

## LYNDEN ENERGY CORP.

Management Discussion and Analysis  
For the Six Months Ended December 31, 2008

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The following discussion and analysis of the consolidated results of operations and financial condition (“**MD&A**”) for Lynden Energy Corp. (the “**Company**”) should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended December 31, 2008 and related notes thereto. The financial information in this MD&A is derived from the Company’s unaudited interim consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. References in this MD&A to the Company include its subsidiaries. The effective date of this MD&A is February 26, 2009.

For the purposes of this MD&A, the following terms are defined as follows:

|                |                                       |
|----------------|---------------------------------------|
| Q1/2009        | Three months ended September 30, 2008 |
| Q2/2009        | Three months ended December 31, 2008  |
| Q3/2009        | Three months ended March 31, 2009     |
| Q1/2008        | Three months ended September 30, 2007 |
| Q2/2008        | Three months ended December 31, 2007  |
| Q3/2008        | Three months ended March 31, 2008     |
| Current Period | Six months ended December 31, 2008    |
| Prior Period   | Six months ended December 31, 2007    |

This MD&A may contain forward looking statements based on assumptions and judgments of management regarding events or results that may prove to be inaccurate as a result of risk factors beyond its control. Actual results may differ materially from the expected results.

All monetary transactions are expressed in Canadian dollars unless otherwise stated.

### Description of Business

The Company is in the business of acquiring, exploring and developing petroleum and natural gas rights and properties. The Company has various working interests in the Paradox Basin Project, located in the State of Utah, USA and has a working interest in the Bittern Lake Project, located in the Province of Alberta, Canada. The Company’s focus is its Paradox Basin Project. There are no other operating segments.

The Company is a reporting issuer in British Columbia, Ontario and Alberta and its shares are listed on the TSX Venture Exchange under the symbol LVL.

The Company’s general and administrative expenditures are related to the level of financing and exploration and development activities that are being conducted, which may in turn depend on the Company’s recent exploration and development activities and prospects, as well as general market conditions relating to the availability of funding for early stage exploration and development natural resource companies. As a result, the Company does not acquire properties or conduct exploration and development work on its properties on a pre-determined basis. Thus, there may not be predictable or observable trends in the Company’s business activities and comparisons of financial operating results with prior years may not be meaningful.

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### **Risks and Uncertainties**

The Company's principal activity of petroleum and natural gas exploration and development is considered to be inherently risky. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, commodity price, political and economic, with some of the most significant risks being:

1. Substantial expenditures are required to explore for petroleum and natural gas reserves and there is no assurance that the Company will discover economic reserves;
2. The junior resource market, where the Company raises funds, is extremely volatile and there is no guarantee that the Company will be able to raise funds as it requires them;
3. Although the Company has taken steps to verify title to the petroleum and natural gas properties it has an interest in or is earning into, there is no guarantee that the property will not be subject to title disputes or undetected defects; and
4. The Company is subject to the laws and regulations relating to environmental matters, including provisions relating to reclamation, discharge of hazardous material and other matters. The Company's exploration and development activities are conducted by partners and/or operators who are in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to its properties that may cause material liability to the Company.

### **Petroleum and Natural Gas Projects**

#### Paradox Basin, Utah

The Paradox Basin Project includes two contiguous petroleum and natural gas prospect areas totaling 1,525,000 acres. The 900,000 acre Northern Prospect Area includes leases covering in excess of 100,000 acres. The Company has a 55% before payout working interest (41.25% after payout working interest) in an 80% net revenue interest in the Northern Prospect Area. The 625,000 acre Southern Prospect Area includes leases covering in excess of 10,000 acres. 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 Southern Prospect Area.

The operator, a middle tier Texas-based petroleum and natural gas company, is targeting gas production from multiple conventional zones of the Paradox Formation, as well as dark, organic shales. The operator's exploitation program is based on commingling production from multiple zones, a practice successfully pursued by other operators in the Basin.

The Paradox Basin, located primarily in southeast Utah and southwest Colorado, is a significant petroleum and natural gas producing basin in the continental United States. Well-known large fields in the Paradox Basin include, among others, the Greater Aneth, Andy's Mesa and Lisbon. The majority of historical exploration and production from the basin has involved oil production from algal mounds. New exploration models, based primarily on the commingling of multiple, previously bypassed, gas zones were applied to the basin on a larger scale beginning in 2004.

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The Company's interest in the Paradox Basin Project is held through its wholly owned subsidiary, Lynden USA Inc. The Company's interest in the gas gathering system, including approximately 25 miles of pipeline, is held through its 47.99% interest in Abajo Gas Transmission Company, LLC ("Abajo"). Through its interest in Abajo, the Company is entitled to an effective 55% interest in the Northern Prospect Area gathering system and a 25% effective interest in the Southern Prospect Area gathering system.

In the Northern Prospect Area there are five wells (S.P. Meyer #1, Raider #1-17, Anteater #1-21X, Chanticleer #1-32 and Explorer #1-16) tied into sales. In the Southern Prospect Area there are four wells (Tank Canyon #1-19, Bradford Canyon #1-10, Spur #1-34 and Montezuma #2X) tied into sales.

During the Current Period, the Company received \$789,563 (2007 - \$160,799) in petroleum and natural gas ("P&NG") sales, incurred royalties of \$149,180 (2007 - \$24,226), and incurred transportation and marketing costs of \$109,566 (2007 - \$15,857). The transportation and marketing costs were paid to Abajo at market rates. The majority of the P&NG sales were from the sale of natural gas. Each of the wells contributed to the sales during the six months ended December 31, 2008. However, the S.P. Meyer and the Tank Canyon wells were the primary contributors to sales while the other wells contributed to sales intermittently.

During the Current Period, the Company incurred approximately \$2,635,601 of direct expenditures on the Paradox Basin Project, of which approximately \$2,479,494 was spent in the Northern Prospect Area and approximately \$156,107 was spent in the Southern Prospect Area.

Efforts during the six months ended December 31, 2008 and to the date of this report have been focused on completion work on the Anteater #1-21X, Chanticleer #1-32, Explorer #1-16 and Raider #1-17. The primary focus of the ongoing program, which is expected to be completed in Q3/2009, is the testing of up-hole zones of the Paradox Formation stratigraphic sequence not yet completed in the Northern Prospect new wells. The pace of work, and consequently expenditures, has decreased in the months of November, December and January primarily as a result of operations being scheduled in an effort to avoid the worst periods of winter weather.

During the six months ended December 31, 2008 the operator has purchased, re-processed and interpreted additional seismic data and undertook other efforts to better understand the geology, structural setting and depositional model. The Company does not expect the operator to present a program to carry out additional up-hole completions and / or new wells targeting up-hole zones until the ongoing program has been completed and results evaluated. The operator will be undertaking operations to optimize production from several of the Paradox Basin Project wells.

In addition to the ongoing work on the up-hole zones described above, efforts have also been expended to advance the development of the two prospective shale zones that have been previously tested in vertical wells. It is believed that the next step in the evaluation of these shales, which are interpreted to be regionally extensive, is to test their productive potential in horizontal wells. The cost of this next stage of work on the shales has not been established, however the operator, the Company and the other working interest partners are exploring the potential of seeking additional financial and / or technical partners to most effectively advance this opportunity. Significantly, additional encouraging results from the same shales have been recently reported by a senior Rocky Mountain producer operating nearby.

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Based on an interpretation of the information available as at the date of the preparation of the financial statements for the six months ended December 31, 2008, Management has determined that the Paradox Basin Project is still in the pre-production stage. Accordingly, the \$530,817 of net P&NG revenues (revenues less royalties and transportation and marketing costs) received during the Current Period were credited to property and equipment. The determination that the project is in the pre-production stage is in contrast to the determination made in the reporting of the Prior Period where the net P&NG revenues totaling \$120,716 were reported as income. This change has resulted in the Q2/2008 financial statements being revised at the time of filing the Q2/2009 financial statements to show the net Q2/2008 P&NG revenues credited to property and equipment.

During fiscal 2009 there has been a significant decrease in the market price of both natural gas and oil. The long term impact of these price changes on the Paradox Basin Project has not been determined.

### **Results of Operations**

The Company reported a loss of \$605,594 (2007 - \$1,795,546) and a loss per share of \$0.01 (2007 - \$0.04) for the six months ended December 31, 2008. The large difference is primarily due to the Company not incurring any stock-based compensation during the Current Period whereas it incurred \$1,378,975 of stock-based compensation during the Prior Period from the grant of 1,430,000 stock options.

#### *General and Administrative*

Differences in general and administrative expenses during Q2/2009 compared to Q2/2008 included:

- Administrative fees increased by \$13,000 in the Current Period because of increased business activities. The fees comprise accounting, secretarial and general administrative services.
- Of the \$284,975 (2007 - \$56,205) in consulting fees incurred during the Current Period, \$276,972 (2007, - \$Nil) was paid to the Chairman of the Board of Directors. The fees paid to the Chairman relate to the finalization of a consulting contract in December 2008, for the period from his appointment in April 2008. The consulting fees also include a bonus in the amount of USD \$70,000 for the agreement year ending December 31, 2008. The Chairman is currently paid USD \$15,000 per month.
- Foreign currency translation relates to the impact of fluctuations in the Canadian/US Dollar exchange rates on USD denominated purchases as well as cash held in USD. For the Current Period, the majority of the \$53,398 foreign currency loss relates to losses incurred on USD denominated purchases during a period where the US Dollar was increasing in value against the Canadian Dollar. For the Prior Period, the majority of the \$376,972 foreign currency loss relates to a loss on the translation of the Abajo investment and losses on cash held in US Dollars during the period from the increasing value of the Canadian Dollar against the US Dollar.
- Professional fees include audit and accounting of \$26,500 (2007 - \$15,046) and legal of \$5,870 (2007 - \$12,827). Audit and accounting has increased due to the increasing complexity and size of the Company's business.

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- Promotion increased by \$18,629 during the Current Period because the Company incurred approximately \$21,000 for the professionally designed 2008 annual report. This is the first year that the Company has prepared a professionally designed annual report.
- The Company uses the fair value based method of accounting for all stock-based awards. As a result, every time the Company grants or amends stock options, a charge to operations and a corresponding credit to shareholders' equity must be made. The Company calculates the compensation cost by using the Black-Scholes option pricing model. The Company granted Nil (2007 – 1,430,000) stock options in the Current Period resulting in compensation expense of \$Nil (2007 – \$1,378,975).
- The Company incurred travel costs of \$17,906 (2007 - \$38,299) during the Current Period. Travel has decreased in the Current Period as the Company was not undertaking a financing.

#### *Other Items*

- The Company has earned interest income as a result of investing cash on hand in guaranteed investment certificates and from cash deposits. The Company earned \$102,806 (2007 - \$172,703) of interest during the Current Period. The Company had more cash on hand during the Prior Period which resulted in higher interest income.
- As at December 31, 2008, the Company has a 47.99% interest in Abajo. The Company accounts for this investment using the equity method. The Company's share of Abajo's loss was \$199,928 (2007 - \$4,230) for the Current Period. The loss incurred for the Prior Period was considerably less than the Current Period as Abajo was just commencing operations in Q2/2008.

#### **Financial Condition, Liquidity and Capital Resources**

As at December 31, 2008, the Company had working capital of \$5,796,925 compared to working capital of \$8,297,561 as at June 30, 2008. This \$2,500,636 decrease in working capital is primarily related to purchases of property and equipment of \$1,909,394 and general and administrative expenses of \$507,112.

Major sources of cash during the Current Period were 1) exercise of 12,500 warrants into 12,500 common shares for proceeds of \$15,625; 2) interest income of \$102,806; and 3) the receipt of petroleum and natural gas sales of \$397,384 net of royalties and transportation and marketing costs.

Major uses of cash during the Current Period were 1) \$1,909,394 of exploration, development and land acquisition costs; and 2) \$507,112 of general and administrative expenditures.

It is expected that current working capital will be principally used for the advancement of the Paradox Basin Project. The next phase of work on the Paradox Basin Project has not been determined at this time (see discussion of Paradox Basin Project above). However, given the pace of expenditures in prior years, the Company may need to seek additional funding in calendar 2009 to fund capital expenditures on the Paradox Basin Project and to fund general and administrative expenses.

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**Financial Instruments**

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.

**Off-Balance Sheet Arrangements**

The Company has not engaged in any off-balance sheet arrangements such as obligations under guarantee contracts, a retained or contingent interest in assets transferred to an unconsolidated entity, any obligation under derivative instruments or any obligation under a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company or engages in leasing or hedging services with the Company.

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**Summary of Quarterly Information**

The following selected financial data has been prepared in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the Company's audited financial statements. All dollar amounts are in Canadian dollars.

| Fiscal Quarter Ended            | Interest<br>Income | Earnings/<br>(Loss) | Basic &<br>Diluted<br>Earnings/<br>(Loss)/Share |
|---------------------------------|--------------------|---------------------|---|
| December 31, 2008               | \$ 44,262          | \$ (511,804)        | \$ (0.01)                                       |
| September 30, 2008              | \$ 58,544          | \$ (93,790)         | \$ -  |
| June 30, 2008                   | \$ 44,358          | \$ (1,288,121)      | \$ (0.02)                                       |
| March 31, 2008 <sup>1</sup>     | \$ 58,261          | \$ 31,111           | \$ -  |
| December 31, 2007 <sup>1</sup>  | \$ 76,920          | \$ (965,788)        | \$ (0.02)                                       |
| September 30, 2007 <sup>1</sup> | \$ 95,783          | \$ (829,758)        | \$ (0.02)                                       |
| June 30, 2007                   | \$ 2,100           | \$ (3,524,869)      | \$ (0.15)                                       |
| March 31, 2007                  | \$ 331             | \$ (39,810)         | \$ -  |

<sup>1</sup>The losses in these periods have been revised to correspond with crediting of the net P&NG revenues against the property and equipment. These changes resulted in an increase to loss and a decrease to property and equipment of \$2,156 and \$12,689 for Q1/2008 and Q2/2008 respectively and a decrease to earnings and a decrease to property and equipment of \$35,880 for Q3/2008. These revisions are being reported in the comparative Q1/2008, Q2/2008 and Q3/2008 financial statements at the time of filing the Q1/2009, Q2/2009 and Q3/2009 financial statements.

The quarterly earnings/losses vary considerably mainly due to foreign currency fluctuations, granting of stock options and write-down of petroleum and natural gas property interests. The Company's general and administrative expenditures generally fluctuate with the level of activity on its projects and/or financing activities that are being undertaken. The majority of the loss for the six months ended June 30, 2008 relates to stock-based compensation of \$948,742 pursuant to the granting of stock options and the write-down of the Bittern Lake property of \$428,129. The majority of the loss for the three months ended December 31, 2007 and September 30, 2007 relates to stock-based compensation of \$586,172 and \$792,803 respectively pursuant to the granting of stock options. The loss for the three months ended June 30, 2007 is much larger compared to other quarters primarily due to the issuance of stock options and write-down of the Bittern Lake property. The Company's interest income increased considerably in the four fiscal quarters of 2008 due to closing five private placements and having cash on hand to invest in guaranteed investment certificates.

**Related Party Transactions**

During the Current Period, administrative fees of \$59,000 (2007 - \$46,000) were paid or accrued to a company owned by Mr. Colin Watt, the Company's President, CEO and a director. Mr. Watt's company provides the services of several employees that provide accounting, secretarial and administrative services to the Company.

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During the Current Period, legal fees of \$5,255 (2007 - \$35,726) were paid or accrued to a legal firm in which Mr. Ron Paton, a director of the Company, is an associate counsel. Of this amount, \$5,255 (2007 - \$11,637) was charged to legal fees and \$Nil (2007 - \$24,089) was charged to share capital as share issuance costs.

During the Current Period, consulting fees of \$5,977 (2007 - \$3,648) were paid or accrued to a company owned by Mr. Bob Bereskin, a director of the Company. Of this amount, \$3,003 (2007 - \$1,041) was charged to consulting fees and \$2,974 (2007 - \$2,607) was charged to property, plant and equipment as consulting fees.

During the Current Period, consulting fees of \$276,972 (2007 - \$Nil) were paid or accrued to Mr. Richard Andrews, a director and Chairman of the Board of Directors of the Company.

### Outstanding Share Data

As at February 26, 2009, the Company had the following securities issued and outstanding:

|                       | Number            | Exercise Price | Expiry Date         |
|-----------------------|-------------------|----------------|---------------------|
| Common shares         | 57,972,251        | n/a            | n/a                 |
| Warrants              | 6,393,250         | \$1.25         | July 9, 2009        |
| Warrants <sup>1</sup> | 3,420,046         | \$1.25         | July 12, 2009       |
| Warrants              | 2,048,700         | \$1.50         | September 21, 2009  |
| Warrants              | 224,050           | \$1.50         | October 12, 2009    |
| Warrants              | 2,500,000         | \$1.00/\$1.25  | April 15, 2009/2010 |
| Warrants              | 2,786,250         | \$1.75/\$2.00  | June 11, 2009/2010  |
| Stock options         | 400,000           | \$0.51         | July 21, 2010       |
| Stock options         | 450,000           | \$0.75         | August 7, 2010      |
| Stock options         | 9,000             | \$0.75         | September 1, 2010   |
| Stock options         | 1,545,000         | \$1.00         | June 5, 2012        |
| Stock options         | 790,000           | \$1.30         | July 22, 2012       |
| Stock options         | 640,000           | \$1.30         | October 14, 2012    |
| Stock options         | 875,000           | \$1.40         | April 27, 2013      |
| <b>Fully Diluted</b>  | <b>80,053,547</b> |                |                     |

<sup>1</sup> These warrants will expire, subject to TSX Venture Exchange approval, on July 12, 2011 if the Company becomes a TSX Venture Exchange 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.

### Changes in Accounting Policies

Effective July 1, 2008, the Company adopted the CICA Handbook Section 1535 "Capital Disclosures" ("HB 1535"). The objective of this new standard is to disclose information concerning the Company's capital and how it is managed. The adoption of this standard had no effect on the Company's financial position, operations or cash flows.

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Effective July 1, 2008, the Company adopted the CICA Handbook Sections 3862 "*Financial Instruments – Disclosures*" ("HB 3862") and 3863 "*Financial Instruments – Presentation*" ("HB 3863"). The objective of these new standards is to provide more information for users of the Company's financial statements to understand the significance of financial instruments to the Company's financial position, performance and cash flows. 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.

Effective July 1, 2008, the Company will adopt the CICA Handbook Section 1400 "*General Standards of Financial Statement Presentation*" ("HB 1400"). The objective of this standard is to include requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. This new standard has not impacted the Company's financial position, operations or cash flows.

Effective July 1, 2008, the Company will adopt the CICA Handbook Section 3064 "*Goodwill and Intangible Assets*" ("HB 3064"). HB 3064 replaces CICA Handbook Section 3062 "*Goodwill and Other Intangible Assets*" ("HB 3062") and CICA Handbook Section 3450 "*Research and Development Costs*". HB 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous HB 3062. This new standard has not impacted the Company's financial position, operations or cash flows.

### International Financial Reporting Standards

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 changeover date applies to 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.

### Directors and Officers

|                 |                             |
|-----------------|-----------------------------|
| Richard Andrews | Director, Chairman          |
| Colin Watt      | Director, President and CEO |
| Robert Bereskin | Director                    |
| Ron Paton       | Director                    |
| John McLennan   | Director                    |
| Laurie Sadler   | CFO                         |

### Additional Information

Additional information relating to the Company's operations and activities can be found by visiting the Company's website at [www.lyndenenergy.com](http://www.lyndenenergy.com) or by visiting SEDAR at [www.sedar.com](http://www.sedar.com).