



**LIQUEFIED NATURAL GAS LIMITED**  
(ABN 19 101 676 779)

**DECEMBER 2009**

**QUARTERLY REPORT**



*An artist's impression of the Gladstone LNG Project at Fisherman's Landing.*



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## **QUARTERLY REPORT**

### **QUARTER HIGHLIGHTS**

- **The Gladstone “Fisherman’s Landing” LNG Project progressed significantly during the quarter and the project remains on schedule for first LNG shipment in late 2012;**



**Figure 1: Formation of platform for erection of the permanent batch plant**



**Figure 2: Formation of the haul road around the tank foundation visible in the foreground. Smoke from the burn-off on Curtis Island visible in the background.**

- **Completion of a capital raising of approximately A\$47 million to advance the Gladstone LNG Project and for working capital; and**
- **4 January 2010 announcement of the restructure of the Gladstone LNG Project that provides significant benefits to the Company.**

## 1. LNG PROJECTS

### 1.1 Gladstone “Fisherman’s Landing” LNG Project, Australia (Project):

On 4 January 2010 the Company announced that a revised Heads of Agreement (**HoA**) has been executed with Arrow Energy Limited (ASX: AOE, **Arrow**). The revised HoA establishes the “principles” of a material restructure of the Project, with the objectives of assisting both parties to achieve their targeted FID in the March 2010 quarter and provide increased certainty of the Project’s first liquefied natural gas (**LNG**) shipment from Gladstone in late 2012.

Under the revised proposal the Project will be split into an optimised structure of “InfraCo” and “TrainCo”, a structure which has been successfully used in other existing LNG projects, including Egypt LNG and Atlantic LNG. The key principles of the proposed restructure are:

- InfraCo will be established as an unincorporated joint venture to own, design and construct the LNG project infrastructure including the storage tank, jetty/ship loading and all related facilities and services (excluding the liquefaction train). Gladstone LNG Pty Ltd (100% owned by Liquefied Natural Gas Limited (**LNG Ltd**)) will initially own 100% of InfraCo but, subject to compliance with finally agreed conditions, Gladstone LNG Pty Ltd will sell a 30% interest in InfraCo to Arrow and 25% interest to Golar LNG Energy Limited (**Golar**);
- TrainCo will be established to develop a 1.5 million tonne per annum (**mtpa**) LNG train on land under a sublease from InfraCo. The LNG train will include gas pre-treatment and liquefaction facilities and utilise LNG Ltd’s OSMR™ liquefaction technology under a technology license and fee agreement. Gladstone LNG Pty Ltd will initially own 100% of TrainCo but, subject to compliance with finally agreed conditions, Gladstone LNG Pty Ltd will sell a 100% interest in TrainCo to Arrow. Arrow will source the gas for the LNG train from its fields in the Surat Basin and, subject to final agreed terms, it is intended that Arrow will retain an option with InfraCo to develop an additional LNG train; and
- A Joint Venture Operating Company will manage the construction and operation of both InfraCo and TrainCo.

Under the revised Project structure, Arrow will be the seller of LNG produced by TrainCo, with it proposed that Golar and Arrow enter into an LNG Marketing Heads of Agreement (which will replace the existing LNG Sales Heads of Agreement between Gladstone LNG Pty Ltd and Golar). Golar in turn has a LNG Sales Heads of Agreement with Toyota Tsusho, part of the worldwide Toyota group of companies.

The Company considers the key benefits of the restructure are:

- The restructure provides a higher level of confidence that the Company and Arrow will respectively achieve their targeted FID by March 2010 and the core objective of first LNG export from Gladstone in late 2012.
- The commercial structure no longer requires the Company to enter into a Gas Sales Agreement with Arrow, and potentially Shell, for gas supply from the Surat Basin or a LNG Sale and Purchase Agreement with Golar/Toyota Tsusho. Arrow will enter into the LNG Sale and Purchase Agreement directly with Golar/Toyota Tsusho. LNG

- The revised commercial structure is more likely to assist Arrow in obtaining project finance for its upstream gas project and provides greater flexibility for gas supply to the LNG Project.
- It reduces the Company's capital commitment by some US\$100 million.
- It provides greater flexibility for gas supply for further trains in the shorter term.
- It provides for the Company to receive a bankable revenue stream to support its shareholding in InfraCo.
- InfraCo and the Arrow train (TrainCo), will enter into a Services Agreement for the provision of agreed services, Arrow will pay a fixed monthly payment and sub-lease fee for the Arrow train site and reimburse all monthly operating costs.
- Validation of the Company's business model supported by payment of a license fee for the use of OSMR™ in the Arrow train plus ongoing fees linked to the oil price pursuant to a Royalty Agreement.
- Reimbursement of the Company's development costs for the Arrow train and Arrow and Golar's proportionate share of InfraCo costs at final investment decision (**FID**) thereby increasing the Company's cash position.

The Company, together with Arrow and Golar, are currently finalising a new HoA based on the agreed principles and associated matters.

## **1.2 LNG Plant Site**

The Port of Gladstone is operated by the Gladstone Ports Corporation (**GPC**). The Company has executed a Licence Agreement with GPC in relation to an area of ~25 hectares of reclaimed land, adjacent to the existing Fisherman's Landing No 5 berth, for development of the Gladstone "Fisherman's Landing" LNG Project.

Progress is being made to execute a 20 year Lease Agreement (with 2 x 5 year term extension options) with GPC which is expected will be signed this quarter.

## **1.3 Gladstone Port Agreement**

Progress was made in December on the completion of several other Port agreements that are required to be signed prior to targeted FID by 31 March 2010.

#### **1.4 Early Site Works**

A Development Services Agreement (**DSA**) for early site works was signed with Laing O'Rourke Australia Construction Pty Ltd (**LOR**) in October 2009 which covers all essential site works through to April 2010, at which time it is planned to replace the DSA with an Engineering, Procurement and Construction (**EPC**) agreement with LOR for the scope of works to be undertaken for InfraCo.

#### **1.5 LNG Project Development and Front End Engineering Design (FEED)**

During the quarter, SK Engineering & Construction Co Ltd (**SKEC**) and LOR continued to work on post FEED documentation, value engineering options and a detailed FEED audit process with the Company and CB&I, the Company's Project Management Consultant.

SKEC are also progressing the FEED for the second LNG train of 1.5 mtpa production capacity.

During February and March, the Company, together with Arrow, will progress an EPC Agreement with SKEC and LOR for the scope of works to be undertaken for the Arrow train.

#### **1.6 Arrow Gas Supply to Fisherman's Landing from the Surat Basin.**

Arrow has reported during January 2010 that:-

- The planning for their gas supply to the Gladstone Fisherman's Landing LNG Project remains on track and focused on delivering FID in the March quarter of 2010.
- Arrow is continuing with an Environmental Impact Statement (**EIS**) for the Surat Gas Project with the majority of gas produced from this project expected to supply the Fisherman's Landing LNG Project.
- The gas will be delivered by the proposed Surat - Gladstone Pipeline which is in the final planning stage. The Queensland Government approved the project's EIS during the quarter and a petroleum pipeline license is expected to be awarded in January.
- Arrow operated tenements now have 5,379 PJ of gross uncontracted 2P reserves which is a substantial contribution towards reserve requirements for future growth opportunities which include a potential second LNG train at Fisherman's Landing.
- Near term focus of all Project participants now turns to revising and completing the LNG sales agreement with Toyota Tsusho in alignment with the revised Project structure.

#### **1.7 LNG Project Execution and Management**

During the quarter, the Company participated in several project reviews with a view to strengthening the overall project execution capabilities. As a result, additional staff have been appointed and the role of CB&I as Project Management Consultant has been expanded so that full construction can commence in April 2010. Full construction is subject to all parties achieving their respective FID's by 31 March 2010 including each party's funding plans from April 2010.

## **2 COMPANY'S OTHER ACTIVITIES**

### **2.1 PNG LNG Project, Papua New Guinea (PNG):**

There was no further progress on this project during the December 2009 quarter, with the Company's full resources dedicated to the Gladstone LNG Project.

### **2.2 Qeshm LNG Project, Iran:**

There was no further progress on this project during the December 2009 quarter.

### **2.3 Banggai (Donggi-Senoro) LNG Project, Central Sulawesi, Indonesia:**

There was no material progress during the quarter in relation to the Company's participation in the proposed Banggai LNG Project. However, it is the Company's intention to maintain an office in Jakarta and continue to review and progress prospective opportunities for the Company's mid scale LNG business model.

## **3 GAS LINK GLOBAL LIMITED**

Gas Link Global Limited (**GLG**) is a wholly owned subsidiary and its primary business activity remains the identification and selected investment in existing gas discoveries and prospective gas acreage to provide gas feedstock for LNG projects.

The net proceeds of the sale of Petroleum Retention Licence No. 10 and Petroleum Prospecting Licence No. 240 to Oil Search (PNG) Limited, of US\$ 1,002,140 was received during December 2009. GLG does not hold any other gas acreage following this sale and settlement.

## **4 LNG TECHNOLOGY PTY LTD**

The Company has forwarded instructions to over 20 countries and regions to apply for international patents on its enhanced liquefaction process (**OSMR<sup>TM</sup>**) that covers two engineering design features and materially improves overall liquefaction plant efficiency/cost. The two applications are for:

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

The Company had previously planned to register a third patent application for "Flowline System and Method for Transferring Cryogenic Fluids". However it was decided that it is not commercial and this patent application will not be pursued.

On 4 January 2010, the Company and Arrow Energy Limited (**Arrow**), announced a restructure of the Gladstone LNG Project at Fisherman's Landing. In the announcement, Arrow confirmed that the Company's **OSMR<sup>TM</sup>** liquefaction technology will be utilised and that a technology license fee will apply.

## **5 EXPLORATION EXPENDITURE**

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

## 6 CORPORATE

### 6.1 Major Corporate Shareholders:

As at 31 December 2009, the Company's two major corporate shareholders were:

- **Arrow Energy Ltd (7.53%)**  
Arrow Energy Ltd ([www.arrowenergy.com.au](http://www.arrowenergy.com.au)) is one of Australia's leading producers of coal seam gas with significant assets throughout eastern Australia and Asia. Arrow and the Company have entered into a HoA under which Arrow will supply gas to the Gladstone "Fisherman's Landing" LNG Project, at the Port of Gladstone, Queensland.
- **Golar LNG Limited (5.54%)**  
Golar LNG Limited and Golar LNG Energy Limited ([www.golarlng.com](http://www.golarlng.com)) – the Golar Group – is the world's largest independent group dedicated to LNG shipping, with over 30 years experience in the global LNG industry. In recent years the Golar Group has expanded its activities to include floating LNG regasification vessels and other sections of the LNG value chain.

The Company considers that the financial strength of Golar LNG Limited and its associated companies adds significant value to the Company's mid-scale LNG strategy and greatly enhances the Company's ability to successfully conclude development opportunities.

### 6.2 Unlisted Options:

As at 31 December 2009 the Company had issued 9,990,000 unlisted options under its Option Plan Rules, which permit the Company to issue options in aggregate (in number) up to 15% of the Company's total issued fully paid ordinary shares, (representing maximum permitted options of 31,850,852 as at 31 December 2009).

## 7 CAPITAL STRUCTURE (as at 31 December 2009)

Class of Security	Issued	Quoted
Fully Paid Ordinary Shares	212,339,015	212,339,015
"B" Class Redeemable Preference Shares (refer Note)	12	-
Options Issued	9,990,000	-

**Note:** Each "B" Class Redeemable Preference Share (B Pref) is convertible into 1,000,000 fully paid ordinary shares on the Company's achievement of the prescribed milestones by 9 March 2010. Pending conversion each B Pref confers on its holder one vote which has the same rights as a fully paid ordinary share in the circumstances set out in ASX Listing Rule 6.3 and no voting rights in any other circumstances.

## 8 APPENDIX 5B (Cash Flow, Securities and Compliance Statement)

Attached to this quarterly report.

## 9 CORPORATE INFORMATION (as at 31 December 2009)

**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
Nicholas Paul Davies	Non-Executive Director
Paul William Bridgwood	Director/Chief Technical Officer
Norman Marshall	Director/Chief Financial Officer
Stephen Grant Bizzell	Alternate Director to Mr. Davies
William Thomas Hornaday	Resigned as a Non-Executive Director on 26 November 2009.
Gary Malcolm Smith	Resigned as a Non-Executive Director on 18 December 2009.

### **Company Secretary:**

David Michael Gardner

### **Registered Office:**

Ground Floor,  
5 Ord Street,  
West Perth 6005,  
Western Australia

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Email: [LNG@LNGLimited.com.au](mailto:LNG@LNGLimited.com.au)  
Website: [www.LNGLimited.com.au](http://www.LNGLimited.com.au)

### **Substantial Shareholders (as at 31 December 2009):**

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

# 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 2009

### Consolidated statement of cash flows

	Current quarter	Year to date (6 months)
	\$A'000	\$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from customers & ATO	460	789
Payments to suppliers and employees		
(a) project development	(9,150)	(12,463)
1.2 (b) administration and others	(1,839)	(2,632)
1.3 Dividends received	-	-
Interest and other items of a similar nature		
1.4 received	196	296
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – R&D tax concession rebate	-	-
<b>Net operating cash flows</b>	<b>(10,333)</b>	<b>(14,010)</b>
<b>Cash flows related to investing activities</b>		
Payment for purchases of:		
(a)prospects	-	-
(b)equity investments	-	-
1.8 (c) other : -fixed assets	(26)	(78)
Proceeds from sale of:		
(a)exploration licences	1,215	1,215
(b)equity investments	-	-
1.9 (c)other - fixed assets	-	-
Proceeds from (investment in) cash term		
1.10 deposit	(1,020)	-
<b>Net investing cash flows</b>	<b>169</b>	<b>1,137</b>
Total operating and investing cash flows		
1.11 (carried forward)	(10,164)	(12,873)

1.11	Total operating and investing cash flows (brought forward)	(10,164)	(12,873)
	<b>Cash flows related to financing activities</b>		
1.12	Proceeds from issue of shares and exercise of share options	48,467	49,665
	Less : Share issue costs	(1,505)	(1,505)
1.13	Proceeds from sale of forfeited shares	-	-
1.14	Proceeds from borrowings	-	-
1.15	Repayment of borrowings	-	-
1.16	Dividends paid	-	-
1.17	Repayment of finance lease principal & interest	(3)	(5)
1.18	Loans to other entities	-	-
1.19	Loans repaid by other entities	-	-
	<b>Net financing cash flows</b>	46,959	48,155
	<b>Net increase (decrease) in cash held</b>	36,795	35,282
1.20	Cash at beginning of quarter/year	11,943	13,456
1.21	Net foreign exchange differences	(95)	(95)
1.22	<b>Cash at end of quarter</b>	48,643	48,643

### 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	393
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	\$ 24,429 (excl. GST); and
	Executive Directors' Remuneration	\$ 368,594 (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
	The consideration from the sale of interest in the Petroleum Prospecting Licence ("PPL") 240 of USD 628,460 paid by Oil Search (PNG) Limited was offset against the cash calls contingent liability of USD 628,460 owing to Oil Search Limited.
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

## 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	10,000
	<b>Total</b>	<b>10,000</b>

## 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	3,143	3,893
5.2	Term Deposit	45,500	8,050
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	<b>Total: cash at end of quarter (item 1.22)</b>	<b>48,643</b>	<b>11,943</b>

## 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	Papua New Guinea – PRL 10	Indirect interest in Petroleum Retention Licences	10%	0%
		Papua New Guinea – PPL 240	Indirect interest in Petroleum Prospecting Licences	10%	0%
6.2	Interests in mining tenements acquired or increased	-	-	-	-



7.7	<b>Options</b>	<i>Number</i>		<i>Exercise price</i>	<i>Expiry date</i>
	(a) Options over ordinary shares, exercisable at 40 cents	770,000	-	40 cents	28 April 2010
	(b) Options over ordinary shares, exercisable at 40 cents	150,000	-	40 cents	31 May 2010
	(c) Options over ordinary shares, exercisable at 38 cents	840,000	-	38 cents	16 February 2011
	(d) Options over ordinary shares, exercisable at 65 cents	1,380,000	-	65 cents	31 December 2010
	(e) Options over ordinary shares, exercisable at 68 cents	60,000	-	68 cents	30 November 2012
	(f) Options over ordinary shares, exercisable at 66.7 cents	2,490,000	-	66.70 cents	10 December 2012
	(g) Options over ordinary shares, exercisable at 88 cents	1,600,000	-	88 cents	9 September 2013
	(h) Options over ordinary shares, exercisable at 84 cents	150,000	-	84 cents	17 September 2013
	(i) Options over ordinary shares, exercisable at 62.1 cents	2,550,000	-	62.10 cents	30 April 2014
	<b>TOTAL OPTIONS ISSUED</b>	<b>9,990,000</b>			
7.8	Issued during quarter :	-	-	-	-
7.9	Exercised during quarter				
	(a) Options over ordinary shares, exercisable at 37.90 cents	550,000	-	37.90 cents	31 December 2009
	(b) Options over ordinary shares, exercisable at 40 cents	250,000	-	40 cents	28 April 2010
	<b>TOTAL</b>	<b>800,000</b>			
7.10	Expired during quarter	-	-	-	-
7.11	<b>Debentures</b> (totals only)	-	-	=	-
7.12	<b>Unsecured notes</b> (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

29 January 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* apply 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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