LOON ENERGY CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

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 month periods ended September 30, 2016.

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

	September 30, 2016	December 31, 2015
Assets		
Current		
Cash and cash equivalents	$ 22,922	$ 26,836
Accounts receivable and prepaid	7,433	9,918
	30,355	36,754
Property and equipment	1	1
Total Assets	$ 30,356	$ 36,755
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 413,256	$ 412,911
Notes payable (Note 3)	235,137	163,779
	648,393	576,690
Decommissioning provision	212,920	212,920
	861,313	789,610
Shareholders' Deficiency		
Share capital (Note 4)	16,570,265	16,570,265
Contributed surplus	2,360,566	2,360,566
Deficit	(19,761,788)	(19,683,686)
	(830,957)	(752,855)
Total Liabilities and Shareholders' Deficiency	$ 30,356	$ 36,755

Going Concern (Note 2(b))

See accompanying notes to the condensed consolidated interim financial statements.

Loon Energy Corporation
Condensed Consolidated Interim Statements of Changes in Equity
US$
(unaudited)

	Number of Shares	Share Capital	Contributed Surplus	Deficit	Total
Balances, December 31, 2014	19,949,136	$16,570,265	$2,360,566	($19,584,849)	($654,018)
Net loss and comprehensive loss	-	-	-	(71,527)	(71,527)
Balances, September 30, 2015	19,949,136	16,570,265	2,360,566	(19,656,376)	(725,545)
Balances, December 31, 2015	19,949,136	$16,570,265	$2,360,566	($19,683,686)	($752,855)
Net loss and comprehensive loss	-	-	-	(78,102)	(78,102)
Balances, September 30, 2016	19,949,136	$16,570,265	$2,360,566	($19,761,788)	($830,957)

See accompanying notes to the condensed consolidated interim financial statements.

Loon Energy Corporation
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
US$
(unaudited)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Expenses				
General and administrative	$ (23,114)	$ (17,341)	$ (60,420)	$ (67,787)
Finance costs				
Accretion	-	(1,015)	-	(3,045)
Interest expense (Note 3)	(6,297)	(4,537)	(17,242)	(9,110)
Foreign exchange gain/(loss)	49	1,757	(440)	2,563
	(6,248)	(3,795)	(17,682)	(9,592)
Loss before tax	(29,362)	(21,136)	(78,102)	(77,379)
Current tax recovery	-	5,852	-	5,852
Net loss and comprehensive loss	$ (29,362)	$ (15,284)	$ (78,102)	$ (71,527)
Net loss per share (basic and diluted)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

See accompanying notes to the condensed consolidated interim financial

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

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Operating activities				
Net loss	$ (29,362)	$ (15,284)	$ (78,102)	$ (71,527)
Items not involving cash:				
Accretion	-	1,015	-	3,045
Interest expense (Note 3)	6,297	4,537	17,242	9,110
Foreign exchange (gain) loss	(156)	240	1,077	(358)
	(23,221)	(9,492)	(59,783)	(59,730)
Changes in non-cash working capital	14,009	(9,123)	2,389	(52,546)
	(9,212)	(18,615)	(57,394)	(112,276)
Financing				
Issuance of note payable (Note 3)	18,967	-	54,117	100,000
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	107	(1,997)	(637)	(2,205)
Change in cash and cash equivalents	9,862	(20,612)	(3,914)	(14,481)
Cash and cash equivalents, beginning of period	13,060	64,255	26,836	58,124
Cash and cash equivalents, end of period	$ 22,922	$ 43,643	$ 22,922	$ 43,643

See accompanying notes to the condensed consolidated interim financial statements.

1. Reporting Entity

Loon Energy Corporation ("**Loon**" or the "**Company**") was incorporated pursuant to the provisions of the Business Corporation Act (Alberta) on October 30, 2008 in conjunction with the reorganization by legal plan of arrangement of Loon Energy Inc. ("**Loon Energy**"). The reorganization of Loon Energy resulted in the Company receiving the net assets associated with resource properties located in Colombia and Peru. Upon implementation of the re-organization, Loon Energy's name was changed to Kulczyk Oil Ventures Inc. ("**Kulczyk Oil**"). Effective June 24, 2013, Kulczyk Oil changed its name to Serinus Energy Inc. ("**Serinus**").

Loon is a publicly listed company whose common shares are traded under the symbol "LNE" on the Toronto Stock Exchange Venture Exchange ("**TSXV**").

Loon is domiciled in Canada and the address of its registered head office is 1500, 700 - 4th Avenue SW, Calgary, Alberta.

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 consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Company for the year ended December 31, 2015, except as described in note 2(c). The disclosures provided herein are incremental to those included within 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 Company's annual filings for the year ended December 31, 2015.

These condensed consolidated interim financial statements were approved by the Company's Board of Directors on November 23, 2016.

(b) Going concern

The Company is an oil and gas exploration and development company formerly active in Colombia, Peru and Guatemala. The Company's sole remaining property is in Colombia, which has no proved reserves and does not generate positive net production revenue. The Company received cash calls from the Colombia Operator in 2010 to fund the drilling and completion of two wells, a portion of which were paid for by a joint venture partner. As at September 30, 2016, the Company's recorded payable to the Operator remains at $400,152 (December 31, 2015 - $400,152), however the Company is not in agreement with this amount, and questions the validity of the claim.

In August 2016, the Company wound up its subsidiary in Colombia. The Peru subsidiary was successfully wound-up in April 2016, and the successful wind-up of its Guatemala subsidiary was completed in July 2015.

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 and activities 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. Beginning in Q4 2014 and continuing to date, two members of the Company's Board of Directors advanced cash to fund Loon's activities. As at September 30, 2016, the Company was indebted in the aggregate amount of $182,361 (December 31, 2015 - $142,207) to Timothy Elliott, Chairman of the Board of Directors of Loon, and in the aggregate amount of $52,776 (December 31, 2015 - $21,572) to Jock Graham, a member of the Board of Directors of Loon.

As at September 30, 2016, the Company had a working capital deficiency of $618,038 (December 31, 2015 - $539,936). The need to raise capital to fund the working capital deficiency, ongoing operations, and acquire additional concessions for exploration and development opportunities creates significant doubt as to the Company's ability to continue as a going concern. There are no guarantees that additional capital, either through additional equity, debt or farm-out arrangements will be available when needed. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

(c) Adoption of new accounting pronouncements

For the three and nine month periods ended September 30, 2016, the Company adopted the International Accounting Standards Board ("IASB") issued amendments to IAS 1, "Presentation of Financial Statements". The amendments had minimal impact on the condensed consolidated interim financial statements.

In January 2016, the IASB issued IFRS 16 which replaces the existing leasing standard (IAS Leases) and requires the recognition of most leases as finance leases on the balance sheet. IFRS 16 is effective January 1, 2019, with early application permitted. The Company is currently evaluating the impact of adopting IFRS 16 on its consolidated financial statements.

Refer to note 2 in the consolidated financial statements for the year ended December 31, 2015 for other pronouncements not yet adopted.

(d) Use of estimates and judgements

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 condensed consolidated interim financial statements are described in note 2 to the consolidated financial statements for the year ended December 31, 2015.

3. Notes Payable

	As at September 30, 2016		As at December 31, 2015	
Balance outstanding beginning of period	$	163,779	$	50,132
Issuance of note payable		54,116		100,000
Accrued interest		17,242		13,647
Balance outstanding end of period	$	235,137	$	163,779

Two members of the Company's Board of Directors advanced cash to fund Loon's activities. As at September 30, 2016, the Company was indebted in the aggregate amount of $182,361 (December 31, 2015 - $142,207) to Timothy Elliott, Chairman of the Board of Directors of Loon, and in the aggregate amount of $52,776 (December 31, 2015 - $21,572) to Jock Graham, a member of the Board of Directors of Loon.

In April, June and September 2016, the Company entered into note payable agreements with two members of the Company's Board of Directors to borrow an additional $15,607 ($20,000 CAD), $19,543 ($25,000 CAD), and $18,966 ($25,000 CAD). The aggregate of the amounts due pursuant to the notes payable are due on demand with interest calculated at a rate of 12% per annum, compounded quarterly.

4. Share Capital

(a) Authorized and issued

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There were no changes to the issued number of common shares nor their stated value during the period; there are no preferred shares issued.

(b) Per share amounts

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

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net loss attributable to shareholders	$ (29,362)	$ (15,284)	$ (78,102)	$ (71,527)
Weighted average number of shares outstanding	*19,949,136*	*19,949,136*	*19,949,136*	*19,949,136*
Loss per share - Basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

(c) Stock Options

The following table summarizes information about the options outstanding as at September 30, 2016 and December 31, 2015:

	Options Outstanding	**Weighted Average Exercise Price**	**Weighted Average Contractual Life (years)**
Balance outstanding, December 31, 2015	254,000	$ 0.10	1.7
Balance outstanding, September 30, 2016	254,000	$ 0.10	1.2
Exercisable at September 30, 2016	254,000	$ 0.10	1.2

Share purchase options have a term of five years and vest annually with one third vesting immediately and one third vesting on each of the first and second anniversaries of the grant date.

5. Related Party Transactions

The Company and Serinus are related as they have the same principal shareholder with significant influence over both companies.

The Company has no employees, and certain management and administrative services were provided by the management and staff of Serinus pursuant to a services agreement. Administrative costs incurred by Serinus for the benefit of the Company were charged to the Company based on specific identification and an allocation of administrative costs that related to both Serinus and the Company. The service agreement was terminated, effective September 1, 2016. For the three and nine month periods ended September 30, 2016, these fees totaled $1,526 and $6,020 (2015 - $2,282 and $7,144).

Effective September 1, 2016, the Company entered into an agreement to rent office space from Serinus at a rate of $763 ($1,000 CAD) per month. The agreement may be terminated by either party by giving one month's notice. For the three and nine month periods ended September 30, 2016, rental fees totaled $763 and $763 (2015- $nil and $nil).

At September 30, 2016, the Company owed $3,204 (December 31, 2015: $488) to Serinus, an amount which has since been paid in full.

As at September 30, 2016, the Company had notes payable to Timothy Elliott, Chairman of the Board of Directors of Loon Energy, in the aggregate amount of $155,379 plus $26,982 of accrued interest. The note payable is due on demand with interest calculated at a rate of 12% per annum, compounded quarterly. As at September 30, 2016, the Company had a note payable to Jock Graham, a member of the Board of Directors of Loon, in the amount of $48,738 plus $4,038 of accrued interest. The note payable is due on demand with interest calculated at a rate of 12% per annum, compounded quarterly (See Note 3).

The Company 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. The block to which the guarantee is related has been relinquished and it is not currently anticipated that the guarantee will be replaced. Further, the former Operator of the property confirmed in writing to the Company that no further liabilities relating to or arising from the property existed. As part of the Arrangement that saw Serinus spin off its Colombian and Peruvian assets to Loon in 2008, Loon and Serinus entered into an indemnification agreement in which Loon agreed to indemnify Serinus for any and all liabilities, claims, etc. associated with the share and asset transfers that were part of the spin-off of those assets, and which includes the Loon Peru Guarantee. The Peruvian company holding the assets was wound up with no further potential liability. The Colombian assets were transferred to its parent company prior to commencing wind-up of the Colombian company which was completed subsequent to quarter-end in August 2016.

6. Segmented Information

	Colombia	Guatemala	Corporate	Total
Total assets, at September 30, 2016	$ -	$ -	$ 30,356	$ 30,356
For the three month period ended September 30, 2016				
General and administrative	$ 7,543	$ -	$ 15,571	$ 23,114
Interest expense	-	-	6,297	6,297
Foreign exchange gain	-	-	(49)	(49)
Net loss	$ 7,543	$ -	$ 21,819	$ 29,362
For the nine month period ended September 30, 2016				
General and administrative	$ 23,949	$ -	$ 36,471	$ 60,420
Interest expense	-	-	17,242	17,242
Foreign exchange loss	-	-	440	440
Net loss	$ 23,949	$ -	$ 54,153	$ 78,102

	Colombia	Guatemala	Corporate	Total
Total assets, at December 31, 2015	$ 2,571	$ -	$ 34,184	$ 36,755
For the three month period ended September 30, 2015				
General and administrative	$ 3,425	$ 6,162	$ 7,754	$ 17,341
Accretion	1,015	-	-	1,015
Interest expense	-	-	4,537	4,537
Foreign exchange loss (gain)	(11,670)	-	9,913	(1,757)
Loss before tax	(7,230)	6,162	22,204	21,136
Current tax recovery	(5,852)	-	-	(5,852)
Net loss	$ (13,082)	$ 6,162	$ 22,204	$ 15,284

Loon Energy Corporation
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine month periods ended September 30, 2016 and 2015
US$
(unaudited)

For the nine month period ended September 30, 2015				
General and administrative	$ 8,763	$ 16,428	$ 42,596	$ 67,787
Accretion	3,045	-	-	3,045
Interest expense	-	-	9,110	9,110
Foreign exchange loss (gain)	(11,670)	-	9,107	(2,563)
Loss before tax	138	16,428	60,813	77,379
Current tax recovery	(5,852)	-	-	(5,852)
Net loss	$ (5,714)	$ 16,428	$ 60,813	$ 71,527