

**LNG ENERGY LTD.**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the Six Months Ended March 31, 2010 and 2009  
(stated in Canadian Dollars)**

(unaudited)

**LNG ENERGY LTD.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

	March 31, 2010	September 30, 2009
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 11)	\$ 4,713,119	\$ 2,905,297
Short term investments (Note 13)	3,500,000	8,310,500
Amounts receivable	316,948	196,192
Prepaid expenses, advances and other term deposits (Note 6)	335,296	358,690
	<b>8,865,363</b>	<b>11,770,679</b>
<b>Investments</b> (Note 6)	<b>6,097</b>	<b>192,919</b>
<b>Property and equipment</b> (Note 7)	<b>38,071,426</b>	<b>35,775,968</b>
	<b>\$ 46,942,886</b>	<b>\$ 47,739,566</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,095,537	\$ 887,303
<b>Long term</b>		
Asset retirement obligation	2,946	2,893
Future income taxes (Note 8)	798,651	798,651
<b>Non-controlling interests</b> (Note 12)	<b>4,058,932</b>	<b>4,277,161</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	55,820,638	55,738,855
Contributed surplus (Note 9)	7,459,369	7,380,373
Accumulated other comprehensive loss	(1,110,253)	(721,961)
Deficit	(22,182,934)	(20,623,709)
	<b>39,986,820</b>	<b>41,773,558</b>
	<b>\$ 46,942,886</b>	<b>\$ 47,739,566</b>

Future Operations (Note 2), Commitments (Note 7), Subsequent events (Note 15)

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

**LNG ENERGY LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**(Unaudited)**

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
<b>Revenue</b>				
Oil and gas revenue	\$ 73,549	\$ -	\$ 147,694	\$ -
Less: Royalties expense	(10,693)	-	(25,266)	-
	<b>62,856</b>	<b>-</b>	<b>122,428</b>	<b>-</b>
<b>Expenses</b>				
Accretion	69	-	208	-
Operating and exploration	50,877	14,355	81,632	14,717
Depletion and depreciation	29,571	7,078	52,600	26,509
General and administration	468,135	532,658	850,690	1,307,797
Loss on disposal of assets (Note 6)	117,409	3,439	118,467	4,400
Professional fees (Note 10)	198,007	184,526	427,865	699,139
Stock based compensation (Note 9)	18,518	66,928	34,462	102,164
Travel and business development	132,917	23,573	195,688	119,442
	<b>(1,015,503)</b>	<b>(832,557)</b>	<b>(1,761,612)</b>	<b>(2,274,168)</b>
Interest and other income	15,774	117,244	32,800	290,154
Mark to market gain on investments (Note 6)	91,471	-	743	93,782
Foreign exchange gain (loss)	(66,594)	17,133	22,705	224,864
<b>Loss before tax and non-controlling interests</b>	<b>(911,996)</b>	<b>(698,180)</b>	<b>(1,582,936)</b>	<b>(1,665,368)</b>
Current income tax recovery (expense)	29	-	(3,881)	-
<b>Loss after tax before non-controlling interests</b>	<b>(911,967)</b>	<b>(698,180)</b>	<b>(1,586,817)</b>	<b>(1,665,368)</b>
Non-controlling interests (Note 12)	13,170	3,789	27,592	3,789
<b>Net loss for the period</b>	<b>(898,797)</b>	<b>(694,391)</b>	<b>(1,559,225)</b>	<b>(1,661,579)</b>
<b>Cumulative translation adjustment</b>	<b>(249,714)</b>	<b>-</b>	<b>(388,292)</b>	<b>-</b>
<b>Comprehensive Loss</b>	<b>\$ (1,148,511)</b>	<b>\$ (694,391)</b>	<b>\$ (1,947,517)</b>	<b>\$ (1,661,579)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b>144,302,632</b>	<b>144,095,965</b>	<b>144,208,465</b>	<b>144,095,965</b>

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

**LNG ENERGY LTD.**  
**CONSOLIDATED STATEMENTS OF DEFICIT AND ACCUMULATED OTHER**  
**COMPREHENSIVE LOSS**  
**(Unaudited)**

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
<b>Deficit, beginning of the period</b>	<b>\$ (21,284,137)</b>	<b>\$ (17,453,879)</b>	<b>\$ (20,623,709)</b>	<b>\$ (16,486,691)</b>
Net loss for the period	<b>(898,797)</b>	(694,391)	<b>(1,559,225)</b>	(1,661,579)
<b>Deficit, end of the period</b>	<b>\$ (22,182,934)</b>	<b>\$ (18,148,270)</b>	<b>\$ (22,182,934)</b>	<b>\$ (18,148,270)</b>
<b>Accumulated other comprehensive loss, beginning of the period</b>	<b>\$ (860,539)</b>	<b>\$ -</b>	<b>\$ (721,961)</b>	<b>\$ -</b>
Cumulative translation adjustment for the period	<b>(249,714)</b>	-	<b>(388,292)</b>	-
<b>Accumulated other comprehensive loss, end of the period</b>	<b>\$ (1,110,253)</b>	<b>\$ -</b>	<b>\$ (1,110,253)</b>	<b>\$ -</b>

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

**LNG ENERGY LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
<b>Cash flows used by operating activities</b>				
Net loss for the period	\$ (898,797)	\$ (694,391)	\$ (1,559,225)	\$ (1,661,579)
Items not affecting cash:				
Accretion	69	-	208	-
Depletion and depreciation	29,571	7,078	52,600	26,509
Stock based compensation	18,518	66,928	34,462	102,164
Loss on disposal of assets	117,409	-	118,467	-
Unrealized foreign exchange loss (gain)	(104,701)	41,720	(267,187)	16,324
Other write-downs	(52)	(126)	(52)	60,627
Mark to market gain on investments	(91,471)	-	(743)	(93,782)
Non-controlling interests	(13,170)	(3,789)	(27,592)	(3,789)
	<b>(942,624)</b>	<b>(582,580)</b>	<b>(1,649,062)</b>	<b>(1,553,526)</b>
Changes in non-cash working capital (Note 11)	<b>183,599</b>	<b>(545,159)</b>	<b>630,751</b>	<b>(1,423,496)</b>
	<b>(759,025)</b>	<b>(1,127,739)</b>	<b>(1,018,311)</b>	<b>(2,977,022)</b>
<b>Cash flows from investing activities</b>				
Proceeds (purchase) of investments	70,000	73,454	70,000	(7,979,124)
Acquisition of Kaynes Capital S.a.r.l.	20,953	-	(31,430)	-
Property and equipment purchased	(1,750)	(5,416)	(88,227)	(175,698)
Loss on disposal of property and equipment	-	3,439	-	4,400
Proceeds on disposal of property and equipment	-	135,741	-	136,410
Oil and gas property expenditures	(1,396,020)	(723,703)	(2,408,263)	(1,657,368)
Short term investments	1,500,000	1,651,248	4,810,500	1,650,464
Changes in non-cash working capital (Note 11)	551,418	(134,040)	431,772	(124,451)
	<b>744,601</b>	<b>1,000,723</b>	<b>2,784,352</b>	<b>(8,145,367)</b>
<b>Cash flows from financing activities</b>				
Shares issued on exercise of options	14,649	-	43,500	-
Capital lease payments	-	(4,692)	-	(6,685)
	<b>14,649</b>	<b>(4,692)</b>	<b>43,500</b>	<b>(6,685)</b>
Foreign exchange on opening cash and cash equivalents	(1,178)	(12,128)	(1,719)	4,707
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(953)</b>	<b>(143,836)</b>	<b>1,807,822</b>	<b>(11,124,367)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>4,714,072</b>	<b>338,867</b>	<b>2,905,297</b>	<b>11,319,398</b>
<b>Cash and cash equivalents, end of period (Note 11)</b>	<b>\$ 4,713,119</b>	<b>\$ 195,031</b>	<b>\$ 4,713,119</b>	<b>\$ 195,031</b>

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

# LNG Energy Ltd.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

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## 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, Poland and the United States of America.

## 2. FUTURE OPERATIONS

These unaudited 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.

As at March 31, 2010, the Company had net working capital of \$6,769,826 (September 30, 2009 - \$10,883,376) and incurred a net loss of \$1,559,225 for the six months ended March 31, 2010 (Six months ended March 31, 2009 - \$1,661,579). The continuing application of the going concern assumption is dependent upon the Company's continuing ability to obtain the necessary financing to carry out its exploration program and ultimately achieve profitable operations.

Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption was not appropriate, adjustments would 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

These interim consolidated financial statements follow Canadian generally accepted accounting principles and were prepared by management using accounting policies and methods of their application is consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended September 30, 2009, except as noted below. In the opinion of management, these interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Company's financial position as at March 31, 2010 and the results of its operations and cash flows for the three and six months ended March 31, 2010 and 2009. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended September 30, 2009.

# LNG Energy Ltd.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

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## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Adoption of New Accounting Standards

Effective October 1, 2009, 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) Financial Instruments - Disclosures

Section 3862 "Financial Instruments - Disclosures" requires the Company 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 identical 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.

#### (ii) Credit Risk and Fair Value of Financial Assets and Liabilities

As of January 20, 2009, the Company has adopted the Emerging Issues Committee ("EIC") 173 abstract, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the Company to use its own credit risk and the credit risk of the counterparty to assess and determine the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

### b) 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.

# LNG Energy Ltd.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### b) Future Accounting Pronouncements (Continued)

#### (ii) 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.

## 5. ACQUISITION

### Kaynes Capital, S.a.r.l acquisition

On December 14, 2009, the Company acquired a 60% interest in a private company, Kaynes Capital, Sarl ("Kaynes") for a purchase price of \$31,430. Kaynes is a Luxembourg company which was acquired to hold the Company's option to participate in a 20% interest in an exploration project in Poland.

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

Oil and gas properties	\$	52,383
Non-controlling interest		(20,953)
<b>Total net assets acquired</b>	<b>\$</b>	<b>31,430</b>
Consideration paid:		
Cash	\$	31,430
<b>Total consideration paid</b>	<b>\$</b>	<b>31,430</b>

## 6. INVESTMENTS

	March 31, 2010	September 30, 2009
Sterling West Management Ltd.	\$ 2	\$ 2
Cheetah Oil and Gas Ltd.	6,095	5,354
Tyner Resources Ltd.	-	187,563
	<b>\$ 6,097</b>	<b>\$ 192,919</b>

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. On March 31, 2010, these shares were revalued at \$0.06 for a loss of \$2,311.



# LNG Energy Ltd.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

## 6. INVESTMENTS (Continued)

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.

On March 18, 2010, the Company disposed of its investment in Tyner shares for cash proceeds of \$70,000 and recorded a loss of \$23,782 from the sale of its investment.

## 7. PROPERTY AND EQUIPMENT

	<b>March 31, 2010</b>		
	<b>COST</b>	<b>ACCUMULATED AMORTIZATION, DEPLETION, DEPRECIATION &amp; IMPAIRMENT</b>	<b>NET BOOK VALUE</b>
Oil and gas properties:			
Papua New Guinea	\$ 25,774,564	\$ 820,304	\$ 24,954,260
United States	12,948,207	157,390	12,790,817
Poland	140,864	-	140,864
Vehicles	100,875	64,275	36,600
Office furnitures and equipment	58,815	20,984	37,831
Computer equipment	67,522	41,546	25,976
Computer software	7,322	4,042	3,280
License	86,103	4,305	81,798
	<b>\$ 39,184,272</b>	<b>\$ 1,112,846</b>	<b>\$ 38,071,426</b>

	<b>September 30, 2009</b>		
	<b>COST</b>	<b>ACCUMULATED AMORTIZATION, DEPLETION, DEPRECIATION &amp; IMPAIRMENT</b>	<b>NET BOOK VALUE</b>
Oil and gas properties:			
Papua New Guinea	\$ 24,110,179	\$ 820,304	\$ 23,289,875
United States	12,480,438	122,915	12,357,523
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
	<b>\$ 36,855,692</b>	<b>\$ 1,079,724</b>	<b>\$ 35,775,968</b>

# LNG Energy Ltd.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

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## 7. PROPERTY AND EQUIPMENT (Continued)

### 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.

The Papua New Guinea cost centre is considered unproved at March 31, 2010 and as no production has occurred, no depletion has been recorded.

During the three and six months ended March 31, 2010, \$82,817 of stock based compensation expenses and \$165,000 of general and administrative costs were capitalized (three and six months ended March 31, 2009 - \$nil).

### 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 six months ended March 31, 2009, future development costs of US\$11,834,200 were included in the calculation. Cost of unproved properties of US\$5,020,932 were excluded in the depletion calculation.

The Company performed a ceiling test calculation at March 31, 2010 to assess the recoverable value of its oil and natural gas interests and determined no write-down was required during the six months ended March 31, 2010 (March 31, 2009 - \$nil).

During the three and six months ended March 31, 2010 and 2009, no general and administrative or stock based compensation costs were capitalized.

### Poland

The Company, through its subsidiary, exercised its option to participate in a 20% net interest in an exploration project in Poland. The Company has rights to three concessions where license commitments will require the Company to finance the drilling and testing of one exploration well per concession before the end of June 2011.

# LNG Energy Ltd.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

## 8. INCOME TAX

The Company incurs non-capital losses in its foreign and Canadian subsidiaries. However it is not likely to realize any taxable income in the near future and any future tax assets are fully allowed for and do not offset future income tax liabilities.

## 9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

### a) Authorized

Unlimited common shares without par value.

### b) Issued

	<u>Number of Shares</u>	<u>Share Capital</u>	<u>Contributed Surplus</u>
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
Stock based compensation	-	-	117,279
Shares issued upon exercise of options	225,000	81,783	(38,283)
<b>Balance March 31, 2010</b>	<b>144,320,965</b>	<b>\$ 55,820,638</b>	<b>\$ 7,459,369</b>

### c) Stock Options

The following table summarizes information about stock option transactions:

	<u>Number of Options</u>	<u>Average Exercise Price</u>
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
Granted	300,000	\$0.30
Exercised	(225,000)	\$0.19
Forfeited	(15,000)	\$0.25
<b>Balance, March 31, 2010</b>	<b>14,055,000</b>	<b>\$0.46</b>

The following table summarizes information about the stock options outstanding at March 31, 2010:

# LNG Energy Ltd.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

## 9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

<b>Exercise Price</b>	<b>Outstanding Options</b>	<b>Options Exercisable</b>	<b>Expiry Date</b>
\$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	1,940,000	1,345,000	May 1, 2013
\$0.19	2,115,000	2,115,000	May 14, 2014
\$0.30	300,000	300,000	January 14, 2015
	14,055,000	13,460,000	

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:

	<b>At March 31,</b>	
	<b>2010</b>	<b>2009</b>
Risk-free interest rate	3.14%	2.02% - 2.47%
Expected life	5 years	5 years
Expected volatility	129%	125% - 126.92%
Expected dividends	Nil	Nil
Average (\$ per option)	0.26	0.45

### d) Escrow Shares

As at March 31, 2010, the Company had no common shares held in escrow to be released (September 30, 2009 –1,540,312). The final tranche was released on November 28, 2009.

# LNG Energy Ltd.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

## 10. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions and balances with related parties for three and six months ended March 31, 2010 and 2009 for amounts paid to companies controlled by directors and officers of the Company were as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
Management and consulting services paid to directors and officers	\$ 141,499	\$ -	\$ 141,499	\$ -
Director fees paid to independent directors of the Company	8,000	8,000	16,000	18,000
	\$ 149,499	\$ 8,000	\$ 157,499	\$ 18,000

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

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Amounts receivable	\$ 45,508	\$ (218,459)	\$ (102,870)	\$ (467,575)
Prepaid expenses, advances and other term deposits	14,090	58,917	(4,858)	31,741
Accounts payable and accrued liabilities	675,419	(519,657)	1,170,251	(1,112,113)
Change in non-cash working capital	\$ 735,017	\$ (679,199)	\$ 1,062,523	\$ (1,547,947)
Relating to:				
Operating activities	183,599	(545,159)	630,751	(1,423,496)
Investing activities	551,418	(134,040)	431,772	(124,451)
Change in non-cash working capital	\$ 735,017	\$ (679,199)	\$ 1,062,523	\$ (1,547,947)

# LNG Energy Ltd.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (Continued)

- b) There were no non-cash transactions that occurred during the three and six months ending March 31, 2010 and 2009.
- c) Cash and cash equivalents is comprised of the following:

	<b>March 31, 2010</b>	<b>September 30, 2009</b>
Cash	\$ 2,701,018	\$ 900,688
Cash equivalents	2,012,101	2,004,609
	<u>\$ 4,713,119</u>	<u>\$ 2,905,297</u>

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, 2009 – Interest rate at 0.80% per annum).

## 12. NON-CONTROLLING INTERESTS

	<b>March 31, 2010</b>	<b>September 30, 2009</b>
Balance, beginning of period	\$ (4,277,161)	\$ (2,385,792)
Acquisition of 10% non-controlling interest of LNG BC	-	2,385,792
40% Non-controlling interest of BWB	-	(5,112,400)
40% Non-controlling interest in Kaynes Capital (note 5)	(20,953)	-
Change in non-controlling interest during the period	27,592	6,055
Change due to foreign exchange translation from US	211,590	829,184
Balance, end of period	<u>\$ (4,058,932)</u>	<u>\$ (4,277,161)</u>

# LNG Energy Ltd.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Section 3862 of the CICA Handbook establishes a three-tier fair value hierarchy to reflect the significance of the inputs used in making the fair value of the Company's financial instruments.

### Fair Value as at March 31, 2010

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 4,713,119	\$ 4,713,119	\$ -	\$ -
Short term investments	3,500,000	3,500,000	-	-
Amounts receivable	316,948	316,948	-	-
Investments	6,097	6,097	-	-
Accounts payable and accrued liabilities	2,095,537	2,095,537	-	-
	<u>\$ 10,631,701</u>	<u>\$ 10,631,701</u>	<u>\$ -</u>	<u>\$ -</u>

The three levels of the fair value hierarchy established by Section 3862 are as follows:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Inputs, other than quoted prices, included in Level 1 that are observable for the asset or liability (directly or indirectly)
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

#### Level 1

The Company values cash and cash equivalents and short term investments using the quoted market prices. Investments consisting of marketable securities classified as held for trading, are valued using a market approach based upon unadjusted quoted prices for identical assets in an active market from securities exchanges. As a result, these financial assets have been included in Level 1 of the fair market value hierarchy.

#### Level 2 and Level 3

The Company does not hold any financial instruments to be classified in these categories.

#### Fair value of financial assets and liabilities

The carrying amount for cash and cash equivalents, short term investments, amounts receivable, and accounts payable and accrued liabilities and capital lease obligations on the balance sheet approximated their 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 and cash flows.

# LNG Energy Ltd.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

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## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

### **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 material interest rate fluctuations on its short-term investments. At March 31, 2010, the Company had short term investments in GICs totaling \$3,500,000, bearing interest at a fixed rate of 0.600% per annum with a maturity date of October 20, 2010 (September 30, 2008 - \$8,310,500 bearing interest at fixed rates of 0.400% 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, 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 March 31, 2010, total managed capital was \$39,986,820 (September 30, 2009 - \$41,773,558), comprised of share capital of \$55,820,638 (September 30, 2009 - \$55,738,855), contributed surplus of \$7,459,369 (September 30, 2009 - \$7,380,373), other comprehensive loss of \$1,110,253 (September 30, 2009 - \$721,961) and a deficit of \$22,182,934 (September 30, 2009 - \$20,623,709).



# LNG Energy Ltd.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

## 14. SEGMENT INFORMATION

Geographic Information:

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

<b>March 31, 2010</b>	<b>Papua New Guinea</b>	<b>United States</b>	<b>Poland</b>	<b>Canada</b>	<b>Total</b>
Current assets	\$ 371,335	\$ 154,093	\$ -	\$ 8,339,935	\$ 8,865,363
Investments	-	-	-	6,097	6,097
Property and equipment	25,139,745	12,790,817	140,864	-	38,071,426
	\$ 25,511,080	\$ 12,944,910	\$ 140,864	\$ 8,346,032	\$ 46,942,886

<b>Three Months Ended March 31, 2010</b>	<b>Papua New Guinea</b>	<b>United States</b>	<b>Poland</b>	<b>Canada</b>	<b>Total</b>
Oil and gas revenue	\$ -	\$ 73,549	\$ -	\$ -	\$ 73,549

<b>Six Months Ended March 31, 2010</b>	<b>Papua New Guinea</b>	<b>United States</b>	<b>Poland</b>	<b>Canada</b>	<b>Total</b>
Oil and gas revenue	\$ -	\$ 147,694	\$ -	\$ -	\$ 147,694

<b>September 30, 2009</b>	<b>Papua New Guinea</b>	<b>United States</b>	<b>Canada</b>	<b>Total</b>
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 5(b).

<b>Three and Six Months Ended March 31, 2009</b>	<b>Papua New Guinea</b>	<b>United States</b>	<b>Canada</b>	<b>Total</b>
Oil and gas revenue	\$ -	\$ -	\$ -	\$ -

# LNG Energy Ltd.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)  
For the Six Months Ended March 31, 2010 and 2009  
(in Canadian dollars)

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## 15. SUBSEQUENT EVENTS

On April 23, 2010, the Company announced that it has entered into an agreement to complete a private placement offering (the "Offering") of Special Warrants to raise proceeds up to \$25 million, with an option to increase the size to \$30 million. The offering price of the Special Warrants will be determined in the context of the market and is expected to close in June 2010. Each Special Warrant will entitle the holder to receive, without the payment of any additional consideration, one common share of the Company.

On May 6, 2010, the Company announced that it has closed an agreement with a third party to consolidate its position in Poland and the USA by acquiring all of the outstanding shares of a private company, Kunagu Real Estate S.A. ("Kunagu"). Kunagu holds the remaining 40% interest in Kaynes which in turn holds the 20% net interest in the shale gas exploration project in Poland. Kunagu also holds the remaining 40% interest in BWB, which in turn holds certain oil and gas leases in the USA. The aggregate purchase price of \$8,960,000 was satisfied by the issuance of 32,000,000 common shares of the Company to the third party. As a result, the Company has increased its ownership from a 12% to 20% net interest in Poland as well as a 60% to 100% ownership in BWB in the USA.