

# **Lynden Ventures Ltd.**

## **Quarterly Consolidated Financial Statements For The Three Months Ended September 30, 2007 (Unaudited)**

### Notice to Reader

The accompanying unaudited interim consolidated financial statements of Lynden Ventures Ltd. ("the Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the Company's unaudited interim consolidated financial statements as at and for the three months ended September 30, 2007.

**LYNDEN VENTURES LTD.****Consolidated Balance Sheets**

(Unaudited)

(Canadian Dollars)

	September 30, 2007	June 30, 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 12,668,603	\$ 3,371,579
Receivables	104,129	3,659
Prepaid expenses	2,096	5,223
	12,774,828	3,380,461
<b>Property and equipment (note 4)</b>	17,548,105	9,894,773
	\$ 30,322,933	\$ 13,275,234
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,035,397	\$ 506,752
<b>Asset retirement obligations (note 5)</b>	28,334	23,589
	1,063,731	530,341
<b>Shareholders' equity</b>		
Share capital (note 6)	28,960,465	13,601,031
Share subscriptions (note 6)	-	2,911,500
Warrants	4,105,620	-
Contributed surplus	3,543,657	2,755,300
Deficit	(7,350,540)	(6,522,938)
	29,259,202	12,744,893
	\$ 30,322,933	\$ 13,275,234

**Nature of operations (note 1)****Subsequent events (note 11)****Approved by the Directors:**"Colin Watt""Ron Paton"

**LYNDEN VENTURES LTD.****Consolidated Statements of Operations and Deficit**

(Unaudited)

(Canadian Dollars)

	Three months ended September 30,	
	2007	2006
<b>Revenues</b>		
Petroleum and natural gas sales	\$ 63,441	\$ -
Royalties	(9,596)	-
	53,845	-
<b>Expenses</b>		
Accretion, amortization and depletion	44,912	-
Administrative fees	22,000	19,000
Consulting fees	40,440	-
Filing, listing and transfer agent fees	5,950	1,134
Foreign currency translation	34,981	(4,533)
Office and miscellaneous	3,159	1,820
Professional fees	4,601	1,089
Promotion	2,495	-
Stock-based compensation (note 7)	792,803	-
Transportation and marketing costs	7,568	-
Travel	18,321	-
	(977,230)	(18,510)
<b>Other item</b>		
Interest income	95,783	16,655
<b>Loss for the period</b>	(827,602)	(1,855)
<b>Other comprehensive income (loss)</b>	-	-
<b>Comprehensive loss for the period</b>	\$ (827,602)	\$ (1,855)
<b>Basic and diluted loss per common share</b>	\$ (0.02)	\$ -
<b>Weighted average number of common shares outstanding</b>	43,700,424	23,565,923

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

**LYNDEN VENTURES LTD.****Consolidated Statements of Shareholders' Equity**

(Unaudited)

(Canadian Dollars)

	Common Shares		Share Subscriptions	Warrants	Contributed Surplus	Deficit	Total
	Number	Amount					
<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 for cash:							
Private placements (note 6)	24,298,992	15,670,128	(2,911,500)	4,185,012	-	-	16,943,640
Share issue costs on private placements	-	(326,765)	-	(79,392)	-	-	(406,157)
Exercise of warrants	3,900	4,875	-	-	-	-	4,875
Exercise of stock options	9,000	11,196	-	-	(4,446)	-	6,750
Stock-based compensation (note 7)	-	-	-	-	792,803	-	792,803
Loss for the period	-	-	-	-	-	(827,602)	(827,602)
<b>Balance at September 30, 2007</b>	<b>49,349,151</b>	<b>\$ 28,960,465</b>	<b>\$ -</b>	<b>\$ 4,105,620</b>	<b>\$ 3,543,657</b>	<b>\$ (7,350,540)</b>	<b>\$ 29,259,202</b>

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

**LYNDEN VENTURES LTD.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)  
(Canadian Dollars)

<b>Cash provided by (used for):</b>	Three months ended September 30,	
	2007	2006
<b>Operating activities</b>		
Loss for the period	\$ (827,602)	\$ (1,855)
Item not involving cash:		
Accretion, amortization and depletion	44,912	-
Stock-based compensation	792,803	-
Changes in non-cash operating working capital items:		
Receivables	(100,470)	4,076
Advances for exploration	-	618
Prepaid expenses	3,127	-
Accounts payable and accrued liabilities	30,797	(1,319,603)
	(56,433)	(1,316,764)
<b>Financing activities</b>		
Common shares issued for cash	16,955,265	-
Share issue costs	(406,157)	-
	16,549,108	-
<b>Investing activities</b>		
Property and equipment	(7,195,651)	(403,021)
<b>Change in cash and cash equivalents during the period</b>	9,297,024	(1,719,785)
<b>Cash and cash equivalents, beginning of period</b>	3,371,579	2,957,433
<b>Cash and cash equivalents, end of period</b>	\$ 12,668,603	\$ 1,237,648
<b>Cash and cash equivalents consists of:</b>		
Cash	\$ 7,644,493	\$ 377,557
Guaranteed Investment Certificates	5,024,110	860,091
	\$ 12,668,603	\$ 1,237,648
<b>Cash paid for:</b>		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
<b>Supplemental cash flow information:</b>		
Purchases of property and equipment included in payables	\$ 963,274	\$ 2,026,627
Share issue costs paid in shares and units	\$ 950,075	\$ -
Stock-based compensation transferred to share capital on exercise of stock options	\$ 4,446	\$ -
Asset retirement obligations included in property and equipment	\$ 4,210	\$ -

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

# LYNDEN VENTURES LTD.

Notes to the Consolidated Financial Statements

September 30, 2007

(Unaudited)

(Canadian Dollars)

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## 1. Nature of Operations

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

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

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three month period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended June 30, 2008. The balance sheet at June 30, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

## 2. Significant Accounting Policies

These interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual financial statements for the year ended June 30, 2007 (except as described in note 3). For further information, refer to the financial statements and notes thereto included in the Company's Annual Report to Shareholders for the year ended June 30, 2007.

## 3. Changes in Accounting Policies

Effective July 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants 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 non-financial derivatives (note 8).

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 non-financial derivatives.

HB 3861 establishes standards for presentation of financial instruments and non-financial 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.

The adoption of these standards has resulted in the Company recognizing available-for-sale investments and all derivative and other financial instruments held for trading as assets or liabilities at fair value. As at July 1, 2007, there were no available-for-sale assets, derivative financial instruments or other financial instruments held for trading. Accordingly, there

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were no transitional adjustments in respect to these standards that were recorded to opening asset and liability balances and accumulated other comprehensive income (loss).

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

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 three months ended September 30, 2007 and therefore the adoption of HB 3865 did not have any impact on the Company's financial position, operations or cash flows.

### 4. Property and Equipment

	Computer Hardware & Software	Petroleum & Natural Gas Properties	Total
Balance at June 30, 2007	\$ 2,702	\$ 9,892,071	\$ 9,894,773
Acquisitions, exploration and purchases	-	7,697,710	7,697,710
	2,702	17,589,781	17,592,483
Amortization and depletion	(257)	(44,121)	(44,378)
Balance at September 30, 2007	\$ 2,445	\$ 17,545,660	\$ 17,548,105

#### Petroleum and Natural Gas Property Interests

	Paradox Basin	Bittern Lake	Total
Balance at June 30, 2007	\$ 9,373,271	\$ 518,800	\$ 9,892,071
Acquisition and exploration	7,690,502	7,208	7,697,710
	17,063,773	526,008	17,589,781
Less: depletion	(44,121)	-	(44,121)
Balance at September 30, 2007	\$ 17,019,652	\$ 526,008	\$ 17,545,660
Proven	\$ 7,322,715	\$ -	\$ 7,322,715
Unproven	9,696,937	526,008	10,222,945
	\$ 17,019,652	\$ 526,008	\$ 17,545,660

#### 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 located in the Paradox Basin, Utah.

During the three months ended September 30, 2007, the Company acquired 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 for USD\$5,000,000.

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(Unaudited)

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

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.

### 5. Asset Retirement Obligations

The total asset retirement obligations were estimated by management based on the Company's net ownership interest in all wells, estimated costs to reclaim and abandon the wells and the estimated timing of the costs to be incurred in future periods. The Company has estimated the total asset retirement obligation to be \$157,000 as at September 30, 2007 (June 30, 2007 - \$141,000). These payments are expected to be made over the next 17 to 24 years. The Company used a credit adjusted risk free rate of 8.5% and a weighted-average inflation rate of 2.3% to calculate the present value of the asset retirement obligations.

Balance at June 30, 2007	\$	23,589
Liabilities incurred		4,210
Accretion expense		535
Balance at September 30, 2007	\$	28,334

### 6. Share Capital

During the three months ended September 30, 2007, the Company completed the following private placements:

- a) 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.

- b) 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 close price of the Company's common shares

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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.

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

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.

- c) On September 21, 2007, the Company closed the first part (note 11c) 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.

### 7. Stock Options

During the three months ended September 30, 2007, the Company granted 790,000 stock options with a compensation cost of \$792,803. The Company calculated the compensation cost by using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 4.53%, a dividend yield of nil, an expected volatility of the Company's share price of 101.65% and expected life of the stock options of 5 years. The weighted average fair value of stock options granted was \$1.00 per option.

### 8. 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 three month periods ended September 30:

- a) paid or accrued \$22,000 (2006 - \$19,000) for administration fees to a company controlled by the President and CEO of the Company;
- b) paid or accrued \$4,204 (2006 - \$807) for legal fees to a legal firm where a director of the Company is an associate counsel;
- c) paid or accrued \$16,064 (2006 - \$Nil) for share issue costs (legal fees) to a legal firm where a director of the Company is an associate counsel; and
- d) paid or accrued \$1,268 (2006 - \$Nil) for consulting fees, which are included in property and equipment, to a company controlled by a director of the Company.

Accounts payable and accrued liabilities include \$2,672 (June 30, 2007 - \$16,152) owing to related parties as at September 30, 2007.

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## 9. Financial Instruments

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

As at September 30, 2007, the Company's financial instruments are cash and cash equivalents, receivables, and accounts payable and accrued liabilities. The amounts reflected in the balance sheet are carrying amounts and approximate their fair values due to the short-term nature and negligible credit losses.

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

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

## 10. 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:

	September 30, 2007	June 30, 2007
Canada	\$ 528,453	\$ 521,502
United States of America	17,019,652	9,373,271
	<u>\$ 17,548,105</u>	<u>\$ 9,894,773</u>

## 11. Subsequent Events

Subsequent to September 30, 2007, the Company:

- a) 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 has a 43.806% interest in Abajo through an initial capital contribution of USD \$2,935,000. Abajo holds ownership of the gas gathering systems in the Northern and Southern Prospect Areas of the Company's Paradox Basin Project. 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% of the revenues and expenses attributable to the construction, operation, maintenance and expansion of the gas gathering system in the Southern Prospect Area.
- b) granted 640,000 stock options to certain of its directors, officers, employees and consultants. The stock options are exercisable at a price of \$1.30 per common share and expire on October 14, 2012.
- c) closed the second part (note 6c) 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 and each whole warrant will entitle the holder to purchase one additional common share at a price of \$1.50 until October 12, 2009.