

LNG ENERGY LTD.
(Formerly Invicta Oil & Gas Ltd.)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended March 31, 2008 and 2007

(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 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 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 consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

LNG ENERGY LTD.
(Formerly Invicta Oil & Gas Ltd.)

CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In Canadian \$)	March 31, 2008	September 30, 2007
ASSETS		
Current		
Cash and cash equivalents	\$ 30,369,185	\$ 657,446
Amounts receivable	100,377	28,260
Notes receivable (Note 7)	200,000	155,189
Prepaid expenses and other term deposits	110,363	3,486
Refundable deposits on petroleum prospecting licenses	227,700	-
	31,007,625	844,381
Deferred acquisition costs	-	1,623,395
Deferred financing costs	-	4,093
Exploration advances (Note 8)	59,309	64,133
Property, plant and equipment (Note 8)	25,796,806	3,165,280
	\$ 56,863,740	\$ 5,701,282
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 1,266,406	\$ 233,818
Current portion of capital lease obligations (Note 10)	12,387	-
Loan payable	-	39,792
	1,278,793	273,610
Long Term		
Long term portion of capital lease obligations (Note 10)	\$ 5,683	-
Future income taxes (Note 6)	1,642,588	-
	1,648,271	-
Non-controlling interest	2,491,767	-
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	\$ 55,738,855	\$ 7,493,370
Share subscriptions received (Note 9)	-	57,119
Warrants (Note 9)	417,110	1,301,120
Contributed surplus (Note 9)	6,001,359	1,997,788
Deficit	(10,712,415)	(5,421,725)
	51,444,909	5,427,672
	\$ 56,863,740	\$ 5,701,282

Going Concern (Note 2)
Subsequent Events (Note 17)

Approved on Behalf of the Board of Directors:

"Paul Larkin"
Director

"David Cohen"
Director

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

LNG ENERGY LTD.
(Formerly Invicta Oil & Gas Ltd.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited)

(In Canadian \$)	For the Three Months Ended March 31		For the Six Months Ended March 31	
	2008	2007	2008	2007
Expenses				
Depreciation	\$ 4,852	\$ –	\$ 7,252	\$ –
Bank charges	903	130	2,070	523
Foreign exchange loss	–	373	–	373
General and administration	311,337	29,800	436,110	40,561
Interest	636	–	867	–
Loss on disposal of fixed assets	834	–	834	–
Operations and explorations	6,898	–	15,986	–
Professional fees (Note 11)	507,002	47,148	834,499	107,391
Stock based compensation	92,631	299,250	4,006,631	399,000
Travel and business development	238,667	–	351,193	1,577
	1,163,760	376,701	5,655,442	549,425
Interest and miscellaneous income	300,245	14,415	320,520	24,755
Foreign exchange gain	45,936	–	45,383	–
Loss from continuing operations before non-controlling interests (note 5)	(817,579)	(362,286)	(5,289,539)	(524,670)
Non-controlling interests	(1,151)	–	(1,151)	–
Loss from continuing operations	(818,730)	(362,286)	(5,290,690)	(524,670)
Discontinued operations (note 5)	–	–	–	3,810
Loss on disposal of discontinued operations (note 5 and 16)	–	–	–	(5,122)
Net loss for the period	(818,730)	(362,286)	(5,290,690)	(525,982)
Deficit, beginning of period	(9,893,685)	(623,913)	(5,421,725)	(460,217)
Deficit, end of period	\$ (10,712,415)	(986,199)	\$ (10,712,415)	\$ (986,199)
Basic and diluted loss per share from continuing operations	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.03)
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.03)
Weighted average number of shares outstanding	139,992,300	20,622,500	114,904,963	15,119,872

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

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

(In Canadian \$)	For the Three Months Ended March 31		For the Six Months Ended March 31	
	2008	2007	2008	2007
Cash flows from (used by) operating activities				
Loss from continuing operations	\$ (818,730)	\$ (362,286)	\$ (5,290,690)	\$ (524,670)
Items not affecting cash:				
Depreciation	4,852	–	7,252	–
Stock based compensation	92,631	299,250	4,006,631	399,000
Unrealized foreign exchange	(32,980)	–	(32,980)	–
Loss on disposal of fixed asset	834	–	834	–
Non-controlling interests	1,151	–	1,151	–
Changes in non-cash working capital	452,179	(68,581)	105,432	22,241
	(300,063)	(131,617)	(1,202,370)	(103,429)
Cash flows from (used by) investing activities				
Purchase of subsidiary	–	–	(14,863,893)	–
Deferred acquisition costs	–	–	1,623,395	–
Computer equipment purchased	(1,212)	–	(1,212)	–
Proceeds on disposal of computer equipment	372	–	372	–
Exploration advances	69,787	–	4,824	–
Notes receivable	(200,000)	–	(200,000)	–
Oil and gas properties	(200,995)	(1,176,562)	(300,747)	(3,641,943)
Changes in non-cash working capital	(3,720,636)	–	(1,669,424)	–
Cash acquired on acquisition of subsidiary	–	–	1,281,121	–
Discontinued operations	–	100,000	–	100,000
	(4,052,684)	(1,076,562)	(14,125,564)	(3,541,943)
Cash flows from (used by) financing activities				
Share capital issued, net of share issue cost	(5,464)	–	43,160,444	5,012,671
Subscription receipts	–	–	(57,119)	(20,000)
Shares issued on warrants and options exercised	59,340	–	1,975,647	–
Deferred financing fees	–	–	4,093	–
Loans Payable	(39,792)	–	(39,792)	–
Loans Payable – Vehicle financing	(2,502)	–	(3,600)	–
	11,582	–	45,039,673	4,992,671
Net increase in cash and cash equivalents	(4,341,165)	(1,208,179)	29,711,739	1,347,299
Cash and cash equivalents, beginning of period	34,710,350	2,591,579	657,446	36,101
Cash and cash equivalents, end of period	30,369,185	1,383,400	30,369,185	1,383,400
Cash paid for income taxes	–	–	–	–
Cash paid for interest	636	–	837	–

Supplemental disclosure with respect to cash flows (Note 12).

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

LNG Energy Ltd.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)
For the Three and Six Months Ended March 31, 2008
(in Canadian dollars)

1. NATURE OF OPERATIONS

LNG Energy Ltd. (the "Company") was incorporated on February 24, 2000 in the Province of British Columbia.

In November 2006 the Company disposed of its interest in its subsidiary, Pro Net Communications Inc. ("Pro Net") and acquired a 15% interest in certain oil and gas leases as described in notes 5, 6 and 8. Accordingly, the assets and liabilities, and the results of operations of Pro Net have been segregated and presented separately as discontinued operations in the financial statements.

On November 27, 2007, the Company completed the acquisition of 90% of the shares of Cheetah Oil & Gas Limited ("Cheetah BC"). Cheetah BC indirectly holds interests in approximately 8.4 million acres of land for oil and natural gas exploration in Papua New Guinea.

Effective March 28, 2008, the Company changed its name to "LNG Energy Ltd." to reflect its focus on oil and gas in Papua New Guinea. The Company's common shares began trading under the new symbol "LNG" on the TSX Venture Exchange on March 28, 2008.

2. GOING CONCERN

These unaudited interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. These principles assume that the Company will be able to realize its assets and discharge its obligations in the normal course of operations for the foreseeable future.

As at March 31, 2008, the Company had net working capital of \$29,728,832 and incurred a net loss of \$5,290,690 for the six months then March 31 2008. The Company is in the pre-production stage and has generated no revenues to date. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain the necessary financing to do so.

During the six months ended March 31, 2008, the Company completed its non-brokered private placement for gross proceeds of \$43,284,157, of which approximately \$14,863,000 has been used to fund the Company's acquisition of Cheetah BC.

Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption was not appropriate, adjustments might be necessary to the carrying values of assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the consolidated financial statements.

3. BASIS OF PRESENTATION

These unaudited consolidated interim financial statements do not include all the information and note disclosures required by Canadian generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the September 30, 2007 audited annual consolidated financial statements and the notes below.

LNG Energy Ltd.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)
For the Three and Six Months Ended March 31, 2008
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3. BASIS OF PRESENTATION (Continued)

Except for the changes in accounting policies described in Note 4, these unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements for the year ended September 30, 2007.

As a precise determination of many assets and liabilities is dependent upon future events, the preparation of unaudited consolidated interim financial statements for a period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may differ from these estimates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

These unaudited consolidated interim financial statements presented are those of LNG Energy Ltd. ("LNG") and the consolidated financial statements of its 90% owned subsidiary Cheetah Oil and Gas Limited ("Cheetah BC"). The consolidated interim financial statements include Cheetah BC's wholly-owned subsidiaries Cheetah Oil and Gas Limited ("Cheetah PNG") and Scotia Petroleum Limited ("Scotia PNG") and 98.65% owned Scotia Petroleum Inc. ("Scotia BC"). All intercompany transactions have been eliminated on consolidation. For the comparative year, the wholly-owned subsidiary Pro Net Communications Inc. was also included prior to sale.

b) Foreign currency translation

All of the Company's operations are considered financially and operationally integrated. The Canadian dollar is the Company's 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 rates of exchange prevailing on the transaction dates. Foreign exchange gains and losses are recorded in the statement of operations.

c) New accounting pronouncements

Effective October 1, 2007, the Company has adopted the new accounting standards related to capital disclosures that were issued by the Canadian Institute of Chartered Accountants ("CICA") in 2007. This accounting policy change is adopted on a prospective basis with no restatement of prior period financial statements. The new standard and accounting policy changes are as follows:

(i) Capital Disclosures (CICA Handbook Section 1535)

The CICA issued a new accounting standard, Section 1535, Capital Disclosures, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Financial Instruments – Disclosures (CICA Handbook Section 3862)

The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks.

(iii) Financial Instruments – Presentation (CICA Handbook Section 3863)

The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

d) Recent Accounting Pronouncements

As of January 1, 2009, the Company will be required to adopt the CICA Handbook Section 3064, "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit oriented Canadian publicly accountable enterprises. As the Company will be required to report its results in accordance with IFRS starting in 2011, the Company is assessing the potential impacts of this changeover and developing its plan accordingly.

e) Cash and Equivalents

Cash and equivalents consist of cash and short term deposits which, on acquisition, have a maturity of less than ninety days. The Company has total cash equivalents of \$30,369,185 as of March 31, 2008.

f) Equipment

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

Office furniture and equipment	15%
Vehicles	30%
Computer equipment and software	15% - 50%

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5. DISCONTINUED OPERATIONS

On November 28, 2006 the Company completed the Pro Net sale. The Company realized a loss on disposition of Pro Net calculated as follows:

Consideration received on Sale:		2007
Cash		\$ 100,000
Company shares returned for cancellation		115,000
Total Proceeds		215,000
Net Assets Disposed of		
Assets disposed of	\$ 309,222	
Liabilities transferred on disposition	(89,100)	
Net assets disposed of		220,122
Loss on disposal of subsidiary		\$ (5,122)

The following table presents summarized financial information related to discontinued operations:

Operations:	2007
Revenue	\$ 68,574
Expenses	
General and administrative	65,292
Income From Operations	3,282
Interest income	528
Net Income For The Year	\$ 3,810

6. ASSET ACQUISITION

On November 27, 2007, the Company completed the acquisition of 90% of the shares of Cheetah BC by exercising its right to acquire the shares for a price of \$14,859,755 (US\$15,000,000). Cheetah BC indirectly holds interests in approximately 8.4 million acres of land for oil and natural gas exploration in Papua New Guinea.

In connection with the acquisition, the Company issued 3,968,437 shares of the Company, at a deemed price of \$0.56 per share. These shares were issued January 11, 2008.

The total cash and share consideration was \$17,086,218 (US\$17,325,000). The transaction has been accounted for as an acquisition of assets by the Company. The allocation of the purchase price is based on net assets acquired at assigned value at the date of the acquisition.

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6. ASSET ACQUISITION (Continued)

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

Cash and cash equivalents	\$	1,281,121
Net working capital		(2,390,046)
Equipment		85,052
Oil and gas properties, unevaluated		22,252,972
Long term portion of capital lease		(9,677)
Future income taxes		(1,642,588)
Non-controlling shareholders interest		(2,490,616)
Total net assets acquired	\$	17,086,218

Consideration paid:		
Cash	\$	14,859,755
Shares		2,222,325
Acquisition costs		4,138
Total consideration paid	\$	17,086,218

The Company has also agreed to make an additional contribution of capital of \$9,007,030 (US\$9,138,904) to Cheetah BC on or before December 31, 2008.

7. NOTES RECEIVABLE

Notes receivable at March 31 2008 bear interest at 8% per annum and are secured by a pledge and security agreement granting the Company a first ranking security interest in all of the shares owned by Cheetah Oil and Gas Ltd (a State of Nevada U.S.A. company) ("Cheetah Nevada") in the capital of Cheetah BC. The expected term of the loan is for one year.

In addition, Cheetah Nevada will issue 100,000 of its common shares (the "Bonus Shares") to the Company. The Bonus Shares will be fully-paid and non-assessable shares. These shares had not been issued by March 31st 2008. The Bonus Shares are designated as held for trading.

Notes receivable at September 30 2007, included \$155,189 (US\$156,000) advanced to Cheetah BC. These advances were secured by promissory notes bearing interest of prime rate plus 2%. These notes were subsequently repaid.

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(in Canadian dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2008		
	COST	ACCUMULATED AMORTIZATION, DEPRECIATION AND IMPAIRMENT	NET BOOK VALUE
Oil and gas properties			
Papua New Guinea	\$ 22,461,711	\$ -	\$ 22,461,711
Palo Duro Basin	4,852,534	1,599,827	3,252,707
Vehicles – capital lease	47,792	29,380	18,412
Vehicles	21,056	10,514	10,542
Office furniture & equipment	26,172	10,956	15,216
Computer equipment	61,311	26,756	34,555
Computer software	6,670	3,007	3,663
	\$ 27,477,246	\$ 1,680,440	\$ 25,796,806

	September 30, 2007		
	COST	ACCUMULATED AMORTIZATION, DEPRECIATION AND IMPAIRMENT	NET BOOK VALUE
Oil and gas properties			
Papua New Guinea	\$ -	\$ -	\$ -
Palo Duro Basin	4,760,526	1,599,827	3,160,699
Computer equipment	4,886	305	4,581
	\$ 4,765,412	\$ 1,600,132	\$ 3,165,280

Papua New Guinea

The Company indirectly holds working interests ranging from 98.65% to 100% in six Petroleum Prospecting License's (PPL) through permits received from the Minister of Petroleum and Energy for Papua New Guinea with gross and net acreages of 8.4 million and 7.5 million respectively.

These licenses have an initial term of six years and will remain valid until the expiry dates (between September 17, 2009 and April 8, 2010) and are subject to minimum work expenditures and accomplishments being made. Provided that the licences are in good standing according to the Oil and Gas Act of Papua New Guinea, the Company may extend the term of the licences beyond the original term of six years, and the Company is able to apply for changes in the required expenditures. Upon discovery of oil or gas, a Petroleum Retention Licence can be obtained under the Oil and Gas Act of Papua New Guinea.

The properties over which the Company holds licences 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 expenses incurred in the development of the property. This back-in interest includes a 2% revenue royalty payment to indigenous groups, which is only payable if the government exercises its back-in right.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)
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8. OIL AND GAS PROPERTY (Continued)

During the three months ended March 31, 2008, the Company incurred an additional \$153,816 in oil and gas exploration costs.

Palo Duro Basin

On November 28, 2006, the Company acquired a 15% working interest in approximately 100,000 acres of oil and gas leases in the Palo Duro Basin, Texas (11.25% Net Revenue Interest).

During the three month ended March 31, 2008, the Company incurred an additional \$47,179 in oil and gas exploration costs.

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized

Unlimited common shares without par value

b) Issued

	NUMBER OF SHARES	CAPITAL STOCK	CONTRIBUTED SURPLUS
Balance, September 30, 2006 and 2005	3,560,833	\$ 356,360	\$ 147,742
Shares issued pursuant to private placements	29,706,667	3,725,907	-
Shares issued for acquisition of Palo Duro leases	10,000,000	800,000	-
Shares issued upon exercise of warrants	5,829,167	1,564,380	-
Shares issued upon exercise of agents' warrants	128,250	107,148	-
Shares issued upon exercise of options	1,795,000	1,394,454	(1,214,954)
Cancellation of escrow shares	(645,000)	(64,550)	-
Stock based compensation	-	-	3,065,000
Less: Share issue costs	-	(390,329)	-
Balance September 30, 2007	50,374,917	\$ 7,493,370	\$ 1,997,788
Shares issued pursuant to private placements	81,673,583	45,868,620	-
Shares issued upon exercise of warrants	7,278,278	2,260,776	-
Shares issued upon exercise of agents' warrants	325,750	272,152	-
Shares issued upon exercise of options	475,000	329,788	(272,288)
Stock based compensation	-	-	4,006,631
Shares subscription receivable	3,968,437	2,222,325	-
Warrants expired	-	-	269,228
Less: Share issue costs	-	(2,708,176)	-
Balance, March 31, 2008	144,095,965	\$ 55,738,855	\$ 6,001,359

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)
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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

On November 29, 2007, the Company completed its non-brokered private placement for gross proceeds of \$43,284,157 consisting of 77,293,138 shares at a price of \$0.56 per common share. An additional 4,380,445 common shares were issued as a finders' fee in connection with the private placement.

On November 29, 2006, the Company completed a private placement for \$1,760,000 consisting of 22,000,000 units at a price of \$0.08 per unit. Each unit is comprised of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of \$0.16 for a period of two years. The gross proceeds have been allocated \$942,978 to the common shares and \$817,022 to the share purchase warrants. The share purchase warrants were valued using the Black-Scholes pricing option model using the following assumptions: 134% volatility, 3.9% risk free interest rate, an expected life of two years and 0% dividend yield.

On November 29, 2006, the Company completed another private placement for \$3,468,000 consisting of 7,706,667 units at a price of \$0.45 per unit. Each unit is comprised of one common share and one-half of a share purchase warrant with each whole warrant entitling the holder to acquire one common share at a price of \$0.55 for a period of one year. The gross proceeds have been allocated \$2,782,929 to the common shares and \$685,071 to the share purchase warrants.

The share purchase warrants were valued using the Black-Scholes pricing option model using the following assumptions: 108% volatility, 3.9% risk free interest rate, an expected life of one year and 0% dividend yield.

Pursuant to the November 29, 2006 private placement, the Company paid cash commission of \$122,850 and issued 454,000 agent's warrants with a fair value of \$175,000 as finders' fees. Each agent's warrant is exercisable for one common share at a price of \$0.45 per share for a period of one year. The fair value of the agent's warrants was estimated using the Black-Scholes pricing option model using the following assumptions: 108% volatility, 3.9% risk free interest rate, an expected life of one year and 0% dividend yield.

c) Stock Options

The following table summarizes information about stock option transactions:

	NUMBER OF SHARES	AVERAGE EXERCISE EXERCISE PRICE
Balance, September 30, 2005	532,500	\$ 0.24
Expired	(132,500)	(0.40)
Balance, September 30, 2006	400,000	0.20
Cancelled	(225,000)	0.20
Granted	5,020,000	0.27
Exercised	(1,795,000)	0.10
Balance, September 30, 2007	3,400,000	0.38
Granted	8,750,000	0.58
Exercised	(475,000)	0.12
Balance, March 31, 2008	11,675,000	\$ 0.54

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

The following table summarizes information about the stock options outstanding at December 31, 2007:

EXERCISE PRICE	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE	EXPIRY DATE
\$0.20	75,000	75,000	December 16, 2009
\$0.10	1,200,000	1,200,000	November 27, 2011
\$0.67	921,000	921,000	September 20, 2012
\$0.67	729,000	554,000	September 21, 2012
\$0.58	7,600,000	7,600,000	November 27, 2012
\$0.56	1,150,000	-	February 1, 2013
	11,675,000	10,350,000	

During the six month ended March 31, 2008, the Company recorded stock based compensation expense of \$4,006,631 (2007 - \$399,000). The fair value of the options granted has been estimated on the date of grant using the Black-Scholes option-pricing model.

Assumptions used in the option-pricing model are as follows:

	At March 31	
	2008	2007
Risk-free interest rate	3.45% - 3.92%	3.46 - 4.01%
Expected life	5 years	2 - 5 year
Expected volatility	122.34% - 133.71%	120% - 226%
Expected dividends	Nil	Nil
Average Fair value (\$ per option)	0.52	0.65

d) Warrants

The following table summarizes information about warrant transactions:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE	CARRYING AMOUNT
Balance, September 30, 2005	350,000	\$ 0.64	\$ -
Expired	(350,000)	0.64	-
Balance, September 30, 2006	-	-	-
Granted	26,307,334	0.22	1,677,093
Exercised	(5,957,417)	0.22	(375,973)
Balance September 30, 2007	20,349,917	0.22	1,301,120
Exercised	(7,604,028)	0.25	(614,782)
Expired	(1,514,334)	0.45	(269,228)
Balance, March 31, 2008	11,231,555	\$ 0.16	\$ 417,110

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

The 11,231,555 warrants are at an exercise price of \$0.16 and expire on November 28, 2008.

e) Escrow Shares

As at March 31, 2008, the Company has 6,161,249 common shares held in escrow to be released in tranches of 15% every six months up to November 28, 2009.

10. LONG TERM DEBT – CAPITAL LEASE

The Company is obligated under a capital lease to future minimum annual lease payments that are due as follows:

2008	\$	6,975
2009		12,788
		<u>19,763</u>
Less: amount representing interest at 13.75%		<u>(1,693)</u>
Present value of future minimum lease obligations		18,070
Less: Current Portion		<u>12,387</u>
Long Term Portion	\$	<u>5,683</u>

11. RELATED PARTY TRANSACTIONS AND BALANCES

For the period ended March 31, 2008, amounts paid to companies controlled by directors and officers of the Company were as follows:

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
Management and Consulting Services paid to current directors and officers	\$ 65,000	\$ 19,500	\$ 133,400	\$ 39,000
Management and Consulting Services included in Discontinued Operations	–	–	–	20,000
Directors Fees paid to a former officer of the Company	–	–	7,500	–
Directors Fees paid to current officers of the Company	7,000	–	36,500	–
	<u>\$ 72,000</u>	<u>\$ 19,500</u>	<u>\$ 177,400</u>	<u>\$ 59,000</u>

These expenditures were measured at the exchange amount, which are amounts agreed upon by the transacting parties.

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11. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

	As at	
	March 31, 2008	September 30, 2007
Accounts Payable:		
Amounts due to officers or companies controlled by officers of the company	\$ 42,357	\$ 6,340

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	For the Three Months Ended March 31		For the Six Months Ended March 31	
	2008	2007	2008	2007
Amounts receivable	\$ (51,994)	\$ (3,828)	\$ (58,283)	\$ (8,782)
Prepaid expenses and other term deposits	(23,590)	(16,243)	(63,959)	(16,243)
Notes Receivable	-	-	155,189	-
Accounts payable and accrued liabilities	(3,193,378)	(48,510)	(1,597,480)	47,266
Current portion of capital lease obligations	506	-	542	-
Change in non-cash working capital	\$ (3,268,456)	\$ (68,581)	\$ (1,563,991)	\$ 22,241
Relating to:				
Operating activities	452,180	(68,581)	105,433	22,241
Investing activities	(3,720,636)	-	(1,669,424)	-
Change in non-cash working capital	\$ (3,268,456)	\$ (68,581)	\$ (1,563,991)	\$ 22,241

b) Other non-cash transactions that occurred during the three and six months ended March 31, 2008 are:

	For the Three Months Ended March 31		For the Six Months Ended March 31	
	2008	2007	2008	2007
Common Shares issued related to acquisition of subsidiary	\$ -	\$ -	\$ 2,222,325	\$ -
Common shares issued as a finders' fee in connection with the private placement charged to share issue costs.	-	-	2,584,463	-

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

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

	March 31, 2008	September 30, 2007
Cash	\$ 1,630,850	\$ 657,446
Short term investments	28,738,335	-
	<u>\$ 30,369,185</u>	<u>\$ 657,446</u>

Cash and cash equivalents are classified as "held for trading" and are measured at carrying value which approximates the fair values due to the short term nature of these instruments.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial assets and liabilities

The carrying amount for cash and cash equivalents, interest receivable, notes receivable, accounts payable and accrued liabilities and capital lease obligations on the balance sheet approximate fair value because of the limited term of these instruments.

Foreign currency risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates. 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.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

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 and short term investments.

14. CAPITAL MANAGEMENT

The Company manages its capital to ensure 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, share purchase warrants, 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.

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14. CAPITAL MANAGEMENT (Continued)

As at March 31, 2008, total managed capital was \$51,444,909 (September 30, 2007 - \$5,427,672), comprised of share capital of \$55,738,855 (September 30, 2007 - \$7,550,489), share purchase warrants of \$417,110 (September 30, 2007 - \$1,301,120), contributed surplus of \$6,001,359 (September 30, 2007 - \$1,997,788) and a deficit of \$10,712,415 (September 30, 2007 - \$5,421,725).

15. SEGMENTED REPORTING

Geographic Information:

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

March 31, 2008	Papua New Guinea	United States	Canada	Total
Current assets	\$ 281,201	\$ -	\$ 30,726,424	\$ 31,007,625
Exploration advances	-	59,309	-	59,309
Property, plant and equipment	22,540,663	3,252,707	3,436	25,796,806
Total assets	\$ 22,821,864	\$ 3,312,016	\$ 30,729,860	\$ 56,863,740

September 30, 2007	Papua New Guinea	United States	Canada	Total
Current assets	\$ -	\$ -	\$ 844,381	\$ 844,381
Deferred acquisition costs	-	-	1,623,395	1,623,395
Deferred financing costs	-	-	4,093	4,093
Exploration advances	-	64,133	-	64,133
Property, plant and equipment	-	3,160,699	4,581	3,165,280
Total assets	\$ -	\$ 3,224,832	\$ 2,476,450	\$ 5,701,282

16. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.

The results for the six months ended March 31 2007 have been restated for comparative purposes to reflect an adjustment in the three months ended September 30 2007 to the gain on disposal of discontinued operations previously reported.

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17. SUBSEQUENT EVENTS

Subsequent to March 31, 2008:

Options granted:

2,225,000 options were granted to officers, employees and consultants of the Company, exercisable over 5 years at an exercise price of \$0.275 per share.