new standard is effective for periods beginning on or after 1 January 2013.

3. Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out in accordance with the provisions of a treasury policy approved by the Board of Directors. The treasury policy provides written guidelines covering specific areas such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and investment of excess liquidity.

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency.

The Group incurs expenditure in currencies other than New Zealand dollars and is thereby exposed to foreign exchange risk arising from currency exposures. Where this risk exists, and is material, the Group holds cash in currencies in amounts approximately equivalent to the amount of expenditure that the Group expects to incur in that currency. Alternatively the Group may enter into forward exchange contracts.

The Group's exposure to currencies is as follows:

	Exchange rate	**30/6/11**	31/12/10	30/6/10
		Unaudited		Unaudited
		NZ$'000	NZ$'000	NZ$'000
United States dollar	0.8232	1	1	1
Australian dollar	0.7721	19	1,946	75
		20	1,947	76

Sensitivity analysis:

As at 30 June 2011 had the New Zealand Dollar weakened/strengthened by 10% against foreign currencies held by the Group, with all other variables held constant, the Group's profit before income tax and equity would change by approximately $2,000 (6 months ending 30/6/10: $ 8,000) at period end.

Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions.

There are no significant concentrations of credit risk other than cash deposits.

The Group's cash deposits are primarily held with the Bank of New Zealand (30/6/11: $4,240,000; 31/12/10: $8,748,000). In addition, the Group also uses the National Australia Bank. Credit ratings of these banks are as below:

	Short term	Long term
Bank of New Zealand		
Standard & Poors Corporation	A-1+	AA
Moody's Investors Service, Inc.	P-1	Aa2
National Australia Bank		
Standard & Poors Corporation	A-1+	AA
Moody's Investors Service, Inc.	P-1	Aa3

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to pay obligations as they fall due. Due to the dynamic nature of the underlying businesses, the Group aims to maintain the maximum flexibility in funding options as deemed prudent. The table below shows the Group's financial liabilities in relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year NZ$'000	Between 1 and 2 years NZ$'000	Over 2 years NZ$'000
At 30 June, 2011 (Unaudited)			
Trade and other payables	1,154	-	-
At 31 December, 2010			
Trade and other payables	445	-	-
At 30 June, 2010 (Unaudited)			
Trade and other payables	1,479	-	-

Interest rate risk

As the Group has significant interest-bearing assets, the Group income and operating cash flows are affected by changes in market interest rates.

The Group has no debt which carries interest rate risk (31/12/10: Nil).

Sensitivity analysis:

It is estimated that an average decrease/increase of one percentage point in the interest rates earned on cash held throughout the period would have changed the Group's comprehensive income and total equity by approximately $10,000 (6 months ending 30/6/10: $19,000).

4. Capital risk management

The Group's capital includes share capital, reserves and retained earnings. There have been no changes in the management of capital during the year. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to achieve this the Group may issue new shares in order to meet its financial obligations.

5. Segment information

Management has determined the operating segments based on the reports reviewed by the Managing Directors that are used to make strategic decisions. The Group has aggregated its segments into two reportable segments on the basis of the economic characteristics, regulatory environment, products, production processes and type of customer. The two reportable segments are Coal Seam Gas and Petroleum.

The Petroleum segment includes revenue and other income derived from single external customers that are more than 10% of the Group's revenue and other income as follows:

	30/6/11	30/6/10
	Unaudited	Unaudited
	NZ$'000	NZ$'000
Waiau Joint Venture	-	45
Alton Joint Venture	73	109
Kahili Joint Venture	130	-

Segment information is as follows:

30/6/11 NZ$'000	**Coal Seam Gas**	**Petroleum**	**Unallocated[1]**	**Total**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Exploration expense	(3)	(738)	(3)	(744)
Employee benefits expense	(397)	(216)	(74)	(687)
Depreciation and amortisation expense	(39)	(14)	-	(53)
Other expenses	(154)	(861)	(190)	(1,205)
Stock compensation expense	-	-	(712)	(712)
Revenue	-	113	-	-113
Other income	-	175	-	175
Finance income	-	73	-	73
(Loss) before income tax	(593)	(1,468)	(979)	(3,040)

30/6/10 NZ$'000	Coal Seam Gas Unaudited	Petroleum Unaudited	Unallocated[1] Unaudited	Total Unaudited
Exploration expense	(2,412)	(234)	-	(2,646)
Employee benefits expense	(385)	(406)	-	(791)
Depreciation and amortisation expense	(36)	(21)	-	(57)
Other expenses	(89)	(286)	(76)	(451)
Stock compensation expense			(7,137)	(7,137)
Revenue	-	55	-	55
Other income	-	99	1,164	1,263
Finance income	-	-	31	31
(Loss) before income tax	(2,922)	(793)	(6,018)	(9,733)

(1) 'Unallocated' relates to Corporate activities

6. Revenue and other income

	30/6/11 Unaudited NZ$'000	30/6/10 Unaudited NZ$'000
Revenue – overhead recoveries from Joint Ventures	113	55
Other income – sundry	175	99
– loan forgiveness	-	1,164
– proceeds from sale of inventory	63	-
	238	1,263

7. Finance income, other expenses and other operating gains

	30/6/11	30/6/10
	Unaudited	Unaudited
	NZ$'000	NZ$'000
Other expenses include:		
Gain on inventory	-	(52)
Cost of inventory sold	75	-
Foreign exchange loss/(gain)	(34)	69
Write off of exploration in progress	487	-
	528	17
Finance income:		
Interest received on cash and cash equivalents	93	31
Interest expense	(20)	-
Net finance income	73	31

8. Income tax expense

	30/6/11	30/6/10
	Unaudited	Unaudited
	NZ$'000	NZ$'000
Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	3,039	9,733
Tax at the company rate of 30% (2010: 30%)	(912)	(2,920)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not deductible for tax	230	2,151
Temporary differences not recognised	(1)	4
Benefit of tax losses not brought to account	683	765
Income tax expense	-	-
Current tax	-	-
Deferred tax	-	-
	-	-
Tax losses		
Unused tax losses for which no deferred tax has been recognised	17,113	11,809
Potential tax benefit @ 28% (2010: 30%) [1]	4,792	3,543

(1) Recognition and utilisation of potential tax benefits is subject to meeting requirements of the relevant tax legislation.

9. Earnings per share

A reconciliation of the denominators of the basic and diluted loss per share calculations is as follows:

	30/6/11	30/6/10
	Unaudited	Unaudited
Basic denominator	737,807,175	485,579,348
Vested share options:		
Class A	18,500,000	17,500,000
Class B	-	3,000,000
Class C	4,375,000	3,281,250
Class E	20,750,000	29,972,374
ESOP (Employee Share Option Plan)	5,566,190	1,922,939
Unvested share options	163,343	125,483
Diluted denominator	787,161,708	541,381,394

Basic and diluted loss per share calculations are as follows:

	30/6/11	30/6/10
	Unaudited	Unaudited
	NZ$'000	NZ$'000
Numerator: net loss for the period	(3,039)	(9,733)
a) Basic denominator		
Weighted average number of shares	737,807,175	485,579,348
Basic loss per share	$(0.01)	$(0.02)
b) Diluted denominator		
Weighted average number of shares	787,161,708	541,381,394
Diluted loss per share	$(0.01)	$(0.02)

10. Cash and cash equivalents

	30/6/11	31/12/10	30/6/10
	Unaudited		Unaudited
	NZ$'000	NZ$'000	NZ$'000
Cash at bank and in hand	79	22	10
Deposits at call	1,241	2,213	1,428
Term deposits	2,924	6,513	10
	4,244	8,748	1,448

Cash at bank, deposits at call and term deposits are placed with either the Bank of New Zealand or the National Australia Bank.

As at 30 June 2011 the Group's deposits were earning an effective interest rate 2.42% (31/12/10: 3.65%).
As at 30 June 2011 the Group had no borrowings. (31/12/10: Nil).

11. Trade and other receivables

	30/6/11	31/12/10	30/6/10
	Unaudited		Unaudited
	NZ$'000	NZ$'000	NZ$'000
Receivables:			
Trade receivables – Current	26	-	1
- Current - related parties (note 21)	72	34	24
Other receivables – Current	6	100	62
- Current - related parties (note 21)	93	-	-
Prepayments	32	-	27
	229	134	114

Impairment of receivables is considered on an individual basis after assessing the recovery risks. No impairment has been recognised in the current period.

12. Inventories

	30/6/11	31/12/10	30/6/10
	Unaudited		Unaudited
	NZ$'000	NZ$'000	NZ$'000
Drilling stock/seismic acquisition stock			
- At cost	327	377	377
- At fair value less costs to sell	362	398	410
	689	775	787

The usage of inventory is dependent upon the timing of the drilling and seismic activities of the Group.

13. Trade, other payables and provisions

	30/6/11	31/12/10	30/6/10
	Unaudited		Unaudited
	NZ$'000	NZ$'000	NZ$'000
Employee entitlements	44	60	94
Accrued expenses	24	102	621
Accrued expenses – related parties (note 21)	133	65	20
Trade payables	728	233	827
Trade payables – related parties (note 21)	269	45	11
Total trade and other payables	1,198	505	1,573
Provisions	23	23	12
Provisions – related parties	7	7	3
Total provisions	30	30	15

14. Financial instruments by category

	30/6/11 Unaudited NZ$'000	31/12/10 NZ$'000	30/6/10 Unaudited NZ$'000
Assets per statement of financial position			
- Loans and receivables			
- Cash and cash equivalents	4,244	8,748	1,448
- Trade and other receivables	197	134	87
	4,421	8,882	1,535
Liabilities at amortised cost			
- Trade and other payables	1,154	445	1,479

15. Imputation credits

	30/6/11 Unaudited NZ$'000	31/12/10 NZ$'000	30/6/10 Unaudited NZ$'000
Balances			
Imputation credit account	-	-	1
	-	-	1
Movements: Imputation credit account			
Balance at the beginning of the year	-	1	1
Write off	-	(1)	-
Balance at end of Period	-	-	1

16. Contributed equity

	Shares					
	30/6/11	31/12/10	30/6/10	**30/6/11**	31/12/10	30/6/10
	Unaudited		Unaudited	**Unaudited**		Unaudited
				NZ$'000	NZ$'000	NZ$'000
a. Share capital						
Ordinary shares						
Fully paid (no par value)	754,405,518	730,555,518	626,102,000	40,274	36,886	26,151
Total contributed equity				40,274	36,886	26,151

The authorised share capital of the Company is an unlimited number of shares without par value.

Changes in the shares issued and contributed equity are as follows:

Date	Number of shares	Consideration NZ$'000	Average Price
1 January 2010	**300**	**-**	-
Reverse acquisition adjustment	624,301,700	26,295 [(1)]	-
Shares issued:			
4 March 2010	800,000	-	NZ$0.00001
1 June 2010	1,000,000	-	NZ$0.00001
Capital raising costs	-	(144)	-
30 June 2010	**626,102,000**	**26,151**	
2 July 2010	78,980,022	8,740	NZ$0.11
16 July 2010	1,000,000	-	NZ$0.00001
9 September 2010	12,573,496	1,405	NZ$0.11
30 September 2010	1,000,000	-	NZ$0.00001
1 November 2010	11,100,000	1,295	NZ$0.12
Capital raising costs		(849)	
31 December 2010	**730,755,518**	**36,886**	
21 February 2011	1,000,000	-	NZ$0.00001
6 April 2011	3,100,000	-	NZ$0.0001
17 May 2011	19,550,000	2	NZ$0.0001

Capital raising costs		(10)	
Share options exercised/forfeited		3,396	
30 June 2011	**754,405,518**	**40,274**	

(1) Refer note 2(a)

As at 30 June 2011 there were 754,405,518 shares issued and fully paid. All ordinary shares carry equal rights in respect of voting, dividend payments and distribution upon winding up.

b. Share options

The total number of share options outstanding at 30 June 2011 was 80,940,000 (30 June 2010: 92,490,000) at a weighted average exercise price of A$0.12 per option (30 June 2010: A$0.09). The weighted average remaining contractual life of share options outstanding at 30 June 2011 was 1,047 days (30 June 2010: 1,342 days).

The total number of share options exercisable at 30 June 2011 was 51,375,000 (30 June 2010: 69,777,500) at a weighted average exercise price of A$0.14 per option (30 June 2010: A$0.09).

Share option compensation expense of $712,323 was incurred in the period (30 June 2010: $7,136,775). Share option compensation expense incurred in respect to employees was $475,105 (30 June 2010: $775,283) and $237,217 was incurred in respect of non-employees (30 June 2010: $6,361,492).

The weighted average fair value of share options granted to Directors, employees and advisors during the period determined using the Black-Scholes valuation model was A$0.0922 per option (30 June 2010: A$0.1202). The significant inputs into the valuation model were a share price of A$0.12 (30 June 2010: A$0.12 – A$0.16), exercise price of A$0.12 (30 June 2010: A$0.00 – A$0.14), volatility of 100% (30 June 2010: 100%), option life based on the expiry date, annual risk-free rate of 5.0% (30 June 2010: 5%) and an expected dividend yield of nil (30 June 2010: Nil). Volatility is based on historical volatility for comparable companies. For the period ended 30 June 2011 the volatility assumption has been compared with the volatility of the Company's share price since listing for reasonableness.

Throughout the period share options were issued as follows:

Date	Number issued	Exercise price	Vesting dates (1)	Expiry dates
Employee Share Option Plan (ESOP)	11,250,000	A$0.12	3 May 2012 – 3 May 2015	2 May 2016

(1) The vesting of share options issued under the ESOP is conditional on the recipients remaining in service to the Company throughout the vesting period unless approved otherwise by the Directors.

Details of share options outstanding at 30 June 2011 are as follows:

Date	Number outstanding	Exercise price	Future vesting dates	Expiry dates
Class A	18,500,000	A$0.30	Fully vested	31 Dec 2011
Class C	4,375,000	A$0.20	Fully vested	31 Dec 2011
Class E	33,350,000	NZ$0.0001	23,900,000 fully vested 9,450,000 vest between 27 Feb 2012 – 27 Feb 2014	26 Feb 2015
ESOP	24,715,000	A$0.10 – A$0.30	4,600,000 fully vested 20,115,000 vest between 31 Oct 2011 – 3 May 2015	1 Feb 2012 – 2 May 2015

Except for exercise price, vesting terms and expiry dates, terms and conditions of share option classes A, B, C and E are materially identical.

Movements in the number of share options outstanding were as follows:

	Class A	**Class B**	**Class C**	**Class E**	**ESOP**	**TOTAL**
Balance at 1 Jan 2010	-	-	-	-	-	-
Reverse acquisition adjustment	18,500,000	4,800,000	4,375,000	-	6,210,000	33,885,000
Issued during period	-	-	-	56,000,000	4,405,000	60,405,000
Exercised	-	(1,800,000)	-	-	-	(1,800,000)
Balance at 30 June 2010	**18,500,000**	**3,000,000**	**4,375,000**	**56,000,000**	**10,615,000**	**92,490,000**
Issued during period	-	-	-	-	5,250,000	5,250,000
Exercised	-	(2,000,000)	-	-	-	(2,000,000)
Forfeited	-	-	-	-	(700,000)	(700,000)
Balance at 31 December 2010	**18,500,000**	**1,000,000**	**4,375,000**	**56,000,000**	**15,165,000**	**95,040,000**
Issued during period	-	-	-	-	11,250,000	11,250,000
Exercised	-	(1,000,000)	-	(22,650,000)	-	(23,650,000)
Forfeited	-	-	-	-	(1,700,000)	(1,700,000)
Balance at 30 June 2011	**18,500,000**	**-**	**4,375,000**	**33,350,000**	**24,715,000**	**80,940,000**

17. Reserves and accumulated losses

a. Accumulated losses

Movements in accumulated losses were as follows:

	30/6/11	31/12/10	30/6/10
	Unaudited		Unaudited
	NZ$'000	NZ$'000	NZ$'000
Opening accumulated losses	(13,235)	(459)	(459)
Transfer from share option compensation reserve	10	-	-
Net loss for the period	(3,039)	(12,776)	(9,733)
Closing accumulated losses	(16,264)	(13,235)	(10,192)

b. Share option compensation reserve

Movements in the share option compensation reserve were as follows:

	30/6/11	31/12/10	30/6/10
	Unaudited		Unaudited
	NZ$'000	NZ$'000	NZ$'000
Opening share option compensation reserve	8,031	-	-
Transfer on exercise/ forfeiture	(3,406)	-	-
Share option compensation expense for the period	712	8,031	7,137
Closing share option compensation reserve	5,337	8,031	7,137

18. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	30/6/11	30/6/10
	Unaudited	Unaudited
	NZ$'000	**NZ$'000**
a) Assurance services		
Audit services		
PricewaterhouseCoopers New Zealand firm		
Audit and review of financial reports	21	8
Total remuneration for audit services	21	2
b) Taxation services		
PricewaterhouseCoopers New Zealand firm		
Tax compliance services, including review of income tax returns	17	22
Total remuneration for taxation services	17	22

It is the Group policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are desirable.

19. Contingencies

There are no contingent liabilities art reporting date.

20. Commitments

	30/6/11 Unaudited NZ$'000	30/6/10 Unaudited NZ$'000
i) Operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	88	56
Later than one year but not later than five years	37	91
Later than five years	-	-
	125	147

ii) Exploration permits

The Group will incur ongoing exploration expenditure as part of its normal operations in order to maintain the permits in which it has an interest. The actual costs will be dependent on the final scope and timing of activities.

	30/6/11 Unaudited NZ$'000	30/6/10 Unaudited NZ$'000
Planned expenditure for exploration work programs are as follows:		
Within one year	1,922	4,572
Later than one year but not later than five years	-	100
	1,922	4,672

Lease payments amounting to $59,047 (30 June 2010: $18,668) relating to the lease of the office building and equipment are included in the Statement of Comprehensive Income.

21. Related party transactions

Related entities

The following entities are related to the Group:

- L&M Mining Limited (common director)

The following entities are related parties by virtue of joint venture relationships with the Group:

- Mighty River Power Limited (note 22)
- Mosaic Oil Limited (note 22)
- Roc Oil (New Zealand) Limited (note 22)
- PEP38226 (Waiau) Joint Venture (note 22)
- PEP51151 (Alton) Joint Venture (note 22)
- PEP52181 (Kaheru) Joint Venture (note 22)
- PEP53247 (Kahili) Joint Venture (note 22)

Directors

The names of persons who were directors of the Company at any time during the period are as follows: A Loudon, K Anson, D Ellenor, G Hogan, C Lutyens and T Taylor.

Directors fees of $62,500 (30 June 2010: $42,295) were incurred in the period. Mr Loudon's fees are donated to the Outward Bound Trust of New Zealand. In addition, share option compensation expense of $195,347 (30 June 2010: $3,087,354) was incurred relating to share options granted to non-executive Directors.

Key management and personnel compensation

The key management personnel include the Non-executive Directors, Managing Directors, Exploration Manager, Commercial Manager and the Chief Financial Officer. Key management received benefits during the period as follows:

NZ$'000	Short term benefits	Post employment benefits	Long term benefits	Termination payments	Share option compensation expense	Total
30/6/11 Unaudited	588	-	-	-	655	1,243
30/6/10 Unaudited	550	-	-	-	3,211	3,761

Transactions with related entities

The following transactions occurred with related entities:

	30/6/11 Unaudited NZ$'000	30/6/10 Unaudited NZ$'000
Exploration and permit administration expenditure		
PEP38226 (Waiau) Joint Venture [(1)]	38	42
PEP51151 (Alton) Joint Venture	558	141
PEP52181 (Kaheru) Joint Venture	123	14
PEP53247 (Kahili) Joint Venture	501	-
[(1)] Includes exploration expenditure on projects sole risked by the Group	1,220	297
Revenue and other income		
PEP51151 (Alton) Joint Venture	73	109
PEP38226 (Waiau) Joint Venture	-	45
PEP53247 (Kahili) Joint Venture	130	-
	203	154

Other transactions

	30/6/11	30/6/10

	Unaudited NZ$'000	Unaudited NZ$'000
Gain on inventory - Waiau Joint Venture	-	52

Outstanding balances

	30/6/11 Unaudited NZ$'000	30/6/10 Unaudited NZ$'000
Accounts receivable		
PEP38226 (Waiau) Joint Venture	-	1
PEP51151 (Alton) Joint Venture	103	1
PEP53247 (Kahili) Joint Venture	62	-
	165	2
Accounts payable, accrued expenses and provisions		
PEP38226 (Waiau) Joint Venture	7	3
PEP51151 (Alton) Joint Venture	295	11
PEP52181 (Kaheru) Joint Venture	84	-
PEP53247 (Kahili) Joint Venture	24	-
	410	14

Terms and conditions

The Group and its related parties undertake normal commercial transactions on an arm's length basis. These transactions include the provision of the loan finance, management expertise, and other financial arrangements to allow the Group to meet its obligations. These parties are related by virtue of common ownership and/or common directors.

22. Interests in joint ventures

The Group participates as a:

- 90.0% partner in the PEP38226 (Waiau) Joint Venture (1)
- 50.0% partner in the PEP51151 (Alton) Joint Venture
- 25.0% partner in the PEP53247 (Kahili) Joint Venture
- 15.0 % partner in the PEP 52181 (Kaheru) Joint Venture

The principal activities of all joint ventures the Group participates in are oil and gas exploration and the Group's interests are considered an interest in jointly controlled assets under NZ IAS31.

(1) Government approval of the acquisition of the remaining 10% of PEP38226 was received by the Company on 4 August, 2011.

	30/6/10	30/6/10
	Unaudited	Unaudited
	NZ$'000	NZ$'000
Company share of joint venture assets and liabilities		
Current assets	277	129
Total assets	277	129
Current liabilities	410	14
Total liabilities	410	14
Company share of joint venture income and expenditure		
Revenue	203	154
Expenses	(1,220)	(297)
Net loss before taxation	(1,017)	(143)

As at 30 June 2011 there were no capital commitments (30 June 2010: $Nil) related to the Joint Ventures in which the Group participates.

There are no contingent liabilities related to the Group's interests in Joint Ventures and no contingent liabilities of the Joint Ventures themselves.

23. Events occurring after the reporting date

Government approval of the acquisition of the remaining 10% of PEP38226 was received by the Company on 4 August, 2011.

Following reporting date, the Company plugged and abandoned the Talon-1 exploration well in PEP51151 (50% share). An amount of $487,000 was written off in the period ended 30 June, 2011. A further amount of approximately $885,000 was written off following reporting date.

In July 2011 an agreement with New Zealand Energy Corporation ("NZEC") was finalised under which NZEC would:

(a) Fund the Company's share of costs incurred in drilling the Talon-1 exploration well; and

(b) Contribute towards the Company's costs incurred in finalising the NZEC agreement.

Within the reporting period the Company received $85,000 under part (b) of the agreement.

The agreement will become unconditional upon NZEC receiving Government approval to the acquisition of a 50% interest in PEP51151 from AGL Upstream Gas (MOS) Pty Limited.
When the agreement becomes unconditional, under part (a) of the agreement, the Company will receive:

- Reimbursement of $487,000 of costs incurred within the reporting period; and
- Reimbursement of $885,000 of costs incurred after the reporting period.

There have been no other events subsequent to the balance date which require disclosure in or adjustment to the financial statements.