LNG ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009 and 2008
(stated in Canadian Dollars)

KPMG LLP
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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of LNG Energy Ltd. as at September 30, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, deficit and accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Calgary, Canada

January 26, 2010

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LNG ENERGY LTD.
CONSOLIDATED BALANCE SHEETS

		September 30		
		2009		2008
ASSETS				
Current				
Cash and cash equivalents (Note 14)	**$**	**2,905,297**	$	11,319,398
Short term investments (Note 17)		**8,310,500**		14,651,262
Amounts receivable		**196,192**		293,330
Prepaid expenses, advances and other term deposits		**358,690**		442,824
Assets held for sale (Note 5)		**-**		204,546
		11,770,679		26,911,360
Note receivable (Note 7)		**-**		300,000
Investments (Note 8)		**192,919**		2,130
Property and equipment (Note 9)		**35,775,968**		24,444,489
	$	**47,739,566**	$	51,657,979
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**887,303**	$	1,654,106
Asset retirement obligation on assets held for sale (Note 10)		**-**		16,983
Capital lease obligation (Note 12)		**-**		13,322
		887,303		1,684,411
Long term				
Asset retirement obligation (Note 10)		**2,893**		-
Future income taxes (Note 15)		**798,651**		1,553,302
Non-controlling interests (Note 16)		**4,277,161**		2,385,792
SHAREHOLDERS' EQUITY				
Share capital (Note 11)		**55,738,855**		55,738,855
Warrants (Note 11)		**-**		417,110
Contributed surplus (Note 11)		**7,380,373**		6,365,200
Accumulated other comprehensive loss		**(721,961)**		-
Deficit		**(20,623,709)**		(16,486,691)
		41,773,558		46,034,474
	$	**47,739,566**	$	51,657,979

Future Operations (Note 2), Commitments (Note 9), Subsequent events (Note 19)

Approved on behalf of the Board of Directors:

"David Cohen"	"Paul Larkin"
Director	Director

LNG ENERGY LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	YEARS ENDED SEPTEMBER 30	
	2009	2008
Revenue		
Oil and gas revenue	**$ 252,245**	$ -
Less: Royalties expense	**(49,578)**	**-**
	202,667	**-**
Expenses		
Accretion	**78**	1,097
Operating and exploration	**101,707**	19,566
Depletion and depreciation	**165,608**	22,765
Bank charges	**21,460**	5,066
Foreign exchange loss (gain)	**563,851**	(175,648)
General and administration	**2,148,841**	1,410,663
Impairment of property and equipment (Note 9)	**963**	3,904,433
Interest	**15,020**	-
Loss on disposal of property and equipment	**4,922**	834
Professional fees (Note 13)	**1,098,390**	1,664,299
Stock based compensation (Note 11)	**481,494**	4,296,068
Travel and business development	**189,535**	594,668
	(4,791,869)	(11,743,811)
Interest and other income	**359,538**	779,503
Loss from operations before taxes	**(4,229,664)**	(10,964,308)
Current income tax recovery (expense) (Note 15)	**86,591**	(266,358)
Net loss after tax	**(4,143,073)**	(11,230,666)
Non-controlling interests (Note 16)	**6,055**	165,700
Net loss for the year	**(4,137,018)**	(11,064,966)
Cumulative translation adjustment	**(721,961)**	-
Comprehensive Loss	**$ (4,858,979)**	$ (11,064,966)
Basic and diluted loss per share	**$ (0.03)**	$ (0.08)
Weighted average number of shares outstanding	**144,095,965**	130,378,724

The accompanying notes are an integral part of these consolidated financial statements.

LNG ENERGY LTD.
CONSOLIDATED STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE LOSS

	YEARS ENDED SEPTEMBER 30	
	2009	2008
Deficit, beginning of year	**$ (16,486,691)**	$ (5,421,725)
Net loss for the year	**(4,137,018)**	(11,064,966)
Deficit, end of year	**$ (20,623,709)**	$ (16,486,691)
Accumulated other comprehensive loss, beginning of year	**$ -**	$ -
Cumulative translation adjustment for the year	**(721,961)**	-
Accumulated other comprehensive loss, end of year	**$ (721,961)**	**$ -**

The accompanying notes are an integral part of these consolidated financial statements.

LNG ENERGY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED SEPTEMBER 30	
	2009	2008
Cash flows used by operating activities		
Net Loss for the year	**$ (4,137,018)**	$ (11,064,966)
Items not affecting cash:		
Accretion	**78**	1,097
Depletion and depreciation	**165,608**	22,765
Impairment of property and equipment	**963**	3,904,433
Stock based compensation	**481,494**	4,296,068
Unrealized foreign exchange loss (gain)	**(341,184)**	78,287
Other write-downs	**49,896**	3,980
Unrealized gain on revaluation of investments	**(3,226)**	(1,295)
Deferred financing cost amortized	**-**	4,093
Non-controlling interests	**(6,055)**	(165,700)
	(3,789,444)	(2,921,238)
Changes in non-cash working capital (Note 14)	**(485,784)**	586,613
	(4,275,228)	(2,334,625)
Cash flows used by investing activities		
Asset acquisition	**(7,993,634)**	(11,350,624)
Property and equipment purchased	**(193,344)**	(69,664)
Proceeds on disposal of property and equipment	**142,953**	374
Oil and gas property expenditures	**(2,306,914)**	(3,555,598)
Notes receivable	**-**	(144,811)
Short term investments	**6,340,762**	(14,651,262)
Changes in non-cash working capital (Note 14)	**(115,374)**	(2,263,211)
	(4,125,551)	(32,034,796)
Cash flows from financing activities		
Share capital issued, net of share issue cost	**-**	43,103,325
Shares issued on warrants and options exercised	**-**	1,975,646
Loans payable	**-**	(39,792)
Capital lease payments	**(13,322)**	(7,806)
	(13,322)	45,031,373
Net decrease in cash and cash equivalents	**(8,414,101)**	10,661,952
Cash and cash equivalents, beginning of year	**11,319,398**	657,446
Cash and cash equivalents, end of year (Note 14)	**$ 2,905,297**	$ 11,319,398

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

LNG Energy Ltd. (the “Company”) was incorporated on February 24, 2000 in the Province of British Columbia. Effective March 28, 2008, the Company changed its name to “LNG Energy Ltd.”. The Company’s common shares began trading under the new symbol “LNG” on the TSX Venture Exchange on March 28, 2008. The Company is engaged in exploration and development activities of oil and gas properties in Papua New Guinea and the United States of America.

2. FUTURE OPERATIONS

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. These principles assume that the Company will be able to realize its assets and discharge its obligations in the normal course of operations for the foreseeable future.

The Company is an independent natural gas and oil company engaged in the exploration and development of natural gas and oil properties in Papua New Guinea and the United States. As at September 30, 2009, the Company had net working capital of $10,883,376 (September 30, 2008 - $25,226,949) and incurred a net loss of $4,137,018 for the year ended September 30, 2009 (September 30, 2008 - $11,064,966). The application of the going concern assumption is dependent upon the Company’s ability to generate future profitable operations and obtain the necessary financing to do so.

Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption was not appropriate, adjustments might be necessary to the carrying values of assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the consolidated financial statements.

3. BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

These audited consolidated financial statements presented are those of LNG Energy Ltd. ("LNG") and the consolidated financial statements of its 100% owned subsidiaries LNG Energy US Inc. ("LNG US") and LNG Energy (BC) Ltd. ("LNG BC"). The consolidated financial statements include LNG BC's wholly-owned subsidiaries Telemu No. 18 Ltd., LNG Energy (PNG) Limited ("LNG PNG"), LNG Energy No. 2 Limited ("LNG No. 2"), and Scotia Petroleum Inc. ("Scotia BC"). The consolidated financial statements also include LNG US' 60% owned subsidiary, BWB Exploration, LLC ("BWB"). All intercompany transactions have been eliminated on consolidation.

b) Foreign currency translation

The Company's PNG operations are considered financially and operationally integrated. The Canadian dollar is the Company's and each of its PNG subsidiaries' functional currency. As a result, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at rates in effect when the assets were acquired or liabilities incurred. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Foreign exchange gains and losses are recorded in the statement of operations.

The Company's US operations are considered to be self-sustaining and the United States dollar is the US subsidiaries' functional currency. As a result, the US subsidiaries' assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Foreign exchange gains and losses are included in a separate component of shareholders' equity under accumulated other comprehensive income as a currency translation adjustment.

c) Cash and Equivalents

Cash and cash equivalents consist of cash and short term deposits which, on acquisition, have a maturity of less than ninety days.

d) Loss Per Share

Basic loss per share figures have been calculated using the weighted monthly average number of shares outstanding during the respective years. Diluted loss per share figures are equal to those of basic loss per share for each period as the effects of stock options have been excluded since they are anti-dilutive. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from in-the-money stock options are used to repurchase common shares at the average market rate during the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Use of Estimates

The preparation of the consolidated audited financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses recorded during the reporting periods. Actual results could differ from these estimates and these differences could have a significant impact on the consolidated financial statements.

f) Financial Instruments

The Company classifies all financial instruments as either held-to-maturity, available-for-sale, held-for-trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities, other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in the Statement of Operations.

The Company has classified its financial instruments as follows:

Cash and cash equivalents	Held for trading
Short term investments	Held for trading
Amounts receivable	Loans and receivables
Notes receivable	Loans and receivables
Investments	Held for trading
Accounts payable and accrued liabilities	Other liabilities
Capital lease obligations	Other liabilities

g) Property and Equipment

Oil and Gas Interest

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized on a country-by-country basis. Such costs include land acquisitions, drilling, well equipment, geological and geophysical, and overhead expenses related to exploration and development activities. Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a material change in the rate of depletion and depreciation.

Costs capitalized in the cost centres, including facilities and well equipment, together with estimated future capital costs associated with proven reserves, are depleted and depreciated using the unit-of-production method which is based on gross production and estimated proven oil and gas reserves as determined by the Company. The cost of significant unevaluated properties is excluded from the depletion and depreciation base. For purposes of the depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Property and Equipment (Continued)

Oil and Gas Interest (Continued)

The Company carries out the ceiling test pertaining to the measurement of impairment of petroleum and natural gas properties for its Papua New Guinea and US cost centres. The Company evaluates petroleum and natural gas assets to determine that the carrying amount in each cost centre is recoverable and does not exceed the fair value of the properties in the cost centre. The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and the market of unproved properties exceeds the carrying amount of the cost centre.

When the carrying amount is not recoverable, an impairment loss is recognized to the extent the carrying amount of the cost centre exceeds the sum of the discounted cash flows (calculated by using the Company's risk-free rate) expected from the production of proved and probable reserves and the lower of cost and market of unproved properties of the cost centre.

Other Assets

Depreciation is based on the estimated useful lives of the assets and is computed using the declining balance method. Equipment is recorded at cost on acquisition. Depreciation is provided using the following rates:

Office furniture and equipment	15%
Vehicles	30%
Computer equipment and software	15% - 50%

h) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets is recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is recorded as accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset.

i) Revenue recognition

Revenue associated with sales of oil, natural gas and natural gas liquids is recognized when title passes to the purchaser.

j) Stock-Based Compensation

The Company has a stock-based compensation plan, whereby stock options are granted to employees and non-employees. The fair value of all share purchase options granted to employers are expensed over their vesting period with a corresponding increase to contributed surplus or warrant capital. Options granted to non-employees, to the extent unvested, are fair valued on subsequent reporting dates. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus or warrant capital, is recorded as an increase to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that may not vest. The Company accounts for forfeitures as they occur.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Stock-Based Compensation (Continued)

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

k) Income Taxes

The Company follows the asset and liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. In the case of unused tax losses, income tax reductions, and certain items that have a tax basis but cannot be identified with an asset or liability on the balance sheet, the recognition of future income tax assets is determined by reference to the likely realization of future income tax reductions. The Company has not recognized potential future benefit amounts as the criteria for recognition under Canadian generally accepted accounting principles have not been met.

l) Joint Interest Activities

Certain of the Company's exploration, development and production activities are conducted jointly with other entities and accordingly the consolidated financial statements reflect only the Company's proportionate interest in such activities.

m) Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on the Company's previously reported results.

n) Adoption of New Accounting Standards

Effective October 1, 2008, the Company has adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting standards are adopted on a prospective basis with no restatement of prior period financial statements. There was no impact on opening retained earnings. The new standards are as follows:

(i) Inventories
Section 3031, "Inventories", which replaces Section 3030, establishes standards for the measurement and disclosure of inventories. This Section provides more extensive guidance in the following areas: the determination of cost, including allocation of overhead; limitation of permitted cost formulas; and expansion of disclosure requirements to increase transparency. The adoption of Section 3031 did not have any impact on the Company's financial statements.

(ii) Goodwill and Intangible Assets
Section 3064 "Goodwill and Intangible Assets" establishes guidance on the recognition of intangible assets as well as the recognition and measurement of internally developed intangible assets. In addition, Section 3450 "Research and Development Costs" was withdrawn from the Handbook. Adopting this accounting change did not have a material effect on the Company's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Future Accounting Pronouncements

(i) Business combination, non-controlling interest, and consolidation

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, ("Section 1582"), 1601, Consolidated Financial Statements, ("Section 1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company is currently assessing the impact of these standards on its consolidated financial statements.

(ii) Financial Instruments - Disclosures

In May 2009, the CICA amended Section 3862, Financial Instruments – Disclosure, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identifical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Company beginning October 1, 2009 in the next fiscal year. The Company is currently assessing the impact of the standard on its consolidated financial statements.

(iii) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company continues to monitor, and assess, the impact of the conversion of Canadian GAAP to IFRS.

(in Canadian dollars)

5. ASSETS HELD FOR SALE

On December 30, 2008, the Company sold its 15% working interest in its Palo Duro assets to Tyner Resources Ltd. (“Tyner”). In consideration of the sale of the interest, Tyner issued 9,378,208 common shares to the Company, which represented 13.2% of the number of the issued and outstanding shares of Tyner following the transaction. The value of the Tyner shares on the date of closing was approximately $0.02 per share, resulting in aggregate consideration received of $187,563. The carrying amount of the oil and gas assets were written down to their fair value representing value of share consideration received as at September 30, 2008, hence no gain or loss was recorded on the closing of the transaction. These operations were reported as discontinued in the consolidated financial statements for the year ended September 30, 2008. In connection with the acquisition of BWB Exploration, LLC (see note 6), the Company acquired interests in oil and gas properties in the United States. As a result of acquiring these properties, previously reported discontinued operations have been presented as continuing operations and the results of operations in 2008 previously reported as discontinued have been reclassified to the expense category that they related to.

6. ACQUISITIONS

a) LNG BC Acquisition

On November 27, 2007, the Company completed the acquisition of 90% of the shares of LNG BC from Cheetah Oil and Gas Ltd (“Cheetah Nevada”). The total cash and share consideration was $17,086,218 (US$17,329,077). LNG BC holds interests in approximately 5.5 million acres of land for oil and natural gas exploration in Papua New Guinea. In connection with the acquisition, the Company issued 3,968,437 shares of the Company, at a deemed price of $0.56 per share. These shares were issued on January 11, 2008. Allocation of the purchase price to the assets and liabilities acquired is as follows:

Net working capital deficit (net of cash and cash equivalent of $1,889,874)	$	(488,714)
Equipment		85,052
Oil and gas properties		21,615,802
Capital lease obligation		(21,128)
Future income taxes		(1,553,302)
Non-controlling interest		(2,551,492)
Total net assets acquired	$	17,086,218
Consideration paid:		
Cash	$	14,859,755
Shares		2,222,325
Acquisition costs		4,138
Total consideration paid	$	17,086,218

(in Canadian dollars)

6. ACQUISITIONS (Continued)

a) LNG BC Acquisition (Continued)

On November 25, 2008, the Company acquired the remaining 10% of the shares of LNG BC from Cheetah Nevada. The total consideration paid included cash of US$250,000 and the settlement of a note receivable ($300,000 principal and accumulated interest of $14,460) of Cheetah Nevada. Allocation of the purchase price to the assets and liabilities acquired is as follows:

Oil and gas properties	$	(2,515,502)
Future income taxes		754,651
Non-controlling interest		2,385,886
Total net assets acquired	$	625,035
Consideration paid:		
Cash	$	310,575
Settlement of note receivable		300,000
Interest related to note receivable		14,460
Total consideration paid	$	625,035

b) BWB Exploration, LLC acquisition

On December 4, 2008, the Company acquired a 60% interest in a private company, BWB Exploration, LLC (“BWB”) for a purchase price of US$6 million.

Allocation of the purchase price to the assets and liabilities acquired is as follows:

Oil and gas properties	$	12,781,000
Non-controlling interest		(5,112,400)
Total net assets acquired	$	7,668,600
Consideration paid:		
Cash	$	7,668,600
Total consideration paid	$	7,668,600

(in Canadian dollars)

7. NOTE RECEIVABLE

On November 25, 2008, the note receivable due from Cheetah Oil and Gas Ltd. ("Cheetah Nevada) was settled in connection with the 10% share acquisition of LNG BC from Cheetah Nevada described in Note 6.

The note receivable due from Cheetah Oil and Gas Ltd. bear interest at 8% per annum and was secured by a pledge and security agreement granting the Company a first ranking security interest in all of the shares owned by Cheetah Nevada in the capital of LNG BC. The note receivable was repayable within 90 days of written demand for repayment being made.

8. INVESTMENTS

	As at September 30,	
	2009	**2008**
Sterling West Management Ltd.	$ 2	$ 2
Cheetah Oil and Gas Ltd.	5,354	2,128
Tyner Resources Ltd. (Note 5)	187,563	-
	$ 192,919	$ 2,130

The Company has entered into a service relationship with a group of companies for the provision of administrative, office support and management services. The Company subscribed for one share at $2 per share in the private company. Upon execution of the agreement, each participant is required to provide a deposit to the entity. The Company's share of the deposit was determined to be $28,500.

Cheetah Nevada issued 100,000 of its common shares to the Company as fully-paid and non-assessable shares. These shares are designated as held for trading and are fair valued at the end of each period.

Tyner Resources Ltd. issued 9,378,208 common shares in connection with the sale of the Company's Palo Duro assets described in Note 5. These shares are designated as held for trading and are recorded at fair value at the end of each period.

(in Canadian dollars)

9. PROPERTY AND EQUIPMENT

	September 30, 2009		
	COST	ACCUMULATED AMORTIZATION, DEPLETION, DEPRECIATION & IMPAIRMENT	NET BOOK VALUE
Oil and gas properties:			
Papua New Guinea, unproven	$ 24,110,179	$ 820,304	$ 23,289,875
United States, proven	616,679	-	616,679
United States, unproven	11,863,759	122,915	11,740,844
Vehicles	121,671	76,289	45,382
Office furnitures and equipment	55,454	18,062	37,392
Computer equipment	67,522	38,645	28,877
Computer software	6,135	3,509	2,626
License	14,293	-	14,293
	$ 36,855,692	$ 1,079,724	$ 35,775,968

	September 30, 2008		
	COST	ACCUMULATED AMORTIZATION, DEPRECIATION & IMPAIRMENT	NET BOOK VALUE
Oil and gas properties:			
Papua New Guinea, unproven	$ 25,131,650	$ 819,341	$ 24,312,309
Vehicles - capital lease	47,792	32,365	15,427
Vehicles	67,367	16,854	50,513
Office furnitures and equipment	38,780	11,691	27,089
Computer equipment	65,918	30,000	35,918
Computer software	6,135	2,902	3,233
	$ 25,357,642	$ 913,153	$ 24,444,489

Papua New Guinea

The Company holds a 100% working interests in four Petroleum Prospecting License's (PPL) and one Petroleum Retention License (PRL) through permits received from the Minister of Petroleum and Energy for Papua New Guinea. These licenses have a six year term along with expenditure commitments for each license. The work commitments relating to these licenses are US$12 million over the next two years.

These properties are subject to a 22.5% back-in participation right in favour of the government, which the government may exercise upon payment of 22.5% of the costs incurred in the development of the property. The back-in participation right includes a 2% revenue royalty payment obligation to indigenous groups, which is only payable if the government exercises its back-in participation right.

(in Canadian dollars)

9. PROPERTY AND EQUIPMENT (Continued)

Papua New Guinea (Continued)

The Papua New Guinea cost centre is considered unproved at September 30, 2009 and as no production has occurred, no depletion has been recorded. During the year ended September 30, 2009, $618,225 (September 30, 2008 - $356,460) of general and administrative costs were capitalized, of which $116,569 (September 30, 2008 - $74,404) related to capitalized stock based compensation expenses.

The Company performed a ceiling test calculation at September 30, 2009 to assess the recoverable value of its oil and natural gas interests and a write-down of $963 was recorded (September 30, 2008 - $819,341).

United States

The Company, through its subsidiary, holds interests in oil and gas properties in the United States.

These properties are subject to a 2% revenue royalty payment obligation to the 40% non-controlling shareholder of the subsidiary.

In determining the Company's depletion for the year ended September 30, 2009, future development costs of US$11,834,200 were included in the calculation. Cost of unproved properties of US$8,498,992 were excluded in the depletion calculation.

The Company performed a ceiling test calculation at September 30, 2009 to assess the recoverable value of its oil and natural gas interests and determined no write-down was required during the year ended September 30, 2009 (September 30, 2008 - $3,085,092).

During the year ended September 30, 2009, $590,458 of general and administrative costs were capitalized, of which $65,160 related to capitalized stock based compensation expenses.

10. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the asset retirement costs of the oil and gas asset in the Berwyn well:

	As at September 30,	
	2009	**2008**
Balance, beginning of year	$ 16,983	$ -
Liabilities incurred	3,066	14,786
Change in estimate	(251)	1,100
Liabilities disposed (Note 5)	(16,983)	
Accretion	78	1,097
Balance, end of year	$ 2,893	$ 16,983

The calculation was assessed using a risk-free rate of 10.00% and an assumed inflation rate of 1.45% per annum. The undiscounted cash flow required to settle the obligation is approximately $8,000 with majority of the expenditures expected between 2011 to 2018.

(in Canadian dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized

Unlimited common shares without par value

b) Issued

	Number of Shares	Share Capital	Contributed Surplus
Balance September 30, 2007	50,374,917	$ 7,493,370	$ 1,997,788
Shares issued pursuant to private placements	81,673,583	45,868,620	-
Shares issued upon exercise of warrants	7,278,278	2,260,776	-
Shares issued upon exercise of agents' warrants	325,750	272,152	-
Shares issued upon exercise of options	475,000	329,788	(272,288)
Stock based compensation	-	-	4,370,472
Shares issued on acquisition (note 6)	3,968,437	2,222,325	-
Warrants expired	-	-	269,228
Less: Share issue costs	-	(2,708,176)	-
Balance September 30, 2008	144,095,965	$ 55,738,855	$ 6,365,200
Stock based compensation	-	-	598,063
Warrants expired	-	-	417,110
Balance September 30, 2009	**144,095,965**	**$ 55,738,855**	**$ 7,380,373**

On November 29, 2007, the Company completed its non-brokered private placement for gross proceeds of $43,284,157 consisting of 77,293,138 shares at a price of $0.56 per common share. An additional 4,380,445 common shares were issued as a finders' fee in connection with the private placement.

c) Stock Options

The following table summarizes information about stock option transactions:

	Number of Options	Average Exercise Price
Balance, September 30, 2007	3,400,000	$0.38
Granted	12,475,000	$0.52
Exercised	(475,000)	$0.13
Cancelled	(1,850,000)	$0.67
Balance, September 30, 2008	13,550,000	$0.49
Granted	2,290,000	$0.19
Forfeited	(1,845,000)	$0.43
Balance, September 30, 2009	**13,995,000**	**$0.45**

(in Canadian dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

The following table summarizes information about the stock options outstanding at September 30, 2009:

Exercise Price	Outstanding Options	Options Exercisable	Expiry Date
$0.20	75,000	75,000	December 16, 2009
$0.10	700,000	700,000	November 27, 2011
$0.67	271,000	271,000	September 20, 2012
$0.67	379,000	379,000	September 21, 2012
$0.58	6,100,000	6,100,000	November 27, 2012
$0.56	750,000	750,000	February 1, 2013
$0.58	1,500,000	1,500,000	February 1, 2013
$0.28	1,950,000	1,343,750	May 1, 2013
$0.19	2,270,000	2,270,000	May 14, 2014
	13,995,000	13,388,750	

The fair value of the options granted has been estimated on the date of grant using the Black-Scholes option-pricing model.

Assumptions used to value options within the option-pricing model are as follows:

	As at September 30, 2009	2008
Risk-free interest rate	1.83% - 2.47%	2.88% - 3.96%
Expected life	3.8 - 5 years	5 years
Expected volatility	125% - 131.60%	117.72% - 133.71%
Expected dividends	Nil	Nil
Average ($ per option)	0.40	0.47

d) Warrants

The following table summarizes information about warrant transactions:

	Number of Warrants	Weighted Average Exercise Price	Carrying Amount
Balance September 30, 2007	20,349,917	0.22	1,301,120
Exercised	(7,604,028)	0.25	(614,782)
Expired	(1,514,334)	0.55	(269,228)
Balance September 30, 2008	11,231,555	0.16	$ 417,110
Expired	(11,231,555)	0.16	(417,110)
Balance September 30, 2009	**-**	**-**	**$ -**

(in Canadian dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

e) Escrow Shares

As at September 30, 2009, the Company had 1,540,312 (2008 – 4,620,936) common shares held in escrow to be released in tranches of 15% every six months up to November 28, 2009.

12. CAPITAL LEASE OBLIGATION

The Company is obligated under a capital lease to future minimum annual lease payment that is due as follows:

	2009	2008
	$ 13,322	$ 14,182
Less: amount representing interest at 13.75%	-	(860)
Present value of future minimum lease obligations	13,322	13,322
Less: current portion	-	13,322
Less: amount paid	(13,322)	-
Long Term Portion	$ -	$ -

13. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions and balances with related parties for the years ended September 30, 2009 and 2008 for amounts paid to companies controlled by directors and officers of the Company were as follows:

	September 30, 2009	September 30, 2008
Management and consulting services paid to current directors and officers	$ -	$ 185,400
Management and consulting services paid to former directors and officers	-	247,600
Director fees paid to a former officer of the Company	-	7,500
Director fees paid to current independent directors of the Company	34,000	52,500
	$ 34,000	$ 493,000

These expenditures are included in professional fees and were measured at the exchange amount, which are amounts agreed upon by the transacting parties.

(in Canadian dollars)

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

a) Changes in non-cash working capital are as follows:

	September 30, 2009	September 30, 2008
Amounts receivable	$ 124,669	$ (222,564)
Prepaid expenses, advances and other term deposits	72,734	(496,625)
Accounts payable and accrued liabilities	(798,561)	(957,409)
Change in non-cash working capital	$ (601,158)	$ (1,676,598)
Relating to:		
Operating activities	(485,784)	586,613
Investing activities	(115,374)	(2,263,211)
Change in non-cash working capital	$ (601,158)	$ (1,676,598)

b) Other non-cash transactions that occurred during the years ended September 30, 2009 and 2008 are:

	September 30, 2009	September 30, 2008
Common shares issued related to acquisition of subsidiary (Note 6)	$ -	$ 2,222,325
Common shares issued as a finders' fee in connection with the privateplacement charged to share issue costs.	$ -	$ 2,584,463

c) Cash and cash equivalents is comprised of the following:

	September 30, 2009	September 30, 2008
Cash	$ 900,688	$ 1,757,979
Cash equivalents	2,004,609	9,561,419
	$ 2,905,297	$ 11,319,398

Cash and cash equivalents are classified as “held for trading” and are measured at carrying value which approximates the fair values due to the short term nature of these instruments with maturity at acquisition not exceeding 90 days. Cash equivalents relates to an interest savings account which bears an interest rate of approximately 0.80% per annum with no maturity date (September 30, 2008 – Interest rate at 2.9% per annum).

(in Canadian dollars)

15. INCOME TAXES

The Company's provision for income taxes differs from the amounts computed by applying the statutory income tax rates to the loss as a result of the following:

	September 30,	
	2009	**2008**
Statutory rates	30%	30%
Recovery of income taxes computed at statutory rates	$ (1,312,000)	$ (3,287,000)
Non-deductible items	115,000	1,297,000
Capital gains tax	-	266,358
Change in enacted tax rates	251,000	378,000
Other	3,000	26,000
Unrealized foreign exchange loss (gain)	83,409	(44,000)
Change in valuation allowance	773,000	1,630,000
	$ (86,591)	$ 266,358

The tax effects on temporary timing differences that give rise to significant components of the future tax assets and future tax liabilities are as follows:

	September 30,	
	2009	**2008**
Future income tax assets:		
Non-capital loss carry forward	$ 3,085,000	$ 1,720,000
Unrealized foreign exchange	219,000	57,000
Capital loss carry forward	77,000	80,000
Share issue costs	427,000	596,000
Property and equipment	2,000	1,000
Resource related assets	2,293,000	2,876,000
Less: Valuation allowance	(6,103,000)	(5,330,000)
	$ -	$ -
Future income tax liabilities:		
Resource related assets	$ (673,564)	$ (1,428,000)
Other timing differences	(125,087)	(125,302)
	$ (798,651)	$ (1,553,302)

The Company has non-capital losses carried forward of approximately $11,002,074 which may be available to offset future income for income tax purposes expiring over the periods 2010 to 2027.

The Company evaluates its valuation allowance based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of the future tax assets, the impact of the change on valuation allowance is reflected in current income. Due to the uncertainty of realization, the Company has not reflected any benefit recorded from these losses in these financial statements.

16. NON-CONTROLLING INTERESTS

		September 30, 2009		2008
Balance, beginning of year	$	(2,385,792)	$	-
10% Non-controlling interest of LNG BC		-		(2,551,492)
Change in 10% non-controlling interest during the year		-		165,700
Acquisition of 10% non-controlling interest of LNG BC		2,385,792		-
40% Non-controlling interest of BWB		(5,112,400)		-
Change in 40% non-controlling interest during the year		6,055		-
Change in 40% non-controlling interest due to foreign exchange translation from US		829,184		-
Balance, end of year	$	(4,277,161)	$	(2,385,792)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial assets and liabilities
The carrying amount for cash and cash equivalents, short term investments, amounts receivable, note receivable, accounts payable and accrued liabilities and capital lease obligations on the balance sheet approximate fair value because of the limited short term nature of these instruments.

Foreign currency risk
The Company is subject to normal market risks including fluctuations in foreign exchange rates. The Company received revenues in US dollars, while incurring expenses in US, Canadian dollars and Papua New Guinea Kinas.

Foreign exchange gains and losses are related to the translation from Canadian dollars into Kinas for measurement and reporting purposes. The Company finances its integrated Papua New Guinea subsidiaries in Canadian dollars and a significant change in the currency exchange rates could have a material effect on the Company’s results of operations, financial position or cash flows.

The Company’s US subsidiaries are considered to be self-sustaining and the United States dollar is the functional currency. All foreign currency translations are reported in accumulated other comprehensive income and a significant change in currency exchange rates would affect the Company’s comprehensive income and deficit.

While the Company expects to manage its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

Credit risk
Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Company manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Interest rate risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash balances and cash equivalents.

The Company is not exposed to interest rate fluctuations on its short-term investments. At September 30, 2009, the Company had short term investments in GICs totaling $8,310,500, bearing interest at fixed rates of 0.400% per annum with a maturity date of April 23, 2010 (September 30, 2008 - $14,651,262 bearing interest at fixed rates of 3.00% and 3.45% per annum).

Liquidity risk
The Company maintains sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and short-term investments. The Company's cash is invested in business accounts which are available on demand. The Company does not invest in asset backed securities. The Company's short-term investments are available on demand after 30 days without penalty. All financial liabilities are due to be settled within 180 days of the balance sheet date.

The Company manages its capital such that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of shareholder's equity comprising of share capital, share purchase warrants, contributed surplus and deficit. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in business environment.

As at September 30, 2009, total managed capital was $41,773,558 (September 30, 2008 - $46,034,474), comprised of share capital of $55,738,855 (September 30, 2008 - $55,738,855), share purchase warrants of $Nil (September 30, 2008 - $417,110), contributed surplus of $7,380,373 (September 30, 2008 - $6,365,200), other comprehensive loss of $721,961 (September 30, 2008 - $Nil) and a deficit of $20,623,709 (September 30, 2008 - $16,486,691).

(in Canadian dollars)

18. SEGMENT INFORMATION

Geographic Information:
The Company operates in one reportable operating segment, being the exploration of oil and gas properties in the United States and Papua New Guinea. The geographical information is as follows:

September 30, 2009	Papua New Guinea	United States	Canada	Total
Current assets	$ 331,527	$ 197,621	$ 11,241,531	$ 11,770,679
Investments	-	-	192,919	192,919
Property and equipment	23,398,849	12,357,523 *	19,596	35,775,968
	$ 23,730,376	$ 12,555,144	$ 11,454,046	$ 47,739,566

* Includes the non-controlling interest of $5,112,400. Refer to Note 6(b).

Year ended September 30, 2009	Papua New Guinea	United States	Canada	Total
Oil and gas revenue	$ -	$ 252,245	$ -	$ 252,245

September 30, 2008	Papua New Guinea	United States	Canada	Total
Current assets	$ 457,294	$ 37,173	$ 26,212,347	$ 26,706,814
Note receivable	-	-	300,000	300,000
Investments	-	-	2,130	2,130
Property and equipment	24,436,158	-	8,331	24,444,489
Asset held for sale	-	204,546	-	204,546
	$ 24,893,452	$ 241,719	$ 26,522,808	$ 51,657,979

19. SUBSEQUENT EVENTS

On November 12, 2009, BWB, a 60% owned subsidiary of the Company, exercised its option to participate in a 20% net interest in an exploration project in Poland containing 3 concessions. The 3 concessions total approximately 730,000 acres for approximately net 87,600 acres to the Company. License commitments will require the drilling and testing of one exploration well per concession before the end of 2010.

On December 12, 2009 and January 11, 2010, the Company issued 75,000 and 150,000 common shares respectively for the exercise of stock options for total proceeds of $43,500. The Company also issued 300,000 stock options with an exercise price of $0.30 to a consultant of the Company.