

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended December 31, 2008 and 2007
(stated in Canadian Dollars)

(unaudited)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the 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)

	December 31, 2008	September 30, 2008
ASSETS		
Current		
Cash and cash equivalents (Note 14)	\$ 338,867	\$ 11,319,398
Short term investments (Note 16)	14,652,046	14,651,262
Amounts receivable	515,703	293,330
Prepaid expenses, advances and other term deposits	478,848	442,824
Assets held for sale (Notes 5 and 9)	-	204,546
	15,985,464	26,911,360
Note receivable (Note 7)	-	300,000
Investments (Note 8)	282,566	2,130
Property and equipment (Note 9)	35,719,335	24,444,489
	\$ 51,987,365	\$ 51,657,979
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 1,106,889	\$ 1,654,106
Asset retirement obligation on assets held for sale (Note 10)	-	16,983
Capital lease obligation (Note 12)	11,329	13,322
	1,118,218	1,684,411
Long term		
Future income taxes (Note 6)	727,677	1,553,302
Non-controlling interest	5,038,947	2,385,792
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	55,738,855	55,738,855
Warrants (Note 11)	-	417,110
Contributed surplus (Note 11)	6,817,547	6,365,200
Deficit	(17,453,879)	(16,486,691)
	45,102,523	46,034,474
	\$ 51,987,365	\$ 51,657,979

Future Operations (Note 2), Commitments (Note 17).

Approved on behalf of the Board of Directors:

"David Cohen"

Director

"Robert Cross"

Director

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

LNG ENERGY LTD.
(Formerly Invicta Oil & Gas Ltd.)
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND
DEFICIT
(Unaudited)

	For the three Months Ended December 31	
	2008	2007
Expenses		
Depreciation	\$ 19,431	\$ 2,400
Bank charges	16,009	1,167
Foreign exchange loss	-	553
General and administration	758,669	124,773
Interest	461	18,914
Loss on disposal of property and equipment	961	-
Operations and explorations	362	9,088
Professional fees (Note 13)	514,613	327,497
Stock based compensation (Note 11)	35,236	3,914,000
Travel and business development	95,869	112,526
	(1,441,611)	(4,510,918)
Interest and other income	266,692	38,958
Foreign exchange gain	207,731	-
Net loss and comprehensive loss for the period	(967,188)	(4,471,960)
Deficit, beginning of period	(16,486,691)	(5,421,725)
Deficit, end of period	\$ (17,453,879)	\$ (9,893,685)
Basic and diluted loss per share from continuing operations	\$ (0.01)	\$ (0.05)
Basic and diluted loss per share	\$ (0.01)	\$ (0.05)
Weighted average number of shares outstanding	144,095,965	90,086,903

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
(Unaudited)

	For the Three Months Ended December 31,	
	2008	2007
Cash flows used by operating activities		
Loss from continuing operations	\$ (967,188)	\$ (4,471,960)
Items not affecting cash:		
Depreciation	19,431	2,400
Impairment write-down	-	-
Stock based compensation	35,236	3,914,000
Unrealized foreign exchange	(26,263)	-
Loss on disposal of property and equipment	961	-
Other write-downs	60,710	-
Other interest income related to Bonus Shares	910	-
Gain on investment in shares	(93,782)	-
	(969,985)	(555,560)
Changes in non-cash working capital	(878,337)	(346,747)
	(1,848,322)	(902,307)
Cash flows used by investing activities		
Asset acquisition	(8,052,578)	(11,959,377)
Property and equipment purchased	(170,282)	-
Proceeds on disposal of property and equipment	669	-
Oil and gas property expenditures	(933,665)	(99,752)
Short term investments	(784)	-
Changes in non-cash working capital	9,589	1,986,248
	(9,147,051)	(10,072,881)
Cash flows from financing activities		
Share capital issued, net of share issue cost	-	43,165,909
Subscription receipts	-	(57,119)
Shares issued on warrants and options exercised	-	1,916,307
Deferred financing fees	-	4,093
Capital lease payments	(1,993)	(1,098)
	(1,993)	45,028,092
Foreign Exchange on opening cash and cash equivalents	16,835	-
Net decrease in cash and cash equivalents	(10,980,531)	34,052,904
Cash and cash equivalents, beginning of period	11,319,398	657,446
Cash and cash equivalents, end of period	\$ 338,867	\$ 34,710,350

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

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

LNG Energy Ltd.

(formerly Invicta Oil & Gas Ltd.)

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)
For the Three Months Ended December 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.

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. On November 25, 2008, the Company completed the acquisition of the remaining 10% shares of LNG BC, making LNG BC a wholly owned subsidiary of the Company.

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.

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. This investment is held by the Company's wholly owned subsidiary, LNG Energy (US) Inc. ("LNG US").

2. FUTURE OPERATIONS

These unaudited consolidated interim 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 December 31, 2008, the Company had net working capital of \$14,867,246 (September 30, 2008 - \$25,226,949) and incurred a net loss of \$967,188, for the quarter ended December 31, 2008 (December 31, 2007 - \$4,471,960). The Company is in the exploration stage and has no proved reserves or production relating to its properties in Papua New Guinea and the United States. 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 unaudited consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

LNG Energy Ltd.

(formerly Invicta Oil & Gas Ltd.)

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

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 interim financial statements of its 100% owned subsidiaries LNG Energy US Inc. ("LNG US") and LNG Energy (BC) Ltd. ("LNG BC"). The consolidated interim financial statements include LNG BC's wholly-owned subsidiaries Telemu No. 18 Ltd., LNG Energy (PNG) Limited ("LNG PNG"), LNG Energy No. 2 Limited ("LNG No. 2"), and Scotia Petroleum Inc. ("Scotia BC"). The consolidated interim financial statements also include the LNG US 60% owned subsidiary, BWB Exploration, LLC. All intercompany transactions have been eliminated on consolidation.

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 the unaudited consolidated interim financial statements is 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 consolidated interim financial statements.

LNG Energy Ltd.

(formerly Invicta Oil & Gas Ltd.)

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

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

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.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Property and Equipment (Continued)

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. As at December 31, 2008, the Company does not have any asset retirement obligations on hand.

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.

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

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 16 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 15 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 15 for the disclosures.

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

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 unaudited consolidated interim 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

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.

LNG Energy Ltd.

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

5. DISCONTINUED OPERATIONS (Continued)

Palo Duro assets (Continued)

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

OPERATIONS	December 31, 2008	December 31, 2007
Revenue	\$ -	\$ -
Expenses		
Accretion	-	-
Operations and exploration	-	7,160
General and administration	-	-
Impairment write-down	-	-
Professional fees	-	-
Foreign exchange loss	-	-
	-	(7,160)
Interest income	-	-
Loss from discontinued operations	\$ -	\$ (7,160)

6. ACQUISITIONS

a) LNG BC 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.

LNG Energy Ltd.

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

6. ACQUISITIONS (Continued)

a) LNG BC Acquisition (Continued)

Allocation of the purchase price to the assets and liabilities acquired 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.

On November 25, 2008, the Company acquired the remaining 10% of the shares of LNG BC from Cheetah Nevada. The total consideration included US\$250,000 and 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.

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

Oil and gas properties	\$	(2,752,082)
Future income taxes		825,625
Non-controlling interest		2,551,492
Total net assets acquired	\$	625,035
Consideration paid:		
Cash	\$	310,575
Exchange of note receivable		300,000
Interest related to note receivable		14,460
Total consideration paid	\$	625,035

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

6. ACQUISITIONS (Continued)

b) US Acquisition

On December 4, 2008, the Company acquired a 60% interest in a private company for a purchase price of US\$6 million. Refer to note 9.

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

Oil and gas properties	\$	12,781,000
Non-controlling interest		(5,038,947)
Total net assets acquired	\$	7,742,053
Consideration paid:		
Cash	\$	7,742,053
Total consideration paid	\$	7,742,053

7. NOTE RECEIVABLE

On November 25, 2008, the note receivable due from Cheetah Oil and Gas Ltd. ("Cheetah Nevada") was settled in connection with the 10% share acquisition of LNG BC from Cheetah Nevada.

The note receivable due from Cheetah Oil and Gas Ltd. included interest at 8% per annum and was 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 was repayable within 90 days of written demand for repayment being made.

8. INVESTMENTS

	December 31 2008	September 30 2008
Sterling West Management Ltd.	\$ 2	\$ 2
Cheetah Nevada	1,218	2,128
Tyner Resources Ltd. (note 5)	281,346	-
	\$ 282,566	\$ 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 and are fair valued at the end of each period.

Tyner Resources Ltd. issued 9,378,208 common shares in its capital stock in connection with the purchase of the Company's Palo Duro assets described in note 5. These shares are designated as held for trading and are fair valued at the end of each period.

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(in Canadian dollars)

9. PROPERTY AND EQUIPMENT

	December 31, 2008		
	COST	ACCUMULATED AMORTIZATION, DEPRECIATION & IMPAIRMENT	NET BOOK VALUE
Oil and gas properties:			
Papua New Guinea	\$ 23,476,275	\$ 819,341	\$ 22,656,934
United States	12,781,000	-	12,781,000
Vehicles	264,685	60,743	203,942
Office furnitures and equipment	61,301	13,364	47,937
Computer equipment	54,545	27,782	26,763
Computer software	5,698	2,939	2,759
	\$ 36,643,504	\$ 924,169	\$ 35,719,335

	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

Papua New Guinea

The Company holds a 100% working interests in four 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.

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.

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.

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9. PROPERTY AND EQUIPMENT (Continued)

Papua New Guinea (Continued)

The PPLs and PRL are considered unproved at December 31, 2008 and as no production has occurred, no depletion has been recorded. During the quarter ended December 31, 2008, no general and administrative costs were capitalized.

United States

Black Warrior Basin and West Tishomingo region

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 the private company purchased certain oil and gas properties in the Black Warrior Basin, Mississippi and West Tishomingo, Oklahoma regions for approximately US\$10 million.

These properties are subject to a 2% revenue royalty payment obligation by the Company to the 40% non-controlling interest of the private company in connection with the purchase of the private company.

Prior to the acquisition, BNK had entered into an exploration agreement with the private company whereby BNK can earn up to a 50% working interest in a portion or all of the Black Warrior acreage by drilling a series of test wells on identified prospects. The exploration program requires BNK to pay for the private company's share of the costs.

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

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 December 31, 2008	As at September 30, 2008
Balance, beginning of year	\$ -	\$ -
Liabilities incurred	-	14,786
Change in estimate	-	1,100
Accretion	-	1,097
Balance, end of year	\$ -	\$ 16,983

In the prior year, the undiscounted expected cash flows required to settle the Company's asset retirement obligation was 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. There were no asset retirement obligations estimated for the quarter ending December 31, 2008.

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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
Stock based compensation	-	-	35,237
Warrants expired	-	-	417,110
Balance December 31, 2008	144,095,965	55,738,855	6,817,547

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.

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11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

b) Issued (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, 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
Forfeited	(1,800,000)	\$0.43
Balance, December 31, 2008	11,750,000	\$0.48

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11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

c) Stock Options (Continued)

The following table summarizes information about the stock options outstanding at December 31, 2008:

EXERCISE PRICE	OUTSTANDING OPTIONS	OPTIONS EXERCISABLE	EXPIRY DATE
\$0.20	75,000	75,000	December 16, 2009
\$0.10	700,000	700,000	November 27, 2011
\$0.67	271,000	271,000	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	750,000	250,000	February 1, 2013
\$0.58	1,500,000	1,500,000	February 1, 2013
\$0.28	1,975,000	1,056,250	May 1, 2013
	11,750,000	10,331,250	

During the three month period ended December 31, 2008, the Company recorded stock based compensation expense of \$35,236 (December 31, 2007 – \$3,914,000). 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 December 31	
	2008	2007
Risk-free interest rate	2.47%	3.92%
Expected life	5 years	5 years
Expected volatility	125%	134%
Expected dividends	Nil	Nil
Average Fair value (\$ per option)	0.06	0.51

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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, 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
Expired	(11,231,555)	0.16	(417,110)
Balance December 31, 2008	-	-	\$ -

e) Escrow Shares

As at December 31, 2008, the Company has 3,080,623 (2008 – 4,620,936) common shares held in escrow to be released in tranches of 15% every six months up to November 28, 2009.

12. CAPITAL LEASE OBLIGATION

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

2009	\$	11,806
		11,806
Less: amount representing interest at 13.75%		(477)
Present value of future minimum lease obligations		11,329
Less: Current Portion		11,329
Long Term Portion	\$	-

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13. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions and balances with related parties for the three month ended December 31, 2008 and 2007 for amounts paid to companies controlled by directors and officers of the Company were as follows:

	For the three months ended December 31	
	2008	2007
Management and Consulting Services paid to current directors and officers	\$ 10,000	\$ 12,000
Management and Consulting Services paid to former directors and officers	-	56,400
Director Fees paid to a former officer of the Company	-	12,351
	\$ 10,000	\$ 80,751

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

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	December 31	
	2008	2007
Amounts receivable	\$ (249,116)	\$ (6,288)
Prepaid expenses, advances and other term deposits	(27,176)	(38,869)
Notes receivable	-	155,189
Accounts payable and accrued liabilities	(592,456)	1,594,396
Current portion of long term debt	-	36
Change in non-cash working capital	\$ (868,748)	\$ 1,704,464
Relating to:		
Operating activities	\$ (878,337)	\$ (346,747)
Investing activities	9,589	2,051,211
Change in non-cash working capital	\$ (868,748)	\$ 1,704,464

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

- b) Other non-cash transactions that occurred during the three months ended December 31, 2008 and 2007 are:

	December 31 2008	December 31 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:

	December 31 2008	September 30 2,008
Cash	\$ 338,867	\$ 1,757,979
Cash equivalents	-	9,561,419
	\$ 338,867	\$ 11,319,398

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.

15. 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.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 December 31, 2008, the Company had short term investments, with maturities at acquisition exceeding 90 days, amounted to \$14,652,046, bearing interest at fixed rates of 3.300% and 3.450% per annum.

As at December 31, 2008, the Company had short-term investments as follows:

- \$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, 6 2009.
- \$9,652,046 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.

16. 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 December 31, 2008, total managed capital was \$45,102,523 (September 30, 2008 - \$46,034,474), comprised of share capital of \$55,738,855 (September 30, 2008 - \$55,738,855), share purchase warrants of \$Nil (September 30, 2008 - \$417,110), contributed surplus of \$6,817,547 (September 30, 2008 - \$6,365,200) and a deficit of \$17,453,879 (September 30, 2008 - \$16,486,691).

17. 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	\$	71,552
2010		25,268
	\$	96,820

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18. 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:

December 31, 2008	Papua New Guinea	United States	Canada	Total
Current assets	\$ 534,977	\$ -	\$ 15,450,487	\$ 15,985,464
Investments	-	-	282,566	282,566
Property and equipment	22,931,911	12,781,000 *	6,424	35,719,335
	\$ 23,466,888	\$ 12,781,000	\$ 15,739,477	\$ 51,987,365

* Includes the minority interest of \$5,038,947. Refer to note 6(b).

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