

# **Lynden Energy Corp.**

(formerly Lynden Ventures Ltd.)

**Consolidated Financial Statements  
For The Years Ended June 30, 2008 and 2007**

## AUDITORS' REPORT

To the Shareholders of  
Lynden Energy Corp.  
(formerly Lynden Ventures Ltd.)

We have audited the consolidated balance sheets of Lynden Energy Corp. (formerly Lynden Ventures Ltd.) as at June 30, 2008 and 2007 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, 2008 and 2007 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 20, 2008



**LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd.)****Consolidated Balance Sheets**

(Canadian Dollars)

	June 30, 2008	June 30, 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 8,558,978	\$ 3,371,579
Receivables	475,260	3,659
Prepaid expenses	-	5,223
	9,034,238	3,380,461
<b>Deferred financing costs</b>	99,373	-
<b>Investment (note 4)</b>	5,090,148	-
<b>Property and equipment (note 5)</b>	24,501,844	9,894,773
	\$ 38,725,603	\$ 13,275,234
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 736,677	\$ 506,752
<b>Asset retirement obligations (note 6)</b>	27,006	23,589
	763,683	530,341
<b>Shareholders' equity</b>		
Share capital (note 7)	37,187,034	13,601,031
Share subscriptions	-	2,911,500
Contributed surplus	10,350,380	2,755,300
Deficit	(9,575,494)	(6,522,938)
	37,961,920	12,744,893
	\$ 38,725,603	\$ 13,275,234

**Nature of operations (note 1)****Approved by the Directors:***"Colin Watt"**"Richard Andrews"*

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

**LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd.)****Consolidated Statements of Operations**

(Canadian Dollars)

	Year ended June 30, 2008	Year ended June 30, 2007
<b>Expenses</b>		
Accretion and amortization	\$ 3,595	\$ 732
Administrative fees	98,000	76,000
Consulting fees	118,975	10,675
Filing, listing and transfer agent fees	27,380	14,372
Foreign currency translation	41,139	18,048
Office and miscellaneous	44,147	22,047
Professional fees	80,253	48,998
Promotion	13,031	8,784
Stock-based compensation (note 8)	2,327,727	1,184,499
Travel	90,928	43,264
	(2,845,175)	(1,427,419)
<b>Other items</b>		
Interest income	275,322	22,016
Equity loss on investment (note 4)	(54,574)	-
Write-down of property (note 5)	(428,129)	(2,326,759)
	(207,381)	(2,304,743)
<b>Loss and comprehensive loss for the year</b>	<b>\$ (3,052,556)</b>	<b>\$ (3,732,162)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.06)</b>	<b>\$ (0.16)</b>
<b>Weighted average number of common shares outstanding</b>	<b>49,065,728</b>	<b>23,715,072</b>

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

**LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd.)**

**Consolidated Statements of Shareholders' Equity**

(Canadian Dollars)

	Common Shares		Share Subscriptions	Contributed Surplus	Deficit	Total
	Number	Amount				
<b>Balance at June 30, 2006</b>	23,565,923	\$ 12,129,695	\$ -	\$ 1,570,801	\$ (2,790,776)	\$ 10,909,720
Common shares issued for cash:						
Exercise of warrants	1,471,336	1,471,336	-	-	-	1,471,336
Share subscriptions received		-	2,911,500	-	-	2,911,500
Stock-based compensation	-	-	-	1,184,499	-	1,184,499
Loss for the year	-	-	-	-	(3,732,162)	(3,732,162)
<b>Balance at June 30, 2007</b>	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 ( <b>note 7</b> )	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 ( <b>note 8</b> )	-	-	-	2,327,727	-	2,327,727
Loss for the year	-	-	-	-	(3,052,556)	(3,052,556)
<b>Balance at June 30, 2008</b>	57,959,751	\$ 37,187,034	\$ -	\$ 10,350,380	\$ (9,575,494)	\$ 37,961,920

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

**LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd.)****Consolidated Statements of Cash Flows**

(Canadian Dollars)

	Year ended June 30, 2008	Year ended June 30, 2007
<b>Cash provided by (used for):</b>		
<b>Operating activities</b>		
Loss for the year	\$ (3,052,556)	\$ (3,732,162)
Items not involving cash:		
Accretion, amortization and depletion	3,595	732
Stock-based compensation	2,327,727	1,184,499
Equity loss on investment	54,574	-
Write-down of property	428,129	2,326,759
Changes in non-cash operating working capital items:		
Receivables	(63,771)	1,736
Prepaid expenses	5,223	4,118
Accounts payable and accrued liabilities	56,423	26,843
	(240,656)	(187,475)
<b>Financing activities</b>		
Common shares issued for cash	26,472,425	1,471,336
Share subscriptions received	-	2,911,500
Share issue costs	(530,569)	-
Deferred financing costs	(99,373)	-
	25,842,483	4,382,836
<b>Investing activities</b>		
Purchase of investment	(5,144,722)	-
Purchase of property and equipment	(15,269,706)	(3,781,215)
	(20,414,428)	(3,781,215)
<b>Change in cash during the year</b>	5,187,399	414,146
<b>Cash, beginning of year</b>	3,371,579	2,957,433
<b>Cash, end of year</b>	\$ 8,558,978	\$ 3,371,579

**Supplemental cash flow information (note 12)**

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

# LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

(Canadian Dollars)

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## 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. During the year ended June 30, 2008, the Company changed its name to Lynden Energy Corp. in order to better reflect the nature of its ongoing business.

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.

## 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) 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.

### e) 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.

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

(Canadian Dollars)

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### 2. Significant Accounting Policies (cont'd)

f) 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.

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.

g) Comparative figures

Certain comparative figures have been reclassified to conform with the current years presentation.

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.

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

(Canadian Dollars)

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### 2. Significant Accounting Policies (cont'd)

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

#### *Accounting Policies Implemented on July 1, 2007*

a) Financial instruments

Effective July 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new Handbook Sections 1530 "*Comprehensive Income*" ("HB 1530"), 3855 "*Financial Instruments – Recognition and Measurement*" ("HB 3855"), 3861 "*Financial Instruments – Disclosure and Presentation*" ("HB 3861") and 3865 "*Hedges*" ("HB 3865").

The objective of these new standards is to account for more assets and liabilities at fair value, including derivatives (note 10).

HB 1530 establishes standards for reporting and display of comprehensive income (loss). Comprehensive income (loss) is defined as net income (loss) plus other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that are excluded from net income (loss), such as, unrealized gains and losses of available-for-sale securities.

HB 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and derivatives.

HB 3861 establishes standards for presentation of financial instruments and derivatives, and identifies the information that should be disclosed about them.

These standards require that financial assets be classified as either trading, available-for-sale, held-to-maturity or loans and receivables and financial liabilities be classified as either trading or other financial liabilities. Fair value is used for initial measurement for all classes. Fair value is used for subsequent measurement for all classes except for available-for-sale assets (where equity instruments do not have a quoted market price in an active market), loans and receivables and other financial liabilities where amortized cost using the effective interest method is used.

As at July 1, 2007 and June 30, 2008, the Company's financial instruments consisted of cash, receivables and accounts payable and accrued liabilities. These financial instruments are classified as follows:

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

(Canadian Dollars)

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### 3. Changes in Accounting Policies (cont'd)

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

Due to their immediate or short-term nature, the fair values of these financial instruments approximate their fair values.

As at July 1, 2007, there were no available-for-sale assets, derivative financial instruments or other financial instruments held-for-trading. Accordingly, there were no transitional adjustments in respect to these standards that were recorded to opening asset and liability balances and accumulated other comprehensive income (loss).

Gains and losses associated with items designated as trading are recorded in operations, separate from any interest or dividends earned on these items. Gains and losses associated with items designated as available-for-sale are recorded as unrealized within other comprehensive income (loss) until such time the item is disposed of or incurs a decline in fair value that is on an other than temporary basis, at which time any gains or losses are then realized and reclassified to operations.

HB 3865 establishes standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity's exposure to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item (or changes resulting from a particular risk exposure relating to those items). The Company has not undertaken hedging activities in the past or during the year ended June 30, 2008 and therefore the adoption of HB 3865 did not have any impact on the Company's financial position, operations or cash flows.

#### *Future Changes in Accounting Policies*

- b) Effective July 1, 2008 the Company will adopt 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. The adoption of this standard is not expected to impact the Company's financial position, operations or cash flows.
- c) Effective July 1, 2008 the Company will adopt 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. These new standards will supersede HB 3861 "*Financial Instruments – Disclosure and Presentation*". The adoption of these standards is not expected to impact the Company's financial position, operations or cash flows.
- d) 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 is not expected to impact the Company's future financial results.
- e) 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. The Company is currently evaluating the impact of the adoption of this new standard on its consolidated financial statements.
- f) 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 GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly accountable 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. For the Company, 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 assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

(Canadian Dollars)

### 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 from October 5, 2007 to June 30, 2008 was \$54,574.

### 5. Property and Equipment

	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	-
	<u>\$ 24,503,604</u>	<u>\$ 1,760</u>	<u>\$ 24,501,844</u>

	Cost	Accumulated Amortization	Net Book Value at June 30, 2007
Petroleum and natural gas properties	\$ 9,892,071	\$ -	\$ 9,892,071
Computer hardware	2,814	422	2,392
Computer software	620	310	310
	<u>\$ 9,895,505</u>	<u>\$ 732</u>	<u>\$ 9,894,773</u>

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

(Canadian Dollars)

### 5. Property and Equipment (cont'd)

#### Petroleum and Natural Gas Properties

	USA		Canada	Total
	Paradox Basin		Bittern Lake	
Balance at June 30, 2006	\$ 6,494,780	\$	2,799,590	\$ 9,294,370
Acquisition and expenditures	6,680,341		45,969	6,726,310
Sale of 25% working interest in the Paradox Basin - Northern Prospect	(3,801,850)		-	(3,801,850)
Write-down of property	-		(2,326,759)	(2,326,759)
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

#### 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, 2008, the Company received \$628,202 (2007 - \$Nil) 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 as at June 30, 2008.

#### 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 (2007 - \$2,326,759) to \$1.

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

(Canadian Dollars)

### 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 \$68,250 as at June 30, 2008 (2007 - \$141,000). These payments are expected to be made over the next 16 to 17 years. The Company used a 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, 2006	\$	-
Liabilities incurred		23,589
<hr/>		
Balance at June 30, 2007		23,589
Liabilities incurred		18,811
Disposition of liabilities		(17,961)
Accretion expense		2,567
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Balance at June 30, 2008	\$	27,006

### 7. Share Capital

#### a) Authorized

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

#### b) During the years ended June 30, 2008 and 2007, 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.

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

(Canadian Dollars)

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### 7. Share Capital (cont'd)

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 20<sup>th</sup> 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.

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.

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

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(Canadian Dollars)

### 7. Share Capital (cont'd)

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.

- c) Warrants:

	Warrants	Weighted-average exercise price	Weighted-average remaining life (years)
Balance at June 30, 2006	14,615,440	\$0.95	0.7
Exercised	(1,471,336)	1.00	
Expired	(10,121,977)	0.89	
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

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### 7. Share Capital (cont'd)

Warrants exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2008
July 9, 2009	\$1.25	6,405,750
<sup>1</sup> July 12, 2009	\$1.25	3,420,046
September 21, 2009	\$1.50	2,048,700
October 12, 2009	\$1.50	224,050
April 15, 2009/April 15, 2010	\$1.00/\$1.25	2,500,000
June 11, 2009/June 11, 2010	\$1.75/\$2.00	2,786,250
		<u>17,384,796</u>

<sup>1</sup>These warrants will expire, subject to TSX-V approval, on July 12, 2011 if the Company becomes a TSX-V Tier 1 issuer. Also, if the daily trading price of the Company's common shares is at least \$2.50 on 20 consecutive days, the warrants will be deemed to be exercised on the 20<sup>th</sup> day, subject to receipt of required regulatory approvals, if any.

### 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. 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, 2006	950,000	\$0.64	4.1
Cancelled	(7,000)	0.75	
Granted	1,560,000	1.00	
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

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

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### 8. Stock Options (cont'd)

Stock options exercisable and outstanding are as follows:

Expiry Date	Exercise Price	2008
July 21, 2010	\$0.51	400,000
July 25, 2010	\$0.51	-
August 7, 2010	\$0.75	450,000
September 1, 2010	\$0.75	9,000
June 5, 2012	\$1.00	1,545,000
July 22, 2012	\$1.30	790,000
October 14, 2012	\$1.30	640,000
April 27, 2013	\$1.40	875,000
		<u>4,709,000</u>

#### b) Stock-based compensation

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.

During the year ended June 30, 2007, the Company granted 1,560,000 stock options with a compensation cost of \$1,184,499. The Company calculated the compensation cost by using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 4.6%, a dividend yield of nil, an expected volatility of the Company's share price of 99% and expected life of the stock options of 5 years. The weighted average fair value of stock options granted was \$0.76 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:

- paid or accrued \$98,000 (2007 - \$76,000) for administrative fees to a company controlled by the President and CEO of the Company;
- paid or accrued \$18,040 (2007 - \$10,019) for legal fees to a legal firm where a director of the Company is an associate counsel;
- paid or accrued \$33,372 (2007 - \$Nil) for share issue costs (legal fees) to a legal firm where a director of the Company is an associate counsel;
- paid or accrued \$9,316 (2007 - \$Nil) for consulting fees, which are included in property and equipment, to companies controlled by directors of the Company;
- paid or accrued \$27,674 (2007 - \$Nil) for consulting fees to a director and companies controlled by directors of the Company; and
- paid or accrued \$Nil (2007 - \$10,675) for consulting fees to a shareholder who controlled or directed more than 10% of the Company's common shares.

## LYNDEN ENERGY CORP. (formerly Lynden Ventures Ltd).

Notes to the Consolidated Financial Statements

June 30, 2008

(Canadian Dollars)

### 9. Related Party Transactions (cont'd)

Accounts payable and accrued liabilities include \$48,964 (2007 - \$16,152) owing to directors and companies controlled by directors as at June 30, 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.

The Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities.

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 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.

### 11. 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:

	2008	2007
Potential income tax recovery based on reported loss	\$ 1,001,544	\$ 1,310,734
Effect of non-deductible expenses	(934,038)	(1,233,962)
Share issuance costs	155,996	60,924
Unrecognized benefit of non-capital losses	(223,502)	(137,696)
	\$ -	\$ -

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

	2008	2007
Future income tax assets		
Non-capital losses carried forward	\$ 617,000	\$ 737,000
Other assets	566,000	881,000
Valuation allowance for future income tax assets	(1,183,000)	(1,618,000)
	\$ -	\$ -

The Company has accumulated non-capital losses of approximately \$600,000 which may be deducted in the calculation of taxable income in future years. The losses expire on various dates to 2028.

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### 11. Income Taxes (cont'd)

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.

### 12. Supplemental Cash Flow Information

	<u>2008</u>	<u>2007</u>
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	-	-
Net revenues credited to property and equipment included in receivables	407,830	-
Purchases of property and equipment included in payables	638,928	465,426
Share issue costs paid in shares and units	979,325	-
Stock-based compensation transferred to share capital on exercise of stock options	44,988	-
Asset retirement obligations included in property and equipment	850	23,589
Sold a 25% interest in property in exchange for debt and expenses	-	3,801,850
Allocation of share subscriptions to common shares	2,911,500	-
Allocation for warrants on issuance of units	5,312,341	-

### 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:

	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
Canada	\$ 1,675	\$ 521,502
United States of America	24,500,169	9,373,271
	<u>\$ 24,501,844</u>	<u>\$ 9,894,773</u>