



COMPANY ANNOUNCEMENT

QUARTERLY ACTIVITIES REPORT THIRD QUARTER 2010

28 October 2010

HIGHLIGHTS

- ***60% upgrade to certified 3P gas reserves with Net 3P reserves increased from 173 PJ to 274 PJ***
- ***Completed capital raising of NZ\$10 million including NZ\$ 1.4 million from Share Purchase Plan.***
- ***Planning commenced to undertake drilling of Ohai coal seam gas pilot in the fourth quarter of 2010.***
- ***Planning commenced to undertake drilling of the onshore Taranaki Basin Talon-1 well in the first quarter of 2011 to test a Manutahi Formation shallow oil prospect.***

L&M Energy Limited (ASX/NZX: LME) is pleased to report to shareholders its activities for the third quarter of 2010.

In the quarter:

- A capital raising of NZ\$ 10 million (before fees), commenced in the second quarter, was completed including NZ\$1.4 million raised under a Share Purchase Plan.
- Pre-drill planning activities were commenced to undertake the drilling of the coal seam gas pilot well in PEP 38220 (Ohai), located in the onshore Western Southland Basin. Drilling is programmed to commence in the fourth quarter of 2010 subject to the granting of regulatory consents.
- Pre-drill planning activities were commenced to undertake the drilling of the Talon-1 well in PEP 51151 (Alton), located in the onshore Taranaki Basin. The well is designed to test a Manutahi Formation shallow oil prospect lying to the northwest of Origin Energy's Kauri Field, which produces from the same formation. Drilling is programmed to commence in the first quarter of 2011.

Activities post 30th September 2010:

- 3P gas reserves have increased from 173 petajoules (PJ) to 274 PJ (an increase of 58%) within PEP 38220 (Ohai) following the completion of the OM#4 step out well and a subsequent data review by independent consultants, MHA Petroleum Consultants LLC, based in Denver USA. The increase in 3P reserves applies only to the Ohai permit area and does not include any of the potential gas resources within

the Company's adjoining permit, PEP 38226 (Waiau). It is anticipated that further exploration work within the Waiau acreage will contribute significantly to future reserves upgrades.

SUMMARY OF ACTIVITIES

PEP 38220 (Ohai): As part of the Ohai pilot programme, 4.4km of new seismic data was acquired and processed across the project area during the period. The seismic data has assisted in optimising the well placement and completion planning. Pre-drill planning activities were commenced to undertake the drilling of the coal seam gas pilot wells in PEP 38220 (Ohai) which is programmed to commence in Q4 2010.

PEP 52181 (Kaheru): An application to extend the permit by 140km² was submitted to the government in July and reprocessing of the existing 3D seismic dataset over the Kaheru prospect was commenced.

PEP 51151 (Alton): Completed the source/migration analysis of the Manutahi Formation in respect of the Talon-1 structure and commenced pre-drill planning activities to drill a well to test the Talon shallow oil prospect in Q1 2011.

At report date the Company holds equity interests in five conventional petroleum and three coal seam gas exploration permits within New Zealand (see map attached), consisting of:

- PEP 38219 (Kaitangata) (LME 100%), coastal Otago CSG permit;
- PEP 38220 (Ohai) (LME 100%), onshore Western Southland Basin CSG permit;
- PEP 38226 (Waiau), onshore Western Southland Basin conventional and CSG permit
 - 90% equity in the conventional petroleum prospects; and
 - 100% equity in the coal seam gas program (subject to the Sole Risk back-in provisions under the Waiau Joint Operating Agreement);
- PEP 38521 (West Coast) (LME 100%), onshore Westland Basin conventional permit;
- PEP 50348 (South Waikato) (LME 100%), onshore Waikato Basin CSG permit;
- PEP 50558 (Hohonu) (LME 100%), onshore Westland Basin conventional permit;
- PEP 51151 (Alton) (LME 50%), onshore Taranaki Basin conventional permit; and
- PEP 52181 (Kaheru) (LME 15%), offshore Taranaki Basin conventional permit.

The Company is the Operator of all its joint ventures except for PEP 52181 (Kaheru), for which ROC Oil (New Zealand) Limited is Operator.

FUTURE OUTLOOK

In the next quarter, the Company intends to:

- continue appraising its two Western Southland Basin permit areas (Ohai and Waiau) with the objective of increasing the current certification level of its 3P coal seam gas reserves;

- commence the initial well drilling for the coal seam gas production pilot within PEP 38220 (Ohai) with a view to certifying the company's first 2P coal seam gas reserves early in the new year;
- complete preparations for drilling the Talon-1 well in the first quarter of 2011;
- complete the re-processing and interpretation of the existing 3D seismic dataset over PEP 52181 (Kaheru); and
- progress the geological and geophysical evaluation of the two onshore Westland Basin permits, PEP 38521 (West Coast) and PEP 50558 (Hohonu), in preparation for undertaking a 2D seismic acquisition program late in the first quarter of 2011 to further define previously identified oil leads contained within the permits.

CONCLUSION

At the end of the quarter, L&M Energy has aggressive exploration programs underway within both its coal seam gas and conventional petroleum permit areas and has NZ\$8.644 million of cash available to undertake its work programs.

Management will continue to seek opportunities to diversify the Company's portfolio of conventional and coal seam gas exploration opportunities seeking to minimise exploration risk, access early cash flow generation opportunities and create maximum returns for its shareholders.

We appreciate the support we have received from our shareholders and look forward to their continued investment in the Company.

ENDS

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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. The Company is focused on the exploration and development of conventional oil and gas, coal seam gas and underground coal gasification.

Petroleum Exploration Permits

