



LIQUEFIED NATURAL GAS LIMITED
(ABN 19 101 676 779)

SEPTEMBER 2010 QUARTERLY REPORT

HIGHLIGHTS

- Gladstone “Fisherman’s Landing” LNG Project (**Fisherman’s Landing LNG Project**) - the Company continues to advance meaningful discussions with potential gas suppliers for its wholly owned Fisherman’s Landing LNG Project. It is pleasing to note that momentum has returned in these discussions following the conclusion of the Federal Government elections, clarification of the taxation position for coal seam gas (**CSG**) to liquefied natural gas (**LNG**) projects and recent Federal Government conditional environmental approval for two of the proposed larger Curtis Island LNG projects, in the Port of Gladstone.
- The Company has signed Confidentiality Agreements and is currently in discussions with six potential strategic partners as LNG buyers and project investors, in the Fisherman’s Landing LNG Project. On completion of gas supply and selection of strategic partners, the Fisherman’s Landing LNG Project is positioned to move to final investment decision and construction.
- Metgasco Limited (ASX code **MEL**) – the Company has acquired a 5.07% shareholding in MEL and is its largest shareholder. MEL has certified gas reserves and 2C contingent resource of 3,416 petajoules (**PJ**) and an “internally estimated” overall “P10 unrisksed original gas in place (**OGIP**)” of 15,265 PJ, with 3,600 PJ of gas feedstock required for the Company’s Fisherman’s Landing LNG Project’s currently approved 3 million tonne per annum LNG production capacity. As previously announced, MEL and the Company have entered into a Memorandum of Understanding to undertake a joint feasibility study in relation to gas supply from MEL’s gas permit areas to the Company’s Fisherman’s Landing LNG Project and other potential LNG project locations.
- Oil Basins Limited (**OBL**) – the Company has acquired a 7.26 % shareholding in OBL and is its largest shareholder. OBL has prospective oil and gas permit interests in the offshore Gippsland Basin of south-eastern Australia, the onshore Canning Basin of Western Australia, with the Backreef No 1 well currently being drilled, and the offshore waters of the Carnarvon Basin. As previously announced, OBL and the Company have entered into a Strategic Alliance Agreement to jointly investigate the development of an LNG project in North Western Australia.
- LNG Process Technology (**OSMR**[®]) – the Company is now actively marketing its proprietary **OSMR**[®] LNG process technology. Two parties have completed preliminary due diligence and are now undertaking more detailed due diligence under Confidentiality Agreements. The Company’s objective is that these parties become strategic partners both in the marketing of the **OSMR**[®] technology and in the development of the Company’s Fisherman’s Landing LNG Project.

1. Gladstone “Fisherman’s Landing” LNG Project (Fisherman’s Landing LNG Project)



An artist's impression of the Gladstone “Fisherman’s Landing” LNG Project.

During the quarter, the Company’s continuing primary focus has been on:

- Securing gas supply for the Fisherman’s Landing LNG Project;
- Selecting a strategic partner as the LNG buyer and project investor; and
- Maintaining the ability to recommence construction when gas supply and strategic partners negotiations are concluded.

The Company is very satisfied with the progress on all three of the above objectives and, in particular, is now seeing some increased momentum as a result of:

- Federal Government elections being concluded;
- Clarification of taxation issues for CSG to LNG parties; and
- Federal Government’s conditional environmental approval for two of the proposed larger LNG projects in Gladstone. These approvals incorporate both the upstream (CSG developments and pipelines to connect with Gladstone) and the downstream (LNG plant and Gladstone Port developments). Whilst the **Fisherman’s Landing LNG Project** has obtained all environmental approvals for its downstream requirements, the gas suppliers with whom discussions are being held, must obtain all their upstream approvals and licenses.

Furthermore, we have seen some practical rationalisation of jointly owned permits in the coal seam gas sector and it is considered highly likely that this will flow into the LNG sector in Queensland. The Company views this rationalisation as beneficial for its Fisherman’s Landing LNG Project, in that it is likely that additional CSG will become available for any LNG expansion capacity.

The Company remains confident in the value and deliverability of its Fisherman’s Landing LNG Project, given the:

- strategic mainland location of the project site and existing access to key infrastructure and services;
- advanced nature of the project including environmental approval, completion of front end engineering and design and detailed costing, based on a firm engineering, procurement and construction proposal;
- low project development cost compared to cost estimates for larger traditional LNG projects (assessed on a cost per annual production tonne basis);
- highly efficient plant, low emissions, and industry low operating cost, based on the use of the Company’s OSMR® technology; and
- continually increasing gas reserves in both Queensland and New South Wales which are not committed to one of the proposed large Curtis Island LNG projects, in the Port of Gladstone.

2. Metgasco Limited (ASX code MEL)

During the September 2010 quarter, the Company acquired a 5.07% shareholding in MEL and is now MEL’s largest single shareholder.

In addition, MEL and the Company executed an agreement to jointly study the feasibility of potential gas supply to the Company’s Fisherman’s Landing LNG Project. The joint study will encompass the viability of gas production, transportation, liquefaction and sale of LNG, based on gas supply from MEL’s 100% owned coal seam reserves and conventional gas resources in the Clarence Moreton Basin, in Northern NSW.

Based on its current certified gas reserves and contingent resources, see tables below, MEL has the potential to supply sufficient gas for the currently approved 3 million tonne per annum LNG production capacity of the Company’s Fisherman’s Landing LNG Project. MEL, in recent presentations has included an “internal estimate” of 14,478 billion cubic feet (15,265 PJ) of “P10 unrisked OGIP”.

In conjunction with advancing the joint study with MEL, the Company is in ongoing discussions with other potential gas suppliers for the Fisherman’s Landing LNG Project.

Metgasco Limited: Certified Gas Reserves

PEL 16 Independently certified coal seam gas reserves Petajoules (PJ)	
Reserve Category	Reserves 16 February 2010
1P (Proven)	2.7
2P (Proven + Probable)	397
3P (Proven + Probable + Possible)	2,239
2C Contingent Resource	1,177

3. Oil Basins Limited (ASX Code OBL)

The Company holds a 7.26% shareholding in OBL and is the largest single shareholder.

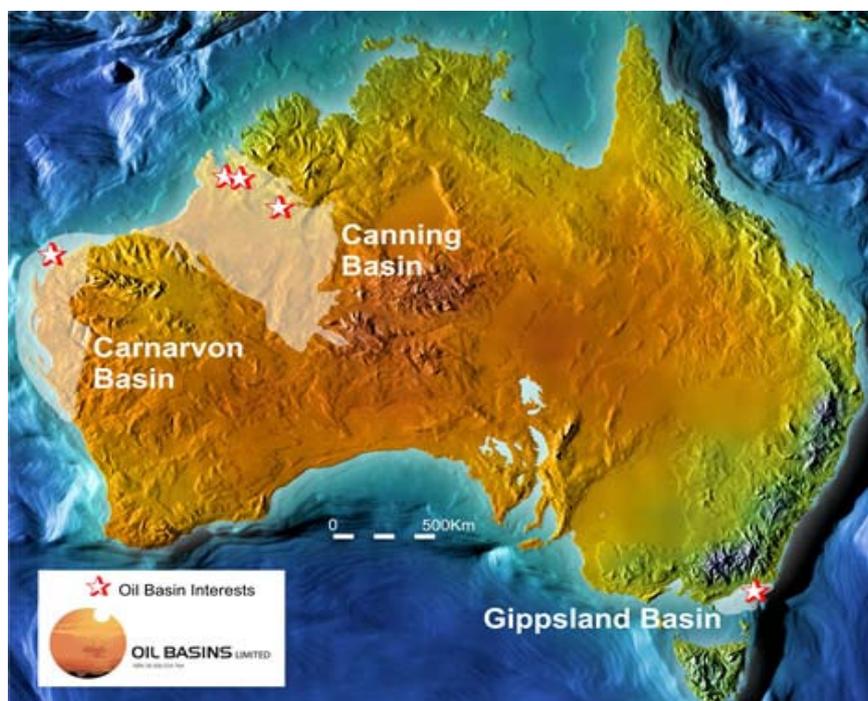
During the September 2010 quarter, OBL and the Company entered into a Strategic Alliance Agreement to jointly investigate the development of an LNG project in North Western Australia (**Kimberley LNG Project**). The Kimberley LNG Project is based on utilising the potential large resources of conventional and unconventional gas contained within the Canning Basin, including gas contained within OBL's acreage and that of its joint venture partners.

The proposed Kimberley LNG Project will benefit from the advanced development work undertaken by the Company for its Fisherman's Landing LNG Project. Such development work includes completion of front end engineering and design and provision of a fixed price EPC proposal for the first 1.5 million tonne per annum LNG train.

OBL is involved in the exploration for oil and gas in the offshore Gippsland Basin of south-eastern Australia, the onshore Canning Basin of Western Australia and more recently the offshore waters of the Carnarvon Basin. All areas of interest are situated in proven hydrocarbon regions of Australia and nearby to established infrastructure hubs. OBL's key assets comprise:

- 12.5% Rights to Vic/P41 situated in the offshore Gippsland Basin;
- 17% Vic/P66 situated in the offshore Gippsland Basin;
- 90% interest in the Backreef Area, in the onshore Canning Basin #;
- 50% interest in 5/07-8 EP situated in the onshore Canning Basin; and
- 25% Retention Lease R3 situated in the offshore Carnarvon Basin.

As at 28 October 2010, the Backreef-1 well had reached a depth in excess of 1,500 metres and therefore OBL had earned its 90% interest. Results from the Backreef-1 well are pending evaluation and announcement by OBL.



4. Company’ Other LNG Activities

Based on the completion of the Fisherman’s Landing LNG Project FEED and procurement of fixed EPC pricing, the Company is actively evaluating other LNG project opportunities both in Australia and overseas. While the Fisherman’s Landing LNG Project is based on 1.5 million tonne per annum LNG trains, the LNG plant design and technology is flexible and can be scaled (increased or decreased) to meet the specific requirements of each LNG project.

Further information on other LNG project opportunities will be provided to shareholders when agreements have been executed.

5. LNG Technology Pty Ltd

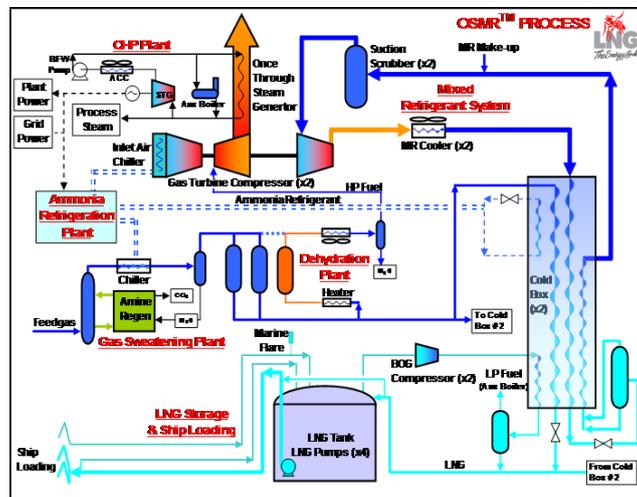
LNG Technology Pty Ltd, owned 100% by the Company, is the LNG technology research and development entity within the group and the owner of the Company’s OSMR® LNG process technology. The OSMR® technology is an enhanced LNG liquefaction process which delivers higher operating efficiency and lower greenhouse gas emissions than traditional LNG processes.

The OSMR® technology has been developed and refined over numerous years and was the foundation of the completed LNG plant front end engineering and design for the Fisherman’s Landing LNG Project. During, and subsequent to, the development process the OSMR® technology has been the subject of numerous satisfactory peer reviews, including endorsement of its cost, reliability and efficiency. These reviews were required to satisfy the Company as to the validity of the technology and the stated benefits, and prior to the Company commencing an active marketing programme.

The Company planned to initiate its marketing campaign at the April 2010 LNG16 Conference and Exhibition in Oran, the second largest city in Algeria. Unfortunately, the LNG 16 Conference was held just after the eruption of the Eyjafjallajokull volcano in Iceland and, as a consequence, many of the delegates were unable to attend and the conference was reduced to two days. However, the jointly prepared technical paper by the Company’s Technical Director, Paul Bridgwood, together with Don Hill, Vice President – Gas Monetization, CB&I Lummus titled “Simple Low Cost LNG Production” was published in the LNG Industry Spring 2010 Edition and made available for delegates at the conference.

The joint paper has generated interest in the OSMR® technology and the Company is in discussions with several parties, some of whom are undertaking due diligence of the process.

An updated version of the paper “Improved LNG Process” is on the Company’s website.



The Company continues to further its international patent applications, which cover two engineering design features (being the basis of the Company's OSMR[®] technology), entitled:

- "A Method and System for Production of Liquid Natural Gas".
- "Boil-Off Gas Treatment Process and System".

6. Gas Link Global

Gas Link Global Limited, owned 100% by the Company, has as its primary business activity the identification and selected investment in existing gas discoveries and prospective gas acreage to provide gas feedstock for LNG projects.

No major activities were progressed during the September 2010 quarter. However, the Company is assessing a number of strategic investments in gas companies that have the potential to supply gas for future LNG projects.

7. Exploration Expenditure

No exploration expenditure was incurred by the Company during the quarter.

8. Corporate

a. Major Corporate Shareholder:

As at 29 October 2010, the Company's largest corporate shareholder was Dart Energy Ltd (ASX code *DTE*), with a 7.5% shareholding. DTE procured the shareholding, on 13 July 2010, when Arrow Energy Limited transferred its total shareholding in the Company (16 million shares) to DTE, following a demerger of Arrow Energy Limited's international assets and certain Australian assets. DTE's stated vision is to be the leading global coal bed methane company.

b. Unlisted Options:

As at 30 September 2010 the Company had issued 9,785,000 unlisted options under its Option Plan Rules.

9. Capital Structure (as at 30 September 2010)

Class of Security	Issued	Quoted
Fully Paid Ordinary Shares	213,339,015	213,339,015
Options Issued	9,785,000	-

10. Appendix 5B

Attached to this quarterly report.

11. Corporate Information (as at 29 October 2010)

ASX Code: LNG

Directors:

Phillip John Harvey	Non-Executive Chairman
Fletcher Maurice Brand	Managing Director/Chief Executive Officer
Richard Jonathan Beresford	Non-Executive Director
Leeanne Kay Bond	Non-Executive Director
Paul William Bridgwood	Director/Chief Technical Officer
Norman Marshall	Director/Chief Financial Officer

Company Secretary:

David Michael Gardner

Registered Office:

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Telephone: (08) 9366 3700
Facsimile: (08) 9366 3799
Email: LNG@LNGLimited.com.au
Website: www.lnlimited.com.au

Substantial Shareholders (as at 29 October 2010):

Copulos Group
Dart Energy Limited
Paul William Bridgwood
Sasigas Nominees Pty Ltd <Fletcher M Brand Family A/C>

Appendix 5B

Mining exploration entity quarterly report

Name of entity

LIQUEFIED NATURAL GAS LIMITED

ABN

19 101 676 779

Quarter ended ("current quarter")

30 September 2010

Consolidated statement of cash flows

	Current quarter	Year to date (3 months)
	\$A'000	\$A'000
Cash flows related to operating activities		
1.1 Receipts from customers & ATO	146	146
1.2 Payments to suppliers and employees		
(a) exploration and evaluation	-	-
(b) project development	(1,658)	(1,658)
(c) production	-	-
(d) administration and others	(1,877)	(1,877)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	213	213
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – R&D tax concession rebate	-	-
Net operating cash flows	(3,176)	(3,176)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
(d) shares	(6,290)	(6,290)
1.9 Proceeds from sale of:		
(a) exploration licences	-	-
(b) equity investments	-	-
(c) other fixed assets	(20)	(20)
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
Net investing cash flows	(6,310)	(6,310)
1.13 Total operating and investing cash flows (carried forward)	(9,486)	(9,486)

1.13	Total operating and investing cash flows (brought forward)	(9,486)	(9,486)
1.14a	Cash flows related to financing activities		
	Proceeds from issue of shares and exercise of share options	-	-
1.14b	Less : Share issue costs	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Repayment of finance lease principal & interest	(3)	(3)
	Net financing cash flows	(3)	(3)
	Net increase/(decrease) in cash held	(9,489)	(9,489)
1.20	Cash at beginning of quarter/year	24,401	24,401
1.21	Net foreign exchange differences	(67)	(67)
1.22	Cash at end of quarter	14,845	14,845

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	392
1.24	Aggregate amount of loans to the parties included in item 1.18	-
1.25	Explanation necessary for an understanding of the transactions	
	Payments pursuant to 1.23 comprise:	
	Non-Executive Directors' Fees	\$ 20,833 (excl. GST); and
	Executive Directors' Remuneration	\$ 370,952 (excl. GST)

Non-cash financing and investing activities

2.1	Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows
	None in this quarter.
2.2	Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest
	None in this quarter.

Financing facilities available

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	-
4.2	Project development	2,109
4.3	Production	-
4.4	Administration	1,596
	Total	3,705

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	2,755	2,498
5.2	Term Deposit	12,090	21,903
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	14,845	24,401

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-	-

Issued and quoted securities at end of current quarter

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference +securities B Class	-	-	-	-
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions (c) Conversion to fully paid ordinary shares	- - -	- - -	- - -	- - -
7.3	+Ordinary securities	213,339,015	213,339,015	-	-
7.4	Changes during quarter (a) Increases through issues (b) Increases through conversion Preference Share (c) Decreases through returns of capital, buy-backs	- - -	- - -	- - -	- - -
7.5	+Convertible debt securities (description)	-	-	-	-
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	- -	- -	- -	- -

7.7	Options	<i>Number</i>		<i>Exercise price</i>	<i>Expiry date</i>
	(a) Options over ordinary shares, exercisable at 65 cents	1,380,000	-	65 cents	31 December 2010
	(b) Options over ordinary shares, exercisable at 38 cents	760,000	-	38 cents	16 February 2011
	(c) Options over ordinary shares, exercisable at 40 cents	350,000	-	40 cents	30 May 2011
	(d) Options over ordinary shares, exercisable at 68 cents	60,000	-	68 cents	30 November 2012
	(e) Options over ordinary shares, exercisable at 66.7 cents	2,490,000	-	66.70 cents	10 December 2012
	(f) Options over ordinary shares, exercisable at 88 cents	1,600,000	-	88 cents	9 September 2013
	(g) Options over ordinary shares, exercisable at 84 cents	150,000	-	84 cents	17 September 2013
	(h) Options over ordinary shares, exercisable at 62.1 cents	1,750,000	-	62.10 cents	30 April 2014
	(i) Options over ordinary shares, exercisable at 69.2 cents	415,000	-	69.20 cents	3 August 2011
	(j) Options over ordinary shares, exercisable at 74.2 cents	415,000	-	74.20 cents	3 February 2012
	(k) Options over ordinary shares, exercisable at 79.2 cents	415,000	-	79.20 cents	3 August 2012
	TOTAL OPTIONS ISSUED	9,785,000			
7.8	Issued during quarter :				
	(i) Options over ordinary shares, exercisable at 69.2 cents	415,000	-	69.20 cents	3 August 2011
	(j) Options over ordinary shares, exercisable at 74.2 cents	415,000	-	74.20 cents	3 February 2012
	(k) Options over ordinary shares, exercisable at 79.2 cents	415,000	-	79.20 cents	3 August 2012
	TOTAL	1,245,000			
7.9	Exercised during quarter	-	-	-	-
	TOTAL	-	-	-	-

7.10	Expired/cancelled during quarter	-	-	-	-
7.11	Debentures <i>(totals only)</i>	-	-	-	-
7.12	Unsecured notes <i>(totals only)</i>	-	-	-	-

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.



David Michael Gardner
Company Secretary

29 October 2010

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* applies to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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