



LIQUEFIED NATURAL GAS LIMITED
(ABN 19 101 676 779)

DECEMBER 2010 QUARTERLY REPORT

HIGHLIGHTS

- On 27 January 2011, the Company signed a Share Placement Term Sheet (*Term Sheet*) with China Huanqiu Contracting & Engineering Corporation (*HQCEC*). HQCEC is a wholly owned subsidiary of China National Petroleum Corporation (*CNPC*), which is China's largest producer and supplier of crude oil and natural gas.

The legally binding Term Sheet includes, amongst other things, the terms upon which HQCEC will subscribe for 53,250,000 shares in the Company, being equivalent to approximately 19.9% of the total issued shares in the Company following the placement (*Placement*).

Refer to section 1 of this Quarterly Report and the separate ASX/Media Release, dated 28 January 2011, for further details.



Signing of the Term Sheet by Mr Wang Shihong, President and Chief Executive Officer of HQCEC and Mr Richard Beresford, Chairman of LNG LTD

- Metgasco Limited (ASX code **MEL**) – the Company continues to hold a 5.07% shareholding in MEL and remains its largest shareholder. MEL has certified gas reserves and 2C contingent resource of 3,416 petajoules (**PJ**) and an “internally estimated” overall “P10 unrisked original gas in place (**OGIP**)” of 15,265 PJ. The Company’s LNG project at Fisherman’s Landing, Port of Gladstone, Queensland, Australia (***Gladstone LNG Project***) requires ~3,600 PJ of gas feedstock for its currently approved 3 million tonne per annum LNG production capacity.
- Oil Basins Limited (**OBL**) – the Company holds a 7.51 % shareholding in OBL and remains 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 and the offshore waters of the Carnarvon Basin.

1. Corporate

The Company’s focus in the later part of the December 2010 quarter, and to date in 2011, has been the consummation of the Term Sheet with HQCEC. Aside from the proposed Placement the Term Sheet covers the following key terms:

- Application of the Placement proceeds to the development of the Company’s wholly owned 3 million tonne per annum Gladstone LNG project at Fisherman’s Landing, Port of Gladstone, Queensland, Australia (***Gladstone LNG Project***).
- Appointment of a HQCEC nominee as a Non Executive Director to the Company’s Board.
- Appointment of a HQCEC nominee as an Executive Director to the Company’s Board and Co Chief Executive Officer of the Company, to work with the existing Managing Director/Chief Executive Officer, Maurice Brand.
- Appointment of HQCEC, or an affiliate of HQCEC or CNPC, as the sole Engineering, Procurement, Construction and Commissioning (***EPC***) contractor for the Gladstone LNG Project, conditional on HQCEC providing a competitive EPC proposal based on the Company’s wholly owned ***OSMR***[®] process technology.
- Agreement to negotiate preferential terms for HQCEC, CNPC and their affiliates to use the Company’s ***OSMR***[®] process technology.
- Consideration by HQCEC and CNPC, or an affiliate of CNPC, as to their involvement in the Gladstone LNG Project, including direct investment in the project, purchase of the proposed initial 3 million tonne per annum LNG production capacity from the project’s first two LNG trains and provision of project financing.
- The Company’s ongoing pursuit of gas supply for the Gladstone LNG Project’s first two 1.5 million tonnes per annum LNG trains.

The Term Sheet is, amongst other things, conditional on:

- HQCEC obtaining relevant approvals (on terms satisfactory to HQCEC) from the Australia Government’s Foreign Investment Review Board, China’s Ministry of Commerce and National Economic Reform Commission and CNPC; and
- The Company obtaining shareholders’ approval, if required.

HQCEC and the Company are now advancing various definitive agreements, including a Share Subscription Agreement, based on the agreed Term Sheet. The parties are targeting completion of the Placement in the second quarter of 2011.

ABOUT CHINA HUANQIU CONTRACTING & ENGINEERING CORPORATION (HQCEC):

HQCEC, headquartered in Beijing and wholly owned by *CNPC*, is an intelligence and technology intensive/oriented state-owned enterprise and is engaged in such diversified businesses as consultation, research and development, engineering, procurement, construction management, equipment manufacture and commissioning guidance.

HQCEC has, for over 50 years, fulfilled the tasks of consultation, engineering, construction and EPC contracting for over 2,000 cross-industry large and medium scale domestic and foreign projects. HQCEC has extensive experience in contracting on an EPC basis including 14 categories of plants, including ethylene, polypropylene, LNG and chemical fertilizer plants, all of international scale. HQCEC's business covers 30 provinces, cities and autonomous regions across China and nearly 20 countries and regions in Southeast Asia, Western Europe, America and the Middle East. HQCEC was the first Chinese company to independently enter into high-end refinery markets such as Saudi Arabia, Singapore, Canada and Italy.

HQCEC executed and delivered the Guangdong LNG import terminal, China's first LNG receiving terminal, and has an active project portfolio, including:

- EPC contractor for the Jiangsu LNG receiving terminal near Shanghai which is scheduled for commissioning in April 2011;
- EPC contractor for the Dalian LNG receiving terminal, being the first LNG terminal in northern China and featuring the use of HQCEC's proprietary technology; and
- EPC contractor for the 500,000 tonne per annum Ansai LNG Project in the Shaanxi Province China, featuring HQCEC's proprietary liquefaction technology, which is scheduled for commissioning in the fourth quarter 2011.

HQCEC currently has more than 9,500 staff, including 165 professor-title senior engineers and 1,103 senior engineers. Having strong R&D capabilities, HQCEC tackles key technical problems for many large chemical plants and have been awarded 42 state patents, with application for 22 more accepted, 2 national construction methods and 13 provincial/ministerial construction methods. HQCEC now has 41 competitive know-hows, more than 10 innovative process technologies that were independently developed or are being developed and 34 independently developed computer software programs. HQCEC has won 423 international, national, provincial and ministerial invention awards, technological progress awards and excellent engineering design awards, and taken the lead or participated in drafting 18 national standards, 34 industrial standards and 8 association standards.

By virtue of its advanced technology, numerous project achievements and proven credibility, HQCEC was rated as one of the "Ten Best Project Contractors" in a national survey by the design industry, on the 60th National Day, and is one of the first companies to win the title of "AAA Credit Enterprise" and Beijing's "High-Tech Enterprise".

ABOUT CHINA NATIONAL PETROLEUM CORPORATION (CNPC):

CNPC is an integrated international energy company. It is China's largest oil and gas producer and supplier, as well as one of the world's major oilfield service providers and a globally reputed contractor in engineering construction, with businesses covering petroleum exploration & production, natural gas & pipelines, refining & marketing, oilfield services, engineering construction, petroleum equipment manufacturing and new energy development, as well as capital management, finance and insurance services.

Based in China, CNPC has oil and gas assets and interests in 30 countries in Africa, Central Asia-Russia, South America, the Middle East and the Asia-Pacific.

CNPC was ranked 10th, in terms of revenue, amongst the 2010 Fortune Global 500 companies.

2. Gladstone LNG Project



An artist's impression of the Gladstone LNG Project.

In conjunction with finalisation of the Term Sheet with HQCEC, the Company's main focus has been on securing gas supply for the Gladstone LNG Project and maintaining the ability to recommence construction when gas supply negotiations are concluded.

The Company remains confident in the value and deliverability of its Gladstone 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.

The Company considers that financial and technical credibility of HQCEC, and the CNPC group, will substantially enhance the prospects of securing gas supply for the Gladstone LNG Project.

3. Metgasco Limited (ASX code MEL)

During the quarter MEL and the Company continued to progress a joint feasibility study on 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 (including potential supply of gas to the Company's Gladstone LNG Project).

Kingfisher (conventional gas): MEL is continuing the Kingfisher E01 Stimulation Program in the Clarence Moreton Basin, with the well currently producing gas and introduced fluid to surface. The well will shortly be placed on a longer term production test to measure sustainable flow rates and confirm reservoir properties.

Eden Creek (coal seam gas): Metgasco expects to commence the drilling of its Eden Creek multilateral pilot well program this quarter, subject to ground conditions being suitable. The coal seam gas pilot program will entail drilling three dual lateral wells and the completion of Corella P18 as a single lateral well.

The wells are located in the area of Corella P11 where Metgasco has had its lead pilot production well on continuous gas production for approximately 2 years. The Corella P11 well is a single lateral well completion into the Walloon Coal Measures with approximately 680 metres of in-seam exposure. The Eden Creek pilot wells have been designed as dual lateral wells with approximately 1,000 metres of in-seam exposure per lateral (2,000 metres in total).

Casino (coal seam gas): Metgasco drilled an appraisal well in the Casino Gas Project area resulting in the production of small quantities of gas. The tests also showed that the coal seams were relatively dry and the presence of additional coals is considered significant enough for further testing. This well has been plugged and abandoned as planned.

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 Gladstone LNG Project. MEL, in recent presentations has included an "internal estimate" of 14,478 billion cubic feet (15,265 PJ) of "P10 unrisked OGIP".

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

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

4. Oil Basins Limited (ASX Code OBL)

The Company holds a 7.51% shareholding in OBL and is the largest single shareholder. OBL recently completed a placement of shares that raised \$840,000 to “Sophisticated Investors” and “Professional Investors”. The Company participated in the placement to maintain its shareholding level at 7.51%. The placement proceeds are, amongst other things, to assist OBL fund the ongoing Backreef-1 well technical assessment work and pursue other value creating project opportunities.

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:

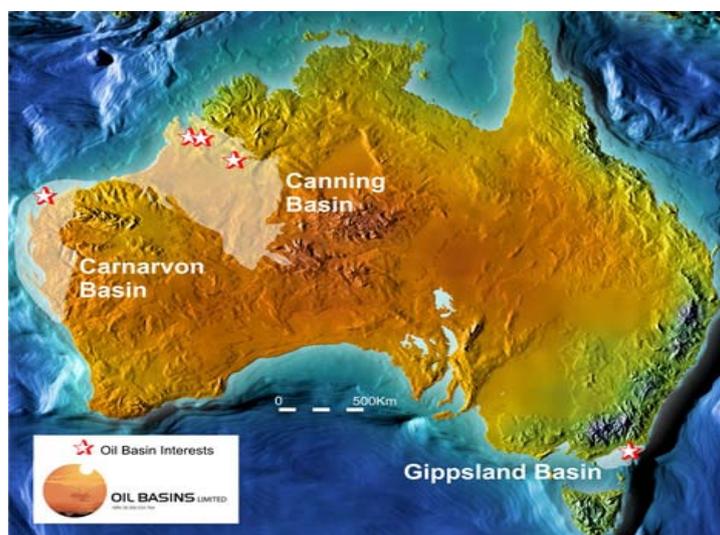
- 12.5% Rights to Vic/P41 situated in the offshore Gippsland Basin;
- 17% Vic/P66 situated in the offshore Gippsland Basin;
- 100% beneficial interest in the Backreef Area, in the onshore Canning Basin;
- 50% interest in 5/07-8 EP situated in the onshore Canning Basin; and
- 100% Retention Lease R3 situated in the offshore Carnarvon Basin.

OBL completed the Backreef-1 well in November 2010 which, based on OBL’s ASX release, delineated some 223m of continuous hydrocarbon fluorescence, some 49m of reservoir and some 39.8m of oil bearing dolomites with the lower circa 10% free moveable oil. The well has been cased and suspended at 1155m PBTB for future re-entry and production testing/evaluation in 2011.

A Strategic Alliance Agreement was signed with OBL, during the December 2010 quarter, 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 Gladstone 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.

Activities under the Strategic Alliance Agreement with OBL are temporarily on hold pending further evaluation of OBL’s recently completed Backreef-1 exploration well (which on the data provided to date appears to have some oil potential but limited gas prospects).

Oil Basin Limited’s Permit Interest Locations



5. Company' Other LNG Activities

Based on the completion of the Gladstone LNG Project front end engineering and design and procurement of fixed EPC pricing, the Company is actively evaluating other LNG project opportunities both in Australia and overseas. While the Gladstone 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.

6. 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 Company's Gladstone LNG Project. During, and subsequent to, the development of the OSMR[®] technology, it 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 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".

7. Exploration Expenditure

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

8. Corporate

a. Major Corporate Shareholder:

As at 25 January 2011, 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 31 December 2010 the Company had issued 7,805,000 unlisted options under its Option Plan Rules. Subsequent to 31 December 2010, the Company issued 2,250,000 performance rights (options) to directors of the Company, as approved by the Company's shareholders on 10 January 2010.

The key terms of the performance rights include:

- 1/3 may be exercised after 10 January 2012 but before 10 July 2012 at an exercise price of \$0.738;
- a further 1/3 may be exercised after 10 July 2012 but before 10 January 2013 at an exercise price of \$0.791; and
- the final 1/3 may be exercised after 10 January 2013 but before 10 January 2014 at an exercise price of \$0.844.

9. Capital Structure (as at 31 December 2010)

Class of Security	Issued	Quoted
Fully Paid Ordinary Shares	213,339,015	213,339,015
Options Issued	7,805,000	-

10. Appendix 5B

Attached to this quarterly report.

11. Corporate Information (as at 20 January 2011)

ASX Code: LNG

Directors:

Richard Jonathan Beresford	Non-Executive Chairman
Fletcher Maurice Brand	Managing Director/Chief Executive Officer
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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West Perth 6005,

Western Australia

Telephone: (08) 9366 3700

Facsimile: (08) 9366 3799

Email: LNG@LNGLimited.com.au

Website: www.lnlimited.com.au

Substantial Shareholders (as at 31 January 2011):

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")

31 December 2010

Consolidated statement of cash flows

	Current quarter	Year to date (6 months)
	\$A'000	\$A'000
Cash flows related to operating activities		
1.1 Receipts from customers & ATO	137	283
1.2 Payments to suppliers and employees		
(a) exploration and evaluation	-	-
(b) project development	(2,742)	(4,399)
(c) production	-	-
(d) administration and others	(1,453)	(3,299)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	161	374
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	(3,897)	(7,041)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
(d) shares	-	(6,320)
1.9 Proceeds from sale of:		
(a) exploration licences	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(20)
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
Net investing cash flows	-	(6,340)
1.13 Total operating and investing cash flows (carried forward)	(3,897)	(13,381)

1.13	Total operating and investing cash flows (brought forward)	(3,897)	(13,381)
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)	(6)
	Net financing cash flows	(3)	(6)
	Net increase/(decrease) in cash held	(3,900)	(13,387)
1.20	Cash at beginning of quarter/year	14,845	24,401
1.21	Net foreign exchange differences	(150)	(219)
1.22	Cash at end of quarter	10,795	10,795

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	461
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	\$ 111,083 (excl. GST); and
	Executive Directors' Remuneration	\$ 350,000 (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	348
4.3	Production	-
4.4	Administration	1,564
	Total	1,912

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	1,413	2,755
5.2	Term Deposit	9,382	12,090
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	10,795	14,845

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 38 cents	760,000	-	38 cents	16 February 2011
	(b) Options over ordinary shares, exercisable at 40 cents	350,000	-	40 cents	30 May 2011
	(c) Options over ordinary shares, exercisable at 68 cents	60,000	-	68 cents	30 November 2012
	(d) Options over ordinary shares, exercisable at 66.7 cents	2,490,000	-	66.70 cents	10 December 2012
	(e) Options over ordinary shares, exercisable at 88 cents	1,100,000	-	88 cents	9 September 2013
	(f) Options over ordinary shares, exercisable at 84 cents	150,000	-	84 cents	17 September 2013
	(g) Options over ordinary shares, exercisable at 62.1 cents	1,750,000	-	62.10 cents	30 April 2014
	(h) Options over ordinary shares, exercisable at 69.2 cents	415,000	-	69.20 cents	3 February 2012
	(i) Options over ordinary shares, exercisable at 74.2 cents	415,000	-	74.20 cents	3 August 2012
	(j) Options over ordinary shares, exercisable at 79.2 cents	315,000	-	79.20 cents	3 August 2014
	TOTAL OPTIONS ISSUED	7,805,000			
7.8	Issued during quarter :				
	TOTAL	-	-	-	-
7.9	Exercised during quarter	-	-	-	-
	TOTAL	-	-	-	-
7.10	Expired/cancelled during quarter	<i>Number</i>		<i>Exercise price</i>	<i>Expiry/cancellation date</i>
		500,000	-	88 cents	19 October 2010
		100,000	-	79.20 cents	17 December 2010
	TOTAL OPTIONS EXPIRED/ CANCELLED	1,380,000	-	65 cents	31 December 2010
	1,980,000				
7.11	Debentures (totals only)	-	-	-	-
7.12	Unsecured notes (totals only)	-	-	-	-

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

31 January 2011

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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