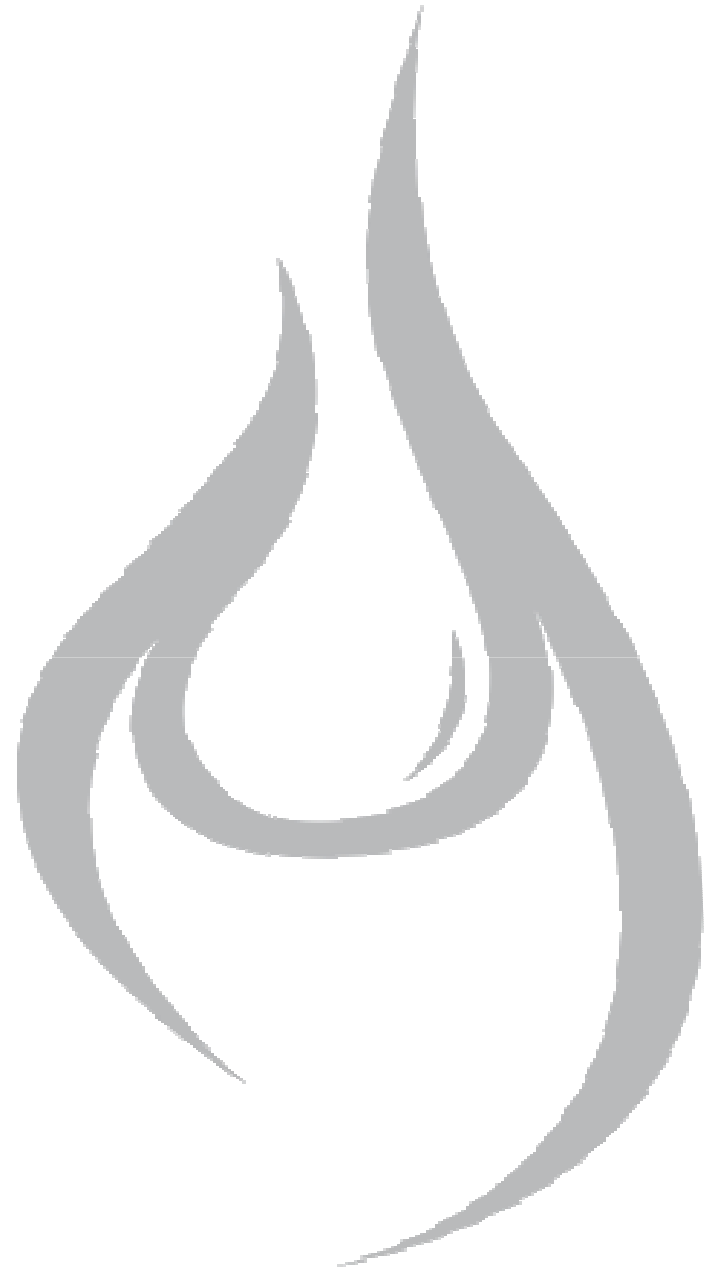




Commercialising Coal Seam Gas in Southland

**Dr. Chris McKeown
Business Development Manager**

**New Zealand Petroleum Conference
20th September 2010**



Corporate snapshot

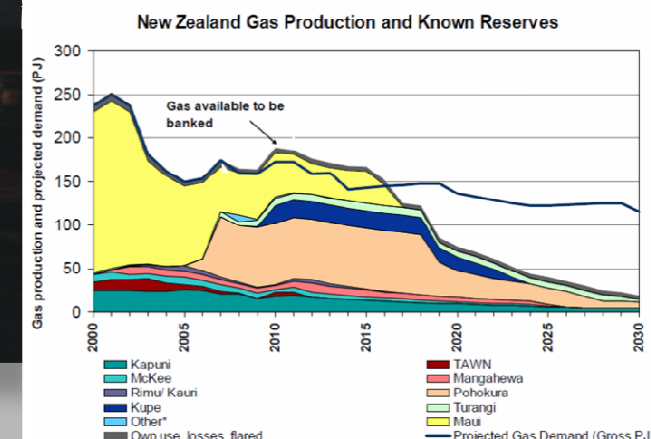
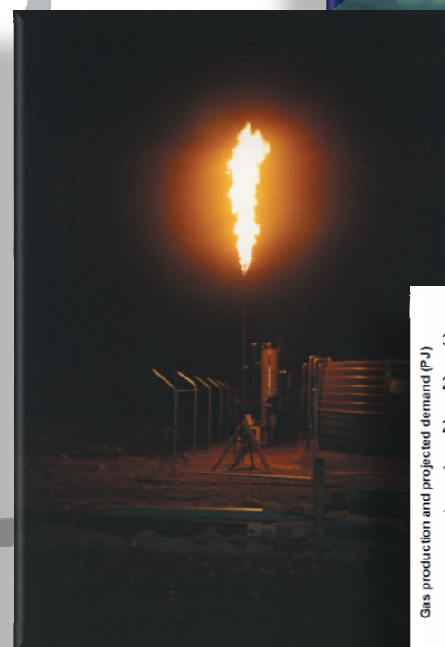
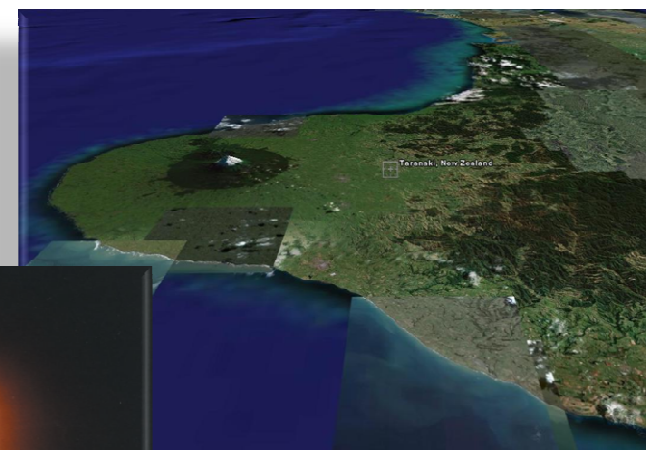


ASX/NZX ticker:	LME
Head Office:	Wellington, NZ
Shares on Issue:	705.1m*
- Options (unlisted)	92.5m**
Shareholders:	>1900
Share Price	NZD\$0.135
Market Capitalisation:	NZD\$95m
Cash raised (approx):	NZD\$10m
Debt:	Nil

* 440 million shares unlisted (escrowed until 26 Feb 2011)

* Significant Shareholders:	Geoff Loudon	24.5%
	Campania Holdings Inc	24.5%
	Tangent International Ltd	24.5%

** Options have exercise dates up to 2015 and exercise prices up to A\$0.30)



Corporate history



2007

IPO: \$AUD 20m
(underwritten).

Multiple conventional
exploration wells drilled

2008

Two permits in 2nd basin
acquired and well drilled

CSG exploration in S.
Island commences

Awarded onshore
Taranaki permit

2009

Multi-well CSG drill
program commences

Onshore Taranaki
seismic completed

Discussions underway re.
acquisition of L&M CSG

Agreement executed to
acquire L&M CSG

2010

Awarded offshore
Taranaki permit (15%)

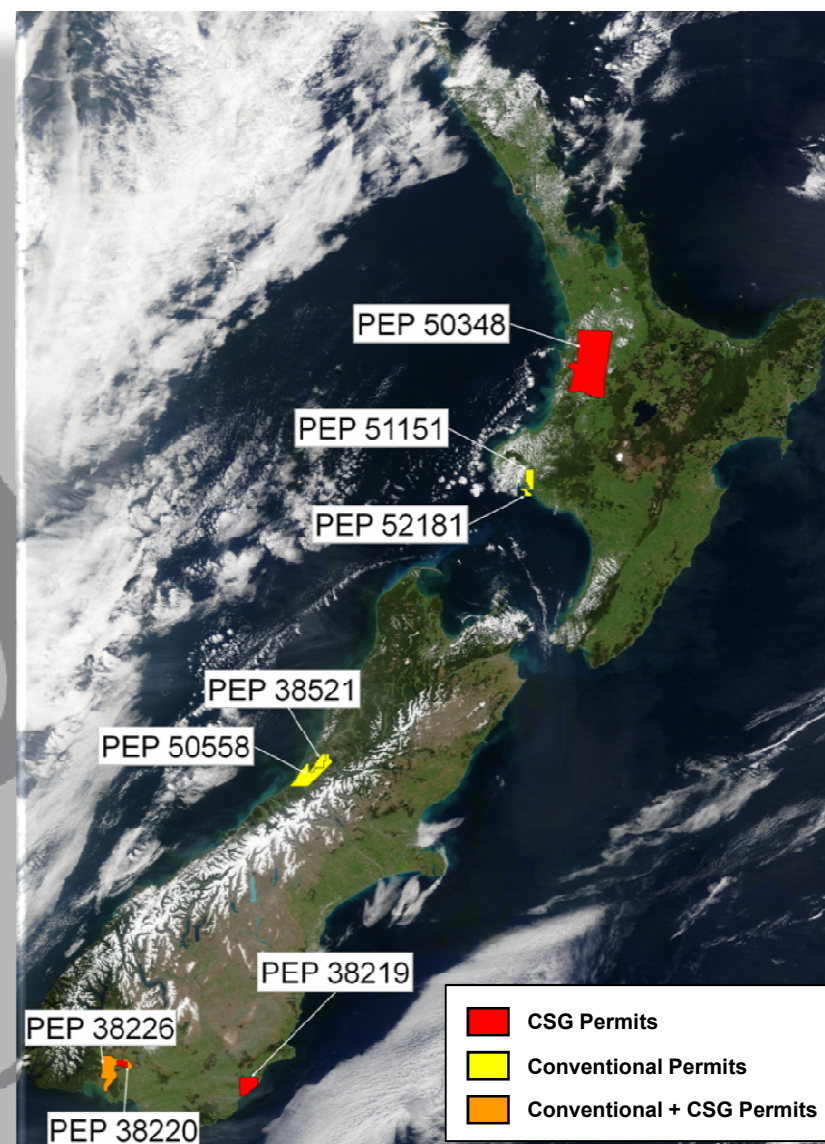
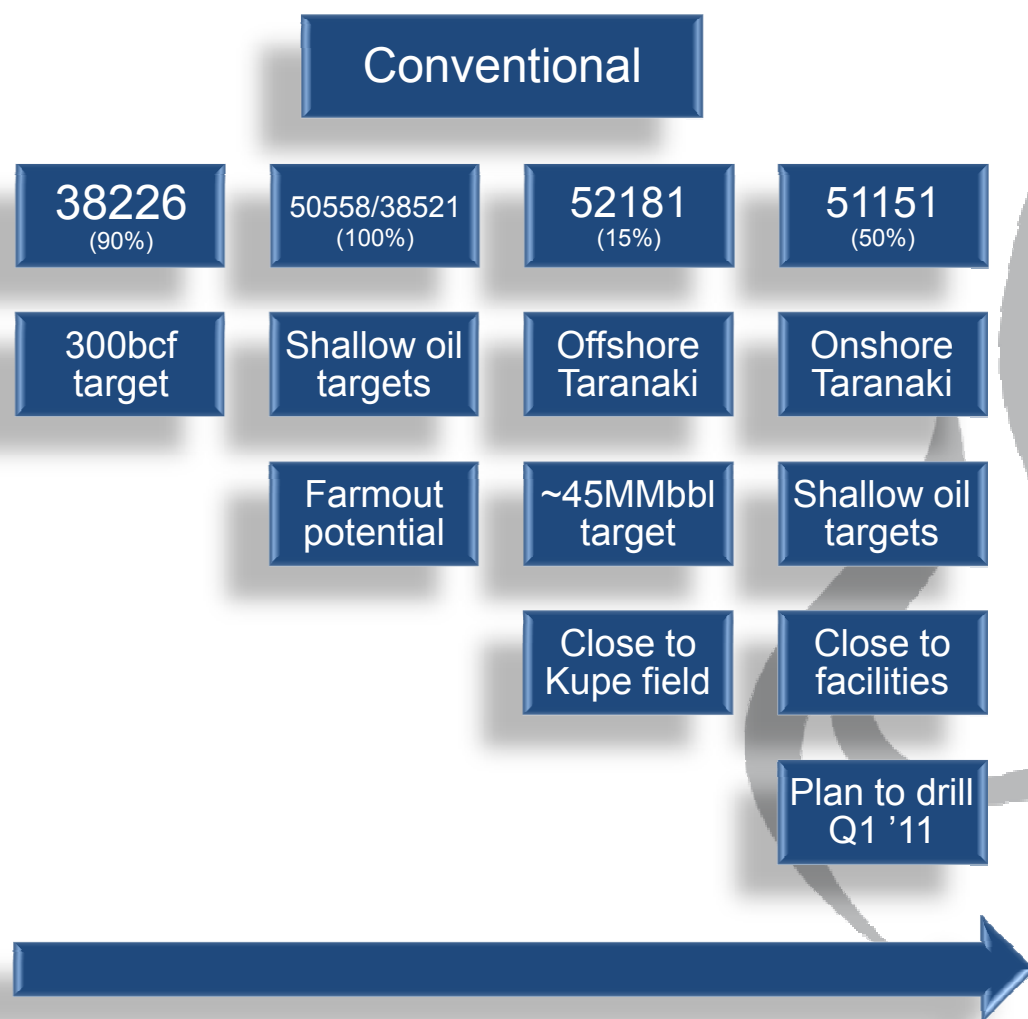
Planning for CSG Pilot
Project at Ohai underway

LOI signed with trucking
company to explore LNG

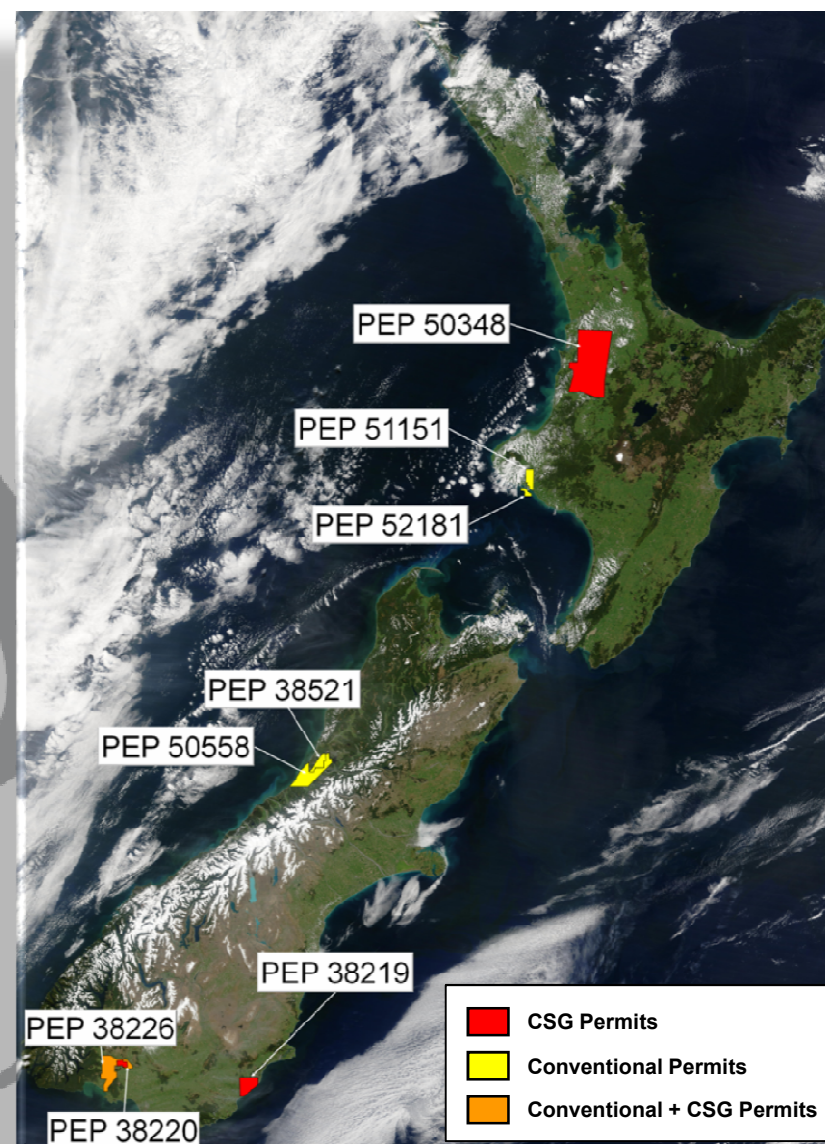
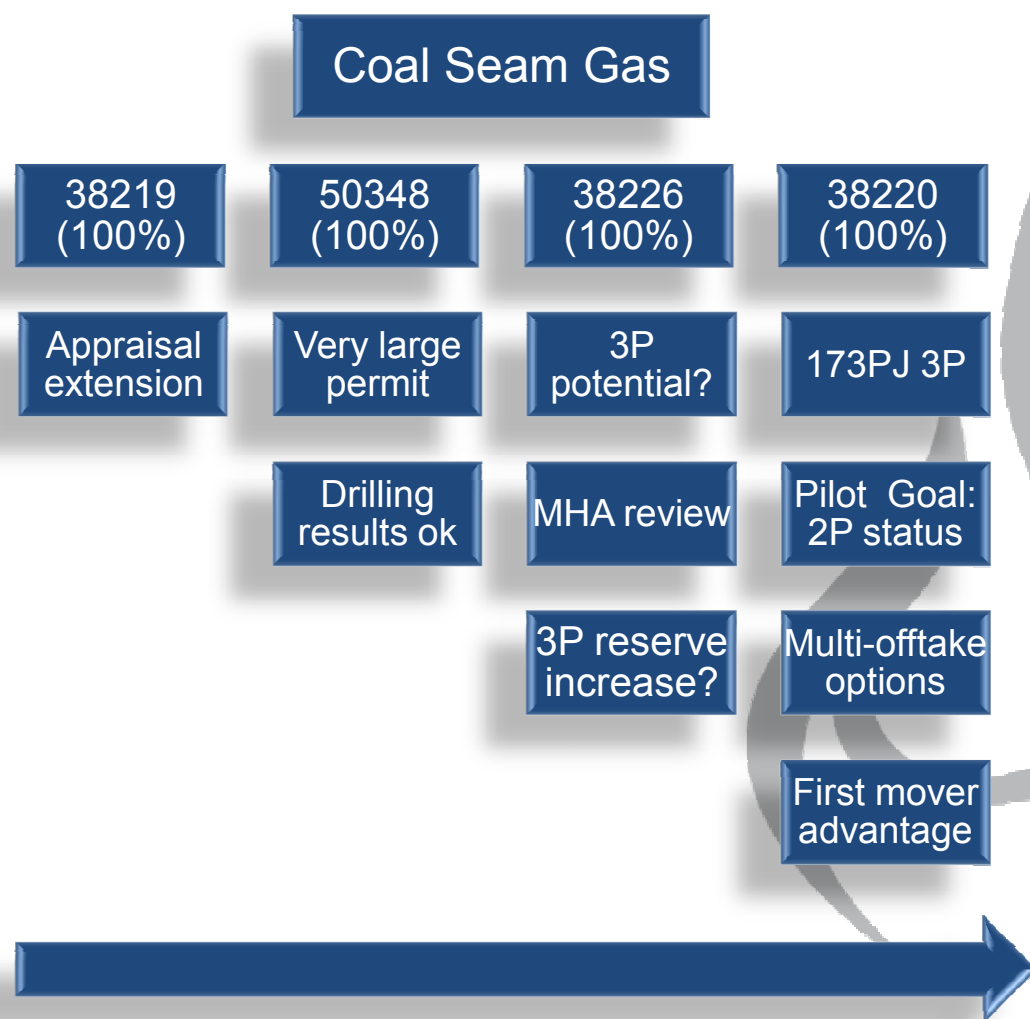
\$NZD 8.74m raised via
private placement

\$NZD 1.4m raised via
SPP

Conventional oil and gas permits



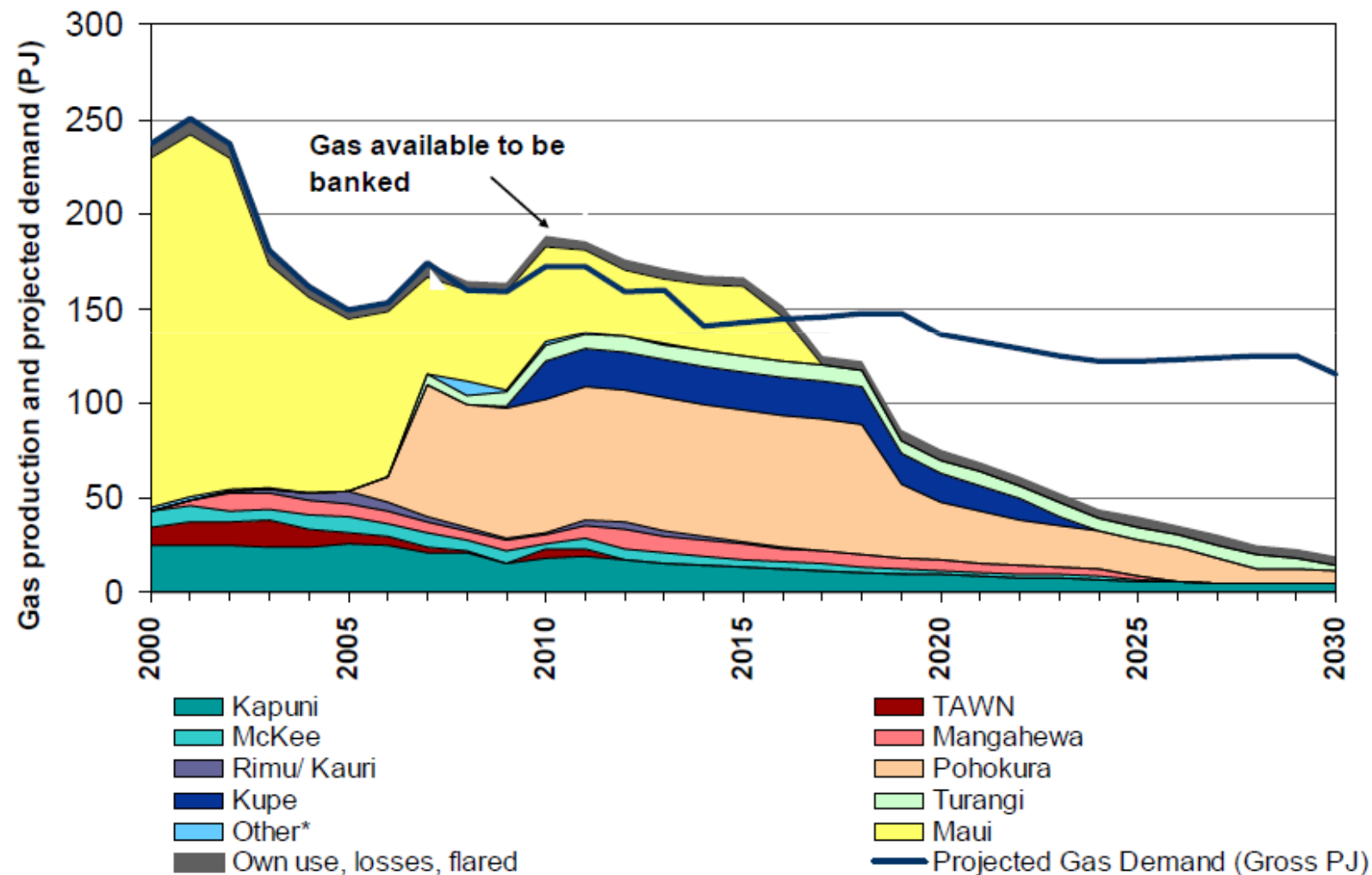
Coal Seam Gas (CSG) permits



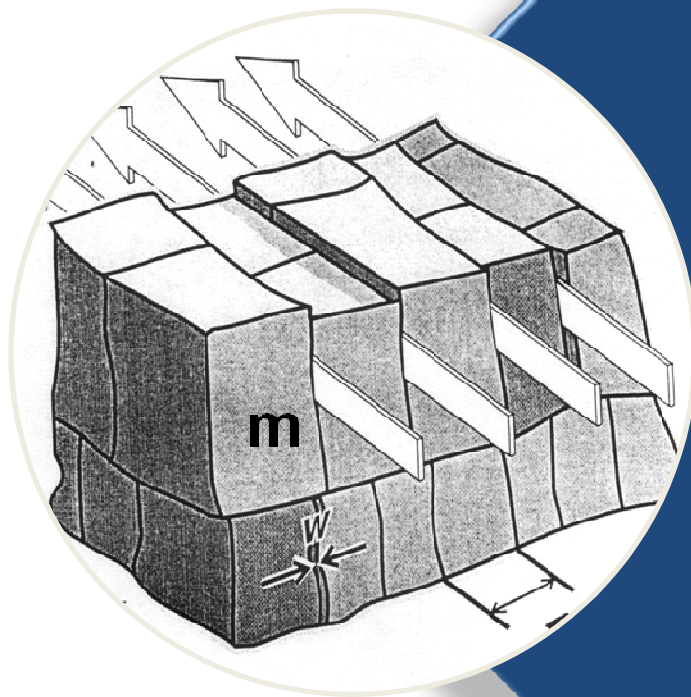
Why the need to explore?



New Zealand Gas Production and Known Reserves



What is coal seam gas?



Coal Seam Gas is

- gas stored in coal
- generated by microbial or thermal processes affecting the coal
- usable in the same applications as conventional natural gas
- typically shallow (cheap to drill for)
- trapped by overburden pressure
- contained within
 - *the Coal Matrix (m)*
 - *the Cleat spaces (w)*

How to produce coal seam gas?

Unlike conventional reservoirs, CSG reservoirs are also the source of the gas. Whilst this simplifies locating the resource, development strategy is crucial

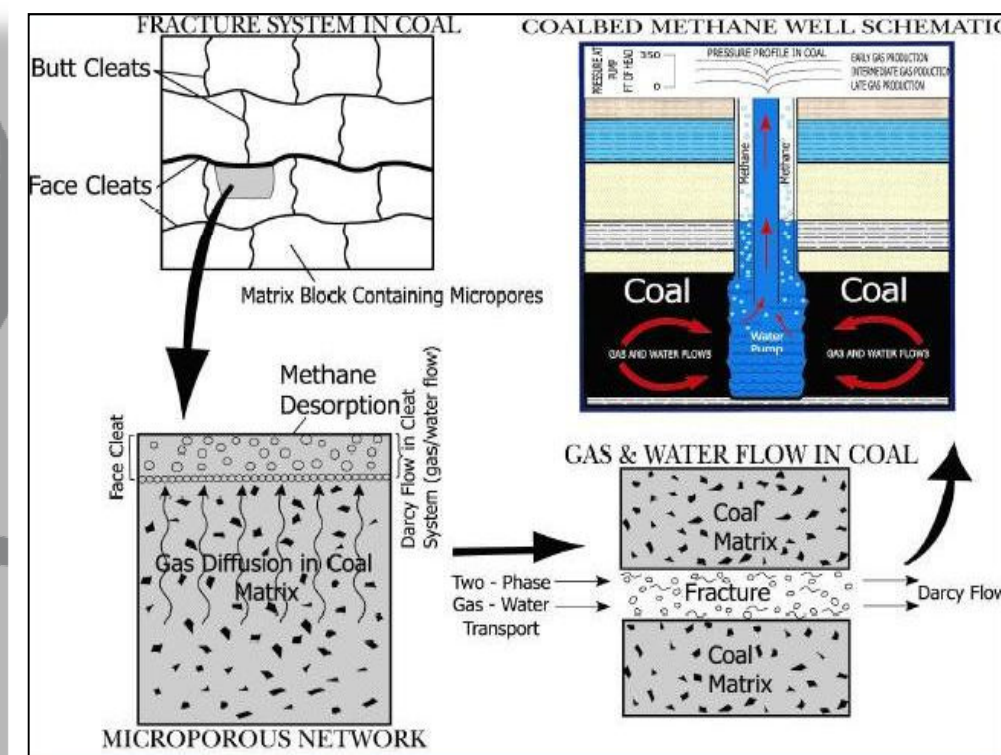
Define resource by drilling

Drill multiple production wells

Reduce pressure around the well

Separate the gas from water at surface

Gas can then be passed to market



What are the key properties?

Crucial aspects of CSG production

- Coal seam thickness
- Gas content
- Gas saturation
- Gas quality
- Ash content
- Permeability



Sounds easy; why has no-one done it here? 

Exploration for CSG in NZ for >20 years

Southgas (Ohai),

Westgas (Greymouth)

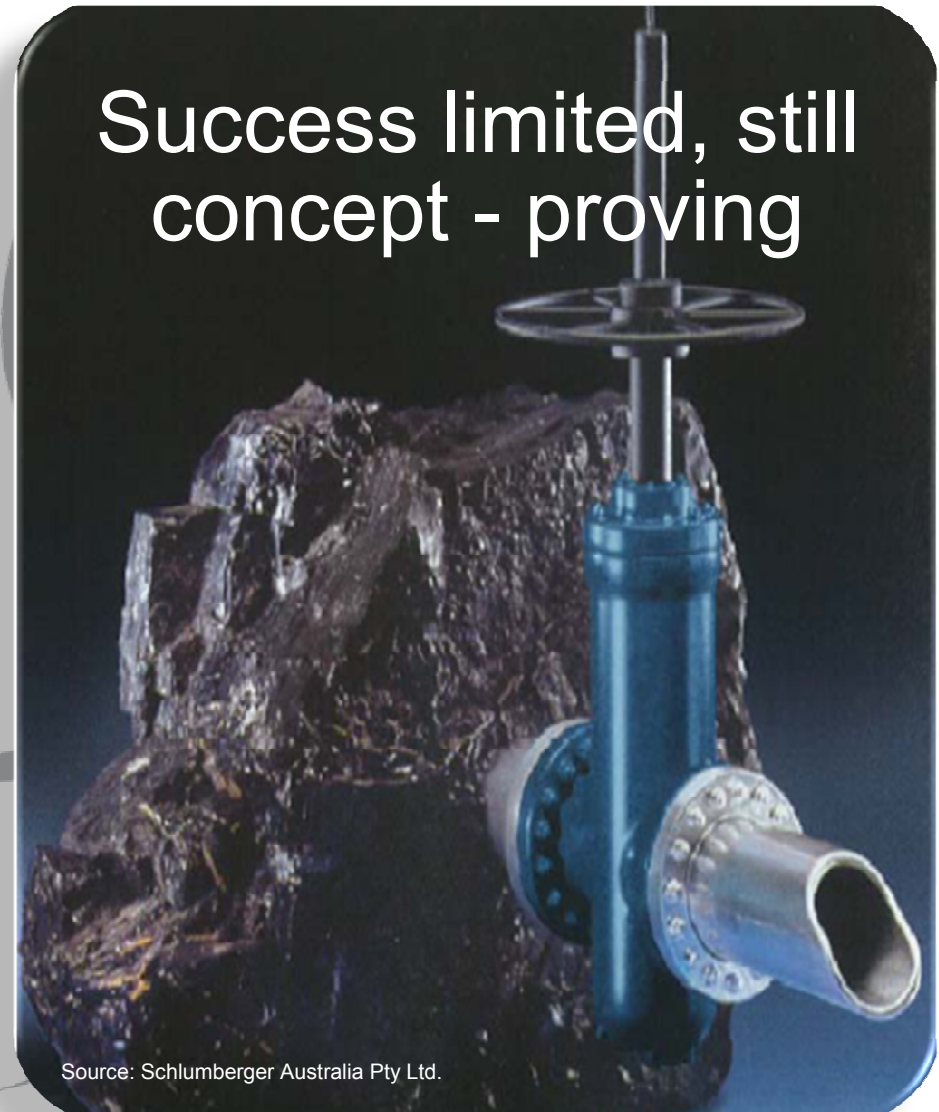
Northgas (Waikato)

Solid Energy/RDT

L&M CSG / L&M Energy

Comet Ridge/Macdonald 1st PMP

Success limited, still
concept - proving



Source: Schlumberger Australia Pty Ltd.

So what is happening now?

Comet Ridge

- PMP 50100, Greymouth, West Coast (Comet Ridge 100%)
- PEP 50279 & PEP 50280, West Coast & North Waikato Regions (Comet Ridge 100%)
- Drilling CSG wells & acquiring airborne geophysics and seismic data

Solid Energy

- First to produce CSG to power a 1 MW turbine
- The Huntly project is progressing with Stage 1 commercialisation planned for next year
- Exploration programmes are being pursued in the 2 Taranaki permits
- Recently acquired a permit immediately north of the Huntly permit

L&M Energy

- 3P reserves extension review underway
- 4 CSG permits
- 2 applications for new CSG acreage
- Pilot Project for 2P reserves in advanced planning stage

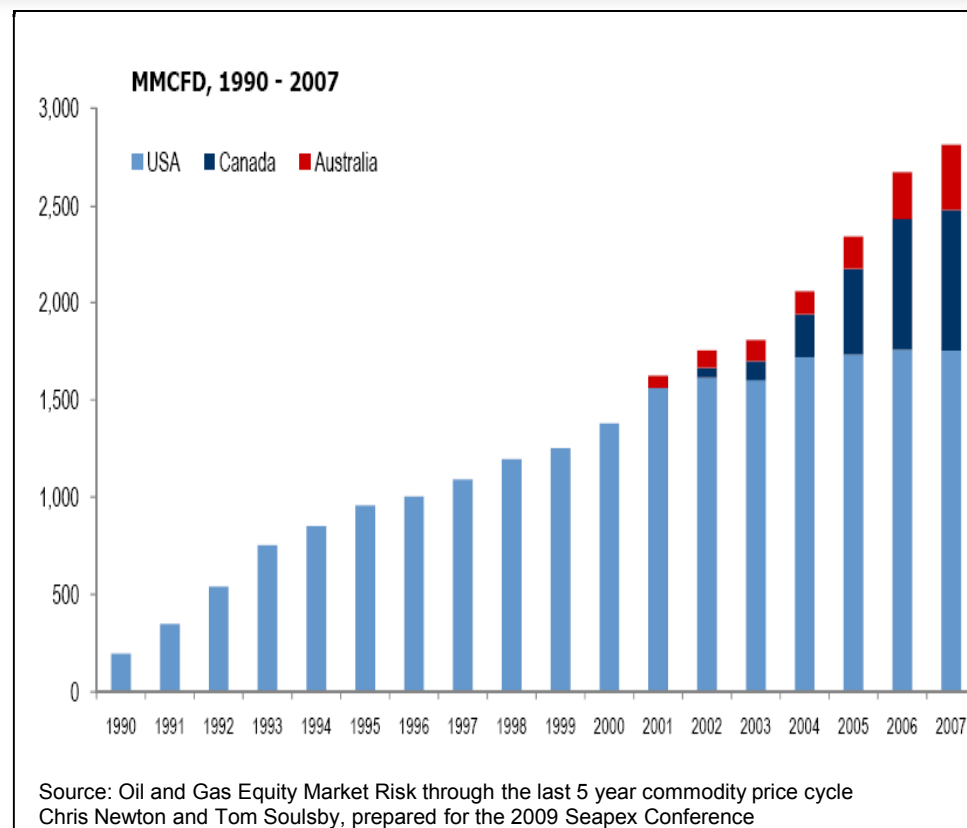
How big could it get?

Global CSG production has increased rapidly. Recent growth in Australia: CSG now comprises 30% of Australia's 2P gas reserves (in QLD and NSW)

If all proposed Australian CSG to LNG plants go ahead

- Total LNG export would be 40 million tonnes LNG / year
- Upstream gas production would need to be 2,600 PJ / year
- Reserve base of 49 Tcf would be required to be developed

New Zealand has approximately 15 billion tonnes of in-ground coal



L&M Energy: Southland (Ohai) CSG Play



Currently 173 PJ (3P) of CSG reserves certified – New Zealand's first

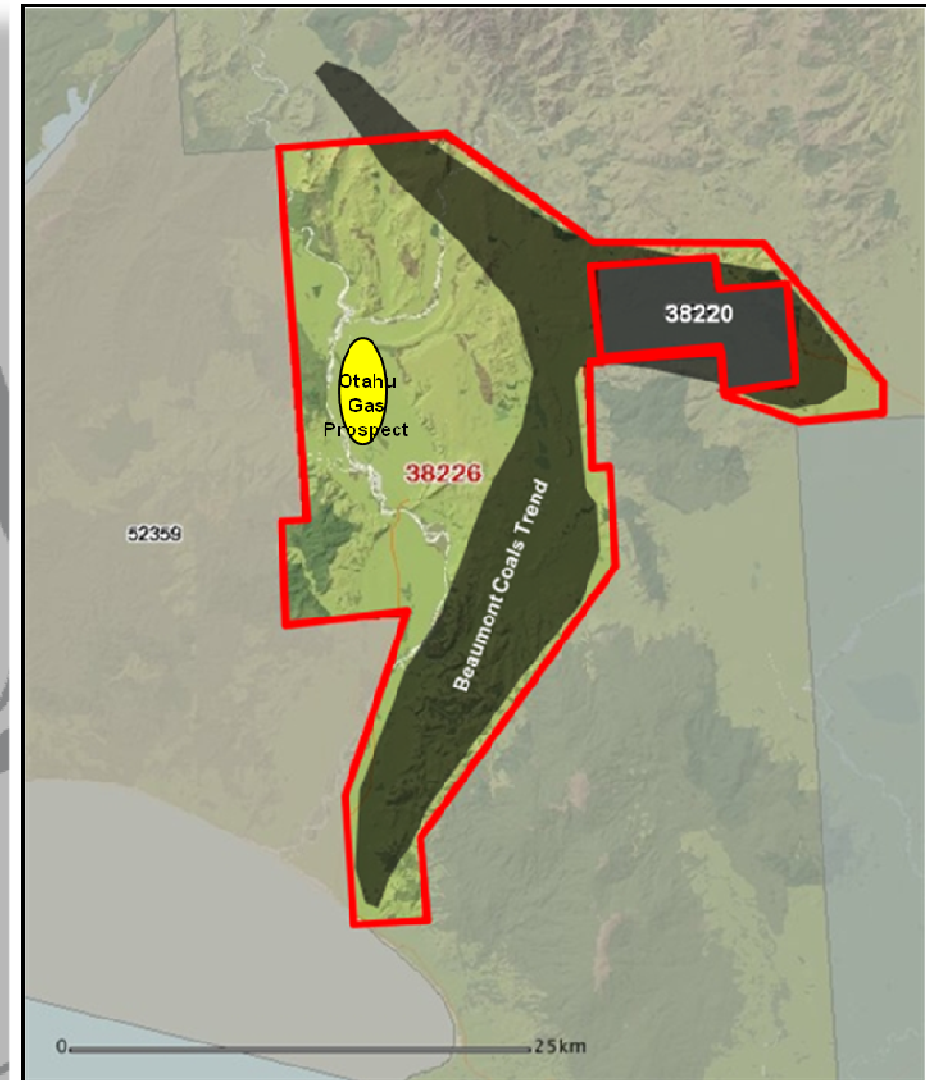
Upside potential in combined permits

Large range of development options

3P reserves from deep coals in 220

3P reserves potential in shallow coal

Both coals extend into 226



Previous Ohai CSG Activities

CSG specific exploration commenced early 1980's

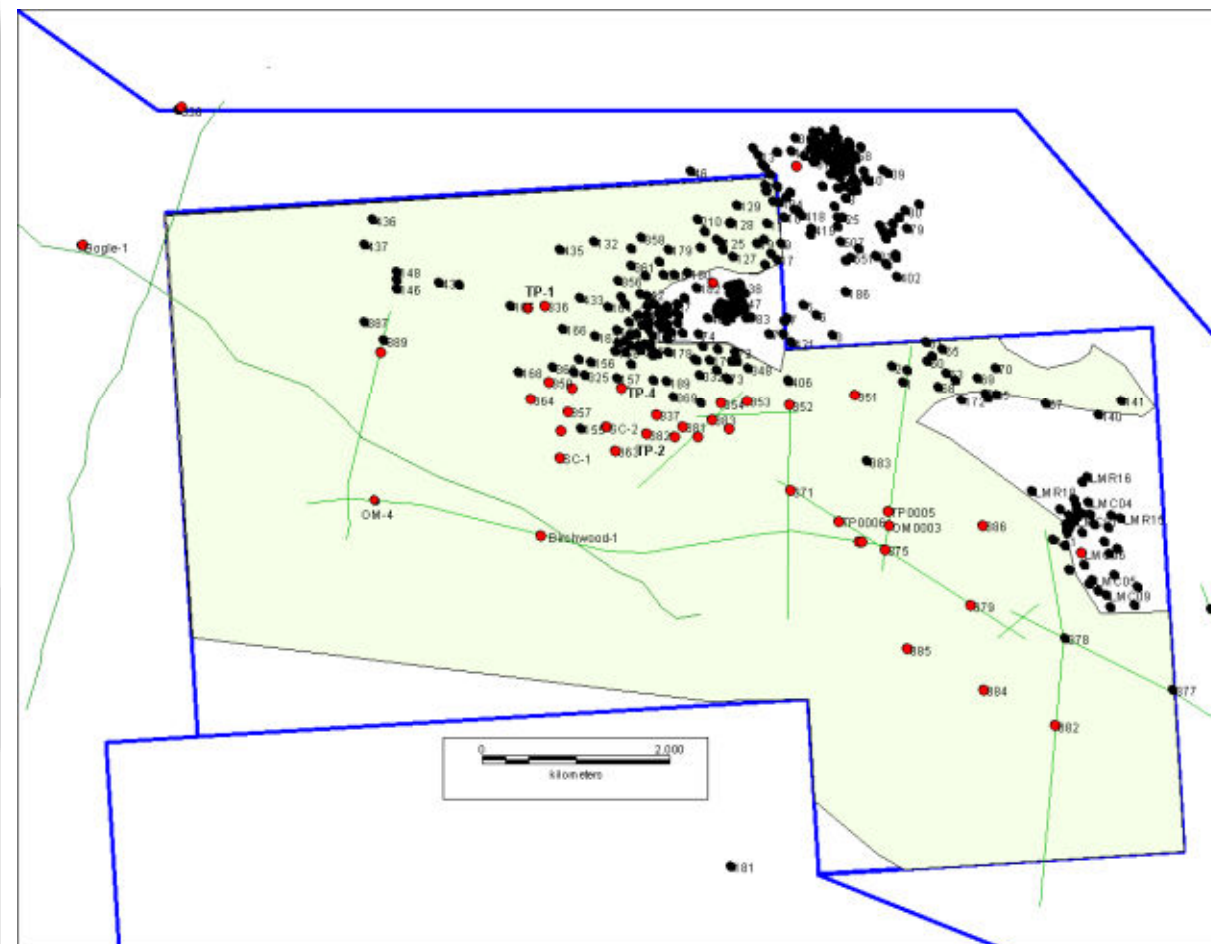
>100 wells drilled in the area

Extensive 2D seismic data

Desorption data

Production data

****3P Reserves based on significant data set***



L&M_{CSG} – Ohai CSG drilling results

COALS: CRETACEOUS

Depth: 200m - 800m

Thicknesses: Multi seam deposit
Seams up to 15m thick,
Cumulative thickness up to 50m

Gas Content Up to 10 m³/tonne

Methane %: Up to 98%

Permeability: 3.5 to 30 md

Indications: Over 350 coal & gas wells drilled in area
40 with desorbtion and production data
L&M CSG drilled 10 wells to date



Production testing Ohai – 1995 Southgas

Recent Ohai CSG Activities

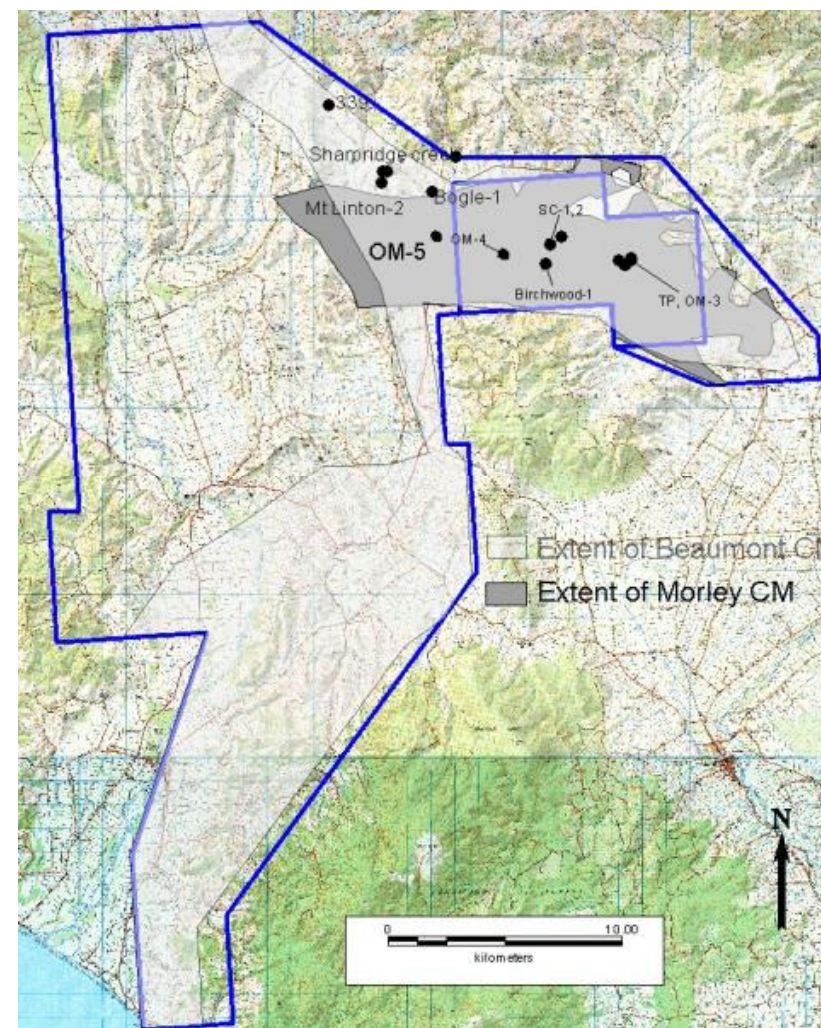
OM#4 step out drilled April 2010 (TD 1034m)

~40m of gassy coal intersected across both the Beaumont and Morley coal measures

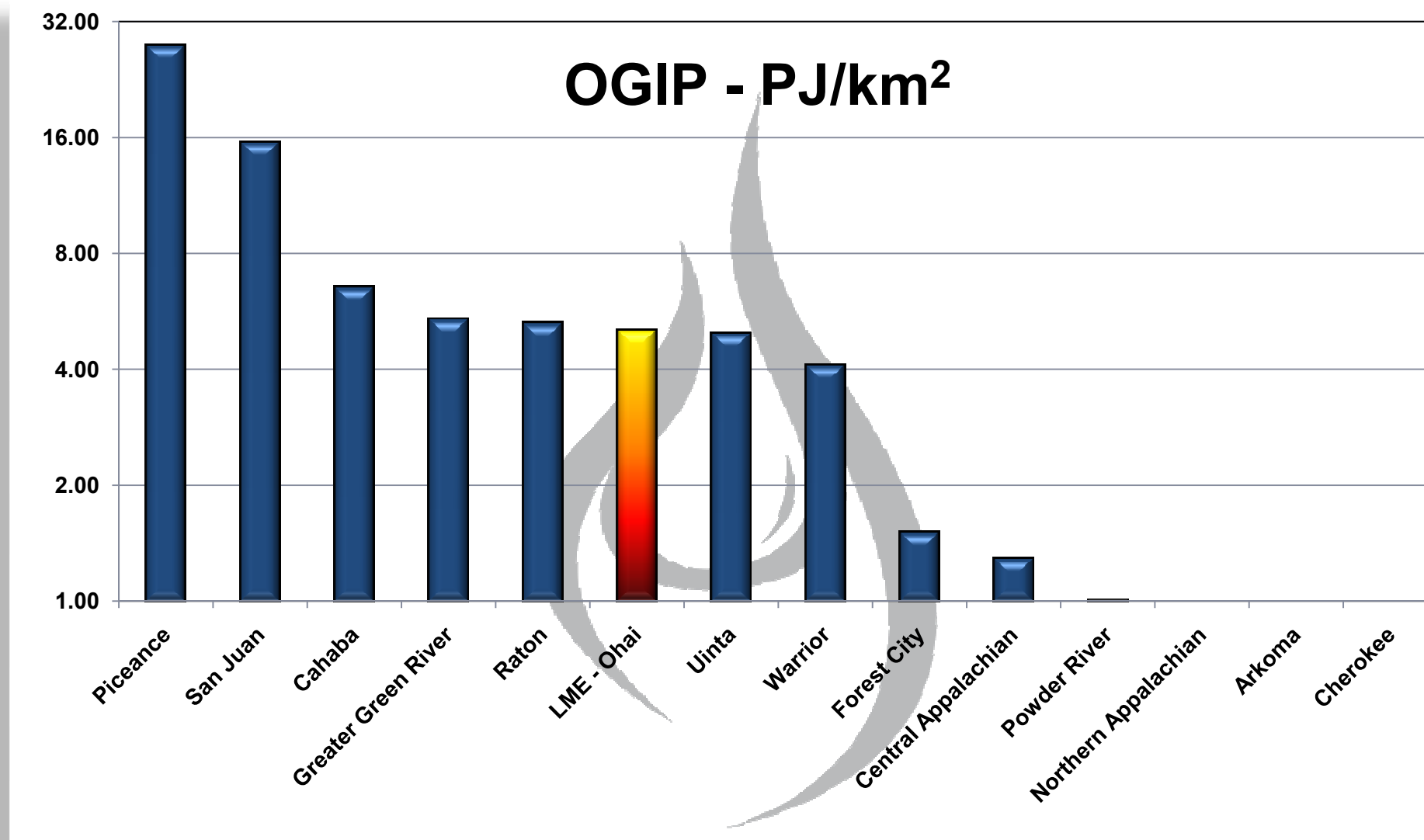
Gas contents ~11m³/t, (~98% CH₄)

Supports coals extending into PEP 38226

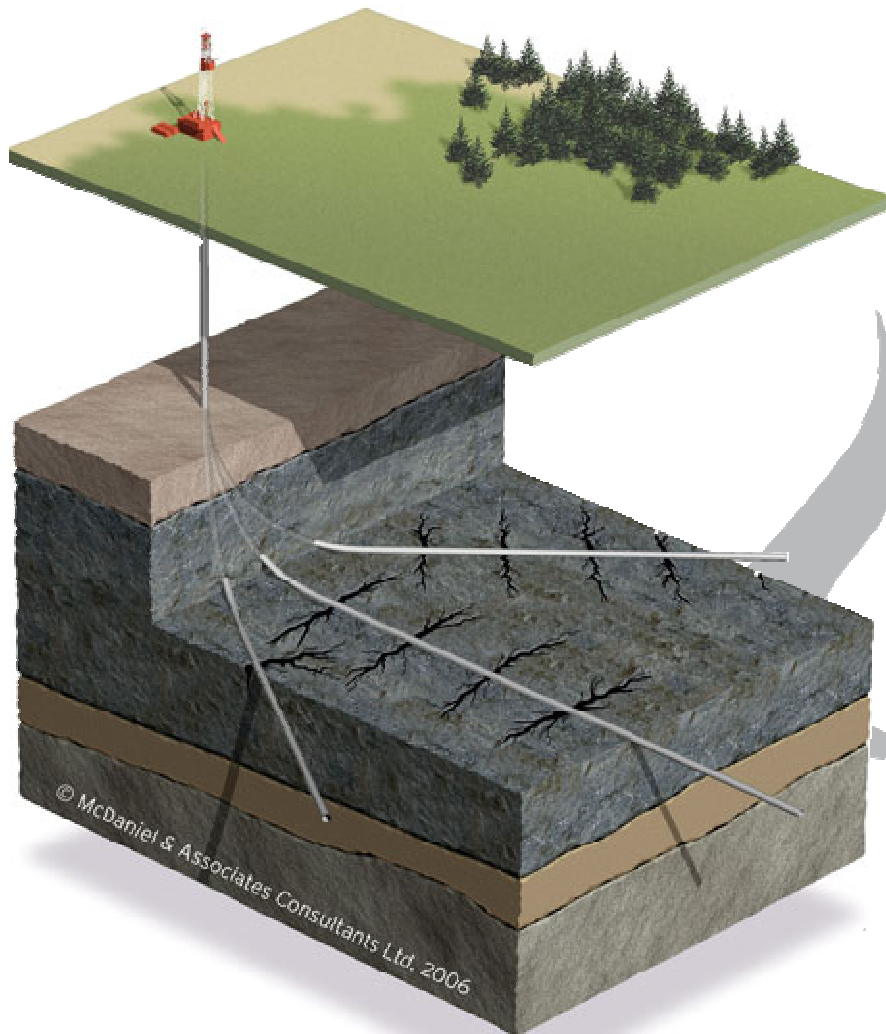
Planned OM#5 to continue 3P reserves march westward (~2 km W of OM#4)



How does Ohai CSG play compare?



Currently planning Ohai CSG pilot



Scheduled for Q4 2010

Determine flow rates

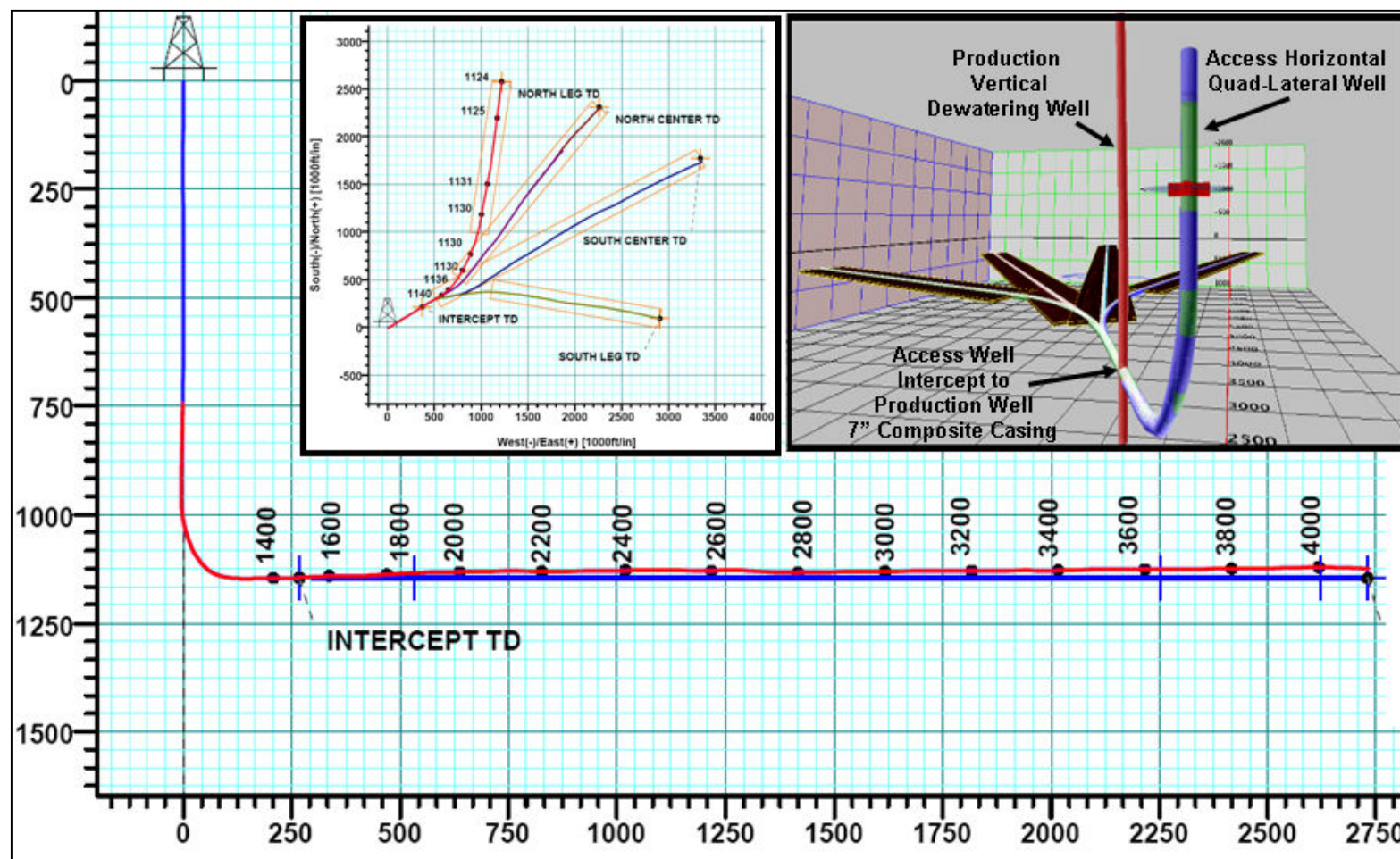
Explore completions options

Put offtake arrangements in place

Data for 2P reserves certification

Define development template

Quad lateral completion example



Drill perpendicular to face cleats to achieve best lateral communication to the horizontal

Lateral length ~700-1000m

Where is the market for the gas?

First mover presence in South Island enables LME to take advantage of strong gas and electricity prices and the potential gas supply / demand imbalance in New Zealand

Market for South Island CSG

Onsite power generation

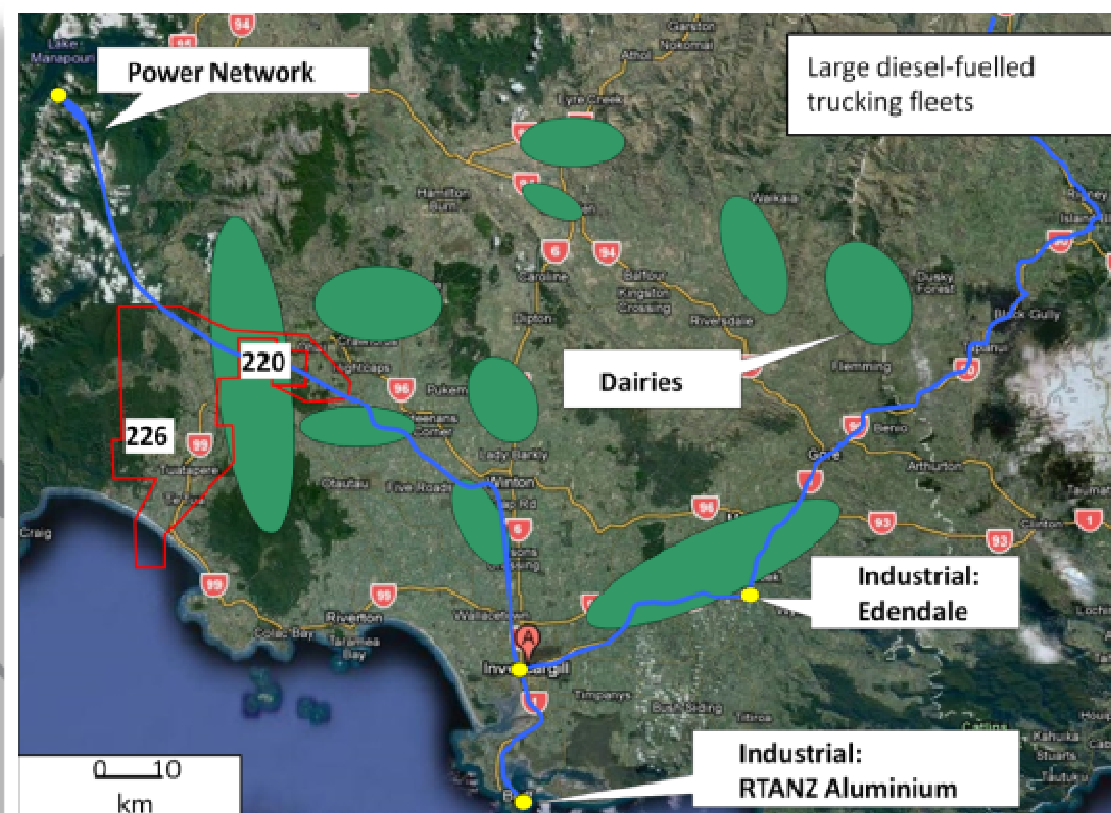
Supplant/support imported LPG

Replace industrial lignite, cogeneration

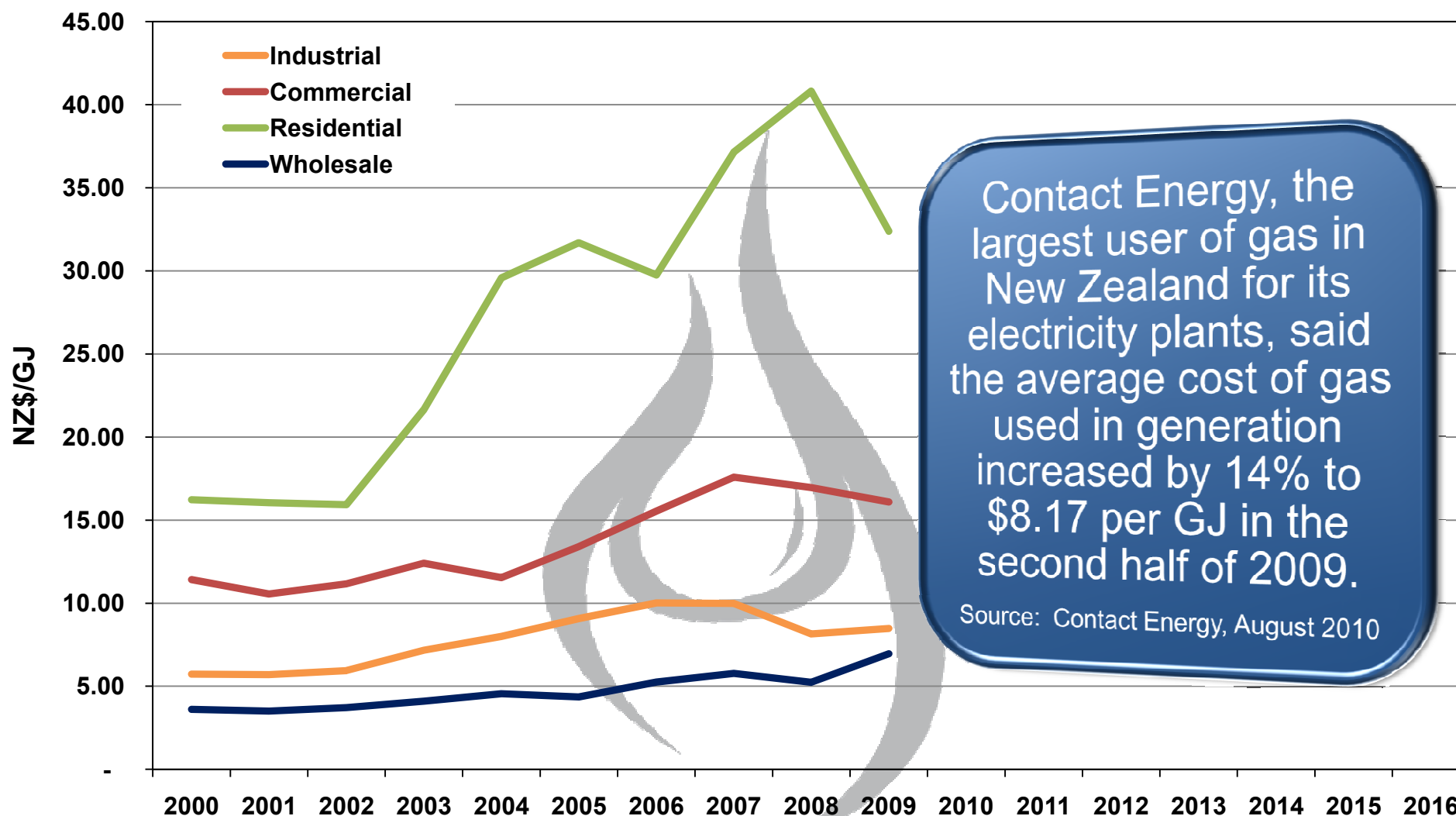
Improved ETS considerations

Transport fuel (CNG or LNG)

Petrochemicals



Favourable gas pricing



Contact Energy, the largest user of gas in New Zealand for its electricity plants, said the average cost of gas used in generation increased by 14% to \$8.17 per GJ in the second half of 2009.

Source: Contact Energy, August 2010

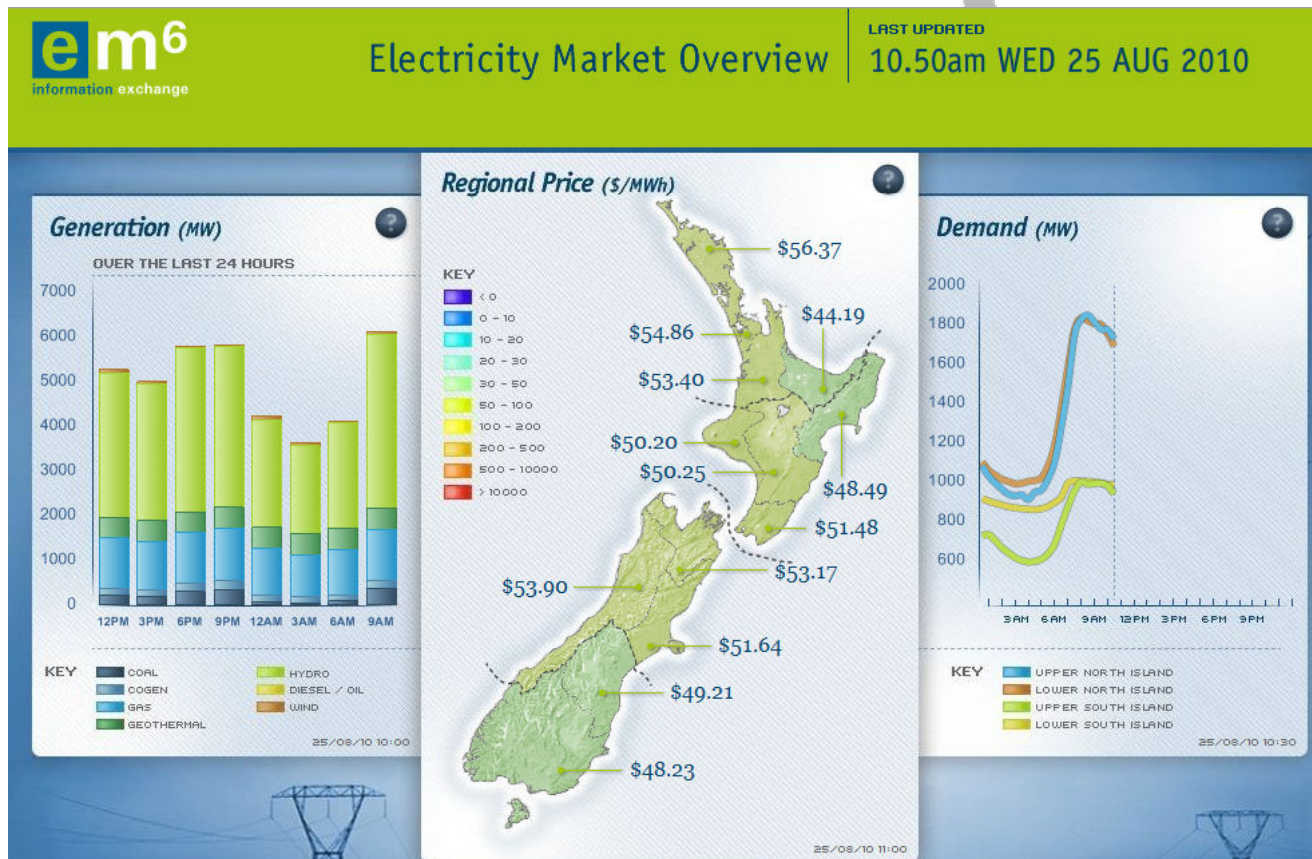
Source: Energy Data File 2010

Industrial natural gas prices exclude gas sold for electricity generation
Gas sold for electricity generation is included in the wholesale price.

Strong electricity pricing in S. Island



Open access wholesale electricity market with future prices predicted to be strong



Implied Yearly Strip Prices *	
Year	Price \$/MWh
BEN-2011	81.13
BEN-2012	82.15
HAY-2011	82.51
HAY-2012	85.01
OTA-2011	86.25
OTA-2012	87.84

* prices are straight average of quarterly contracts only (at each relevant node)

Reticulation



Support imported LPG

- Reticulation through existing and new towns gas networks
- S.I. imports **~80,000 T/a**
- Demand for LPG up 8-10% since 2000

<u>City</u>	<u>Population</u>
Christchurch	360,000
Dunedin	115,000
Invercargill	48,000
Nelson	45,000
Blenheim	35,000
Queenstown	11,000
Total	614,000

REALITY CHECK

- Belfast (pop 576,000) reticulates **5.2 PJ/a** through old towns gas network with inserted plastic pipe



Boutique LNG



Transport fuel

- NZ was a world leader in CNG for transport during the 1980's oil crisis
- 10% of vehicles ran on CNG
- Peak consumption **5.85 PJ/a**
- **ETS Benefits**

Reality check

- QGC executes \$100M deal to supply gas to BOC for small scale LNG plant
- Blue Energy & Korea Gas plan to explore micro LNG and CNG for fuel
- BOC building a 70,000 l/day facility in Tasmania for trucking industry



The Kenworth T800, equipped with a Cummins ISX and Westport's HPDI fuel system, offers an industry-leading solution with world-class low emissions and greenhouse gases, while delivering outstanding horsepower, torque, and efficiency comparable to a diesel engine.

New Zealand currently uses around 100PJ of diesel per year, mainly in transport sector

Agreement signed with HW Richardson



Large, privately owned company
(1000 staff)

Based near LME CSG permits

Trucking
Cement
Fuel distribution

740 vehicles
Heavy fuel use
Interested in LNG

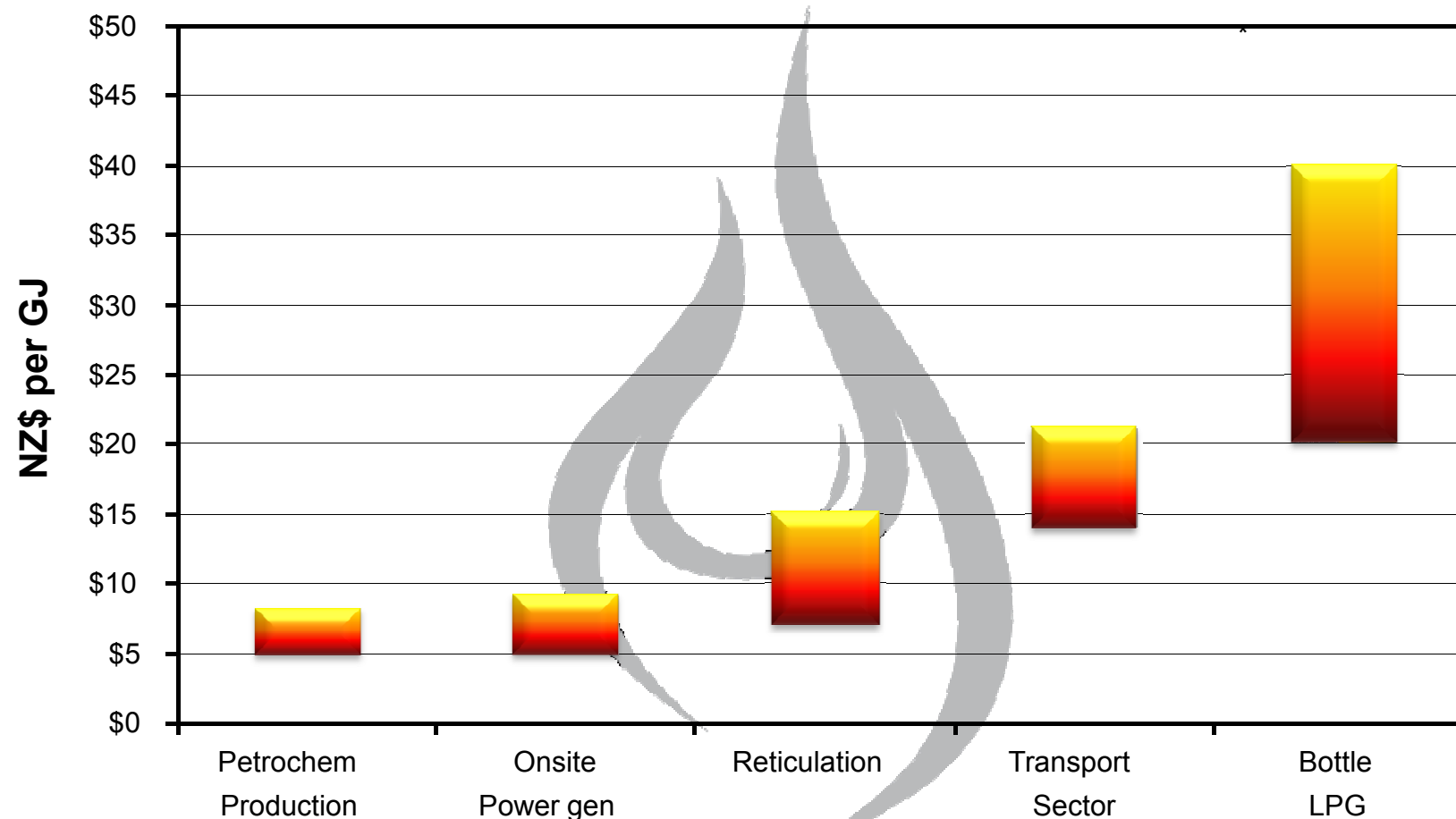
Seeking competitive advantage

Workshops held,
stage 2 review underway



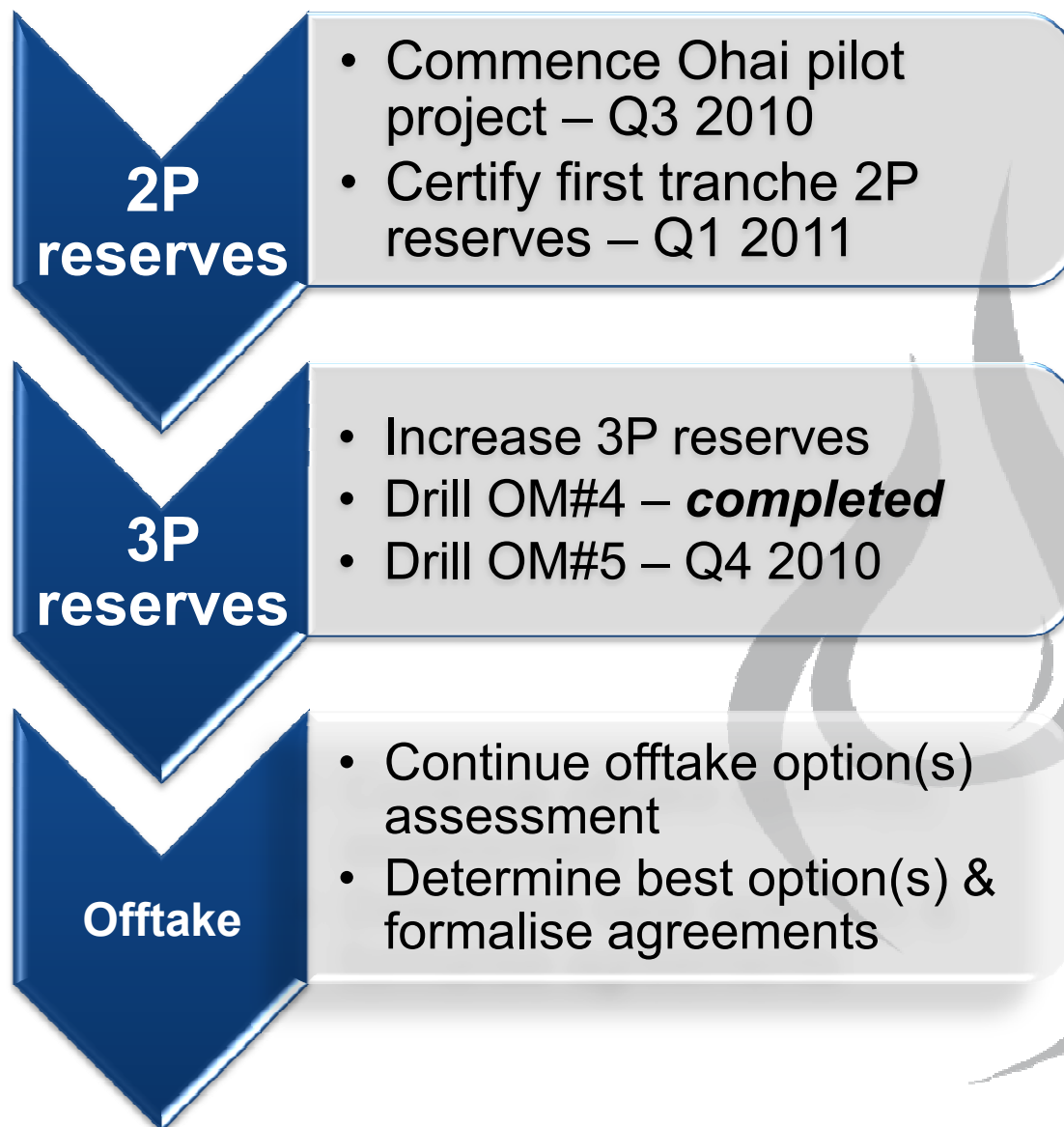
Favourable pricing for gas offtake options

ESTIMATED SOUTH ISLAND GAS PRICING



*net of delivery costs

Next steps for CSG



Production testing Ohai – 1995 Southgas

Summary



Dual focused exploration portfolio

High quality acreage (~10,200km²)

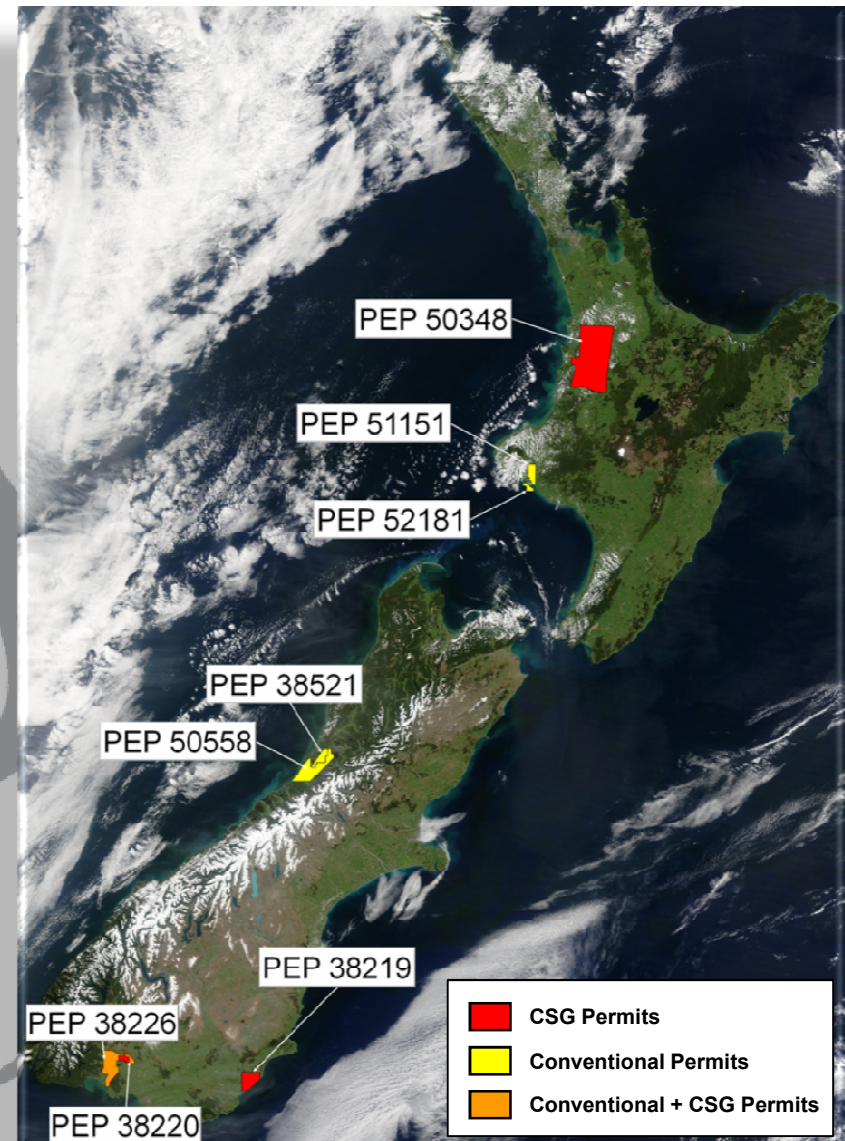
Onshore & offshore Taranaki exploration

Taranaki drilling success easily monetised

S. Island CSG reserves: 173PJ (3P)

High value CSG offtake opportunities

Fully funded for work plan





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