

## QUARTERLY ACTIVITIES REPORT – SECOND QUARTER 2011

28<sup>th</sup> July 2011

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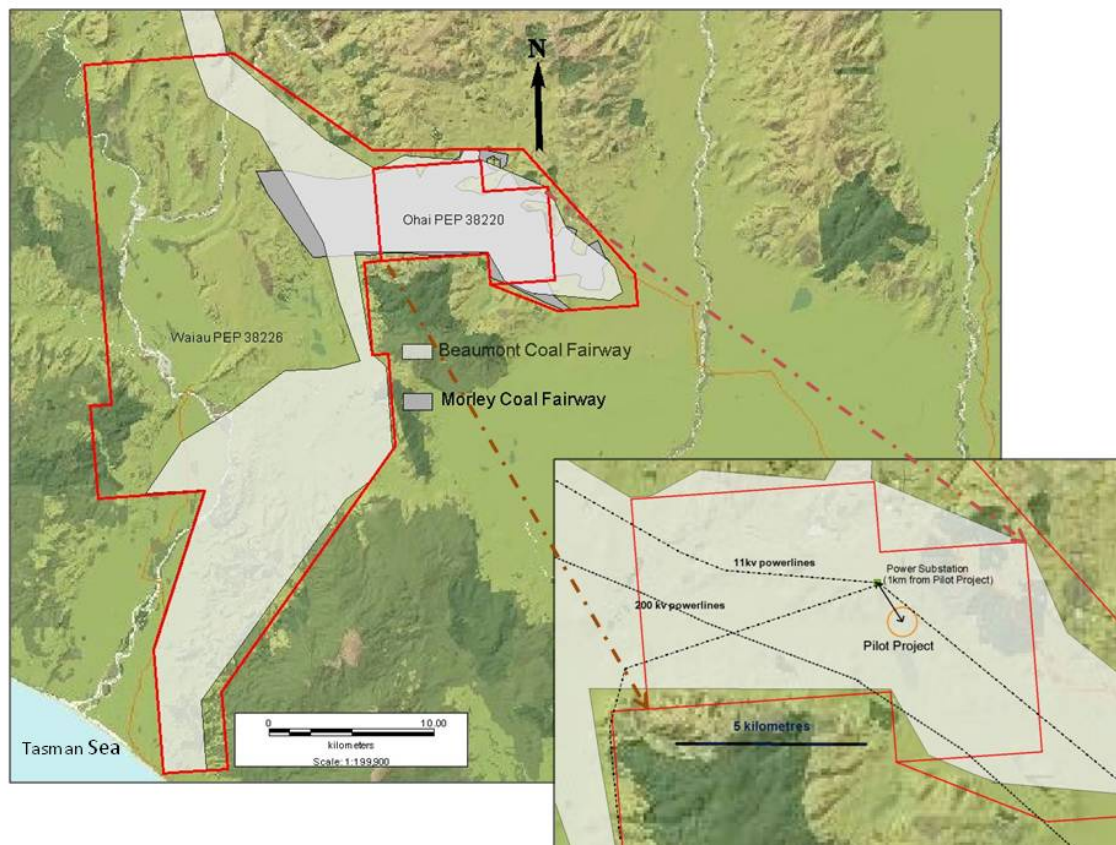
### HIGHLIGHTS

- Successfully completed first onshore Taranaki Basin well – Talon#1
  - Secured free carry of Talon#1
  - Successfully completed New Zealand's first in-coal seam lateral well
  - Ohai CSG Pilot commences production
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### COAL SEAM GAS ACTIVITIES

As previously reported, LME completed New Zealand's first in-coal seam lateral well as part of the Ohai CSG Pilot Project during the quarter. The lateral well, OM#7 successfully intersected production well OM#5 within the thick target Morley #2 coal seam with a final lateral length of 1150m. A major goal of the Pilot Project was to gain an understanding of the most effective way to complete production wells; therefore OM#5 was immediately placed on production test.

Pressure measurements during the drilling of OM#5 indicated that OM#5 and OM#7 were in communication; however subsequent analyses triggered contingent plans for a clean-out



operation. The clean-out was aimed at optimising water flow rates and improving the set-up of down-hole equipment, both very common operations in CSG projects. The production equipment has now been optimised and reinstalled with production commencing imminently.

Preparations are continuing for the installation of a 1MW power station at the Ohai pilot project site. The 1MW generator has arrived in country and is undergoing pre-delivery work before being relocated to the project site for commissioning. In parallel, work to connect to the existing nearby electricity network is continuing. Once commissioned, any electricity generated will be sold to New Zealand Aluminium Smelters Limited (located near Invercargill, Southland).

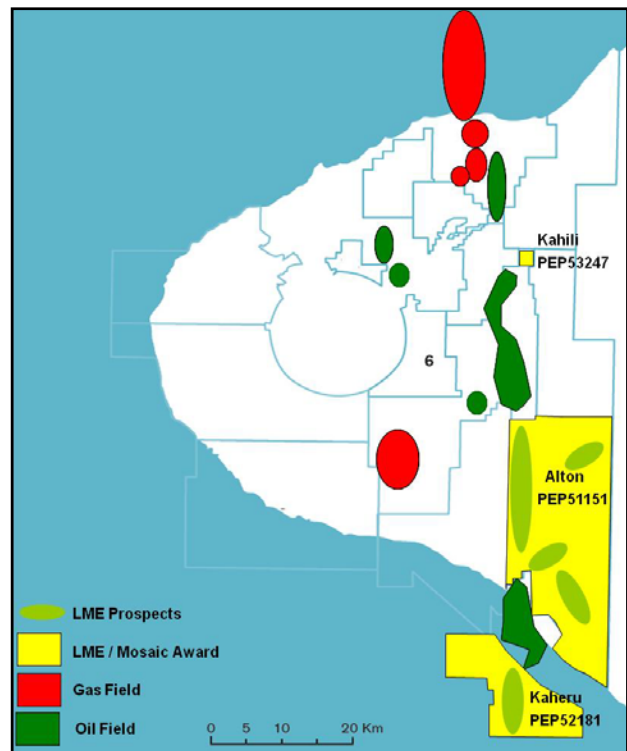
### CONVENTIONAL OIL AND GAS ACTIVITIES

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

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

However, the well provided valuable geological data that will be incorporated into the technical database for the permit and the Company will work with the Joint Venture to formulate a forward strategy for exploring this highly prospective 482.4 km<sup>2</sup> acreage.

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



As announced on 13<sup>th</sup> July, LME will be free carried for the full cost of drilling Talon-1 (subject to regulatory consent) through an arrangement with a new entrant to New Zealand, New Zealand Energy Corp., who have also identified a number of highly attractive drilling targets within PEP51151.

**PEP 52181 (Kaheru)** is located in the offshore Taranaki Basin and covers an area of 311.95 km<sup>2</sup> (little 2). LME retains 15% equity and is part of a joint venture with ROC Oil (Taranaki)

Pty Limited (50% and Operator), Tag Oil (Offshore) Limited (20%) and AGL Upstream Gas (MOS) Pty Limited (15%) (a wholly owned subsidiary of AGL Energy Limited). The permit has existing 3D seismic coverage, including over the block's primary prospect, the large Kaheru structure, which has multiple potential reservoir targets. The reprocessing of the Kaheru 3D seismic dataset has been completed and interpretation of preliminary data is continues.

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

## **CORPORATE**

At the end of the quarter the company had NZ\$4.244 million dollars of cash available to undertake its work programs.

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### **About L&M Energy Limited**

L&M Energy Limited is a New Zealand based company dual listed on the Australian and New Zealand stock exchanges focused on the development of commercial coal seam gas resources and discovering major conventional oil and gas resources.