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

## CONSOLIDATED AUDITED FINANCIAL STATEMENTS

**SEPTEMBER 30, 2008 and 2007**
**(stated in Canadian Dollars)**

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# AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of LNG Energy Ltd. (formerly Invicta Oil & Gas Ltd.) as at September 30, 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at September 30, 2007 and for the year then ended, prior to adjustments for discontinued operations as described in Note 5, were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated January 21, 2008. We have audited the adjustments to the 2007 financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

Chartered Accountants

KPMG LLP

Calgary, Canada

January 22, 2009

# LNG ENERGY LTD.
# (Formerly Invicta Oil & Gas Ltd.)
# CONSOLIDATED BALANCE SHEETS

| | | September 30 | | |
|---|---|---|---|---|
| | | **2008** | | 2007 |
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash and cash equivalents (Note 14) | **$** | **11,319,398** | $ | 657,446 |
| Short term investments (Note 16) | | **14,651,262** | | - |
| Amounts receivable | | **293,330** | | 28,260 |
| Notes receivable (Note 7) | | **-** | | 155,189 |
| Prepaid expenses, advances and other term deposits | | **442,824** | | 67,619 |
| Assets held for sale (Notes 5 and 9) | | **204,546** | | - |
| | | **26,911,360** | | 908,514 |
| **Acquisition deposit** (note 6) | | **-** | | 1,623,395 |
| **Note receivable** (Note 7) | | **300,000** | | - |
| **Deferred financing costs** | | **-** | | 4,093 |
| **Investments** (Note 8) | | **2,130** | | - |
| **Property and equipment** (Note 9) | | **24,444,489** | | 3,165,280 |
| | **$** | **51,657,979** | $ | 5,701,282 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | **$** | **1,654,106** | $ | 233,818 |
| Asset retirement obligation on assets held for sale (Note 10) | | **16,983** | | - |
| Capital lease obligation (Note 12) | | **13,322** | | - |
| Loan payable (Note 12) | | **-** | | 39,792 |
| | | **1,684,411** | | 273,610 |
| **Long term** | | | | |
| Future income taxes (Note 15) | | **1,553,302** | | - |
| **Non-controlling interest** | | **2,385,792** | | - |
| **SHAREHOLDERS' EQUITY** | | | | |
| **Share capital** (Note 11) | | **55,738,855** | | 7,493,370 |
| **Share subscription received** | | **-** | | 57,119 |
| **Warrants** (Note 11) | | **417,110** | | 1,301,120 |
| **Contributed surplus** (Note 11) | | **6,365,200** | | 1,997,788 |
| **Deficit** | | **(16,486,691)** | | (5,421,725) |
| | | **46,034,474** | | 5,427,672 |
| | **$** | **51,657,979** | $ | 5,701,282 |

Future Operations (Note 2), Commitments (Notes 9 and 20), Subsequent events (Notes 11 and 20).

Approved on behalf of the Board of Directors:

"David Cohen"
Director

"Robert Cross"
Director

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

## CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

| | YEARS ENDED SEPTEMBER 30 | |
|---|---|---|
| | **2008** | 2007 |
| **Expenses** | | |
| Depreciation | **$ 22,765** | $ 305 |
| Bank charges | **5,066** | 824 |
| Foreign exchange loss | **-** | 14,900 |
| General and administration | **1,410,663** | 68,422 |
| Impairment write-down (Note 9) | **819,341** | - |
| Loss on disposal of property and equipment | **834** | - |
| Operations and explorations | **3,632** | - |
| Professional fees (Note 13) | **1,664,299** | 303,145 |
| Stock based compensation (Note 11) | **4,296,068** | 3,065,000 |
| Travel and business development | **594,668** | 37,323 |
| | **(8,817,336)** | (3,489,919) |
| **Interest and other income** | **779,503** | 38,212 |
| **Foreign exchange gain** | **175,648** | - |
| **Loss from continuing operations before the following** | **(7,862,185)** | (3,451,707) |
| **Current income taxes** (Note 15) | **(266,358)** | - |
| **Loss from continuing operations after taxes** | **(8,128,543)** | (3,451,707) |
| **Non-controlling interest** (Note 6) | **165,700** | - |
| **Loss from continuing operations** | **(7,962,843)** | **(3,451,707)** |
| **Discontinued operations** (Note 5) | | |
| Palo Duro assets | **(3,102,123)** | (1,613,489) |
| Pro Net Communications Inc. | **-** | 3,810 |
| **Loss from disposal of discontinued operations** (Note 5) | **-** | (5,122) |
| **Net loss and comprehensive loss for the year** | **(11,064,966)** | (5,066,508) |
| **Deficit, beginning of year** | **(5,421,725)** | (304,767) |
| **Repurchase of common shares** | **-** | (50,450) |
| **Deficit, end of year** | **$ (16,486,691)** | $ (5,421,725) |
| **Basic and diluted loss per share from continuing operations** | **$ (0.06)** | $ (0.12) |
| **Basic and diluted loss per share** | **$ (0.08)** | $ (0.17) |
| **Weighted average number of shares outstanding** | **130,378,724** | 29,066,846 |

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

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEARS ENDED SEPTEMBER 30 | |
|---|---|---|
| | **2008** | 2007 |
| **Cash flows used by operating activities** | | |
| Loss from continuing operations | **$ (7,962,843)** | $ (3,451,707) |
| Items not affecting cash: | | |
| Depreciation | **22,765** | 305 |
| Impairment write-down | **819,341** | - |
| Stock based compensation | **4,296,068** | 3,065,000 |
| Unrealized foreign exchange | **78,287** | - |
| Write-off of property and equipment | **3,980** | - |
| Other interest income | **(1,295)** | - |
| Defered financing cost amortized | **4,093** | - |
| Non-controlling interest | **(165,700)** | - |
| | **(2,905,304)** | (386,402) |
| Changes in non-cash working capital | **586,613** | 5,380 |
| | **(2,318,691)** | (381,022) |
| Discontinued operations | | |
| Loss from discontinued operations (Note 5) | **(3,102,123)** | (1,613,489) |
| Items not affecting cash: | | |
| Accretion | **1,097** | - |
| Impairment write-down | **3,085,092** | 1,599,827 |
| | **(15,934)** | (13,662) |
| | **(2,334,625)** | (394,684) |
| **Cash flows used by investing activities** | | |
| Asset acquisition | **(11,350,624)** | (1,623,395) |
| Property and equipment purchased | **(69,664)** | (4,886) |
| Proceeds on disposal of property and equipment | **374** | - |
| Notes receivable issued | **(300,000)** | (155,189) |
| Notes receivable received | **155,189** | - |
| Oil and gas property expenditures | **(3,441,444)** | - |
| Short term investments | **(14,651,262)** | - |
| Changes in non-cash working capital | **(2,263,211)** | 99,481 |
| Discontinued operations | **(114,154)** | (3,860,526) |
| | **(32,034,796)** | (5,544,515) |
| **Cash flows from financing activities** | | |
| Share capital issued, net of share issue cost | **43,103,325** | 6,467,726 |
| Subscription receipts | **-** | 57,119 |
| Shares issued on warrants and options exercised | **1,975,646** | - |
| Deferred financing fees | **-** | (4,093) |
| Loan payable | **(39,792)** | 39,792 |
| Capital lease repayments | **(7,806)** | - |
| | **45,031,373** | 6,560,544 |
| **Net increase in cash and cash equivalents** | **10,661,952** | 621,345 |
| **Cash and cash equivalents, beginning of year** | **657,446** | 36,101 |
| **Cash and cash equivalents, end of year** | **$ 11,319,398** | $ 657,446 |

Supplemental disclosure with respect to cash flows (Note 14).

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.

In November 2006 the Company disposed of its interest in its subsidiary, Pro Net Communications Inc. (“Pro Net” - see note 5) and acquired a 15% interest in certain oil and gas leases as described in notes 6 and 9. Accordingly, the assets and liabilities, and the results of operations of Pro Net were segregated and presented separately as discontinued operations in the financial statements for fiscal 2007 and 2008. During fiscal 2008, the Company entered into a letter of intent to sell its 15% interest in oil and gas properties, comprising all of its U.S. operations, as described in note 5 and accordingly, these have been presented as discontinued operations.

On November 27, 2007, the Company completed the acquisition of 90% of the shares of LNG Energy (BC) Ltd. (“LNG BC”), formerly Cheetah Oil & Gas Limited. LNG BC indirectly holds interests in approximately 5.5 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. FUTURE OPERATIONS

These audited 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 September 30, 2008, the Company had net working capital of $25,226,949 (September 30, 2007 - $634,904) and incurred a net loss of $11,064,966 for year ended September 30, 2008 (September 30, 2007 - $5,066,508). The Company is in the exploration stage and has no proved reserves or production relating to its properties in Papua New Guinea. 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.

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING 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 90% owned subsidiary LNG Energy (BC) Ltd. ("LNG BC"), formerly Cheetah Oil and Gas Limited. The consolidated financial statements include LNG BC's wholly-owned subsidiaries LNG Energy (PNG) Limited ("LNG PNG"), formerly Cheetah Oil and Gas (PNG) Limited, LNG Energy No. 2 Limited ("LNG No. 2"), formerly Scotia Petroleum Limited, and 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 and each of its subsidiaries' 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) Cash and Equivalents

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

### d) Loss Per Share

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. Basic loss per share figures has been calculated using the weighted monthly 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.

### e) Use of Estimates

The preparation of 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. Actual results could differ from these estimates and these differences could have a significant impact on the financial statements.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**f) Financial Instruments**

The Company classifies all financial instruments as 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 Deficit.

The Company has classified its financial instruments as follows:

| | |
|---|---|
| Cash and cash equivalents | Held for trading |
| Short term investments | Held for trading |
| Amounts receivables | Loans and receivables |
| Notes receivable | Loans and receivables |
| Investments | Held for trading |
| Accounts payable and accrued liabilities | Other liabilities |
| Capital lease obligations | Other liabilities |
| Loan payable | Other liabilities |

**g) Property and Equipment**

**Oil and Gas Interest**

The Company follows the Canadian full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized on a country-by-country basis. Such costs include land acquisitions, drilling, well equipment, geological and geophysical, and overhead expenses related to exploration and development activities. Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a material change in the rate of depletion and depreciation.

Costs capitalized in the cost centres, including facilities and well equipment, together with estimated future capital costs associated with proven reserves, are depleted and depreciated using the unit-of-production method which is based on gross production and estimated proven oil and gas reserves as determined by the Company. The cost of significant unevaluated properties is excluded from the depletion and depreciation base. For purposes of the depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

The Company uses Canadian standards for full cost accounting and for the ceiling test calculation pertaining to the measurement of impairment of petroleum and natural gas properties. In applying the full cost method, the Company evaluates petroleum and natural gas assets to determine that the carrying amount in each cost centre is recoverable and does not exceed the fair value of the properties in the cost centre. The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and the market of unproved properties exceeds the carrying amount of the cost centre.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### g) Property and Equipment

**Oil and Gas Interest** (Continued)

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% |

### 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 included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At September 30, 2008, the Company had classified its asset retirement obligation as held for sale.

### i) Stock-based Compensation

The Company has a stock-based compensation plan, whereby stock options are granted to employees and non-employees in accordance with the policies of regulatory authorities. The fair value of all share purchase options granted is 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 actual 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 highly 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.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**j) 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. The Company has not recognized potential future benefit amounts as the criteria for recognition under Canadian generally accepted accounting principles have not been met.

**k) 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.

**l) 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.

**m) Adoption of New Accounting Standards**

Effective October 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). This accounting policy change is adopted on a prospective basis with no restatement of prior period financial statements.

**(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. Refer to note 17 for the disclosure.

**(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. Refer to note 16 for the disclosures.

**(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. Refer to note 16 for the disclosures.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### m) Adoption of New Accounting Standards (Continued)

**(iv) General Standards of Financial Statement Presentation – Presentation (CICA Handbook Section 1400)**

The objective of Section 1400 is to include the requirement for management to assess the entity's ability to continue as a going concern at any time that the financial statements are reported and disclose any material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern.

### n) 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 is not considered to 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.

## 5. DISCONTINUED OPERATIONS

### a) Palo Duro assets

On September 9, 2008, the Company entered into a letter of intent with a third party, Tyner Resources Ltd. ("Tyner"), whereby the Company has agreed to transfer to Tyner its 15% working interest in oil and gas leases in the Palo Duro Basin. In consideration of the transfer of the interest, Tyner has agreed to issue 9,378,208 common shares in its capital stock to the Company, which represents 13.2% of the number of the issued and outstanding shares of Tyner.

The value of Tyner shares to be received based on the average trading share price around September 9, 2008 was approximately $0.102 per share.

On December 30, 2008, the Company finalized the sale of the Palo Duro assets with Tyner and the value of the Tyner shares on the date of closing was approximately $0.02 per share, resulting in aggregate consideration received of $187,563. A director of LNG is also the President and a director of Tyner, and accordingly, abstained from voting on the approval of the transaction.

(in Canadian dollars)

**5. DISCONTINUED OPERATIONS** (Continued)

a) **Palo Duro assets** (Continued)

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

| OPERATIONS | | 2008 | | 2007 |
|---|---|---|---|---|
| Revenue | $ | - | $ | - |
| Expenses | | | | |
| Accretion | | 1,097 | | - |
| Operations and exploration | | 15,934 | | - |
| General and administration | | - | | 8,200 |
| Impairment write-down | | 3,085,092 | | 1,599,827 |
| Professional fees | | - | | 946 |
| Foreign exchange loss | | - | | 7,011 |
| | | (3,102,123) | | (1,615,984) |
| Interest income | | - | | 2,495 |
| Loss from discontinued operations | $ | (3,102,123) | $ | (1,613,489) |

**b) Sale of Pro Net Communications Inc.**

On February 20, 2006 the Company entered into an agreement with a Director and Officer (the "Purchaser") whereby the Company would sell to the Purchaser all of the issued and outstanding shares of Pro Net Communications Inc. ("Pro Net"), a wholly-owned subsidiary of the Company, for consideration of $100,000 cash, the return for cancellation of 645,000 shares of the Company held by the Purchaser and the assumption of all the existing lease and payable obligations of Pro Net.

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: | | | | |
| 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 from discontinued operations | | | $ | (5,122) |

(in Canadian dollars)

**5. DISCONTINUED OPERATIONS** (Continued)

**b) Sale of Pro Net Communications Inc.** (Continued)

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

| OPERATIONS | | 2008 | | 2007 |
|---|---|---|---|---|
| Revenue | $ | - | $ | 68,574 |
| Expenses | | | | |
| General and Administration | | - | | 65,292 |
| | | - | | 3,282 |
| Interest income | | - | | 528 |
| Income from discontinued operations | $ | - | $ | 3,810 |

**6. ASSET ACQUISITION**

On November 27, 2007, the Company completed the acquisition of 90% of the shares of LNG BC from Cheetah Oil and Gas Ltd ("Cheetah Nevada"). The total cash and share consideration was $17,086,218 (US$17,329,077). LNG BC indirectly holds interests in approximately 5.5 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.

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

| | | |
|---|---|---|
| Net working capital deficit (net of cash and cash equivalent of $1,889,874) | $ | (488,714) |
| Equipment | | 85,052 |
| Oil and gas properties | | 21,615,802 |
| Capital lease obligation | | (21,128) |
| Future income taxes | | (1,553,302) |
| Non-controlling interest | | (2,551,492) |
| 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 advanced $1,623,395 related to this acquisition during fiscal 2007.

(in Canadian dollars)

## 7. NOTE RECEIVABLE

The note receivable due from Cheetah Oil and Gas Ltd. (“Cheetah Nevada”) at September 30, 2008 bears interest at 8% per annum and is secured by a pledge and security agreement granting the Company a first ranking security interest in all of the shares owned by Cheetah Nevada in the capital of LNG BC. The note receivable is repayable within 90 days of written demand for repayment being made. The note receivable was settled subsequent to September 30, 2008 (See note 20).

Notes receivable at September 30 2007, included $155,189 (US$156,000) advanced to LNG BC. These advances were secured by promissory notes bearing interest at prime rate plus 2% per annum. These notes were repaid during fiscal 2008.

## 8. INVESTMENTS

| | As at September 30 | |
|---|---|---|
| | 2008 | 2007 |
| Sterling West Management Ltd | $ 2 | $ - |
| Cheetah Nevada | 2,128 | - |
| | $ 2,130 | $ - |

The Company has entered into a service relationship with a group of companies for the provision of administrative, office support and management services. The Company subscribed for one share at $2 per share in the private company. Upon execution of the agreement, each participant is required to provide a deposit to the entity. The Company’s share of the deposit was determined to be $28,500.

Cheetah Nevada issued 100,000 of its common shares to the Company as fully-paid and non-assessable shares in connection with note receivable described in note 7. These shares are designated as held for trading.

## 9. PROPERTY AND EQUIPMENT

| | September 30, 2008 | | |
|---|---|---|---|
| | **COST** | **ACCUMULATED AMORTIZATION, DEPRECIATION & IMPAIRMENT** | **NET BOOK VALUE** |
| Oil and gas properties | | | |
| Papua New Guinea | $ 25,131,650 | $ 819,341 | $ 24,312,309 |
| Vehicles - capital lease | 47,792 | 32,365 | 15,427 |
| Vehicles | 67,367 | 16,854 | 50,513 |
| Office furnitures and equipment | 38,780 | 11,691 | 27,089 |
| Computer equipment | 65,918 | 30,000 | 35,918 |
| Computer software | 6,135 | 2,902 | 3,233 |
| | $ 25,357,642 | $ 913,153 | $ 24,444,489 |

(in Canadian dollars)

## 9. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | September 30, 2007 | | |
|---|---|---|---|
| | COST | ACCUMULATED AMORTIZATION, DEPRECIATION & IMPAIRMENT | NET BOOK VALUE |
| Oil and gas properties | $ 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 holds working interests of 90% in five Petroleum Prospecting License's (PPL) and one Petroleum Retention License (PRL) through permits received from the Minister of Petroleum and Energy for Papua New Guinea.

These licenses had an initial term of six years 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.

These properties are subject to a 22.5% back-in participation right in favour of the government, which the government may exercise upon payment of 22.5% of the expenses incurred in the development of the property. The back-in participation right includes a 2% revenue royalty payment obligation to indigenous groups, which is only payable if the government exercises its back-in participation right.

During the year ended September 30, 2008, the Company relinquished a PPL. As at September 30, 2008, the Company is not expected to re-apply for this PPL, and accordingly a write-down of $819,341 has been recorded during 2008 representing the carrying amount of the PPL.

The PPLs and PRL are considered unproved at September 30, 2008 and as no production has occurred, no depletion has been recorded. During the year ended September 30, 2008, $356,460 (September 30, 2007 - $Nil) of general and administrative costs were capitalized, of which $74,404 (September 30, 2007 - $Nil) related to capitalized stock based compensation expenses.

As mentioned in Note 20, subsequent to September 30, 2008, the Company received approval from the government of Papua New Guinea for the relinquishment and re-application of its licenses. The new licenses granted now have a new 6 year term along with new expenditure commitments for each PPL.

(in Canadian dollars)

## 9. PROPERTY, PLANT AND EQUIPMENT (Continued)

**Palo Duro Basin**

On November 28, 2006, the Company acquired a 15% working interest in certain oil and gas leases in the Palo Duro Basin, Texas (11.25% Net Revenue Interest) for total consideration of $800,000 paid through the issuance of 10,000,000 shares of the Company.

The Company sold all of its 15% working interest in oil and gas leases in the Palo Duro Basin as more fully explained in note 5.

The fair value of the properties was determined based on estimated gross proceeds to be generated from the subsequent sale of the properties mentioned in note 5. Accordingly, a write-down of $3,085,092 was required to reflect impairment in these assets.

## 10. ASSET RETIREMENT OBLIGATION ON ASSETS HELD FOR SALE

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the asset retirement costs of the oil and gas asset in the Palo Duro asset:

| | As at September 30, 2008 | As as September 30, 2007 |
|---|---|---|
| Balance, beginning of year | $ - | $ - |
| Liabilities incurred | 14,786 | - |
| Change in estimate | 1,100 | - |
| Accretion | 1,097 | - |
| **Balance, end of year** | $ 16,983 | $ - |

At September 30, 2008, the undiscounted expected cash flows required to settle the Company's asset retirement obligation is estimated to be $Nil in connection with the sale of the Palo Duro asset to a third party. The calculation was assessed using a risk-free rate of 7.00% and an assumed inflation rate of 1.50% per annum.

(in Canadian dollars)

### 11. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized

Unlimited common shares without par value

b) Issued

| | NUMBER OF SHARES | | SHARE CAPITAL | | CONTRIBUTED SURPLUS |
|---|---|---|---|---|---|
| Balance, September 30, 2005 and 2006 | 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 | - | | - | | 4,370,472 |
| Shares issued on acquisition (Note 6) | 3,968,437 | | 2,222,325 | | - |
| Warrants expired | - | | - | | 269,228 |
| Less: Share issue costs | - | | (2,708,176) | | - |
| **Balance September 30, 2008** | **144,095,965** | **$** | **55,738,855** | **$** | **6,365,200** |

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.

(in Canadian dollars)

**11. SHARE CAPITAL AND CONTRIBUTED SURPLUS** (Continued)

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 OPTIONS | AVERAGE 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 | 12,475,000 | $0.52 |
| Exercised | (475,000) | $0.13 |
| Cancelled | (1,850,000) | $0.67 |
| **Balance, September 30, 2008** | **13,550,000** | **$0.49** |

(in Canadian dollars)

**11. SHARE CAPITAL AND CONTRIBUTED SURPLUS** (Continued)

The following table summarizes information about the stock options outstanding at September 30, 2008:

| EXERCISE PRICE | OUTSTANDING OPTIONS | 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 | 379,000 | 379,000 | September 21, 2012 |
| $0.58 | 6,100,000 | 6,100,000 | November 27, 2012 |
| $0.56 | 1,150,000 | 383,333 | February 1, 2013 |
| $0.58 | 1,500,000 | 1,500,000 | February 1, 2013 |
| $0.28 | 2,225,000 | 1,118,750 | May 1, 2013 |
| | 13,550,000 | 11,677,083 | |

During the year ended September 30, 2008, the Company recorded stock based compensation expense of $4,296,068 (September 30, 2007 – $3,065,000). This is net of the $74,404 of stock based compensation capitalized to oil and gas properties for the year ended September 30, 2008 (For the year ended September 30, 2007 – Nil). 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 September 30 | |
|---|---|---|
| | **2008** | **2007** |
| Risk-free interest rate | 2.88% - 3.96% | 3.91% - 4.39% |
| Expected life | 5 years | 1 - 5 years |
| Expected volatility | 117.72% - 133.71% | 108% - 142% |
| Expected dividends | Nil | Nil |
| Average Fair value ($ per option) | 0.47 | 0.38 |

(in Canadian dollars)

## 11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

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 |
| Expired | (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) | 0.55 | (269,228) |
| **Balance September 30, 2008** | **11,231,555** | **$0.16** | **$ 417,110** |

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

On November 29, 2008, 11,231,555 share purchase warrants with an exercise price of $0.16 expired without exercise. No warrants remain outstanding and exercisable

e) Escrow Shares

As at September 30, 2008, the Company has 4,620,936 (2007 – 7,701,562) common shares held in escrow to be released in tranches of 15% every six months up to November 28, 2009.

## 12. CAPITAL LEASE OBLIGATION AND LOAN PAYABLE

**a) Capital Lease Obligation**

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

| | | |
|---|---|---|
| 2009 | $ | 14,182 |
| | | 14,182 |
| Less: amount representing interest at 13.75% | | (860) |
| Present value of future minimum lease obligations | | 13,322 |
| Less: Current Portion | | 13,322 |
| Long Term Portion | $ | – |

**b) Loan Payable**

The Company was advanced a loan of $39,792 (US$40,000) by a private company in September 30, 2007. The loan was unsecured, non-interest bearing and repaid during the year.

(in Canadian dollars)

## 13. RELATED PARTY TRANSACTIONS AND BALANCES

For the years ended September 30, 2008 and 2007, amounts paid to companies controlled by directors and officers of the Company were as follows:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Management and Consulting Services paid to current directors and officers | $ | 185,400 | $ | 122,600 |
| Management and Consulting Services paid to former directors and officers | | 247,600 | | - |
| Director Fees paid to a former officer of the Company | | 7,500 | | - |
| Director Fees paid to a current independent directors of the Company | | 52,500 | | - |
| | $ | 493,000 | $ | 122,600 |

These expenditures are included in professional fees and were measured at the exchange amount, which are amounts agreed upon by the transacting parties.

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Accounts Payable:<br>Amounts due to officers or companies controlled by officers of the company | $ | - | $ | 6,340 |

## 14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

| | September 30 | | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| Amounts receivable | $ | (222,564) | $ | (12,937) |
| Prepaid expenses, advances and other term deposits | | (496,625) | | (67,618) |
| Accounts payable and accrued liabilities | | (957,409) | | 185,416 |
| Change in non-cash working capital | $ | (1,676,598) | $ | 104,861 |
| Relating to: | | | | |
| Operating activities | $ | 586,613 | $ | 5,380 |
| Investing activities | | (2,263,211) | | 99,481 |
| Change in non-cash working capital | $ | (1,676,598) | $ | 104,861 |

(in Canadian dollars)

**14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS** (Continued)

b) Other non-cash transactions that occurred during the years ended September 30, 2008 and 2007 are:

| | September 30 | |
|---|---|---|
| | **2008** | **2007** |
| Common shares issued related to acquisition of subsidiary (Note 6) | $ 2,222,325 | $ - |
| Common shares issued as a finders' fee in connection with the private placement charged to share issue costs. | $ 2,584,463 | $ - |

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

| | September 30 | |
|---|---|---|
| | **2008** | **2007** |
| Cash | $ 1,757,979 | $ 657,446 |
| Cash equivalents | 9,561,419 | - |
| | $ 11,319,398 | $ 657,446 |

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 with maturity at acquisition not exceeding 90 days, bearing interest at rates of 2.9% per annum.

d) Other cash flow items:

| | September 30 | |
|---|---|---|
| | **2008** | **2007** |
| Cash paid for interest | - | $231 |

(in Canadian dollars)

## 15. INCOME TAXES

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

| | September 30 | |
|---|---|---|
| | **2008** | **2007** |
| Statutory rates | 30% | 34% |
| Recovery of income taxes computed at statutory rates | $ (3,287,000) | $ (1,735,000) |
| Non-deductible items | 1,297,000 | 1,060,000 |
| Depreciation and amortization in excess of capital cost allowance claimed for income tax purposes | - | 548,000 |
| Share issue cost | - | (15,000) |
| Capital gains tax | 266,358 | - |
| Change in enacted tax rates | 378,000 | - |
| Expiry of loss carry forward | 26,000 | - |
| Unrealized foreign exchange gain | (44,000) | - |
| Change in valuation allowance | 1,630,000 | 142,000 |
| | $ 266,358 | $ - |

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 | |
|---|---|---|
| | **2008** | **2007** |
| Future income tax assets: | | |
| Non-capital loss carry forward | $ 1,720,000 | $ 352,000 |
| Unrealized foreign exchange | 57,000 | - |
| Capital loss carry forward | 80,000 | 106,000 |
| Share issue costs | 596,000 | 59,000 |
| Property and equipment | 1,000 | - |
| Resource related assets | 2,876,000 | 548,000 |
| Less: Valuation allowance | (5,330,000) | (1,065,000) |
| | **$ -** | $ - |
| Future income tax liabilities: | | |
| Resource related assets | $ (1,428,000) | $ - |
| Other timing differences | (125,302) | - |
| | **$ (1,553,302)** | $ - |

## 15. INCOME TAXES (Continued)

The Company has non-capital losses carried forward of approximately $6,287,000 which may be available to offset future income for income tax purposes expiring over the periods 2009 to 2027.

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment 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.

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

**Fair value of financial assets and liabilities**
The carrying amount for cash and cash equivalents, short term investments, amounts receivable, note receivable, term and other deposits, investments, accounts payable and accrued liabilities and capital lease obligations on the balance sheet approximate fair value because of the limited short term nature of these instruments.

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.

**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.

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

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

The Company is not exposed to interest rate fluctuations on its short-term investments. At September 30 2008, the Company had short term investments, with maturities at acquisition exceeding 90 days, amounted to $14,651,262, bearing interest at fixed rates of 3.300% and 3.450% per annum.

(in Canadian dollars)

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

As at September 30, 2008, the Company had short-term investments as follows:

a. $5,000,000 Government Insured Certificate with a 1 year term that is redeemable after 30 days, bearing interest at 3.3% per annum with a maturity date of May, 9 2009.

b. $9,651,262 Government Insured Certificate with a 1 year term that is redeemable after 30 days, bearing interest at 3.45% per annum with a maturity date of April 22, 2009.

**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.

## 17. 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, 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.

As at September 30, 2008, total managed capital was $46,034,474 (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 $6,365,200 (September 30, 2007 - $1,997,788) and a deficit of $16,486,691 (September 30, 2007 - $5,421,725).

## 18. COMMITMENTS

**Operating Lease**
The Company is committed to payments under various operating leases for office space and staff rental accommodations that have a variety of expiry dates. The future minimum annual lease payments commitments are as follows:

| | | |
|---|---|---|
| 2009 | $ | 117,311 |
| 2010 | | 25,268 |
| | $ | 142,579 |

(in Canadian dollars)

## 19. SEGMENT 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:

| September 30, 2008 | Papua New Guinea | United States | Canada | Total |
|---|---|---|---|---|
| Current assets | $ 457,294 | $ 37,173 | $ 26,212,347 | $ 26,706,814 |
| Note receivable | - | $ - | $ 300,000 | 300,000 |
| Investments | - | - | 2,130 | 2,130 |
| Property and equipment | 24,436,158 | - | 8,331 | 24,444,489 |
| Asset held for sale | - | 204,546 | - | 204,546 |
| | $ 24,893,452 | $ 241,719 | $ 26,522,808 | $ 51,657,979 |

| September 30, 2007 | Papua New Guinea | United States | Canada | Total |
|---|---|---|---|---|
| Current assets | $ - | $ 64,133 | $ 844,381 | $ 908,514 |
| Deferred acquisition costs | - | - | 1,623,395 | 1,623,395 |
| Deferred financing costs | - | - | 4,093 | 4,093 |
| Property and equipment | - | 3,160,699 | 4,581 | 3,165,280 |
| | $ - | $ 3,224,832 | $ 2,476,450 | $ 5,701,282 |

## 20. SUBSEQUENT EVENTS

a) On November 20, 2008, the Company received approval of the license applications from the government of Papua New Guinea. The applications involved the approval of the relinquishment and the re-application of four licenses that are currently held by the Company.

   These new licenses have a six year term along with revised expenditure commitments for each license. The work commitments relating to these new licenses are approximately US$12 million over the next two years.

b) On November 25, 2008, the Company acquired the remaining 10% shares of its subsidiary, LNG BC from Cheetah Nevada for approximately US$250,000 and included an exchange of a note receivable ($300,000 principal and accumulated interest of $14,733) owed by Cheetah Nevada to the Company under a loan agreement dated March 12, 2008.

c) On December 4, 2008, the Company acquired a 60% interest in a private company for a purchase price of US$6 million. This company had entered into a purchase-and-sale agreement with BNK Petroleum Ltd. (“BNK”) under which this company purchased certain oil and gas properties for approximately US$10 million.