LNG ENERGY LTD.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended December 31, 2009 and 2008
(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.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2009	September 30, 2009
ASSETS		
Current		
Cash and cash equivalents (Note 12)	**$ 4,714,072**	$ 2,905,297
Short term investments (Note 14)	**5,000,000**	8,310,500
Amounts receivable	**342,589**	196,192
Prepaid expenses, advances and other term deposits	**377,357**	358,690
	10,434,018	11,770,679
Investments (Note 7)	**154,575**	192,919
Property and equipment (Note 8)	**36,777,341**	35,775,968
	$ 47,365,934	$ 47,739,566
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 1,380,567**	$ 887,303
Long term		
Asset retirement obligation (Note 9)	**2,973**	2,893
Future income taxes	**798,651**	798,651
Non-controlling interests (Note 13)	**4,176,697**	4,277,161
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	**55,767,706**	55,738,855
Contributed surplus (Note 10)	**7,384,016**	7,380,373
Accumulated other comprehensive loss	**(860,539)**	(721,961)
Deficit	**(21,284,137)**	(20,623,709)
	41,007,046	41,773,558
	$ 47,365,934	$ 47,739,566

Future Operations (Note 2), Commitments (Note 8)

Approved on behalf of the Board of Directors:

"David Cohen"
Director

"Paul Larkin"
Director

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

LNG ENERGY LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	For the Three Months Ended December 31, 2009	2008
Revenue		
Oil and gas revenue	**$ 74,145**	$ -
Less: Royalties expense	**(14,573)**	**-**
	59,572	**-**
Expenses		
Accretion	**139**	-
Operating and exploration	**30,755**	362
Depletion and depreciation	**23,029**	19,431
General and administration	**382,554**	775,139
Loss on disposal of property and equipment	**1,058**	961
Mark to market loss on investments	**90,728**	-
Professional fees (Note 11)	**229,858**	514,613
Stock based compensation (Note 10)	**15,944**	35,236
Travel and business development	**62,771**	95,869
	(836,836)	(1,441,611)
Interest and other income	**17,026**	266,692
Foreign exchange gain	**89,298**	207,731
Loss from operations before taxes	**(670,940)**	(967,188)
Current income tax expense	**(3,910)**	-
Net loss after tax	**(674,850)**	(967,188)
Non-controlling interests (Note 13)	**14,422**	-
Net loss for the period	**(660,428)**	(967,188)
Cumulative translation adjustment	**(138,578)**	-
Comprehensive Loss	**$ (799,006)**	$ (967,188)
Basic and diluted loss per share	**$ (0.00)**	$ (0.01)
Weighted average number of shares outstanding	**144,170,965**	144,095,965

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

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

	For the Three Months Ended December 31,			
		2009		2008
Deficit, beginning of the period	**$**	**(20,623,709)**	$	(16,486,691)
Net loss for the period		**(660,428)**		(967,188)
Deficit, end of the period	**$**	**(21,284,137)**	$	(17,453,879)
Accumulated other comprehensive loss, beginning of the period	**$**	**(721,961)**	$	-
Cumulative translation adjustment for the period		**(138,578)**		-
Accumulated other comprehensive loss, end of the period	**$**	**(860,539)**	**$**	**-**

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

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

	For the Three Months Ended December 31, 2009	2008
Cash flows used by operating activities		
Net Loss for the period	**$ (660,428)**	$ (967,188)
Items not affecting cash:		
Accretion	**139**	-
Depletion and depreciation	**23,029**	19,431
Stock based compensation	**15,944**	35,236
Unrealized foreign exchange loss (gain)	**(162,486)**	(26,263)
Other write-downs	**-**	60,710
Unrealized loss on revaluation of investments	**90,728**	-
Other interest income related to bonus shares	**-**	910
Gain on investment in shares	**-**	(93,782)
Non-controlling interests	**(14,422)**	-
	(707,496)	(970,946)
Changes in non-cash working capital (Note 12)	**447,152**	(878,337)
	(260,344)	(1,849,283)
Cash flows used by investing activities		
Asset acquisition	**(52,383)**	(8,052,578)
Property and equipment purchased	**(86,477)**	(170,282)
Loss on disposal of property and equipment	**1,058**	961
Proceeds on disposal of property and equipment	**-**	669
Oil and gas property expenditures	**(1,012,243)**	(933,665)
Short term investments	**3,310,500**	(784)
Changes in non-cash working capital (Note 12)	**(119,646)**	9,589
	2,040,809	(9,146,090)
Cash flows from financing activities		
Shares issued on options exercised	**28,851**	-
Capital lease payments	**-**	(1,993)
	28,851	(1,993)
Foreign Exchange on opening cash and cash equivalents	**(541)**	16,835
Net decrease in cash and cash equivalents	**1,808,775**	(10,980,531)
Cash and cash equivalents, beginning of period	**2,905,297**	11,319,398
Cash and cash equivalents, end of period (Note 12)	**$ 4,714,072**	$ 338,867

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. Effective March 28, 2008, the Company changed its name to "LNG Energy Ltd.". The Company's common shares began trading under the new symbol "LNG" on the TSX Venture Exchange on March 28, 2008. The Company is engaged in exploration and development activities of oil and gas properties in Papua New Guinea, Poland and the United States of America.

2. FUTURE OPERATIONS

These unaudited 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.

The Company is an independent natural gas and oil company engaged in the exploration and development of natural gas and oil properties in Papua New Guinea, Poland and the United States. As at December 31, 2009, the Company had net working capital of $9,053,451 (September 30, 2009 - $10,883,376) and incurred a net loss of $660,428 for the three months ended December 31, 2009 (Three months ended December 31, 2008 - $967,188). 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

These interim consolidated financial statements follow Canadian generally accepted accounting principles and were prepared by management using accounting policies and methods of their application is consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended September 30, 2009, except as noted below. In the opinion of management, these interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Company's financial position as at December 31, 2009 and the results of its operations and cash flows for the three months ended December 31, 2009 and 2008. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended September 30, 2009.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Adoption of New Accounting Standards

Effective October 1, 2009, the Company has adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting standards are adopted on a prospective basis with no restatement of prior period financial statements. There was no impact on opening retained earnings. The new standards are as follows:

(i) Financial Instruments - Disclosures
Section 3862 "Financial Instruments - Disclosures" requires the Company to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identifical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

b) Future Accounting Pronouncements

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

(in Canadian dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Future Accounting Pronouncements (Continued)

(ii) International Financial Reporting Standards
In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company continues to monitor, and assess, the impact of the conversion of Canadian GAAP to IFRS.

5. ASSETS HELD FOR SALE

On December 30, 2008, the Company sold its 15% working interest in its Palo Duro assets to Tyner Resources Ltd. ("Tyner"). In consideration of the sale of the interest, Tyner issued 9,378,208 common shares to the Company, which represented 13.2% of the number of the issued and outstanding shares of Tyner following the transaction. 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. The carrying amount of the oil and gas assets were written down to their fair value representing value of share consideration received as at September 30, 2008, hence no gain or loss was recorded on the closing of the transaction. These operations were reported as discontinued in the consolidated financial statements for the year ended September 30, 2008. In connection with the acquisition of BWB Exploration, LLC (see note 6), the Company acquired interests in oil and gas properties in the United States. As a result of acquiring these properties, previously reported discontinued operations have been presented as continuing operations and the results of operations in 2008 previously reported as discontinued have been reclassified to the expense category that they related to.

6. ACQUISITIONS

a) LNG BC Acquisition

On November 25, 2008, the Company acquired the remaining 10% of the shares of LNG BC from Cheetah Nevada. The total consideration paid included cash of US$250,000 and the settlement of a note receivable ($300,000 principal and accumulated interest of $14,460) of Cheetah Nevada. Allocation of the purchase price to the assets and liabilities acquired is as follows:

Oil and gas properties	$	(2,515,502)
Future income taxes		754,651
Non-controlling interest		2,385,886
Total net assets acquired	$	625,035
Consideration paid:		
Cash	$	310,575
Settlement of note receivable		300,000
Interest related to note receivable		14,460
Total consideration paid	$	625,035

(in Canadian dollars)

6. ACQUISITIONS (Continued)

b) BWB Exploration, LLC acquisition

On December 4, 2008, the Company acquired a 60% interest in a private company, BWB Exploration, LLC ("BWB") for a purchase price of US$6 million.

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

Oil and gas properties	$	12,781,000
Non-controlling interest		(5,112,400)
Total net assets acquired	$	7,668,600
Consideration paid:		
Cash	$	7,668,600
Total consideration paid	$	7,668,600

7. INVESTMENTS

		December 31, 2009		September 30, 2009
Sterling West Management Ltd.	$	2	$	2
Kaynes Capital Sarl		52,383		-
Cheetah Oil and Gas Ltd.		8,408		5,354
Tyner Resources Ltd. (Note 5)		93,782		187,563
	$	154,575	$	192,919

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.

The Company invested in a Luxembourg Company (Kaynes Capital Sarl) to hold its option to participate in a 20% interest in an exploration project in Poland. The Company's total cost for the investment is $52,383.

Cheetah Nevada issued 100,000 of its common shares to the Company as fully-paid and non-assessable shares. 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 connection with the sale of the Company's Palo Duro assets described in Note 5. These shares are designated as held for trading and are recorded at fair value at the end of each period.

(in Canadian dollars)

8. PROPERTY AND EQUIPMENT

	December 31, 2009		
	COST	ACCUMULATED AMORTIZATION, DEPLETION, DEPRECIATION & IMPAIRMENT	NET BOOK VALUE
Oil and gas properties:			
Papua New Guinea, unproven	$ 24,481,266	$ 820,304	$ 23,660,962
United States, proven	784,069	136,451	647,618
United States, unproven	12,131,516	-	12,131,516
Poland, unproven	145,474	-	145,474
Vehicles	107,513	66,512	41,001
Office furnitures and equipment	55,454	19,641	35,813
Computer equipment	67,522	40,053	27,469
Computer software	7,322	3,784	3,538
License	86,103	2,153	83,950
	$ 37,866,239	$ 1,088,898	$ 36,777,341

	September 30, 2009		
	COST	ACCUMULATED AMORTIZATION, DEPLETION, DEPRECIATION & IMPAIRMENT	NET BOOK VALUE
Oil and gas properties:			
Papua New Guinea, unproven	$ 24,110,179	$ 820,304	$ 23,289,875
United States, proven	616,679	-	616,679
United States, unproven	11,863,759	122,915	11,740,844
Vehicles	121,671	76,289	45,382
Office furnitures and equipment	55,454	18,062	37,392
Computer equipment	67,522	38,645	28,877
Computer software	6,135	3,509	2,626
License	14,293	-	14,293
	$ 36,855,692	$ 1,079,724	$ 35,775,968

8. PROPERTY AND EQUIPMENT (Continued)

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. These licenses have a six year term along with expenditure commitments for each license. The work commitments relating to these licenses are 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 costs 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.

The Papua New Guinea cost centre is considered unproved at December 31, 2009 and as no production has occurred, no depletion has been recorded.

The Company performed a ceiling test calculation at December 31, 2009 to assess the recoverable value of its oil and natural gas interests and no write-down was recorded (December 31, 2008 - $nil).

During the three months ended December 31, 2009, $1,550 related to capitalized stock based compensation expenses.

United States

The Company, through its subsidiary, holds interests in oil and gas properties in the United States.

These properties are subject to a 2% revenue royalty payment obligation to the 40% non-controlling shareholder of the subsidiary.

In determining the Company's depletion for the three months ended December 31, 2009, future development costs of US$11,834,200 were included in the calculation. Cost of unproved properties of US$9,049,610 were excluded in the depletion calculation.

The Company performed a ceiling test calculation at December 31, 2009 to assess the recoverable value of its oil and natural gas interests and determined no write-down was required during the three months ended December 31, 2009 (December 31, 2008 - $nil).

During the three months ended December 31, 2009, $68,187 of general and administrative costs were capitalized, of which $nil related to capitalized stock based compensation expenses. No general and administrative costs were capitalized during the three months ended December 31, 2008.

Poland

The Company, through its subsidiary, exercised its option to participate in a 20% net interest in an exploration project in Poland. The Company has rights to three concessions where license commitments will require the Company to finance the drilling and testing of one exploration well per concession before the end of June 2011.

(in Canadian dollars)

9. ASSET RETIREMENT OBLIGATION

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 Berwyn well:

	December 31, 2009	September 30, 2009
Balance, beginning of year	$ 2,893	$ 16,983
Liabilities incurred	-	3,066
Change in estimate	(59)	(251)
Liabilities disposed (Note 5)	-	(16,983)
Accretion	139	78
Balance, end of period	$ 2,973	$ 2,893

The calculation was assessed using a risk-free rate of 10.00% and an assumed inflation rate of 1.45% per annum. The undiscounted cash flow required to settle the obligation is approximately $8,000 with majority of the expenditures expected between 2011 to 2018.

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized

Unlimited common shares without par value

b) Issued

	Number of Shares	Share Capital	Contributed Surplus
Balance September 30, 2008	144,095,965	$ 55,738,855	$ 6,365,200
Stock based compensation	-	-	598,063
Warrants expired	-	-	417,110
Balance September 30, 2009	144,095,965	$ 55,738,855	$ 7,380,373
Stock based compensation	-	-	17,494
Shares issued upon exercise of options	75,000	28,851	(13,851)
Balance December 31, 2009	**144,170,965**	**$ 55,767,706**	**$ 7,384,016**

(in Canadian dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

c) Stock Options

The following table summarizes information about stock option transactions:

	Number of Options	Average Exercise Price
Balance, September 30, 2008	13,550,000	$0.49
Granted	2,290,000	$0.19
Forfeited	(1,845,000)	$0.43
Balance, September 30, 2009	13,995,000	$0.45
Granted	-	$0.00
Exercised	(75,000)	$0.20
Forfeited	-	$0.00
Balance, December 31, 2009	**13,920,000**	**$0.45**

The following table summarizes information about the stock options outstanding at December 31, 2009:

Exercise Price	Outstanding Options	Options Exercisable	Expiry Date
$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	750,000	February 1, 2013
$0.58	1,500,000	1,500,000	February 1, 2013
$0.28	1,950,000	1,350,000	May 1, 2013
$0.19	2,270,000	2,270,000	May 14, 2014
	13,920,000	13,320,000	

The fair value of the options granted has been estimated on the date of grant using the Black-Scholes option-pricing model.

Assumptions used to value options within the option-pricing model are as follows:

	Three months ended December 31,	
	2009	2008
Risk-free interest rate	2.35%	2.47%
Expected life	3.3 years	5 years
Expected volatility	118%	125%
Expected dividends	Nil	Nil
Average ($ per option)	0.40	0.06

d) Warrants

The following table summarizes information about warrant transactions:

(in Canadian dollars)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Continued)

	Number of Warrants	Weighted Average Exercise Price	Carrying Amount
Balance September 30, 2008	11,231,555	0.16	$ 417,110
Expired	(11,231,555)	0.16	(417,110)
Balance September 30, 2009	-	-	$ -
Balance December 31, 2009	**-**	**-**	**$ -**

e) Escrow Shares

As at December 31, 2009, the Company had no (September 30, 2009 –1,540,312) common shares held in escrow to be released. The final tranche was released on November 28, 2009.

11. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions and balances with related parties for three months ended December 31, 2009 and 2008 for amounts paid to companies controlled by directors and officers of the Company were as follows:

	December 31, 2009	December 31, 2008
Director fees paid to current independent directors of the Company	$ 8,000	$ 10,000

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

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	December 31, 2009	December 31, 2008
Amounts receivable	$ (148,379)	$ (249,116)
Prepaid expenses, advances and other term deposits	(18,948)	(27,176)
Accounts payable and accrued liabilities	494,834	(592,456)
Change in non-cash working capital	$ 327,506	$ (868,748)
Relating to:		
Operating activities	447,152	(878,337)
Investing activities	(119,646)	9,589
Change in non-cash working capital	$ 327,506	$ (868,748)

(in Canadian dollars)

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

b) There were no non-cash transactions that occurred during the three months ended December 31, 2009 and 2008.

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

	December 31, 2009	September 30, 2009
Cash	$ 274,623	$ 900,688
Cash equivalents	4,439,449	2,004,609
	$ 4,714,072	$ 2,905,297

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. Cash equivalents relates to an interest savings account which bears an interest rate of approximately 0.80% per annum with no maturity date (September 30, 2009 – Interest rate at 0.80% per annum).

13. NON-CONTROLLING INTERESTS

	December 31, 2009	September 30, 2009
Balance, beginning of period	$ (4,277,161)	$ (2,385,792)
Acquisition of 10% non-controlling interest of LNG BC	-	2,385,792
40% Non-controlling interest of BWB	-	(5,112,400)
Change in 40% non-controlling interest during the year	14,422	6,055
Change in 40% non-controlling interest due to foreign exchange translation from US	86,042	829,184
Balance, end of period	$ (4,176,697)	$ (4,277,161)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	Fair Value as at December 31, 2009			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 4,714,072	$ 4,714,072	$ -	$ -
Short term investments	5,000,000	5,000,000	-	-
Amounts receivable	342,589	342,589		-
Investments	154,575	154,575	-	-
Accounts payable and accrued liabilities	1,380,567	1,380,567	-	-
	$ 11,591,803	$ 11,591,803	$ -	$ -

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

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

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

Level 2 and Level 3
The Company does not hold any financial instruments to be classified in these categories.

Fair value of financial assets and liabilities
The carrying amount for cash and cash equivalents, short term investments, amounts receivable, note receivable, 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.

Foreign currency risk
The Company is subject to normal market risks including fluctuations in foreign exchange rates. The Company received revenues in US dollars, while incurring expenses in US, Canadian dollars and Papua New Guinea Kinas.

Foreign exchange gains and losses are related to the translation from Canadian dollars into Kinas for measurement and reporting purposes. The Company finances its integrated Papua New Guinea subsidiaries in Canadian dollars and a significant change in the currency exchange rates could have a material effect on the Company’s results of operations, financial position or cash flows.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company's US subsidiaries are considered to be self-sustaining and the United States dollar is the functional currency. All foreign currency translations are reported in accumulated other comprehensive income and a significant change in currency exchange rates would affect the Company's comprehensive income and deficit.

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 December 31, 2009, the Company had short term investments in GICs totaling $5,000,000, bearing interest at fixed rates of 0.400% per annum with a maturity date of April 23, 2010 (September 30, 2008 - $8,310,500 bearing interest at fixed rates of 0.400% per annum).

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

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, 2009, total managed capital was $41,007,046 (September 30, 2009 - $41,773,558), comprised of share capital of $55,767,706 (September 30, 2009 - $55,738,855), share purchase warrants of $Nil (September 30, 2009 - $Nil), contributed surplus of $7,384,016 (September 30, 2009 - $7,380,373), other comprehensive loss of $860,539 (September 30, 2009 - $721,961) and a deficit of $21,284,137 (September 30, 2009 - $20,623,709).

(in Canadian dollars)

15. SEGMENT INFORMATION

Geographic Information:

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

December 31, 2009	Papua New Guinea	United States	Poland	Canada	Total
Current assets	$ 355,388	$ 163,595	$ -	$ 9,915,035	$ 10,434,018
Investments	-	-	-	154,575	154,575
Property and equipment	23,852,733	12,779,134	145,474	-	36,777,341
	$ 24,208,121	$ 12,942,729	$ 145,474	$ 10,069,610	$ 47,365,934

Three Months Ended December 31, 2009	Papua New Guinea	United States	Poland	Canada	Total
Oil and gas revenue	$ -	$ 74,145	$ -	$ -	$ 74,145

September 30, 2009	Papua New Guinea	United States	Canada	Total
Current assets	$ 331,527	$ 197,621	$ 11,241,531	$ 11,770,679
Investments	-	-	192,919	192,919
Property and equipment	23,398,849	12,357,523 *	19,596	35,775,968
	$ 23,730,376	$ 12,555,144	$ 11,454,046	$ 47,739,566

* Includes the non-controlling interest of $5,112,400. Refer to Note 6(b).

Three Months ended December 31, 2008	Papua New Guinea	United States	Canada	Total
Oil and gas revenue	$ -	$ -	$ -	$ -