



## LIQUEFIED NATURAL GAS LIMITED

### June 2012 Quarterly Report

### Quarterly Highlights

#### Corporate developments:

- The Agreement for Lease over the Company's Fisherman's Landing LNG Project site, in the Port of Gladstone, Queensland, has been extended by Gladstone Ports Corporation Limited to 31 December 2012.
- Cash balance of \$8.8 million as at 30 June 2012.
- Largest shareholder in Metgasco Limited with a 10.25% shareholding. The Company continues to discuss commercial gas supply options with Metgasco, pursuant to a Memorandum of Understanding signed on 24 September 2010.
- Patent granted in China for "A Method and System for Production of LNG" (**OSMR**<sup>®</sup>). The Company now has patents in China to protect its two primary LNG processing technologies. Both technologies are owned 100% by the Company.

#### Fisherman's Landing LNG Project developments:

- Negotiations on gas supply arrangements are well advanced.
- Continuing, with associated parties, to undertake due diligence on Westside Corporation Limited's gas assets in Queensland.
- EPC Services and Open Book Conversion Contract signed with the Company's largest shareholder China Huanqiu Contracting & Engineering Corporation (**HQC**).

#### Outlook for Next Quarter:

- Further progress gas supply arrangements for the Company's Fisherman's Landing LNG Project.
- Finalise the capital costs of the LNG plant based on a fixed price Engineering, Procurement and Construction proposal being prepared by HQC.

## 1. Fisherman's Landing LNG Project

### Background:

The Company plans to build, own and operate a 3 million tonnes per annum (*mtpa*) LNG plant at Fisherman's Landing, in the Port of Gladstone, Queensland (*LNG Project*).

The Company commenced construction of the LNG Project in October 2009, but in March 2010 suspended construction due to the proposed gas supplier, Arrow Energy Limited, being taken over by Shell and PetroChina. The Company expended ~\$60 million in developing the LNG Project between early 2007 and March 2010.

The Company has relevant approvals to recommence construction as soon as gas supply is secured and the Company and its proposed partners achieve final investment decision.

Since July 2011, the Company has been actively working with its major shareholder, HQC (a wholly owned subsidiary of China National Petroleum Corporation), to secure gas supply and recommence development of the LNG Project.

### Gas Supply Plan:

The full gas requirement for each LNG train, with a guaranteed LNG production capacity of 1.5 mtpa, is 260 terajoules a day (*TJ/d*) or 90 petajoules a year (*PJ/y*).

However with the Company's technology, its lower capital costs and the availability of existing infrastructure at Fisherman's Landing, the LNG Project is operational and economically viable, without any modification to the LNG plant design, with gas supply of 130 TJ (45 PJ/y) to 140 TJ/d (50 PJ/y).

The Company has therefore been negotiating for minimum gas supply of 130 TJ/d, with gas supply parties that have aggregate uncontracted deliverable gas reserves of at least 760 PJ and potential for deliverable gas reserve growth.

The Company's Gas Supply Strategy incorporates all of the following:

- 1. Tolling Service Agreement:** A gas supplier will arrange to supply its own gas to the LNG Project and arrange its own LNG buyer. The Company receives a guaranteed monthly capacity payment, plus a tolling fee from the gas supplier to process, liquefy and store the gas as LNG at Fisherman's Landing. The Company is also responsible to load the LNG onto LNG ships arranged by the LNG buyer. Currently, negotiations are advanced with one gas supplier, and progressing with another.
- 2. Gas Purchases Agreement:** The Company purchases the gas at an agreed price and delivery point and can control sale of the LNG to its preferred LNG buyer. Negotiations are progressing with two gas suppliers under this type of agreement with a Key Commercial Term Sheet being advanced with one gas supplier.
- 3. Upstream Resource Purchase:** The Company acquires its own gas resource and is responsible for the gas field development, as well as selecting an LNG buyer. The gas resource may be wholly owned or in a joint venture with other parties. The equity gas parties would either enter into their own LNG buyer arrangement or, more usually, agree to appoint a party as the Marketing Agent on behalf of the joint venture so the LNG is sold to one or more LNG buyers on behalf of the joint venture partners.

In relation to acquiring its own gas resources, the Company has previously advised that as part of its gas supply initiatives, it has been holding discussions with Westside Corporation Limited (**ASX:WCL**) to explore potential transaction opportunities.

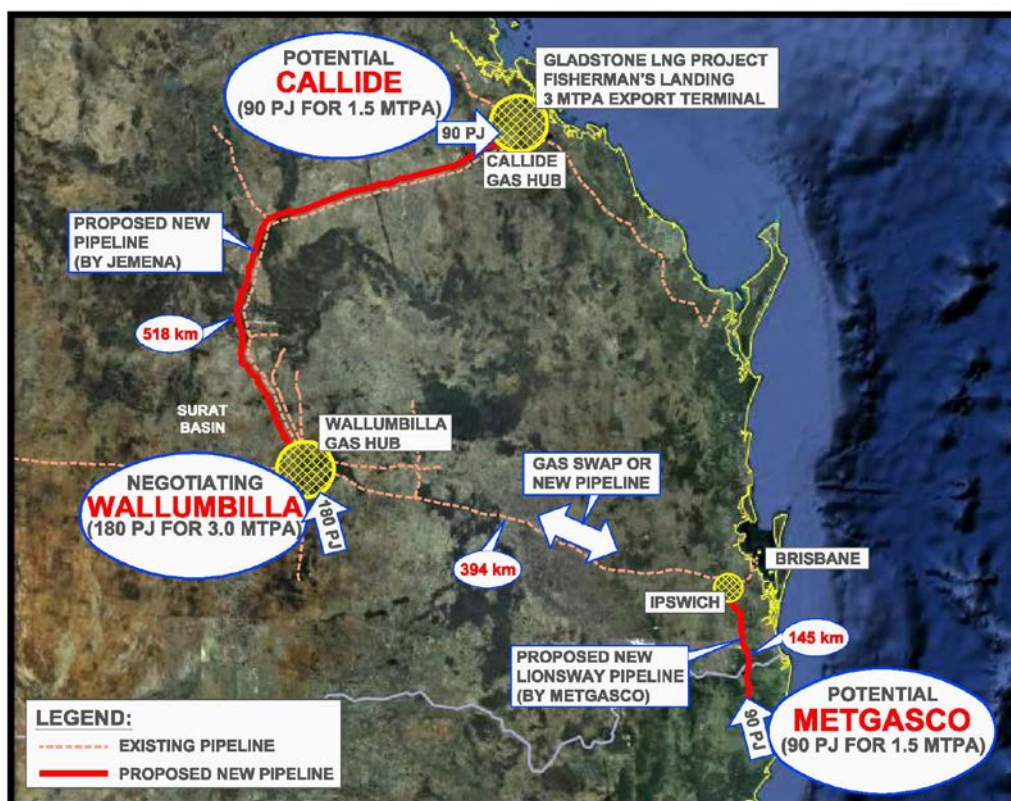
The Westside Board granted the Company and associated parties non-exclusive access to conduct due diligence, which continued during the quarter.

No set timeframe has been established for completion of this process and there is no guarantee that a definitive transaction will be agreed. The Company will keep shareholders informed of any material developments.

In addition to Westside, the Company has been in negotiation with other parties in relation to potential transaction opportunities focussing on the acquisition of their gas reserves and resource potential.

### Gas Delivery Plan:

The Company has been actively progressing the above gas supply strategies, based on gas delivery to one or more of three gas hubs, being Wallumbilla, Callide and Ipswich.



### EPC Services and Open Book Conversion (EPCSOBC)

On 19 January 2012, the Company and HQC entered into an EPCSOBC contract. This contract was awarded following HQC's completion of the Front End Engineering Design and provision to the Company of a revised Engineering, Procurement and Construction (**EPC**) cost estimate of US\$760 million, using the Company's wholly owned OSMR<sup>®</sup> LNG process technology.

The estimated EPC contract price is for one LNG train, including LNG tank and related infrastructure (but excluding dredging and associated works), with a design LNG production capacity of ~1.9 mtpa and guaranteed LNG production capacity of 1.5 mtpa.

Based on the estimated EPC contract price, the Company’s total estimated development cost, including dredging and other development and financing costs, remains at ~\$1.1 billion for one LNG train.

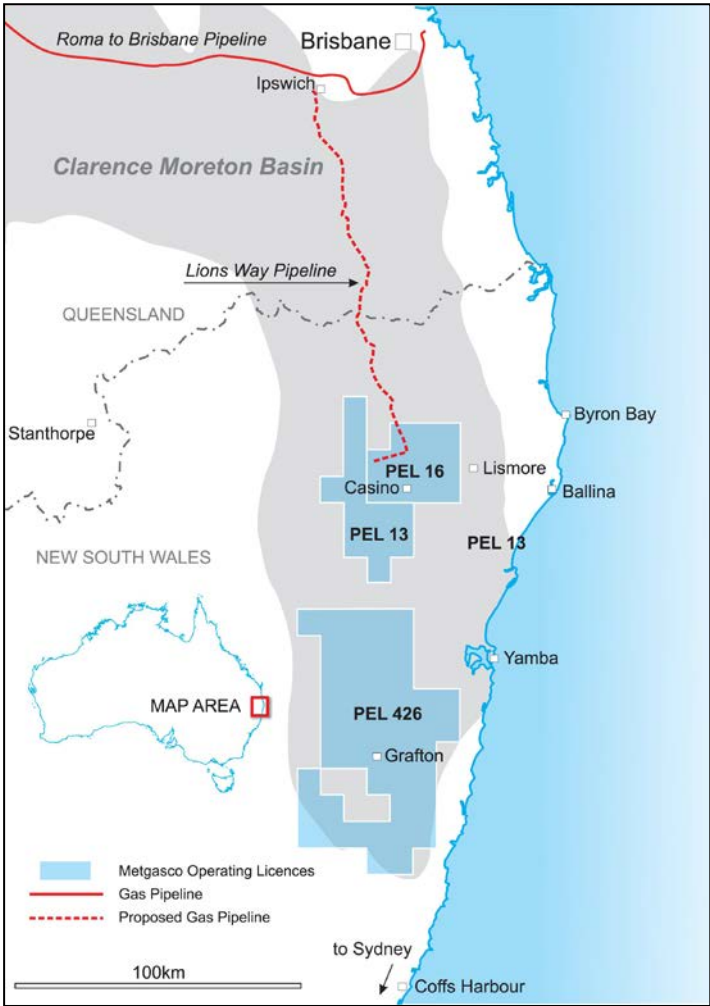
The Company and HQC will announce in the September 2012 quarter a fixed lump sum EPC contract price, based on the Company’s LNG plant module design concept and OSMR® liquefaction technology; and LNG plant construction and commissioning schedule.

**Gladstone Ports Corporation (GPC) Agreement for Lease - Fisherman’s Landing:**

The Company’s Agreement for Lease with the Gladstone Ports Corporation Limited was extended to 31 December 2012. Subject to concluding gas supply arrangements and other project requirements, the Company will have a further six months to progress to a final investment decision.

**2. Metgasco Limited (ASX code MEL)**

The Company maintained its shareholding in Metgasco Limited (MEL) and remains the largest shareholder with a 10.25% shareholding.



MEL has 100% ownership of significant onshore conventional and unconventional gas acreage in the Clarence Moreton Basin (NSW), (left) known as PEL 16; PEL 13 and PEL 426.

The Company is also reviewing gas supply options with Metgasco Limited under a Memorandum of Understanding, executed by Metgasco Limited and the Company in late 2010.

MEL’s reserves (below) are of sufficient size to supply 90 PJ of gas for one LNG train of 1.5 mtpa guaranteed production capacity.

It is recommended that Company shareholders visit the website of MEL [www.metgasco.com.au](http://www.metgasco.com.au) to fully appraise MEL’s business activities.

**MEL’s acreage position in Clarence Moreton Basin, NSW**

Reserves	PEL 13	PEL 16	Metgasco Total
1P		2.7	2.7
2P	31.2	396.7	427.9
3P	302.4	2,239.3	2,541.7
2C Contingent Resource	1,334.1	1,177.4	2,511.5

**PEL 13 and 16 - Independently Certified CSG Reserves (Petajoules) as at 14 July 2011**

**3. Company's Other LNG Activities**

Whilst the Company is monitoring other LNG opportunities in Australia and overseas, the main focus remains on the delivery of the Company's wholly owned Fisherman's Landing LNG Project, in Gladstone, Queensland.

**4. 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 OSMR<sup>®</sup> LNG process technology.

The OSMR<sup>®</sup> process is based on a proven simple single mixed refrigerant system with the addition of conventional combined heat and power and ammonia refrigeration technology to significantly enhance the plant performance (LNG output and overall process efficiency).

This results in a plant cost of around half that of competing technologies (based on \$/tpa) and an overall plant efficiency which is around 30% better than others (with a 30% reduction in carbon emissions). This, together with the Company's plant and construction strategy, substantially improves project economics.

The OSMR<sup>®</sup> process is planned to be used in the Company's 3 million tonnes per annum Fisherman's Landing LNG Project. The Company has also commenced negotiations with HQC on a technology cooperation agreement in relation to the marketing of the OSMR<sup>®</sup> process for use elsewhere in the world.

The Company continues to further its international patent applications, which cover two engineering design features (being the basis of the Company's OSMR<sup>®</sup> process), entitled:

- A Method and System for Production of Liquid Natural Gas; and
- Improvements to the OSMR<sup>®</sup> process (applications only filed in Australia and USA).

The Company is also progressing a patent application over another wholly developed and owned process, entitled "Boil-off Gas Treatment Process and System".

The current status of patent applications filed by the Company in various countries is as follows:

<i>OSMR<sup>®</sup> Process</i>					
	Patent Status				
Country *	Filed	Published	Examination in Progress	Accepted	Granted
Australia	✓	✓		✓	✓
Canada	✓	✓	✓		

China	✓	✓	✓	✓	✓
ARIPO	✓	✓	✓		
OAPI	✓	✓		✓	✓
Eurasia	✓	✓	✓	✓	
Europe	✓	✓	✓		
India	✓	✓	✓		
Indonesia	✓	✓	✓		
Japan	✓	✓	✓		
Singapore	✓	✓	✓		
South Africa	✓	✓		✓	✓
Ukraine	✓	✓	✓	✓	✓
Vietnam	✓	✓	✓		

\* Note: Patent applications have also been filed in Brazil, Hong Kong, Israel, New Zealand, Philippines, South Korea and USA.

<i>OSMR® Process Further Improvements</i>					
	Patent Status				
Country*	Filed	Published	Examination in Progress	Accepted	Granted
Australia	✓	✓	✓		

\* Note: Patent application has also been filed in USA.

<i>BOG Treatment Process</i>					
	Patent Status				
Country*	Filed	Published	Examination in Progress	Accepted	Granted
Australia	✓	✓			
Canada	✓	✓	✓		
China	✓	✓		✓	✓
ARIPO	✓	✓	✓		
OAPI	✓	✓		✓	✓
Brazil	✓	✓	✓		
Eurasia	✓	✓	✓		✓
Europe	✓	✓	✓		
Hong Kong	✓	✓	✓	✓	✓
India	✓	✓	✓		
Indonesia	✓	✓	✓		
Japan	✓	✓	✓		
New Zealand	✓	✓		✓	✓

Singapore	✓	✓	✓		
South Africa	✓	✓		✓	✓
Ukraine	✓	✓		✓	✓
Vietnam	✓	✓	✓		

*\* Note: Patent applications have also been filed in Israel, Philippines, South Korea and USA.*

Although most jurisdictions have differing methods to progress patents, the following stages are typical of the patent grant process:

1. Patent applications are filed in a particular country;
2. Patents are then published;
3. Patents are examined and an examination report may be issued;
4. A response is filed, by the applicant, to the examination report (if required);
5. If all is in order, a patent is accepted and open for third party opposition; and
6. In the absence of any valid third party opposition the patent is granted for a term of 20 years.

## Review of Corporate Developments

### 1. Exploration Expenditure

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

### 2. Capital Structure (as at 31 July 2012)

Class of Security	Issued	Quoted
Fully Paid Ordinary Shares	267,699,015	267,699,015
Options Issued	6,270,000	-
Performance Rights	1,500,000	-

### 3. Appendix 5B - Attached to this quarterly report.

### 4. Corporate Information (as at 31 July 2012)

**ASX Code:** LNG

**Directors :**

Richard Jonathan Beresford	Non-Executive Chairman
Fletcher Maurice Brand	Managing Director & Joint Chief Executive Officer
Wang Xinge	Executive Director & Joint Chief Executive Officer
Leeanne Kay Bond	Non-Executive Director
Zhang Gaowu	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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5 Ord Street,  
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:**

China Huanqiu Contracting & Engineering Corporation (HQC)	19.89%
Copulos Group	10.09%
Dart Energy Limited	5.37%



***About China Huanqiu Contracting & Engineering Corporation (HQC):***

HQC is a technology-focused engineering, procurement, construction, consulting, R&D, manufacturing and project management group with over 9,500 employees. HQC has delivered more than 2,000 projects over its 50 years of operation including the execution and delivery of:

- Guangdong LNG receiving terminal;
- Jiangsu LNG receiving terminal near Shanghai; and
- Dalian LNG receiving terminal.

HQC was appointed in March 2011 as the EPC contractor for the Tangshan LNG receiving terminal near Beijing due to be completed in 2013.

HQC is the EPC contractor for the Ansai LNG plant (500,000 tpa) in China using its own technology. The plant is being commissioned at the moment with the help of LNG Limited's operations staff.

HQC is wholly owned by China National Petroleum Corporation.

***About China National Petroleum Corporation (CNPC):***

CNPC is China's largest oil (54% share) and gas (82% share) producer and supplier. Additionally, it is within the Top 5 global oil and gas companies, with over 1.6 million employees, and is ranked 6 amongst 2011 Fortune Global 500 companies.

CNPC has oil and gas assets and interests in 29 countries and presence in almost 70 countries. It owns businesses covering petroleum exploration & production, natural gas & pipelines, refining & marketing, oilfield services, engineering construction, equipment manufacturing, R&D, capital management, finance and insurance services.

CNPC is a state owned company.

***About Jemena:***

Jemena is a unique Australian infrastructure company that builds, owns and maintains a combination of major electricity, gas and water assets. It is a nation-wide operation, and manages more than \$9 billion worth of Australian utilities assets, and employs more than 2,300 people.

Jemena specialises in both the transmission and distribution of electricity and gas; and combines the skills and experience of renowned Australian electricity and gas infrastructure companies. Jemena is a key outsourcing partner of electricity, gas and water utility companies to deliver innovative infrastructure solutions that support the vital daily electricity, gas and water needs of millions of Australians.

Jemena is wholly owned by Singapore Power.

# Appendix 5B

## Mining exploration entity quarterly report

Name of entity

LIQUEFIED NATURAL GAS LIMITED

ABN

19 101 676 779

Quarter ended ("current quarter")

30 June 2012

### Consolidated statement of cash flows

	Current quarter	Year to date (12 months)
	\$A'000	\$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from customers & ATO	41	167
1.2 Payments to suppliers and employees		
(a) exploration and evaluation	-	-
(b) project development	(2,724)	(7,607)
(c) production	-	-
(d) administration and others	(759)	(2,994)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	163	865
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – R&D tax concession rebate	276	337
<b>Net operating cash flows</b>	<b>(3,003)</b>	<b>(9,232)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(9)	(32)
(d) shares	-	(10,882)
1.9 Proceeds from sale of:		
(a) exploration licences	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
(d) shares	-	1,095
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
<b>Net investing cash flows</b>	<b>(9)</b>	<b>(9,820)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(3,012)</b>	<b>(19,051)</b>

1.13	Total operating and investing cash flows (brought forward)	(3,012)	(19,051)
1.14a	<b>Cash flows related to financing activities</b> Proceeds from issue of shares and exercise of share options	-	20,144
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	(1)	(8)
	<b>Net financing cash flows</b>	(1)	20,136
1.20	<b>Net increase/(decrease) in cash held</b> Cash at beginning of quarter/year	(3,013) 11,834	1,085 7,759
1.21	Net foreign exchange differences	15	(7)
1.22	<b>Cash at end of quarter*</b>	<b>8,837</b>	<b>8,837</b>

### 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	482
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	\$68,128 (excl. GST); and
	Executive Directors' Remuneration	\$413,740.

### 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	1,735
4.3	Production	-
4.4	Administration	749
	<b>Total</b>	<b>2,484</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	1,391	1,289
5.2	Term Deposit	7,446	10,545
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	<b>Total: cash at end of quarter (item 1.22)</b>	<b>8,837</b>	<b>11,834</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	-	-	-	-
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	<b>Preference +securities B Class</b>	-	-	-	-
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	<b>+Ordinary securities</b>	267,699,015	267,699,015	-	-
7.4	Changes during quarter				
	(a) Increases through issues	-	-	-	-
	(b) Increases through conversion of options	-	-	-	-
	(c) Decreases through returns of capital, buy-backs	-	-	-	-
7.5	<b>+Convertible debt securities (description)</b>	-	-	-	-
7.6	Changes during quarter				
	(a) Increases through issues	-	-	-	-
	(b) Decreases through securities matured, converted	-	-	-	-

7.7	<b>Options</b>	<i>Number</i>		<i>Exercise price</i>	<i>Expiry date</i>
	(a) Options over ordinary shares, exercisable at 68 cents	60,000	-	68 cents	30 November 2012
	(B) Options over ordinary shares, exercisable at 66.7 cents	2,490,000	-	66.70 cents	10 December 2012
	(c) Options over ordinary shares, exercisable at 88 cents	1,100,000	-	88 cents	9 September 2013
	(d) Options over ordinary shares, exercisable at 84 cents	150,000	-	84 cents	17 September 2013
	(e) Options over ordinary shares, exercisable at 62.1 cents	1,750,000	-	62.10 cents	30 April 2014
	(f) Options over ordinary shares, exercisable at 74.2 cents	410,000	-	74.20 cents	2 August 2012
	(g) Options over ordinary shares, exercisable at 79.2 cents	310,000	-	79.20 cents	2 August 2014
	<b>TOTAL OPTIONS ISSUED</b>	<b>6,270,000</b>	-		
7.8	Options issued during quarter :				
	<b>TOTAL</b>	-	-	-	-
7.9	Options exercised during quarter	<i>Number</i>		<i>Exercise price</i>	<i>Expiry date</i>
	(a) Options over ordinary shares	-	-	-	-
	<b>TOTAL</b>				
7.10	Options expired/cancelled during quarter	<i>Number</i>		<i>Exercise price</i>	<i>Expiry/cancellation date</i>
	<b>TOTAL OPTIONS EXPIRED/ CANCELLED</b>	-	-	-	-
7.11	<b>Performance Rights</b>	<i>Number</i>		<i>Exercise price</i>	<i>Expiry date</i>
	(a) Performance rights exercisable at 73.8 cents	750,000	-	73.8 cents	10 July 2012
	(b) Performance rights exercisable at 79.1 cents	750,000	-	79.1 cents	10 January 2013
	(b) Performance rights exercisable at 84.4 cents	750,000	-	84.4 cents	10 January 2014
	<b>TOTAL PERFORMANCE RIGHTS</b>	<b>2,250,000</b>			

		<i>Number</i>		<i>Exercise price</i>	<i>Expiry date</i>
7.12	Performance rights issued during quarter:				
	<b>TOTAL PERFORMANCE RIGHTS ISSUED DURING QUARTER</b>	-	-	-	-
7.13	Performance rights exercised during quarter	-	-	-	-
7.14	Performance rights expired/cancelled during quarter	-	-	-	-
7.11	<b>Debentures</b> <i>(totals only)</i>	-	-	-	-
7.12	<b>Unsecured notes</b> <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

31 July 2012

**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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