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

MANAGEMENT DISCUSSION AND ANALYSIS
(For the Three and Nine Months Ended June 30, 2009)

The following discussion of the financial condition and results of operations of LNG Energy Ltd. ("LNG" or the "Company") should be read in conjunction with the Company's unaudited Consolidated Interim Financial Statements and notes thereto for the three and nine months ended June 30, 2009 and 2008 as well as the audited Consolidated Financial Statements for the year ended September 30, 2008. The unaudited consolidated interim Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles.

All dollar amounts are expressed in Canadian dollars unless otherwise indicated. Note that additional information relating to the Company is available on SEDAR at www.sedar.com.

Date

This Management's Discussion and Analysis is dated as of August 21, 2009.

Overview

LNG Energy Ltd. was incorporated on February 24, 2000 in the Province of British Columbia. On May 4, 2004, the Company acquired Pro Net Communications Inc. ("Pro Net"), a company in the business of development and delivery of internet application services.

On 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 on the TSX Venture Exchange on March 28, 2008 under the new symbol "LNG".

Papua New Guinea

On November 27, 2007, the Company acquired 90% of the shares of LNG Energy (B.C.) Ltd. ("LNG BC"), formerly Cheetah Oil & Gas Limited (British Columbia). LNG BC currently indirectly holds interests in approximately 5.5 million acres of land for oil and natural gas exploration in Papua New Guinea (the "PNG Lands"). On November 25, 2008, the Company purchased the remaining 10% interest in LNG BC, making LNG BC a wholly-owned subsidiary of the Company.

As a result of this process, the Company now holds 100% working interests in four PPLs and one PRL, through permits received from the Minister of Petroleum and Energy for Papua New Guinea with gross and net acreages of approximately 5.5 million.

Palo Duro Assets

On December 30, 2008, the Company sold its 15% working interest in Palo Duro assets to Tyner Resources Ltd. ("Tyner"). In consideration of the transfer of the interest, Tyner has issued 9,378,208 common shares to the Company, which represents 13.2% of the number of the issued and outstanding shares of Tyner. 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 assets were written down to its fair value as at September 30, 2008. Re-measurement of these shares on June 30, 2009 did not result in a gain or loss during the nine months ended June 30, 2009. A director of LNG, who is also the President and a director of Tyner, abstained from voting on the approval of the transaction.

US Company acquisition

On December 4, 2008, the Company acquired a 60% interest in a private company, BWB Exploration, LLC ("BWB") for a cash purchase price of approximately US$6 million. BWB had entered into a purchase-and-sale agreement with BNK Petroleum Ltd. ("BNK") under which BWB has purchased approximately 2,800 acres of oil and gas leases adjacent to Tishomingo Field development as well as approximately 86,000 acres in the Black Warrior Basin for approximately US$10 million ("United States oil and gas properties").

Highlights for the quarter ended June 30, 2009

- BWB Exploration, LLC ("BWB"), LNG's US subsidiary, participated in a successful exploration well targeting the Woodford shale in the Ardmore Basin of Oklahoma in May 2009. Total cost paid by BWB for a 7.86% participation right in the well was $569,071 for the nine months ended June 30, 2009.

- BWB has a substantial leasehold position in the area totaling over 2,950 net acres in 12 different sections totaling 7,680 gross acres.

- Initial production exceeded 3 mmcf/day, with 300 bopd and associated natural gas liquids, at a surface flowing pressure in excess of 1,000 psi. The Company recorded $164,851 (net $132,450) of oil and gas revenue from the Berwyn 1-15H well.

- BWB has completed all legal regulatory submissions to the Oklahoma Corporate Commission to become the recognized operator to drill the offsetting two sections to the south. Pending a successful technical & economic assessment, spudding of the first horizontal well in this initial program, is anticipated within the 1 year timeframe.

- Net loss for the three and nine months ended June 30, 2009 was $1,047,333 and $2,708,912 respectively ($880,966 and $6,171,656 respectively for the three and nine months ended June 30, 2008).

- At June 30, 2009, the Company had a cash position (including cash and cash equivalents and short term investments) of $11,988,766 (September 30, 2008 - $25,970,660).

Description of Oil and Gas Exploration Business

PNG Lands

On November 27, 2007, the Company closed the acquisition of the purchase of 90% interest in LNG BC. LNG BC indirectly held interest in the following Petroleum Prospecting License's ("PPL" or the "Licenses") through permits received from the Minister of Petroleum and Energy for Papua New Guinea.

The exploration properties are located in Southeastern Papua New Guinea in the Papuan Basin approximately 30 km southeast of the Southeastern Gobe oil and gas field. The Papua New Guinea Government has the option to take a 22.5% interest in the project. There is a 2% State Royalty rate and an Income Tax rate of 30% on the interest.

On November 20, 2008, the Company received approval of its top file applications that were filed with the PNG Department of Petroleum and Energy in October 2008. This relates to its PPLs where the top file process involved the relinquishment of and the re-application of PPLs 254, 246, 249 and 252. PPL 250 was relinquished and was not renewed. Petroleum Retention License 13 (“PRL”) remains the same.

The new licenses granted now have a new six year term along with new expenditure commitments for each PPL. Refer to the subsequent events oil and gas petroleum prospecting licenses section.

Original License #	Top Filed License #	Blocks	LNG's* W.I.	Total Acreage
PRL 13	PRL 13	2	100.00%	40,031
PPL 246	PPL 319	25	100.00%	500,388
PPL 245	PPL 322	97	100.00%	1,941,504
PPL 249	PPL 320	58	100.00%	1,160,899
PPL 250	Relinquished	0	100.00%	-
PPL 252	PPL 321	92	100.00%	1,841,426
Total		**274**		**5,484,248**

The Company has secured the services of a data management company to provide a range of secure data archival and online data management services. By creating multiple copies of digital geological, seismic, and administrative data, business assets are protected and significant value is added to the Company. The provider maintains an online catalogue of all archived data which can be securely accessed by the client from anywhere with an internet connection.

Our geological and geophysical teams are presently reviewing all of our license holdings and prioritizing the areas we should be focusing on that have the best chance of success along with a business model review on each one of our PPLs and PRL#13.

LNG is defining a structure in PPL#319 (Middle Town) (previously known as PPL#246). We are presently analysing surface samples that were taken from this structure and if results prove positive we will be returning to this very promising structure to take more samples and further define the total area of this structure and set up for a seismic program.

United States

On December 4th, 2008, the Company acquired a 60% interest in a private company under which the private company holds certain oil and gas interests in the Black Warrior Basin, Mississippi and West Tishomingo, Oklahoma regions.

BWB participated in a well drilling program with a major US independent oil and gas producer (“US Operator”) as the operator of the Berwyn #1-15H well (“Berwyn”) within the West Tishomingo region. The total cost paid by the private company for the nine months ended June 30, 2009 for a 7.86% participation right is $569,071.

On June 30, 2009, the private company entered into an agreement with the US Operator to market its share of oil and gas production. Under this agreement, the US Operator will market and sell the private company’s share of oil and gas (net of operating costs) and the net proceeds less royalties will be paid 30 days after the US Operator’s receipt.

Summary of Quarterly Results

The summary for each of the eight most recently completed quarters is as follows:
(CDN thousands except per share amounts)

	Q3 June 30, 2009	Q2 Mar 31, 2009	Q1 Dec 31, 2008	Q4 Sept 30, 2008	Q3 June 30, 2008	Q2 Mar 31, 2008	Q1 Dec 31, 2007	Q4 Sept 30, 2007
Revenue	164,851	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Loss from Continuing Operations [1]	(1,047,333)	(694,391)	(967,188)	(1,806,601)	(879,601)	(811,841)	(4,464,800)	(1,282,471)
Basic and Diluted Loss per share from Contiuing Operations[1] ($/share)	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.05)	(0.03)
Net Income (Loss)	(1,047,333)	(694,391)	(967,188)	(4,893,310)	(880,966)	(818,730)	(4,471,960)	(2,879,291)
Basic and Diluted Income (Loss) per share [3] ($/share)	(0.01)	(0.00)	(0.01)	(0.03)	(0.01)	(0.01)	(0.05)	(0.07)

1 Fiscal 2007 and 2008 quarterly information has been restated for comparative purposes to recognize the discontinued operations related to the Company's interest in the Palo Duro Project.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2009 AND 2008

The review of the results of operations should be read in conjunction with the Company's unaudited consolidated interim financial statements and related notes for the three and nine months ended June 30, 2009 and 2008 as well as the audited consolidated financial statements for the year ended September 30, 2008.

Results of Operations for the three months ended June 30, 2009 and 2008

Net Loss for the quarter

For the three months ended June 30, 2009 the Company incurred a net loss of $1,047,333 ($0.01 per share) compared to a net loss of $880,996 ($0.01 per share) for the three months ended June 30, 2008. The increase in net loss is mainly due to higher stock based compensation of $418,633 partially offset by a decrease in professional fees expenditures of $247,764, primarily as a result of the decreased management and consulting fees. General and administration costs increased by $91,730 for the three months ended June 30, 2009.

Revenue

The Company recorded revenue of $164,851 from sales of natural gas, oil and natural gas liquids. The Company's other source of income is interest income on cash and cash equivalents and short term investments. Interest income of $49,453 was earned during the three months ended June 30, 2009 (2008 - $239,038).

Results of Operations for the nine months ended June 30, 2009 and 2008

Net Loss for the period

For the nine months ended June 30, 2009 the Company incurred a net loss of $2,708,912 ($0.02 per share) compared to a net loss of $6,171,656 ($0.05 per share) for the nine months ended June 30, 2008. The decrease in net loss is mainly due to lower stock based compensation by $3,689,183. In addition, professional fees expenditures decreased by $369,260 respectively, primarily as a result of the decreased management and consulting fees. General and administration costs increased by $944,063 for the nine months ended June 30, 2009.

Revenue

The Company recorded revenue of $164,851 from sales of oil and gas during the nine months ended June 30, 2009. This amount represents revenue earned when oil and gas have been physically delivered. The Company's other source of income is interest income on cash and cash equivalents and short term investments. Interest income of $433,390 was earned during the nine months ended June 30, 2009 (2008 - $559,558).

Change of Financial Position of the Company for nine months ended June 30, 2009

Change of Total Assets

The total assets of the Company decreased by $1,017,331 from $51,657,979 reported on September 30, 2008 to $50,640,648 as at June 30, 2009. The decrease is mainly due to the acquisition of the 10% interest in LNG BC at a cost lower than book value.

Change of Liabilities and Non-Controlling Interest

The liabilities and non-controlling interest of the Company increased by $1,141,812 from $5,623,505 reported on September 30, 2008 to $6,765,317 as at June 30, 2009. This increase is mainly due to the non-controlling interest related to the acquisition of the United States oil and gas interests partially offset by the reduction in non-controlling interest due to the acquisition of the remaining 10% of LNG BC in November 2008. Future income taxes liability decreased from $1,553,302 reported on September 30, 2008 to $798,651 at June 30, 2009 as a result of the acquisition of the remaining 10% of LNG BC.

Change in Shareholders' Equity

Shareholders' equity decreased by $2,159,143 from $46,034,474 reported on September 30, 2008 to $43,875,331 as at June 30, 2009. This decrease is mainly due to the net loss for the nine months ended June 30, 2009 of $2,708,912.

Liquidity

The Company had cash, cash equivalents and short term investments of $11,988,766 and net working capital of $12,218,800 at June 30, 2009 (September 30, 2008: cash, cash equivalents and short term investments on hand of $25,970,660 and working capital of $25,226,949). The decrease in cash, cash equivalents and short term investments is mainly due to the acquisition of the United States oil and gas properties.

For the nine months ended June 30, 2009, the Company had operating revenue of $164,851 (net revenue of $132,450 after royalties). The other source of income for the Company is interest income from cash, cash equivalents and short term investments. The Company believes it has sufficient funds to meet its anticipated capital program and working capital requirements for the next twelve months.

Contractual Obligations

Oil and Gas Petroleum Prospecting Licenses
The new licenses granted now have a six year term along with new expenditure commitments for each PPL. The work commitments related to each of the new licenses, over the next two years, are at a cost not less than the following amounts per PPL:

PPL#	COMMITMENTS (in USD)	
PPL 319	$	5,000,000
PPL 320	$	2,000,000
PPL 321	$	3,000,000
PPL 322	$	2,000,000
	$	12,000,000

As at August 21, 2009, the Company does not have any other material contractual obligations.

Capital Resources

The Company completed the acquisition of 60% of BWB which holds oil and gas licenses in the United States for US$6 million.

Proposed Transactions

As at August 21, 2009, the Company does not have any proposed transactions.

Off-Balance Sheet Transactions

As at August 21, 2009, the Company does not have any off-balance sheet arrangements other than those previously discussed.

Related Party Transactions

For the three and nine months periods ended June 30, 2009 and 2008, amounts paid and owing to companies controlled by directors and officers of the Company were as follows:

	For the Three Months ended June 30,		For the Nine Months ended June 30,	
	2009	**2008**	**2009**	**2008**
Management and Consulting Services paid to current directors and officers	$ -	$ 14,500	$ -	$ 147,900
Management and Consulting Services paid to former directors and officers	-	242,600	-	242,600
Director Fees paid to a former officer of the Company	-	-	-	7,500
Director Fees paid to current independent directors of the Company	8,000	8,000	26,000	44,500
	$ 8,000	$ 265,100	$ 26,000	$ 442,500

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

Changes in Accounting Policies including Initial Adoption

a) New accounting pronouncements:

Effective October 1, 2008, the Company has adopted two 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) Inventories
Section 3031, "Inventories", which replaces Section 3030 establishes standards for the measurement and disclosure of inventories. This Section provides more extensive guidance in the following areas: the determination of cost, including allocation of overhead; limitation of permitted cost formulas; and expansion of disclosure requirements to increase transparency. The disclosure requirements in 3031 did not have any impact on the Company's financial statements.

(ii) Goodwill and Intangible Assets
Section 3064 "Goodwill and Intangible Assets establishes guidance on the recognition of intangible assets as well as the recognition and measurement of internally developed intangible assets. In addition, Section 3450 "Research and Development Costs" was withdrawn from the Handbook. Adopting this accounting change did not have a material effect on the Company's financial statements.

b) Recent Accounting Pronouncements

(iii) 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.

(iv) 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 AcSB issued the “omnibus” exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators (“CSA”) has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the (continued) use of US GAAP by domestic issuers. The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The Company is assessing the potential impacts of this changeover and is developing its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions.

Financial Instruments and Other Instruments

The Company classifies all financial instruments as held-to-maturity, available-for-sale, held-for-trading, loans and receivables or other liabilities. 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 on the Statement of Operations and Deficit.

ADDITIONAL INFORMATION

Disclosure of Outstanding Share Data

a) The Company is authorized to issue the following shares:

Unlimited number of common shares, without nominal or par value

The common shares issued as at June 30, 2009 and August 21, 2009 are as follows:

	Number
Balance, June 30, 2009	144,095,965
Balance, August 21, 2009	144,095,965

b) The number of options exercisable and exercise prices at June 30, 2009 were as follows:

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	500,000	February 1, 2013
$0.58	1,500,000	1,500,000	February 1, 2013
$0.28	1,975,000	1,425,000	May 1, 2013
$0.19	2,290,000	2,290,000	May 14, 2014
	14,040,000	13,240,000	

On May 14, 2009, 2,290,000 stock options were granted to directors, officers, employees and consultants of the Company, exercisable over 5 years at an exercise price of $0.19 per share. These options expire on May 14, 2014. Total outstanding options as at August 21, 2009 are 14,040,000.

During the nine months ending June 30, 2009, a total of 1,800,000 share purchase options were forfeited.

EXERCISE PRICE	OPTIONS CANCELLED
$0.10	500,000
$0.28	250,000
$0.56	400,000
$0.67	650,000
	1,800,000

c) No share purchase warrants were outstanding as at June 30, 2009 and August 21, 2009.

Risk Factors

General

The oil and gas industry is very competitive and is subject to many risks. Many of these risks are outside the Company's control. Management has identified certain key risks, which are discussed below, along with their potential impact on the Company's operations. There is no assurance that commercial quantities of oil and natural gas will be discovered by the Company.

Exploration, Drilling and Operating Risks

The business of exploration for and production of oil, gas and other resources involves a high degree of risk. In particular, the operations of the Company may be disrupted, curtailed or cancelled by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to increment or hazardous weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment, compliance with governmental requirements, explosions and other accidents. These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruptions, monetary losses and possible legal liability.

Title to properties

Title to oil and gas interest is often not capable of conclusive determination, without incurring substantial expense. In accordance with industry practice, the Company will conduct such title review in connection with its principal properties as it believes is commensurate with the value of such properties. Governmental regulations and processing, approvals license and permits are, as a practical matter, subject to the discretion of the applicable governments or governmental offices. The Company must comply with known standards, existing laws and regulations. New laws and regulations, amendments to existing laws and regulations, or more stringent enforcement of existing laws and regulations could have a material adverse impact on the Company's results of operations, financial condition and prospects.

Fluctuations in the Prices of Oil and Natural Gas

Oil and natural gas prices have fluctuated widely during recent years and are determined by various factors outside the Company's control, including supply and demand factors, weather, general economic conditions, political instability, government regulation and taxes, the price and availability of alternative fuels, and conditions in oil and gas regions around the world. Such fluctuations will have a positive or negative effect on any revenue that the Company receives. If oil and natural gas prices become depressed or decline, the Company's potential revenue and earnings and the value of its assets would be expected to decline.

Dependence on Key Personnel

The Company has a small management team and the loss of a key individual or the inability to attract suitably qualified personnel in the future could materially and adversely affect the Company's business.

Additional Financing

To the extent that external sources of capital, including the issuance of additional Common Shares, become limited or unavailable, the Company's ability to make necessary capital investments to maintain or expand its oil and gas exploration and development activities will be impaired.

Reserve and Resource Estimates

Information on resources and reserves are only estimates and the actual production and ultimate reserves from the properties may be greater or less than the estimates contained herein. In addition, probable reserve estimates for properties may require revision based on the actual development strategies employed to prove such reserves. Estimated reserves may also be affected by changes in oil and natural gas prices. Declines in reserves that are not offset by the acquisition or development of additional reserves may reduce the underlying value of shares to shareholders.

Foreign Exchange Rates

The Company will be 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.

Foreign Investments

The Company expects that its oil and gas exploration activities will take place principally outside of Canada for the foreseeable future. As such, the Company's operations are subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. The Company endeavours to operate in such a manner as to minimize and mitigate its exposure to these risks. However, there can be no assurance the Company will be successful in protecting itself from the impact of all of these risks.

Environment Regulation

The oil and gas industry is subject to environmental regulation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of the Company or its properties. Such legislation may be changed to impose higher standards and potentially more costly obligations. The Company is putting policies and practices in place to ensure its operations conform to the standards and government regulations required for each jurisdiction in which it operates.

Governmental Regulations

The Company's PNG Lands are subject to various federal and local governmental regulations of Papua New Guinea. Matters subject to regulation include discharge permits for drilling operations, drilling and abandonment bonds, reports concerning operations, the spacing of wells, and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. The production, handling, storage, transportation and disposal of oil and gas, by-products thereof, and other substances and materials produced or used in connection with oil and gas operations are also subject to regulation under federal and local laws and regulations relating primarily to the protection of human health and the environment. To date, expenditures related to complying with these laws, and for remediation of existing environmental contamination, have not been incurred in relation to the results of operations of the Company, although the Company anticipates incurring such expenses as the drilling operations proceed. The requirements imposed by such laws and regulations are frequently changed and subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations.

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

Withholding Tax and Currency Exchange Controls in Papua New Guinea

The current rate of dividend withholding tax stipulated by the Income Tax Act 1959 (Papua New Guinea) is 17%. The Central Banking (Foreign Exchange & Gold) Regulation (Ch138) (Papua New Guinea) regulates the flow of currency into and out of Papua New Guinea. A Papua New Guinea company can only send Papua New Guinea Kina or a foreign currency (other than that which was the subject of a previously approved exchange) out of Papua New Guinea with the Central Bank's prior approval. These authorities or approvals are delegated to certain commercial banks as authorised dealers up to certain limits. The limits to exchanging and remitting foreign currency overseas from Papua New Guinea are K200,000 per annum without further tax clearance from the Internal Revenue Commission and K500,000 in aggregate per annum without further Central Bank approval.

General Economic Conditions

There has been a high level of volatility in the world financial markets over the past year. This volatility has caused investors to become less willing to provide debt or equity financing to most companies and in particular to junior resource companies. This will potentially make completing financings for the Company difficult in the foreseeable future.

Cautionary Statement on Forward-Looking Information

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as "anticipate", "believe", "plan", "continuous", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements pertaining to the following:

- *Revenues;*
- *Natural gas prices;*
- *Royalty rates and expense;*
- *Depletion, depreciation and accretion rate;*
- *General and administrative expenses;*
- *Capital expenditures;*
- *Exploration and development drilling program;*
- *Sources of funding;*

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

Forward-looking statement are based on the Company's current beliefs as well as assumptions made by, and information currently available to, the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, future natural gas commodity prices, the ability to market natural gas successfully to current and new customers, the impact of increasing competition, the ability to obtain financing on acceptable terms, and the ability to add production and reserves through development and exploration activities. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. These factors include, but are not limited to; risks associated with oil and gas exploration, financial risks, substantial capital requirements, bank financing, government regulation, environmental, prices, markets and marketing, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, risks may not be insurable, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition, conflicts of interest, issuance of debt, title to properties, variations in exchange rates, and hedging. Further information regarding these factors may be found under the heading "Risk Factors" in the Annual Information Form. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive.

Certain of the forward-looking statements in this MD&A may constitute "financial outlooks" as contemplated by National Instrument 51-102 Disclosure Obligations, including information related to projected revenues, expenses, capital expenditures for 2009, which are provided for the purpose of forecasting the financial position of the Company at the end of the 2009 financial year. Please be advised that the financial outlook in this MD&A may not be appropriate for purposes other than the one stated above.

The forward-looking statements contained in this MD&A are made as of the date thereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, except as required by applicable law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.