

# **Lynden Energy Corp.**

**Quarterly Consolidated Financial Statements  
For The Three Months Ended September 30, 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 three months ended September 30, 2010.

# LYNDEN ENERGY CORP.

## Consolidated Balance Sheets

(Unaudited)

(Canadian Dollars)

	September 30, 2010	June 30, 2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 61,221	\$ 1,739,343
Receivables	399,962	377,499
Prepaid expenses	6,000	6,000
	467,183	2,122,842
<b>Investment (note 3)</b>	4,022,099	4,121,267
<b>Property and equipment (note 4)</b>	33,535,137	31,679,209
	\$ 38,024,419	\$ 37,923,318
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 814,155	\$ 699,858
<b>Asset retirement obligations (note 5)</b>	99,133	90,363
	913,288	790,221
<b>Shareholders' equity</b>		
Share capital	39,981,071	39,981,071
Contributed surplus	12,698,861	12,430,538
Deficit	(15,568,801)	(15,278,512)
	37,111,131	37,133,097
	\$ 38,024,419	\$ 37,923,318

Nature of operations and going concern (note 1)

Subsequent event (note 12)

Approved by the Directors:

"Colin Watt"

"Ron Paton"

# LYNDEN ENERGY CORP.

## Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(Canadian Dollars)

	Three months ended September 30,	
	2010	2009
<b>Revenue</b>		
Petroleum and natural gas	\$ 715,161	\$ -
Royalties	(157,269)	-
	557,892	-
<b>Expenses</b>		
Production and operating expenses	105,676	-
Depletion, depreciation and accretion	193,536	682
Administrative fees	36,000	30,000
Consulting fees	61,731	67,047
Filing, listing and transfer agent fees	715	841
Foreign currency translation	(23,528)	10
Office and miscellaneous	4,186	2,192
Professional fees	3,726	1,931
Promotion	17,312	921
Rent	3,150	3,000
Stock-based compensation (note 6)	268,323	-
Travel	6,306	8,656
	(677,133)	(115,280)
<b>Loss before other items</b>	(119,241)	(115,280)
<b>Other items</b>		
Interest income	-	5,786
Equity loss on investment (note 3)	(107,849)	(113,096)
Impairment of property and equipment (note 4)	(63,199)	-
	(171,048)	(107,310)
<b>Loss and comprehensive loss for the period</b>	\$ (290,289)	\$ (222,590)
<b>Basic and diluted loss per common share</b>	\$ -	\$ -
<b>Weighted average number of common shares outstanding</b>	73,279,094	57,972,251

The accompanying notes are an integral part of these interim 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>	57,959,751	\$ 37,206,541	\$ (19,975)	\$ 10,346,498	\$ (10,774,185)	\$ 36,758,879
Loss for the period	-	-	-	-	(222,590)	(222,590)
<b>Balance at September 30, 2009</b>	57,959,751	\$ 37,206,541	\$ (19,975)	\$ 10,346,498	\$ (10,996,775)	\$ 36,536,289
<b>Balance at June 30, 2010</b>	73,279,094	\$ 39,981,071	\$ -	\$ 12,430,538	\$ (15,278,512)	\$ 37,133,097
Stock-based compensation (note 6)	-	-	-	268,323	-	268,323
Loss for the period	-	-	-	-	(290,289)	(290,289)
<b>Balance at September 30, 2010</b>	73,279,094	\$ 39,981,071	\$ -	\$ 12,698,861	\$ (15,568,801)	\$ 37,111,131

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

# LYNDEN ENERGY CORP.

## Consolidated Statements of Cash Flows

(Unaudited)

(Canadian Dollars)

	Three months ended September 30,	
	2010	2009
<b>Cash provided by (used for):</b>		
<b>Operating activities</b>		
Loss for the period	\$ (290,289)	\$ (222,590)
Items not involving cash:		
Depletion, depreciation and accretion	193,536	682
Stock-based compensation	268,323	-
Equity loss on investment	107,849	113,096
Impairment of property and equipment	63,199	-
Changes in non-cash operating working capital items:		
Receivables	(14,797)	(25,929)
Prepaid expenses	-	(20,597)
Accounts payable and accrued liabilities	(82,572)	683
	245,249	(154,655)
<b>Financing activities</b>		
Common shares issued for cash	-	-
<b>Investing activities</b>		
Purchases of property and equipment	(1,986,767)	(252,274)
Recoveries of property and equipment	63,396	111,627
	(1,923,371)	(140,647)
<b>Change in cash during the period</b>	(1,678,122)	(295,302)
<b>Cash, beginning of period</b>	1,739,343	4,974,440
<b>Cash, end of period</b>	\$ 61,221	\$ 4,679,138

### Supplemental cash flow information (note 10)

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

# LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

September 30, 2010

(Unaudited)

(Canadian Dollars)

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## 1. Nature of Operations and Going Concern

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

The Company is in the process of exploring and developing its petroleum and natural gas interests. The recoverability of the amounts shown for petroleum and natural 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.

As at September 30, 2010, the Company had an accumulated deficit of \$15,568,801 and a working capital deficiency of \$346,972. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations through the issuance of share capital; however, there is no assurance that these funds will be available on terms acceptable to the Company or at all. These financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern.

Subsequent to September 30, 2010, the Company completed a non-brokered private placement by issuing 20,200,000 common shares for gross proceeds of \$10,100,000 (note 12).

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, 2010 are not necessarily indicative of the results that may be expected for the year ended June 30, 2011. The balance sheet at June 30, 2010 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, 2010. 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, 2010.

## 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.

## LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

September 30, 2010

(Unaudited)

(Canadian Dollars)

### 3. Investment (cont'd)

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 three months ended September 30, 2010 was \$107,849.

### 4. Property and Equipment

	Computer Hardware & Software	Petroleum & Natural Gas Properties	Total
Balance at June 30, 2010	\$ 820	\$ 31,678,389	\$ 31,679,209
Acquisition, expenditures and recoveries	-	2,110,762	2,110,762
	820	33,789,151	33,789,971
Depreciation, depletion and impairment	(61)	(254,773)	(254,834)
Balance at September 30, 2010	\$ 759	\$ 33,534,378	\$ 33,535,137

#### Petroleum and Natural Gas Property Interests

	USA			Total
	Paradox Basin	Wolfberry	Mitchell Ranch	
Balance at June 30, 2010	\$ 24,007,001	\$ 5,407,061	\$ 2,264,327	\$ 31,678,389
Acquisition and expenditures	38,770	344,927	1,806,808	2,190,505
Petroleum & natural gas sales	(116,555)	-	-	(116,555)
Royalties	21,424	-	-	21,424
Transportation & marketing costs	9,824	-	-	9,824
Production taxes	5,564	-	-	5,564
Depletion	-	(191,574)	-	(191,574)
Write-off of P&NG property interests	(63,199)	-	-	(63,199)
Balance at September 30, 2010	\$ 23,902,829	\$ 5,560,414	\$ 4,071,135	\$ 33,534,378

#### 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 P&NG 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 P&NG leases located in the Paradox Basin, Utah.

During the three months ended September 30, 2010, the Company received \$79,743 (2009 - \$73,138) of net revenue from sales of P&NG 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

September 30, 2010

(Unaudited)

(Canadian Dollars)

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

The Company wrote off \$63,199 (2009 - \$nil) of deferred costs during the three months ended September 30, 2010 to reflect expired leases.

b) Wolfberry

The Company entered into a Participation Agreement with CrownRock LP ("CrownRock") to acquire interests ranging from 21.88% to 43.75% in P&NG 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 ("AMIs"), 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\$666,667 each year for the first three years. The leases are subject to royalties to the mineral rights owners.

c) Mitchell Ranch

The Company entered into a Participation Agreement with CrownRock to acquire a 50% interest in an option to acquire P&NG leases in Coke, Mitchell, and Sterling counties of West Texas.

Pursuant to the Participation Agreement, the Company will acquire an undivided 50% interest in the option to acquire a 100% working interest in the P&NG leases, subject to a 22.5% royalty to the mineral rights owners. The Company can earn its interest in the option by paying 100% of the costs to drill and complete the first two wells (up to US\$2,400,000) and by making additional payments to CrownRock totaling approximately US\$3,000,000, of which the Company has paid approximately US\$1,500,000 to date. The option can be converted into a lease(s) through additional payments to the mineral rights owners. The option has an initial term of 18 months, expiring in November 2011, with provisions to extend the option an additional 18 months.

### 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 \$250,603 (USD\$243,540) as at September 30, 2010 (June 30, 2010 - \$237,981 (USD\$223,540)). These payments are expected to be made over the next 14 to 35 years. The Company used a credit adjusted risk free rate of 7.98% and a weighted-average inflation rate of 3.85% to calculate the present value of the asset retirement obligations.

Balance at June 30, 2010	\$	90,363
Accretion expense		1,901
New estimated cash flows		6,869
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Balance at September 30, 2010	\$	99,133

## LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

September 30, 2010

(Unaudited)

(Canadian Dollars)

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### 6. Stock-based Compensation

During the three months ended September 30, 2010, the Company granted 460,000 stock options and recognized \$268,323 of stock-based compensation pursuant to the vesting and granting of stock options. The Company calculated the fair value of options vested and granted using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 2.71%, a dividend yield of nil, an expected volatility of the Company's share price of 105% and expected life of the stock options of five years.

### 7. 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 period ended September 30:

- a) paid or accrued \$36,000 (2009 - \$30,000) for administration fees to a company controlled by the President and CEO of the Company;
- b) paid or accrued \$1,621 (2009 - \$1,233) for legal fees to a legal firm where a director of the Company is an associate counsel;
- c) paid or accrued \$8,586 (2009 - \$3,227) for consulting fees, which are included in property and equipment, to companies controlled by directors of the Company; and
- d) paid or accrued \$46,731 (2009 - \$52,047) for consulting fees to a director of the Company.

Accounts payable and accrued liabilities include \$nil (June 30, 2010 - \$18,920) owing to related parties as at September 30, 2010.

### 8. Financial Instruments

As at September 30, 2010, the Company's financial instruments are cash, receivables, and accounts payable and accrued liabilities. The fair value of cash is measured using level 1 of the fair value hierarchy. The amounts reflected in the balance sheet for receivables and accounts payable and accrued liabilities 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

The Company considers its 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 P&NG sales.

## LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

September 30, 2010

(Unaudited)

(Canadian Dollars)

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

#### 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 aging of receivables are as follows:

	September 30, 2010	June 30, 2010
Amounts receivable		
0 to 60 days	\$ 363,528	\$ 342,994
61 to 120 days	-	34,505
> 120 days	36,434	-
	<u>\$ 399,962</u>	<u>\$ 377,499</u>

#### b) 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.

#### c) Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity and equity prices.

#### i) 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 interest income. As at September 30, 2010, if interest rates had been 0.25% lower, loss and comprehensive loss would have been \$280 higher and conversely if interest rates had been 0.25% higher, loss and comprehensive loss would have been \$280 lower.

## LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

September 30, 2010

(Unaudited)

(Canadian Dollars)

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

#### ii) 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 USA based P&NG 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 September 30, 2010, cash includes \$34,402 (US\$33,433) of US denominated cash. As at September 30, 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 \$3,127 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 \$3,440 lower.

As at September 30, 2010, receivables include \$394,609 (US\$383,488) of US denominated receivables. As at June 30, 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 \$35,874 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 \$39,461 lower.

As at September 30, 2010, accounts payable and accrued liabilities include \$783,515 (US\$761,433) of US denominated payables. As at June 30, 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 \$71,229 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 \$78,352 higher.

#### iii) Price Risk

The Company's P&NG production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. The Company does not use derivative financial instruments to manage this risk.

### 9. 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 P&NG 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.

## LYNDEN ENERGY CORP.

Notes to the Consolidated Financial Statements

September 30, 2010

(Unaudited)

(Canadian Dollars)

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### 9. Capital Management (cont'd)

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 P&NG 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.

### 10. Supplemental Cash Flow Information

	Three months ended September 30,	
	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	\$ 54,996	\$ 40,677
Purchases of property and equipment included in payables	\$ 788,660	\$ 252,012

### 11. 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 revenues and capital assets in geographic locations are as follows:

	Canada	USA	Consolidated Total
<b>Revenues</b>			
Three months ended September 30, 2010	\$ -	\$ 715,161	\$ 715,161
Three months ended September 30, 2009	\$ -	\$ -	\$ -
<b>Capital Assets</b>			
As at September 30, 2010	\$ 759	\$ 33,534,378	\$ 33,535,137
As at September 30, 2009	\$ 1,085	\$ 27,456,757	\$ 27,457,842

### 12. Subsequent Event

Subsequent to September 30, 2010, the Company closed a non-brokered private placement for gross proceeds of \$10,100,000. The Company issued 20,200,000 units at \$0.50 per unit and 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 \$0.70 for a period of three years. The Company has paid, or undertaken to pay, Finder's Fees of \$416,520, 215,760 common shares and 215,760 share purchase warrants. The 215,760 finder's warrants are each exercisable into one common share at a price of \$0.70 for a period of 3 years.