

Lynden Energy Corp.

**Quarterly Consolidated Financial Statements
For The Six Months Ended December 31, 2009
(Unaudited)**

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Lynden Energy Corp. (“the Company”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of the Company’s unaudited interim consolidated financial statements as at and for the six months ended December 31, 2009.

LYNDEN ENERGY CORP.

Consolidated Balance Sheets

(Unaudited)

(Canadian Dollars)

	December 31, 2009	June 30, 2009
ASSETS		
Current assets		
Cash	\$ 3,161,071	\$ 4,974,440
Receivables	97,076	92,463
Prepaid expenses	6,635	-
	3,264,782	5,066,903
Investment (note 3)	4,527,061	4,740,567
Property and equipment (note 4)	29,100,302	27,303,560
	\$ 36,892,145	\$ 37,111,030
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 581,213	\$ 322,902
Asset retirement obligations (note 5)	59,813	29,249
	641,026	352,151
Shareholders' equity		
Share capital	37,206,541	37,206,541
Treasury shares held (note 6)	(19,975)	(19,975)
Contributed surplus	10,597,451	10,346,498
Deficit	(11,532,898)	(10,774,185)
	36,251,119	36,758,879
	\$ 36,892,145	\$ 37,111,030

Nature of operations (note 1)

Subsequent event (note 13)

Approved by the Directors:

"Colin Watt"

"Ron Paton"

LYNDEN ENERGY CORP.

Consolidated Statements of Operations

(Unaudited)

(Canadian Dollars)

	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
Expenses				
Accretion and amortization	\$ 1,212	\$ 686	\$ 1,894	\$ 1,360
Administrative fees	35,000	32,000	65,000	59,000
Consulting fees	65,419	241,856	132,466	284,975
Filing, listing and transfer agent fees	2,066	10,578	2,907	12,853
Foreign currency translation	138	58,207	148	53,398
Office and miscellaneous	25,765	19,614	27,957	22,268
Professional fees	19,931	31,190	21,862	32,370
Promotion	13,580	24,114	14,501	24,342
Rent	3,000	-	6,000	-
Stock-based compensation (note 7)	250,953	-	250,953	-
Travel	6,411	17,906	15,067	17,906
	(423,475)	(436,151)	(538,755)	(508,472)
Other items				
Interest income	4,733	44,262	10,519	102,806
Equity loss on investment (note 3)	(117,381)	(119,915)	(230,477)	(199,928)
	(112,648)	(75,653)	(219,958)	(97,122)
Loss and comprehensive loss for the period	\$ (536,123)	\$ (511,804)	\$ (758,713)	\$ (605,594)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	57,972,251	57,969,534	57,972,251	57,969,941

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

LYNDEN ENERGY CORP.

Consolidated Statements of Shareholders' Equity

(Unaudited)

(Canadian Dollars)

	Common Shares		Treasury Shares Held	Contributed Surplus	Deficit	Total
	Number	Amount				
Balance at June 30, 2009	57,972,251	\$ 37,206,541	\$ (19,975)	\$ 10,346,498	\$ (10,774,185)	\$ 36,758,879
Stock-based compensation (note 7)	-	-	-	250,953	-	250,953
Loss for the period	-	-	-	-	(758,713)	(758,713)
Balance at December 31, 2009	57,972,251	\$ 37,206,541	\$ (19,975)	\$ 10,597,451	\$ (11,532,898)	\$ 36,251,119

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

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

LYNDEN ENERGY CORP.

Consolidated Statements of Cash Flows

(Unaudited)

(Canadian Dollars)

Cash provided by (used for):	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
Operating activities				
Loss for the period	\$ (536,123)	\$ (511,804)	\$ (758,713)	\$ (605,594)
Items not involving cash:				
Accretion and amortization	1,212	686	1,894	1,360
Stock-based compensation	250,953	-	250,953	-
Equity in loss on investment	117,381	119,915	230,477	199,928
Changes in non-cash operating working capital items:				
Receivables	(7,989)	(17,448)	(33,918)	25,468
Prepaid expenses	13,962	-	(6,635)	-
Accounts payable and accrued liabilities	(44,765)	159,208	(44,082)	104,384
	(205,369)	(249,443)	(360,024)	(274,454)
Financing activities				
Common shares issued for cash	-	-	-	15,625
Purchase of treasury shares	-	(7,170)	-	(7,170)
	-	(7,170)	-	8,455
Investing activities				
Purchases of property and equipment	(1,358,594)	-	(1,610,868)	(2,252,445)
Recoveries of property and equipment	45,896	(1,713,484)	157,523	343,051
	(1,312,698)	(1,713,484)	(1,453,345)	(1,909,394)
Change in cash during the period	(1,518,067)	(1,970,097)	(1,813,369)	(2,175,393)
Cash, beginning of period	4,679,138	8,353,682	4,974,440	8,558,978
Cash, end of period	\$ 3,161,071	\$ 6,383,585	\$ 3,161,071	\$ 6,383,585

Supplemental cash flow information (note 11)

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

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2009

(Unaudited)

(Canadian Dollars)

1. Nature of Operations

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

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

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the six month period ended December 31, 2009 are not necessarily indicative of the results that may be expected for the year ended June 30, 2010. The balance sheet at June 30, 2009 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, 2009. 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, 2009.

3. Investment

The Company has a 47.99% interest in a Utah, USA based natural gas transmission company, Abajo Gas Transmission Company, LLC ("Abajo"), along with its Paradox Basin partners. Abajo holds ownership of the gas gathering systems in the Northern and Southern Prospect Areas of the Company's Paradox Basin Project (note 4). Through its interest in Abajo, the Company is entitled to 55% of the revenues and expenses attributable to the construction, operation, maintenance and expansion of the gas gathering system in the Northern Prospect Area and 25% in the Southern Prospect Area.

The Company exerts significant influence over Abajo, and as such, the investment in Abajo is accounted for using the equity method. The Company's share of Abajo's net loss for the six months ended December 31, 2009 was \$230,477.

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2009

(Unaudited)

(Canadian Dollars)

4. Property and Equipment

	Computer Hardware & Software	Petroleum & Natural Gas Properties	Total
Balance at June 30, 2009	\$ 1,172	\$ 27,302,388	\$ 27,303,560
Acquisition, expenditures and recoveries	-	1,796,918	1,796,918
	1,172	29,099,306	29,100,478
Amortization	(176)	-	(176)
Balance at December 31, 2009	\$ 996	\$ 29,099,306	\$ 29,100,302

Petroleum and Natural Gas Property Interests

	USA		Canada		Total
	Paradox Basin	Wolfberry	Bittern Lake		
Balance at June 30, 2009	\$ 27,302,387	\$ -	\$ 1	\$ 27,302,388	
Acquisition and expenditures	220,112	1,721,995	-	1,942,107	
Petroleum & natural gas sales	(217,651)	-	-	(217,651)	
Royalties	39,051	-	-	39,051	
Transportation & marketing costs	20,012	-	-	20,012	
Production taxes	13,399	-	-	13,399	
Balance at December 31, 2009	\$ 27,377,310	\$ 1,721,995	\$ 1	\$ 29,099,306	

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 six months ended December 31, 2009, the Company received \$145,189 (2008 - \$530,817) of net revenue from sales of petroleum and natural gas from its Paradox Basin Project. Testing on the Paradox Basin Project is ongoing and consequently it has been determined that the Paradox Basin Project is in the pre-production stage. As such, the net revenues have been credited to capitalized costs.

b) Wolfberry

During the six months ended December 31, 2009, the Company entered into a Participation Agreement to acquire interests ranging from 21.88% to 43.75% in oil and gas leases located in the Glasscock, Howard, Martin, Midland and Sterling counties of West Texas, USA.

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2009

(Unaudited)

(Canadian Dollars)

4. Property and Equipment (cont'd)

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

Canada

c) 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 undiscounted value of asset retirement obligations to be \$146,218 as at December 31, 2009 (June 30, 2009 - \$70,919). These payments are expected to be made over the next 15 to 35 years. The Company used a weighted-average credit adjusted risk free rate of 8.1% and a weighted-average inflation rate of 2.9% to calculate the present value of the asset retirement obligations.

Balance at June 30, 2009	\$	29,249
Liabilities settled		(3,749)
Accretion expense		1,718
Revisions and new estimated cash flows		32,595
<hr/>		
Balance at December 31, 2009	\$	59,813

6. Treasury Shares

In accordance with TSX Venture Exchange approval and the provisions of a normal course issuer bid, the Company from time to time could acquire up to 2,898,613 of its common shares for cancellation. The normal course issuer bid was conducted through the facilities of the TSX Venture Exchange for a period of one year commencing on December 12, 2008. As at December 31, 2009, the Company has acquired 80,500 common shares with a cost of \$19,975. These common shares have been recorded as treasury shares held and have not been cancelled as at December 31, 2009.

7. Stock Options

During the six months ended December 31, 2009, the Company granted 1,110,000 stock options (2008 - Nil) with a weighted average grant date fair value of \$0.23. The Company recognized \$250,953 of stock-based compensation (2008 - \$Nil). The Company calculated the fair value of options granted using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 2.63%, a dividend yield of Nil, an expected volatility of the Company's share price of 107% and an expected life of the stock options of 5 years.

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2009

(Unaudited)

(Canadian Dollars)

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 six month period ended December 31:

- a) paid or accrued \$65,000 (2008 - \$59,000) for administration fees to a company controlled by the President and CEO of the Company;
- b) paid or accrued \$5,052 (2008 - \$5,255) for legal fees to a legal firm where a director of the Company is an associate counsel;
- c) paid or accrued \$6,441 (2008 - \$2,974) for consulting fees, which are included in property and equipment, to a company controlled by a director of the Company; and
- d) paid or accrued \$102,466 (2008 - \$279,975) for consulting fees to a director and to a company controlled by a director of the Company.

Accounts payable and accrued liabilities include \$946 (June 30, 2009 - \$828) owing to related parties as at December 31, 2009.

9. Financial Instruments

As at December 31, 2009, the Company's financial instruments are cash, receivables, and accounts payable and accrued liabilities. The amounts reflected in the balance sheet are carrying amounts of cash, receivables and accounts payable and accrued liabilities and approximate their fair values due to the short-term nature and negligible credit losses. Investment is stated at its fair value based on the Company's equity interest.

These financial instruments are classified as follows:

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

a) Credit Risk

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

The Company's other receivables consist of taxes withheld and recoverable from various governments.

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2009

(Unaudited)

(Canadian Dollars)

9. Financial Instruments (cont'd)

The aging of receivables are as follows:

	December 31, 2009	June 30, 2009
Amounts receivable		
0 to 60 days	\$ 50,156	\$ 73,566
61 to 120 days	24,665	18,897
> 120 days	22,255	-
	<u>\$ 97,076</u>	<u>\$ 92,463</u>

b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash is exposed to interest rate risk as the Company invests cash at floating rates of interest in highly liquid instruments. Fluctuations in interest rates impact the value of cash. As at December 31, 2009, if interest rates had been 0.25% lower, loss and comprehensive loss would have been \$5,461 higher and conversely if interest rates had been 0.25% higher, loss and comprehensive loss would have been \$5,461 lower.

c) Currency Risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk from its Paradox Basin Project where the costs incurred and revenues earned are in US dollars while the Company finances its operations in Canadian dollars. The Company does not use derivative instruments or hedges to manage currency risks.

As at December 31, 2009, cash includes \$92,604 (US\$88,111) of US denominated cash. As at December 31, 2009, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$8,419 higher. Conversely, if the Canadian dollar weakened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$9,260 lower.

As at December 31, 2009, receivables include \$91,141 (US\$86,718) of US denominated receivables. As at December 31, 2009, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$8,286 higher. Conversely, if the Canadian dollar weakened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$9,114 lower.

As at December 31, 2009, accounts payable and accrued liabilities include \$580,063 (US\$551,915) of US denominated payables. As at December 31, 2009, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$52,733 lower. Conversely, if the Canadian dollar weakened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$58,006 higher.

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2009

(Unaudited)

(Canadian Dollars)

9. Financial Instruments (cont'd)

d) Liquidity Risk

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

e) Commodity price risk

Commodity price risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices. The Company's petroleum and natural gas properties and revenues are exposed to the fluctuations in petroleum and natural gas prices. The Company currently does not use derivative financial instruments to mitigate this risk as the Company feels the risks are small based on the small amounts of production the Company currently has.

10. Capital Management

The Company's objectives when managing capital are:

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

In the management of capital, the Company includes shareholders' equity and debt in the definition of capital.

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

LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

December 31, 2009

(Unaudited)

(Canadian Dollars)

11. Supplemental Cash Flow Information

	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
Cash paid for interest	\$ -	\$ -	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -
Non-cash investing and financing activities:				
Net revenues credited to property and equipment included in receivables	\$ 19,463	\$ 133,433	\$ 60,140	\$ 133,433
Purchases of property and equipment included in payables	\$ 536,922	\$ 536,922	\$ 579,171	\$ 536,922
Stock-based compensation transferred to share capital on exercise of warrants	\$ -	\$ -	\$ -	\$ 3,882
Asset retirement obligations included in property and equipment	\$ 28,846	\$ -	\$ 28,846	\$ -

12. Segmented Information

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

	December 31, 2009	June 30, 2009
Canada	\$ 997	\$ 1,172
United States of America	29,099,305	27,302,388
	<u>\$ 29,100,302</u>	<u>\$ 27,303,560</u>

13. Subsequent Event

Subsequent to December 31, 2009, the Company closed a non-brokered private placement in two tranches raising gross proceeds totaling \$4,500,000. These funds were raised by the Company by issuing a total of 15,000,000 units at a price of \$0.30 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.50 for a period of 2 years. Of the warrants issued, 9,350,000 warrants will expire on February 10, 2012 and 5,650,000 warrants will expire on February 16, 2012.