CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended December 31, 2012 and 2011

(in Canadian dollars)
(Unaudited)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

LNG Energy Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(in Canadian dollars, unaudited)		As at **December 31, 2012**		September 30, 2012
ASSETS				
Current				
Cash and cash equivalents	**$**	**500,625**	$	798,327
Amounts receivable		**249,486**		337,149
Prepaid expenses and other deposits		**403,167**		452,267
		1,153,278		1,587,743
Exploration and evaluation assets (Note 4)		**24,151,549**		23,217,868
Property, plant and equipment (Note 5)		**183,941**		194,732
Total Assets	**$**	**25,488,768**	$	25,000,343
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**1,349,006**	$	947,764
Loans payable (Note 8)		**5,271,339**		5,122,848
		6,620,345		6,070,612
Decommissioning obligations (Note 7)		**42,517**		38,186
Total Liabilities		**6,662,862**		6,108,798
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**103,211,241**		103,211,241
Contributed surplus		**12,495,511**		12,397,169
Accumulated other comprehensive income		**8,191,343**		7,455,396
Deficit		**(105,072,189)**		(104,172,261)
Total Shareholders' Equity		**18,825,906**		18,891,545
Total Liabilities and Shareholders' Equity	**$**	**25,488,768**	$	25,000,343

Going Concern (Note 2); Subsequent events (Note 15)

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on March 1, 2013 and are signed on its behalf by:

(Signed) "Paul Larkin"
Director

(Signed) "David Cohen"
Director

See accompanying notes to these condensed consolidated interim financial statements.

LNG Energy Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(in Canadian dollars, unaudited)	For the Three Months Ended December 31, 2012	2011
Expenses		
Depletion and depreciation	**$ 9,721**	$ 11,095
General and administrative expenses	**357,774**	610,438
Professional fees	**379,509**	521,986
Stock based compensation (Note 9)	**61,331**	10,663
Travel and business development	**51,178**	183,471
Unrealized loss on investment	**-**	2,190
	(859,513)	(1,339,843)
Finance income (expenses):		
Accretion expense	**(4,697)**	(113)
Interest expense (Note 8)	**(75,307)**	(720)
Write-down of assets (Note 5)	**(1,383)**	-
Foreign exchange gain (loss)	**38,119**	(189,745)
Interest income	**2,853**	1,328
	(40,415)	(189,250)
Loss from continuing operations	**$ (899,928)**	$ (1,529,093)
Loss from discontinued operations	**-**	(37,541)
Net loss for the period	**$ (899,928)**	$ (1,566,634)
Other comprehensive income		
Foreign currency translation gain	**735,947**	2,013,192
Comprehensive loss for the period	**$ (163,981)**	$ 446,558
Loss per share: (Note 9)		
Basic and diluted from continuing operations	**(0.00)**	(0.00)
Basic and diluted from discontinued operations	**(0.00)**	(0.00)
Basic and diluted	**(0.00)**	(0.00)

See accompanying notes to these condensed consolidated interim financial statements.

LNG Energy Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in Canadian dollars, unaudited)	Number of shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, September 30, 2011	**338,519,365**	**$ 103,055,103**	**$ 12,073,436**	**$ (44,420,022)**	**$ 4,984,841**	**$ 75,693,358**
Stock based compensation	-	-	168,178	-	-	168,178
Shares issued upon exercise of options	200,000	155,371	(135,371)	-	-	20,000
Share issue costs	-	(66,300)	-	-	-	(66,300)
Net loss for the period	-	-	-	(1,566,634)	-	(1,566,634)
Foreign currency translation	-	-	-	-	2,013,192	2,013,192
Balance, December 31, 2011	**338,719,365**	**$ 103,144,174**	**$ 12,106,243**	**$ (45,986,656)**	**$ 6,998,033**	**$ 76,261,794**
Stock based compensation	-	-	290,926	-	-	290,926
Share issue costs	-	67,067	-	-	-	67,067
Net loss for the period	-	-	-	(58,185,605)	-	(58,185,605)
Foreign currency translation	-	-	-	-	457,363	457,363
Balance, September 30, 2012	**338,719,365**	**$ 103,211,241**	**$ 12,397,169**	**$ (104,172,261)**	**$ 7,455,396**	**$ 18,891,545**
Stock based compensation	-	-	98,342	-	-	98,342
Net loss for the period	-	-	-	(899,928)	-	(899,928)
Foreign currency translation	-	-	-	-	735,947	735,947
Balance, December 31, 2012	**338,719,365**	**$ 103,211,241**	**$ 12,495,511**	**$ (105,072,189)**	**$ 8,191,343**	**$ 18,825,906**

See accompanying notes to these condensed consolidated interim financial statements.

LNG Energy Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	For the Three Months Ended December 31,	
(in Canadian dollars, unaudited)	**2012**	2011
Operating activities:		
Net loss	**$ (899,928)**	$ (1,566,634)
Items not affecting cash:		
Depletion and depreciation	**9,721**	11,095
Accretion expense	**4,697**	113
Stock based compensation (Note 9)	**61,331**	10,663
Interest expense (Note 8)	**75,307**	-
Unrealized foreign exchange loss (gain)	**(19,608)**	143,027
Unrealized loss on investment	**-**	2,190
Write-down of assets (Note 5)	**1,383**	-
	(767,097)	(1,399,546)
Changes in non-cash working capital (Notes 11)	**363,084**	552,512
	(404,013)	(847,034)
Financing activities:		
Proceeds from stock option exercises	**-**	20,000
	-	20,000
Investing activities:		
Exploration and evaluation expenditures	**(146,570)**	(11,339,801)
Change in non-cash working capital (Note 11)	**255,284**	(3,607,241)
	108,714	(14,947,042)
Foreign exchange effect on cash and cash equivalents	**(2,403)**	(160,574)
Net decrease in cash and cash equivalents	**(297,702)**	(15,934,650)
Cash and cash equivalents, beginning of period	**798,327**	20,510,667
Cash and cash equivalents, end of period	**$ 500,625**	$ 4,576,017

See accompanying notes to these condensed consolidated interim financial statements.

1. NATURE OF OPERATIONS

LNG Energy Ltd. (the “Company” or "LNG") 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 activities on its oil and gas properties in Papua New Guinea, Poland and Bulgaria. The address of LNG's registered office is 250, 1075 West Georgia Street, Vancouver, British Columbia.

2. BASIS OF PRESENTATION

a) Statement of compliance

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on March 1, 2013.

b) Basis of measurement

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies.

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change effects that year only, or in the year of the change and future years, if the change affects both.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in Note 4 of the Company’s audited consolidated financial statements for the year ended September 30, 2012.

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, and are presented in Canadian dollars, unless otherwise indicated.

2. BASIS OF PRESENTATION (continued)

c) Going concern

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which presumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company is in the exploration stage and as such, the Company does not generate cash inflows from operations. To date, expenditures have been financed by way of equity and debt issuances. The recoverability of the Company's assets is uncertain and dependent upon achieving significant commercial production.

During the three months ended December 31, 2012, the Company used cash in operations totaling $404,013 and incurred a net loss totaling $899,928. As at December 31, 2012, the Company had negative working capital of $(5,467,067). The Company's working capital is not sufficient to meet either its ongoing operations or its oil and gas work program commitments. As such, the Company requires significant immediate funding in order to meet its working capital obligations and to continue to fund its oil and gas work program commitments. In the longer term, the Company's ability to continue as a going concern will be dependent upon the ability to obtain funding to finance ongoing exploration, development and production activities, the discovery of economically recoverable reserves and the achievement of profitable operations.

Management believes the going concern assumption to be appropriate for these condensed consolidated interim financial statements. The Company is considering various alternatives to remedy its existing liquidity shortfall including but not limited to the sale of assets, debt or equity issuances and/or farm-out arrangements. There is no assurance that the Company will be successful in these endeavors or in securing the financing necessary and significant doubt exists about the Company's ability to continue as a going concern. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities and commitments (as described in Note 4), these condensed consolidated interim financial statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

3. SIGNIFICANT ACCOUNTING PRINCIPLES

The preparation of these unaudited condensed consolidated interim financial statements is based on accounting policies and practices consistent with those used in the preparation of the audited consolidated financial statements as at September 30, 2012. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ending September 30, 2012.

a) Consolidation principles

Assets, liabilities, revenues and expenses of the subsidiaries are recognized in accordance with the Company's accounting policies. Intercompany transactions are eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

b) Details of the group

i) Subsidiaries and jointly controlled entities

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

These financial statements presented are those of LNG Energy Ltd. ("LNG") and the financial statements of its 100% owned subsidiaries LNG Energy US Inc. ("LNG US"), LNG Energy (BC) Ltd. ("LNG BC"), Kunagu Real Estate S.A. ("Kunagu"), Kaynes Capital S.a.r.l. ("Kaynes"), Telemu No. 18 Limited ("Telemu"), LNG Energy (PNG) Limited ("LNG PNG"), LNG Energy No. 2 Limited ("LNG No. 2), Basin Tishomingo Holdings Inc. ("BTH"), and BWB Exploration LLC ("BWB"). These consolidated financial statements also include a proportionate consolidation of LNG's 50% owned subsidiaries Joyce Podlasie LLC ("Joyce") and Maryani Podlasie LLC ("Maryani") which each own 100% of Joyce Investment Sp. z.o.o. ("Joyce Investments") and Maryani Investments Sp z.o.o. ("Maryani Investments") respectively. Also, Kaynes holds a 20.18% interest in Saponis Investments Sp. z.o.o. ("Saponis") in which the Company also proportionately consolidates. All intercompany balances and transactions have been eliminated on consolidation.

(ii) Jointly controlled operations and jointly controlled assets

Many of the Company’s oil and natural gas activities involve jointly controlled assets. The financial statements include the Company’s share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

c) Future accounting pronouncements

Certain pronouncements have been issued by the IASB, or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after January 1, 2013 or later years.

(i) Effective for annual periods beginning on or after January 1, 2013

IFRS 7 Financial Instruments: Disclosures (effective January 1, 2013).
The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities. The Company is currently assessing the impact that the adoption of these standards may have on its financial statements.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

c) Future accounting pronouncements (continued)

IFRS 10 Consolidated Financial Statements (effective January 1, 2013).
IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee, that is whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities. This standard is applicable for annual periods beginning on or after January 1, 2013 but is available for early adoption so long as IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (2011) and IAS 28 Investments in Associates and Joint Ventures (2011) are also early applied. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

IFRS 11 Joint Arrangements (effective January 1, 2013).
IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets. This standard is applicable for annual periods beginning on or after January 1, 2013 but is available for early adoption so long as IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (2011) and IAS 28 Investments in Associates and Joint Ventures (2011) are also early applied. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities (effective January 1, 2013).
IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. This standard is applicable for annual periods beginning on or after January 1, 2013 but is available for early adoption. IFRS 12 disclosure is encouraged prior to adoption of the standard. This early disclosure does not require the entity to apply IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements (2011) and IAS 28 Investments in Associates and Joint Ventures (2011). The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

IFRS 13 Fair Value Measurement (effective January 1, 2013).
The main provisions of IFRS 13 includes defining fair value, setting out in a single standard framework for measuring fair value, and specifying certain disclosure requirements about fair value measurements. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

c) Future accounting pronouncements (continued)

IAS 27 Separate Financial Statements (2011) (effective January 1, 2013).
The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. These amendments are applicable for annual periods beginning on or after January 1, 2013 but are available for early adoption so long as IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 28 Investments in Associates and Joint Ventures (2011) are also early applied. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

IAS 28 Investments in Associates and Joint Ventures (2011) (effective January 1, 2013).
IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. These amendments are applicable for annual periods beginning on or after January 1, 2013 but are available for early adoption so long as IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 27 Separate Financial Statements (2011) are also early applied. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

(ii) Effective for annual periods beginning on or after January 1, 2014

IAS 32 Financial Instruments: Presentation (effective January 1, 2015).
The amendments to IAS 32 pertained to the application guidance on the offsetting of financial assets and financial liabilities, focused on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts and the unit of account for applying the offsetting requirements. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

IFRS 9, Financial Instruments (effective January 1, 2015).
The standard is the first step in the process to replace IAS 39, Financial instruments: recognition and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39, Financial instruments: recognition and measurement, derecognition of financial assets and financial liabilities. This standard is not applicable until January 1, 2015 but is available for early adoption. The Company is currently assessing the impact that the adoption of IFRS 9 may have on its financial statements.

4. EXPLORATION AND EVALUATION ASSETS

Cost or deemed cost		**Total**
Balance, September 30, 2011	$	60,826,781
Additions		14,303,708
Capitalized stock-based compensation		320,273
Write-down of assets		(54,548,680)
Foreign currency translation		2,315,786
Balance, September 30, 2012	$	23,217,868
Additions		146,570
Capitalized stock-based compensation		37,011
Foreign currency translation		750,100
Balance, December 31, 2012	**$**	**24,151,549**

Papua New Guinea

The Company holds a 100% working interests in four Petroleum Prospecting Licenses (“PPL”) through permits received from the Minister of Petroleum and Energy for Papua New Guinea on November 20, 2008.

The PPL licenses have a six year term along with various work requirements for each license. As required by the licenses, the Company has submitted proposed work programs for years 5 and 6 of the PPLs including the acquisition of a minimum of 100km of seismic as well as the drilling of an exploration well conditional on the seismic results showing a drillable target for PPL 319. The proposed work programs for the other 3 PPLs include various geological studies and seismic reprocessing. The Company has not yet received formal notification on approval of these proposed work programs. A delay or rejection of the proposed work programs may result in an impairment of the costs associated with these 4 PPLs.

The Company also holds a 100% working interest in one Petroleum Retention License (“PRL”). The Company applied for a renewal of PRL 13 and is yet to receive formal notification from the Minister as to the grant of an extension. A delay or rejection of the renewal may result in an impairment of the costs associated with this PRL. The Register maintained by the Department of Petroleum and Energy records PRL 13 as having been extended until January 29, 2015. The current work program includes the acquisition of 10km of seismic data, additional geological work and the further acquisition of seismic or the drilling of a well conditional upon the results of previous elements of the work program.

The licenses 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 government also has a 2% royalty over any oil and natural gas production that may occur with respect to these licenses.

4. EXPLORATION AND EVALUATION ASSETS (continued)

On January 24, 2013, the Company has entered into an investment agreement whereby a third party has acquired 31.5% of the shares of the Company's subsidiary, Telemu, in consideration for funding of US$4,000,000 ($3,932,800) (see Note 15). As a result, the Company reduced the carrying values of its properties in Papua New Guinea and recorded an impairment loss of $46,978,245 during the year ended September 30, 2012.

During the three months ended December 31, 2012, no stock based compensation expense was capitalized (none for the three months ended December 31, 2011). During the three months ended December 31, 2012, $28,179 of general and administrative costs was capitalized ($195,354 for the three months ended December 31, 2011).

Poland

The Company has a 20.18% net working interest in three concessions (Slupsk, Starogard and Slawno) in Poland. The other partners are BNK Petroleum Inc., Sorgenia E&P S.p.A. and Rohol-Aufsuchungs Aktiengesellschaft. The terms of participation require the Company to fund its proportionate 20.18% share of all operational costs. The terms include the drilling, completing and testing of second wells in each of the three concessions by June 2014.

The Company, through its wholly owned subsidiary, Kaynes, has a 50% interest in Joyce and a 50% interest in Maryani. Joyce and Maryani each hold 100% interests in two oil and gas exploration concessions (Ilawa and Wegrow) in Poland.

The terms of both the Ilawa and Wegrow concessions include the requirement to reprocess existing seismic data and the acquisition of 50 km of new 2D seismic in each concession by June 2012. These commitments were fully met. The Wegrow concession terms also include the requirement to drill a well to a depth of 2,750 m by December 2013. In June 2012, the Company filed and received a renewal for the Ilawa concession extending the term to maximum of 5 years. This extension carries a commitment to commence drilling a well in Ilawa no later than June 2014.

If the Company does not fund its proportionate share of expenditures in Poland, the Company’s working interest may be reduced through dilution to the other partners.

During the three months ended December 31, 2012, $37,011 of stock based compensation costs were capitalized in Poland ($157,515 for the three months ended December 31, 2011). $11,342 in general and administrative costs was capitalized during the three months ended December 31, 2012 (None for the three months ended December 31, 2011). Recovery of costs in the Polish properties is uncertain and is dependent upon achieving commercial production or sale.

Bulgaria

In September 2011, the Company entered into a farm-in transaction with a wholly owned subsidiary of TransAtlantic Petroleum Ltd. ("TransAtlantic"), to earn a 50% interest in a future production concession ("Etropole concession") in Bulgaria. LNG is expected to fund up to US$15 million of drilling and completion costs for a 50% undivided interest in the Etropole concession. The application for the Etropole concession has been submitted. The Company has funded a total of US$7,492,122 towards the drilling of a 3,190 m (10,466 ft) exploration well on the A-Lovech exploration license in Bulgaria targeting the Middle Jurassic Etropole formation. The remaining US$7.5 million is expected to be used to drill a second well or for other exploration activities on the Etropole concession after it has been granted.

4. EXPLORATION AND EVALUATION ASSETS (continued)

An additional US$5 million is payable if the Etropole concession is granted and covers not less than an aggregate of 300,000 acres. This 300,000 acre requirement will be reduced by the amount of acreage covered by a separate and adjacent production concession that TransAtlantic has applied for up to a maximum reduction of 100,000 acres, if the production concession is granted prior to the granting of the Etropole concession.

In January 2012, the Bulgarian Parliament enacted legislation, which among other things, bans fracture stimulation in Bulgaria. The Company recorded an impairment loss of $7,570,435 during the year ended September 30, 2012, as this legislation created uncertainty with respect to the ultimate cost recovery of the Company's assets in Bulgaria.

5. PROPERTY, PLANT AND EQUIPMENT

		Total
Cost or deemed cost		
Balance, September 30, 2011	$	340,698
Additions		4,798
Foreign currency translation		56,245
Balance, September 30, 2012	$	401,741
Foreign currency translation		(3,473)
Balance, December 31, 2012	**$**	**398,268**
Accumulated depletion and depreciation		
Balance, September 30, 2011	$	138,794
Depreciation		46,245
Foreign currency translation		21,970
Balance, September 30, 2012	$	207,009
Depreciation		9,721
Write-down of asset		(1,383)
Foreign currency translation		(1,020)
Balance, December 31, 2012	**$**	**214,327**
Net book value		
Balance, September 30, 2011	$	201,904
Balance, September 30, 2012	$	194,732
Balance, December 31, 2012	**$**	**183,941**

6. JOINT VENTURES

Saponis Investments Sp z.o.o.

Saponis holds 3 oil and gas concessions in Poland: Starogard, Slupsk and Slawno. The terms and conditions of participation require the Company to fund 20.18% of all costs related to the concessions. The other partners are 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 months ended December 31, 2012 and 2011 and as at December 31, 2012 and September 30, 2012, the Company's net share of amounts attributed to it by the joint venture was as follows:

	December 31, 2012	September 30, 2012
Balance sheet:		
Cash and cash equivalents	$ 436,905	$ 541,583
Amounts receivable	59,936	87,043
Prepaid expenses, advances and other deposits	24,440	27,831
Exploration and evaluation assets	9,191,530	8,541,017
Accounts payable and accrued liabilities	(175,097)	(248,114)
Decommissioning obligations	(42,517)	(38,186)
	$ 9,495,197	$ 8,911,174

	For the Three Months Ended December 31	
	2012	2011
Income statement:		
Interest income	$ (1,103)	$ (5,362)
Expenses	44,793	142,568
Foreign exchange loss	(245,300)	(170,295)
Net income	$ (201,610)	$ (33,089)

Joyce Podlasie, LLC and Maryani Podlasie, LLC

In February 2011, the Company, through its subsidiary, Kaynes, acquired a 50% interest in Joyce and a 50% interest in Maryani for a total purchase price of US$4,000,000.

The terms and conditions of participation require the Company to fund 50% of all costs related to the concessions. The other partner is San Leon Energy Plc ("San Leon"). The Company's net interest in Joyce and Maryani is accounted for on a proportionate consolidation basis. The Company is the operator for both concessions.

6. JOINT VENTURES (continued)

For the three months ended December 31, 2012 and 2011 and as at December 31, 2012 and September 30, 2012, the Company's net share of amounts attributed to it by the joint venture was as follows:

	December 31, 2012	September 30, 2012
Balance sheet:		
Cash and cash equivalents	$ 20,700	$ 31,289
Amounts receivable	143,394	135,752
Exploration and evaluation assets	900,998	4,676,910
Accounts payable and accrued liabilities	(139,525)	(134,030)
Net contribution from Joint Ventures	$ 925,567	$ 4,709,921

	Three Months Ended December 31, 2012	2011
Income statement:		
Other income	12,904	-
Expenses	-	(20,103)
Net income (loss)	$ 12,904	$ (20,103)

7. DECOMMISSIONING OBLIGATIONS

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, Starogard and Lebork wells in Poland:

	December 31, 2012	September 30, 2012
Balance, beginning of period	$ 38,186	$ 37,820
Change in estimates	(366)	-
Accretion expense	4,697	366
Balance, end of period	$ 42,517	$ 38,186

The undiscounted cash flow required to settle the obligation for the Wytowno, Starogard and Lebork wells in Poland is approximately $179,082 representing the Company’s 20.18% working interest, with an estimated abandonment date of 2026. The calculation was assessed using a risk-free rate of 10.90% and an assumed inflation rate of 1.02% per annum.

8. LOANS PAYABLE

On February 27, 2012, the Company's wholly owned subsidiary, Kaynes, completed non-revolving credit facilities totaling US$5,000,000 ("the Loans"). The Loans are repayable within one year on or before February 27, 2013. Funds drawn under the credit facility are secured against all of the shares of Kaynes. Interest is accrued at a fixed rate of 7% per annum. In the event that Kaynes disposes of certain assets prior to February 27, 2016, Kaynes will be required to pay the lenders a contingent bonus of 12.5% of the proceeds arising from the disposition of such assets. For the three months ended December 31, 2012, the interest expense related to the Loans was $75,307.

On January 24, 2013, an extension to the credit facility was agreed to (See Subsequent Event Note 15).

9. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value.

b) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended December 31, 2012 is 338,719,365 (338,702,972 for the year ended September 30, 2012). The average number of common shares outstanding was not increased for outstanding stock options as the effect would be anti-dilutive.

c) Stock Options

The following table summarizes information about stock option transactions:

	Number of Options	Average Exercise Price
Balance, September 30, 2011	20,450,000	$0.49
Granted	9,065,000	$0.15
Exercised	(200,000)	$0.10
Forfeited	(6,040,000)	$0.44
Balance, September 30, 2012	23,275,000	$0.37
Expired	(3,000,000)	$0.58
Balance, December 31, 2012	20,275,000	$0.37

9. SHARE CAPITAL (continued)

c) Stock Options (continued)

The following table summarizes information about the stock options outstanding at December 31, 2012:

Exercise Price	Outstanding Options	Options Exercisable	Expiry Date
$0.56	750,000	750,000	February 1, 2013
$0.275	1,490,000	1,490,000	May 1, 2013
$0.19	1,260,000	1,260,000	May 14, 2014
$0.35	500,000	500,000	November 23, 2015
$0.59	5,910,000	5,910,000	April 18, 2016
$0.53	1,800,000	1,800,000	June 7, 2016
$0.25	150,000	100,000	October 19, 2016
$0.15	8,415,000	2,805,000	April 24, 2017
	20,275,000	14,615,000	

Assumptions used to value options in the Black-Scholes option-pricing model are as follows:

	April 24, 2012	October 19, 2011
Risk-free interest rate	1.52%	1.40%
Expected life	5 years	5 years
Expected volatility	112%	108%
Expected dividends	Nil	Nil
Average value per option	$0.05	$0.14

A forfeiture rate of 0% (2012 - 12%) is used when recording stock based compensation. This estimate is adjusted to the actual forfeiture rate. The stock based compensation expense for the three months ended December 31, 2012 was $61,331 ($10,663 for three months ended December 31, 2011). The Company capitalized $37,011 of stock compensation expense for the three months ended December 31, 2012 ($157,515 for the three months ended December 31, 2011). This resulted in a change within contributed surplus of $98,342 for the three months ended December 31, 2012 ($168,178 for the three months ended December 31, 2011).

10. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of members of key management personnel during the three months ended December 31, 2012 and 2011 were as follows:

	For the Three Months Ended December 31,	
	2012	2011
Consulting fees	$ 81,226	$ 116,754

Consulting fees relate to amounts paid to the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") and directors.

During the three months ended December 31, 2012, there were $41,008 (Three months ended December 31, 2011 - $Nil) of share-based payments to key management personnel consisting of the CEO, CFO and directors of the Company.

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the three months ended December 31, 2012 and 2011.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Changes in non-cash working capital are as follows:

	For the Year Ended December 31,	
	2012	2011
Amounts receivable	$ 87,663	$ (479,121)
Prepaid expenses, advances and other term deposits	49,100	(128,675)
Accounts payable and accrued liabilities	481,605	(2,446,933)
Change in non-cash working capital	$ 618,368	$ (3,054,729)
Relating to:		
Operating activities	$ 363,084	$ 552,512
Investing activities	255,284	(3,607,241)
Change in non-cash working capital	$ 618,368	$ (3,054,729)

12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans payable.

Fair value of financial assets and liabilities
Fair value has been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The carrying amount for cash, receivables and accounts payable and accrued liabilities on the balance sheet approximate their fair value because of the limited term of these instruments.

The carrying amount for loans payable approximates its fair value as it is classified as a financial liability measured at amortized cost.

Fair value hierarchy
Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

The Company did not have any financial instruments in Level 1, 2 and 3.

Financial risk management objectives and policies
The Company has exposure to the following risks from its use of financial instruments
- Credit risk
- Liquidity and funding risk
- Market risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risk, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in these notes.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The overall objective of the Board is to set policies that seek to reduce as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

12. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash and receivables is believed to be minimal.

Cash consists of cash on deposit in major banks that are believed to be creditworthy.

Receivables are comprised primarily of amounts due from VAT receivables from local government in Poland. The Company does not believe it is exposed to significant credit risk and counterparty risks.

Liquidity and funding risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holding of cash. The Company's cash is invested in business accounts and are available on demand. Funding risk is the risk that the Company may not be able to raise equity financing in a timely manner and on terms acceptable to management. There are no assurances that such financing will be available when, and if, the Company requires additional equity financing. See Note 2.

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments.

The following table summarizes the Company's significant remaining contractual maturities for financial liabilities at December 31, 2012 and September 30, 2012.

Contractual maturity analysis as at December 31, 2012

	Less than 3 months	3 - 12 months	1 - 5 years	Longer than 5 years	Total
Accounts payable	$ 736,583	$ 327,667	$ -	$ -	$ 1,064,250
Accrued liabilities	$ 147,324	$ 137,432	$ -	$ -	$ 284,756
Loans payable	$ -	$ 5,271,339	$ -	$ -	$ 5,271,339

Contractual maturity analysis as at September 30, 2012

	Less than 3 months	3 - 12 months	1 - 5 years	Longer than 5 years	Total
Accounts payable	$ 470,663	$ -	$ -	$ -	$ 470,663
Accrued liabilities	$ 133,227	$ 343,874	$ -	$ -	$ 477,101
Loans payable	$ -	$ 5,122,848	$ -	$ -	$ 5,122,848

12. FINANCIAL INSTRUMENTS (continued)

Market risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. While the Company manages 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.

a. Interest rate risk

The Company has minimal exposure to interest rate fluctuations on its cash and short term investment balances due to current low market interest rates. Based on 2013 cash balances, a 1% increase or decrease in the prime interest rates would result in approximately a $5,000 increase or decrease in the Company's after-tax net earnings and comprehensive income.

b. Foreign currency risk

The Company's exploration expenditures, certain acquisition costs and other operating expenses are denominated in US dollars, Papua New Guinea kina and Polish zloty. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian dollar and the US dollars, Papua New Guinea kina and Polish zloty. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

The Company is exposed to currency risk though the following financial assets and liabilities denominated in currencies other than the Canadian dollar at December 31, 2012 and September 30, 2012:

December 31, 2012	US Dollars	PNG Kina	Polish Zloty	Euro
Cash	$ 84,829	$ 21,672	$ 389,294	$ 26,537
Amounts receivable	-	15,186	203,383	-
Deposits	-	11,227	5,926	-
Accounts payable and accrued liabilities	(207,951)	(219,501)	(345,620)	(129,239)
	$ (123,122)	$ (171,416)	$ 252,983	$ (102,702)

September 30, 2012	US Dollars	PNG Kina	Polish Zloty	Euro
Cash	$ 123,626	$ 21,674	$ 548,671	$ 97,221
Amounts receivable	57,763	27,001	221,702	-
Deposits	-	10,870	5,620	-
Accounts payable and accrued liabilities	(14,131)	(195,374)	(387,467)	-
	$ 167,258	$ (135,829)	$ 388,526	$ 97,221

13. CAPITAL MANAGEMENT

The Company manages, as capital, the components of shareholders' equity. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern in order to explore its oil and gas interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms, option its oil and gas properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, borrow, acquire or dispose of assets.

The Company's policy is to invest its cash in highly liquid, short term, interest-bearing investments with maturities of a year or less from the date of acquisition. The Company is not subject to externally imposed capital requirements. The Company is currently reviewing alternatives to remedy its shortfall in capital to meet its ongoing obligations (see Note 2).

14. SEGMENT INFORMATION

Geographic Information:

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

As at December 31, 2012	**Papua New Guinea**	**Poland**	**Canada**	**Total**
Current assets	$ 343,967	$ 704,464	$ 104,847	$ 1,153,278
Explorationa and evaluation assets	8,806,974	15,344,575	-	24,151,549
Property, plant and equipment	95,436	-	88,505	183,941
	$ 9,246,377	$ 16,049,039	$ 193,352	$ 25,488,768

As at September 30, 2012	**Papua New Guinea**	**Poland**	**Canada**	**Total**
Current assets	$ 399,540	$ 888,165	$ 300,038	$ 1,587,743
Exploration and evaluation assets	8,644,595	14,573,273	-	23,217,868
Property, plant and equipment	101,808	-	92,924	194,732
	$ 9,145,943	$ 15,461,438	$ 392,962	$ 25,000,343

15. SUBSEQUENT EVENTS

a) On January 24, 2013, the Company entered into an investment agreement with EERL Holdings (BVI) Ltd. (“EERL”) under which EERL contributed US$4,000,000 towards a 22 km 2D seismic program as well as past costs in Telemu’s PPL 319 in Papua New Guinea for a 31.5% equity interest in Telemu. EERL is a British Virgin Islands company that is owned 50% by Enterprise Energy Ltd. (“Enterprise”) and 50% by an undisclosed third party. There is a common director between the Company and Enterprise.

b) On January 24, 2013, with regards to the credit facilities that LNG's subsidiary, Kaynes Capital S.á.r.l. had entered into on February 27, 2012, there have been amendments to extend the maturity date from the first anniversary to the third anniversary. The Credit Agreement has been further amended to increase the contingency bonus payments from 3.125% to 6.25% and 9.375% to 18.75% for the US$1.25 million and US$3.75 million portions of the facilities respectively.

c) On February 1, 2013, 750,000 stock options with an exercise price of $0.56 expired without exercise.