L&M ENERGY LIMITED ANNUAL REPORT

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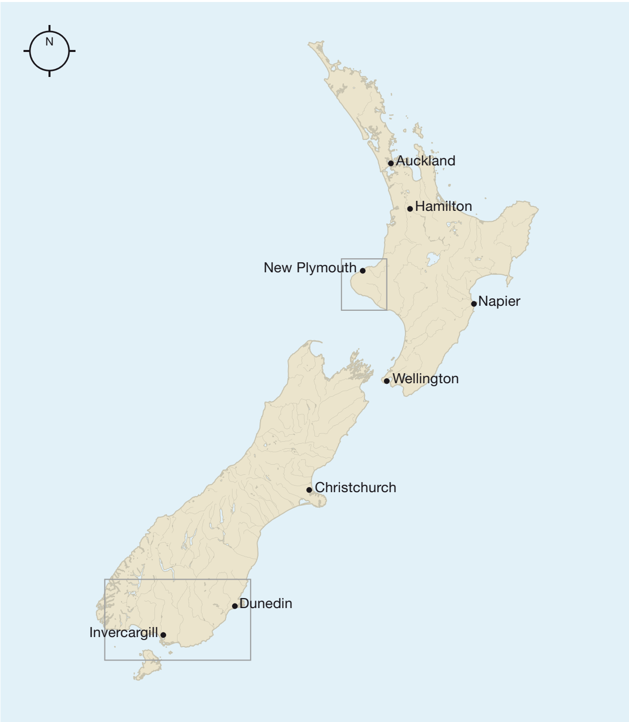
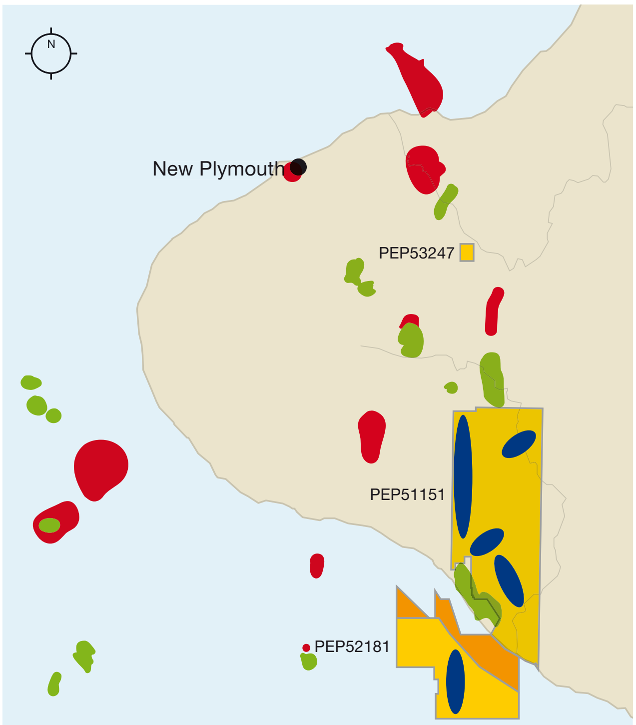
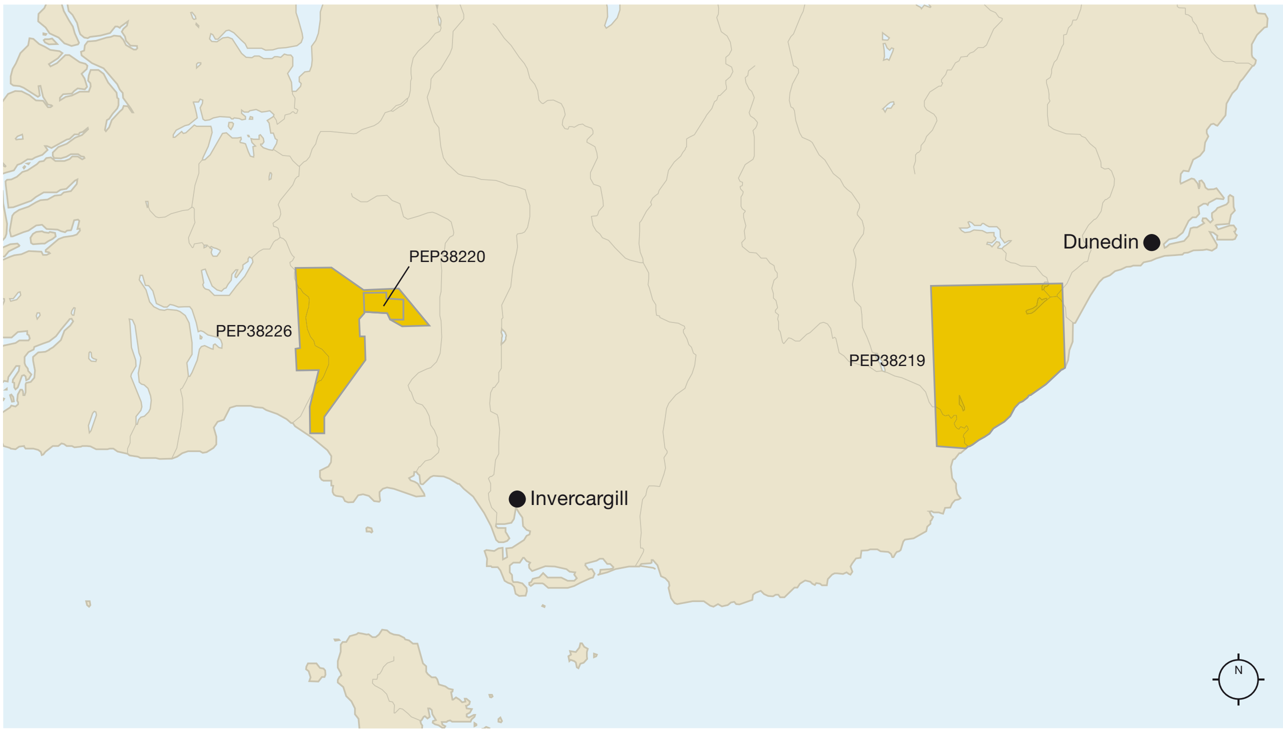
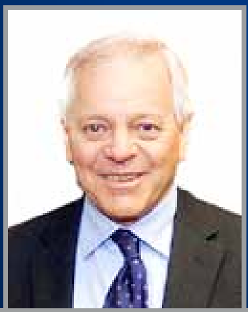
PETROLEUM EXPLORATION PERMITS







LME Permits	Kaheru Extension	Gas Field	Oil Field	LME Prospects



CHAIRMAN'S REPORT

Dear Shareholder,

2010 was a transformational year for your company.

We have developed from a modest wildcat explorer to a better funded merged entity ready to tackle larger challenges. We now have substantial 3P gas reserves in the gas deficient South Island and a series of exploration prospects in the oil and gas producing fairways of the Taranaki Region of the North Island.

2010 started with shareholders approving in February the merger of your company L&M Petroleum with unlisted L&M Coal Seam Gas and the merged entity being known as L&M Energy. The merger brought with it 173 PJ of 3P gas reserves at Ohai in Southland which have subsequently been expanded to 274PJ. Invercargill in Southland is New Zealand's most southerly city near three of the nation's largest industrial enterprises:

- the Rio Tinto Alcan NZ aluminium smelter at Tiwai Point, near Bluff
- Fonterra's Edendale export dairy factory, the world's largest milk processing facility; and
- the HW Richardson Group, one of New Zealand's largest road transport operators.

A number of gas off-take opportunities exist because New Zealand's South Island currently has no natural gas supply and relies totally on hydro electricity, diesel, heavy fuel oil, LPG and coal for energy. Our General Manager – Commercial has been very encouraged by enquiries to date for natural gas.

During 2010 your management focused on the strategy to switch from wildcat exploration in remote non-producing regions to exploring in strategic acreage amongst existing production. To accomplish this we continued in our Joint Venture with Australian producer Mosaic Oil in respect to Exploration Permit PEP 51151 "Alton" adjacent to the Rimu/Kauri/Manutahi producing oil fields. Seismic lines have been shot to define a prospect which we plan to drill in mid-2011. We and our Joint Venture associates also bid for the nearby "Kaheru" and "Kahili" permits which were subsequently granted in 2011.

With the implementation of our new strategy we are now proceeding to the more difficult task of delivering in 2011 and beyond. This is very exciting and I believe your company has the winning combination of experience and enthusiasm to establish an energy business based on new discoveries which will benefit all New Zealanders.

It is appropriate to acknowledge the sterling work of our employees and contractors who have achieved a lot in a short time since our initial public offering in 2007. The people, land owners and institutions of both Southland and other regions where we work are gratefully acknowledged for their support as we strive to develop new energy sources for the nation. John Bay, our first Managing Director who left the company in 2010 is thanked for his leadership and his part in the development of our current strategy.

Finally I would like to pay tribute to the brave people of Christchurch who have suffered two major earthquakes and thousands of aftershocks with serious loss of life and destruction of property. I am a Christchurch resident myself and was in our office when the 22nd February earthquake struck. Fortunately all of our staff and families escaped unharmed and although our office will need to be relocated we continue to service our coal seam gas activities from Christchurch.

Yours faithfully,

Geoff Loudon
Chairman

MANAGING DIRECTOR'S REPORT

On behalf of the Board, it is my pleasure to present L&M Energy's Annual Report for the year ending 31st December 2010 and my first as Managing Director.

2010 has been an extremely active year on all fronts for your Company. During the Special General Meeting on the 22nd of February 2010 shareholders overwhelmingly approved the merger between L&M Energy and L&M Coal Seam Gas. The merger resulted in the creation of the largest coal seam gas exploration portfolio within New Zealand, a first tranche of 3P reserves of 173 PJ and an extensive exploration programme.

A key part of the exploration programme was well OM#4, located within the previously unexplored western part of the Ohai coal seam gas field, which encountered more than 40 metres of gassy coal. The Ohai pilot project which is currently underway has also been integral. This pilot forms part of the Company's 2P reserves campaign as we look to certify our first tranche of 2P reserves during 2011 following the increase in Ohai project 3P gas reserves by nearly 60% to 274 PJ during the year. These reserves exclude any resources which may extend into the Company's adjoining Waiau permit, in which L&M plans to pursue 3P reserves potential in late 2011 with additional drilling upon the successful completion of the Ohai pilot project.

In addition to its coal seam gas portfolio, the Company has significantly increased its conventional petroleum acreage in the prolific and highly prospective Taranaki basin to approximately 800km^2 (gross) with the award of the Kaheru and Kahili blocks in addition to the existing Alton Permit. The Company's earlier seismic work within Alton (PEP51151) has led to the identification of the Company's first well in Taranaki, Talon-1. This shallow oil prospect is scheduled to commence drilling in the second quarter of 2011.

In parallel with developing the reserve base at Ohai, the Company has continued to pursue all the necessary elements required to be able to sell power produced from the Pilot Project. This includes a 1MW genset on site, connection into the local electricity network and, most importantly, an electricity offtake contract with a major electricity user. The Company has also completed its first pass review of the potential for developing an LNG project. The results indicate that the market size for both static load and transport use of LNG could support, in the first instance, a single 50 tonne/day LNG plant. Discussions are ongoing with potential offtakers of LNG that could be produced as the gas resource is developed at Ohai. Furthermore, a successful capital raise of NZ$11.4m (before costs) during 2010 via an institutional offer and share purchase plan has provided the Company with sufficient funds to continue its forward work programmes across our extensive conventional petroleum and coal seam gas portfolio which has the potential to deliver considerable value to its shareholders.

Finally, I wish to thank the efforts of L&M Energy's Directors, management and staff and look forward to an exciting year in the Company's history.

Regards,

Kent Anson
Managing Director

Operations Review – Coal Seam Gas

PEP 38220 – Ohai (100%)

PEP 38220 (Ohai) is one of two coal seam gas permits held within the Western Southland region of the South Island and is the current focus of L&M Energy's appraisal activities.

Exploration work continued during 2010 with core well OM#4, which was drilled to confirm the continuation of the Morley and Beaumont coal measures in the western portion of the permit. OM#4 successfully reached a total depth of 1034m after intersecting ~40m of coal across both the Morley and Beaumont coal measures. Gas desorption analyses indicated gas contents up to 11m^3 per tonne of coal on a dry ash free basis. The review and certification of this analysis by MHA Petroleum Consultants LLC – based in Denver US – led to a 60% upgrade in 3P reserves to 274PJ.

Following OM#4 planning commenced on a production pilot with a view to determining potential gas production profiles of the Morley coals and leading to the certification of the Company's first tranche of 2P gas reserves. In order to optimise well placement and completion planning a 4.4km 2D seismic line was acquired mid-year.

The Company is trialling a lateral completion method for the pilot project, a technique which has been highly successful in a number of similar commercial CSG projects internationally. The first well within the pilot programme – production well OM#5 – was drilled to a total depth of 645m after intersecting approximately 52.2m of net coal within the target Morley coal measures across an interval of only 62.4m. Further, the thickness of the target Morley #2 seam measured 38.2m, which greatly exceeded all expectations for the area. The final drilling phase of the pilot includes two horizontal lateral wells which will be drilled to intersect OM#5 using proven directional drilling methods. Each of the lateral wells will pass through approximately 700m of coal with the gas they produce to be extracted from OM#5.

PEP 38226 – Waiau (90%)

PEP 38226 (Waiau) adjoins PEP 38220 (Ohai) and makes up the remaining portion of the company's Western Southland coal seam gas play, covering a combined area of over 600km^2.

Upon the successful completion of the Ohai pilot project the company will look to certify further 3P gas reserves within the permit area. Interpretation from an extensive 2D seismic campaign conducted across the two permits during 2008 indicated that the Morley coals may extend into the neighbouring Waiau permit and therefore could result in considerable upside to the company's current 3P reserve position.

The Company has applied for Ministerial consent to acquire the remaining 10% equity held by Mighty River Power. Following the completion of this process, the Company will hold no further obligations to the Joint Venture. A number of coal seam gas wells have been drilled in the Waiau permit and holding 100% of the permit will allow future activity to be undertaken in conjunction with the Ohai programmes.

PEP 38219 – Kaitangata (100%)

The final South Island coal seam gas permit, PEP 38219, is located within South Otago, approximately 70km south of the city Dunedin and covering an area of 1,114km^2. The area is well known for gas occurrences and was the site for a major mine explosion in 1870. Prior to L&M acquiring the permit, in excess of 500 coal exploration wells have been drilled in the area resulting in a significant dataset which is available to the Company. An exploration programme for the area is currently being prepared to further investigate the coal seam gas resource potential within the area.

PEP 50348 – South Waikato (100%)

The South Waikato project is located on the North Island, just south of the city of Hamilton covering an area of 3,920km^2. The area is a well-known coal basin, producing coal for the past 100 years and is close to key infrastructure as the Maui gas pipeline crosses the permit.

Three exploration wells were drilled within South Waikato during the year: Mangapehi-2, Arapae-1 and Te Kuiti-1. Mangapehi-2, located in the southwest section of the permit was drilled to 603m and identified a new block of coal after intersecting 2.9m. Arapae-1 well was drilled to 260m after intersecting 20.5m of Waikato coal measures. The final well of the three-well programme, Te Kuiti-1, reached a total depth of ~449m. No significant coal seams were intersected. The Company surrendered this permit in March 2011.

Operations Review – Conventional

The Company's conventional exploration strategy has evolved from activity in relatively unexplored areas to exploring within areas which have been successful in supporting commercial oil and gas production; namely the Taranaki Basin.

The Taranaki Basin contains all NZ's commercial oil and gas fields which are hosted on multiple stratigraphic horizons. The Company has so far been successful in all its Taranaki Basin permit applications resulting in the grant of three permits (two onshore and one offshore) in a highly productive "corridor" of currently producing fields that have ultimate recoverable reserves of close to 100 million barrels and 0.4 TCF of gas.

PEP 51151 – Alton (50%)

PEP 51151 (Alton) forms the core of the Company's Taranaki petroleum acreage, covering an area of 482km^2. The permit is operated by L&M Energy and is part of a 50:50 joint venture with AGL Upstream Gas (MOS) Pty Ltd.

During 2010 the Company acquired 58km of 2D seismic over previously identified Manutahi shallow oil sands. The seismic campaign, in addition to the subsequent source and migration analysis of the identified structures, led to the determination of a Manutahi Formation shallow oil drilling target (Talon-1). The Talon target is located to the northwest of Origin Energy's Manutahi Field (which produces from the same formation) and has been calculated to have the potential to hold mean recoverable reserves of over 2 million barrels of oil at a relatively shallow depth (~1500m).

Site preparations for the drilling of Talon-1 are now completed with drilling scheduled to commence towards the middle of 2011.

PEP 52181 – Kaheru (15%)

PEP 52181 (Kaheru) located in the offshore Taranaki Basin and covering an area of 171.5 km^2, was granted to LME (15%) and its joint venture partners on the 19th May, 2010.

Kaheru lies on the prospective Eastern Margin trend of the Taranaki Basin, and is adjacent to the Rimu oil and gas field and the Kauri gas/condensate field. The permit has existing 3D seismic coverage which includes the large Kaheru prospect, which has multiple potential reservoir targets.

An application to extend to almost double the size of 311.9 km^2 was approved by the Ministry during the year, capturing all promising prospects and other nearby plays and leads.

The forward work programme for the area includes the reprocessing of the existing 3D seismic dataset over the Kaheru prospect with a view to determining a drilling location by second quarter 2012.

PEP 53247 – Kahili (25%)

The Company continued its expansion into the Taranaki basin via the award of the Kahili permit on the 15th December 2010 after a contestable blocks offer.

The Kahili Field was discovered in 2002 and the previous permit holder achieved commercial gas and condensate flows. In anticipation of that production, an on-site processing facility and pipeline connecting to the gas network was constructed by Natural Gas Corporation (now Vector Ltd) and is currently under a care and maintenance program pending further work within the permit. As a consequence of this, the Kahili permit was one of the most sought after permits in New Zealand. The joint venture partners are L&M Energy Limited (25%) and Australian based Mosaic Oil NZ Limited (75%) a wholly owned subsidiary of AGL Energy Limited.

The Kahili permit contains very complex geology beneath the surface and therefore the Joint Venture bid with an emphasis on high quality seismic data to provide a viable drilling target. This strategy has been reflected in the forward work programme which includes the acquisition of a minimum of 30km of new 2D seismic and the reprocessing of a minimum of 160km of existing seismic data. The data will be interpreted and mapped, with the express goal of identifying a suitable drilling target by the end of the 2011 calendar year.

With facilities already in place nearby any future discoveries can be rapidly commercialised.

PEP 38521 & 50558 – West Coast

The acquisition of 9km of seismic was completed utilising an accelerated weight drop method. The results of this new method exceeded expectations and provided data quality that was superior to the data collected using traditional methods.

After consideration of all factors relating to the permits, the Board believed that capital could be applied more effectively towards work programmes in other permits. Consequently the permits were surrendered in good standing in February 2011.

Portfolio Changes

Over the last 12 months the following changes were made to the Company's exploration portfolio:

Date	Permit	Location	Area (km²)	Interest Held	Change
May 2010	PEP38238 (Blackmount)	Onshore Southland	1356.6	100%	Surrendered
	PEP38218 (Hawkdun)	Onshore Otago	101.3	100%	Surrendered
	PEP38235 (Winton)	Onshore Southland	387.3	100%	Surrendered
	PEP52181 (Kaheru)	Offshore Taranaki	311.9	15%	Granted
July 2010	PEP38237 (Waitutu)	Onshore Solander Basin	2002.0	100%	Surrendered
	PEP51244 (Ohura River)	Onshore Waikato	1777.7	100%	Surrendered
December 2010	PEP53247 (Kahili)	Onshore Taranaki Basin	6.0	25%	Granted
	PEP38226 (Waiau)	Onshore Southland	558.7	90%	LME increased equity (MRP: 10%) to 100% pending Ministerial approval

BOARD OF DIRECTORS

Mr A Geoffrey Loudon

Non-executive Chairman

Geoff Loudon is the Chairman of the New Zealand based L&M Group of private companies with interests in gold mining, coal and lignite exploration. He is an international resource professional experienced in exploration, development, production and finance in Australasia, Asia, the Americas and Europe. He moved to New Zealand permanently in April 2009 from London, UK.

He was the founder and chairman of Niugini Mining (1982-2007) and discoverer of the Lihir gold deposit in Papua New Guinea. When the project was developed as Lihir Gold Limited by Rio Tinto he was asked to join the Board as a Non-executive Director (1995-2010) and remained until the company was taken over by Newcrest.

He is Chairman (2005-current) and a foundation shareholder of Nautilus Minerals Inc, a TSX-AIM listed Canadian company developing sea bed copper–gold deposits in Papua New Guinea and a Director of Papua New Guinea City Mission.

Geoff Loudon gained his BSc (Geology) from Sydney University, a Grad. Dip. (Mineral Technology) from the University of New South Wales and a MSc (Mining and Exploration Geology) from James Cook University, Queensland. He is a Trustee and Fellow of the Society of Economic Geologists, a Fellow of the AIMM, and Member of the CIM and AIME.

Mr Kent Anson

Managing Director

Mr Anson joined L&M Coal Seam Gas Limited in August 2008 as its Managing Director. He was appointed to the Board in March 2010 following the acquisition of L&M Coal Seam Gas Limited by the Company. Mr Anson is an engineer with 10 years experience in the exploration and development of coal seam gas projects, initially with Tri-Star Petroleum and more recently with Arrow Energy Limited. Prior to moving to New Zealand Mr Anson was Country Manager for Arrow's operations in India. Mr Anson brings to the Company significant experience across the CSG spectrum from exploration to commercial production.

Mr Gregory Hogan

Non-executive Director

Mr Hogan brings over 20 years of resource industry, commercial and management experience to the Company. He holds a Bachelor of Commerce from the University of Newcastle and has been involved in the start up of a major coal mine, the establishment of a new petroleum business for InterOil Corporation operating in Papua New Guinea and the restructuring and running of a number of gold and coal mines in Australia. Mr Hogan joined the L&M Group in June 2002 as its Managing Director.

Dr Douglas Ellenor

Non-executive Independent Director

Dr. Ellenor holds a PhD in geology from the University of New England, Australia and has 39 years experience in the petroleum exploration and production industry. He worked for 25 years on international assignments with the Royal/Dutch Shell Group in Australasia, Europe and North and South America. Dr Ellenor has held a number of senior executive positions including Business Development Director and Chief Executive Officer. Dr Ellenor now runs an oil and gas consulting company from Canada. He is a registered Professional Geoscientist in British Columbia and member of the American Association of Petroleum Geologists and Canadian Society of Petroleum Geologists.

Mr Charles Lutyens

Non-executive Independent Director

Mr Charles Lutyens has 25 years of experience in finance and business development in the resources industry. He has worked in the oil, gas and coal sectors as well as in ferrous and non-ferrous metals, gold and timber. He has expertise in the financing and development of major resource projects. Based in London, Charles has lived and worked in the USA, India and the Solomon Islands. He was formerly Managing Director of Rio Tinto India, Head of Project Finance for the Rio Tinto Group and Finance Manager of R.T.Z. Oil & Gas Ltd. After leaving Rio Tinto in 2005, Charles served as Finance Director of Cluff Gold plc. He has also served as a Private Sector Adviser to the UK government's Department for International Development. Charles has a B.A in Social Anthropology from Cambridge University and an MBA from INSEAD, France.

Mr Trevor Taylor

Non-executive Independent Director

Mr Taylor brings a diverse background of corporate management and financial and commercial expertise to the Board in his role as Director. He has a Bachelor of Commerce and Administration, is a member of the College of Chartered Accountants (CA) and the New Zealand Institute of Directors.

Mr Taylor is a management professional with more than 20 years experience in senior line management roles in the petroleum industry within New Zealand and internationally. He was Group Finance Manager for Petroleum Corporation of New Zealand, General Manager Commercial for Fletcher Challenge Petroleum and a Member of the Fletcher Challenge Petroleum Executive Board; Managing Director of Southern Petroleum NL and a Member of the Fletcher Challenge Energy Executive Board. In 1996 he became the General Manager Business Development of the Electricity Corporation of New Zealand and a member of the Executive Board. He is currently the Chief Executive Officer for Outward Bound Trust of New Zealand and is a Director on a number of private and Trust owned companies.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors are responsible for implementing and monitoring of the corporate governance processes supporting the Company's affairs. The Board supports the principles of the ASX Corporate Governance Council contained in the 2007 publication, "Principles of Good Corporate Governance and Best Practice Recommendations". Whilst supporting these principles, on occasions it is not practicable for a small company to comply fully with all the recommended principles. In regard to the majority of recommendations the Companyvrmine that the standard recommended cannot be achieved practically and will provide the reasoning for this decision.

The Company's report against each of the recommended principles of the ASX Corporate Governance Council follows.

Principle 1: Lay solid foundations for management and oversight

During the year ended 31 December 2010, the Board of Directors consisted of seven Directors through to November 2010 at which time it was reduced to six Directors. In November 2010 Mr J Bay (Managing Director – Petroleum) resigned and was not replaced. As a result of this Mr K Anson (previously Managing Director – CSG) took up the role of Managing Director responsible for managing the entire operations of the Company.

The senior management team includes the Managing Director, Chief Financial Officer/Company Secretary, Exploration Manager and General Manager: Commercial. As there are a small number of people employed by the Company, all roles and functions retain flexibility to meet the changing requirements the Company encounters.

A Board Charter and Board Code of Conduct have been approved. In addition, a system of delegated authority, approved by the Board, sets out the authorities delegated to Management.

The Board's role includes the following:

- Setting and reviewing the vision, goals and strategy;
- Approving the annual strategic plan, budget and operating plans;
- Approving the selection and employment terms of the Managing Director and senior management team;
- Reviewing and providing feedback on the performance of the Managing Director;
- Reviewing and approving the half-year and full-year financial statements and reports and quarterly cash-flow and operating statements; and
- Determining policies and ensuring adequate procedures are in place to manage identified risks.

The role of the Chairman includes:

- Providing leadership in setting and reviewing the Company's vision and strategy;
- Setting the agenda for Board meetings in conjunction with the Managing Director and Company Secretary, chairing meetings and dealing with any conflicts that may arise;
- Chairing the Shareholders Annual General Meeting and any special shareholder meetings and ensuring shareholders as a whole have an opportunity to raise matters of interest or concern to them;
- Company spokesperson with support of the Managing Director and Chief Financial Officer on company matters;
- Undertaking the performance appraisal of the Managing Director and providing mentoring;
- Ensuring an appropriate composition of the Board of Directors is maintained and directors induction plans are in place.

The Managing Director's responsibilities and duties include:

- Formulating with the Board, the vision and strategy for the Company, developing action plans to achieve this and reporting to the Board regularly on progress;
- Providing leadership, appointing and negotiating terms of employment of senior executives. Developing succession plans and ensuring procedures are in place for education and training;
- Implementation of the Company's strategy and its exploration and operations programmes;
- Responsible for bringing all matters requiring review or approval to the Board. Advising on the changes in risk profile, providing certification regarding the financial statements for the quarterly, half-year and full year, reporting to the Board regularly and ensuring Directors are kept fully informed.

The performance of senior executives is assessed on an annual basis by the Nomination and Remuneration Committee. The process includes an evaluation of objectives met compared to strategic objectives, interactions with Board members and other stakeholders, technical expertise and overall performance. This review occurred within the year and was integrated into the Committees recommendations for future remuneration.

Principle 2: Structure the Board to add value

The directors of the Company have extensive experience and skills developed over a significant period of time within relevant industries. This allows current and emerging issues relevant to the Company to be dealt with in a professional and appropriate manner. The background, skills and experience of the directors are detailed in the Annual Report.

Details of the Board members during the year ended 31 December 2010 and their meeting attendances are as follows:

Director	Appointed	Position	Meetings attended
Mr AG Loudon	November 2005	Chairman	5 of 5
Mr G Hogan	June 2002		5 of 5
Mr T Taylor	September 2006	Independent	4 of 5
Mr D Ellenor	September 2006	Independent	5 of 5
Mr C Lutyens	October 2006	Independent	4 of 5
2010 appointments:	Appointed:		
Mr KA Anson	March 2010	Managing Director	5 of 5
2010 resignations:	Resigned:		
Mr J Bay	November 2010	Managing Director	4 of 5

The following directors are not considered independent:

- Mr Loudon (major shareholder);
- Mr Hogan (officer of a company associated with Mr Loudon); and
- Mr Anson (Managing Director of the Company).

In addition, Mr Bay was not considered independent while he was a Director (to November 2010) as he was employed by the Company.

As the Company has only one half of the Directors deemed independent it does not comply with the recommendation that a majority of the directors should be independent. Despite this, the Company believes that the Board composition is well balanced with a range of skills across the various disciplines required to meet governance standards.

The Company does not comply with the recommendation that the Chairperson should be an independent director. The Company believes that Mr Loudon is an appropriate choice of Chairman considering his background, experience and knowledge. The Company complies with the recommendation that the Chair should not be the Managing Director/CEO.

A director may be elected for an indefinite term. At each Annual General Meeting the longest serving one-third of all directors, excluding one executive director, are required to retire but are eligible for re-election.

Each director of the Company has the right to seek independent professional advice at the expense of the Company. Prior approval of the Chairman is required, but this will not be unreasonably withheld.

The directors have appointed a Finance, Audit and Risk Committee. The role of the committee is to consider and make recommendations to the Board of Directors regarding the financial condition and operational results of the Company. The committee is chaired by Mr Taylor, with Mr Ellenor, Mr Hogan and Mr Lutyens as members.

The directors have appointed a Nomination and Remuneration Committee. The role of the Nomination and Remuneration Committee is to consider and make recommendations regarding the appointment and remuneration of directors and senior management. The Nomination and Remuneration Committee is chaired by Mr Loudon, with Mr Ellenor and Mr Taylor as members. Monetary remuneration of directors (excluding the Managing Director) requires approval by the shareholders.

The Company does not have a formal process for evaluating the performance of the Board, its committees and individual directors. The Chairman evaluates performance individually on an informal and on-going basis and considers that this is an appropriate and satisfactory process.

Principle 3: Promote ethical and responsible decision-making

The Company has approved a policy on business conduct and ethics with which all directors, executives and employees are expected to comply. All directors and employees are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the company.

The Board has a securities trading policy which sets out procedures covering the dealing in the Company's securities.

The Company maintains an interests register in compliance with the New Zealand Companies Act 1993, which records particulars of any transactions and matters involving directors.

Principle 4: Safeguard integrity in financial reporting

The Managing Director and Chief Financial Officer confirm to the Board that periodic financial reports represent a true and fair view true, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards.

The Company has a Finance, Audit and Risk Committee with a formal charter, reviewed annually and approved by the Board of Directors.

Details of the Committee members during the year ended 31 December 2010 and their meeting attendances are as follows:

Director	Position	Meetings attended
Mr T Taylor	Chairman (independent)	4 of 4
Mr G Hogan		4 of 4
Mr D Ellenor	Independent	4 of 4
Mr C Lutyens	Independent	3 of 4

These directors have the appropriate experience, expertise and skills which are required for the committee's responsibilities. The composition of the committee meets all governance recommendations.

The Finance, Audit and Risk Committee meet with the external auditors, both with and without management present, and review the performance of the external auditors (including scope and quality of the audit).

Principle 5: Make timely and balanced disclosure

The Company is aware of its obligations for continuous disclosure and complies with these requirements and all other listing requirements of the Australian and New Zealand Stock Exchanges.

The Company has a Disclosure Committee, comprising the Chairman, Managing Director and Company Secretary who are authorised to prepare, approve and release Company information. Input is sought from other members of the Board of Directors and advisors as appropriate. The Finance, Audit and Risk Committee reviews and approves any disclosure of financial results.

Principle 6: Respect the rights of shareholders

The Company has a formal communications strategy to promote effective communication with shareholders.

All significant information is disclosed to the Australian and New Zealand Stock Exchanges and posted on the Company's website. Regular press releases are made to keep shareholders informed of progress and a mail-out group is maintained to send copies of all press releases directly.

The Company's external auditor is provided with notice of, and invited to attend, the Annual General Meeting and is able to address any business item that concerns them in their capacity as auditor. Shareholders are given an open opportunity to raise questions at the Annual General Meeting.

Principle 7: Recognise and manage risk

The Company recognises that risk management is an integral part of good governance and business practise and monitors risks on an ongoing basis. Key risks facing the Company are exploration outcomes, ability to obtain ongoing financing, reliance on permit approvals from regulatory authorities, ability to recruit and retain employees and changing operating, market and regulatory environments.

As the Company is a small exploration company it does not believe that there is a significant need for formal policies on risk oversight and management of risk. Risk management arrangements are the responsibility of the Board of Directors and Senior Management collectively. Risk factors are constantly considered and discussed within formal communication, Board meetings and informal communications between management and directors.

Principle 8: Remunerate fairly and responsibly

The Company has a Nomination and Remuneration Committee with a formal charter reviewed annually and approved by the Board of Directors.

Details of the Committee members during the year ended 31 December 2010 and their meeting attendances are as follows:

Director	Position	Meetings attended
Mr AG Loudon	Chairman	2 of 2
Mr D Ellenor	Independent	2 of 2
Mr T Taylor	Independent	2 of 2

The Company does not comply with the recommendation that the Chairperson should be an independent director but does not believe that this impedes on the decision making ability of the Committee.

As a consequence of the small numbers of employees the Company approaches remuneration negotiation directly with the individual employees. The directors believe that this process is more appropriate than formal remuneration policies for the current time.

The Committee is responsible for reviewing and advising the Board on the performance of management and recommending changes to remuneration and participation in the Company's Employee Share Option Plan. In making recommendations, the Nomination and Remuneration Committee will seek any independent external advice and market comparisons if it considers this necessary. Shareholder approvals for remuneration changes are sought where necessary.

The Company does not offer any retirement benefits for non-executive directors.

TAKEOVERS CODE (L&M ENERGY LIMITED) EXEMPTION NOTICE 2010

Under an Agreement for Sale and Purchase of Shares dated 24 December 2009 the Company agreed to acquire all the issued shares in L&M Coal Steam Gas Limited ('L&M CSG') from Campania Holding Inc. ('Campania'), Tangent International Limited ('Tangent') and Mr Archibald Geoffrey Loudon (together the 'Vendors').

In return the Company issued the following shares and options ('Consideration Securities'):

- 148,000,000 shares to Campania
- 148,000,000 shares to Tangent
- 148,000,000 shares to Mr Loudon
- 56,000,000 options ('Consideration Options') to acquire shares in aggregate to the option recipients (being the parties identified as such in Table 1 below)

The shares issued to Campania, Tangent and Mr Loudon are referred to below as 'Consideration Shares'.

The New Zealand Takeovers Code Approval Order 2000 ('Code') applies to the Company by virtue of its listing on the NZX. Rule 6(1) of the Code prohibits any person and their associates who hold or control more than 20% of the voting securities in a 'Code Company' becoming the holder or controller of an increased percentage of voting securities except as provided in Rule 7.

Prior to the acquisition of L&M CSG the Vendors held in excess of 20% of the Company's voting securities. On the basis of the relationships between the Vendors and the option recipients and their common interest in the acquisition it was considered that these parties could be regarded as being associated for the purposes of the Code in respect of the allotment of the Consideration Securities.

The Vendors and some of the option recipients also held pre-existing options ('Existing Options') to acquire shares in the Company.

The issue of the Consideration Shares to the Vendors and the issue of new shares to the Vendors and option recipients on the exercise of their Existing Options and Consideration Options required the approval of the Company's shareholders for the purposes of Rule 7(d) (one of the permitted means of increasing a holding of voting securities exceeding the 20% threshold). This approval was sought and obtained at the Company's special general meeting of shareholders on 22 February 2010.

A notice of meeting seeking shareholder approval for the purposes of Rule 7(d) is required to comply with the requirements of Rule 16, which specifies the information that shareholders must receive before voting on a resolution for the purposes of the Code. In the circumstances of the acquisition and the issue of the Consideration Securities to the Vendors and the option recipients, the Company was unable to comply with the requirements of Rule 16(b) of the Takeovers Code because as at the date of the notice of special general meeting it was not able to specify the following matters:

- the exact number of shares that would ultimately be allotted;
- the exact percentage of the aggregate of all existing voting securities and all voting securities being allotted that the number of shares allotted represented;
- the exact percentage of all voting securities that will be held or controlled by the Vendors and the option recipients after completion of the allotment; and
- the aggregate of the percentage of all voting securities that will be held or controlled by the Vendors and the option recipients, and any associates after the completion of the allotment.

There will only be certainty in respect of these matters following the expiry of the Consideration Options and the Existing Options and once the number of Consideration Options and Existing Options exercised by the Vendors and the option recipients is known. The Company, the Vendors and the option recipients were exempted by the Takeovers Code (L&M Energy Limited) Exemption Notice 2010 ('Exemption Notice') from complying with Rule 16(b) on certain conditions, including conditions relating to the contents of the notice of special meeting for the meeting at which the acquisition was approved for Code purposes and an ongoing condition contained in clause 10 of the Exemption Notice requiring the disclosure of certain information in each Annual Report issued by the Company during the term of the Exemption Notice.

The information included in the following paragraphs is included in the Company's annual report for the purposes of satisfying the requirements of clause 10(a) of the Exemption Notice.

Summary of the terms of the Existing Options and the Consideration Options

A summary of the terms of the Consideration Options is set out below. Certain Consideration Options vested in the option recipients immediately while the vesting of other Consideration Options is deferred. The Consideration Options and Existing Options have substantially similar terms and on this basis only a summary of the terms of the Consideration Options is included.

Consideration Options (Immediate Vesting)

1 Each option entitles the holder to subscribe for one fully paid ordinary share in the capital of Company. The options will not be quoted on any stock exchange.

2 The options vested immediately upon issue and their holder will thereafter be able to exercise the options at any time prior to the Expiry Date (as defined below), subject to the terms of the applicable Restriction Agreement entered into between the recipients and ASX.

3 The options shall expire at 5.00 pm New Zealand time on the date which is five (5) years' from their issue, or upon the liquidation or winding-up of the Company for any reason other than by way of a voluntary winding-up (in each case, the 'Expiry Date').

4 The options shall be exercisable at any time prior to the Expiry Date at an exercise price of NZ$0.0001 per option, provided that the options have not expired.

5 The options are transferable at any time to persons to whom securities in the Company may be issued or transferred without the issue of a disclosure document, prospectus, or other such similar document as may be required under either Australian or New Zealand law provided that certain procedures for transfer are met, though the options are currently subject to the terms of Restriction Agreements entered into between the recipients and ASX and pursuant to these agreements cannot presently be transferred.

6 All shares issued pursuant to the exercise of the options will rank pari passu in all respects with the Company's existing ordinary fully paid shares.

7 The options hold no participating rights or entitlement to participate in new issues of capital offered to shareholders during the currency of the options. Options that have been exercised prior to the record date for participation in a new issue of capital will confer an entitlement to participate in the new issue in the same way that fully paid ordinary shares will.

8 In the event of reorganisation (including a consolidation, sub-division, reduction or return) of the issued capital of the Company, the number of options or the exercise price of the options or both shall be reorganised (as appropriate) in the manner required by the listing rules of the stock exchange on which the Company's securities are quoted (or, if the Company's securities remain quoted on the ASX and on one or more other stock exchanges, then the listing rules of the ASX) and if the listing rules do not provide for such reorganisation the reorganisation will be conducted on certain specified terms.

9 If there is a pro-rata issue (except a bonus issue) to holders of ordinary shares in the Company, the exercise price of options shall be reduced according to a specified formula.

10 If there is a bonus issue to the holders of ordinary shares, the number of securities over which an option is exercisable will be increased by the number of ordinary shares which the option holder would have received if the option had been exercised before the record date for the bonus issue.

Consideration Options (Deferred, Staged Vesting)

1 Each option entitles the holder to subscribe for one fully paid ordinary share in the capital of the Company. The options will not be quoted on any stock exchange.

2 Other than as set out in paragraphs 3, 4 and 5, below the options do not vest and the holder cannot exercise the options, until and from the following vesting dates ('Vesting Dates') and then only in the following percentages (it being clear that, once vested, an option can thereafter be exercised at any time subject to the terms of the option agreement):

   2.1 as to 25% on the date falling 12 months' from the acquisition date;

   2.2 as to 25% on the date falling 24 months' from the acquisition date;

   2.3 as to 25% on the date falling 36 months' from the acquisition date; and

   2.4 as to 25% on the date falling 48 months' from the acquisition date,

   provided that as at the relevant Vesting Date the holder continues to be employed by the Company or a related company in his or her current position as at the date of grant or in an equivalent or better position.

3 If the option holder ceases employment with the Company, all vested options must be exercised not later than 2 months from the date of termination of employment, following which they will lapse and the option holder shall have no further rights or claim in respect of them.

4 The option holder further acknowledges that if the option holder ceases employment all unvested options will lapse immediately and the option holder shall have no further rights or claim, whether against the Company or any other person, in respect of them.

5 In the event of the Company being taken over (or the subject of a transaction of similar effect), and the option holder's employment being terminated (other than by him), all options shall immediately vest in the option holder.

6 The options shall lapse and cease to be exercisable at 5.00 pm New Zealand time on the date (the '**Expiry Date**'), being five (5) years' from the acquisition date.

7 Options that have vested in the option holder on the Vesting Date, are at any time after the Vesting Date and on or before the Expiry Date, exercisable at an exercise price of NZ$0.0001 per option, provided the options have not otherwise lapsed.

8 Any option, irrespective of whether it has vested in the option holder, automatically lapses without any claim against the Company in any of the following events:

   a upon the bankruptcy of the holder or the happening of any other event which results in the holder being deprived of the legal or beneficial ownership of such option; or

   b upon the liquidation or winding up of the Company for any reason other than by way of a members' voluntary winding-up; or

   c the option has not been exercised prior to the Expiry Date.

9 The options are transferable after the Vesting Date to persons to whom securities in the Company may be issued or transferred without the issue of a disclosure document, prospectus or other such similar document as may be required under either Australian or New Zealand law, subject to the terms of the applicable Restriction Agreement entered into between the recipients and ASX.

10 All shares issued pursuant to the exercise of options will rank pari passu in all respects with the Company's existing ordinary fully paid shares.

11 There are no participating rights or entitlement inherent in the options to participate in new issues of capital offered to shareholders during the currency of the options. Options that have been exercised prior to the record date for participation in a new issue of capital will confer an entitlement to participate in the new issue.

12 In the event of reorganisation (including a consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of options or the exercise price of the options or both shall be reorganised (as appropriate) in the manner required by the listing rules of the stock exchange on which the Company's securities are quoted (or, if the Company's securities remain quoted on the ASX and on one or more other stock exchanges, then the listing rules of the ASX) and if the listing rules do not provide for such reorganisation the reorganisation will be conducted on certain specified terms.

13 If there is a pro-rata issue (except a bonus issue) to the holders of the ordinary shares, the exercise price of shall be reduced according to the following formula a specified formula.

14 If there is a bonus issue to the holders of ordinary shares, the number of securities over which the option is exercisable will be increased by the number of ordinary shares which the holder would have received if the option had been exercised before the record date for the bonus issue.

Summary of the terms and conditions of the exemptions in Clauses 5 and 6 of the Exemption Notice and applicable restrictions

The information in the following paragraphs is included in the Company's annual report for the purposes of satisfying clause 10(b) of the Exemption Notice.

Under clause 5 of the Exemption Notice the Vendors and the option recipients are exempted from Rule 7(d) of the Code in respect of any increase in these parties' voting control as a result of the allotment of voting securities to them on the exercise of Existing Options or Consideration Options to the extent that Rule 7(d) required the notice of special general meeting dated 29 January 2010 to include the information required to be included by Rule 16(b).

Under clause 6 of the Exemption Notice the Company was exempted from Rule 16(b) of the Takeovers Code in respect of the notice of special general meeting.

Under clause 11 of the Exemption Notice certain restrictions were imposed on the ability of the Vendors and the option recipients to increase their voting control in the Company. These restrictions provide that the exemption granted under clause 5 of the Exemption Notice (discussed above) does not apply:

(a) to an increase in an option holder's voting control resulting from the exercise of an Existing Option or a Consideration Option if, immediately after the allotment of voting securities on the exercise of the option is completed, the total percentage of voting securities on issue held or controlled by the option holder is greater than the maximum disclosed to shareholders in the Company's notice of special meeting dated 29 January 2010 (and which are included below in Table 1 for the benefit of shareholders); or

(b) to an option holder if there is an increase in the option holder's voting control (other than an increase resulting from the allotment of Consideration Shares or the exercise of an Existing Option or a Consideration Option) between the date of the meeting and the earlier of:
   i. the expiry of all the option holder's Existing Options and Consideration Options; and
   ii. the date on which the last of the option holder's Existing Options and Consideration Options is exercised; or

(c) to Campania if there is a change in control of Campania between the date of the meeting and the earlier of:
   i. the expiry of all Campania's Existing Options; and
   ii. the date on which the last of Campania's Existing Options is exercised; or

(d) to Tangent if there is a change in control of Tangent between the date of the meeting and the earlier of:
   i. the expiry of all Tangent's Existing Options; and
   ii. the date on which the last of Tangent's Existing Options is exercised.

Table 1 – The Maximum Percentage Shareholdings

The information set out in Table 1 is prepared on the basis that the option holders exercise all the Consideration Options and the Existing Options. The maximum percentage shareholding has been calculated on the basis of no change to the number of ordinary shares on issue in the Company until the exercise or expiry of the Consideration Options and Existing Operations.

The percentage figure is calculated on the basis that no option holder other than the option holder in respect of which disclosure is being made has exercised their options whether Consideration options or Existing Options. The figure also assumes that the options held by the Other Shareholders have not been exercised.

Name	Maximum possible percentage shareholding following Acquisition (and exercise of Existing and Consideration Options)
Campania	28.28%
Tangent	28.28%
Mr Archibald Geoffrey Loudon	28.37%
Mr Hogan	3.82%
Mr Manhire	3.56%
Jaine Trustees	0.36%
Ryan Trustees	0.33%
Ms Cummack	0.07%
Mr Anson	1.95%
Mr Gordon	0.05%

Table 2 – Exercised Consideration and Existing Options and Percentage Holdings of Voting Rights

The information in Table 1 below is included in the Company's annual report for the purposes of satisfying clause 10(c) of the Exemption Notice.

	No. of Shares allotted on exercise of Existing & Consideration Options(1)	Percentage that the no. of shares allotted represents(2)	Total percentage of voting securities controlled(3)	Total percentage of voting securities (includes associates)(4)	Maximum percentage holding if all Existing & Consideration Options exercised (includes associates)(5)
Campania Holding Inc.	0	0	23.642%	71.59%	74.06%
Tangent International Limited	0	0	23.642%	71.59%	74.06%
Mr Archibald Geoffrey Loudon(6)	0	0	23.642%	71.59%	74.06%
Option recipients					
Gregory Ross Hogan	2,500,000	0.34%	0.344%	71.59%	74.06%
David Alister John Manhire	2,300,000	0.31%	0.314%	71.59%	74.06%
Shirley Herridge, John V Dallison and Michael A McPhail as trustees of the Jaine Options Trust	0	0	0	71.59%	74.06%
Michael John Ryan and Miriam Katherine Ryan as trustees of the Ryan Family Trust	0	0	0.002%	71.59%	74.06%
Nicola Gail Cummack	0	0	0.008%	71.59%	74.06%
Kent Ashley Anson(6)	0	0	0	71.59%	74.06%
Kerry David Gordon	0	0	0	71.59%	74.06%

(1) This column discloses the number of voting securities allotted to each option holder on the exercise of the existing options and consideration options as at the date of this annual report. As at the date of this annual report Existing Options in the aggregate amount of 4,800,000 have been exercised by Gregory Ross Hogan (2,500,000 Existing Options) and David Alister John Manhire (2,300,000 Existing Options).

(2) This column discloses the number of voting securities allotted to each option holder on the exercise of the existing options and the consideration options, expressed as a percentage of the total number of voting securities on issue as at the date of this annual report. As at the date of this annual report the Company has 731,755,518 voting securities on issue.

(3) This column discloses the total percentage of voting securities on issue held or controlled by each option holder as at the date of this annual report.

(4) This column discloses the total percentage of voting securities on issue held or controlled by each option holder and the option holder's associates as at the date of this annual report.

(5) This column discloses the maximum percentage of the voting securities on issue that could be held or controlled by the Vendors and option recipients and their associates after the allotment of voting securities on the exercise of all Existing Options and Consideration Options. This percentage is calculated on the basis that there has been no change to the number of voting securities on issue as at the date of the annual report other than as a result of the allotment of voting securities to the relevant parties on the exercise of Existing Options and Consideration Options by them.

(6) Mr Loudon transferred 3,000,000 Existing Options to Mr Anson in April 2010. None of these have been exercised at the date of this annual report.

For the purposes of the disclosures contained in columns 4 and 5 of Table 1 above the Vendors and the option recipients have been treated as 'associates' for the purposes of the Code and the Company acknowledges that for the purposes of the acquisition and the Exemption Notice this could be considered to be the case. However, these parties, having considered the nature of the relevant relationships and having taken legal advice in respect of these matters do not consider that their relationship is such to give rise to any ongoing association for the purposes of the Code.

A copy of the complete Exemption Notice is available on the Takeovers Panel website at www.takeovers.govt.nz.

OTHER DISCLOSURES

Directors

The following persons hold office as directors of the Company:

Mr A Geoffrey Loudon	Non-executive Chairman
Mr Kent Anson	Managing Director (appointed 8/3/10)
Mr Gregory Hogan	Non-executive Director
Mr Trevor Taylor	Non-executive Director
Mr Douglas Ellenor	Non-executive Director
Mr Charles Lutyens	Non-executive Director

Mr J Bay ceased to hold office as a director of the Company on 15 November, 2010.

Mr D Manhire ceased to hold office as a director of L&M Coal Seam Gas Limited (a wholly owned subsidiary of the Company) on 26 February, 2010.

Remuneration of Directors

Directors received the following fees and remuneration:

	2010 NZ$	2009 NZ$
Non-Executive Directors:		
Mr AG Loudon	Nil(1)	Nil(1)
Mr G Hogan	25,000	25,000
Mr D Ellenor	25,000	25,000
Mr C Lutyens	25,000	25,000
Mr T Taylor	25,000	25,000
Executive Directors:		
Mr J Bay (to 15 November 2010)	665,532(2)	412,000
Mr K Anson (from 8 March 2010)	353,666	-

(1) The Company donated $25,000 to the Outward Bound Trust of New Zealand in lieu of Mr Loudon receiving directors fees.

(2) Includes $281,000 of termination payments.

Executive Director remuneration includes salary and benefits received in their capacity as an employee. Non-executive Directors commenced receiving Directors' fees at the rate of $25,000 per annum from when the Company listed on ASX and NZX on 11 January, 2007. In addition to the payment of Directors fees, all Directors are granted share options under the terms and conditions of the Employee Share Option Plan. The Directors share option grants are approved by shareholders at the Company's Annual General Meeting.

Disclosure of Interests by Directors

In accordance with section 140 of the Companies Act 1993, the Directors must disclose their interest in a transaction or proposed transaction so that it can be entered into the Company's Interest Register. Mr Loudon and Mr Hogan declared an interest in the Company's transaction to acquire 100% of the share capital of L&M Coal Seam Gas Limited on the basis that Mr Loudon was associated with the ultimate owners of L&M Coal Seam Gas Limited and Mr Hogan was a director of this company. This transaction was approved by shareholders for the purposes of the ASX Listing Rules and the Takeovers Code at a special Shareholder's meeting held on 22 February 2010. There were no other declarations by Directors of interests in transactions with the Company during the financial year.

As at 31 December 2010 the following Directors or entities related to them held relevant interests in the Company's securities as follows:

	ORDINARY SHARES		OPTIONS	
	Direct	Indirect	Direct	Indirect
Mr AG Loudon	173,000,000(1)	Nil	1,425,000	Nil
Mr K Anson	Nil	Nil	16,000,000(2)	Nil
Mr G Hogan	2,520,000	Nil	22,500,000(3)	Nil
Mr T Taylor	9,091	Nil	1,950,000	Nil
Mr D Ellenor	100,000	Nil	Nil	1,950,000
Mr C Lutyens	Nil	Nil	1,950,000	Nil

(1) Includes 148,000,000 shares subject to a restriction agreement until 26 February 2011

(2) Includes 12,300,000 share options subject to a restriction agreement until 26 February 2011

(3) Includes 19,550,000 share options subject to a restriction agreement until 26 February 2011

Share Dealings by Directors

During the financial year, Mr Taylor advised that he had acquired 9,091 ordinary shares.

Please refer to the section "Takeovers Panel Exemption Notice" for details of shares and share options issued upon the acquisition of L&M Coal Seam Gas Limited.

No other Directors disclosed that, in respect of section 148 of the Companies Act 1993, they had acquired a relevant interest in the Company's securities.

During the financial year share options were granted to Directors under the terms and conditions of the Company's Employee Share Option Plan as follows:

Mr AG Loudon	675,000
Mr K Anson (1)	700,000
Mr D Ellenor	450,000
Mr G Hogan (1)	450,000
Mr C Lutyens	450,000
Mr T Taylor	450,000

(1) Please refer to the section "Takeovers Panel Exemption Notice" for details of share options issued upon the acquisition of L&M Coal Seam Gas Limited.

During the financial year Mr Loudon advised that he had sold 3 million share options (exercise price A$0.30 and expiry date of 31 December 2011) to Mr Anson. There were no other disclosures that, in respect of section 148 of the Companies Act 1993, Directors had disposed of a relevant interest in the Company's securities.

Use of Company Information

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been made available to them.

Directors' and Officers' Liability Insurance

As permitted by the New Zealand Companies Act 1993, the Company has arranged a policy of Directors' and Officers' liability insurance which provides indemnification against certain liabilities and costs as defined within the terms and conditions of the insurance policy.

Ordinary Shares

The Company's ordinary shares are listed on:

- Australian Stock Exchange (ASX): Code LME
- New Zealand Stock Exchange (NZX): Code LME

All ordinary shares carry equal rights in respect of voting, dividend payments and distribution upon winding up.

The Board of Directors of the Company has not approved an on-market share buyback of ordinary shares.

Ordinary Shares – 20 Largest Shareholders as at 8 March 2011

Holder	Shares held	% of shares
Campania Holding Inc (1)	173,000,000	23.64
Mr. Archibald Geoffrey Loudon (2)	173,000,000	23.64
Tangent International Limited (3)	173,000,000	23.64
JP Morgan Nominees Australia Limited	58,640,088	8.02
Hubbard Churcher Trust Management Limited	8,500,000	1.16
HSBC Custody Nominees (Australia) Limited	7,909,661	1.08
New Zealand Central Securities Depository Limited	5,900,571	0.81
Pagodatree Investments Limited	5,831,705	0.80
Adelaide Equity Partners Limited	5,000,000	0.68
Poirot Pty Limited	2,500,000	0.34
R & R Langley	2,222,222	0.30
Citicorp Nominees Pty Ltd	2,105,793	0.29
GR Hogan	2,020,000	0.28
Balpina Pty Ltd	2,000,000	0.27
Maminda Pty Ltd	2,000,000	0.27
National Nominees Limited	1,551,052	0.21
Dagger Nominee Ltd	1,500,000	0.20
Leveraged Equities Finance Limited	1,443,065	0.20
DAJ Manhire	1,400,000	0.19
High Octane Fund Ltd	1,250,000	0.17
Total for Top 20	630,774,157	86.32

(1) Includes 148,000,000 shares subject to 12 month restriction agreement from 26/2/10.

(2) Includes 148,000,000 shares subject to 12 month restriction agreement from 26/2/10.

(3) Includes 148,000,000 shares subject to 12 month restriction agreement from 26/2/10.

Ordinary Shares – Distribution of Shares as at 28 February 2011

Holder	Holders	Shares Held	% of Shares
1-1,000	38	16,620	0.00%
1,001-5,000	301	1,090,979	0.15%
5,001-10,000	393	3,643,824	0.50%
10,001-100,000	997	39,327,367	5.38%
100,001 plus	227	686,676,728	93.97%
Total	1,956	730,755,518	100.00%

As at 28 February 2011 there were 180 shareholders holding a less than marketable parcel of ordinary shares of A$500.00. The total number of shares held was 366,322.

Ordinary Shares – Geographic Distribution of Shareholders at 28 February 2011

	Holders	Shares Held	% of Shares
New Zealand	1,343	72,930,537	9.98%
Australia	582	299,575,663	41.00%
Other Overseas	31	358,249,318	49.02%
Total	1,956	730,755,518	100.00%

Restricted Securities

The Company has the following restricted securities:

(a) 444,000,000 ordinary shares subject to a 12 month restriction period from 26 February 2010;

(b) 43,400,000 vested share options exercisable at NZ$0.0001, expiring on 26/2/2015 and subject to a 12 month restriction agreement from 26/2/2010; and

(c) 12,600,000 share options exercisable at NZ$0.0001, vesting at 25% of the total on the first four anniversary dates and expiring on 26/2/2015 and subject to a 12 month restriction agreement from 26/2/2010.

Substantial Security Holders

As at the date of this report substantial security holder notices had been received by the Company under the Australian Corporations Law and the New Zealand Securities Market Act 1988 as follows:

Shareholder	Date received	Shares	% held
Campania Holding Inc	1 March 2010	173,000,000	27.935
Mr. Archibald Geoffrey Loudon	1 March 2010	173,000,000	27.935
Tangent International Limited	1 March 2010	173,000,000	27.935
Runa Investments Limited	15 November 2010	36,666,666	5.018

Employee Remuneration

Details of the remuneration and other benefits, including redundancy and other payments made on termination of employment, in excess of NZ$100,000 per year, paid by the Company to any employees (or former employees), who are not Directors of the Company, during the last financial year are set out below:

From	To	Total
100,000	110,000	1
110,000	120,000	-
120,000	130,000	-
130,000	140,000	-
140,000	150,000	-
150,000	160,000	-
160,000	170,000	1
170,000	180,000	-
180,000	190,000	-
190,000	200,000	-
200,000	210,000	-
210,000	220,000	-
220,000	230,000	1
230,000	240,000	1
240,000	250,000	1

Petroleum Exploration Permits

As at 31 December 2010 the Group held interests in the following Petroleum Exploration Permits. All permits are located in New Zealand.

PEP 38219 (Kaitangata)	100.00%	Onshore Otago Basin
PEP 38220 (Ohai)	100.00%	Onshore Western Southland Basin
PEP 50348 (South Waikato)	100.00%	Onshore Waikato Basin
PEP 38521 (West Coast)	100.00%	Onshore Westland Basin
PEP 50558 (Hohonu)	100.00%	Onshore Westland Basin
PEP 38226 (Waiau)	90.00%	Onshore Western Southland Basin
PEP 51151 (Alton)	50.00%	Onshore Taranaki Basin
PEP 53247 (Kahili)	25.00%	Onshore Taranaki Basin
PEP 52181 (Kaheru)	15.00%	Offshore Taranaki Basin

Subsidiary Company

As at 31 December 2010 L&M Energy Limited owns 100% of the share capital of L&M Coal Seam Gas Limited.

Donations

During the year the Group made donations totalling $25,500 to two organisations.

Auditors

PricewaterhouseCoopers are the auditors for the Group. They were paid $81,500 as Group audit fees in respect of the 2010 financial year and were paid $26,050 for other services provided to the Group.

This Annual Report is dated 17 March 2011.

....
Director

....
Director

CORPORATE DIRECTORY

Directors

Mr A Geoffrey Loudon, MSc (Geol), BSc (Geol), Grad Dip (Min Tech)
Non-executive Chairman

Mr Kent Anson, BSc (Eng)
Managing Director

Mr Douglas Ellenor, PhD (Geol), BSc (Hons Geol)
Non-executive Independent Director

Mr Gregory Hogan, BCom
Non-executive Director

Mr Charles Lutyens, MBA, BA (Hons)
Non-executive Independent Director

Mr Trevor Taylor, CA, BCA
Non-executive Independent Director

Chief Financial Officer

Mr Bruce McGregor, CA

Company Secretary

Mr Bruce McGregor, CA

Registered Office

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Website: www.lmenergy.co.nz

ARBN: 122 323 871

ASX Code: LME
NZX Code: LME

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APPENDIX


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FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

DIRECTORS' REPORT

31 DECEMBER 2010

The Directors of L&M Energy Limited are pleased to submit the financial report for the 12 months ended 31 December 2010.

The names of the Directors of the Company at any time throughout the period were Mr AG Loudon, Mr J Bay, Mr D Ellenor, Mr G Hogan, Mr C Lutyens, Mr T Taylor and Mr K Anson.

Review of operations:

(All references are to consolidated results in New Zealand dollars)

On 26 February 2010 L&M Energy Limited ("LME") concluded an agreement to acquire all of the share capital in LMCSG (a related party by virtue of common directors) in exchange for issuing 444 million LME shares and 56 million nominally priced options to acquire shares in LME. Shareholders approved the acquisition at a Special General Meeting held on 22 February 2010 with 95% of voting shareholders in favour. The transaction was completed on 26 February 2010.

The financial statements incorporate the acquisition of L&M Coal Seam Gas Limited ("LMCSG"). As explained in the statements, this has been accounted for as a reverse acquisition. This treatment results in LMCSG being the continuing parent company for reporting purposes (despite L&M Energy Limited being the legal parent company). As a result, all consolidated comparative figures are those of LMCSG and the consolidated 2010 results incorporate the operations of L&M Energy Limited from 26 February 2010 (10 months) only. The parent figures in the financial statements relate solely to L&M Energy Limited for both 2009 and 2010.

Total income of $1.5 million was derived throughout the period. Of this total, $365,000 was derived from Joint Venture overhead recoveries and timewriting charges. In addition, $1.2 million resulted from debt forgiveness that occurred upon the acquisition of LMCSG. Net interest of $191,000 was also earned in the year.

Total costs of $14.5 million were incurred. A large part of this was a non-cash stock option expense of $8.0 million. This largely related to nominally priced stock options issued as part of the LMCSG acquisition, the issue of which were approved at a special shareholders meeting in February, 2010.

Exploration expenditure of $3.4 million was expensed in the period. This was largely costs related to coal seam gas exploration, including: the drilling of the OM-4 (Ohai), MacClure-1, Haeo-1, Te Kuiti-1, Mangapehi-1, Mangapehi-2 and Arapae-1. In the period the Company also completed a 54km seismic program in the Alton block (onshore Taranaki Basin), completed the interpretation of that and has selected a drilling target for 2011.

Other expenses, including employee related costs and corporate overheads totaled $3.1 million in the period.

Overall, the Company reported a loss for the period of $12.8 million.

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

Late in 2010, the Company commenced drilling well OM#5 in the Ohai permit. This well is the first stage in the gas pilot project. A successful completion of it will result in independent certification of 2P coal seam gas reserves and move the Company significantly closer to achieving production.

Other significant events in 2010 were:

- An increase of the independent certification of 3P reserves up to 274 petajoules of coal seam gas within the Ohai permit. This assessment does not include any potential gas resources from the Company's PEP38226 permit which adjoins the Ohai permit.
- A capital raising program was successfully undertaken. After costs incurred, a total of $10.6 million was raised through both private placements and the offer of a share purchase plan to shareholders.
- The Company increased its permit interests in the Taranaki area through the award of permits PEP 52181 (Kaheru – 15% share) and PEP 53247 (Kahili – 25% share).

These activities have strengthened the Company's position and enable us to look forward to 2011 with confidence.

In summary the year ended 31 December 2010 was a significant one for the Company. The acquisition of LMCSG and subsequent work on progressing its activities may result in the first operating cashflow for the Company. The participation in new permit awards provide exciting opportunities for the future and lastly, the successful capital raising and share purchase plan provided the funding required to enable those activities to progress.

2011 will be an exciting year for the Company. Some of the significant activities to be completed are the completion of the Ohai gas pilot project, the drilling of the Talon-1 well in the Alton permit and the progression of seismic to enable identification of a drilling location in the Kahili permit.

On behalf of the Board of Directors I would like to thank our employees 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 10 to 44 on 2 March 2011.

For and on behalf of the Board

AUDITORS' INDEPENDENCE DECLARATION

pwc

The Directors
L&M Energy Limited
9th Floor, St John's House
114 The Terrace
PO Box 10-895
WELLINGTON

2 March 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 audit of the financial statements of L&M Energy Limited for the year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully

John Selby
Partner

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INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report
to the shareholders of L&M Energy Limited

Report on the Financial Statements

We have audited the financial statements of L&M Energy Limited on pages 10 to 44 which comprise the statements of financial position as at 31 December 2010, the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2010 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, L&M Energy Limited or any of its subsidiaries other than in our capacities as auditors and tax advisors. These matters have not impaired our independence as auditors of the Company and Group.

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INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report
L&M Energy Limited

Opinion
In our opinion, the financial statements on pages 10 to 44:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 December 2010, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements
We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2010:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use
This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit 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 auditors' 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 audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
2 March 2011

Wellington

DIRECTORS' DECLARATION

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds 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 financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with 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:

T W Taylor

Director

Wellington, New Zealand

2 March, 2011

FINANCIAL STATEMENTS

31 DECEMBER 2010

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

		Consolidated		Parent	
		31/12/10	31/12/09	**31/12/10**	31/12/09
		NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
	Notes		(Restated)		
Revenue	6	173	-	200	174
Other income	6	1,356	-	247	291
		1,529	-	447	465
Expenses:					
Employee benefits expense	7	(1,940)	-	(1,957)	(1,251)
Share option compensation expense	18(b)	(8,031)	-	(1,335)	(342)
Depreciation and amortisation expense	14, 15	(111)	(33)	(51)	(71)
Exploration expenditure		(3,393)	(406)	(1,390)	(1,793)
Other expenses	7	(1,021)	(5)	(2,412)	(1,366)
Total expenses		(14,496)	(444)	(7,145)	(4,823)
Finance income	7	191	3	217	249
Loss before income tax		(12,776)	(441)	(6,481)	(4,109)
Income tax expense	8	-	-	-	-
Loss after tax attributable to equity holders of L&M Energy Limited		(12,776)	(441)	(6,481)	(4,109)
Other comprehensive income:					
Restatement for change in accounting policy	28	-	(44)	-	-
Total comprehensive income net of tax attributable to equity holders of L&M Energy Limited		(12,776)	(485)	(6,481)	(4,109)
Basic loss per share	10	$(0.02)	($1,470.00)	$(0.01)	($0.02)
Diluted loss per share	10	$(0.02)	($1,470.00)	$(0.01)	($0.02)

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Contributed Equity NZ$'000	Share Option Compensation Reserve NZ$'000	Accumulated Losses NZ$'000	Total Equity NZ$'000
Consolidated:					
Balance at 1 January 2009		-	-	26	26
Loss for the year		-	-	(441)	(441)
Restatement for change in accounting policy	28	-	-	(44)	(44)
Total comprehensive loss for the year		-	-	(485)	(485)
Balance at 31 December 2009		-	-	(459)	(459)
Net proceeds of shares issued	18(a)	10,591	-	-	10,591
Share option compensation		-	8,031	-	8,031
Reverse acquisition adjustment		26,295	-	-	26,295
Total comprehensive loss for the year		-	-	(12,776)	(12,776)
Balance at 31 December 2010		36,886	8,031	(13,235)	31,682

	Notes	Contributed Equity NZ$'000	Share Option Compensation Reserve NZ$'000	Accumulated Losses NZ$'000	Total Equity NZ$'000
Parent:					
Balance at 1 January 2009		20,458	4,476	(14,533)	10,401
Share option compensation		-	342	-	342
Total comprehensive loss for the year		-	-	(4,109)	(4,109)
Balance at 31 December 2009		20,458	4,818	(18,642)	6,634
Acquisition of subsidiary		66,600	6,506	-	73,106
Net proceeds of shares issued	18(a)	10,591	-	-	10,591
Non-cash issues		640	-	-	640
Transfer on exercise of options		929	(929)	-	-
Share option compensation		-	1,335	-	1,335
Total comprehensive loss for the year		-	-	(6,481)	(6,481)
Balance at 31 December 2010		99,218	11,730	(25,123)	85,825

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Notes	Consolidated 31/12/10 NZ$'000	Consolidated 31/12/09 NZ$'000 (Restated)	Consolidated 31/12/08 NZ$'000 (Restated)	Parent 31/12/10 NZ$'000	Parent 31/12/09 NZ$'000
ASSETS						
Current assets						
Cash and cash equivalents	11	8,748	17	27	8,739	6,348
Trade and other receivables	12	134	65	484	110	107
Inventories	13	775	239	-	536	496
Advances to subsidiary		-	-	-	3,581	-
Total current assets		9,657	321	511	12,966	6,951
Non-current assets						
Investment in subsidiary	24	-	-	-	73,107	-
Exploration permits	15, 27	21,526	-	-	-	-
Exploration wells in progress		277	-	-	-	-
Property, plant and equipment	14	749	728	18	95	117
Intangible assets	15	8	-	-	1	17
Total non-current assets		22,560	728	18	73,203	134
Total assets		32,217	1,049	529	86,169	7,085
LIABILITIES						
Current liabilities						
Trade and other payables	16	505	396	503	325	436
Provisions	16	30	-	-	19	15
Total current liabilities		535	396	503	344	451
Non-current liabilities						
Non-interest bearing liabilities		-	1,112	-	-	-
Total non-current liabilities		-	1,112	-	-	-
Total liabilities		535	1,508	503	344	451

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Notes	Consolidated 31/12/10 NZ$'000	Consolidated 31/12/09 NZ$'000 (Restated)	Consolidated 31/12/08 NZ$'000 (Restated)	Parent 31/12/10 NZ$'000	Parent 31/12/09 NZ$'000
EQUITY						
Issued capital and reserves attributable to equity holders of the Company						
Contributed equity	18(a)	36,886	-	-	99,218	20,458
Accumulated (losses)/earnings	19(a)	(13,235)	(459)	26	(25,123)	(18,642)
Share option compensation reserve	19(b)	8,031	-	-	11,730	4,818
Total equity		31,682	(459)	26	85,825	6,634
Total equity and liabilities		32,217	1,049	529	86,169	7,085

....

Director Director

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Cash flows from operating activities				
Payments to suppliers and employees	(3,252)	(129)	(3,353)	(1,531)
Payment of exploration costs	(3,168)	(406)	(1,434)	(1,809)
Net interest received/paid	156	3	183	271
Net cash outflow from operating activities	(6,264)	(532)	(4,604)	(3,069)
Cash flows from investing activities				
Payments for property, plant, equipment and intangible assets	(161)	(590)	(13)	(2)
Cash introduced	4,566	-	-	-
Net cash outflow from investing activities	4,405	(590)	(13)	(2)
Cash flows from financing activities				
Net proceeds from issue of shares	10,590	-	10,590	-
Advances to subsidiary	-	-	(3,582)	-
Net proceeds from borrowings	-	1,112	-	-
Net cash inflow from financing activities	10,590	1,112	7,008	-
Net decrease in cash and cash equivalents	8,731	(10)	2,391	(3,071)
Cash and cash equivalents at the beginning of the year	17	27	6,348	9,419
Cash and cash equivalents at the end of the year (note 11)	8,748	17	8,739	6,348

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Reconciliation with operating loss				
Operating loss after tax	(12,776)	(441)	(6,481)	(4,109)
Non cash items:				
Share option compensation expense	8,031	-	1,335	342
Depreciation and amortisation	111	33	51	72
Loan forgiveness	(1,164)	-	-	-
Services remunerated by share issue	-	-	640	-
Working capital movements				
– Trade and other receivables	(70)	419	(3)	23
– Inventory	(536)	(239)	(40)	470
– Trade and other payables	140	(304)	(106)	133
Net cash outflow from operating activities	(6,264)	(532)	(4,604)	(3,069)

Non-cash investing activities include acquisition of the subsidiary by the issue of share options and share capital (Refer note 24).

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

NOTES TO THE FINANCIAL STATEMENTS

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 financial statements have been approved for issue by the Board of Directors on 2 March 2011.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless clearly stated.

a. Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

The financial statements comply with all the requirements of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), interpretations and other applicable Financial Reporting Standards. The financial statements comply with International Financial Reporting Standards (IFRS).

Entity reporting

The financial statements of the "Parent" are for L&M Energy Limited as a separate legal entity.

The consolidated financial statements of the Group are for the economic entity comprising L&M Energy Limited and its subsidiary, L&M Coal Seam Gas Limited.

The Company and Group are designated as profit-oriented entities for financial reporting purposes.

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.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Going concern

The financial statements have been prepared on a going concern basis. There are inherent uncertainties relating to this and the ability of the Group to raise future funding as outlined in note 3, Liquidity Risk.

Accounting standards

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 IFRS 9, 'Financial instruments', issued in December 2009: This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has not yet decided when to adopt NZ IFRS 9.

NZ IAS 24 (Revised), 'Related party disclosures', issued in November 2009: It supersedes NZ IAS 24, 'Related party disclosures', issued in 2003. The revised NZ IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.

'Classification of rights issues' (Amendment to NZ IAS 32), issued in October 2009: For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

NZ IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of NZ IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

There are no other new standards and amendments that are not yet effective and have not yet been applied that are relevant to the Group.

Change in accounting policy

L&M Coal Seam Gas Limited voluntarily changed its method of accounting for exploration expenditure from the 'full cost' method to the 'successful efforts' method. The successful efforts accounting method expenses exploration expenditure in the period in which it is incurred and is a commonly used method of accounting within the industry. In view of this, the policy was adopted as the Group believes that it provides more relevant and reliable information to the users of the financial statements.

The change in accounting policy has been retrospectively applied. The effect of this change on prior years is disclosed in note 28.

b. Subsidiaries

(i) Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment.

Where the legal subsidiary is identified as the acquirer, the acquisition is accounted for as a "reverse acquisition". With effect from 26 February 2010, L&M Energy Limited became the legal parent of L&M Coal Seam Gas Limited. This business combination was effected through an exchange of equity interests. This business combination has been accounted for as a reverse acquisition because L&M Coal Seam Gas Limited was identified as the acquirer.

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 comparative figures in the statement of comprehensive income and statement of financial position are the results and position of L&M Coal Seam Gas Limited for the periods prior to 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.

c. Foreign currency translation

i) *Functional and presentation currency*

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is the Group's presentation currency.

ii) *Transactions and balances*

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

d. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of sales tax (including Goods and Services Tax), rebates and discounts.

The Group recognises revenue when it can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for the activities as described below.

i) *Overhead recoveries*

The Group earns overhead recoveries when it is appointed as Operator of a Joint Venture. Overhead recoveries are recognised on an accruals basis in accordance with the substance of the relevant Joint Venture Operating Agreement.

e. Finance income and costs

i) *Interest income*

Interest income is recognised on a time proportionate basis using the effective interest rate method.

ii) *Interest expense*

Interest costs are recognised as expenses in the period in which they are incurred using the effective interest rate method.

f. Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

g. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

h. Inventory

Inventory of drilling and seismic acquisition stock is valued at the lower of historic cost and estimated net realisable value on an individual line item basis.

i. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other expenses'. Collectibility of trade receivables is reviewed on an ongoing basis. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the statement of comprehensive income.

j. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

k. Joint Ventures

Jointly controlled assets

The Group combines its share of the joint ventures' individual expenses, assets and liabilities on a line-by-line basis with similar items in the Group's financial statements.

l. Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor and the Group has no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables and cash and cash equivalents in the statement of financial position (refer note 11 and 12). Purchases and sales of financial assets are recognised on the date the Group has committed to the transaction (trade date). De-recognition of financial assets occur when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Amounts owing by related party entities are non-derivative financial assets. Amounts owed are on-demand and are interest-bearing using the effective interest method. Amounts owing by related party entities are included in current assets (refer note 23).

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence of impairment would include significant financial difficulties of debtors, probability that debtors will enter receivership, bankruptcy or financial reorganisation and default or delinquency in payments.

m. Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate asset cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

- Computer hardware 3-5 years
- Plant & equipment 9-12 years
- Furniture and fittings 9-11 years
- Office equipment 3-4 years
- Leasehold improvements 4-6 years
- Motor vehicles 5-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount – refer accounting policy 'Impairment of non-financial assets'.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

n. Exploration permits

The costs of acquired exploration permits are capitalised as "Exploration permits". If it is proven that a permit area contains no economically recoverable hydrocarbon reserves, the costs are written off to the statement of comprehensive income. Exploration permits are indefinite life intangible assets and are subject to impairment review in accordance with the accounting policy – 'Impairment of non-financial assets'.

o. Exploration expenditure

The Group has adopted the successful efforts method of accounting for oil and gas exploration costs as described below:

Geological and geophysical exploration costs are written off to the statement of comprehensive income as incurred with the exception that costs that are developmental in nature are capitalised as development costs and subject to impairment review in accordance with the accounting policy – 'Impairment of non-financial assets'.

The costs of drilling exploration wells are capitalised until drilling and testing are complete. If it is proven that a well contains no economically recoverable hydrocarbon reserves, the costs are written off to the statement of comprehensive income. The costs of successful wells are aggregated with development costs and subject to impairment review in accordance with the accounting policy – 'Impairment of non-financial assets'.

The costs of associated properties, to the extent the cost exceeds the bare land value, is included as part of the cost of exploration wells and dealt with accordingly.

p. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

q. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

r. Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Restoration provision:

A provision for site restoration is recognised if there is an obligation to restore the site at a future point in time.

Abandonment:

The Group does not currently have any permanent facilities requiring the establishment of an abandonment provision. When this is required, a provision for the full cost expected to be incurred at the end of the life of each asset on a discounted net present value basis will be recognised at the beginning of each project and capitalised as part of the cost of the asset. The capitalised cost will be amortised over the estimated life of the asset and the annual increase in the net present value of the provision for the expected cost will be included in finance costs.

s. Employee benefits

a) *Employee benefits*

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees.

b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

t. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

u. Goods and Services Tax (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

v. Operating leases

Leases in which a significant portion of their risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

w. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Managing Director.

x. Intangible assets

Software acquired

Software is initially recorded at historical cost. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads. Software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of software over its estimated useful life of approximately three years.

y. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Directors believe there are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period given the early stages of exploration activity.

Significant estimates have been made in the areas of:

- Change in accounting policy (refer note 28);
- Investment in subsidiary (refer note 24);
- Fair values of business combinations (refer note 27);
- Share based compensation (refer note 18(b)); and
- Restoration provisions (refer note 16).

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:

		Consolidated		Parent	
	Exchange rate	**31/12/10**	31/12/09	**31/12/10**	31/12/09
		NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
United States dollar	0.7690	1	-	1	1
Australian dollar	0.7569	1,946	3	1,946	1,562
		1,947	3	1,947	1,563

Sensitivity analysis:

As at 31 December 2010 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 approximately as follows at year end.

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Increase/decrease in loss before tax	177	-	177	142

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 is no significant concentration of credit risk other than cash deposits.

The Group's cash deposits are primarily held as follows:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Bank of New Zealand	8,748	17	8,739	6,348

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	Aa1

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.

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Trade and other payables				
Less than 1 year	535	396	344	451
Between 1 and 2 years	-	-	-	-
Over 2 years	-	-	-	-
	535	396	344	451

Current cash forecasts project that the Group, depending upon operational outcomes and other various factors, will likely require additional funding within the next 24 months to meet its work programs. The quantum of this will depend upon the final approval of work programs by the Board of Directors which will incorporate, amongst other things, the expenditure required under the terms of the Group's petroleum permits. The work programs approved will be tailored to the amount of funding available to the Group.

The Group regularly considers funding options that are available including raising additional funds from institutional investors and/or current shareholders and is confident that funding will be available to meet the final work program. In view of this the Directors consider that the adoption of the going concern assumption is appropriate. The validity of the going concern assumption on which the financial statements are prepared depends upon the successful arrangement of sources of funding.

Interest rate risk

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

The Group has no debt which carries interest rate risk.

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 as follows:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Decrease/increase in comprehensive income	59	-	59	81

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 objective when managing capital is to safeguard the entity's 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 Director 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.

Costs are allocated between segments as follows:

- Exploration: by primary type of exploration objective target within permit
- Employee benefits: by estimation of time
- Depreciation: by asset utilisation
- Other expenses: by nature of expenditure
- Stock compensation: by primary role of grantees
- Revenue: by source of revenue
- Other income: by source of income
- Finance income: by source of investment funds
- Loan forgiveness: by source of loan forgiveness

The accounting policies applied in determining the segment results are the same as those applied in the preparation of the consolidated financial statements.

Segment information is as follows:

31/12/10 NZ$'000	Coal Seam Gas		Petroleum		Unallocated[1]		Total	
	Consol.	Parent	Consol.	Parent	Consol.	Parent	Consol.	Parent
Exploration expense	(2,858)	(14)	(535)	(1,376)	-	-	(3,393)	(1,390)
Employee benefits expense	(766)	(626)	(779)	(925)	(395)	(406)	(1,940)	(1,957)
Depreciation and amortisation expense	(72)	-	(39)	(51)	-	-	(111)	(51)
Other expenses	(163)	-	(559)	(549)	(299)	(1,863)	(1,021)	(2,412)
Stock compensation expense	(455)	(144)	(1,030)	(953)	(6,546)	(238)	(8,031)	(1,335)
Revenue	-	-	173	200	-	-	173	200
Other income	-	-	192	247	-	-	192	247
Finance income	-	-	-	-	191	217	191	217
Loss forgiveness	-	-	-	-	1,164	-	1,164	-
Loss before income tax	(4,314)	(784)	(2,577)	(3,407)	(5,885)	(2,290)	(12,776)	(6,481)

31/12/09 NZ$'000	Coal Seam Gas		Petroleum		Unallocated[1]		Total	
	Consol.	Parent	Consol.	Parent	Consol.	Parent	Consol.	Parent
Exploration expense	(406)	(1,199)	-	(594)	-	-	(406)	(1,793)
Employee benefits expense	-	(837)	-	(414)	-	-	-	(1,251)
Depreciation and amortisation expense	(38)	-	-	(71)	-	-	(38)	(71)
Other expenses	-	-	-	(887)	-	(479)	-	(1,366)
Stock compensation expense	-	-	-	(185)	-	(157)	-	(342)
Revenue	-	-	-	174	-	-	-	174
Other income	-	-	-	291	-	-	-	291
Finance income	-	-	-	-	3	249	3	249
Loss before income tax	(444)	(2,036)	-	(1,686)	3	(387)	(441)	(4,109)

(1) 'Unallocated' relates to Corporate activities

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:

		Consolidated		Parent	
		31/12/10	31/12/09	**31/12/10**	31/12/09
		NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Customer	Segment	Revenue and other income	Revenue and other income	Revenue and other income	Revenue and other income
Waiau Joint Venture	PEP38226 – Waiau	110	-	132	137
Alton Joint Venture	PEP51151 – Alton	255	-	315	259
Hohonu Joint Venture	PEP50558 – Hohonu	-	-	-	7
Mighty River Power Ltd	Unallocated	-	-	-	60

6. Revenue and other income

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Revenue – overhead recoveries from Joint Ventures	173	-	200	174
Total revenue	173	-	200	174
Other income – sundry	192	-	247	291
– loan forgiveness	1,164	-	-	-
Total other income	1,356	-	247	291

7. Finance income, other expenses and other operating gains

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Employee benefits expense includes:				
Termination payments	281	-	281	-
Other expenses include:				
Write down of inventory	-	-	-	441
Foreign exchange gain	50	-	94	63
Superannuation contributions	15	1	17	16
Doubtful debts recovered	-	-	-	(97)
Finance income:				
Interest received on cash and cash equivalents	198	3	224	249
Interest paid	(7)	-	(7)	-
	191	3	217	249

8. Income tax expense

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
		(Restated)		
Numerical reconciliation of income tax expense to prima facie tax payable				
Loss before income tax expense	(12,776)	(441)	(6,481)	(4,109)
Tax at the company rate of 30%	(3,833)	(132)	(1,944)	(1,233)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Expenditure not deductible for tax	2,134	-	875	195
Temporary differences not recognised	2	-	6	(125)
Benefit of tax losses not brought to account	1,697	132	1,063	1,163
Income tax expense	-	-	-	-
Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-
Tax losses				
Unused tax losses for which no deferred tax has been recognised	14,842	441	12,729	9,184
Potential tax benefit @ 28%(1)	4,156	132	3,564	2,755

(1) Corporate tax rate of 30% was used for 2009.

Recognition and utilisation of potential tax benefits is subject to meeting requirements of the relevant tax legislation. On 27 May 2010 a change in the New Zealand corporate tax rate from 30% to 28% was enacted and will be effective from 1 January 2012. The change has resulted in decreases of $297,000 (consolidated) and $255,000 (Parent) of the potential tax benefit arising from unused tax losses for which no deferred tax asset has been recognised.

9. Imputation credits

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Balances				
Imputation credit account	-	1	-	-
	-	1	-	-
Movements – imputation credit account				
Balance at the beginning of the year	1	1	-	12
Write off	(1)	-	-	-
Tax payments, net of refunds	-	-	-	(12)
Balance at end of year	-	1	-	-

10. Earnings per share

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

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
Basic denominator	602,516,309	300	602,516,309	175,179,808
Vested share options:				
Class A	17,502,740	-	17,502,740	16,502,740
Class B	1,000,000	-	1,000,000	4,800,000
Class C	3,284,247	-	3,284,247	2,190,497
Class E	36,741,371	-	36,741,371	-
ESOP (Employee Share Option Plan)	2,310,698	-	2,310,698	988,281
Unvested share options	68,092	-	68,092	19,027
Diluted denominator	663,423,457	300	663,423,457	199,680,353

Basic and diluted loss per share calculations are as follows:

	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
		(Restated)		
Numerator: net loss for the period	(12,776)	(441)	(6,481)	(4,109)
a) Basic denominator				
Weighted average number of shares	602,516,309	300	602,516,309	175,179,808
Basic loss per share	$(0.02)	($1,470.00)	$(0.01)	($0.02)
b) Diluted denominator				
Weighted average number of shares	663,423,457	300	663,423,457	199,680,353
Diluted loss per share	$(0.02)	($1,470.00)	$(0.01)	($0.02)

11. Cash and cash equivalents

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Cash at bank and in hand	22	7	23	8
Deposits at call	2,213	-	2,213	208
Term deposits	6,513	10	6,503	6,132
	8,748	17	8,739	6,348

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 31 December 2010 the Group's deposits were earning an effective interest rate as follows:

Consolidated		Parent	
31/12/10	31/12/09	**31/12/10**	31/12/09
%	%	%	%
3.65	2.75	3.65	2.91

As at 31 December 2010 the Group had no borrowings. (31/12/2009: Nil).

12. Trade and other receivables

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Receivables:				
Trade receivables – Current	-	-	-	4
– Current – related parties (note 23)	34	-	34	65
Trade receivables – past due (up to 90 days):	-	-	-	-
– Not impaired – related parties (note 23)	-	-	-	13
Other receivables – Current	100	24	76	23
Income tax refund due (note 8)	-	4	-	-
Prepayments	-	37	-	2
	134	65	110	107

Trade, other receivables in respect to exploration activities are nil (Consolidated) and nil (Parent).

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

	Consolidated		Parent	
Provision for doubtful debts:	**31/12/10**	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Balance at beginning of year	-	-	-	405
Additions to provision	-	-	-	-
Deductions from provision	-	-	-	405
Balance at end of year	-	-	-	-

The provision of $404,791 was established in respect to outstanding balances due from McKenzie Petroleum Limited as the previous Operator of the PEP38521 (West Coast) Joint Venture ($347,635)and the PEP50558 Hohonu Joint Venture ($57,156). The dispute the Group had with the PEP38521 Joint Venture was in respect to drilling activities of the Joint Venture that the Group undertook on behalf of the previous Operator of the Joint Venture. All disputes were finalised within the year ended 31 December 2009 and the resultant bad debt was written off.

13. Inventories

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
		(Restated)		
Drilling stock/seismic acquisition stock				
- At cost	377	239	138	86
- At fair value less costs to sell	398	-	398	410
	775	239	536	496

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

14. Property, plant and equipment

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000 (Restated)	**NZ$'000**	NZ$'000
Computer Hardware				
Opening cost	11	3	50	50
Additions	10	8	6	2
Disposals	(13)	-	(13)	(2)
Reverse acquisition adjustment	50	-	-	-
Closing cost	58	11	43	50
Accumulated depreciation				
Opening accumulated depreciation	2	-	40	25
Depreciation for period	11	2	10	16
Disposals	(11)	-	(13)	(1)
Reverse acquisition adjustment	40	-	-	-
Closing accumulated depreciation	42	2	37	40
Closing book value	16	9	6	10
Office Furniture & Equipment				
Opening cost	-	-	52	52
Additions	7	-	7	-
Disposals	-	-	-	-
Reverse acquisition adjustment	52	-	-	-
Closing cost	59	-	59	52
Accumulated depreciation				
Opening accumulated depreciation	-	-	20	13
Depreciation for period	6	-	7	7
Reverse acquisition adjustment	20	-	-	-
Closing accumulated depreciation	26	-	27	20
Closing book value	33	-	32	32
Plant and Equipment				
Opening cost	758	193	41	41
Additions	-	565	-	-
Disposals	-	-	-	-
Reverse acquisition adjustment	41	-	-	-
Closing cost	799	758	41	41
Accumulated depreciation				
Opening accumulated depreciation	68	40	8	5
Depreciation for period	66	28	5	3
Reverse acquisition adjustment	18	-	-	-
Closing accumulated depreciation	152	68	13	8
Closing book value	647	690	28	33

	Consolidated 31/12/10 NZ$'000	Consolidated 31/12/09 NZ$'000 (Restated)	Parent 31/12/10 NZ$'000	Parent 31/12/09 NZ$'000
Motor vehicles				
Opening cost	35	18	-	-
Additions	-	17	-	-
Disposals	-	-	-	-
Closing cost	35	35	-	-
Accumulated depreciation				
Opening accumulated depreciation	6	3	-	-
Depreciation for period	6	3	-	-
Disposals	-	-	-	-
Closing accumulated depreciation	12	6	-	-
Closing book value	23	29	-	-
Leasehold Improvements				
Opening cost	-	-	64	64
Additions	-	-	-	-
Disposals	-	-	-	-
Reverse acquisition adjustment	64	-	-	-
Closing cost	64	-	64	64
Accumulated depreciation				
Opening accumulated depreciation	-	-	22	9
Depreciation for period	11	-	13	13
Reverse acquisition adjustment	23	-	-	-
Closing accumulated depreciation	34	-	35	22
Closing book value	30	-	29	42
Totals				
Opening cost	804	214	207	207
Additions	17	590	13	2
Disposals	(13)	-	(13)	(2)
Reverse acquisition adjustment	207	-	-	-
Closing cost	1,015	804	207	207
Accumulated depreciation				
Opening accumulated depreciation	76	43	90	52
Depreciation for period	100	33	35	39
Disposals	(11)	-	(13)	(1)
Reverse acquisition adjustment	101	-	-	-
Closing accumulated depreciation	266	76	112	90
Closing book value	749	728	95	117

15. Intangible assets

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Computer Software				
Opening cost	-	-	108	108
Additions	2	-	-	-
Reverse acquisition adjustment	108	-	-	-
Closing cost	110	-	108	108
Amortisation				
Opening accumulated amortisation	-	-	91	59
Amortisation for period	11	-	16	32
Reverse acquisition adjustment	91	-	-	-
Closing accumulated amortisation	102	-	107	91
Closing book value	8	-	1	17
Total				
Opening cost	-	-	108	108
Additions	2	-	-	-
Reverse acquisition adjustment	108	-	-	-
Closing cost	110	-	108	108
Amortisation NZ$'000				
Opening accumulated amortisation	-	-	91	59
Amortisation for period	11	-	16	32
Reverse acquisition adjustment	91	-	-	-
Closing accumulated amortisation	102	-	107	91
Closing book value	8	-	1	17
Exploration permits				
Opening cost	-	-	-	-
Reverse acquisition adjustment	21,526	-	-	-
Closing cost	21,526	-	-	-

16. Trade, other payables and provisions

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Employee entitlements	60	25	60	53
Accrued expenses	102	-	103	42
Accrued expenses – related parties (note 23)	65	-	65	-
Trade payables	233	371	52	182
Trade payables – related parties (note 23)	45	-	45	159
Provisions	23	-	12	12
Provisions – related parties	7	-	7	3
	535	396	344	451

Trade, other payables and provisions in respect to exploration activities are $162,000 (Consolidated) and $129,000 (Parent).

The Group has made provisions for site restoration work which is to be undertaken on land where drilling activities have been undertaken. It is expected that all sites will be restored within 12 months. The provisions have been derived based upon historical experience of the Group. Details of the movement in the provision is as follows:

	Consolidated	Parent
	31/12/10	31/12/10
	NZ$'000	NZ$'000
Opening provision	12	12
Additions	18	7
Utilised	-	-
Reversals	-	-
Discounting changes	-	-
Closing provision	30	19

17. Financial instruments by category

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Loans and receivables				
Assets per statement of financial position				
Cash and cash equivalents	8,748	17	8,739	6,348
Trade and other receivables	134	28	110	105
	8,882	45	8,849	6,453
Liabilities at amortised cost				
Liabilities per statement of financial position				
Trade and other payables	505	396	325	436
	505	396	325	436

18. Contributed equity

a. Share capital

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
Ordinary shares				
Fully paid (no par value)	730,555,518	300	730,755,518	175,302,000
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Total contributed equity	37,735	-	100,067	20,458

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:

	Consolidated			Parent		
Date	Number of shares	Consideration NZ$'000	Average Price	Number of shares	Consideration NZ$'000	Average Price
1 January, 2009	**100**	**-**		**175,102,000**	**20,458**	
12 August 2009	-	-	-	200,000	-	NZ$0.00001
Share split: 25 November 2009	200	-	-	-	-	
31 December, 2009	**300**	**-**	**-**	**175,302,000**	**20,458**	
Reverse acquisition adjustment	624,301,700	26,295(1)	-	-	-	
Shares issued:						
26 February 2010	-	-	-	444,000,000	66,600	NZ$0.15
4 March 2010	800,000	-	NZ$0.00001	800,000	-	NZ$0.00001
16 March 2010	-	-	-	5,000,000	640	NZ$0.13
1 June 2010	1,000,000	-	NZ$0.00001	1,000,000	-	NZ$0.00001
2 July 2010	78,980,022	8,740	NZ$0.11	78,980,022	8,740	NZ$0.11
16 July 2010	1,000,000	-	NZ$0.00001	1,000,000	-	NZ$0.00001
9 September 2010	12,573,496	1,405	NZ$0.11	12,573,496	1,405	NZ$0.11
30 September 2010	1,000,000	-	NZ$0.00001	1,000,000	-	NZ$0.00001
1 November 2010	11,100,000	1,295	NZ$0.12	11,100,000	1,295	NZ$0.12
Transfer from Stock Compensation Reserve	-	-	-	-	929	-
Capital raising costs		(849)			(849)	
31 December, 2010	**730,755,518**	**36,886**		**730,755,518**	**99,218**	

(1) Refer note 27

As at 31 December 2010 there were 730,755,518 shares issued and fully paid. All ordinary shares carry equal rights in respect of voting, dividend payments and distribution upon winding up.

As at 31 December 2009 there were 175,302,000 shares issued and fully paid (300 consolidated). All ordinary shares carry equal rights in respect of voting, dividend payments and distribution upon winding up.

b. Share options

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

	Class A	Class B	Class C	Class E	ESOP	TOTAL
Balance at 31 Dec 2009	-	-	-	-	-	-
Reverse acquisition adjustment	18,500,000	4,800,000	4,375,000	-	6,210,000	33,885,000
Issued during period	-	-	-	56,000,000	9,655,000	65,655,000
Exercised	-	(3,800,000)	-	-	-	(3,800,000)
Cancelled	-	-	-	-	(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**

Throughout the year share options were issued as follows:

Date	Number issued	Exercise price	Vesting dates (1)	Expiry dates
Employee Share Option Plan (ESOP)				
18 Mar 2010	530,000	A$0.14	18 Mar 2011 – 18 Mar 2014	17 Mar 2015
29 Apr 2010	3,875,000	A$0.14	29 Apr 2011 – 29 Apr 2014	28 Apr 2015
11 Nov 2010	5,250,000	A$0.12	11 Nov 2011 – 11 Nov 2014	10 Nov 2015
Other options (Class E)				
26 Feb 2010	43,400,000	NZ$0.0001	Issued fully vested	26 Feb 2015
26 Feb 2010	12,600,000	NZ$0.0001	27 Feb 2011 to 27 Feb 2014	26 Feb 2015

(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.

The weighted average share price at date of exercise for options exercised was $0.144.

The weighted average exercise price of options exercised was $0.00001.

The weighted average fair value of share options issued to Directors, employees and advisors during the period was determined using the Black-Scholes valuation model. The fair values, and significant inputs into the valuation model were:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
Weighted average fair value of options granted	A$0.1158	-	A$0.1158	A$0.0793
Valuation inputs:				
- Share price	A$0.09-A$0.16	-	A$0.09-A$0.16	A$0.10-A$0.12
- Exercise price	A$0.12-A$0.14 NZ$0.0001	-	A$0.12-A$0.14 NZ$0.0001	A$0.10-A$0.11
- Volatility	100%	-	100%	100%
- Option life	5 years	-	5 years	5 years
- Risk-free rate	5%	-	5%	4.5%
- Dividend yield	Nil	-	Nil	Nil

Volatility is based on historical volatility for comparable companies. For the period ended 31 December 2010 the volatility assumption has been compared with the volatility of the Company's share price since listing for reasonableness.

Details of share options outstanding at 31 December 2010 are as follows:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
Number outstanding	95,040,000	-	95,040,000	33,885,000
Weighted average exercise price	A$0.09	-	A$0.09	A$0.22
Weighted average remaining contractual life (days)	1,205	-	1,205	831
Total number exercisable	70,186,250	-	70,186,250	26,940,000
Weighted average exercise price of options exercisable	A$0.10	-	A$0.10	A$0.23

Date	Number	Exercise price	Future vesting dates	Expiry dates
Class A	18,500,000	A$0.30	Fully vested	31 Dec 2011
Class B	1,000,000	NZ$0.00001	Fully vested	31 Dec 2011
Class C	4,375,000	A$0.20	Fully vested	31 Dec 2011
Class E	56,000,000	NZ$0.0001	43,400,000 fully vested 12,600,000 vest between 27 Feb 2011 – 27 Feb 2014	26 Feb 2015
ESOP	15,165,000	A$0.10 – A$0.30	2,911,250 fully vested 12,253,750 vest between 1 Feb 2011 – 11 Nov 2014	1 Feb 2012 – 10 Nov 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.

Share option compensation expense was incurred as follows:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Employees	1,472	-	1,090	176
Non-employees	6,559	-	245	166
	8,031	-	1,335	342

19. Reserves and accumulated losses

a. Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
		(Restated)		
Opening accumulated losses	(459)	26	(18,642)	(14,533)
Restatement due to change in accounting policy	-	(44)	-	-
Net loss for the year	(12,776)	(441)	(6,481)	(4,109)
Closing accumulated losses	(13,235)	(459)	(25,123)	(18,642)

b. Share option compensation reserve

Movements in the share option compensation reserve were as follows:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Opening share option compensation reserve	-	-	4,818	4,476
Share option compensation expense for the year	8,031	-	1,335	342
Transfer to contributed equity	-	-	(929)	-
Acquisition of subsidiary	-	-	6,506	-
Closing share option compensation reserve	8,031	-	11,730	4,818

20. 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:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
a) Assurance services				
Audit services				
PricewaterhouseCoopers New Zealand firm				
Audit and review of financial reports	81	2	78	60
Total remuneration for audit services	81	2	78	60
b) Other services				
PricewaterhouseCoopers New Zealand firm				
Tax compliance services, including review of income tax returns	22	-	26	33
Other services	4	-	4	-
Total remuneration for other services	26	-	30	33

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

21. Contingencies

Contingent liabilities

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Performance bonds	10	10	10	10
	10	10	10	10

A performance bond has been issued to a landowner upon whose land the Group's joint venture is undertaking activities, to provide security for satisfactory restoration and rehabilitation of the land. Refer to note 16.

22. Commitments

The Group had commitments at the reporting date but not recognised as liabilities as follows:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
i) Property, plant and equipment	-	-	-	-
	-	-	-	-
ii) Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	118	-	118	55
Later than one year but not later than five years	66	-	66	119
Later than five years	-	-	-	-
	184	-	184	174
iii) Exploration permits				
Estimated exploration costs to fulfil work program conditions are as follows:				
Within one year	4,110	-	1,940	2,515
Later than one year but not later than five years	-	-	-	-
	4,110	-	1,940	2,515

Lease payments included in the Statement of Comprehensive Income were as follows:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Office buildings	97	-	106	49
Other	1	-	1	-
Total	98	-	107	49

23. Related party transactions

Related entities

The following entities are related to the Group:

- Auriferous Mining Limited (common director)
- L&M Mining Limited (common director)

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

- PEP38226 (Waiau) Joint Venture (note 25)
- PEP51151 (Alton) Joint Venture (note 25)
- PEP52181 (Kaheru) Joint Venture (note 25)

Directors

The names of persons who were directors of the Group at any time during the year are as follows: AG Loudon, K Anson, J Bay, D Ellenor, G Hogan, C Lutyens, T Taylor and D Manhire.

The following expenses were incurred in respect to Directors in the year:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Directors fees (1)	125	-	125	125
Share option compensation expense (2)	3,271	-	238	157

(1) Mr Loudon's fees are donated to the Outward Bound Trust of New Zealand.

(2) The consolidated expense includes stock compensation expense related to the issue of share options to a Director as part of the consideration to acquire L&M Coal Seam Gas Limited.

Key management and personnel compensation

The key management personnel include the Directors (Executive and non-executive), Exploration Manager, Business Development Manager and the Chief Financial Officer. Key management received benefits during the period as follows:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Short term benefits	1,440	350	1,537	1,240
Post employment benefits	-	-	-	-
Long term benefits	-	-	-	-
Termination payments	281	-	281	-
Share option compensation (1)	1,132	-	1,053	169
	2,853	350	2,871	1,409

(1) Includes stock compensation expense related to the issue of share options to a Director as part of the consideration to acquire L&M Coal Seam Gas Limited.

Transactions with related entities

The following transactions occurred with related entities:

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Unsecured loans				
Auriferous Mining Limited	-	1,112	-	-
Loan forgiveness				
Auriferous Mining Limited	1,164	-	-	-
Purchases of goods and services				
L&M Mining Limited	61	855	51	-
Exploration and permit administration expenditure				
PEP51151 (Alton) Joint Venture	298	-	900	338
PEP38226 (Waiau) Joint Venture (1)	117	-	147	821
PEP52181 (Kaheru) Joint Venture	77	-	77	-
PEP38521 (West Coast) Joint Venture (2)	-	-	-	26
PEP50558 (Hohonu) Joint Venture (2)	-	-	-	72
	492	-	1,124	1,257
Revenue and other income				
PEP51151 (Alton Joint Venture)	255	-	315	259
PEP38226 (Waiau) Joint Venture	110	-	132	137
PEP38521 (West Coast) Joint Venture	-	-	-	2
PEP50558 (Hohonu) Joint Venture	-	-	-	7
	365	-	447	405
Gain on inventory				
Waiau Joint Venture	-	-	52	-
Provision for impairment – inventory				
Waiau Joint Venture	-	-	-	14

(1) Includes exploration expenditure on projects sole risked by the Company

(2) The Company paid 100% of Joint Venture expenditure in the period (note 25)

Terms and conditions

These transactions arise as a result of financial arrangements, joint venture agreements and the provision of goods and services. These parties are related by virtue of common ownership, common directors or joint venture arrangements.

Outstanding balances

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Accounts receivable				
PEP38226 (Waiau) Joint Venture	2	-	2	6
PEP51151 (Alton) Joint Venture	7	-	7	72
L&M Mining Limited	1	-	-	-
	10	-	9	78
Accounts payable and accrued expenses				
L&M Mining Limited	-	212	-	-
PEP38226 (Waiau) Joint Venture	7	-	7	9
PEP51151 (Alton) Joint Venture	45	-	45	153
PEP52181 (Kaheru) Joint Venture	65	-	65	-
	117	212	117	162

24. Investment in subsidiary

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b). All subsidiaries are incorporated in New Zealand.

Name of Entity	Principle Activities	Equity holding	
		2010	2009
L&M Coal Seam Gas Limited	Exploration	100%	-

On 26 February 2010 L&M Energy Limited acquired 100% of the share capital of L&M Coal Seam Gas Limited for consideration of $73.1 million, determined by reference to the published share price of L&M Energy Limited.

The consideration given represents the fair value of 444,000,000 ordinary shares of L&M Energy Limited and 56,000,000 share options of L&M Energy Limited.

25. Interests in joint ventures

The Group participates as a:

- 90.0% partner in the PEP38226 (Waiau) Joint Venture
- 50.0% partner in the PEP51151 (Alton) Joint Venture
- 15.0% partner in the PEP52181 (Kaheru) Joint Venture
- 25.0% partner in the PEP53247 (Kahili) 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.

	Consolidated		Parent	
	31/12/10	31/12/09	**31/12/10**	31/12/09
	NZ$'000	NZ$'000	**NZ$'000**	NZ$'000
Group share of joint venture assets and liabilities				
Current assets	142	-	142	94
Non-current assets	-	-	-	-
Total assets	142	-	142	94
Current liabilities	117	-	117	162
Total liabilities	117	-	117	162
Group share of joint venture income and expenditure				
Expenses	(492)	-	(1,124)	(1,174)
Net loss before taxation	(492)	-	(1,124)	(1,174)

As at 31 December 2010 there were no capital commitments (31 December 2009: 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.

26. Events occurring after the balance sheet date

(a) On 18 February 2011 the Company applied for Government consent to acquire the 10% interest not currently held in license PEP38226 (Waiau).

(b) The following share options were cancelled on 18 February, 2011:

Number	Original expiry date	Exercise price
75,000	5 March, 2012	A$0.30
25,000	30 October, 2012	A$0.20
50,000	5 November, 2013	A$0.125
75,000	12 November, 2014	A$0.11
100,000	17 March, 2015	A$0.14
1,000,000	10 November, 2015	A$0.12

(c) On 21 February 2011 the remaining 1 million Class B options were exercised.

Other than as noted above, there have been no other events subsequent to the balance date which require disclosure in or adjustment to the financial statements.

27. Business Combinations

On 26 February 2010 L&M Energy Limited acquired 100% of the share capital of L&M Coal Seam Gas Limited. Consideration exchanged was 444,000,000 ordinary shares of L&M Energy Limited and 56,000,000 share options of L&M Energy Limited.

The acquisition has been accounted for as a 'reverse acquisition' with L&M Coal Seam Gas Limited being treated as the acquirer (refer note 2(a)). At the date of acquisition, the fair value of the assets and liabilities in L&M Energy Limited was $26,295,600 calculated by reference to the published share price of L&M Energy Limited.

The fair values of the assets and liabilities acquired were as follows:

	NZ$'000
Cash	4,566
Receivables	429
Inventory	548
Property, plant and equipment	121
Exploration permits	21,526
Advances	780
Trade and other payables	(1,674)
Total net assets	26,296

The fair value of acquired receivables equals the gross contractual amounts receivable.

The acquired business of L&M Energy Limited contributed $4,167,734 since acquisition date to the loss for the Group within the year ended 31 December 2010. The acquired business would have contributed $6,713,778 to the loss for the Group had the acquisition occurred on 1 January 2010.

The 56,000,000 share options issued by L&M Energy Limited are treated as a transaction separate from the acquisition described above. The fair value of these share options is recognised as an expense over the vesting period in the Statement of Comprehensive Income within "Share option compensation expense".

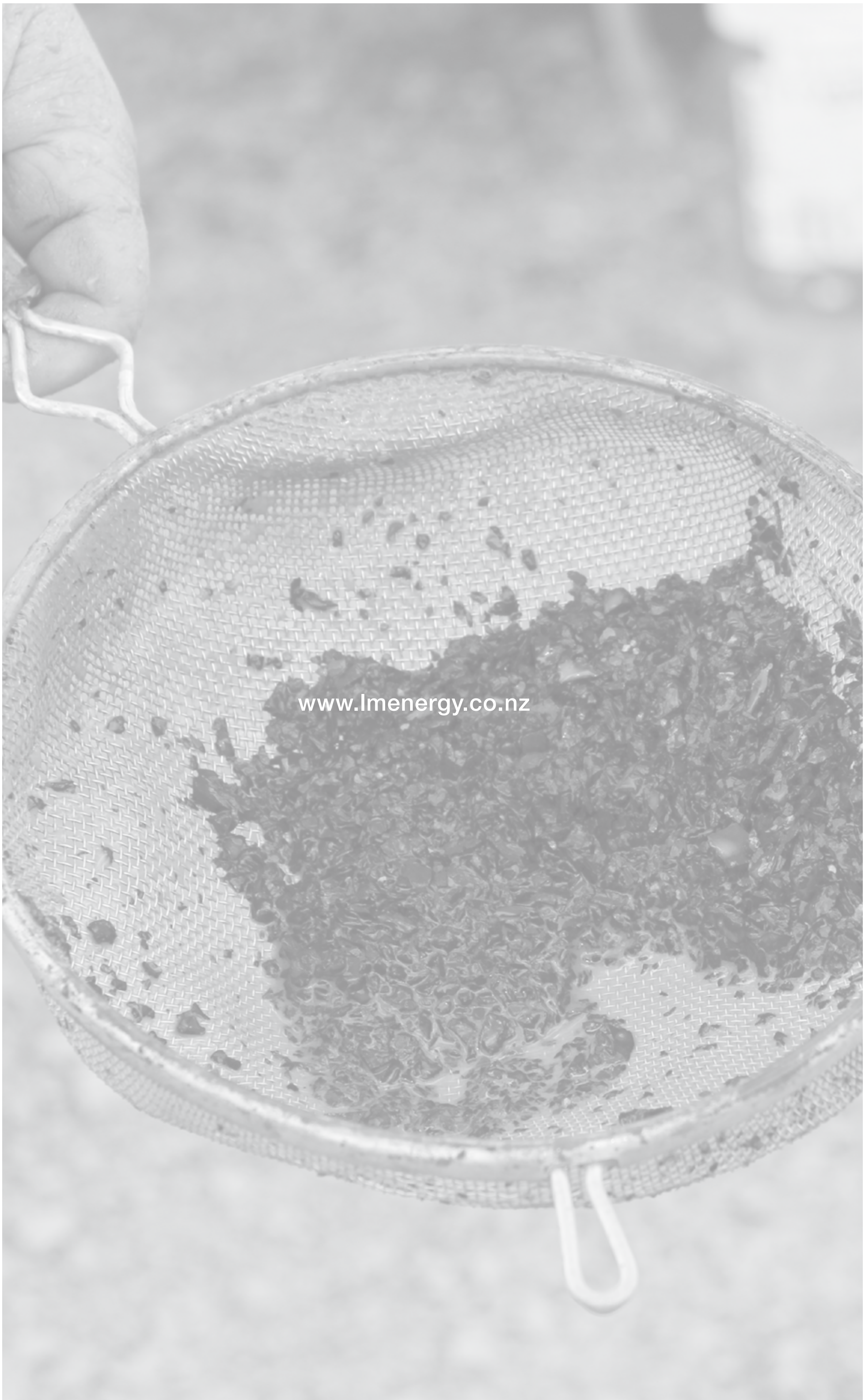
For the period ended 31 December 2010, $7,597,630 was recognised within "Share option compensation expense" in respect of these options.

28. Change in Accounting Policy

L&M Coal Seam Gas Limited voluntarily changed its method of accounting for exploration expenditure from the 'full cost' method to the 'successful efforts' method. The successful efforts accounting method expenses exploration expenditure in the period in which it is incurred and is a commonly used method of accounting within the industry. In view of this, the policy was adopted as the Group believes that it provides more relevant and reliable information to the users of the financial statements and will ensure consistency of accounting policies across all Group entities.

The change in accounting policy has been applied retrospectively and prior year's figures have been restated. The effect of this change on the prior year's figures is as follows:

	Group 31/12/08			Group 31/12/09		
	As reported NZ$'000	As restated NZ$'000	Restatement NZ$'000	As reported NZ$'000	As restated NZ$'000	Restatement NZ$'000
Income statement						
Exploration expenditure expensed	-	-	-	-	(406)	(406)
Expenses	(3)	(3)	-	(3)	(38)	(35)
	(3)	(3)	-	(3)	(444)	(441)
Effect of change in accounting policy on profit	-	-	-	-	(441)	(441)
Balance sheet						
Equity	26	26	-	26	(459)	(485)
Capitalised exploration expenditure	-	-	-	406	-	(406)
Property, plant and equipment	18	18	-	1,045	728	(317)
Inventory	-	-	-	-	239	239
Earnings per share						
– basic	$90.00	$90.00	-	($0.00)	($1,470.00)	($1,470.00)
– diluted	$90.00	$90.00	-	($0.00)	($1,470.00)	($1,470.00)



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