LNG ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010
(stated in Canadian Dollars)

KPMG LLP
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To the Shareholders of LNG Energy Ltd.

We have audited the accompanying consolidated financial statements of LNG Energy Ltd., which comprise the consolidated balance sheets as at September 30, 2011 and 2010, the consolidated statements of operations and comprehensive loss, deficit an accumulated other comprehensive income (loss) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes that the Company incurred a net loss of $22 million during the year ended September 30, 2011 and that the Company's going concern assumption is dependent upon its ability to obtain necessary financing to carry out its contractual obligations and ultimately achieve profitable operations. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of LNG Energy Ltd. as at September 30, 2011 and 2010, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Calgary, Canada
January 25, 2011

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LNG ENERGY LTD.
CONSOLIDATED BALANCE SHEETS

	September 30 2011	2010
ASSETS		
Current		
Cash and cash equivalents (Note 12)	**$ 20,510,667**	$ 10,036,105
Short term investments	**-**	9,015,750
Amounts receivable	**409,267**	314,242
Prepaid expenses, advances and other deposits	**462,530**	423,467
	21,382,464	19,789,564
Investments	**5,243**	6,176
Property and equipment (Note 7)	**56,475,427**	51,050,573
	$ 77,863,134	$ 70,846,313
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 6,685,214**	$ 1,442,148
Long term		
Future income taxes (Note 13)	**1,775,587**	3,065,151
Asset retirement obligation (Note 9)	**42,117**	3,119
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	**103,055,103**	84,033,523
Contributed surplus (Note 10)	**11,996,847**	7,155,373
Accumulated other comprehensive income (loss)	**71,866**	(987,772)
Deficit	**(45,763,600)**	(23,865,229)
	69,360,216	66,335,895
	$ 77,863,134	$ 70,846,313

Future Operations (Note 2), Commitments (Note 7), Subsequent events (Note 16)

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

LNG ENERGY LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

		YEARS ENDED SEPTEMBER 30		
		2011		2010
Expenses				(Note 4m)
Accretion, depletion and depreciation		**60,854**		35,436
General and administration		**2,274,263**		1,700,603
Loss on disposal of asset		**20,914**		138,791
Unrealized loss (gain) on investment		**933**		(9,758)
Professional fees (Note 11)		**2,309,769**		956,751
Stock based compensation (Note 10)		**3,596,361**		72,116
Travel and business development		**648,763**		482,336
Write-down of asset		**24,122**		1,809
		(8,935,979)		**(3,378,084)**
Interest and other income		**114,835**		154,206
Foreign exchange loss		**(436,680)**		(17,506)
Loss from continuing operations before tax and non-controlling interests		**(9,257,824)**		(3,241,384)
Current income tax expense		**-**		(1,716)
Loss from continuing operations before non-controlling interests		**(9,257,824)**		(3,243,100)
Non-controlling interests		**-**		31,333
Loss from continuing operations		**(9,257,824)**		(3,211,767)
Loss from discontinued operations (Note 6)		**(12,640,547)**		(29,753)
Net loss for the year		**(21,898,371)**		(3,241,520)
Cumulative translation adjustment		**1,059,638**		(265,811)
Comprehensive loss	**$**	**(20,838,733)**	$	(3,507,331)
Basic and diluted loss per share from continuing operations	**$**	**(0.04)**	$	(0.02)
Basic and diluted loss per share from discontinued operations	**$**	**(0.04)**	$	(0.00)
Basic and diluted loss per share	**$**	**(0.08)**	$	(0.02)
Weighted average number of shares outstanding		**261,493,776**		170,550,626

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

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

	YEARS ENDED SEPTEMBER 30	
	2011	2010
Deficit, beginning of year	**$ (23,865,229)**	$ (20,623,709)
Net loss for the year	**(21,898,371)**	(3,241,520)
Deficit, end of the year	**$ (45,763,600)**	$ (23,865,229)
Accumulated other comprehensive loss, beginning of the year	**$ (987,772)**	$ (721,961)
Cumulative translation adjustment for the year	**1,059,638**	(265,811)
Accumulated other comprehensive income (loss), end of the year	**$ 71,866**	$ (987,772)

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

LNG ENERGY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED SEPTEMBER 30	
	2011	2010
Cash flows used by operating activities		
Net loss for the year	**$ (21,898,371)**	$ (3,241,520)
Items not affecting cash:		
Accretion, depletion and depreciation	**107,202**	114,370
Stock based compensation	**3,596,361**	72,116
Loss on disposal of asset	**20,914**	138,791
Unrealized foreign exchange loss	**268,933**	(53,496)
Other write-downs	**24,122**	1,809
Impairment (Note 6)	**13,666,894**	-
Recovery on taxes (Note 6)	**(2,266,500)**	-
Unrealized loss (gain) on investments	**933**	(9,758)
Non-controlling interests	**-**	(31,333)
	(6,479,512)	(3,009,021)
Changes in non-cash working capital (Note 12)	**2,686,129**	226,144
Changes from discontinued operations (Note 6)	**(4,365)**	(6,827)
	(3,797,748)	(2,789,704)
Cash flows from investing activities		
Proceeds from sale of investments	**-**	70,000
Acquisition of investments (Note 5)	**(3,878,400)**	-
Proceeds from sale of US asset (Note 6)	**4,960,188**	-
Oil and gas property expenditures	**(18,598,664)**	(8,284,006)
Property and equipment acquired	**(51,759)**	(154,105)
Short term investments	**9,015,750**	(705,250)
Changes in non-cash working capital (Note 12)	**3,524,540**	358,273
	(5,028,345)	(8,715,088)
Cash flows from financing activities		
Net proceeds from share issue costs	**18,640,838**	-
Net proceeds from issuance of special warrants	**-**	18,540,929
Shares issued on exercise of options	**190,750**	95,400
	18,831,588	18,636,329
Foreign exchange loss (gain) on cash and cash equivalents	**469,067**	(729)
Net increase in cash and cash equivalents	**10,474,562**	7,130,808
Cash and cash equivalents, beginning of year	**10,036,105**	2,905,297
Cash and cash equivalents, end of year (Note 12)	**$ 20,510,667**	$ 10,036,105

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

1. NATURE OF OPERATIONS

LNG Energy Ltd. (the "Company") was incorporated on February 24, 2000 in the Province of British Columbia and changed its name to "LNG Energy Ltd." on March 28, 2008. The Company's common shares began trading under the symbol "LNG" on the TSX Venture Exchange on March 28, 2008. The Company is engaged in exploration activities of oil and gas properties in Papua New Guinea, Poland and Bulgaria.

2. FUTURE OPERATIONS

These financial statements have been prepared on the basis of accounting principles applicable to a going concern. These principles assume that the Company will be able to realize its assets and discharge its obligations in the normal course of operations for the foreseeable future. The Company is considered to be in the exploration stage and as such, the Company does not generate cash inflows from operations.. To date, expenditures are financed by way of equity issuance and interest income. The recoverability of the Company's property and equipment is uncertain and dependent upon achieving significant commercial production.

During the year ended September 30, 2011, the Company incurred a net loss of $21,898,371, used $3,797,748 of cash flow in its operating activities and had an accumulated deficit of $45,763,600. As at September 30, 2011, the Company has working capital of $14,697,250. The Company's working capital is insufficient to meet all the oil and gas exploration work program commitments as outlined in Note 7. The Company is considering various alternatives to remedy any future shortfall in capital. The Company may deem it necessary to raise capital for continued exploration and development expenditures through equity markets, debt markets or other financing arrangements, which could include the sale of oil and gas interests or participation arrangements in oil and gas interests. There can be no assurance this capital will be available and if it is not, the Company may be required to substantially curtail or cease exploration and development expenditures.

The Company's ability to continue as a going concern is dependent upon obtaining the necessary financing to complete further exploration and development activities and generate profitable operations from its oil and natural gas interests in the future. The Company's current operations are dependent upon the adequacy of its current assets to meet its current expenditure requirements and the accuracy of management's estimates of those requirements. Should those estimates be materially incorrect, the Company's ability to continue as a going concern will be impaired. Management believes the going concern assumption to be appropriate for these financial statements. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, commitments (as described in note 7), these consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

3. BASIS OF PRESENTATION

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

4. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES

a) Principles of Consolidation

These audited consolidated financial statements presented are those of LNG Energy Ltd. ("LNG") and the consolidated financial statements of its 100% owned subsidiaries LNG Energy US Inc. ("LNG US"), LNG Energy (BC) Ltd. ("LNG BC"), Kunagu Real Estate ("Kunagu"), Kaynes Capital S.a.r.l. ("Kaynes"), Telemu No. 18 Ltd. ("Telelmu"), 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 50% owned subsidiaries Joyce Podlaise LLC ("Joyce") and Maryani Podalise 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"). All intercompany transactions have been eliminated on consolidation.

b) Foreign Currency Transalation

The Company's Papua New Guinea operations are considered financially and operationally integrated and the Canadian dollar is the functional currency. As a result, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at rates in effect when the assets were acquired or liabilities incurred. Revenues and expenses are translated at an average rate. Foreign exchange gains and losses are recorded in the statement of operations.

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

c) Cash and Cash Equivalents

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Loss Per Share

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

e) Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses recorded during the reporting periods. Most significant estimates relate to the estimates of current and future expenditure requirements, the expectation of the recoverability of undeveloped land, future income tax, asset retirement obligations and calculation of stock based compensation expense. Actual results could differ from these estimates and these differences could have a significant impact on the consolidated financial statements.

f) Financial Instruments

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

The Company has classified its financial instruments as follows:

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Property and Equipment

Oil and Gas Interests

The Company follows the full cost method of accounting, for oil and gas properties whereby all costs associated with the acquisition, exploration for and development of petroleum and natural gas and related reserves are capitalized. Such costs include all direct costs relating to the development of the oil and gas properties, the cost of the acquisition of leases, and exploration and development and administrative costs directly related to exploration and development activities. As the Company's oil and gas activities are in the pre-production stage, any incidental revenues would be netted against costs until commercial production begins. These costs are evaluated in each reporting period to determine if the costs recorded are expected to be recoverable. Any costs that are considered unlikely to be recovered are written off. If commercial production begins, these capitalized costs will be depleted following the unit-of-production method based on proved reserves. Any gain or loss on disposition of unproven properties would be recognized on a relative basis.

The carrying values of oil and gas properties may not reflect their future value. In particular, the future value of the oil and gas depends on the start-up of commercial production, the ability of the Company to obtain adequate financing and the future profitability of the oil and gas properties.

A limit is placed on the carrying value of the net capitalized assets of proven properties in order to test impairment. The Company is required to perform this impairment test at least annually. An impairment loss may be indicated when the carrying value of the assets exceeds the estimated undiscounted future net cash flow associated with the asset's proved reserves. If there is indication of an impairment loss, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the asset's proved plus probable reserves are charged to depletion, depreciation and accretion on the statement of operations.
When the carrying amount is not recoverable, an impairment loss is recognized to the extent the carrying amount of the cost centre exceeds the sum of the discounted cash flows (calculated by using the Company’s risk-free rate) expected from the production of proved and probable reserves and the lower of cost and market of unproved properties of the cost centre.

Other Assets

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

Office furniture and equipment	15%
Vehicles	30%
Computer equipment and software	15% - 50%
Technical License	Straight line over 10 years

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Asset Retirement Obligations

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

i) Revenue Recognition

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

j) Stock-Based Compensation

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

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

k) Income Taxes

The Company follows the asset and liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. In the case of unused tax losses, income tax reductions, and certain items that have a tax basis but cannot be identified with an asset or liability on the balance sheet, the recognition of future income tax assets is determined by reference to the likely realization of future income tax reductions.

l) Joint Interest Activities

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Comparative Figures

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

n) Future Accounting Pronouncements

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

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

(ii) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company has commenced its assessment of the adoption of IFRS for 2012 and its impact on the Company's financial information.

5. ACQUISITION

Joyce Podlaise and Maryani Podlaise LLC acquisition

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

5. ACQUISITION (continued)

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

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

6. DISCONTINUED OPERATIONS

During the year ended September 30, 2011, the Company sold all of its working interest in oil and gas leases in Oklahoma for cash proceeds of $4,960,188 (US$5,207,000). Pursuant to an exploration agreement with BNK Petroleum Inc.("BNK"), two uneconomic wells were drilled by BNK that are to be plugged and abandoned. BNK declined to drill a third well and paid liquidated damages to the Company of US$500,000. There are no further plans to develop these leases. The Company's US assets were written down to the fair value of $4,960,188 resulting in an impairment loss of $13,666,984 and a deferred income tax recovery of $2,266,500.

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

Statement of operations		**2011**		**2010**
Oil and gas revenue	$	79,724	$	258,302
Less: Royalties expense		(14,677)		(45,877)
		65,047		212,425
Operating and exploration		246,127		53,377
Accretion and depletion		46,348		78,934
General and administration		3,083		1,871
Foreign exchange loss		889,648		18,956
Impairment loss		13,666,894		-
Professional fees		114,105		71,092
Total expenses		14,966,205		224,230
Income tax expense (recovery)		(2,260,611)		17,948
Loss from discontinued operations	$	(12,640,547)	$	(29,753)

Statement of cash flows		**2011**		**2010**
Cash from (used in) operating activities	$	(4,365)	$	(6,827)
Cash from (used in) discontinued operations	$	(4,365)	$	(6,827)

7. PROPERTY AND EQUIPMENT

	September 30, 2011		
	COST	ACCUMULATED AMORTIZATION, DEPLETION, DEPRECIATION & IMPAIRMENT	NET BOOK VALUE
Oil and gas properties:			
Papua New Guinea	$ 39,710,725	$ 820,304	$ 38,890,421
Poland	12,327,852	-	12,327,852
Bulgaria	5,055,250	-	5,055,250
Equipment	437,012	235,108	201,904
	$ 57,530,839	$ 1,055,412	$ 56,475,427

	September 30, 2010		
	COST	ACCUMULATED AMORTIZATION, DEPLETION, DEPRECIATION & IMPAIRMENT	NET BOOK VALUE
Oil and gas properties:			
Papua New Guinea	$ 30,873,351	$ 820,304	$ 30,053,047
Poland	1,026,824	-	1,026,824
United States	19,949,608	201,062	19,748,546
Equipment	372,288	150,132	222,156
	$ 52,222,071	$ 1,171,498	$ 51,050,573

Papua New Guinea

The Company holds a 100% working interests in four Petroleum Prospecting Licenses (“PPL”) and one Petroleum Retention License (“PRL”) through permits received from the Minister of Petroleum and Energy for Papua New Guinea on November 20, 2008. The PPL licenses have a six year term with expenditure commitments for each license. The Company has submitted a renewal application to the Department of Petroleum and Energy (“DPE”) in Papua New Guinea for PRL 13 which is due to expire January 27, 2012. The Papua New Guinea properties are considered unproved at September 30, 2011.

7. PROPERTY AND EQUIPMENT (Continued)

Papua New Guinea (continued)

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 back-in participation right also includes a 2% revenue royalty payment obligation to indigenous groups, which is only payable if the government exercises its back-in participation right. The Papua New Guinea properties are considered unproved at September 30, 2011. Recovery of costs in the Papua New Guinea properties is uncertain and is dependent upon achieving commercial production or sale.

The PPL licenses have a six year term along with expenditure requirements. Expenditure requirements total US$49 million including US$48 million which must be spent by November 2012. The acquisition of a minimum of 10km of seismic as well as the drilling of an exploration well conditional on the seismic results showing a drillable target for each PPL. PRL 13 was renewed for one year and has a minimum expenditure requirement of US$1 million which includes the acquisition of a minimum of 10km of 2D seismic and the reprocessing of all existing 2D seismic and incorporate surface sampling and well control to ensure a comprehensive geological model. If the Company does not meet these expenditure and work program requirements, it may result in the loss of the licenses. A renewal application has been submitted to the DPE for PRL 13. The minimum work expenditures to retain these licenses as at September 30, 2011 on each PPL and PRL are:

PPL#	Minimum Expenditures (in USD)	Date Required for Minimum Expenditures
PRL 13	$ 1,000,000	January 27, 2012
PPL 319	$ 12,000,000	November 29, 2012
PPL 320	$ 12,000,000	November 29, 2012
PPL 321	$ 12,000,000	November 29, 2012
PPL 322	$ 12,000,000	November 29, 2012
	$ 49,000,000	

During the year ended September 30, 2011, $1,049,607 of stock based compensation expense and $2,241,195 of general and administrative costs were capitalized. During the year ended September 30, 2010, $81,223 of stock based compensation expense and $612,235 of general and administrative costs were capitalized.

Poland

The Company has a 20.18% net working interest in three concessions (Slupsk, Starogard and Slawno) in Poland. The other partners are BNK, Sorgenia E&P S.p.A., and Rohol-Aufsuchungs Aktiengesellschaft. These three concessions have license commitments that will require the drilling and testing of the second wells in each of the three concessions by June 2014.

The terms of these concessions will require the Company to fund its proportionate 20.18% share of all operational costs. The drilling and testing of the second wells in each of the three concessions is required to be drilled, completed and tested by June 2014 to retain these concessions.

7. PROPERTY AND EQUIPMENT (Continued)

Poland (continued)

In February 2011, the Company's wholly owned subsidiary, Kaynes acquired a 50% interest in two oil and gas concessions (Ilawa and Wegrow) for $3,878,400 (US$4,000,000) (Note 5). The terms of the Ilawa concession includes the reprocessing of existing seismic data and the acquisition of 50km of 2D seismic by June 2012. The Wegrow concession terms include the requirement to drill a well to a depth of 2,750m by December 2013. As at September 30, 2011, the proportionate consolidation of the Company's 50% working interest increased oil and gas properties by an additional $4,945,253.

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 year ended September 30, 2011, $385,498 of stock based compensation costs were capitalized in Poland. $108,471 in general and administrative costs were capitalized. Recovery of costs in the Poland 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 in Bulgaria. LNG is expected fund up to US$20 million for a 50% undivided interest in the Etropole concession. The application for the Etropole concession has been submitted with the concession expected to be granted in second half of 2012. LNG will initially fund up to US$7.5 million to immediately drill, core and test a 3,200 meter (approximately 10,500 foot) exploration well on the A-Lovech exploration license in Bulgaria targeting the Middle Jurassic Etropole shale formation. When the Etropole concession is 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. 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.

As at September 30, 2011, LNG has advanced $5,055,250 (US$5,000,000) which was paid to TransAtlantic as a non-refundable deposit in respect of the Transaction. Subsequent to year end, LNG advanced an additional $1,542,196 (US$1,508,112) towards the drilling of the first exploration well. Recovery of costs in the Bulgaria property is uncertain and is dependent upon achieving commercial production or sale.

United States

In May 2011, through its subsidiary, the Company completed the sale all of its working interest in oil and gas leases in Carter County, Oklahoma for $4,960,188 (US$5,207,000) in cash. (Note 6)

8. JOINT VENTURES

Saponis Investments SP z.o.o.

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

The terms and conditions of participation requires the Company to fund 20% of all costs related to the concessions. The other partners are BNK, 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 years ended September 30, 2011 and 2010, the Company's net share of amounts attributed to it by the joint venture was as follows:

	Years Ended September 30	
	2011	**2010**
Balance sheet:		
Cash and cash equivalents	$ 3,131,857	$ 26,524
Current receivables	266,499	82,603
Prepaids	14,494	-
Oil and gas properties	6,577,456	1,026,624
Accounts payable	(5,327,345)	(818,561)
Asset retirement obligation	(42,117)	-
Net assets of Joint Venture	$ 4,620,844	$ 317,190

	Years Ended September 30	
	2011	**2010**
Income statement:		
Interest and other income	$ (5,489)	$ -
Expenses	69,864	- 35,143
Net loss	$ (64,375)	$ (35,143)

8. JOINT VENTURES (Continued)

Joyce Podlaise, LLC and Maryani Podlaise, LLC

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

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

For the years ended September 30, 2011 and 2010, the Company's net share of amounts attributed to it by the joint venture was as follows:

	Years Ended September 30	
	2011	**2010**
Balance sheet:		
Cash and cash equivalents	$ 3,241	$ -
Current receivables	12,040	-
Oil and gas properties	4,945,253	-
Accounts payable	1,176	-
Future income tax liability	(976,936)	-
Net contribution from Joint Venture	$ 3,984,774	$ -

	Years Ended September 30	
	2011	**2010**
Income statement:		
Interest income	$ -	$ -
Expenses	(60,024)	-
	$ (60,024)	$ -

9. ASSET RETIREMENT OBLIGATION

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

	Years Ended September 30	
	2011	2010
Balance, beginning of year	$ 3,119	$ 2,893
Addition	41,970	-
Reduction from the sale of well	(3,067)	-
Change in estimate	(37)	(117)
Accretion	132	343
Balance, end of year	**$ 42,117**	**$ 3,119**

The increase in asset retirement obligation by $41,970 was due to the drilling of wells in Poland. The reduction of $3,067 related to the sale of the US Berwyn well. The calculation was assessed using a credit adjusted risk-free rate of 10.70% and an assumed inflation rate of 1.025% per annum. The undiscounted cash flow required to settle the obligation for the Wytowno, Starogard and Lebork wells in Poland is approximately $193,498 with an estimated abandonment date of approximately 2026.

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized

Unlimited common shares without par value.

b) Issued

	Number of Shares	Share Capital	Contributed Surplus
Balance September 30, 2009	144,095,965	$ 55,738,855	$ 7,380,373
Stock based compensation	-	-	153,339
Shares issued on acquisition	32,000,000	9,280,000	-
Share issue costs	-	(1,559,921)	-
Shares issued upon exercise of special warrants	80,403,400	20,100,850	-
Shares issued upon exercise of options	735,000	473,739	(378,339)
Balance September 30, 2010	257,234,365	84,033,523	7,155,373
Stock based compensation	-	-	5,031,466
Share issue costs	-	(1,474,162)	-
Shares issued upon exercise of options	825,000	380,742	(189,992)
Shares issued from financing	80,460,000	20,115,000	-
Balance September 30, 2011	**338,519,365**	**$ 103,055,103**	**$ 11,996,847**

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

b) Issued (continued)

On September 14, 2011, the Company completed an overnight marketed public offering of 80,460,000 common shares (inclusive of 10,460,000 common shares issued pursuant to the exercise of the over-allotment option) at a price of $0.25 per common share for gross proceeds of $20,115,000. Total share issuance costs was $1,474,162.

c) Stock Options

The following table summarizes information about stock option transactions:

	Number of Options	Average Exercise Price
Balance, September 30, 2009	13,995,000	$0.45
Granted	300,000	$0.30
Exercised	(735,000)	$0.13
Forfeited	(165,000)	$0.23
Balance, September 30, 2010	13,395,000	$0.46
Granted	12,580,000	$0.52
Exercised	(825,000)	$0.23
Forfeited	(4,700,000)	$0.53
Balance, September 30, 2011	**20,450,000**	**$0.49**

The following table summarizes information about the stock options outstanding at September 30, 2011:

Exercise Price	Outstanding Options	Options Exercisable	Expiry Date
$0.10	200,000	200,000	November 27, 2011
$0.67	271,000	271,000	September 20, 2012
$0.67	379,000	379,000	September 21, 2012
$0.58	3,000,000	3,000,000	November 27, 2012
$0.56	750,000	750,000	February 1, 2013
$0.58	1,500,000	1,500,000	February 1, 2013
$0.275	1,490,000	1,490,000	May 1, 2013
$0.19	1,280,000	1,280,000	May 14, 2014
$0.33	2,500,000	2,500,000	November 4, 2015
$0.35	500,000	500,000	November 23, 2015
$0.59	6,180,000	6,180,000	April 18, 2016
$0.53	2,400,000	800,000	June 07, 2016
	20,450,000	18,850,000	

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

c) Stock Options (continued)

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

	At September 30,	
	2011	**2010**
Risk-free interest rate	2.05% - 2.17%	1.31% - 3.14%
Expected life	5 years	2.8 - 5 years
Expected volatility	107.08% - 126.91%	117.8% - 129%
Expected dividends	Nil	Nil
Average value per option	$0.44	$0.26

11. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions and balances with related parties for years ended September 30, 2011 and 2010 for amounts paid to companies controlled by directors and officers of the Company were as follows:

	YEAR ENDED SEPTEMBER 30,	
	2011	**2010**
Director fees paid to a former independent director of the Company	**$ 4,333**	$ 8,000
Director fees paid to current independent directors of the Company	**$ 27,667**	$ 24,000
	$ 32,000	$ 32,000

During the year ended September 30, 2011, a total of $156,767 paid to a director of a subsidiary for other professional services performed not related to director fees ($98,657 - year ended September 30, 2010). These expenditures are included in professional fees and were measured at the exchange amount, which are amounts agreed upon by the transacting parties.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	YEAR ENDED SEPTEMBER 30	
	2011	**2010**
Amounts receivable	**$ (95,025)**	$ (780,261)
Prepaid expenses, advances and other term deposits	**(39,063)**	(58,062)
Accounts payable and accrued liabilities	**6,344,757**	1,422,740
Change in non-cash working capital	**$ 6,210,669**	$ 584,417
Relating to:		
Operating activities	**$ 2,686,129**	226,144
Investing activities	**3,524,540**	358,273
Change in non-cash working capital	**$ 6,210,669**	$ 584,417

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

	Years Ended September 30	
	2011	**2010**
Cash	$ 11,005,047	$ 198,613
Cash equivalents	9,505,620	9,837,492
	$ 20,510,667	$ 10,036,105

Cash and cash equivalents are classified as “held for trading” and are measured at their carrying value which approximates the fair values due to the short term nature of these instruments with maturity at acquisition not exceeding 90 days. Cash equivalents relates to an interest savings account which bears an interest rate of approximately 1.30% per annum with no maturity date (September 30, 2010 – 0.80% per annum).

13. INCOME TAXES

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

	September 30, 2011	September 30, 2010
Statutory rates	28%	29%
Recovery of income taxes computed at statutory rates	$ (2,658,053)	$ (940,041)
Non-deductible items	1,183,000	28,000
Impact due to rate adjustment	(72,426)	(23,340)
Other	(15,421)	10,717
Unrealized foreign exchange loss (gain)	5,900	12,000
Change in valuation allowance	1,557,000	893,000
	$ -	$ (19,664)

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

	September 30, 2011	September 30, 2010
Non-capital loss carry forward	$ 10,954,000	$ 7,371,000
Unrealized foreign exchange	1,490,000	208,000
Capital loss carry forward	39,000	53,000
Asset retirement obligation	8,000	-
Share issue costs	664,000	593,000
Property and equipment	(1,458,000)	5,000
Resource related assets	1,487,000	(3,909,000)
Less: Valuation allowance	(14,959,587)	(7,386,151)
	$ (1,775,587)	$ (3,065,151)

The Company incurs non-capital losses in its foreign and Canadian subsidiaries. The Company has non-capital losses carried forward of approximately $37.5 million which may be available to offset future income for income tax purposes expiring over the periods 2012 to 2029. However it is currently not likely to realize any taxable income in the near future and any losses. The Company has non-operating losses of approximately $7.0 million in Papua New Guinea, $12.4 million in the US, $35,000 in Luxembourg, $17.8 million in Canada and $205,000 in other.

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

14. FINANCIAL RISKS AND RISK MANAGEMENT

The Company is exposed to various risks that arise from its business environment and the financial instruments in holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, policies and procedures. The following outlines the Company's risk exposures and explains how these risks and its capital structure are managed.

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

	Fair Value as at March 31, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments	$ 5,243	5,241	-	2

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

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

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

14. FINANCIAL RISKS AND RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities

The carrying amount for cash and cash equivalents, investments, accounts receivable, and accounts payable and accrued liabilities on the balance sheet approximated their fair value because of the limited short term nature of these instruments.

The following table provides information on foreign currency denominated financial instruments held by the Company at September 30, 2011:

	Balance denominated in			Total CAD equivalent
	USD	PGK	PLN	
Cash and cash equivalents	8,763,445	127,349	2,006,451	9,926,167
Accounts receivable	17,434	96,151	827,080	315,712
Prepaid expenses, advances and other deposits	-	231,168	44,983	114,648
Accounts payable and accrued liabilities	3,827,049	840,575	5,595,009	5,929,163

Foreign currency risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates. A substantial portion of the Company's exploration activities are conducted in foreign jurisdictions and a portion of the Company's cash and cash equivalents are denominated in US dollars, Papua New Guinea kina and Polish zloty and incurs expenses in US dollars, Canadian dollars, Polish zloty and Papua New Guinea kinas. Consequently, the Company is exposed to foreign currency exchange risk on a substantial portion of its financial assets.

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

Sensitivity analysis

The following table presents an estimate of the impact of net earnings of the market risk factors discussed above and is calculated based on the noted change in the market factor applied to the balance at the end of the year

Market risk	Change in market factors	Increase (decrease) in loss before tax
USD denominated net financial assets	10%	$ 544,289
PGK denominated net financial assets	10%	(7,979)
PLN denominated net financial assets	10%	$ (27,375)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

The Company is not exposed to material interest rate fluctuations on its short-term investments. At September 30, 2011, the Company had no short term investments with a maturity date which are greater than 90 days. (September 30, 2010 - $9,015,750 bearing interest at fixed rates of 1.15% per annum).

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

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

As at September 30, 2011, total managed capital was $69,360,216 (September 30, 2010 - $66,335,895), comprised of share capital of $103,055,103 (September 30, 2010 - $84,033,523), contributed surplus of $11,996,847 (September 30, 2010 - $7,155,373), other comprehensive income of $71,866 (September 30, 2010 - loss of $987,772) and a deficit of $45,763,600 (September 30, 2010 - $23,865,229).

15. SEGMENT INFORMATION

Geographic Information:

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

As at September 30, 2011	Papua New Guinea	Bulgaria	Poland	Canada	Total
Current assets	$ 1,028,724	$ -	$ 8,410,348	$ 11,943,392	$ 21,382,464
Investments	-	-	-	5,243	5,243
Property and equipment	38,996,719	5,055,250	12,327,852	95,606	56,475,427
	$ 40,025,443	$ 5,055,250	$ 20,738,200	$ 12,044,241	$ 77,863,134

Year Ended September 30, 2011	Papua New Guinea	Bulgaria	United States	Poland	Canada	Total
Oil and gas revenue*	$ -	$ -	$ 79,724	$ -	$ -	$ 79,724

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

Year Ended September 30, 2010	Papua New Guinea	United States	Poland	Canada	Total
Oil and gas revenue*	$ -	$ 258,302	$ -	$ -	$ 258,302

* disclosed as discontinued operation (see Note 6)

16. SUBSEQUENT EVENTS

On October 19, 2011, the Company granted 150,000 stock options with an exercise price of $0.25 to a consultant of the Company.

On November 1, 2011, the Company issued 200,000 shares for the exercise of stock options for total proceeds of $20,000.