LOON ENERGY CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2012 AND 2011
US$
(unaudited)

Loon Energy Corporation

Condensed Consolidated Interim Statements of Financial Position

US$

(unaudited)

	Notes		March 31 2012		December 31 2011
Assets					
Current					
Cash and cash equivalents		$	228,980	$	134,134
Accounts receivable			283,674		289,885
Commodity taxes receivable			25,258		193,202
			537,912		617,221
Long-term assets					
Property and equipment			1		1
Total Assets		$	537,913	$	617,222
Liabilities					
Current					
Accounts payable and accrued liabilities		$	660,743	$	663,773
Decommissioning provision			120,000		120,000
			780,743		783,773
Decommissioning provision			204,511		203,638
			985,254		987,411
Shareholders' Deficiency					
Share capital	3		15,591,236		15,591,236
Contributed surplus			2,193,098		2,148,686
Deficit			(18,231,675)		(18,110,111)
			(447,341)		(370,189)
Total Liabilities and Shareholders' Deficiency		$	537,913	$	617,222

Going concern (note 2(b))

Subsequent event (note 6)

See accompanying notes to the condensed consolidated interim financial statements.

Loon Energy Corporation
Consolidated Statement of Changes in Equity
US$
(unaudited)

	Share Capital	Contributed Surplus	Deficit	Total
Balances, December 31, 2010	$15,591,236	$1,684,579	($16,624,712)	$651,103
Net loss and comprehensive loss	-	-	(253,662)	(253,662)
Stock based compensation	-	128,347	-	128,347
Balances, March 31, 2011	$15,591,236	$1,812,926	($16,878,374)	$525,788
Balances, December 31, 2011	$15,591,236	$2,148,686	($18,110,111)	($370,189)
Net loss and comprehensive loss	-	-	(121,564)	(121,564)
Stock based compensation	-	44,412	-	44,412
Balances, March 31, 2012	$15,591,236	$2,193,098	($18,231,675)	($447,341)

See accompanying notes to the condensed consolidated interim financial statements.

Loon Energy Corporation

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

US$

(unaudited)

	Notes	Three months ended March 31, 2012	2011
Expenses			
General and administrative		$ 76,749	$ 103,966
Stock based compensation	4	44,412	128,347
		121,161	232,313
Finance costs			
Accretion		873	347
Foreign exchange (gain) loss		(470)	21,002
		403	21,349
Net loss and comprehensive loss		$ (121,564)	$ (253,662)
Net loss per share			
Basic and diluted		$ (0.01)	$ (0.03)

See accompanying notes to the condensed consolidated interim financial statements.

Loon Energy Corporation
Condensed Consolidated Interim Statements of Cash Flows
US$
(unaudited)

	Three months ended March 31, 2012	2011
Operating activities		
Net loss	$ (121,564)	$ (253,662)
Items not involving cash:		
Accretion	873	347
Stock based compensation	44,412	128,347
Foreign exchange (gain) loss	1,877	12,523
	(74,402)	(112,445)
Changes in non-cash working capital	171,595	21,844
	97,193	(90,601)
Investing		
Evaluation and exploration expenditures	-	363,337
Changes in non-cash working capital related to capital expenditures	-	(371,348)
	-	(8,011)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(2,347)	3,495
Change in cash and cash equivalents	94,846	(95,117)
Cash and cash equivalents, beginning of period	134,134	575,782
Cash and cash equivalents, end of period	$ 228,980	$ 480,665

See accompanying notes to the condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all the information required for full annual financial statements.

These condensed interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements of the Corporation for the year ended December 31, 2011. The disclosures provided herein are incremental to those included with the annual financial statements and certain disclosures, which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. These condensed interim financial statements should be read in conjunction with the financial statements and notes thereto in the Corporation's annual filings for the year ended December 31, 2011.

These condensed consolidated interim financial statements were approved by the Company's Board of Directors on May 29, 2012.

(b) Going concern

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

These condensed consolidated interim 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.

3. 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 the Company resolved to consolidate the common shares of the Company 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.

	Periods ended March 31,	
	2012	2011
Weighted average number of shares outstanding	9,949,136	9,949,136

4. Stock based compensation

During the three month period ended March 31, 2012, the Company recorded $44,412 (2011 – $128,347) of stock based compensation expense. Options vest annually with one third vesting immediately and one third vesting on the first and second

4. Stock based compensation (continued)

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 March 31, 2012 and December 31, 2011, adjusted for the 10 for 1 share consolidation:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2011	891,500	$ 1.30	3.9
Options granted	-	-	-
Balance outstanding, March 31, 2012	891,500	$ 1.30	3.7
Exercisable At March 31, 2012	594,333	$ 1.30	3.7

5. 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 months ended March 31, 2012, these fees totalled $3,150 (2011 - $3,150). At March 31, 2012, the Company owed $11,550 (December 31, 2011 - $8,400) to Kulczyk Oil for these services. Certain expenditures of the Company are paid by Kulczyk Oil on behalf of the Company and as at March 31, 2012 the Company owed $48,570 (December 31, 2011 - $49,718) for these costs. Kulczyk Oil and the Company 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 and are in the process of formally relinquishing Block 127.

6. 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 offer has been fully subscribed and subscribers will be required to refrain from trading shares for a four month period after closing. The Company expects to receive proceeds totalling $1 million less estimated issue costs of $25,000 by June 15, 2012. Receipt of proceeds is subject to closing of the subscription agreements. Proceeds of the financing will be used to seek additional oil and gas opportunities and for general corporate purposes.

7. Segmented information

The Company's reportable segments are organized by geographical areas and consist of Colombia, Peru and corporate.

As at March 31, 2012	Colombia	Peru	Corporate	Total
Total assets, at period end	$ 249,159	$ 3,003	$ 285,751	$ 537,913
For the period ended March 31, 2012				
General and administrative	$ 4,715	$ 8,708	$ 63,326	$ 76,749
Stock based compensation	-	-	44,412	44,412
Accretion	873	-	-	873
Foreign exchange (gain) loss	(1,073)	-	603	(470)
Net loss	$ 4,515	$ 8,708	$ 108,341	$ 121,564
Capital expenditures	$ -	$ -	$ -	$ -

As at December 31, 2011	Colombia	Peru	Corporate	Total
Total assets, at period end	$ 249,410	$ 229,881	$ 137,931	$ 617,222
For the period ended March 31, 2011				
General and administrative	$ 20,662	$ (21,183)	$ 104,487	$ 103,966
Stock based compensation	-	-	128,347	128,347
Accretion	-	347		347
Foreign exchange (gain) loss	(2,434)	-	23,436	21,002
Net loss	$ 18,228	-$ 20,836	$ 256,270	$ 253,662
Capital expenditures	$ 363,337	$ -	$ -	$ 363,337