Lynden Energy Corp.

Consolidated Financial Statements
For The Years Ended June 30, 2009 and 2008

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

AUDITORS' REPORT

To the Shareholders of
Lynden Energy Corp.

We have audited the consolidated balance sheets of Lynden Energy Corp. as at June 30, 2009 and 2008 and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada Chartered Accountants

October 23, 2009

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LYNDEN ENERGY CORP.
Consolidated Balance Sheets
(Canadian Dollars)

	June 30, 2009	June 30, 2008
ASSETS		
Current assets		
Cash	$ 4,974,440	$ 8,558,978
Receivables	92,463	475,260
	5,066,903	9,034,238
Deferred financing costs	-	99,373
Investment (note 4)	4,740,567	5,090,148
Property and equipment (note 5)	27,303,560	24,501,844
	$ 37,111,030	$ 38,725,603
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 322,902	$ 736,677
Asset retirement obligations (note 6)	29,249	27,006
	352,151	763,683
Shareholders' equity		
Share capital **(note 7)**	37,206,541	37,187,034
Treasury shares held **(note 7)**	(19,975)	-
Contributed surplus	10,346,498	10,350,380
Deficit	(10,774,185)	(9,575,494)
	36,758,879	37,961,920
	$ 37,111,030	$ 38,725,603

Nature of operations (note 1)
Subsequent events (note 15)

Approved by the Directors:

"Colin Watt"

"Ron Paton"

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

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

	Year ended June 30, 2009	Year ended June 30, 2008
Expenses		
Accretion and amortization	$ 2,746	$ 3,595
Administrative fees	119,000	98,000
Consulting fees	423,902	118,975
Filing, listing and transfer agent fees	25,130	27,380
Foreign currency translation	61,193	41,139
Office and miscellaneous	44,897	44,147
Professional fees	92,466	80,253
Promotion	27,284	13,031
Rent	5,500	-
Stock-based compensation **(note 8)**	-	2,327,727
Travel	27,851	90,928
	(829,969)	(2,845,175)
Other items		
Interest income	169,274	275,322
Equity loss on investment **(note 4)**	(438,623)	(54,574)
Write-off of deferred financing costs	(99,373)	-
Write-down of property **(note 5)**	-	(428,129)
	(368,722)	(207,381)
Loss and comprehensive loss for the year	$ (1,198,691)	$ (3,052,556)
Basic and diluted loss per common share	$ (0.02)	$ (0.06)
Weighted average number of common shares outstanding	57,934,677	49,065,728

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

LYNDEN ENERGY CORP.
Consolidated Statements of Shareholders' Equity
(Canadian Dollars)

	Common Shares		Share	Treasury	Contributed		
	Number	Amount	Subscriptions	Shares Held	Surplus	Deficit	Total
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:							
Private placements for cash **(note 7)**	31,617,452	23,686,096	(2,911,500)	-	5,626,954		26,401,550
Units and shares issued to agents	1,202,140	979,325	-	-	-		979,325
Share issue costs on private placements	-	(1,195,281)	-	-	(314,613)		(1,509,894)
Exercise of warrants	3,900	4,875	-	-	-	-	4,875
Exercise of stock options	99,000	110,988	-	-	(44,988)	-	66,000
Stock-based compensation **(note 8)**	-	-	-	-	2,327,727	-	2,327,727
Loss for the year	-	-	-	-	-	(3,052,556)	(3,052,556)
Balance at June 30, 2008	57,959,751	37,187,034	-	-	10,350,380	(9,575,494)	37,961,920
Common shares issued:							
Exercise of warrants	12,500	19,507	-	-	(3,882)	-	15,625
Purchase of treasury shares (80,500)	-	-	-	(19,975)	-	-	(19,975)
Loss for the year	-	-	-	-	-	(1,198,691)	(1,198,691)
Balance at June 30, 2009	57,972,251	$ 37,206,541	$ -	$ (19,975)	$ 10,346,498	$ (10,774,185)	$ 36,758,879

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

LYNDEN ENERGY CORP.

Consolidated Statements of Cash Flows

(Canadian Dollars)

Cash provided by (used for):	Year ended June 30, 2009	Year ended June 30, 2008
Operating activities		
Loss for the year	$ (1,198,691)	$ (3,052,556)
Items not involving cash:		
Accretion and amortization	2,746	3,595
Stock-based compensation	-	2,327,727
Equity loss on investment	438,623	54,574
Write-off of deferred financing costs	99,373	-
Write-down of property	-	428,129
Changes in non-cash operating working capital items:		
Receivables	64,412	(63,771)
Prepaid expenses	-	5,223
Accounts payable and accrued liabilities	(51,625)	56,423
	(645,162)	(240,656)
Financing activities		
Common shares issued for cash	15,625	26,472,425
Share issue costs	-	(530,569)
Purchase of treasury shares	(19,975)	-
Deferred financing costs	-	(99,373)
	(4,350)	25,842,483
Investing activities		
Purchase of investment	-	(5,144,722)
Purchases of property and equipment	(3,968,929)	(15,490,078)
Recoveries of property and equipment	1,033,903	220,372
	(2,935,026)	(20,414,428)
Change in cash during the year	(3,584,538)	5,187,399
Cash, beginning of year	8,558,978	3,371,579
Cash, end of year	$ 4,974,440	$ 8,558,978

Supplemental cash flow information (note 13)

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

1. Nature of Operations

Lynden Energy Corp. (“the Company”) is a public company continued under the *Business Corporations Act* (British Columbia). 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 (“TSX-V”) 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 financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. As at June 30, 2009, the Company had an accumulated deficit of $10,774,185 and working capital of $4,744,001.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Lynden Exploration Ltd. and Lynden USA Inc. All inter-company transactions are eliminated on consolidation. In accordance with *Accounting Guideline 15 – Consolidation of Variable Interest Entities*, all entities subject to control by the Company on a basis other than ownership of voting interests must be consolidated in the Company’s financial statements. The Company does not have any variable interest entities.

b) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates used herein include stock-based compensation, future income taxes, asset retirement obligations and the value of the oil and gas property interests. Actual results could differ from these estimates.

c) Foreign currency translation

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations.

d) Financial instruments

All financial instruments are classified into one of five categories: held-for-trading financial instruments, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured and reported on the balance sheet at fair value except, for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured and reported at amortized cost. Subsequent measurements and changes in fair value will depend on their initial classification. Held-for-trading financial instruments are measured at their fair value and changes are recognized in net income (loss) in the period in which the change occurs. Available-for-sale financial assets are measured at fair value and changes in fair value are recognized in other comprehensive income until the financial instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading; receivables are classified as loans and receivables; and accounts payable and accrued liabilities are classified as other financial liabilities.

2. Significant Accounting Policies (cont'd)

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading are included in the initial carrying value of such instruments and amortized using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as held-for-trading are expensed as incurred.

e) Deferred financing costs

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

f) Investment

Investments over which the Company exerts significant influence are accounted for using the equity method. Under this method, the Company's share of the earnings and losses is included in operations and its investment therein is adjusted by a like amount. The Company records a gain on deemed disposition of investment when its ownership interest is diluted as a result of share issuances by the investee company, and the Company's proportionate share of the issuance is greater than the cost base of the investment. The Company does not receive any cash proceeds (nor is required to make any payments) from these transactions. Where in management's opinion there has been a loss in value that is other than a temporary decline, the carrying value is reduced to estimated realizable value.

g) Property and equipment

Property and equipment is recorded at cost and amortized over the estimated useful lives of the assets on the following basis:

Computer software	100% declining balance
Computer hardware	30% declining balance per annum

Petroleum and natural gas properties

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas ("P&NG") reserves are capitalized. Such costs include lease acquisitions, geological and geophysical, lease rentals on undeveloped properties, drilling both productive and non-productive wells, production equipment, and overhead charges directly related to acquisition, exploration and development activities. Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and amortization by more than 20 percent, in which case a gain or loss on disposal is recorded.

Upon commencement of commercial production all costs of acquisition, exploration and development of P&NG reserves, associated tangible plant and equipment costs, asset retirement obligations and estimated costs of future development of proved undeveloped reserves are depleted and/or amortized by the unit of production method based on estimated gross proved reserves before royalties as determined by independent evaluators. Natural gas reserves are converted to equivalent units using their relative energy content of six thousand cubic feet of natural gas to one barrel of oil.

The costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion calculations. These properties are assessed annually to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion.

2. Significant Accounting Policies (cont'd)

P&NG assets are evaluated annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves plus the lower of cost and market of unproved properties exceed the carrying value of the P&NG assets. If the carrying value of the P&NG assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using future product prices and costs and are discounted using the risk-free interest rate.

Costs incurred for initial new P&NG property investigation where no acquisition occurs are expensed as incurred.

h) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount of the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

i) Loss per share

Basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. For the years presented, this calculation proved to be anti-dilutive.

j) Income taxes

Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

k) Stock-based compensation

The Company uses the fair value based method to account for stock-based transactions with employees, non-employees and directors. Accordingly, the fair value of the stock options at the date of grant is amortized on a straight-line basis over the vesting period. The Company estimates the fair value of each stock option at the date of grant using the Black-Scholes option pricing model. Any consideration paid on exercise of stock options together with the related portion of contributed surplus is credited to share capital.

3. Changes in Accounting Policies

Effective July 1, 2008, the Company adopted new accounting policies from the Canadian Institute of Chartered Accountants Handbook ("HB"):

a) "*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 11). The adoption of this standard had no effect on the Company's financial position, operations or cash flows.

3. Changes in Accounting Policies (cont'd)

b) "*Financial Instruments – Disclosures*" ("HB 3862") and "*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 10). 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) "*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) "*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.

Recent accounting pronouncements:

a) In January 2009, the CICA issued Section 1582 "*Business Combinations*", Section 1601 "*Consolidated Financial Statements*" and Section 1602 "*Non-controlling Interests*" which replace Section 1581 "*Business Combinations*" and Section 1600 "*Consolidated Financial Statements*". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

b) In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accounting principles ("GAAP") with IFRS over an expected five-year transitional period. In 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun the process of assessing the adoption of IFRS for 2011, the financial reporting impact of the transition cannot be reasonably estimated at this time.

4. Investment

On October 5, 2007, the Company participated in the formation of a Utah, USA based natural gas transmission company, Abajo Gas Transmission Company, LLC ("Abajo"), along with its Paradox Basin partners. The Company purchased a 43.806% interest in Abajo through an initial capital contribution of $2,879,822 (USD$2,935,000) and made an additional $2,264,900 (USD$2,200,000) investment in Abajo, increasing its interest in Abajo to 47.99%. 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 was $438,623 (October 5, 2007 to June 30, 2008 - $54,574).

(Canadian Dollars)

5. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value at June 30, 2009
Petroleum and natural gas properties	$ 27,302,388	$ -	$ 27,302,388
Computer hardware	2,814	1,642	1,172
Computer software	620	620	-
	$ 27,305,822	$ 2,262	$ 27,303,560

	Cost	Accumulated Amortization	Net Book Value at June 30, 2008
Petroleum and natural gas properties	$ 24,500,170	$ -	$ 24,500,170
Computer hardware	2,814	1,140	1,674
Computer software	620	620	-
	$ 24,503,604	$ 1,760	$ 24,501,844

Petroleum and Natural Gas Properties

	USA Paradox Basin	Canada Bittern Lake	Total
Balance at June 30, 2007	$ 9,373,271	$ 518,800	$ 9,892,071
Acquisition and expenditures	15,755,100	10,758	15,765,858
Partial sale of property	-	(25,467)	(25,467)
Refund of abandonment deposit	-	(58,000)	(58,000)
Disposition of asset retirement obligation	-	(17,961)	(17,961)
Write-down of property	-	(428,129)	(428,129)
Petroleum & natural gas sales	(860,193)	-	(860,193)
Royalties	149,365	-	149,365
Transportation & marketing costs	82,626	-	82,626
Balance at June 30, 2008	24,500,169	1	24,500,170
Acquisition and expenditures	3,606,778	-	3,606,778
Petroleum & natural gas sales	(1,115,666)	-	(1,115,666)
Royalties	209,898	-	209,898
Transportation & marketing costs	85,984	-	85,984
Production taxes	15,224	-	15,224
Balance at June 30, 2009	$ 27,302,387	$ 1	$ 27,302,388

(Canadian Dollars)

5. Property and Equipment (cont'd)

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.

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.

During the year ended June 30, 2009, the Company received $804,560 (2008 - $628,202) 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 the 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. On May 1, 2008, the Company sold certain petroleum and natural gas rights for $25,467 in cash and a 2.5% overriding royalty on the rights sold. During the year ended June 30, 2008, the Company wrote-down the carrying value of the property by $428,129 to $1.

6. 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 undiscounted amount of future cash flows to settle the obligations to be $70,919 as at June 30, 2009 (2008 - $68,250). These payments are expected to be made over the next 15 to 16 years. The Company used a weighted-average credit adjusted risk free discount 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, 2007	$	23,589
Liabilities incurred		18,811
Disposition of liabilities		(17,961)
Accretion expense		2,567
Balance at June 30, 2008		27,006
Accretion expense		2,243
Balance at June 30, 2009	$	29,249

7. Share Capital

a) Authorized

An unlimited number of common shares without par value.
An unlimited number of preference shares without par value.

7. Share Capital (cont'd)

b) The Company did not complete any private placements during the year ended June 30, 2009. During the year ended June 30, 2008, the Company completed the following private placements:

i) On July 9, 2007, the Company closed a non-brokered private placement for gross proceeds of $10,000,000. These funds were raised through the issuance of 12,500,000 units at a price of $0.80 per unit. Each unit is comprised of one common share and one-half of one common share purchase warrant. The total proceeds were allocated to common shares in the amount of $7,854,451 and to warrants in the amount of $2,145,549, based on their relative fair values on the date of closing. As at June 30, 2007, the Company had collected $2,911,500 in share subscriptions for this private placement.

Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $1.25 per common share expiring on July 9, 2009.

The fair values of the warrants were determined to be $0.61 per warrant based on a calculation using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 4.66%, an expected stock price volatility of 102.42% and an expected life of two years.

The Company incurred total issuance costs on the private placement of $728,502, which were allocated to common shares in the amount of $572,198 and to warrants in the amount of $156,304 based on their relative fair values. Of these costs, $39,302 was incurred in cash, $440,000 was incurred through the issuance of 550,000 common shares and $249,200 was incurred through the issuance of 311,500 units with the same terms as those issued in the private placement.

ii) On July 11, 2007, the Company closed a non-brokered private placement for gross proceeds of $5,348,000. These funds were raised through the issuance of 6,521,952 units at a price of $0.82 per unit. Each unit is comprised of one common share and one-half of one common share purchase warrant. The total proceeds were allocated to common shares in the amount of $4,165,798 and to warrants in the amount of $1,182,202, based on their relative fair values on the date of closing.

Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $1.25 per common share expiring on July 12, 2011 if the Company becomes a TSX-V Tier 1 issuer, otherwise the warrants expire on July 12, 2009. However, if over a period of 20 consecutive trading days between the date that is 4 months following the closing date and the expiry of the warrants, the daily trading price of the Company's common shares exceeds $2.50 on each of those 20 consecutive days, the warrants will be deemed to be exercised on the 20th day, subject to receipt of required regulatory approvals, if any.

The fair values of the warrants were determined to be $0.64 per warrant based on a calculation using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 4.63%, an expected stock price volatility of 102.42% and an expected life of two years.

The Company incurred total issuance costs on the private placement of $299,247, which were allocated to common shares in the amount of $233,097 and to warrants in the amount of $66,150 based on their relative fair values. Of these costs, $38,372 was incurred in cash and $260,875 was incurred through the issuance of 318,140 units with the same terms as those issued in the private placement.

iii) On September 21, 2007, the Company closed the first part of a non-brokered private placement for gross proceeds of $4,507,140. These funds were raised through the issuance of 4,097,400 units at a price of $1.10 per unit. Each unit is comprised of one common share and one-half of one common share purchase warrant. The total proceeds were allocated to common shares in the amount of $3,649,879 and to warrants in the amount of $857,261, based on their relative fair values on the date of closing.

Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $1.50 per common share expiring on September 21, 2009.

The fair values of the warrants were determined to be $0.56 per warrant based on a calculation using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 4.14%, an expected stock price volatility of 95.71% and an expected life of two years.

7. Share Capital (cont'd)

The Company incurred total issuance costs on the private placement of $328,483, which were allocated to common shares in the amount of $266,005 and to warrants in the amount of $62,478 based on their relative fair values. All of these costs were incurred in cash.

iv) On October 10, 2007, the Company closed the second part (note 7(b)(iii)) of the $1.10 non-brokered private placement by issuing 448,100 units for gross proceeds of $492,910. Each unit is comprised of one common share and one-half of one common share purchase warrant. The total proceeds were allocated to common shares in the amount of $399,927 and to warrants in the amount of $92,983, based on their relative fair values on the date of closing.

Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $1.50 per common share expiring on October 12, 2009.

The fair values of the warrants were determined to be $0.56 per warrant based on a calculation using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 4.36%, an expected stock price volatility of 95.19% and an expected life of two years.

The Company incurred total issuance costs on the private placement of $9,801, which were allocated to common shares in the amount of $7,952 and to warrants in the amount of $1,849 based on their relative fair values. All of these costs were incurred in cash.

v) On April 16, 2008, the Company closed a non-brokered private placement for gross proceeds of $1,750,000. These funds were raised through the issuance of 2,500,000 units at a price of $0.70 per unit. Each unit is comprised of one common share and one common share purchase warrant. The total proceeds were allocated to common shares in the amount of $1,312,785 and to warrants in the amount of $437,215, based on their relative fair values on the date of closing.

Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $1.00 until April 15, 2009 and $1.25 until April 15, 2010.

The fair values of the warrants were determined to be $0.38 per warrant based on a calculation using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 2.71%, an expected stock price volatility of 80.77% and an expected life of two years.

The Company incurred total issuance costs on the private placement of $78,191, which were allocated to common shares in the amount of $58,656 and to warrants in the amount of $19,535 based on their relative fair values. All of these costs were incurred in cash.

vi) On June 12, 2008, the Company closed a non-brokered private placement for gross proceeds of $7,215,000. These funds were raised through the issuance of 5,550,000 units at a price of $1.30 per unit. Each unit is comprised of one common share and one-half of one common share purchase warrant. The total proceeds were allocated to common shares in the amount of $6,303,256 and to warrants in the amount of $911,744, based on their relative fair values on the date of closing.

Each warrant entitles the holder to purchase one additional common share at an exercise price of $1.75 until June 11, 2009 and $2.00 until June 11, 2010.

The fair values of the warrants were determined to be $0.46 per warrant based on a calculation using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 3.4%, an expected stock price volatility of 84.8% and an expected life of two years.

The Company incurred total issuance costs on the private placement of $65,670, which were allocated to common shares in the amount of $57,371 and to warrants in the amount of $8,299 based on their relative fair values. Of these costs, $36,420 was incurred in cash and $29,250 was incurred through the issuance of 22,500 units with the same terms as those issued in the private placement.

(Canadian Dollars)

7. Share Capital (cont'd)

c) Warrants:

	Warrants	Weighted-average exercise price	Weighted-average remaining life (years)
Balance at June 30, 2007	3,022,127	$1.25	0.8
Exercised	(3,900)	1.25	
Expired	(3,018,227)	1.25	
Issued	17,384,796	1.36	
Balance at June 30, 2008	17,384,796	1.36	1.3
Exercised	(12,500)	1.25	
Balance at June 30, 2009	17,372,296	$1.40	2.3

Warrants exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2009
July 9, 2009	$1.25	155,750
July 12, 2009[2]	$1.25	159,070
June 11, 2010	$2.00	11,250
July 9, 2011[1]	$1.25	6,237,500
July 12, 2011[1,2]	$1.25	3,260,976
September 21, 2011[1]	$1.50	2,048,700
October 12, 2011[1]	$1.50	224,050
April 15, 2012[1]	$1.25	2,500,000
June 11, 2012[1]	$2.00	2,775,000
		17,372,296

[1]These warrants were extended an additional two years from their original expiry dates.
[2]If the daily trading price of the Company's common shares is at least $2.50 on 20 consecutive trading days, the warrants will be deemed to be exercised on the 20th day, subject to receipt of required regulatory approvals, if any.

d) 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 June 30, 2009, the Company has acquired 80,500 common shares with a cost of $19,975. These common shares have been recorded as treasury shares held and have not been cancelled as at June 30, 2009.

(Canadian Dollars)

8. Stock Options

a) Stock options outstanding

The Company has a stock option plan whereby a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of stock options. The term of the stock options granted are fixed by the board of directors and are not to exceed five years. The exercise prices of the stock options are determined by the board of directors but shall not be less than the closing price of the Company's common shares on the day preceding the day on which the directors grant the stock options, less any discount permitted by the TSX-V. Subject to any vesting schedule imposed by the Company's board of directors in respect of any specific stock option grants, the stock options vest immediately on the date of grant except for stock options granted to investor relations consultants which vest over a twelve month period.

	Shares	Weighted-average exercise price	Weighted-average remaining life (years)
Balance at June 30, 2007	2,503,000	$0.86	4.2
Exercised	(99,000)	0.67	
Granted	2,305,000	1.34	
Balance at June 30, 2008	4,709,000	1.10	3.8
Cancelled	(22,500)	1.18	
Balance at June 30, 2009	4,686,500	$1.10	2.8

Stock options exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2009
July 21, 2010	$0.51	400,000
August 7, 2010	$0.75	450,000
September 1, 2010	$0.75	9,000
June 5, 2012	$1.00	1,532,500
July 22, 2012	$1.30	790,000
October 14, 2012	$1.30	640,000
April 27, 2013	$1.40	865,000
		4,686,500

b) Stock-based compensation

The Company did not grant or amend any stock options during the year ended June 30, 2009. During the year ended June 30, 2008, the Company granted 2,305,000 stock options with a compensation cost of $2,327,727. The Company calculated the compensation cost by using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 3.99%, a dividend yield of nil, an expected volatility of the Company's share price of 103% and expected life of the stock options of 5 years. The weighted average fair value of stock options granted was $1.01 per option.

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 year ended June 30, 2009:

a) paid or accrued $119,000 (2008 - $98,000) for administrative fees to a company controlled by the President and CEO of the Company;

(Canadian Dollars)

9. Related Party Transactions (cont'd)

b) paid or accrued $14,318 (2008 - $18,040) for legal fees to a legal firm where a director of the Company is an associate counsel;

c) paid or accrued $Nil (2008 - $33,372) for share issue costs (legal fees) to a legal firm where a director of the Company is an associate counsel;

d) paid or accrued $2,974 (2008 - $9,316) for consulting fees, which are included in property and equipment, to companies controlled by directors of the Company;

e) paid or accrued $388,903 (2008 - $27,674) for consulting fees to a director and companies controlled by directors of the Company; and

Accounts payable and accrued liabilities include $828 (2008 - $48,964) owing to directors and companies controlled by directors as at June 30, 2009.

10. Financial Instruments

As at June 30, 2009, the Company's financial instruments are cash, receivables, and accounts payable and accrued liabilities. The amounts reflected in the balance sheet are carrying amounts of cash, receivables and accounts payable and accrued liabilities and approximate their fair values due to the short-term nature and negligible credit losses. Investment is stated at its fair value based on the Company's equity interest.

The Company considers its 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.

The aging of receivables are as follows:

	2009	2008
Amounts receivable		
0 to 60 days	$ 72,566	$ 438,117
61 to 120 days	18,897	37,143
> 120 days	-	-
	$ 91,463	$ 475,260

10. Financial Instruments (cont'd)

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 interest income. As at June 30, 2009, if interest rates had been 1% lower, loss and comprehensive loss would have been $65,698 higher and conversely if interest rates had been 1% higher, loss and comprehensive loss would have been $65,698 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 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.

As at June 30, 2009, cash includes $118,211 (US$101,644) of US denominated cash. As at June 30, 2009, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been $10,746 higher. 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 $11,821 lower.

As at June 30, 2009, receivables include $89,445 (US$76,909) of US denominated receivables. As at June 30, 2009, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been $8,131 higher. 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 $8,944 lower.

As at June 30, 2009, accounts payable and accrued liabilities include $276,778 (US$237,986) of US denominated payables. As at June 30, 2009, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been $25,162 lower. 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 $27,678 higher.

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 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.

(Canadian Dollars)

12. Income Taxes

The reported income tax recovery differs from the amount computed by applying the Canadian basic statutory rate to the loss before income taxes. The reasons for this difference and the related tax effect are as follows:

	2009	2008
Potential income tax recovery based on reported loss	$ 362,604	$ 1,001,544
Effect of non-deductible expenses	2,553	(934,038)
Share issuance costs	149,837	155,996
Unrecognized benefit of non-capital losses	(514,994)	(223,502)
	$ -	$ -

Significant components of the Company's future tax assets are as follows:

	2009	2008
Future income tax assets		
Non-capital losses carried forward	$ 1,144,000	$ 617,000
Other assets	789,000	566,000
Valuation allowance for future income tax assets	(1,933,000)	(1,183,000)
	$ -	$ -

The Company has accumulated non-capital losses of approximately $4,267,000 which may be deducted in the calculation of taxable income in future years. The losses expire on various dates to 2029.

Due to the uncertainty surrounding the realization of income tax assets in future years, the Company has a 100% valuation allowance against its potential future income tax assets.

13. Supplemental Cash Flow Information

	2009	2008
Cash paid for interest	$ -	$ -
Cash paid for income taxes	-	-
Non-cash investing and financing activities:		
Net revenues credited to property and equipment included in receivables	$ 89,445	$ 407,830
Purchases of property and equipment included in payables	$ 276,778	$ 638,928
Share issue costs paid in shares and units	$ -	$ 979,325
Stock-based compensation transferred to share capital on exercise of stock options	$ -	$ 44,988
Stock-based compensation transferred to share capital on exercise of warrants	$ 3,882	$ -
Asset retirement obligations included in property and equipment	$ -	$ 850
Allocation of share subscriptions to common shares	$ -	$ 2,911,500
Allocation for warrants on issuance of units	$ -	$ 5,312,341

(Canadian Dollars)

14. 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:

	June 30, 2009	June 30, 2008
Canada	$ 1,172	$ 1,675
United States of America	27,302,388	24,500,169
	$ 27,303,560	$ 24,501,844

15. Subsequent Events

Subsequent to June 30, 2009, the Company:

a) entered into a Participation Agreement to acquire interests ranging from 21.88% to 43.75% in oil and gas leases located in the Glasscock, Howard, Martin, Midland and Sterling counties of West Texas, USA.

The Company will receive 43.75% of the vendor's interest in the leases relating to wells drilled after the date of the Participation Agreement on the vendor's existing acreage and within the areas of mutual interest, by paying 50% of the drilling and completion costs attributable to the vendor's interest. The Company will also pay for the first US$2,000,000 spent in connection with any new leases or extensions of existing leases on lands located within the AMIs, of which the Company will spend at least US$666,666.67 each year for the first three years; and

b) granted 1,110,000 stock options exercisable at $0.30 per share for five years.