# LOON ENERGY CORPORATION

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(Unaudited)

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

| | Notes | June 30, 2011 | December 31, 2010 |
|---|---|---|---|
| Assets | | | |
| Current | | | |
| Cash and cash equivalents | | $ 333,861 | $ 575,782 |
| Accounts receivable | | 250,902 | 781,134 |
| Commodity taxes receivable | | 192,170 | 190,315 |
| | | 776,933 | 1,547,231 |
| Property and equipment | 6 | 149,588 | 149,588 |
| Evaluation and exploration | 7 | 383,337 | - |
| | | 532,925 | 149,588 |
| Total Assets | | $ 1,309,858 | $ 1,696,819 |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | $ 610,222 | $ 759,446 |
| Decommissioning provision | 8 | 120,000 | - |
| | | 730,222 | 759,446 |
| Decommissioning provision | 8 | 207,964 | 286,270 |
| | | 938,186 | 1,045,716 |
| Shareholders' Equity | | | |
| Share capital | 9 | 15,591,236 | 15,591,236 |
| Contributed surplus | | 1,939,654 | 1,684,579 |
| Deficit | | (17,159,218) | (16,624,712) |
| | | 371,672 | 651,103 |
| Total Liabilities and Shareholders' Equity | | $ 1,309,858 | $ 1,696,819 |

Future operations (note 2)

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

| | Share Capital | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|
| Balance at January 1, 2010 | $ 15,139,980 | $ 1,291,873 | $ (14,102,878) | $ 2,328,975 |
| Net loss and comprehensive loss | - | - | (138,085) | (138,085) |
| Balance at June 30, 2010 | 15,139,980 | 1,291,873 | (14,240,963) | 2,190,890 |
| Balance at December 31, 2010 | 15,591,236 | 1,684,579 | (16,624,712) | 651,103 |
| Stock based compensation | - | 255,075 | - | 255,075 |
| Net loss and comprehensive loss | - | - | (534,506) | (534,506) |
| Balance at June 30, 2011 | $ 15,591,236 | $ 1,939,654 | $ (17,159,218) | $ 371,672 |

# Loon Energy Corporation

## Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

(Unaudited)

US$

| | Notes | Three months ended June 30, 2011 | Three months ended June 30, 2010 | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|---|---|---|
| Expenses | | | | | |
| Operating | | $ - | $ (6,131) | $ - | $ - |
| General and administrative | | 168,975 | 75,200 | 272,941 | 111,405 |
| Stock based compensation | 10 | 126,728 | - | 255,075 | - |
| | | 295,703 | 69,069 | 528,016 | 111,405 |
| Finance costs | | | | | |
| Accretion | 8 | 416 | 1,526 | 763 | 3,170 |
| Foreign exchange (gain) loss | | (15,275) | 14,893 | 5,727 | 23,510 |
| | | (14,859) | 16,419 | 6,490 | 26,680 |
| Net loss and comprehensive loss | | $ (280,844) | $ (85,488) | $ (534,506) | $ (138,085) |
| Net loss per share | | | | | |
| Basic and diluted | | $ (0.00) | $ (0.00) | $ (0.01) | $ (0.00) |

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

| | Notes | Three months ended June 30, 2011 | Three months ended June 30, 2010 | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|---|---|---|
| Operating activities | | | | | |
| Net loss | | $ (280,844) | $ (85,488) | $ (534,506) | $ (138,085) |
| Items not involving cash: | | | | | |
| Accretion | | 416 | 1,526 | 763 | 3,170 |
| Stock based compensation | | 126,728 | - | 255,075 | - |
| Foreign exchange (gain) loss | | (15,275) | 14,893 | 5,727 | 23,510 |
| | | (168,975) | (69,069) | (272,941) | (111,405) |
| Changes in non-cash working capital | | 1,578 | 2,220 | 23,422 | (16,824) |
| | | (167,397) | (66,849) | (249,519) | (128,229) |
| Investing | | | | | |
| Property and equipment expenditures | | - | (82,440) | - | (262,714) |
| Changes in non-cash working capital related to capital expenditures | | - | (30,762) | - | (138,344) |
| | | - | (113,202) | - | (401,058) |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | | 20,593 | (14,893) | 7,598 | (23,510) |
| Change in cash and cash equivalents | | (146,804) | (194,944) | (241,921) | (552,797) |
| Cash and cash equivalents, beginning of period | | 480,665 | 1,611,256 | 575,782 | 1,969,109 |
| Cash and cash equivalents, end of period | | $ 333,861 | $ 1,416,312 | $ 333,861 | $ 1,416,312 |

## 1. Basis of preparation

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

Statement of Compliance:

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

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

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 25, 2011.

a) Basis of measurement:

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

b) Functional and presentation currency:

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

c) Use of estimates and judgments:

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

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

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

## 2. Future operations

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

## 2. Future operations (continued)

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

## 3. International operations and commitments

### Colombia

Buganviles Association Contract

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

In September 2010, Loon Energy entered into a farm-out agreement with Petrodorado South America S.A. ("**Petrodorado**") under which Petrodorado agreed to pay the Company’s 20% share of the authorized costs to drill and complete two wells in Colombia to earn 75% (net 15%) of the Company’s interest in the Buganviles Association Contract. The Company exercised its option to earn 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 June 30, 2011, the Company holds a 10% working interest in the Buganviles Association Contract.

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

### Peru

The operator of the block in Peru in which the Company holds an interest, has elected, with Loon’s concurrence, to not proceed into the second exploration phase and allowed the license for Block 127 to expire on November 16, 2010. The operator and the Company are currently developing and executing an abandonment plan for the block, which is expected to be completed by the end of 2011.

## 4. Significant Accounting Policies

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

## 5. First time adoption of IFRS

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

## 5. First time adoption of IFRS (continued)

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

### 5.1. Consolidated Statement of Financial Position

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

| | CDN GAAP June 30, 2010 | a | d | IFRS June 30, 2010 |
|---|---|---|---|---|
| Current Assets | | | | |
| Cash | $ 1,416,312 | | | $ 1,416,312 |
| Accounts receivable | 202,483 | | | 202,483 |
| | 1,618,795 | | | 1,618,795 |
| Property and equipment | 1,846,491 | (975,243) | (511,000) | 360,248 |
| Evaluation and exporation | - | 975,243 | | 975,243 |
| | 3,465,286 | | | 2,954,286 |
| Current Liabilities | | | | |
| Accounts payable | 431,146 | | | 431,146 |
| Income taxes payable | 169,287 | | | 169,287 |
| | 600,433 | | | 600,433 |
| Decommissioning provision | 131,141 | | 31,822 | 162,963 |
| | 731,574 | | | 763,396 |
| Share capital | 15,139,980 | | | 15,139,980 |
| Contributed surplus | 1,291,873 | | | 1,291,873 |
| Deficit | (13,761,787) | 63,646 | (542,822) | (14,240,963) |
| Accumulated other comprehensive income | 63,646 | (63,646) | | - |
| | 2,733,712 | | | 2,190,890 |
| | $ 3,465,286 | | | $ 2,954,286 |

### 5.2. Consolidated Statement of Operations and Comprehensive Loss

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

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

| | Cdn GAAP Three months to June 30, 2010 | Notes | | IFRS Three months to June 30, 2010 |
|---|---|---|---|---|
| | (unaudited) | a | c | (unaudited) |
| Expenses | | | | |
| Operating | $ (6,131) | | | $ (6,131) |
| General and administrative | 75,200 | | | 75,200 |
| Depreciation and accretion | 2,457 | (2,457) | | - |
| | 71,526 | | | 69,069 |
| Accretion expense | - | 2,457 | (931) | 1,526 |
| Foreign exchange loss | 14,893 | | | 14,893 |
| | 14,893 | | | 16,419 |
| Net Loss and comprehensive loss | $ 86,419 | | | $ 85,488 |
| Basic and Diluted Loss per Share | $ 0.00 | | | $ 0.00 |

| | Cdn GAAP Six months to June 30, 2010 | Notes | | IFRS Six months to June 30, 2010 |
|---|---|---|---|---|
| | (unaudited) | a | c | (unaudited) |
| Expenses | | | | |
| General and administrative | $ 111,405 | | | $ 111,405 |
| Depreciation | 5,032 | (5,032) | | - |
| | 116,437 | | | 111,405 |
| Accretion expense | - | 5,032 | (1,862) | 3,170 |
| Foreign exchange loss | 23,510 | | | 23,510 |
| | 23,510 | | | 26,680 |
| Net Loss and comprehensive loss | $ 139,947 | | | $ 138,085 |
| Basic and Diluted Loss per Share | $ 0.00 | | | $ 0.00 |

## 5.3 Statement of Cash Flows

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

## Notes to the IFRS reconciliations

### (a) Reclassifications

#### (i) Exploration and evaluation assets

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

**5.3 Statement of Cash Flows (continued)**

**(ii) Accumulated other comprehensive income**

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

**(iii) Accretion on decommissioning provision**

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

**(b) Adjustment of stock based compensation expense**

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

**(c) Adjustment of decommissioning provision**

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

**(d) Adjustment of property and equipment**

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

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

## 6. Property and equipment

| Oil and natural gas interests | | Colombia | | Peru | | Total |
|---|---|---|---|---|---|---|
| Opening balance at January 1, 2010 | $ | 419,226 | $ | - | $ | 419,226 |
| Cost recovery from operator | | (269,638) | | - | | (269,638) |
| Balance at December 31, 2010 | | 149,588 | | - | | 149,588 |
| Additions | | - | | | | - |
| Closing balance at June 30, 2011 | $ | 149,588 | $ | - | $ | 149,588 |

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

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

## 7. Evaluation and exploration

| | Colombia | Peru | Total |
|---|---|---|---|
| Opening balance at January 1, 2010 | $ - | $ 796,231 | $ 796,231 |
| Additions | | 390,573 | 390,573 |
| Impairment | - | (1,186,804) | (1,186,804) |
| Balance at December 31, 2010 | - | - | - |
| Additions | 383,337 | - | 383,337 |
| Closing balance at June 30, 2011 | $ 383,337 | $ - | $ 383,337 |

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

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

## 8. Decommissioning Provision

The Company's decommissioning provisions result from its working interest ownership in petroleum and natural gas properties in Colombia and Peru, including well sites, gathering systems and processing facilities. The Company's estimate of the total undiscounted cash flows required to settle the obligations is $342,750 (June 30, 2010 - $174,287) which are expected to be incurred between 2011 and 2016. A risk-free rate of 4.25 percent and inflation at a rate of 3.23 percent were used to calculate the decommissioning provision. The Company recognized accretion expense of $416 and $763 for the three and six months ended June 30, 2011, respectively.

| | Colombia | Peru | Total |
|---|---|---|---|
| Balance at December 31, 2010 | $166,270 | $120,000 | $286,270 |
| Accretion expense | 763 | - | 763 |
| Provision for new wells | 40,931 | - | 40,931 |
| Balance at June 30, 2011 | $207,964 | $120,000 | $327,964 |

## 9. Share capital

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

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

| | Six months ended June 30, 2011 | 2010 |
|---|---|---|
| Weighted average number of shares outstanding | 99,491,364 | 95,991,364 |

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

## 10. Stock Based Compensation

During the three and six months ended June 30, 2011, the Company recorded $126,728 and $255,075 (2010 – nil) of stock based compensation expense respectively. The options vest annually with one third vesting immediately and one third vesting on the first and second anniversary of the grant date. The options have a term of five years. The Company has not capitalized any of the stock based compensation expense.

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

| | Options Outstanding | | Weighted Average Exercise Price | Weighted Average Contractual Life (years) |
|---|---|---|---|---|
| Balance outstanding, December 31, 2010 | 9,580,000 | $ | 0.13 | 4.1 |
| Options granted | - | | - | - |
| Balance outstanding, June 30, 2011 | 9,580,000 | $ | 0.13 | 4.1 |
| Exercisable, June 30, 2011 | 3,193,333 | $ | 0.13 | 4.1 |

## 11. Related party transactions

The Company has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil pursuant to a services agreement. Administrative costs incurred by Kulczyk Oil for the benefit of the Company are allocated to the Company based on specific identification and an allocation of administrative costs that relate to both Kulczyk Oil and the Company. For the three and six months ended June 30, 2011, these fees totalled $3,098 and $6,195 respectively (2010 - $3,045 and $6,091). At June 30, 2011, the Company owed $2,000 (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 June 30, 2011 the Company owed $63,000 (2010 - nil) for these costs. During the six months ended June 30, 2011 the Company reimbursed Kulczyk Oil for $44,924 of expenditures paid on behalf the Company (2010 - $12,000). 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 operator announced on October 25, 2010 that the joint venture will not proceed to the second exploration phase. As a result, the Company believes there is no longer a material exposure to the guarantee.

## 12. Income tax

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

| | June 30, 2011 | | June 30, 2010 | |
|---|---|---|---|---|
| Loss before income taxes | $ | (534,506) | $ | (138,085) |
| *Federal and provincial statutory rate* | | *26.5%* | | *29.00%* |
| Expected income tax recovery | $ | (141,644) | $ | (40,045) |
| Stock based compensation | | 67,595 | | - |
| Tax rate differences | | 74,049 | | 40,045 |
| Income tax expense (recovery) | $ | - | $ | - |

### 13. Segmented information

**Segmented information note**

| **Colombia** | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Operating expenses | $ - | $ (6,131) | $ - | $ - |
| General and administrative | 52,282 | 23,809 | 72,944 | 42,402 |
| Depletion, depreciation and accretion | 416 | 1,526 | 763 | 3,170 |
| Loss (gain) on foreign exchange | - | 9,183 | - | 9,183 |
| Loss before income taxes | $ 52,698 | $ 28,387 | $ 73,707 | $ 54,755 |
| Capital expenditures | - | - | - | 1,262 |
| Total assets, at period end | $ 803,701 | $ 277,808 | $ 803,701 | $ 277,808 |

| **Peru** | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| General and administrative | $ 34,450 | $ 3,508 | $ 13,267 | $ 3,508 |
| Loss (gain) on foreign exchange | - | 490 | - | 490 |
| Loss before income taxes | $ 34,450 | $ 3,998 | $ 13,267 | $ 3,998 |
| Capital expenditures | - | 82,440 | - | 261,452 |
| Total assets, at period end | $ 212,709 | $ 1,057,683 | $ 212,709 | $ 1,057,683 |

| **Corporate** | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| General and administrative | $ 82,243 | $ 47,883 | $ 186,730 | $ 65,495 |
| Stock based compensation | 126,728 | - | 255,075 | - |
| Loss (gain) on foreign exchange | (15,275) | 5,220 | 5,727 | 13,837 |
| Loss before income taxes | $ 193,696 | $ 53,103 | $ 447,532 | $ 79,332 |
| Total assets, at period end | $ 293,448 | $ 1,618,795 | $ 293,448 | $ 1,618,795 |

| **Total** | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Operating expenses | $ - | $ (6,131) | $ - | $ - |
| General and administrative | 168,975 | 75,200 | 272,941 | 111,405 |
| Stock based compensation | 126,728 | - | 255,075 | - |
| Depletion, depreciation and accretion | 416 | 1,526 | 763 | 3,170 |
| Loss (gain) on foreign exchange | (15,275) | 14,893 | 5,727 | 23,510 |
| Loss before income taxes | $ 280,844 | $ 85,488 | $ 534,506 | $ 138,085 |
| Capital expenditures | - | 82,440 | - | 262,714 |
| Total assets, at period end | $ 1,309,858 | $ 2,954,286 | $ 1,309,858 | $ 2,954,286 |