LNG ENERGY LTD.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended March 31, 2011 and 2010
(stated in Canadian Dollars)

(unaudited)

LNG ENERGY LTD.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

		March 31, 2011		September 30, 2010
ASSETS				
Current				
Cash and cash equivalents (Note 13)	**$**	**5,228,946**	$	10,036,105
Short term investments (Note 15)		**2,707,875**		9,015,750
Amounts receivable		**620,160**		314,242
Prepaid expenses, advances and other deposits		**539,301**		423,467
Asset held for sale (Note 6, 8)		**4,960,188**		-
		14,056,470		19,789,564
Investments (Note 7)		**9,698**		6,176
Property and equipment (Note 8)		**41,163,981**		51,050,573
	$	**55,230,149**	$	70,846,313
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**1,796,269**	$	1,442,148
Current asset retirement obligation (Note 6, 10)		**36,067**		-
		1,832,336		1,442,148
Long term				
Asset retirement obligation (Note 10)		**26,678**		3,119
Future income taxes (Note 14)		**1,775,587**		3,065,151
SHAREHOLDERS' EQUITY				
Share capital (Note 11)		**84,320,974**		84,033,523
Contributed surplus (Note 11)		**7,978,610**		7,155,373
Accumulated other comprehensive loss		**(1,731,825)**		(987,772)
Deficit		**(38,972,211)**		(23,865,229)
		51,595,548		66,335,895
	$	**55,230,149**	$	70,846,313

Future Operations (Note 2), Commitments (Note 8), Subsequent events (Note 17)

The accompanying notes are an integral part of these 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,	
	2011	2010	**2011**	2010
Expenses				
Operating and exploration	**84,574**	28,130	**154,577**	48,284
Accretion and depreciation	**17,826**	8,041	**26,390**	17,512
General and administration	**881,279**	467,409	**1,272,921**	849,581
Loss on disposal of asset	**2,848**	117,409	**20,702**	118,467
Unrealized gain on investment (Note 7)	**(745)**	(91,471)	**(3,522)**	(743)
Professional fees (Note 12)	**454,659**	192,039	**842,242**	389,168
Stock based compensation (Note 11)	**(130,835)**	18,518	**816,093**	34,462
Travel and business development	**148,416**	132,917	**306,034**	195,688
	(1,458,022)	(872,992)	**(3,435,437)**	(1,652,419)
Interest and other income	**30,565**	15,774	**94,774**	32,800
Foreign exchange gain (loss)	**(150,569)**	(56,647)	**(202,430)**	44,043
Loss from continuing operations before tax and non-controlling interests	**(1,578,026)**	(913,865)	**(3,543,093)**	(1,575,576)
Current income tax expense	**-**	-	**(11,174)**	(3,881)
Loss from continuing operations after tax before non-controlling interests	**(1,578,026)**	(913,865)	**(3,554,267)**	(1,579,457)
Non-controlling interests	**-**	13,170	**-**	27,592
Loss from continuing operations	**(1,578,026)**	(900,695)	**(3,554,267)**	(1,551,865)
Income (loss) from discontinued operations (Note 6)	**(11,513,824)**	1,898	**(11,552,715)**	(7,360)
Net loss for the period	**(13,091,850)**	(898,797)	**(15,106,982)**	(1,559,225)
Cumulative translation adjustment	**(319,449)**	(249,714)	**(744,053)**	(388,292)
Comprehensive loss	**$ (13,411,299)**	$ (1,148,511)	**$ (15,851,035)**	$ (1,947,517)
Basic and diluted loss per share from continuing operations	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.01)
Basic and diluted loss per share	**$ (0.05)**	$ (0.01)	**$ (0.06)**	$ (0.01)
Weighted average number of shares outstanding	**257,705,143**	144,302,632	**257,528,816**	144,208,465

The accompanying notes are an integral part of these 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,	
	2011	2010	**2011**	2010
Deficit, beginning of period	**$ (25,880,361)**	$ (21,284,137)	**$ (23,865,229)**	$ (20,623,709)
Net loss for the period	**(13,091,850)**	(898,797)	**(15,106,982)**	(1,559,225)
Deficit, end of the period	**$ (38,972,211)**	$ (22,182,934)	**$ (38,972,211)**	$ (22,182,934)
Accumulated other comprehensive loss, beginning of the period	**$ (1,412,376)**	$ (860,539)	**$ (987,772)**	$ (721,961)
Cumulative translation adjustment for the period	**(319,449)**	(249,714)	**(744,053)**	(388,292)
Accumulated other comprehensive loss, end of the period	**$ (1,731,825)**	$ (1,110,253)	**$ (1,731,825)**	$ (1,110,253)

The accompanying notes are an integral part of these 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,	
	2011	2010	**2011**	2010
Cash flows used by operating activities				
Loss from continuing operations for the period	**$ (1,578,026)**	$ (900,695)	**$ (3,554,267)**	$ (1,551,865)
Items not affecting cash:				
Accretion, depletion and depreciation	**17,826**	8,041	**26,390**	17,512
Stock based compensation	**(130,835)**	18,518	**816,093**	34,462
Loss on disposal of asset	**2,848**	117,409	**20,702**	118,467
Unrealized foreign exchange loss (gain)	**133,438**	(104,701)	**168,517**	(267,187)
Other write-downs	**(815)**	(52)	**16,480**	(52)
Unrealized gain on investments	**(745)**	(91,471)	**(3,522)**	(743)
Non-controlling interests	**-**	(13,170)	**-**	(27,592)
	(1,556,309)	(966,121)	**(2,509,607)**	(1,676,998)
Changes in non-cash working capital (Note 13)	**(155,659)**	183,599	**(56,009)**	630,751
Changes from discontinued operations (Note 6)	**(60,424)**	13,527	**(48,176)**	11,865
	(1,772,392)	(768,995)	**(2,613,792)**	(1,034,382)
Cash flows from investing activities				
Proceeds from sale of investments	**-**	70,000	**-**	70,000
Acquisition of subsidiary	**-**	20,953	**-**	(31,430)
Oil and gas property expenditures	**(6,817,110)**	(1,377,448)	**(9,187,950)**	(2,370,243)
Property and equipment acquired	**(32,693)**	(1,750)	**(31,603)**	(88,227)
Short term investments	**6,307,875**	1,500,000	**6,307,875**	4,810,500
Changes in non-cash working capital (Note 13)	**(74,836)**	551,418	**(144,227)**	431,772
Changes from discontinued operations (Note 6)	**598,560**	1,398	**575,391**	(11,949)
	(18,204)	764,571	**(2,480,514)**	2,810,423
Cash flows from financing activities				
Proceeds from share issue costs	**4,666**	-	**4,666**	-
Shares issued on exercise of options	**175,273**	14,649	**282,784**	43,500
	179,939	14,649	**287,450**	43,500
Foreign exchange loss on opening cash and cash equivalents	**-**	(1,178)	**(303)**	(1,719)
Net increase (decrease) in cash and cash equivalents	**(1,610,657)**	9,047	**(4,807,159)**	1,817,822
Cash and cash equivalents, beginning of period	**6,839,603**	4,714,072	**10,036,105**	2,905,297
Cash and cash equivalents, end of period (Note 13)	**$ 5,228,946**	$ 4,723,119	**$ 5,228,946**	$ 4,723,119

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 and changed its name to "LNG Energy Ltd." on March 28, 2008. The Company's common shares began trading under the 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 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, 2011, the Company had working capital of $12,224,134 (September 30, 2010 - $18,347,416) and incurred a net loss of $15,106,982 for the six months ended March 31, 2011 (six months ended March 31, 2010 - $1,559,225). The Company will have to raise additional capital to fund its work commitments and fund announced acquisition (see Note 15). 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 planned activities 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 application which are consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended September 30, 2010, 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, 2011 and the results of operations and cash flows for the three and six months ended March 31, 2011 and 2010. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended September 30, 2010.

(in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES

a) 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 October 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) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board 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 assess the impact of the conversion of Canadian GAAP to IFRS.

5. ACQUISITION

Joyce Podlaise and Maryani Podlaise LLC acquisition

On February 17, 2011, the Company, through its wholly owned subsidiary, Kaynes Capital Sarl (“Kaynes”), acquired a 50% interest in Joyce Podlaise LLC ("Joyce") and a 50% interest in Maryani Podlaise LLC ("Maryani") for a total purchase price of US$4,000,000 (Cdn$3,878,400). Joyce and Maryani both hold 100% interests in two concessions in Poland of approximately 180,000 net acres to the Company.

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

Oil and gas properties	$	4,884,679
Future income taxes		(976,936)
Current assets less current liabilities		(29,343)
Total net assets acquired	$	3,878,400
Consideration	$	3,878,400
Total consideration paid	$	3,878,400

(in Canadian dollars)

6. DISCONTINUED OPERATION

Sale of Oklahoma assets

Subsequent to March 31, 2011, the Company completed the sale of all of its working interest of its oil and gas leases in Oklahoma for cash proceeds of $4,960,188 (US$5,207,000). With regards to the Company's oil and gas leases in Alabama, as part of an exploration agreement with BNK Petroleum Inc., that company had drilled two uneconomic wells that are to be plugged and abandoned. There are no further plans to develop these leases. As such, all of the Company's US assets were written down to the fair value of $4,960,188 resulting in an impairment loss of $11,494,103. An asset retirement obligation cost for the Oklahoma assets totalling $3,067 and $33,000 for Alabama assets has been reclassified as current liabilities.

The following table presents summarized financial information related to the discontinued operation of the US assets:

Statement of operations	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Oil and gas revenue	$ 40,341	$ 73,549	$ 76,601	$ 147,694
Less: Royalties expense	(7,415)	(10,693)	(14,263)	(25,266)
	32,926	62,856	62,338	122,428
Operating and exploration	5,996	22,747	13,853	33,348
Accretion and depletion	21,487	21,599	46,955	35,296
General and administration	630	697	845	1,109
Foreign exchange loss	9,754	9,947	22,669	21,338
Impairment loss	11,494,103	-	11,494,103	-
Professional fees	14,780	5,968	36,528	38,697
Total expenses	11,546,750	60,958	11,614,953	129,788
Income tax	-	-	100	-
Income (loss) from discontinued operations	$ (11,513,824)	$ 1,898	$ (11,552,715)	$ (7,360)

Statement of cash flows	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Cash from (used in) operating activities	$ (60,424)	$ 13,527	$ (48,176)	$ 11,865
Cash from (used in) investing activities	598,560	1,398	575,391	(11,949)
Cash from (used in) discontinued operations	$ 538,136	$ 14,925	$ 527,215	$ (84)

(in Canadian dollars)

7. INVESTMENTS

	March 31, 2011	September 30, 2010
Sterling West Management Ltd.	$ 2	$ 2
Cheetah Oil and Gas Ltd.	9,696	6,174
	$ 9,698	$ 6,176

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.

At March 31, 2011 and September 30, 2010, the Company owned 100,000 common shares of Cheetah Oil and Gas Ltd. These shares are designated as held for trading and are fair valued at the end of each period. On March 31, 2011, these shares were revalued at $0.10 resulting in an unrealized gain of $745 (March 31, 2010 - unrealized loss of $2,311).

8. PROPERTY AND EQUIPMENT

	March 31, 2011		
	COST	ACCUMULATED AMORTIZATION, DEPLETION, DEPRECIATION & IMPAIRMENT	NET BOOK VALUE
Oil and gas properties:			
Papua New Guinea	$ 34,181,098	$ 820,304	$ 33,360,794
Poland	7,588,578	-	7,588,578
Vehicles	105,152	55,597	49,555
Office furnitures and equipment	67,361	20,193	47,168
Computer equipment	38,771	24,100	14,671
Computer software	7,091	1,646	5,445
Technical license	112,403	14,633	97,770
	$ 42,100,454	$ 936,473	$ 41,163,981
Asset held for sale			
United States (Note 6)	16,700,492	11,740,304	4,960,188
	$ 58,800,946	$ 12,676,777	$ 46,124,169

(in Canadian dollars)

8. PROPERTY AND EQUIPMENT (Continued)

	September 30, 2010		
	COST	**ACCUMULATED AMORTIZATION, DEPLETION, DEPRECIATION & IMPAIRMENT**	**NET BOOK VALUE**
Oil and gas properties:			
Papua New Guinea	$ 30,873,351	$ 820,304	$ 30,053,047
Poland	1,026,824	-	1,026,824
United States	19,949,608	201,062	19,748,546
Vehicles	100,875	70,210	30,665
Office furnitures and equipment	85,340	23,800	61,540
Computer equipment	67,787	43,440	24,347
Computer software	5,883	3,195	2,688
Technical license	112,403	9,487	102,916
	$ 52,222,071	$ 1,171,498	$ 51,050,573

Papua New Guinea

The Company holds a 100% working interests in four Petroleum Prospecting Licenses (PPL) and one Petroleum Retention License (PRL) through permits received from the Minister of Petroleum and Energy for Papua New Guinea. These PPL licenses have a six year term 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 also 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 asset is considered unproved at March 31, 2011. No production has occurred and no depletion has been recorded.

During the three and six months ended March 31, 2011, $139,541 and $148,303 respectively of stock based compensation expense and $913,611 and $1,525,310 respectively of general and administrative costs were capitalized. During the three and six months ended March 31, 2010, $82,817 of stock based compensation expense and $165,000 of general and administrative costs were capitalized.

8. PROPERTY AND EQUIPMENT (Continued)

Poland

In October 2009, LNG exercised an option to participate in a 20% net interest in an exploration project in Poland. The Company is participating in three concessions (Slupsk, Starogard and Slawno). The other partners are BNK Petroleum Inc. ("BNK"), Sorgenia E&P S.p.A., and Rohol-Aufsuchungs Aktiengesellschaft. As at March 31, 2011, the proportionate consolidation of the Company's 20% in our Poland joint venture increased oil and gas properties by $2,633,661. These three concessions have license commitments that will require the Company to participate pro-rata for its 20% interest for the drilling and testing of two exploration wells per concession before the end of June 2013.

In February 2011, the Company's wholly owned subsidiary, Kaynes acquired a 50% interest in two oil and gas concessions (Ilawa and Wegrow) for $3,878,400 (US$4,000,000) (Note 5). As at March 31, 2011, the proportionate consolidation of the Company's 50% working interest increased oil and gas properties by an additional $4,954,917. No general and administrative or stock based compensation costs were capitalized in Poland.

United States

The Company, through its subsidiary, holds interests in oil and gas properties in the United States. In determining the Company's depletion for the period ended March 31, 2011, the Company excluded the cost of unproved properties of $Nil (September 30, 2010 - $3,818,989) from the depletion calculation. During the three and six months ended March 31, 2011 no general and administrative or stock based compensation costs were capitalized (March 31, 2010 - $nil).

BNK Petroleum Inc. ("BNK") has entered into an Exploration Agreement with BWB in regard to the Black Warrior acreage in Alabama/Mississippi whereby BNK can earn up to a 50% working interest in a portion or all of the Black Warrior acreage by drilling a series of test wells on identified prospects. The exploration program requires BNK to pay for BWB's share of costs in an eight well test program. BNK is committed to incur expenditures of approximately US$10 million in the eight well program in order to earn the 50% working interest.

In May 2011, through its subsidiary, completed the sale all of its working interest in approximately 2,900 net acres of oil and gas lease holdings in Carter County, Oklahoma for $4,960,188 (US$5,207,000) in cash. With regards to the Black Warrior acreage, BNK, our joint venture partner, had drilled two uneconomic wells that are to be plugged and abandoned. BNK has decided not to drill the third well and has paid liquidated damages of $500,000 in favour of BWB. There are no further plans to develop these leases. As a result, all of the Company's oil and gas properties in the United States have been written down to a carrying value of $4,960,188 (US$5,207,000) during this quarter ended March 31, 2011 (Note 6).

(in Canadian dollars)

9. JOINT VENTURES

Saponis Investments Sp z.o.o.

In October 2009, the Company, through its subsidiary, Kaynes Capital S.a.r.l. (“Kaynes”), exercised its option to participate in a 20% net interest in Saponis Investments SP z.o.o. (“Saponis”). Saponis holds 3 oil and gas concessions in Poland: Starogard, Slupsk and Slawno. The original work commitment under these concessions is comprised of additional core analysis, geological work and spudding of one well during the first 18 months from the date of grant on each concession. A second well also has to be drilled on each concession.

The terms and conditions of participation requires the Company to fund 20% of all costs related to the concessions. The other partners are BNK Petroleum Inc. (“BNK”), Sorgenia E&P S.p.A., and Rohol-Aufsuchungs Aktiengesellschaft. The Company's net interest in Saponis is accounted for on a proportionate consolidation basis.

For the three and six months ended March 31, 2011 and September 30, 2010, the Company's net share of amounts contributed from the joint venture was as follows:

	March 31, 2011	September 30, 2010
Balance sheet:		
Cash and cash equivalents	$ 647,911	$ 26,524
Current receivables	439,999	82,603
Prepaids	72,106	-
Oil and gas properties	2,633,661	1,026,624
Accounts payable	(941,720)	(818,561)
Asset retirement obligation	59,678	-
Net contribution from Joint Venture	$ 2,911,635	$ 317,190

	Three Months Ending March 31		Six Months Ending March 31	
	2011	2010	2011	2010
Income statement:				
Interest income	$ -	$ -	$ 15,064	$ -
Foreign exchange loss	(101,715)	-	(100,522)	-
Expenses	(72,268)	-	(114,834)	-
	(173,983)	$ -	(200,292)	$ -

	Three Months Ending March 31		Six Months Ending March 31	
	2011	2010	2011	2010
Cash flows:				
Operating activities	$ (1,870,397)	$ -	$ (607,156)	$ -
Investing activities	1,775,963	-	1,228,543	-
Change in cash position	(94,434)	-	621,387	-
Cash and cash equivalents, beginning of period	742,345	-	26,524	-
Cash and cash equivalents, end of period	$ 647,911	$ -	$ 647,911	$ -

(in Canadian dollars)

9. JOINT VENTURES (Continued)

Joyce Podlaise, LLC and Maryani Podlaise, LLC

In February 2011, the Company, through its subsidiary, Kaynes, acquired a 50% interest in Joyce Podlaise LLC ("Joyce") and a 50% interest in Maryani Podlaise LLC ("Maryani") for a total purchase price of US$4,000,000 (Cdn$3,878,400).

The terms and conditions of participation requires the Company to fund 50% of all costs related to the concessions. The other partner is Realm Energy International Corp ("Realm"). The Company's net interest in Joyce and Maryani is accounted for on a proportionate consolidation basis.

For the three and six months ended March 31, 2011 and September 30, 2010, the Company's net share of amounts contributed from the joint venture was as follows:

	March 31, 2011	September 30, 2010
Balance sheet:		
Cash and cash equivalents	$ 7,620	$ -
Current receivables	5,480	-
Oil and gas properties	4,942,167	-
Accounts payable	(3,059)	-
Loan payable	(96,872)	
Future income tax liability	(976,936)	-
Net contribution from Joint Venture	$ 3,878,400	$ -

	Three Months Ending March 31		Six Months Ending March 31	
	2011	2010	2011	2010
Income statement:				
Interest income	$ -	$ -	$ -	$ -
Foreign exchange loss	(331)	-	(331)	-
Expenses	(12,289)	-	(12,289)	-
	(12,620)	$ -	(12,620)	$ -

	Three Months Ending March 31		Six Months Ending March 31	
	2011	2010	2011	2010
Cash flows:				
Operating activities	$ (2,787)	$ -	$ (2,787)	$ -
Investing activities	6,335	-	6,335	-
Change in cash position	3,548	-	3,548	-
Cash and cash equivalents, beginning of period	4,072	-	4,072	-
Cash and cash equivalents, end of period	$ 7,620	$ -	$ 7,620	$ -

(in Canadian dollars)

10. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with asset retirement costs of the Wytowno and Lebork well in Poland and the Berwyn well in the US:

		March 31, 2011		September 30, 2010
Balance, beginning of period	$	3,119	$	2,893
Addition		59,678		-
Current asset retirement obligation for US asset held for sale		(36,067)		-
Change in estimate		(184)		(117)
Accretion		132		343
Balance, end of period	$	26,678	$	3,119

The calculation was assessed using a risk-free rate of 10.70% and an assumed inflation rate of 1.025% per annum. The undiscounted cash flow required to settle the obligation for the Wytowno and Lebork well in Poland is approximately $120,122 with an abandonment date of approximately 15 years.

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, 2009	144,095,965	$	55,738,855	$	7,380,373
Stock based compensation	-		-		153,339
Shares issued on acquisition	32,000,000		9,280,000		-
Share issue costs	-		(1,559,921)		-
Shares issued upon exercise of special warrants	80,403,400		20,100,850		-
Shares issued upon exercise of options	735,000		473,739		(378,339)
Balance September 30, 2010	257,234,365	$	84,033,523	$	7,155,373
Stock based compensation	-		-		964,396
Share issue costs	-		4,667		-
Shares issued upon exercise of options	600,000		282,784		(141,159)
Balance March 31, 2011	**257,834,365**	**$**	**84,320,974**	**$**	**7,978,610**

(in Canadian dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

c) Stock Options

The following table summarizes information about stock option transactions:

	Number of Options	Average Exercise Price
Balance, September 30, 2009	13,995,000	$0.45
Granted	300,000	$0.30
Exercised	(735,000)	$0.13
Forfeited	(165,000)	$0.23
Balance, September 30, 2010	13,395,000	$0.46
Granted	3,000,000	$0.33
Exercised	(600,000)	$0.24
Balance, March 31, 2011	**15,795,000**	**$0.48**

The following table summarizes information about the stock options outstanding at March 31, 2011:

Exercise Price	Outstanding Options	Options Exercisable	Expiry Date
$0.10	200,000	200,000	November 27, 2011
$0.67	271,000	271,000	September 20, 2012
$0.67	379,000	379,000	September 21, 2012
$0.58	6,000,000	6,000,000	November 27, 2012
$0.56	750,000	750,000	February 1, 2013
$0.58	1,500,000	1,500,000	February 1, 2013
$0.275	1,565,000	1,280,000	May 1, 2013
$0.19	1,830,000	1,830,000	May 14, 2014
$0.30	300,000	300,000	January 14, 2015
$0.33	2,500,000	2,500,000	November 4, 2015
$0.35	500,000	500,000	November 23, 2015
	15,795,000	15,510,000	

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:

	At March 31, 2011	2010
Risk-free interest rate	1.68%	3.14%
Expected life	2.1 years	5 years
Expected volatility	112%	129%
Expected dividends	Nil	Nil
Average value ($ per option)	0.48	0.26

(in Canadian dollars)

12. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions and balances with related parties for the three and six month period ended March 31, 2011 and 2010 for amounts paid to companies controlled by directors and officers of the Company were as follows:

	Three months ended March 31,		Six Months Ended March 31,	
	2011	**2010**	**2011**	**2010**
Director fees paid to independent directors of the Company	**$ 8,000**	$ 8,000	**$ 16,000**	$ 18,000

During the three and six months ended March 31, 2011, a total of $264 and $2,401 respectively was paid to a director of a subsidiary for other professional services performed not related to director fees (three and six months ended March 31, 2010 - $141,499). These expenditures are included in professional fees and were measured at the exchange amount, which are amounts agreed upon by the transacting parties.

13. 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,	
	2011	**2010**	**2011**	**2010**
Amounts receivable	**$ (309,929)**	$ 45,508	**$ (324,746)**	$ (102,870)
Prepaid expenses, advances and other term deposits	**(99,611)**	14,090	**(108,370)**	(4,858)
Accounts payable and accrued liabilities	**179,045**	675,419	**232,880**	1,170,251
Change in non-cash working capital	**$ (230,495)**	$ 735,017	**$ (200,236)**	$ 1,062,523
Relating to:				
Operating activities	**(155,659)**	183,599	**(56,009)**	630,751
Investing activities	**(74,836)**	551,418	**(144,227)**	431,772
Change in non-cash working capital	**$ (230,495)**	$ 735,017	**$ (200,236)**	$ 1,062,523

(in Canadian dollars)

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (Continued)

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

	March 31, 2011	September 30, 2010
Cash	$ 3,428,808	$ 198,613
Cash equivalents	1,800,138	9,837,492
	$ 5,228,946	$ 10,036,105

Cash and cash equivalents are classified as "held for trading" and are measured at their 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 1.30% per annum with no maturity date (September 30, 2010 – 0.80% per annum).

14. INCOME TAXES

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 allowed for and do not offset future income tax liabilities.

15. 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.

	Total	Level 1	Level 2	Level 3
Short term investments	$ 2,707,875	2,707,875	-	-
Investments	9,698	9,698	-	-
	$ 2,717,573	$ 2,717,573	$ -	$ -

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 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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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, Polish zloty 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.

The Company's operations in the U.S. and in Poland 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, 2011, the Company had short term investments in GICs totaling $2,707,875, bearing interest at a fixed rate of 1.30% per annum with the maturity date of December 28, 2011 (September 30, 2010 **-** $9,015,750 bearing interest at fixed rates of 1.15% 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.

(in Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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, 2011, total managed capital was $51,595,548 (September 30, 2010 - $66,335,895), comprised of share capital of $84,320,974 (September 30, 2010 - $84,033,523), contributed surplus of $7,978,610 (September 30, 2010 - $7,155,373), other comprehensive loss of $1,731,825 (September 30, 2010 - $987,772) and a deficit of $38,972,211 (September 30, 2010 - $23,865,229).

16. 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:

As at March 31, 2011	Papua New Guinea	United States	Poland	Canada	Total
Current assets	$ 1,469,083	$ 5,590,865	$ 667,903	$ 6,328,619	$ 14,056,470
Investments	-	-	-	9,698	9,698
Property and equipment	33,472,892	-	7,588,578	102,511	41,163,981
	$ 34,941,975	$ 5,590,865	$ 8,256,481	$ 6,440,828	$ 55,230,149

Three Months Ended March 31, 2011	Papua New Guinea	United States	Poland	Canada	Total
Oil and gas revenue	$ -	$ 40,341	$ -	$ -	$ 40,341

Six Months Ended March 31, 2011	Papua New Guinea	United States	Poland	Canada	Total
Oil and gas revenue	$ -	$ 76,601	$ -	$ -	$ 76,601

(in Canadian dollars)

16. SEGMENT INFORMATION (Continued)

As at September 30, 2010	Papua New Guinea	United States	Poland	Canada	Total
Current assets	$ 418,504	$ 156,547	$ 109,127	$ 19,105,386	$ 19,789,564
Investments	-	-	-	6,176	6,176
Property and equipment	30,165,965	19,748,546	1,026,824	109,238	51,050,573
	$ 30,584,469	$ 19,905,093	$ 1,135,951	$ 19,220,800	$ 70,846,313

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

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

17. SUBSEQUENT EVENTS

On April 19, 2011, the Company granted 7,180,000 stock options to directors, officers and consultants of the Company. These options are exercisable over 5 years at an exercise price of $0.59 per share.

On May 3, 2011 the Company's wholly owned subsidiary, BWB, completed the sale of all of its working interest of approximately 2,900 net acres of oil and gas leases in Oklahoma, USA for cash proceeds of $4,960,188 (US$5,207,000).

On May 5, 2011, the Company issued 75,000 shares for the exercise of stock options for total proceeds of $20,625.