LOON ENERGY CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011

US$

(unaudited)

NOTIFICATION OF CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed unaudited consolidated interim financial statements for the three and nine months ended September 30, 2012.

Loon Energy Corporation

Condensed Consolidated Interim Statements of Financial Position

US$

(unaudited)

	Notes	September 30 2012	December 31 2011
Assets			
Current			
Cash and cash equivalents		$ 932,841	$ 134,134
Accounts receivable		271,127	289,885
Commodity taxes receivable		23,236	193,202
		1,227,204	617,221
Property and equipment		1	1
Total Assets		$ 1,227,205	$ 617,222
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 574,331	$ 663,773
Decommissioning provision		120,000	120,000
		694,331	783,773
Decommissioning provision		206,257	203,638
		900,588	987,411
Shareholders' Equity (Deficiency)			
Share capital	3	16,570,265	15,591,236
Contributed surplus		2,320,257	2,148,686
Deficit		(18,563,905)	(18,110,111)
		326,617	(370,189)
Total Liabilities and Shareholders' Equity (Deficiency)		$ 1,227,205	$ 617,222

See accompanying notes to the condensed consolidated interim financial statements.

Loon Energy Corporation
Consolidated Statement of Changes in Equity (Deficiency)
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		-	-	(748,417)	(748,417)
Stock based compensation		-	404,875	-	404,875
Balances, September 30, 2011	9,949,136	$15,591,236	$2,089,454	($17,373,129)	$307,561
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		(27,366)	-	-	(27,366)
Net loss and comprehensive loss		-	-	(453,794)	(453,794)
Stock based compensation		-	171,571	-	171,571
Balances, September 30, 2012	19,949,136	$16,570,265	$2,320,257	($18,563,905)	$326,617

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 Sept 30, 2012	Three months ended Sept 30, 2011	Nine months ended Sept 30, 2012	Nine months ended Sept 30, 2011
Expenses					
General and administrative		$ 72,063	$ 63,148	$ 282,948	$ 336,089
Stock based compensation	4	59,633	149,800	171,571	404,875
		131,696	212,948	454,519	740,964
Finance costs					
Accretion		873	699	2,619	1,462
Foreign exchange (gain) loss		(26,251)	264	(3,344)	5,991
		(25,378)	963	(725)	7,453
Net loss and comprehensive loss		$ (106,318)	$ (213,911)	$ (453,794)	$ (748,417)
Net loss per share					
Basic and diluted		$ (0.01)	$ (0.02)	$ (0.03)	$ (0.08)

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 Sept 30, 2012	Three months ended Sept 30, 2011	Nine months ended Sept 30, 2012	Nine months ended Sept 30, 2011
Operating activities				
Net loss	$ (106,318)	$ (213,911)	$ (453,794)	$ (748,417)
Items not involving cash:				
Accretion	873	699	2,619	1,462
Stock based compensation	59,633	149,800	171,571	404,875
Foreign exchange (gain) loss	5,419	262	6,201	5,991
	(40,393)	(63,150)	(273,403)	(336,089)
Changes in non-cash working capital	72,947	(137,017)	102,626	(105,586)
	32,554	(200,167)	(170,777)	(441,675)
Investing				
Proceeds on issue of share capital	-	-	1,006,395	-
Share issue costs	(10,724)	-	(27,366)	-
Evaluation and exploration expenditures	-	-	-	363,337
Changes in non-cash working capital related to capital expenditures	-	-	-	(371,348)
	(10,724)	-	979,029	(8,011)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(31,670)	1,662	(9,545)	9,260
Change in cash and cash equivalents	(9,840)	(198,505)	798,707	(440,426)
Cash and cash equivalents, beginning of period	942,681	333,861	134,134	575,782
Cash and cash equivalents, end of period	$ 932,841	$ 135,356	$ 932,841	$ 135,356

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 November 28, 2012.

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. 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 September 30, 2012 the Company has a working capital surplus of $0.5 million and incurred a net loss of $0.5 million for the nine months ended September 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 may 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 has paid $27,366 in share issue costs.

3. Share capital (continued)

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

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2012	2011	2012	2011
Basic and diluted	19,949,136	9,949,136	14,234,850	9,949,136

4. Stock based compensation

During the three and nine months ended September 30, 2012, the Company recorded $59,633 and $171,571 (2011 – $149,800 and $404,875) 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 expense for the nine months ended September 30, 2012.

The following table summarizes information about the options outstanding as at September 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	411,000	0.10	4.9
Balance outstanding, September 30, 2012	1,302,500	$ 0.14	3.7
Exercisable At September 30, 2012	731,333	$ 0.15	3.5

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 nine months ended September 30, 2012, these fees totalled $2,950 and $9,071 (2011 - $2,991 and $9,186). At September 30, 2012, the Company owed $17,714 (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 September 30, 2012 the Company owed $82,965 (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 been obtained and will not be pursued by the Company given the relinquishment of Block 127. 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. Segmented information

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

As at September 30, 2012	Colombia	Peru	Corporate	Total
Total assets, at period end	$ 272,029	$ 43,923	$ 911,253	$ 1,227,205
For the three month period ended Sept 30, 2012				
General and administrative	$ 8,244	$ 22,021	$ 41,798	$ 72,063
Stock based compensation	-	-	59,633	59,633
Accretion	873	-	-	873
Foreign exchange (gain) loss	970	10	(27,231)	(26,251)
Net loss	$ 10,087	$ 22,031	$ 74,200	$ 106,318
Capital expenditures	$ -	$ -	$ -	$ -
For the nine month period ended Sept 30, 2012				
General and administrative	$ 36,289	$ 60,810	$ 185,849	$ 282,948
Stock based compensation	-	-	171,571	171,571
Accretion	2,619	-	-	2,619
Foreign exchange (gain) loss	963	10	(4,317)	(3,344)
Net loss	$ 39,871	$ 60,820	$ 353,103	$ 453,794
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 three month period ended Sept 30, 2011				
General and administrative	$ 19,993	$ 22,566	$ 20,589	$ 63,148
Stock based compensation	-	-	149,800	149,800
Accretion	699	-	-	699
Foreign exchange (gain) loss	-	-	264	264
Net loss	$ 20,692	$ 22,566	$ 170,653	$ 213,911
Capital expenditures	$ -	$ -	$ -	$ -
For the nine month period ended Sept 30, 2011				
General and administrative	$ 98,937	$ 35,833	$ 201,319	$ 336,089
Stock based compensation	-	-	404,875	404,875
Accretion	1,462	-	-	1,462
Foreign exchange (gain) loss	-	-	5,991	5,991
Net loss	$ 100,399	$ 35,833	$ 612,185	$ 748,417
Capital expenditures	$ 363,337	$ -	$ -	$ 363,337