

# **Lynden Energy Corp.**

**Quarterly Consolidated Financial Statements  
For The Nine Months Ended March 31, 2010  
(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 nine months ended March 31, 2010.

# LYNDEN ENERGY CORP.

## Consolidated Balance Sheets

(Unaudited)

(Canadian Dollars)

	March 31, 2010	June 30, 2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 4,264,934	\$ 4,974,440
Receivables	340,084	92,463
Prepaid expenses	6,000	-
	4,611,018	5,066,903
<b>Investment (note 3)</b>	4,410,365	4,740,567
<b>Property and equipment (note 4)</b>	31,221,295	27,303,560
	\$ 40,242,678	\$ 37,111,030
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 80,074	\$ 322,902
<b>Asset retirement obligations (note 5)</b>	77,545	29,249
	157,619	352,151
<b>Shareholders' equity</b>		
Share capital (note 6)	40,007,459	37,206,541
Treasury shares held (note 7)	(19,975)	(19,975)
Contributed surplus	12,287,457	10,346,498
Deficit	(12,189,882)	(10,774,185)
	40,085,059	36,758,879
	\$ 40,242,678	\$ 37,111,030

**Nature of operations (note 1)**

**Subsequent events (notes 7 and 14)**

**Approved by the Directors:**

"Colin Watt"

"Ron Paton"

# LYNDEN ENERGY CORP.

## Consolidated Statements of Operations

(Unaudited)

(Canadian Dollars)

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
<b>Revenue</b>				
Petroleum & natural gas	\$ 507,203	\$ -	\$ 507,203	\$ -
Royalties	(107,666)	-	(107,666)	-
Interest income	3,374	35,573	13,893	138,379
	402,911	35,573	413,430	138,379
<b>Expenses</b>				
Production & operating expenses	41,399	-	41,399	-
Depletion, depreciation & accretion	61,928	702	63,822	2,062
Administrative fees (note 9)	32,500	30,000	97,500	89,000
Consulting fees (note 9)	135,026	70,869	267,492	355,844
Filing, listing and transfer agent fees	17,015	11,537	19,922	24,390
Foreign currency translation	25,006	28,384	25,154	81,782
Office and miscellaneous	23,372	20,287	51,329	42,555
Professional fees	13,593	13,653	35,455	46,023
Promotion	275	908	14,776	25,250
Rent	3,486	2,500	9,486	2,500
Stock-based compensation (note 8)	29,157	-	280,110	-
Travel	2,573	-	17,640	17,906
	(385,330)	(178,840)	(924,085)	(687,312)
<b>Earnings (loss) before other items</b>	17,581	(143,267)	(510,655)	(548,933)
<b>Other items</b>				
Equity loss on investment (note 3)	(118,154)	(117,859)	(348,631)	(317,787)
Impairment of property & equipment (note 4)	(556,411)	-	(556,411)	-
	(674,565)	(117,859)	(905,042)	(317,787)
<b>Loss and comprehensive loss for the period</b>	\$ (656,984)	\$ (261,126)	\$ (1,415,697)	\$ (866,720)
<b>Basic and diluted loss per common share</b>	\$ (0.01)	\$ -	\$ (0.02)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	66,021,489	57,905,984	60,562,103	57,948,933

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				
<b>Balance at June 30, 2009</b>	57,972,251	\$ 37,206,541	\$ (19,975)	\$ 10,346,498	\$ (10,774,185)	\$ 36,758,879
Common shares issued for cash:						
Private placements (note 6)	15,000,009	2,871,882	-	1,628,118	-	4,500,000
Share issue costs on private placements	354,000	(70,964)	-	32,731	-	(38,233)
Stock-based compensation (note 8)	-	-	-	280,110	-	280,110
Loss for the period	-	-	-	-	(1,415,697)	(1,415,697)
<b>Balance at March 31, 2010</b>	73,326,260	\$ 40,007,459	\$ (19,975)	\$ 12,287,457	\$ (12,189,882)	\$ 40,085,059
	Common Shares		Treasury	Contributed		Total
	Number	Amount	Shares Held	Surplus	Deficit	
<b>Balance at June 30, 2008</b>	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	-	-	(19,975)	-	-	(19,975)
Loss for the period	-	-	-	-	(866,720)	(866,720)
<b>Balance at March 31, 2009</b>	57,972,251	\$ 37,206,541	\$ (19,975)	\$ 10,346,498	\$ (10,442,214)	\$ 37,090,850

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 March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
<b>Operating activities</b>				
Earnings (loss) for the period	\$ (656,984)	\$ (261,126)	\$ (1,415,697)	\$ (866,720)
Items not involving cash:				
Depletion, depreciation & accretion	61,928	702	63,822	2,062
Stock-based compensation	29,157	-	280,110	-
Equity in loss on investment	118,154	117,859	348,631	317,787
Impairment of property & equipment	556,411	-	556,411	-
Changes in non-cash operating working capital items:				
Receivables	(284,194)	(3,631)	(318,112)	21,837
Prepaid expenses	635	(6,000)	(6,000)	(6,000)
Accounts payable and accrued liabilities	37,428	(199,864)	(6,654)	(95,480)
	(137,465)	(352,060)	(497,489)	(626,514)
<b>Financing activities</b>				
Common shares issued for cash	4,500,000	-	4,500,000	15,625
Share issue costs	(38,233)	-	(38,233)	-
Purchase of treasury shares	-	(12,805)	-	(19,975)
	4,461,767	(12,805)	4,461,767	(4,350)
<b>Investing activities</b>				
Purchases of property and equipment	(3,297,932)	(593,425)	(4,908,800)	(2,845,870)
Recoveries of property and equipment	77,493	238,627	235,016	581,678
	(3,220,439)	(354,798)	(4,673,784)	(2,264,192)
<b>Change in cash during the period</b>	<b>1,103,863</b>	<b>(719,663)</b>	<b>(709,506)</b>	<b>(2,895,056)</b>
<b>Cash, beginning of period</b>	<b>3,161,071</b>	<b>6,383,585</b>	<b>4,974,440</b>	<b>8,558,978</b>
<b>Cash, end of period</b>	<b>\$ 4,264,934</b>	<b>\$ 5,663,922</b>	<b>\$ 4,264,934</b>	<b>\$ 5,663,922</b>

### Supplemental cash flow information (note 12)

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

# LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

**March 31, 2010**

(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. 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 nine month period ended March 31, 2010 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 nine months ended March 31, 2010 was \$348,631.

# LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

March 31, 2010

(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 and expenditures	-	4,717,784	4,717,784
Recoveries	-	(182,953)	(182,953)
Write-off of P&NG property interests	-	(556,411)	(556,411)
	1,172	31,280,808	31,281,980
Depletion and depreciation	(264)	(60,421)	(60,685)
Balance at March 31, 2010	\$ 908	\$ 31,220,387	\$ 31,221,295

### 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	264,682	4,453,102	-	4,717,784
Petroleum & natural gas sales	(269,385)	-	-	(269,385)
Royalties	47,278	-	-	47,278
Transportation & marketing costs	23,871	-	-	23,871
Production taxes	15,283	-	-	15,283
Depletion	-	(60,421)	-	(60,421)
Write-off of P&NG property interests	(556,410)	-	(1)	(556,411)
Balance at March 31, 2010	\$ 26,827,706	\$ 4,392,681	\$ -	\$ 31,220,387

### 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 nine months ended March 31, 2010, the Company received \$182,953 (2009 - \$626,572) of net revenue from sales of petroleum and natural gas from its Paradox Basin Project. It has been determined that the Paradox Basin Project is in the pre-production stage and as such, the net revenues have been credited to capitalized costs.

# LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

**March 31, 2010**

(Unaudited)

(Canadian Dollars)

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

The Company wrote off \$556,410 of deferred costs during the three months ended March 31, 2010 to reflect expired leases.

### b) Wolfberry

During the nine months ended March 31, 2010, 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.

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 had a 50% working interest in certain petroleum and natural gas rights in the Bittern Lake area of central Alberta. These rights expired during the three months ended March 31, 2010.

## 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 \$193,002 (USD\$190,000) as at March 31, 2010 (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 3.6% to calculate the present value of the asset retirement obligations.

Balance at June 30, 2009	\$	29,249
Liabilities settled		(3,749)
Accretion expense		3,138
Revisions and new estimated cash flows		48,907
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Balance at March 31, 2010	\$	77,545

## 6. Share Capital

During the three months ended March 31, 2010, the Company closed a non-brokered private placement for gross proceeds of \$4,500,000. These funds were raised through the issuance 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. The total proceeds were allocated to common shares in the amount of \$2,871,882 and to warrants in the amount of \$1,628,118, based on their relative fair values on the date of closing.

## **LYNDEN ENERGY CORP.**

Notes to the Consolidated Financial Statements

**March 31, 2010**

(Unaudited)

(Canadian Dollars)

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

The private placement closed in two stages and therefore 9,350,000 warrants expire on February 10, 2012 and 5,650,000 warrants expire on February 16, 2012. Each warrant entitles the holder to purchase one additional common share at an exercise price of \$0.50 per common share.

The fair values of the warrants were determined to be \$0.22 per warrant based on a calculation using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 1.34%, an expected stock price volatility of 120% and an expected life of two years.

The Company incurred total issuance costs on the private placement of \$217,395, which were allocated to common shares in the amount of \$138,741 and to warrants in the amount of \$78,654 based on their relative fair values. Of these costs, \$38,233 was incurred in cash, \$106,200 was incurred through the issuance of 354,000 units with the same terms as those issued in the private placement and \$72,962 was incurred through the issuance of 354,000 finders warrants.

### **7. 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 March 31, 2010, the Company has acquired 80,500 common shares with a cost of \$19,975. These common shares have been recorded as treasury shares held. Subsequent to March 31, 2010, the 80,500 common shares were cancelled and returned to treasury.

### **8. Stock Options**

During the nine months ended March 31, 2010, the Company granted 2,610,000 stock options (2009 – Nil) with a weighted average grant date fair value of \$0.34. The Company recognized \$280,110 of stock-based compensation (2009 - \$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 2.72%, a dividend yield of Nil, an expected volatility of the Company's share price of 105% and an expected life of the stock options of 5 years.

### **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 nine month period ended March 31:

- a) paid or accrued \$97,500 (2009 - \$89,000) for administration fees to a company controlled by the President and CEO of the Company;
- b) paid or accrued \$12,513 (2009 - \$12,874) for legal fees to a legal firm where a director of the Company is an associate counsel;
- c) paid or accrued \$7,015 (2009 - \$nil) for share issue costs (legal fees) to a legal firm where a director of the Company is an associate counsel;

## LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

March 31, 2010

(Unaudited)

(Canadian Dollars)

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

- d) paid or accrued \$13,011 (2009 - \$2,974) for consulting fees, which are included in property and equipment, to a company controlled by a director of the Company; and
- e) paid or accrued \$206,517 (2009 - \$335,844) for consulting fees to a director and to companies controlled directors of the Company.

Accounts payable and accrued liabilities include \$9,476 (June 30, 2009 - \$828) owing to related parties as at March 31, 2010.

### 10. Financial Instruments

As at March 31, 2010, 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.

The aging of receivables are as follows:

	March 31, 2010	June 30, 2009
Amounts receivable		
0 to 60 days	\$ 309,141	\$ 73,566
61 to 120 days	2,106	18,897
> 120 days	28,837	-
	<u>\$ 340,084</u>	<u>\$ 92,463</u>

## LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

**March 31, 2010**

(Unaudited)

(Canadian Dollars)

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### 10. Financial Instruments (cont'd)

#### b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash is exposed to interest rate risk as the Company invests cash at floating rates of interest in highly liquid instruments. Fluctuations in interest rates impact the value of cash. As at March 31, 2010, if interest rates had been 0.25% lower, loss and comprehensive loss would have been \$8,410 higher and conversely if interest rates had been 0.25% higher, loss and comprehensive loss would have been \$8,410 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 and Wolfberry Projects 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 March 31, 2010, cash includes \$225,638 (US\$222,128) of US denominated cash. As at March 31, 2010, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$20,513 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 \$22,564 lower.

As at March 31, 2010 receivables include \$335,342 (US\$300,126) of US denominated receivables. As at March 31, 2010, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$30,486 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 \$33,534 lower.

As at March 31, 2010, accounts payable and accrued liabilities include \$68,182 (US\$67,121) of US denominated payables. As at March 31, 2010, if the Canadian dollar strengthened by 10% against the US dollar with all other variables remaining constant, loss and comprehensive loss would have been \$6,198 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 \$6,818 higher.

#### d) Liquidity Risk

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

# LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

March 31, 2010

(Unaudited)

(Canadian Dollars)

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## 10. Financial Instruments (cont'd)

### 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.

## 11. Capital Management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern.
- To maintain appropriate cash reserves on hand to continue the advancement of the Company's Paradox Basin 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.

## 12. Supplemental Cash Flow Information

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
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	\$ 41,186	\$ 44,894	\$ 18,954	\$ 44,894
Purchases of property and equipment included in payables	\$ (538,567)	\$ 692,624	\$ 40,604	\$ 692,624
Share issue costs paid in units	\$ 106,200	\$ -	\$ 106,200	\$ -
Stock-based compensation transferred to share capital on exercise of warrants	\$ -	\$ -	\$ -	\$ 3,882
Asset retirement obligations included in property and equipment	\$ 16,312	\$ -	\$ 45,158	\$ -

# LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

**March 31, 2010**

(Unaudited)

(Canadian Dollars)

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## 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:

	March 31, 2010	June 30, 2009
Canada	\$ 908	\$ 1,172
United States of America	31,220,387	27,302,388
	<u>\$ 31,221,295</u>	<u>\$ 27,303,560</u>

## 14. Subsequent Events

Subsequent to March 31, 2010, the Company granted 200,000 stock options with an expected life of up to 3 years and an exercise price of \$0.70 per share.