LOON ENERGY CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

US$

Management's Report

The Consolidated Financial Statements of Loon Energy Corporation and related financial information were prepared by, and are the responsibility of Management. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards. The Consolidated Financial Statements and related financial information reflect amounts which must of necessity be based upon informed estimates and judgments of Management with appropriate consideration to materiality. The Company has developed and maintains systems of controls, policies and procedures in order to provide reasonable assurance that assets are properly safeguarded, and that the financial records and systems are appropriately designed and maintained, and provide relevant, timely and reliable financial information to Management.

KPMG LLP are the external auditors appointed by the shareholders, and they have conducted an independent examination of the corporate and accounting records in order to express an Auditors' Opinion on these Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the Consolidated Financial Statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Company's annual Consolidated Financial Statements and Management's Discussion and Analysis and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

Signed: *"Norman W. Holton"*
Chief Executive Officer

Signed: *"Paul H. Rose, CA"*
Chief Financial Officer

April 30, 2012

KPMG LLP
Chartered Accountants
2700 205 - 5th Avenue SW
Calgary AB T2P 4B9Internet

Telephone (403) 691-8000
Telefax (403) 691-8008
www.kpmg.ca

To the Shareholders of Loon Energy Corporation

We have audited the accompanying consolidated financial statements of Loon Energy Corporation, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Loon Energy Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards**.**

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2(c) in the consolidated financial statements which describes that Loon Energy Corporation will require capital to fund the working capital deficit, ongoing operations and the exploration and development program on its oil and gas properties. This condition, as described further in note 2(c), indicates the existence of a material uncertainty that may cast significant doubt about Loon Energy Corporations's ability to continue as a going concern.

KPMG LLP

Chartered Accountants
Calgary, Canada
April 30, 2012

Loon Energy Corporation
Consolidated Statements of Financial Position
US$

	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current				
Cash and cash equivalents		$ 134,134	$ 575,782	$ 1,969,109
Accounts receivable		289,885	781,134	64,139
Commodity taxes receivable		193,202	190,315	-
		617,221	1,547,231	2,033,248
Long term assets				
Property and equipment	6	1	149,588	419,226
Evaluation and exploration	7	-	-	796,231
		1	149,588	1,215,457
Total Assets		$ 617,222	$ 1,696,819	$ 3,248,705
Liabilities				
Current				
Accounts payable and accrued liabilities		$ 663,773	$ 759,446	$ 584,306
Income taxes payable		-	-	175,631
Decommissioning provision	9	120,000	-	-
		783,773	759,446	759,937
Decommissioning provision	9	203,638	286,270	159,793
		987,411	1,045,716	919,730
Shareholders' Equity				
Share capital	10	15,591,236	15,591,236	15,139,980
Contributed surplus		2,148,686	1,684,579	1,291,873
Deficit		(18,110,111)	(16,624,712)	(14,102,878)
		(370,189)	651,103	2,328,975
Total Liabilities and Shareholders' Equity		$ 617,222	$ 1,696,819	$ 3,248,705

Going concern (note 2(c))

See accompanying Notes to the Consolidated Financial Statements

Loon Energy Corporation
Consolidated Statement of Changes in Equity
$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	-	-	(2,521,834)	(2,521,834)
Shares issued for compensation	451,256	-	-	451,256
Stock based compensation	-	392,706	-	392,706
Balance at December 31, 2010	15,591,236	1,684,579	(16,624,712)	651,103
Net loss and comprehensive loss			(1,485,399)	(1,485,399)
Stock based compensation	-	464,107	-	464,107
Balance at December 31, 2011	$ 15,591,236	$ 2,148,686	$ (18,110,111)	$ (370,189)

See accompanying Notes to the Consolidated Financial Statements

Loon Energy Corporation
Consolidated Statements of Operations and Comprehensive Loss
US$

	Notes	Year ended December 31, 2011	2010
Expenses			
General and administrative		$ 485,678	$ 988,902
Stock based compensation	11	464,107	392,706
Impairment of petroleum and natural gas properties	6,7	528,926	1,186,804
		1,478,711	2,568,412
Finance costs			
Accretion	9	1,366	6,477
Foreign exchange loss		5,322	68,731
		6,688	75,208
Net loss before income taxes		1,485,399	2,643,620
Current income tax recovery		-	(121,786)
Net loss and comprehensive loss		$ 1,485,399	$ 2,521,834
Net loss per share			
Basic and diluted		$ 0.15	$ 0.26

See accompanying Notes to the Consolidated Financial Statements

Loon Energy Corporation

Consolidated Statements of Cash Flows

US$

	Year ended December 31, 2011	2010
Operating activities		
Net loss	$ (1,485,399)	$ (2,521,834)
Items not involving cash:		
Accretion	1,366	6,477
Impairment of petroleum and natural gas properties	528,926	1,186,804
Shares granted for compensation	-	451,256
Stock based compensation	464,107	392,706
Foreign exchange loss	2,473	68,731
	(488,527)	(415,860)
Changes in non-cash working capital	63,727	(633,195)
	(424,800)	(1,049,055)
Investing		
Property and equipment expenditures	(343,337)	(289,276)
Changes in non-cash working capital related to capital expenditures	323,640	(54,996)
	(19,697)	(344,272)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	2,849	-
Change in cash and cash equivalents	(441,648)	(1,393,327)
Cash and cash equivalents, beginning of year	575,782	1,969,109
Cash and cash equivalents, end of year	$ 134,134	$ 575,782

See accompanying Notes to the Consolidated Financial Statements

1. Reporting Entity

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**").

2. Basis of Preparation

(a) Statement of compliance

These consolidated financial statements have been prepared using International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Company's Board of Directors on April 30, 2012.

(b) Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis.

(c) Going concern

The Company is an oil and gas exploration and development company. The Company's properties in Colombia have no proved reserves and do not generate any production revenue.

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, debt facilities 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 in place are not sufficient to fund the existing $0.2 million working capital deficit, ongoing operations and any development program for the next twelve months and this condition creates a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Additional equity, debt or farm-out arrangements will be required and there are no guarantees that such additional capital funding will be available when needed.

(d) Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and its subsidiaries.

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Notes 6 and 7 – Impairment of property and equipment and evaluation and exploration assets

2. Basis of Presentation (continued)

- Note 9 – Decommissioning provision
- Note 11 – Stock-based compensation

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 to June 30, 2012.

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 December 31, 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.

The Company does not currently have any definitive plans to return to the drilling program or further develop the concession and accordingly has recorded an impairment of $528,926 (note 8).

Peru

The Operator of the block in Peru, in which the Company held an interest, 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

(a) Principles of consolidation

The accompanying consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries.

(i) Subsidiaries
The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Loon has one direct wholly-owned subsidiary, Loon Energy Holdings Limited ("**LEHL**"). Through LEHL, Loon has two indirect wholly-owned subsidiaries, Loon Colombia Limited ("**LCL**") and Loon Peru Limited ("**LPL**").

4. Significant Accounting Policies (continued)

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the income statement.

(ii) Jointly controlled operations and jointly controlled assets
Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation
Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

The reporting and functional currency of the Company and all its subsidiaries is the United States dollars ("US$" or "$"). Transactions in foreign currencies are translated to United States dollars at exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the Company's functional currency at the period-end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

(c) Property and equipment and intangible exploration assets

(i) Recognition and measurement

Exploration and evaluation ("**E&E**") expenditures
Pre-license costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. Interest and borrowing costs incurred on E&E assets are not capitalized. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped by concession or field area.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven reserves. A review of each exploration license or field is carried out, at least annually, to ascertain whether the project is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property and equipment referred to as oil and natural gas interests.

Development and production costs
Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("**CGU**") for impairment testing and categorized within property and equipment as oil and natural gas interests.

4. Significant Accounting Policies (continued)

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within profit or loss.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized costs generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable.

There was no production in 2011 or 2010, therefore, no depletion is recorded.

(d) Impairment

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property and equipment as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets, except E&E assets, are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups

4. Significant Accounting Policies (continued)

of assets (the CGU). The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit or group of units on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(e) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred on exploration and evaluation assets are expensed as incurred. Borrowing costs derived on debt specifically related to the construction of qualifying assets, if any, in the development stage will be capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate that will be used to determine the amount of borrowing costs to be capitalized will be the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments with original maturities of three months or less.

(g) Decommissioning obligation

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

4. Significant accounting policies (continued)

(h) Financial instruments

All financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("**FVTPL**"), available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities classified as FVTPL are measured at fair value with changes in fair values recognized in net earnings or loss. Financial assets available-for-sale are measured at fair value, with changes in fair values recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Cash and cash equivalents and accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities.

The fair value of cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value. The Company does not hold any other financial instruments.

(i) Stock based compensation

The Company has issued options to directors, officers and employees to purchase common shares. The fair value of options on the date they are granted to employees is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(j) Loss per share

Basic loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

(k) Income tax

Income tax expense includes current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4. Significant accounting policies (continued)

(l) Future changes in accounting policies

Certain new accounting standards and interpretations have been published that are not mandatory for the 2011 reporting period. The following standards and updates have not yet been assessed as to their impact on the Company's financial statements:

(i) *IFRS 10, "Consolidated Financial Statements" ("IFRS 10")* replaces *IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27")* and Standing Interpretations Committee ("SIC") 12, *"Consolidation – Special Purpose Entities"*. IFRS 10 revises the definition of control and focuses on the need to have power and variable returns for control to be present. IFRS 10 provides guidance on participating and protective rights and also addresses the notion of "de facto" control. It also includes guidance related to an investor with decision making rights to determine if it is acting as a principal or agent.

(ii) IFRS 11, "Joint Arrangements" ("IFRS 11") replaces IAS 31, "Interest in Joint Ventures" ("IAS 31") and SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". IFRS 11 defines a joint arrangement as an arrangement where two or more parties have joint control. A joint arrangement is classified as either a "joint operation" or a "joint venture" depending on the facts and circumstances. A joint operation is a joint arrangement where the parties that have joint control have rights to the assets and obligations for the liabilities, related to the arrangement. A joint operator accounts for its share of the assets, liabilities, revenues and expenses of the joint arrangement. A joint venturer has the rights to the net assets of the arrangement and accounts for the arrangement as an investment using the equity method.

(iii) IFRS 12, "Disclosure of Interest in Other Entities" ("IFRS 12") replaces the disclosure requirements previously included in IAS 27, IAS 31, and IAS 28, "Investments in Associates". It sets out the extensive disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements.

(iv) IFRS 13, "Fair Value Measurement" provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. Early adoption is permitted. The Company is currently evaluating the impact of adopting IFRS 13 on its Consolidated Financial Statements.

(v) IAS 27, "Separate Financial Statements" has been amended to conform to the changes made in IFRS 10 but retains the current guidance for separate financial statements.

(vi) IAS 28, "Investments in Associates and Joint Ventures" has been amended to conform to the changes made in IFRS 10 and IFRS 11.

The above standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is currently evaluating the impact of adopting these standards on its Consolidated Financial Statements.

5. First time adoption of IFRS

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Prior to 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.

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. First time adoption of IFRS (continued)

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.

	Cdn GAAP January 1, 2010	Notes a	c	d	IFRS January 1, 2010
Assets					
Current					
Cash and cash equivalents	$ 1,969,109				$ 1,969,109
Accounts receivable	64,139				64,139
	2,033,248				2,033,248
Long term assets					
Property and equipment	1,726,457	(796,231)		(511,000)	419,226
Evaluation and exploration	-	796,231			796,231
Total Assets	$ 3,759,705				$ 3,248,705
Liabilities					
Current					
Accounts payable and accrued liabilities	$ 584,306				$ 584,306
Income taxes payable	175,631				175,631
	759,937				759,937
Decommissioning provision	126,109		33,684		159,793
	886,046				919,730
Shareholders' Equity					
Share capital	15,139,980				15,139,980
Contributed surplus	1,291,873				1,291,873
Accumulated other comprehensive income	63,646	(63,646)			-
Deficit	(13,621,840)	63,646	(33,684)	(511,000)	(14,102,878)
	2,873,659				2,328,975
Total Liabilities and Shareholders' Equity	$ 3,759,705				$ 3,248,705

5. First time adoption of IFRS (continued)

	Cdn GAAP December 31, 2010	Notes a	b	c	d	IFRS December 31, 2010
Assets						
Current						
Cash and cash equivalents	$ 575,782					$ 575,782
Accounts receivable	971,449					971,449
	1,547,231					1,547,231
Long term assets						
Property and equipment	660,588				(511,000)	149,588
Evaluation and exploration	-					-
Total Assets	$ 2,207,819					$ 1,696,819
Liabilities						
Current						
Accounts payable and accrued liabilities	$ 759,446					$ 759,446
Income taxes payable	-					-
	759,446					759,446
Decommissioning provision	256,310			29,960		286,270
	1,015,756					1,045,716
Shareholders' Equity						
Share capital	15,591,236					15,591,236
Contributed surplus	1,687,325		(2,746)			1,684,579
Accumulated other comprehensive income	63,646	(63,646)				-
Deficit	(16,150,144)	63,646	2,746	(29,960)	(511,000)	(16,624,712)
	1,192,063					651,103
Total Liabilities and Shareholders' Equity	$ 2,207,819					$ 1,696,819

5. First time adoption of IFRS (continued)

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:

	Cdn GAAP Year ended December 31, 2010	Notes a	b	d	IFRS Year ended December 31, 2010
Expenses					
General and administrative	$ 988,902	-			988,902
Stock based compensation	395,452		(2,746)		392,706
Depreciation	10,201	(10,201)			-
Impairment of petroleum and natural gas properties	1,186,804				1,186,804
	2,581,359				2,568,412
Finance expense					
Accretion	-	10,201		(3,724)	6,477
Foreign exchange loss	68,731				68,731
	68,731				75,208
Net loss before income taxes	2,650,090				2,643,620
Current income tax recovery	(121,786)				(121,786)
Net loss and comprehensive loss	$ 2,528,304				$ 2,521,834
Net loss per share					
Basic and diluted	$ 0.27				$ 0.27

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.

5.4 Notes to the IFRS reconciliations

(a) Reclassifications

(i) Exploration and evaluation ("E&E") 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

5. First time adoption of IFRS (continued)

accumulated other comprehensive income at January 1, 2010, which consisted entirely of cumulative translation differences, was reclassified to the deficit.

(iii) Accretion on decommission 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.

The Company applied an IFRS 1 conversion election whereby stock based compensation arrangements that vested prior to January 1, 2010 were not restated.

(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.

(e) The Company did not restate business combinations that occurred prior to 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)
Closing balance at December 31, 2010	$ 149,588	$ -	$ 149,588
Impairment	(149,587)	-	(149,587)
Closing balance at December 31, 2011	$ 1	$ -	$ 1

The reduction in the balance of property and equipment in Colombia in 2010 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 years ended December 31, 2011 and 2010 and as such, no depletion was 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	379,339	-	379,339
Impairment	(379,339)	-	(379,339)
Closing balance at December 31, 2011	$ -	$ -	$ -

The increase in the balance of evaluation and exploration assets in Colombia, recorded in 2011 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 provision for decommissioning costs.

8. Impairment

In 2011, the Company reported an impairment in the amount of $528,926 related to its Colombian property and equipment and exploration and evaluation assets. The Company recognized indicators of impairment for both property and equipment and exploration and evaluation assets principally due to not having any definitive plans to return to the drilling program or further develop the concession. The recoverable amount of assets was determined based on the estimated fair value less costs to sell as at December 31, 2011. Fair value was estimated taking into account various factors including drilling results, the stage of development of the assets, the Company's working interest and the development potential of the assets.

In 2010, the Company and the Operator of Block 127 in Peru 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.

9. 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 $332,919 (December 31, 2010 - $325,144) which are expected to be incurred between 2012 and 2016. A risk-free rate of 5.25 percent and inflation at a rate of 3.55 percent were used to calculate the decommissioning provision. The Company recognized accretion expense of $1,366 for the year ended December 31, 2011 ($6,477 – 2010).

	Colombia	Peru	Total
Balance at December 31, 2009	$159,793	$ -	$159,793
Accretion expense	6,477	-	6,477
Provision for new wells	-	120,000	120,000
Balance at December 31, 2010	$166,270	$120,000	$286,270
Accretion expense	1,366	-	1,366
Provision for new wells	36,002	-	36,002
Balance at December 31, 2011	$203,638	$120,000	$323,638

10. Share capital

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. On February 13, 2012, the board of directors of Loon resolved to consolidate the common shares of Loon on the basis of ten pre-consolidation common shares for one post-consolidation common share. The shareholders subsequently approved this share consolidation. Accordingly, share transactions and balances, and per share disclosures have been revised to reflect the impact of the consolidation for all periods presented.

10. Share capital (continued)

	Number of Shares		Carrying amount
Common shares issued			
Balance at December 31, 2009	9,599,136	$	15,139,980
Shares issued for compensation	350,000		451,256
Balance at December 31, 2010 and December 31, 2011	9,949,136	$	15,591,236

	Year ended December 31, 2011	2010
Weighted average number of shares outstanding	9,949,136	9,633,657

On November 25, 2010, a total of 350,000 shares were issued as compensation for services provided by certain Officers and Directors of the company. The Company has not issued any preferred shares.

11. Stock Based Compensation

During the year ended December 31, 2011, the Company recorded $464,107 (2010 – $392,706) of stock based compensation expense. Options vest annually with one third vesting immediately and one third vesting on the first and second anniversary of the grant date. 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 December 31, 2011 and 2010, adjusted for the 10 for 1 share consolidation (note 10):

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2009	-	-	-
Options issued	958,000	$ 1.30	-
Balance outstanding, December 31, 2010	958,000	1.30	4.9
Options forfeited	(66,500)	1.30	4.9
Balance outstanding, December 31, 2011	891,500	$ 1.30	3.9
Exercisable at December 31, 2011	594,333	$ 1.30	3.9

12. Personnel Expenses

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. Therefore, the company incurs no salary and benefits costs for personnel.

The Company incurred $394,491 (2010 - $333,800) of stock-based compensation expenses related to options granted to Officers and Directors of the Company. The Company did not issue shares for compensation of Officers or Directors in 2011 and accordingly recorded $0 of related expense (2010 - $451,256).

The Company recorded $81,878 (2010 - $82,532) of Directors' fees expense.

13. Financial instruments

(a) Market Risk
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net income or the value of its financial instruments.

13. Financial instruments (continued)

(i) Interest rate risk

The Company maintains its cash and cash equivalents in instruments that are redeemable at any time without penalty thereby reducing its exposure to interest rate fluctuations thereon. Interest rate risk is not considered material.

(ii) Foreign currency exchange risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar ("CAD") and the United States dollar. At December 31, 2011 and 2010 the Company's primary foreign currency exposure relates to Canadian dollar cash balances net of accounts payable and accrued liabilities in Canada as follows:

	December 31, 2011	December 31, 2010
	CAD	CAD
Cash and cash equivalents	$ 104,593	$ 14,477
Accounts receivable	13,346	8,594
Accounts payable and accrued liabilities	(213,607)	(148,141)
Net foreign exchange exposure	$ (95,668)	$ (125,070)

At December 31, 2011 and 2010, the Company's net loss is not significantly impacted by changes in the US to Canadian dollar exchange rates.

(b) Credit risk

Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash and cash equivalents.

The Company's accounts receivable as at December 31, 2011 included $193,202 (2010 - $190,315) of recoverable goods and services taxes. The Company does not consider the credit risk relating to the outstanding amounts to be significant.

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 (2010 - $429,156) 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. The Company does not consider the credit risk relating to Petrodorado to be significant given the nature of the farm in agreements.

The Company does not have a provision for doubtful accounts at December 31, 2011 and 2010 and was not required to write off any significant balances in the years then ended.

(c) Liquidity risk

The Company monitors its liquidity position regularly to assess whether it has the resources necessary to fund planned exploration commitments on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources of financing such as farm-out agreements. However, as an exploration company at an early stage of development and without internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company on either a timely or commercial basis or that actual exploration expenditures may exceed those planned. The Company's current liquidity position is not sufficient to fund the current working capital deficit, ongoing operations and any development program in the next twelve months. Additional equity, debt or farm-out arrangements will be required and there are no guarantees that such additional capital funding will be available when needed.

14. 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 year ended December 31, 2011, these fees totalled $11,856 (2010 - $11,976). At December 31, 2011, the Company owed $8,543 (2010 - $nil) 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 December 31, 2011 the Company owed $118,111 (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.

15. Income tax

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

	December 31, 2011		December 31, 2010	
Loss before income taxes	$	(1,485,399)	$	(2,643,620)
Federal and provincial statutory rate		26.50%		28.00%
Expected income tax recovery	$	(393,631)	$	(740,214)
Stock based compensation		122,988		109,958
Tax rate differences		(93,377)		10,307
Changes in unrecognized deferred tax asset		364,020		498,163
Current income tax expense (recovery)		-	$	(121,786)

The general federal and provincial tax rate decreased to 26.50% in 2011 from 28.0% in 2010 due to the Federal rate dropping from 18% (2010) to 16.5% in 2011.

During fiscal 2009, a tax liability in the amount of $175,631 was recorded with respect to expected taxes owing in Colombia by the Company's wholly-owned subsidiary, Loon Colombia Limited, for the 2007, 2008 and 2009 taxation years. During the third quarter of fiscal 2010, new information was obtained that indicated that actual tax payable was $121,786 lower than originally expected. This change in estimate was recorded as a tax recovery in 2010.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2011		December 31, 2010	
Property and equipment	$	2,648,023	$	2,119,096
Asset retirement obligations		323,638		286,270
Non-capital losses (expire up until 2030)		4,177,806		3,485,822
		7,149,467		5,891,188

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which they can be utilized.

16. Subsequent Event

On April 11, 2012 the Board of Directors passed a resolution to offer a private placement of up to 10 million common shares at an issue price of $0.10 per common share for aggregate gross proceeds of $1 million. The gross proceeds of the financing will be used to seek additional oil and gas opportunities and for general corporate purposes.

Loon Energy Corporation
Notes to the Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
US$

17. Segmented information

	Year ended December 31 2011		Year ended December 31 2010	
Colombia				
General and administrative	$	93,561	$	247,990
Accretion		1,366		6,477
Loss on foreign exchange		2,465		8,964
Impairment of P&NG properties		528,926		-
Loss before income taxes		626,318		263,431
Current income tax recovery		-		121,786
Loss after income taxes	$	626,318	$	141,645
Capital expenditures	$	379,339	$	(269,638)
Total assets, at period end	$	249,410	$	938,796
Peru				
General and administrative	$	63,852	$	(8,779)
Loss on foreign exchange		31		-
Impairment of P&NG properties		-		1,186,804
Loss before income taxes	$	63,883	$	1,178,025
Capital expenditures		-		390,573
Total assets, at period end	$	229,881	$	202,058
Corporate				
General and administrative	$	328,265	$	749,691
Stock based compensation		464,107		392,706
Loss on foreign exchange		2,826		59,767
Loss before income taxes	$	795,198	$	1,202,164
Total assets, at period end	$	137,931	$	555,965
Total				
General and administrative	$	485,678	$	988,902
Stock based compensation		464,107		392,706
Accretion		1,366		6,477
Loss on foreign exchange		5,322		68,731
Impairment of P&NG properties		528,926		1,186,804
Loss before income taxes	$	1,485,399	$	2,643,620
Current income tax recovery		-		121,786
Loss after income taxes	$	1,485,399	$	2,521,834
Capital expenditures	$	379,339	$	120,935
Total assets, at period end	$	617,222	$	1,696,819