



LOON ENERGY CORPORATION
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2012 AND 2011
US\$
(unaudited)

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

	Notes	June 30 2012	December 31 2011
Assets			
Current			
Cash and cash equivalents		\$ 942,681	\$ 134,134
Accounts receivable		295,215	289,885
Commodity taxes receivable		25,477	193,202
		1,263,373	617,221
Long-term assets			
Property and equipment		1	1
Total Assets		\$ 1,263,374	\$ 617,222
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 553,964	\$ 663,773
Decommissioning provision		120,000	120,000
		673,964	783,773
Decommissioning provision		205,384	203,638
		879,348	987,411
Shareholders' Equity (Deficiency)			
Share capital	3	16,580,989	15,591,236
Contributed surplus		2,260,624	2,148,686
Deficit		(18,457,587)	(18,110,111)
		384,026	(370,189)
Total Liabilities and Shareholders' Equity (Deficiency)		\$ 1,263,374	\$ 617,222

Going concern (note 2(b))

See accompanying notes to the condensed consolidated interim financial statements.

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

	Number of Shares	Share Capital	Contributed Surplus	Deficit	Total
Balances, December 31, 2010	9,949,136	\$15,591,236	\$1,684,579	(\$16,624,712)	\$651,103
Net loss and comprehensive loss		-	-	(534,506)	(534,506)
Stock based compensation		-	255,075	-	255,075
Balances, June 30, 2011	9,949,136	\$15,591,236	\$1,939,654	(\$17,159,218)	\$371,672
Balances, December 31, 2011	9,949,136	\$15,591,236	\$2,148,686	(\$18,110,111)	(\$370,189)
Shares issued on private placement	10,000,000	1,006,395	-	-	1,006,395
Share issuance costs		(16,642)	-	-	(16,642)
Net loss and comprehensive loss		-	-	(347,476)	(347,476)
Stock based compensation		-	111,938	-	111,938
Balances, June 30, 2012	19,949,136	\$16,580,989	\$2,260,624	(\$18,457,587)	\$384,026

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 June 30,		Six months ended June 30,	
		2012	2011	2012	2011
Expenses					
General and administrative		\$ 134,136	\$ 168,975	\$ 210,885	\$ 272,941
Stock based compensation	4	67,526	126,728	111,938	255,075
		<u>201,662</u>	<u>295,703</u>	<u>322,823</u>	<u>528,016</u>
Finance costs					
Accretion		873	416	1,746	763
Foreign exchange (gain) loss		23,377	(15,275)	22,907	5,727
		<u>24,250</u>	<u>(14,859)</u>	<u>24,653</u>	<u>6,490</u>
Net loss and comprehensive loss		<u>\$ (225,912)</u>	<u>\$ (280,844)</u>	<u>\$ (347,476)</u>	<u>\$ (534,506)</u>
Net loss per share					
Basic and diluted		<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>

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 June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Operating activities				
Net loss	\$ (225,912)	\$ (280,844)	\$ (347,476)	\$ (534,506)
Items not involving cash:				
Accretion	873	416	1,746	763
Stock based compensation	67,526	126,728	111,938	255,075
Foreign exchange (gain) loss	(1,095)	(15,275)	782	5,727
	(158,608)	(168,975)	(233,010)	(272,941)
Changes in non-cash working capital	(141,916)	1,578	29,679	31,433
	(300,524)	(167,397)	(203,331)	(241,508)
Investing				
Proceeds on issue of share capital	1,006,395	-	1,006,395	-
Share issue costs	(16,642)	-	(16,642)	-
Evaluation and exploration expenditures	-	-	-	363,337
Changes in non-cash working capital related to capital expenditures	-	-	-	(371,348)
	989,753	-	989,753	(8,011)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	24,472	20,593	22,125	7,598
Change in cash and cash equivalents	713,701	(146,804)	808,547	(241,921)
Cash and cash equivalents, beginning of period	228,980	480,665	134,134	575,782
Cash and cash equivalents, end of period	\$ 942,681	\$ 333,861	\$ 942,681	\$ 333,861

See accompanying notes to the condensed consolidated interim financial statements.

Loon Energy Corporation
Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2012 and 2011
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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 August 28, 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 positive net 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. As at June 30, 2012 the Company has a working capital surplus of \$0.6 million and incurred a net loss of \$0.3 million for the six months ended June 30, 2012. As a result of the private placement funds received in June 2012, the Company has improved its short term and medium term liquidity position. Under the current forecast and projections, taking into account the current development plans, the Company anticipates that it can maintain operations for the next 12 months. The gross proceeds of the financing may be used to seek additional oil and gas opportunities and therefore, additional equity, debt or farm-out arrangements will be required to complete the acquisition of any such opportunities. 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.

In June 2012, the Company completed a non-brokered private placement consisting of 10,000,000 common shares at an issue price of CAD\$0.10 per share for gross proceeds of CAD\$1,000,000 (USD\$ 1,006,395). The Company paid \$16,642 in share issue costs.

Loon Energy Corporation
Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2012 and 2011
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3. Share capital (continued)

The following table summarized the weighted average common shares used in calculating the net loss per share.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Basic and diluted	12,726,914	9,949,136	11,330,351	9,949,136

4. Stock based compensation

During the three and six months ended June 30, 2012, the Company recorded \$67,526 and \$111,938 (2011 – \$126,728 and \$255,075) of stock based compensation expense. Share purchase options have a term of five years and vest annually with one third vesting immediately and one third vesting on the first and second anniversary of the grant date. The Company has not capitalized any of the stock based compensation expense. During the second quarter, the Board approved a repricing of options, from an exercise price of \$1.30 per option to \$0.16 per option, which is reflected in the stock based compensation for the quarter.

The following table summarizes information about the options outstanding as at June 30, 2012 and December 31, 2011, adjusted for the 1 for 10 share consolidation and the repricing of options:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2011	891,500	\$ 0.16	3.9
Options granted	-	-	-
Balance outstanding, June 30, 2012	891,500	\$ 0.16	3.4
Exercisable At June 30, 2012	594,333	\$ 0.16	3.4

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 and six months ended June 30, 2012, these fees totalled \$2,971 and \$5,980 (2011 - \$3,098 and \$6,195).

At June 30, 2012, the Company owed \$14,169 (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 June 30, 2012 the Company owed \$47,391 (December 31, 2011 - \$49,718) for these costs. Kulczyk Oil and the Company are related as they have four common directors, five common officers (two of whom are also directors) 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

Loon Energy Corporation
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6. Segmented information

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

As at June 30, 2012	Colombia	Peru	Corporate	Total
Total assets, at period end	<u>\$ 243,869</u>	<u>\$ 44,116</u>	<u>\$ 975,390</u>	<u>\$1,263,374</u>
For the three month period ended June 30, 2012				
General and administrative	\$ 23,330	\$ 30,081	\$ 80,725	\$ 134,136
Stock based compensation	-	-	67,526	67,526
Accretion	873	-	-	873
Foreign exchange (gain) loss	1,066	-	22,311	23,377
Net loss	<u>\$ 25,269</u>	<u>\$ 30,081</u>	<u>\$ 170,562</u>	<u>\$ 225,912</u>
Capital expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
For the six month period ended June 30, 2012				
General and administrative	\$ 28,045	\$ 38,789	\$ 144,051	\$ 210,885
Stock based compensation	-	-	111,938	111,938
Accretion	1,746	-	-	1,746
Foreign exchange (gain) loss	(7)	-	22,914	22,907
Net loss	<u>\$ 29,784</u>	<u>\$ 38,789</u>	<u>\$ 278,903</u>	<u>\$ 347,476</u>
Capital expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
As at December 31, 2011	Colombia	Peru	Corporate	Total
Total assets, at period end	<u>\$ 249,410</u>	<u>\$ 229,881</u>	<u>\$ 137,931</u>	<u>\$ 617,222</u>
For the three month period ended June 30, 2011				
General and administrative	\$ 52,282	\$ 34,450	\$ 82,243	\$ 168,975
Stock based compensation	-	-	126,728	126,728
Accretion	416	-	-	416
Foreign exchange (gain) loss	-	-	(15,275)	(15,275)
Net loss	<u>\$ 52,698</u>	<u>\$ 34,450</u>	<u>\$ 193,696</u>	<u>\$ 280,844</u>
Capital expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
For the six month period ended June 30, 2011				
General and administrative	\$ 72,944	\$ 13,267	\$ 186,730	\$ 272,941
Stock based compensation	-	-	255,075	255,075
Accretion	763	-	-	763
Foreign exchange (gain) loss	-	-	5,727	5,727
Net loss	<u>\$ 73,707</u>	<u>\$ 13,267</u>	<u>\$ 447,532</u>	<u>\$ 534,506</u>
Capital expenditures	<u>\$ 363,337</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 363,337</u>