



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three & Nine Months Ended June 30, 2013 and 2012

**(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)	June 30, 2013	As at September 30, 2012
ASSETS		
Current		
Cash and cash equivalents	\$ 4,278,272	\$ 798,327
Amounts receivable	264,361	337,149
Prepaid expenses and other deposits	378,065	452,267
	4,920,698	1,587,743
Exploration and evaluation assets (Note 4)	19,455,431	23,217,868
Property, plant and equipment (Note 5)	166,094	194,732
Total Assets	\$ 24,542,223	\$ 25,000,343
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 999,605	\$ 947,764
Loans payable (Note 8b)	185,740	-
	1,185,345	947,764
Loans payable (Note 8a)	5,770,552	5,122,848
Decommissioning obligations (Note 7)	56,402	38,186
Total Liabilities	7,012,299	6,108,798
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	103,211,241	103,211,241
Non-controlling interest (Notes 4 and 10)	1,293,640	-
Contributed surplus	12,559,032	12,397,169
Accumulated other comprehensive income	8,121,001	7,455,396
Deficit	(107,654,990)	(104,172,261)
Total Shareholders' Equity	17,529,924	18,891,545
Total Liabilities and Shareholders' Equity	\$ 24,542,223	\$ 25,000,343

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

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 June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
Expenses				
Depletion and depreciation	\$ 7,816	\$ 11,636	\$ 25,525	\$ 32,017
General and administrative expenses	260,437	484,076	924,148	1,661,576
Professional fees	216,133	525,288	894,669	1,560,448
Stock based compensation (Note 9)	1,561	55,728	101,580	70,907
Travel and business development	53,104	110,878	157,088	416,823
Unrealized loss on investment	-	977	-	4,223
	(539,051)	(1,188,583)	(2,103,010)	(3,745,994)
Finance income (expenses):				
Accretion expense	(16,409)	(1,457)	(18,582)	(1,683)
Interest expense (Note 8)	(81,807)	(66,410)	(330,375)	(126,906)
Write-down of assets (Note 4)	(1,341,173)	-	(1,342,556)	-
Foreign exchange gain (loss)	194,958	(348,151)	286,675	(1,132,156)
Interest income	114	21,274	25,119	23,850
	(1,244,317)	(394,744)	(1,379,719)	(1,236,895)
Loss from continuing operations	\$ (1,783,368)	\$ (1,583,327)	\$ (3,482,729)	\$ (4,982,889)
Loss from discontinued operations	-	(12,948)	-	(59,690)
Loss for the period before tax	\$ (1,783,368)	\$ (1,596,275)	\$ (3,482,729)	\$ (5,042,579)
Income tax recovery	-	(2,085)	-	(36,792)
Net loss for the period	\$ (1,783,368)	\$ (1,598,360)	\$ (3,482,729)	\$ (5,079,371)
Attributable to:				
Non-controlling interest (Note 10)	\$ (528,700)	\$ -	\$ (652,985)	\$ -
Equity shareholders of the Company	(1,254,668)	(1,598,360)	(2,829,744)	(5,079,371)
	\$ (1,783,368)	\$ (1,598,360)	\$ (3,482,729)	\$ (5,079,371)
Other comprehensive loss				
Foreign currency translation gain attributed to non-controlling interest	\$ 134,474	\$ -	\$ 287,688	\$ -
Foreign currency translation gain for equity shareholders of the Company	(653,710)	2,036,392	377,917	4,702,037
Comprehensive loss for the period	\$ (2,302,604)	\$ 438,032	\$ (2,817,124)	\$ (377,334)
Loss per share: (Note 9)				
Basic and diluted from continuing operations	(0.01)	(0.00)	(0.01)	(0.01)
Basic and diluted from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Basic and diluted	(0.01)	(0.00)	(0.01)	(0.01)

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	Non-Controlling Interest	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	-	-	-	367,462	-	-	367,462
Shares issued upon exercise of options	200,000	155,371	-	(135,371)	-	-	20,000
Net loss for the period	-	-	-	-	(5,079,371)	-	(5,079,371)
Foreign currency translation	-	-	-	-	-	4,702,037	4,702,037
Balance, June 30, 2012	338,719,365	\$ 103,210,474	\$ -	\$ 12,305,527	\$ (49,499,393)	\$ 9,686,878	\$ 75,703,486
Stock based compensation	-	-	-	91,642	-	-	91,642
Share issue costs	-	767	-	-	-	-	767
Net loss for the period	-	-	-	-	(54,672,868)	-	(54,672,868)
Foreign currency translation	-	-	-	-	-	(2,231,482)	(2,231,482)
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	-	-	-	161,863	-	-	161,863
Non-controlling interest	-	-	1,293,640	-	-	-	1,293,640
Net loss for the period	-	-	-	-	(3,482,729)	-	(3,482,729)
Foreign currency translation	-	-	-	-	-	665,605	665,605
Balance, June 30, 2013	338,719,365	\$ 103,211,241	\$ 1,293,640	\$ 12,559,032	\$ (107,654,990)	\$ 8,121,001	\$ 17,529,924

See accompanying notes to these condensed consolidated interim financial statements.

LNG Energy Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(in Canadian dollars, unaudited)	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
Operating activities:				
Net loss	\$ (1,783,368)	\$ (1,598,360)	\$ (3,482,729)	\$ (5,079,371)
Items not affecting cash:				
Depletion and depreciation	7,816	11,636	25,525	32,017
Accretion expense	16,409	1,457	18,582	1,683
Stock based compensation (Note 9)	1,561	-	101,580	70,907
Interest expense (Note 8)	(18,450)	66,410	230,118	126,906
Unrealized foreign exchange loss (gain)	(143,246)	(242,801)	(286,675)	292,847
Unrealized loss on investment	-	(557)	-	4,223
Write-down of assets (Notes 4 and 5)	1,341,173	-	1,342,556	-
	(578,105)	(1,762,215)	(2,051,043)	(4,550,788)
Changes in non-cash working capital (Notes 11)	(977,072)	(109,172)	(338,854)	(1,005,319)
	(1,555,177)	(1,871,387)	(2,389,897)	(5,556,107)
Financing activities:				
Proceeds from sale of Telemu shares by LNG BC	-	-	196,920	-
Proceeds from issuance of Telemu shares	-	-	1,446,377	-
Proceeds from stock option exercises	-	-	-	20,000
Proceeds from loan (Note 8)	-	-	2,295,103	4,992,500
Repayment of loan (Note 8)	(2,166,353)	-	(2,166,353)	-
Proceeds from farm-in (Note 4)	7,522,079	-	7,522,079	-
	5,355,726	-	9,294,126	5,012,500
Investing activities:				
Exploration and evaluation expenditures	(676,209)	(1,230,118)	(3,983,936)	(13,043,362)
Property, plant and equipment proceeds	-	(6,322)	-	(6,322)
Change in non-cash working capital (Note 11)	(686,515)	(257,571)	537,684	(4,653,890)
	(1,362,724)	(1,494,011)	(3,446,252)	(17,703,574)
Foreign exchange effect on cash and cash equivalents	15,575	(87,479)	21,968	(21,001)
Net increase (decrease) in cash and cash equivalents	2,453,400	(3,452,877)	3,479,945	(18,268,182)
Cash and cash equivalents, beginning of period	1,824,872	5,695,362	798,327	20,510,667
Cash and cash equivalents, end of period	\$ 4,278,272	\$ 2,242,485	\$ 4,278,272	\$ 2,242,485

See accompanying notes to these condensed consolidated interim financial statements.

LNG Energy Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
As of and for the Three and Nine Months Ended June 30, 2013 and 2012
(in Canadian dollars, except otherwise stated)

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 August 22, 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 affects 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.

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2. BASIS OF PRESENTATION (continued)

c) Going concern

These unaudited condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes 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 continues to be in the exploration stage and therefore has generated no revenues to date. The Company will be required to spend significant capital to advance its exploration and evaluation projects (Note 4), the success of which will depend upon finding and producing commercially viable oil and natural gas reserves. To this end, the Company will be required to raise capital or seek other alternatives such as farm-in arrangements or the sale of properties in order to further develop its exploration and evaluation projects. There can be no assurance that the Company will be successful in these endeavors and material uncertainties exist with respect to the recovery of capital projects cost and the success of finding, developing and producing oil and natural gas reserves and therefore significant doubt exists with respect to the Company's ability to continue as a going concern.

Management believes the use of the going concern assumption is appropriate based upon the assumption that the Company has sufficient cash resources to meet its ongoing obligations as they become due in the normal course of operations. The Company has successfully raised financing in the past and believes that it may be able to raise the necessary financing in the future.

These unaudited condensed consolidated interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Therefore the Company may be required to realize its assets and discharge its liabilities in other than the normal course of business at amounts different from those reflected in the accompanying unaudited condensed consolidated interim financial statements.

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.

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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"), LNG Exploration Ltd. ("LNG Exploration"), Kunagu Real Estate S.A. ("Kunagu"), Kaynes Capital S.a.r.l. ("Kaynes"), 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, LNG BC owns a 68.5% interest in Telemu No. 18 Limited ("Telemu"), and Kaynes holds a 20.18% interest in Saponis Investments Sp. z.o.o. ("Saponis") in which the Company 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

Effective January 1, 2013, the Company adopted the following new and revised International Financial Reporting Standards ("IFRSs") that were issued by the International Accounting Standards Board ("IASB").

(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.

LNG Energy Ltd.

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(in Canadian dollars, except otherwise stated)

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

c) Future accounting pronouncements (continued)

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

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3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

c) Future accounting pronouncements (continued)

- (i) Effective for annual periods beginning on or after January 1, 2013 (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 7 Financial Instruments Disclosures.

Amended standard IFRS 7 Financial Instruments: The amendments outline the disclosures required when initially applying IFRS 9 Financial Instruments. 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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
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(in Canadian dollars, except otherwise stated)

4. EXPLORATION AND EVALUATION ASSETS

<u>Cost or deemed cost</u>	<u>Total</u>
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	4,524,752
Capitalized stock-based compensation	60,284
Proceeds from farm-in	(7,522,079)
Write-down of assets	(1,341,173)
Foreign currency translation	515,779
Balance, June 30, 2013	\$ 19,455,431

Papua New Guinea

The Company holds 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 PPLs 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 20% working interest in Petroleum Retention License ("PRL") 13. 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.

On January 24, 2013, the Company entered into an investment agreement whereby a third party, EERL Holdings BVI Ltd ("EERL Holdings"), acquired 31.5% of the shares of the Company's subsidiary, Telemu, in consideration for funding of US\$4,000,000 (\$3,932,800). Telemu holds the four PPLs.

On April 22, 2013, the Company closed a farm-in agreement with wholly owned subsidiaries of Heritage Oil Plc ("Heritage"). In exchange for an 80% participating interest in PPL 319 and PRL 13, Heritage has made a cash payment to Telemu of US\$4,000,000 plus the reimbursement of costs associated with the

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4. EXPLORATION AND EVALUATION ASSETS (continued)

Papua New Guinea (continued)

recently completed 22km seismic program. In addition to the cash payment, Heritage has also committed to funding the acquisition of a minimum 100km of seismic within the license areas and the drilling of one exploration well in PPL 319. LNG currently holds a 20% interest in PRL 13, a 13.7% working interest in PPL 319 and a 68.5% working interest in PPLs 320, 321 and 322 in northern Papua New Guinea. As a result, the Company reduced the carrying values of its properties in Papua New Guinea and recorded a write-down of \$1,341,173 during the period ended June 30, 2013.

During the three and nine months ended June 30, 2013, \$235 and \$16,926 of stock based compensation expense was capitalized (\$23,344 for the three and nine months ended June 30, 2012). During the three and nine months ended June 30, 2013, \$32,860 and \$67,154 of general and administrative costs was capitalized (none for the three and nine months ended June 30, 2012).

Poland

The Company, through its wholly owned subsidiary, Kaynes, 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-Ausuchungs 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 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. The Company is currently seeking an extension of the license terms. 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 and nine months ended June 30, 2013, \$223 and \$43,358 of stock based compensation costs were capitalized in Poland (\$58,857 and \$296,555 for the three and nine months ended June 30, 2012). \$12,021 and \$34,788 general and administrative costs was capitalized during the three and nine months ended June 30, 2013 (\$106,251 for the three and nine months ended June 30, 2012). Recovery of costs in the Polish properties is uncertain and is dependent upon achieving commercial production or sale.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
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4. EXPLORATION AND EVALUATION ASSETS (continued)

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. 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. This adjacent production concession was granted in Q1 2013 and the maximum reduction of 100,000 acres reduction will apply.

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.

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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	(5,631)
Balance, June 30, 2013	\$ 396,110
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	17,643
Write-down of asset	1,383
Foreign currency translation	3,981
Balance, June 30, 2013	\$ 230,016
Net book value	
Balance, September 30, 2011	\$ 201,904
Balance, September 30, 2012	\$ 194,732
Balance, June 30, 2013	\$ 166,094

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 and nine months ended June 30, 2013 and 2012 and as at June 30, 2013 and September 30, 2012, the Company's net share of amounts attributed to it by the joint venture was as follows:

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6. JOINT VENTURES (continued)

	June 30,		September 30,	
	2013		2012	
Balance sheet:				
Cash and cash equivalents	\$	322,846	\$	541,583
Amounts receivable		51,518		87,043
Prepaid expenses, advances and other deposits		23,181		27,831
Exploration and evaluation assets		9,021,026		8,541,017
Accounts payable and accrued liabilities		(199,644)		(248,114)
Decommissioning obligations		(42,628)		(38,186)
	\$	9,176,299	\$	8,911,174
Income statement:				
	For the Three Months Ended		For the Nine Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Interest income	\$	1,159	\$	(10,856)
Expenses		75,527		91,743
Foreign exchange loss		90,375		374,686
Net loss	\$	167,061	\$	455,573
			\$	376,404
			\$	737,027

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.

For the three and nine months ended June 30, 2013 and 2012 and as at June 30, 2013 and September 30, 2012, the Company's net share of amounts attributed to it by the joint venture was as follows:

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6. JOINT VENTURES (continued)

	June 30, 2013		September 30, 2012	
Balance sheet:				
Cash and cash equivalents	\$	85,447	\$	31,289
Amounts receivable		4,121		135,752
Exploration and evaluation assets		4,897,424		4,676,910
Accounts payable and accrued liabilities		(141,702)		(134,030)
Net contribution from Joint Ventures	\$	4,845,290	\$	4,709,921
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Income statement:				
Expenses	\$	51,626	\$	12,362
		\$	90,142	\$
		37,362		37,362
Net loss	\$	51,626	\$	12,362
		\$	90,142	\$
		37,362		37,362

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:

	June 30, 2013		September 30, 2012	
Balance, beginning of period	\$	38,186	\$	37,820
Change in estimates		(366)		-
Accretion expense		18,582		366
Balance, end of period	\$	56,402	\$	38,186

The undiscounted cash flow required to settle the obligation for the Wytowno, Starogard and Lebork wells in Poland is approximately \$183,960, 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 13.25% and an assumed inflation rate of 1.02% per annum.

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8. LOANS PAYABLE

- (a) On February 27, 2012, the Company's wholly owned subsidiary, Kaynes, entered into non-revolving credit facilities totaling US\$5,000,000 ("the Loans"). The Loans were repayable within one year on or before February 27, 2013. Funds drawn under the credit facilities 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 25% of the proceeds arising from the disposition of such assets.

On January 24, 2013, an extension to the credit facilities was agreed upon whereas the maturity date was extended from the first anniversary date to the third anniversary date being February 27, 2015. For the three and nine months ended June 30, 2013, the interest expense related to the Loans was \$81,807 and \$230,118 respectively.

- (b) As part of the investment agreement with EERL Holdings (see Note 4), there was a loan of \$2,345,473 payable to EERL BVI Holdings by Telemu. This loan formed part of the funding of US\$4,000,000. This loan is non-interest bearing and is payable within a year. As at June 30, 2013, the Company repaid \$2,159,733 of the loan and \$185,740 remains outstanding.

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 nine months ended June 30, 2013 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:

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9. SHARE CAPITAL (continued)

c) Stock Options (continued)

	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
Forfeited	(2,525,000)	\$0.49
Expired	(5,240,000)	\$0.31
Balance, June 30, 2013	15,510,000	\$0.35

The following table summarizes information about the stock options outstanding at June 30, 2013:

Exercise Price	Outstanding Options	Options Exercisable	Expiry Date
\$0.19	1,260,000	1,260,000	May 14, 2014
\$0.59	5,400,000	5,400,000	April 18, 2016
\$0.53	1,800,000	1,800,000	June 7, 2016
\$0.15	7,050,000	4,700,001	April 24, 2017
	15,510,000	13,160,001	

The stock based compensation expense for the three and nine months ended June 30, 2013 was \$1,561 and \$101,580 respectively (\$55,728 and \$70,907 for three and nine months ended June 30, 2012). The Company capitalized \$458 and \$60,284 of stock compensation expense respectively for the three and nine months ended June 30, 2013 (\$80,201 and \$296,555 respectively for the three and nine months ended June 30, 2012). This resulted in a change within contributed surplus of \$161,863 for the nine months ended June 30, 2013 (\$135,929 for the nine months ended June 30, 2012).

10. NON-CONTROLLING INTEREST

The non-controlling interests are comprised of the following:

Balance, September 30, 2012 and 2011	\$ -
Non-controlling interests' share of Telemu	1,946,625
Non-controlling interests' share of loss in Telemu	(652,985)
Balance, June 30, 2013	\$ 1,293,640

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11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Changes in non-cash working capital are as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Amounts receivable	\$ (161,994)	\$ (148,476)	\$ 72,788	\$ (124,918)
Prepaid expenses, advances and other term deposits	102,723	58,227	74,202	(40,168)
Accounts payable and accrued liabilities	(1,604,316)	(246,494)	51,840	(5,494,123)
Change in non-cash working capital	\$ (1,663,587)	\$ (336,743)	\$ 198,830	\$ (5,659,209)
Relating to:				
Operating activities	\$ (977,072)	(109,172)	\$ (338,854)	(1,005,319)
Investing activities	(686,515)	(257,571)	537,684	(4,653,890)
Change in non-cash working capital	\$ (1,663,587)	\$ (366,743)	\$ 198,830	\$ (5,659,209)

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.

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12. FINANCIAL INSTRUMENTS (continued)

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.

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 considered 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 June 30, 2013 and September 30, 2012.

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12. FINANCIAL INSTRUMENTS (continued)

Contractual maturity analysis as at June 30, 2013

	Less than 3 months	3 - 12 months	1 - 5 years	Longer than 5 years	Total
Accounts payable	\$ 733,995	\$ -	\$ -	\$ -	\$ 733,995
Accrued liabilities	\$ 153,112	\$ 112,500	\$ -	\$ -	\$ 265,612
Loans payable - current	\$ 185,740	\$ -	\$ -	\$ -	\$ 185,740
Loans payable - long term	\$ -	\$ -	\$ 5,770,552	\$ -	\$ 5,770,552

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 March 31, 2013 and September 30, 2012:

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12. FINANCIAL INSTRUMENTS (continued)

June 30, 2013				
	US	PNG	Polish	
	Dollars	Kina	Zloty	Euro
Cash	\$ 3,773,828	\$ 41,069	\$ 328,000	\$ 33,986
Amounts receivable	-	10,888	55,769	-
Deposits	-	11,983	4,748	-
Accounts payable and accrued liabilities	(266,102)	(51,149)	(310,558)	-
	\$ 3,507,726	\$ 12,791	\$ 77,959	\$ 33,986

September 30, 2012				
	US	PNG	Polish	
	Dollars	Kina	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.

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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 June 30, 2013	Papua New Guinea	Poland	Canada	Total
Current assets	\$ 682,438	\$ 519,139	\$ 3,719,121	\$ 4,920,698
Exploration and evaluation assets	4,111,975	15,343,456	-	19,455,431
Property, plant and equipment	83,571	-	82,523	166,094
	\$ 4,877,984	\$ 15,862,595	\$ 3,801,644	\$ 24,542,223

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 EVENT

On August 20, 2013, the Company completed the acquisition of Enterprise Energy Resources Ltd. ("Enterprise"). Each one Enterprise share was exchanged for five common shares in the capital of LNG for a total of 238,633,975 shares.