

Lynden Energy Corp.

Quarterly Consolidated Financial Statements For The Six Months Ended December 31, 2008 (Unaudited)

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Lynden Energy Corp. ("the Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the Company's unaudited interim consolidated financial statements as at and for the six months ended December 31, 2008.

LYNDEN ENERGY CORP.**Consolidated Balance Sheets**

(Unaudited)

(Canadian Dollars)

	December 31, 2008	June 30, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,383,585	\$ 8,558,978
Receivables	152,395	475,260
	6,535,980	9,034,238
Deferred financing costs	99,373	99,373
Investment (note 5)	4,890,220	5,090,148
Property and equipment (note 6)	26,606,377	24,501,844
	\$ 38,131,950	\$ 38,725,603
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 739,055	\$ 736,677
Asset retirement obligations (note 7)	28,114	27,006
	767,169	763,683
Shareholders' equity		
Share capital	37,206,541	37,187,034
Treasury shares held (note 8)	(7,170)	-
Contributed surplus	10,346,498	10,350,380
Deficit	(10,181,088)	(9,575,494)
	37,364,781	37,961,920
	\$ 38,131,950	\$ 38,725,603

Nature of operations (note 1)

Subsequent event (note 14)

Approved by the Directors:

"Ron Paton""Colin Watt"

The accompanying notes are an integral part of these consolidated financial statements.

LYNDEN ENERGY CORP.
Consolidated Statements of Operations
(Unaudited)
(Canadian Dollars)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007 (restated)	2008	2007 (restated)
Expenses				
Accretion and amortization	\$ 686	\$ 845	\$ 1,360	\$ 1,636
Administrative fees	32,000	24,000	59,000	46,000
Consulting fees	241,856	15,765	284,975	56,205
Filing, listing and transfer agent fees	10,578	4,258	12,853	10,208
Foreign currency translation	58,207	341,991	53,398	376,972
Office and miscellaneous	19,614	18,979	22,268	22,138
Professional fees	31,190	23,272	32,370	27,873
Promotion	24,114	3,218	24,342	5,713
Stock-based compensation	-	586,172	-	1,378,975
Travel	17,906	19,978	17,906	38,299
	(436,151)	(1,038,478)	(508,472)	(1,964,019)
Other items				
Interest income	44,262	76,920	102,806	172,703
Equity loss on investment (note 5)	(119,915)	(4,230)	(199,928)	(4,230)
	(75,653)	72,690	(97,122)	168,473
Loss and comprehensive loss for the period	\$ (511,804)	\$ (965,788)	\$ (605,594)	\$ (1,795,546)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.04)
Weighted average number of common shares outstanding	57,969,534	49,753,415	57,969,941	46,726,919

The accompanying notes are an integral part of these consolidated financial statements.

LYNDEN ENERGY CORP.

Consolidated Statements of Shareholders' Equity

(Unaudited)

(Canadian Dollars)

	Common Shares		Share Subscriptions	Treasury Shares Held	Contributed Surplus	Deficit	Total
	Number	Amount					
Balance at June 30, 2008	57,959,751	\$ 37,187,034	\$ -	\$ -	\$ 10,350,380	\$ (9,575,494)	\$ 37,961,920
Common shares issued for cash:							
Exercise of warrants	12,500	19,507	-	-	(3,882)	-	15,625
Purchase of treasury shares	-	-	-	(7,170)	-	-	(7,170)
Loss for the period	-	-	-	-	-	(605,594)	(605,594)
Balance at December 31, 2008	57,972,251	\$ 37,206,541	\$ -	\$ (7,170)	\$ 10,346,498	\$ (10,181,088)	\$ 37,364,781

	Common Shares		Share Subscriptions	Treasury Shares Held	Contributed Surplus	Deficit	Total
	Number	Amount					
Balance at June 30, 2007	25,037,259	\$ 13,601,031	\$ 2,911,500	\$ -	\$ 2,755,300	\$ (6,522,938)	\$ 12,744,893
Common shares issued for cash:							
Private placements	24,747,092	16,070,055	(2,911,500)	-	4,277,995	-	17,436,550
Share issue costs on private placements	-	(334,717)	-	-	(81,241)	-	(415,958)
Exercise of warrants	3,900	4,875	-	-	-	-	4,875
Exercise of stock options	9,000	11,196	-	-	(4,446)	-	6,750
Stock-based compensation	-	-	-	-	1,378,975	-	1,378,975
Loss for the period	-	-	-	-	-	(1,795,546)	(1,795,546)
Balance at December 31, 2007	49,797,251	\$ 29,352,440	\$ -	\$ -	\$ 8,326,583	\$ (8,318,484)	\$ 29,360,539

The accompanying notes are an integral part of these consolidated financial statements.

LYNDEN ENERGY CORP.
Consolidated Statements of Cash Flows
(Unaudited)
(Canadian Dollars)

Cash provided by (used for):	Three months ended December 31,		Six months ended December 31,	
	2008	2007 (restated)	2008	2007 (restated)
Operating activities				
Loss for the period	\$ (511,804)	\$ (965,788)	\$ (605,594)	\$ (1,795,546)
Items not involving cash:				
Accretion and amortization	686	845	1,360	1,636
Stock-based compensation	-	586,172	-	1,378,975
Equity in loss on investment	119,915	4,230	199,928	4,230
Changes in non-cash operating working capital items:				
Receivables	(17,448)	(5,299)	25,468	(105,769)
Advances for exploration	-	(1,858,051)	-	(1,858,051)
Prepaid expenses	-	2,096	-	5,223
Accounts payable and accrued liabilities	159,208	(67,125)	104,384	(36,328)
	(249,443)	(2,302,920)	(274,454)	(2,405,630)
Financing activities				
Common shares issued for cash	-	492,910	15,625	17,448,175
Share issue costs	-	(9,801)	-	(415,958)
Purchase of treasury shares	(7,170)	-	(7,170)	-
	(7,170)	483,109	8,455	17,032,217
Investing activities				
Purchase of investment	-	(2,879,822)	-	(2,879,822)
Purchase of property and equipment	(1,713,484)	(1,208,930)	(1,909,394)	(8,358,304)
	(1,713,484)	(4,088,752)	(1,909,394)	(11,238,126)
Change in cash during the period	(1,970,097)	(5,908,563)	(2,175,393)	3,388,461
Cash, beginning of period	8,353,682	12,668,603	8,558,978	3,371,579
Cash, end of period	\$ 6,383,585	\$ 6,760,040	\$ 6,383,585	\$ 6,760,040

Supplemental cash flow information (note 12)

The accompanying notes are an integral part of these consolidated financial statements.

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2008

(Unaudited)

(Canadian Dollars)

1. Nature of Operations

The Company is a public company continued under the *Business Corporations Act* (British Columbia, Canada). The Company's business is to acquire, explore and develop petroleum and natural gas properties. The Company's common shares trade on the TSX Venture Exchange under the symbol LVL.

The Company is in the process of exploring and developing its oil and gas interests and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for oil and gas interests and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the reserves and upon future profitable production.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the six month period ended December 31, 2008 are not necessarily indicative of the results that may be expected for the year ended June 30, 2009. The balance sheet at June 30, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

2. Significant Accounting Policies

These interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual financial statements for the year ended June 30, 2008 (except as described in note 3). For further information, refer to the financial statements and notes thereto included in the Company's Annual Report to Shareholders for the year ended June 30, 2008.

3. Changes in Accounting Policies

- a) Effective July 1, 2008, the Company adopted the CICA Handbook Section 1535 "*Capital Disclosures*" ("HB 1535"). The objective of this new standard is to disclose information concerning the Company's capital and how it is managed (note 9). The adoption of this standard had no effect on the Company's financial position, operations or cash flows.
- b) Effective July 1, 2008, the Company adopted the CICA Handbook Sections 3862 "*Financial Instruments – Disclosures*" ("HB 3862") and 3863 "*Financial Instruments – Presentation*" ("HB 3863"). The objective of these new standards is to provide more information for users of the Company's financial statements to understand the significance of financial instruments to the Company's financial position, performance and cash flows (note 8). These new standards will supersede HB 3861 "*Financial Instruments – Disclosure and Presentation*". The adoption of these standards had no impact on the Company's financial position, operations or cash flows.
- c) Effective July 1, 2008, the Company will adopt the CICA Handbook Section 1400 "*General Standards of Financial Statement Presentation*" ("HB 1400"). The objective of this standard is to include requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. This new standard has not impacted the Company's financial position, operations or cash flows.
- d) Effective July 1, 2008, the Company will adopt the CICA Handbook Section 3064 "*Goodwill and Intangible Assets*" ("HB 3064"). HB 3064 replaces CICA Handbook Section 3062 "*Goodwill and Other Intangible Assets*" ("HB 3062") and CICA Handbook Section 3450 "*Research and Development Costs*". HB 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous HB 3062. This new standard has not impacted the Company's financial position, operations or cash flows.

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2008

(Unaudited)

(Canadian Dollars)

4. Comparative Figures

The losses reported for the three months and six months ended December 31, 2007 have been revised to correspond with crediting of the net P&NG revenues against the property and equipment. These changes resulted in an increase to loss and a decrease to property and equipment of \$12,689 and \$14,845 for the three and six months ended December 31, 2007 respectively.

5. Investment

The Company has a 47.99% interest in a Utah, USA based natural gas transmission company, Abajo Gas Transmission Company, LLC ("Abajo"), along with its Paradox Basin partners. Abajo holds ownership of the gas gathering systems in the Northern and Southern Prospect Areas of the Company's Paradox Basin Project (note 5). Through its interest in Abajo, the Company is entitled to 55% of the revenues and expenses attributable to the construction, operation, maintenance and expansion of the gas gathering system in the Northern Prospect Area and 25% in the Southern Prospect Area.

The Company exerts significant influence over Abajo, and as such, the investment in Abajo is accounted for using the equity method. The Company's share of Abajo's net loss for the six months ended December 31, 2008 was \$199,928.

6. Property and Equipment

	Computer Hardware & Software	Petroleum & Natural Gas Properties	Total
Balance at June 30, 2008	\$ 1,674	\$ 24,500,170	\$ 24,501,844
Acquisition and expenditures	-	2,104,784	2,104,784
	1,674	26,604,954	26,606,628
Amortization	(251)	-	(251)
Balance at December 31, 2008	\$ 1,423	\$ 26,604,954	\$ 26,606,377

Petroleum and Natural Gas Property Interests

	USA Paradox Basin	Canada Bittern Lake	Total
Balance at June 30, 2008	\$ 24,500,169	\$ 1	\$ 24,500,170
Acquisition and expenditures	2,635,601	-	2,635,601
Petroleum & natural gas sales	(789,563)	-	(789,563)
Royalties	149,180	-	149,180
Transportation & marketing costs	109,566	-	109,566
Balance at December 31, 2008	\$ 26,604,953	\$ 1	\$ 26,604,954

USA

a) Paradox Basin

The Company has a 55% before payout working interest (41.25% after payout) in an 80% net revenue interest in the Paradox Basin Project – Northern Prospect Area consisting of petroleum and natural gas leases located in the Paradox Basin, Utah.

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2008

(Unaudited)

(Canadian Dollars)

The Company has a 25% before payout working interest (23.75% after payout working interest) in an 85% to 87% net revenue interest in the Paradox Basin Project – Southern Prospect Area consisting of petroleum and natural gas leases located in the Paradox Basin, Utah.

6. Property and Equipment (cont'd)

During the six months ended December 31, 2008, the Company received \$530,817 (2007 - \$120,716) of net revenue from sales of petroleum and natural gas from its Paradox Basin Project. Testing on the Paradox Basin Project is ongoing and consequently it has been determined that the Paradox Basin Project is in the pre-production stage. As such, the net revenues have been credited to capitalized costs.

Canada

b) Bittern Lake

The Company has a 50% working interest in certain petroleum and natural gas rights in the Bittern Lake area of central Alberta.

7. Asset Retirement Obligations

The total asset retirement obligations were estimated by management based on the Company's net ownership interest in all wells, estimated costs to reclaim and abandon the wells and the estimated timing of the costs to be incurred in future periods. The Company has estimated the total asset retirement obligation to be \$68,250 as at December 31, 2008 (June 30, 2008 - \$68,250). These payments are expected to be made over the next 17 to 24 years. The Company used a credit adjusted risk free rate of 8.3% and a weighted-average inflation rate of 2.0% to calculate the present value of the asset retirement obligations.

Balance at June 30, 2008	\$	27,006
Accretion expense		1,108
<hr/>		
Balance at December 31, 2008	\$	28,114
<hr/>		

8. Treasury Shares

In accordance with TSX Venture Exchange approval and the provisions of a normal course issuer bid, the Company from time to time may acquire up to 2,898,613 of its common shares for cancellation. The normal course issuer bid will be conducted through the facilities of the TSX Venture Exchange for a period of one year commencing on December 12, 2008. As at December 31, 2008, the Company has acquired 25,000 common shares with a cost of \$7,170. These common shares have been recorded as treasury shares held and have not been cancelled as at December 31, 2008 (note 14).

9. Related Party Transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The following is a summary of the related party transactions that occurred throughout the six month period ended December 31:

- a) paid or accrued \$59,000 (2007 - \$46,000) for administration fees to a company controlled by the President and CEO of the Company;
- b) paid or accrued \$5,255 (2007 - \$11,637) for legal fees to a legal firm where a director of the Company is an associate counsel;
- c) paid or accrued \$Nil (2007 - \$24,089) for share issue costs (legal fees) to a legal firm where a director of the Company is an associate counsel; and
- d) paid or accrued \$2,974 (2007 - \$2,607) for consulting fees, which are included in property and equipment, to a company controlled by a director of the Company;

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2008

(Unaudited)

(Canadian Dollars)

- e) paid or accrued \$279,975 (2007 - \$1,041) for consulting fees to a director and to a company controlled by a director of the Company;

9. Related Party Transactions (cont'd)

Accounts payable and accrued liabilities include \$200,293 (June 30, 2008 - \$48,964) owing to related parties as at December 31, 2008.

10. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. A financial asset is any asset that is i) cash; ii) a contractual right to receive cash or another financial asset from another party; iii) a contractual right to exchange financial instruments with another party under conditions that are potentially favorable to the entity; or iv) an equity instrument of another entity. A financial liability is any liability that is a contractual obligation to i) deliver cash or another financial asset to another party; or ii) exchange financial instruments with another party under conditions that are potentially unfavorable to the entity. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

As at December 31, 2008, the Company's financial instruments are cash, receivables, and accounts payable and accrued liabilities. The amounts reflected in the balance sheet are carrying amounts and approximate their fair values due to the short-term nature and negligible credit losses. These financial instruments are classified as follows:

Cash – held for trading
Receivables – loans and receivables
Accounts payable and accrued liabilities – other financial liability

The Company's exposure to interest rate risk and credit risk is small. The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risks.

The Company has not hedged any of its petroleum and natural gas sales.

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The credit risk on cash is small because the counterparties are highly rated banks. The majority of the Company's receivables are with customers in the petroleum and natural gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore the collection of accounts receivable may be affected by changes in economic or other conditions. The Company believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of accounts receivable to date.

b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash is exposed to interest rate risk as the Company invests cash at floating rates of interest in highly liquid instruments. Fluctuations in interest rates impact the value of cash. As at December 31, 2008, if interest rates had been 1% lower, loss and comprehensive loss would have been \$37,691 higher and conversely if interest rates had been 1% higher, loss and comprehensive loss would have been \$37,691 lower.

c) Currency Risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk from its Paradox Basin Project where

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2008

(Unaudited)

(Canadian Dollars)

the costs incurred and revenues earned are in US dollars while the Company finances its operations in Canadian dollars. The Company does not use derivative instruments or hedges to manage currency risks.

10. Financial Instruments (cont'd)

As at December 31, 2008, cash includes \$206,337 (US\$169,406) of US denominated cash. As at December 31, 2008, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$18,758 higher [(US\$169,406 x 1.1073) - \$206,337]. Conversely, if the Canadian dollar weakened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$20,634 lower [(US\$169,406 x 1.3398) - \$206,337].

As at December 31, 2008, receivables include \$145,820 (US\$119,720) of US denominated receivables. As at December 31, 2008, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$13,256 higher [(US\$119,720 x 1.1073) - \$145,820]. Conversely, if the Canadian dollar weakened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$14,582 lower [(US\$119,720 x 1.3398) - \$145,820].

As at December 31, 2008, accounts payable and accrued liabilities include \$735,282 (US\$603,680) of US denominated payables. As at December 31, 2008, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$66,844 higher [(US\$603,680 x 1.1073) - \$735,282]. Conversely, if the Canadian dollar weakened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$155,546 lower [(US\$603,680 x 1.3398) - \$735,282].

d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's accounts payable and accrued liabilities are all current and due within 90 days of the balance sheet date. The Company ensures that it has sufficient capital to meet short term financial obligations after taking into account its exploration obligations and cash on hand.

11. Capital Management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern.
- To maintain appropriate cash reserves on hand to continue the advancement of the Company's Paradox Basin Project and to meet ongoing operating costs.
- To invest cash on hand in highly liquid and highly rated financial instruments.

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income (loss)), cash and cash equivalents and short-term investments in the definition of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets, especially in regards to results from its Paradox Basin Project. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements and/or issue debt. The Company is not exposed to externally imposed capital requirements.

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2008

(Unaudited)

(Canadian Dollars)

12. Supplemental Cash Flow Information

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Cash paid for interest	\$	-	\$	-
Cash paid for income taxes	\$	-	\$	-
Net revenues credited to property and equipment included in receivables	\$ 133,433	\$ -	\$ 133,433	\$ -
Purchases of property and equipment included in payables	\$ 536,922	\$ 1,892,466	\$ 536,922	\$ 1,892,466
Share issue costs paid in shares and units	\$ -	\$ -	\$ -	\$ 950,075
Stock-based compensation transferred to share capital on exercise of stock options	\$ -	\$ -	\$ -	\$ 4,446
Stock-based compensation transferred to share capital on exercise of warrants	\$ -	\$ -	\$ 3,882	\$ -
Asset retirement obligations included in property and equipment	\$ -	\$ 1,499	\$ -	\$ 5,709

13. Segmented Information

The Company currently operates in one reportable operating segment, being the acquisition, exploration and development of petroleum and natural gas properties. The Company operates in two reportable geographic segments, being Canada and the United States of America. The Company's capital assets in geographic locations are as follows:

	December 31, 2008	June 30, 2008
Canada	\$ 1,424	\$ 1,675
United States of America	26,604,953	24,500,169
	<u>\$ 26,606,377</u>	<u>\$ 24,501,844</u>

14. Subsequent Event

Subsequent to December 31, 2008, the Company acquired 44,500 of its own common shares at a cost of \$10,360 under the provisions of a normal course issuer bid (note 8).