LOON ENERGY CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(Unaudited)

Loon Energy Corporation
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
US$

	Notes	September 30, 2011	December 31, 2010
Assets			
Current			
Cash and cash equivalents		$ 135,356	$ 575,782
Accounts receivable		252,525	781,134
Commodity taxes receivable		192,696	190,315
		580,577	1,547,231
Long term assets			
Property and equipment	6	149,588	149,588
Evaluation and exploration	7	382,569	-
		532,157	149,588
Total Assets		$ 1,112,734	$ 1,696,819
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 478,209	$ 759,446
Decommissioning provision	8	120,000	-
		598,209	759,446
Decommissioning provision	8	206,964	286,270
		805,173	1,045,716
Shareholders' Equity			
Share capital	9	15,591,236	15,591,236
Contributed surplus		2,089,454	1,684,579
Deficit		(17,373,129)	(16,624,712)
		307,561	651,103
Total Liabilities and Shareholders' Equity		$ 1,112,734	$ 1,696,819

Future operations (note 2)

Loon Energy Corporation
Condensed Consolidated Interim Statement of Changes in Equity
(Unaudited)
$US

	Share Capital	Contributed Surplus	Deficit	Total
Balance at January 1, 2010	$ 15,139,980	$ 1,291,873	$ (14,102,878)	$ 2,328,975
Net loss and comprehensive loss	-	-	(1,347,157)	(1,347,157)
Balance at September 30, 2010	15,139,980	1,291,873	(15,450,035)	981,818
Balance at December 31, 2010	15,591,236	1,684,579	(16,624,712)	651,103
Stock based compensation (note 10)	-	404,875	-	404,875
Net loss and comprehensive loss	-	-	(748,417)	(748,417)
Balance at September 30, 2011	$ 15,591,236	$ 2,089,454	$ (17,373,129)	$ 307,561

Loon Energy Corporation
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
(Unaudited)

US$

	Notes	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Expenses					
General and administrative		$ 63,148	$ 179,381	$ 336,089	$ 290,786
Stock based compensation	10	149,800	-	404,875	-
Impairment of petroleum and natural gas properties		-	1,116,805	-	1,116,805
		212,948	1,296,186	740,964	1,407,591
Finance costs					
Accretion	8	699	1,608	1,462	4,778
Foreign exchange loss		264	33,064	5,991	56,574
		963	34,672	7,453	61,352
Net loss before income taxes		(213,911)	(1,330,858)	(748,417)	(1,468,943)
Current income tax recovery	12	-	121,786	-	121,786
Net loss and comprehensive loss		$ (213,911)	$ (1,209,072)	$ (748,417)	$ (1,347,157)
Net loss per share					
Basic and diluted		$ (0.00)	$ (0.01)	$ (0.01)	$ (0.01)

Loon Energy Corporation

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)
US$

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Operating activities				
Net loss	$ (213,911)	$ (1,209,072)	$ (748,417)	$ (1,347,157)
Items not involving cash:				
Accretion	699	1,608	1,462	4,778
Impairment of petroleum and natural gas properties	-	1,116,805	-	1,116,805
Stock based compensation	149,800	-	404,875	-
Current income tax recovery	-	(121,786)	-	(121,786)
Foreign exchange loss	262	33,064	5,991	56,574
	(63,150)	(179,381)	(336,089)	(290,786)
Changes in non-cash working capital	(137,017)	84,876	(113,597)	44,542
	(200,167)	(94,505)	(449,686)	(246,244)
Investing				
Property and equipment expenditures	-	(12,223)	-	(274,938)
Changes in non-cash working capital related to capital expenditures	-	(9,137)	-	(147,480)
	-	(21,360)	-	(422,418)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	1,662	-	9,260	-
Change in cash and cash equivalents	(198,505)	(115,865)	(440,426)	(668,662)
Cash and cash equivalents, beginning of period	333,861	1,416,312	575,782	1,969,109
Cash and cash equivalents, end of period	$ 135,356	$ 1,300,447	$ 135,356	$ 1,300,447

1. Basis of preparation

Loon Energy Corporation (the "**Company**") was incorporated pursuant to the provisions of the *Business Corporation Act* (Alberta) on October 30, 2008 in conjunction with the reorganization of Loon Energy Inc. ("**Loon**"). The reorganization of Loon resulted in the Company receiving the net assets associated with resource properties located in Colombia and Peru. Upon implementation of the re-organization, Loon's name was changed to Kulczyk Oil Ventures Inc. ("**Kulczyk Oil**").

Statement of Compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, and do not include all the information required for full annual financial statements. This is the third interim financial reporting period of the first fiscal year for which the Company has adopted International Financial Reporting Standards ("**IFRS**"). The Company has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* for the preparation of these consolidated interim financial statements.

An explanation of how the transition to IFRS has affected the reported consolidated financial position, financial performance and cash flows of the Company is provided in note 5. This note includes reconciliations of equity and total comprehensive income for comparative periods reported under Canadian Generally Accepted Accounting Principles ("**GAAP**") to those reported for those periods under IFRS. The reconciliations of equity at the date of transition were reported in the first quarter of 2011.

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 29, 2011.

a) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis.

b) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in US dollars, which is the functional currency of the Company and its subsidiaries.

c) Use of estimates and judgments:

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS consolidated financial statements, and are outlined in:

- Note 7 - valuation of exploration and evaluation assets
- Note 10 - measurement of stock-based compensation

2. Future operations

The Company is an oil and gas exploration and development company with properties principally located in Colombia, South America. Of the Company's properties, the Delta-1 well is in the development stage but not currently producing on a commercial basis. Two other wells are in the exploration stage. The properties have no proved reserves at September 30, 2011. The Company does not generate production from operations that is sufficient to fund the continued exploration and development of all of the Company's oil and gas properties.

2. Future operations (continued)

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business and do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid. To date, the Company's exploration and development operations have been financed by way of equity issuances and by farm-out arrangements with third parties who pay for all or a portion of the Company's expenditures to earn a portion of the Company's ownership interests. The Company's cash and existing farm-out arrangements are not sufficient to fund the exploration and development program over the next twelve months. Additional equity or farm-out arrangements will be required to fund the exploration and development program and there are no guarantees that additional equity or farm-out arrangements will be available when needed.

3. International operations and commitments

Colombia

Buganviles Association Contract

Through a farm-in agreement, the Company earned a 20% non-operated participating interest in the Buganviles Association Contract. The Company has fulfilled its required work commitments with respect to this contract. The license for the Buganviles Association Contract has been extended as a result of the production history on the license.

In September 2010, Loon Energy entered into a farm-out agreement with Petrodorado South America S.A. ("**Petrodorado**") under which Petrodorado agreed to pay the Company's 20% share of the authorized costs to drill and complete two wells in Colombia to earn 75% (net 15%) of the Company's interest in the Buganviles Association Contract. The Company exercised its option to acquire a reversionary interest equal to a 5% working interest through a payment of 10% (net) of the authorized completion costs for both wells to Petrodorado. As such, the working interest earned by Petrodorado under the terms of the farm-out agreement was reduced from 15% to 10%. As at September 30, 2011, the Company holds a 10% working interest in the Buganviles Association Contract.

The Company has received cash calls from the Operator to fund the drilling and completion of two Buganviles wells in Colombia. Upon the execution of the farm-out agreement in September 2010, these cash call amounts became payable by Petrodorado. To date Petrodorado has paid a total of $2 million under the farm-out agreement. The Company has recorded a receivable from Petrodorado for $232,708 representing the unpaid cash calls to be paid by Petrodorado to fund the drilling of these two wells on behalf of the Company under the terms of the farm-out agreement and which forms a portion of both the accounts receivable and accounts payable balances.

Peru

The Operator of the block in Peru in which the Company holds an interest, has elected, with Loon's concurrence, to not proceed into the second exploration phase and allowed the license for Block 127 to expire on November 16, 2010. The Operator and the Company are currently executing an abandonment plan for the block, which is expected to be completed in 2012.

4. Significant Accounting Policies

The Company's significant accounting policies under IFRS are disclosed in note 4 to the condensed consolidated financial statements for the three months ended March 31, 2011.

5. First time adoption of IFRS

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Prior to its use of IFRS, the Company applied Canadian GAAP. Under IFRS 1 'First time Adoption of International Financial Reporting Standards', IFRS standards are applied retrospectively at the transition date with the offsetting adjustments to assets and liabilities generally included in the deficit.

5. First time adoption of IFRS (continued)

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in some changes to the reported financial position and results of operations of the Company.

5.1. Consolidated Statement of Financial Position

Presented below are reconciliations to IFRS of the consolidated statements of financial position of the Company from the amounts reported under Canadian GAAP. The consolidated statement of financial position for the date of transition of January 1, 2010 and December 31, 2010 are disclosed in the condensed consolidated interim financial statements for the three month periods ended March 31, 2011 and 2010.

	Canadian GAAP September 30, 2010	a	c	d	IFRS September 30, 2010
Current Assets					
Cash	$ 1,300,447				$ 1,300,447
Accounts receivable	2,160,306				2,160,306
	3,460,753				3,460,753
Property & Equipment	646,250			(511,000)	135,250
Intangible E&E assets	-				-
	$ 4,107,003				$ 3,596,003
Current Liabilities					
Accounts payable and accrued liabilities	$ 2,379,614				$ 2,379,614
Income taxes payable	20,000				20,000
	2,399,614				2,399,614
Decommissioning provision	183,680		30,891		214,571
	2,583,294				2,614,185
Share capital	15,139,980				15,139,980
Contributed surplus	1,291,873				1,291,873
Deficit	(14,971,790)	63,646	(30,891)	(511,000)	(15,450,035)
Accumulated other comprehensive income	63,646	(63,646)			-
	1,523,709				981,818
	$ 4,107,003				$ 3,596,003

5.2. Consolidated Statement of Operations and Comprehensive Loss

Presented below are reconciliations to IFRS of the net loss and comprehensive loss of the Company from the amounts reported under Canadian GAAP. The consolidated statement of operations and comprehensive loss for the year ended December 31, 2010 is disclosed in the condensed consolidated interim financial statements for the three months ended March 31, 2011 and 2010.

5.2. Consolidated Statement of Operations and Comprehensive Loss (continued)

	Canadian GAAP Three months September 30, 2010	Notes		IFRS Three months September 30, 2010
	(unaudited)	a	c	(unaudited)
General and administrative	$ 179,381			$ 179,381
Depreciation	2,539	(2,539)		-
Impairment	1,116,805			1,116,805
	1,298,725			1,296,186
Finance expense				
Accretion	-	2,539	(931)	1,608
Foreign exchange loss	33,064			33,064
	33,064			34,672
Net loss before income tax recovery	1,331,789			1,330,858
Current income tax recovery	(121,786)			(121,786)
Net loss and comprehensive loss	$ 1,210,003			$ 1,209,072
Basic and Diluted Loss per Share	$ 0.01			$ 0.01

	Canadian GAAP Nine months September 30, 2010	Notes		IFRS Nine months September 30, 2010
	(unaudited)	a	c	(unaudited)
General and administrative	$ 290,786			$ 290,786
Depreciation	7,571	(7,571)		-
Impairment	1,116,805			1,116,805
	1,415,162			1,407,591
Finance expense				
Accretion	-	7,571	(2,793)	4,778
Foreign exchange loss	56,574			56,574
	56,574			61,352
Net loss before income tax recovery	1,471,736			1,468,943
Current income tax recovery	(121,786)			(121,786)
Net loss and comprehensive loss	$ 1,349,950			$ 1,347,157
Basic and Diluted Loss per Share	$ 0.01			$ 0.01

5. First time adoption of IFRS (continued)

5.3 Statement of Cash Flows

The adoption of IFRS did not impact the amounts reported under Canadian GAAP as operating, investing and financing cash flows in the consolidated statements of cash flows.

Notes to the IFRS reconciliations

(a) Reclassifications

(i) Exploration and evaluation assets

E&E assets consist of the Company's exploration projects which are pending the determination of commercial viability and technical feasibility. Under Canadian GAAP these costs were grouped with property and equipment. Under IFRS, E&E assets are classified as a separate line in the statement of financial position.

(ii) Accumulated other comprehensive income

On the date of adoption of IFRS, the Company elected to reclassify foreign exchange translation losses included in accumulated other comprehensive income recognized in accordance with Canadian GAAP to deficit. As such, the accumulated other comprehensive income at January 1, 2010, which consisted entirely of cumulative translation differences, was reclassified to the deficit.

(iii) Accretion on decommissioning provision

Under Canadian GAAP accretion on the decommissioning provision was included in depreciation and depletion. Under IFRS it is required to be included in interest expense.

(b) Adjustment of stock based compensation expense

Forfeitures – Under Canadian GAAP forfeitures of awards were recognized as they occurred. Under IFRS, forfeitures are estimated on the grant date and are adjusted for actual experiences in subsequent periods.

(c) Adjustment of decommissioning provision

Under IFRS, the decommissioning provision is recorded using a risk-free discount rate. As such, the liability on the Consolidated Statement of Financial Position has been adjusted as of January 1, 2010.

(d) Adjustment of property and equipment

The Company applied the full cost oil and gas exemption under IFRS 1 whereby the carrying value of the full cost pool, by country, was assigned to E&E assets and producing assets.

At transition to IFRS, the Company reviewed the fair value of its development assets. The estimated fair value, based on a discounted cash flow derived from probable reserves as assessed by the Company's independent resource evaluator, was lower than the carrying value under Canadian GAAP. Based on this analysis, the net book value was reduced by $511,000 to reflect the estimated fair value on the opening balance sheet dated January 1, 2010.

6. Property and equipment

	Colombia	Peru	Total
Opening balance at January 1, 2010	$ 419,226	$ -	$ 419,226
Cost recovery from operator	(269,638)	-	(269,638)
Balance at December 31, 2010	149,588	-	149,588
Additions	-		-
Closing balance at September 30, 2011	$ 149,588	$ -	$ 149,588

6. Property and equipment (continued)

The reduction in the balance of property and equipment in Colombia arises from an agreement with the Colombian operator to settle the outstanding account balance for an amount less than was previously recorded.

The Company recorded no production from its Colombian properties in the three and nine months ended September 30, 2011. The Company's independent reserve evaluator has classified all reserves as probable. Until such time as production commences, no depletion will be taken on the Colombian petroleum and natural gas properties.

7. Evaluation and exploration

	Colombia	Peru	Total
Opening balance at January 1, 2010	$ -	$ 796,231	$ 796,231
Additions	-	390,573	390,573
Impairment	-	(1,186,804)	(1,186,804)
Balance at December 31, 2010	-	-	-
Additions	382,569	-	382,569
Closing balance at September 30, 2011	$ 382,569	$ -	$ 382,569

The increase in the balance of evaluation and exploration assets in Colombia arises from the consideration paid by the Company to Petrodorado to increase its participation in the Colombian properties from 5% to 10% (note 3), as well as the provisions for decommissioning costs.

Evaluation and exploration assets in Peru were nil for the three and nine months ended September 30, 2011 and for the year ended December 31, 2010. The Operator and the Company decided to not enter into the second exploration phase of the concession agreement, resulting in a withdrawal from Block 127 in Peru. All previously capitalized expenditures related to Block 127 were fully written off as at December 31, 2010, and an impairment charge of $1,186,804 recorded.

8. Decommissioning Provision

The Company's decommissioning provisions result from its working interest ownership in petroleum and natural gas properties in Colombia and Peru, including well sites, gathering systems and processing facilities. The Company's estimate of the total undiscounted cash flows required to settle the obligations is $327,747 (September 30, 2010 - $174,477) which are expected to be incurred between 2011 and 2016. A risk-free rate of 4.25 percent and inflation at a rate of 3.23 percent were used to calculate the decommissioning provision. The Company recognized accretion expense of $699 and $1,462 for the three and nine months ended September 30, 2011, respectively.

	Colombia	Peru	Total
Balance at December 31, 2010	$166,270	$120,000	$286,270
Accretion expense	1,462	-	1,462
Provision for new wells	39,232	-	39,232
Balance at September 30, 2011	$206,964	$120,000	$326,964

9. Share capital

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares.

	Number of Shares	Carrying amount
Common shares issued		
Balance at December 31, 2009	95,991,364	$ 15,139,980
Shares issued for compensation	3,500,000	451,256
Balance at December 31, 2010 and September 30, 2011	99,491,364	$ 15,591,236

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Weighted average number of shares outstanding	99,491,364	95,991,364

9. Share capital (continued)

On November 25, 2010, a total of 3,500,000 shares were issued as compensation for services provided by certain Officers and Directors of the company. The Company has not issued any preferred shares.

10. Stock Based Compensation

During the three and nine months ended September 30, 2011, the Company recorded $149,800 and $404,875 (2010 – nil) of stock based compensation expense respectively. The options vest annually with one third vesting immediately and one third vesting on the first and second anniversary of the grant date. The options have a term of five years. The Company has not capitalized any of the stock based compensation expense.

The following table summarizes information about the options outstanding as at September 30, 2011:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2010	9,580,000	0.13	4.2
Options granted	-	-	-
Balance outstanding, September 30., 2011	9,580,000	$ 0.13	4.2
Exercisable at September 30, 2011	3,065,000	$ 0.13	4.2

11. Related party transactions

The Company has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil pursuant to a services agreement. Administrative costs incurred by Kulczyk Oil for the benefit of the Company are allocated to the Company based on specific identification and an allocation of administrative costs that relate to both Kulczyk Oil and the Company. For the three and nine months ended September 30, 2011, these fees totalled $2,991 and $9,186 respectively (2010 - $3,359 and $9,450). At September 30, 2011, the Company owed $5,000 (2010 - $1,050) to Kulczyk Oil for these services. Certain expenditures of the Company are paid for by Kulczyk Oil on behalf of the Company and as at September 30, 2011 the Company owed $31,000 (2010 - $7,217) for these costs. Kulczyk Oil and Loon Energy are related as they have four common directors and officers and the same principal shareholder.

Kulczyk Oil remains legally responsible for a guarantee issued in August 2007 ("the **Loon Peru Guarantee**") to the Government of Peru regarding the granting of the Block 127 license contract to Loon Peru Limited, a wholly-owned subsidiary of the Company. The Company has entered into an indemnification agreement with Kulczyk Oil in respect of the Loon Peru Guarantee. The transfer of the Loon Peru Guarantee from Kulczyk Oil to the Company requires the formal approval of the Government of Peru which has not yet been obtained. The Company has fulfilled its work commitments under the first phase of the exploration program, and the Company and its partners in the Block announced on October 25, 2010 that the joint venture will not proceed to the second exploration phase.

12. Income tax

The differences between the income tax provisions calculated using statutory rates and those reported are as follows:

	September 30, 2011	September 30, 2010
Loss before income taxes	$ (748,417)	$ (1,468,943)
Federal and provincial statutory rate	*26.50%*	*28.00%*
Expected income tax recovery	$ (198,331)	$ (411,304)
Stock based compensation	107,292	-
Tax rate differences and change in tax benefits not recognized	91,039	289,518
Current income tax expense (recovery)	$ -	$ (121,786)

13. Segmented information

Colombia	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
General and administrative	$ 25,993	$ 125,995	$ 98,937	$ 168,399
Depletion, depreciation and accretion	699	1,608	1,462	4,778
Loss on foreign exchange	-	-	-	9,183
Loss before income taxes	26,692	127,603	100,399	182,360
Current income tax recovery	-	121,786	-	121,786
Loss after income taxes	$ 26,692	$ 5,817	$ 100,399	$ 60,574
Capital expenditures	$ -	$ 3,100	$ -	$ 4,362
Total assets, at period end	$ 768,808	$ 2,731,831	$ 768,808	$ 2,731,831

Peru	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
General and administrative	$ 22,566	$ (25,995)	$ 35,833	$ (22,487)
Gain on foreign exchange	-	(490)	-	-
Impairment of P&NG properties	-	1,116,805	-	1,116,805
Loss before income taxes	$ 22,566	$ 1,090,320	$ 35,833	$ 1,094,318
Capital expenditures	-	9,124	-	270,576
Total assets, at period end	$ 210,252	$ 216,429	$ 210,252	$ 216,429

Corporate	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
General and administrative	$ 20,589	$ 79,381	$ 201,319	$ 144,874
Stock based compensation	149,800	-	404,875	-
Loss on foreign exchange	264	33,554	5,991	47,391
Loss before income taxes	$ 170,389	$ 112,935	$ 612,185	$ 192,265
Total assets, at period end	$ 133,674	$ 647,743	$ 133,674	$ 647,743

Total	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
General and administrative	$ 63,148	$ 179,381	$ 336,089	$ 290,786
Stock based compensation	149,800	-	404,875	-
Depletion, depreciation and accretion	699	1,608	1,462	4,778
Loss on foreign exchange	264	33,064	5,991	56,574
Impairment of P&NG properties	-	1,116,805	-	1,116,805
Loss before income taxes	213,911	1,330,858	748,417	1,468,943
Current income tax recovery	-	121,786	-	121,786
Loss after income taxes	$ 213,991	$ 1,209,072	$ 748,417	$ 1,347,157
Capital expenditures	-	12,224	-	274,938
Total assets, at period end	$ 1,112,734	$ 3,596,003	$ 1,112,734	$ 3,596,003