LOON ENERGY CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

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 six month periods ended June 30, 2017.

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

	June 30, 2017		December 31, 2016	
Assets				
Current				
Cash and cash equivalents	$	19,291	$	2,190
Accounts receivable and prepaid		2,401		4,183
		21,692		6,373
Property and equipment		1		1
Total Assets	$	21,693	$	6,374
Liabilities				
Current				
Accounts payable and accrued liabilities	$	407,201	$	415,392
Fees payable to directors and officers (Note 3)		212,354		-
Notes payable (Note 4)		330,218		242,240
		949,773		657,632
Decommissioning provision		212,920		212,920
		1,162,693		870,552
Shareholders' Deficiency				
Share capital (Note 5)		16,620,159		16,570,265
Contributed surplus		2,360,566		2,360,566
Deficit		(20,121,725)		(19,795,009)
		(1,141,000)		(864,178)
Total Liabilities and Shareholders' Deficiency	$	21,693	$	6,374

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, 2015	*19,949,136*	$16,570,265	$2,360,566	($19,683,686)	($752,855)
Net loss and comprehensive loss	-	-	-	(48,740)	(48,740)
Balances, June 30, 2016	*19,949,136*	16,570,265	2,360,566	(19,732,426)	(801,595)
Balances, December 31, 2016	*19,949,136*	$16,570,265	$2,360,566	($19,795,009)	($864,178)
Issuance of shares	*3,989,243*	49,894			49,894
Net loss and comprehensive loss				(326,716)	(326,716)
Balances, June 30, 2017	*23,938,379*	$16,620,159	$2,360,566	($20,121,725)	($1,141,000)

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Expenses				
General and administrative	$ (25,364)	$ (19,369)	$ (305,374)	$ (37,306)
Finance costs				
Interest expense (Note 4)	(9,106)	(5,545)	(20,269)	(10,945)
Foreign exchange gain/(loss)	(3,810)	(210)	(1,073)	(489)
	(12,916)	(5,755)	(21,342)	(11,434)
Net loss and comprehensive loss	$ (38,280)	$ (25,124)	$ (326,716)	$ (48,740)
Net loss per share (basic and diluted)	$ (0.00)	$ (0.00)	$ (0.02)	$ (0.00)

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,	
	2017	**2016**	**2017**	**2016**
Operating activities				
Net loss	$ (38,320)	$ (25,124)	$ (326,716)	$ (48,740)
Items not involving cash:				
Interest expense (Note 4)	9,106	5,545	20,269	10,945
Foreign exchange (gain) loss	3,927	833	1,584	1,233
	(25,287)	(18,746)	(304,863)	(36,562)
Changes in non-cash working capital	476	(5,936)	(6,594)	(11,620)
	(24,811)	(24,682)	(311,457)	(48,182)
Financing				
Fees payable to Directors and Officers (Note 3)	-	-	257,110	-
Fees payable to Directors and Officers settled for shares	(49,894)	-	(49,894)	-
Issuance of notes payable (Note 4)	26,005	-	70,941	-
Issuance of shares (Note 5a)	49,894	-	49,894	-
	26,005		328,051	
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	652	(623)	507	(744)
Change in cash and cash equivalents	1,886	9,845	17,101	(13,776)
Cash and cash equivalents, beginning of period	17,405	3,215	2,190	26,836
Cash and cash equivalents, end of period	$ 19,291	$ 13,060	$ 19,291	$ 13,060

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.H" on NEX of the Toronto Stock Exchange Venture Exchange ("TSXV"). On March 3, 2017, the Company's listing transferred to NEX, and its trading symbol changed to "LNE.H".

Loon is domiciled in Canada and the address of its registered head office is 1170, 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, 2016, 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, 2016.

These consolidated financial statements were approved by the Company's Board of Directors on August 28, 2017.

(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 June 30, 2017, the Company's recorded payable to the Operator remains at $400,152 (December 31, 2016 - $400,152), however the Company is not in agreement with this amount, and questions the validity of the claim.

Loon's recent activities consist primarily of the investigation of additional business opportunities and complying with the legal and regulatory requirements to wind-up its foreign subsidiaries. Subsidiaries were successfully wound up in Colombia (completed August 2016), Peru (completed April 2016) and Guatemala (completed in July 2015). Subsequent to this quarter end, the subsidiary in Bermuda was successfully wound up (completed in July 2017).

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 June 30, 2017, the

Company was indebted in the aggregate amount of $240,882 (December 31, 2016 - $187,870) to Timothy Elliott, Chairman of the Board of Directors of Loon, and in the aggregate amount of $89,336 (December 31, 2016 - $54,369) to Jock Graham, a member of the Board of Directors of Loon.

As at June 30, 2017, the Company had a working capital deficiency of $928,081 (December 31, 2016 - $651,259). 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 six month periods ended June 30, 2017, the Company did not adopt any new IFRS standards nor were any applicable pronouncements announced. Refer to note 2 in the consolidated financial statements for the year ended December 31, 2016 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, 2016.

3. Fees Payable to Directors and Officers

	As at June 30, 2017	As at December 31, 2016
Bonus payable to Directors and Officers	$ 257,110	$ -
Foreign exchange adjustment	1,873	-
Accrued interest	3,265	-
Settled for shares of the Company	(49,894)	-
Balance outstanding end of period	$ 212,354	$ -

On February 21, 2017, the Board of Directors declared a bonus payable in Canadian currency to Directors and Officers of the Company in the amount of $257,110 (Cdn$ 339,150). On April 26, 2017, $49,894 (Cdn$ 66,817) of this bonus was settled through the issuance by the Company of shares in its common stock. (Note 5). As at June 30, 2017 the unpaid bonus is valued at $209,089 (Cdn$ 271,333), after accounting for changes to foreign exchange rates, plus accrued interest of $3,265 (Cdn$ 4,237). Interest does not accrue on the unpaid balance of Fees Payable to Directors and Officers subsequent to March 31, 2017.

4. Notes Payable

	As at June 30, 2017	As at December 31, 2016
Balance outstanding beginning of period	$ 242,240	$ 163,779
Issuance of notes payable	70,941	54,117
Accrued interest	17,037	24,344
	$ 330,218	$ 242,240

Two members of the Company's Board of Directors have regularly advanced cash to fund Loon's activities. As at June 30, 2017, the Company was indebted in the aggregate amount of $240,882 (December 31, 2016 - $187,870) to Timothy Elliott, Chairman of the Board of Directors of Loon, and in the aggregate amount of $89,336 (December 31, 2016 - $54,369) to Jock Graham, a member of the Board of Directors of Loon.

5. 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.

On April 26, 2017, the Company issued 3,989,243 common shares with a fair market value of $Cdn 0.017 ($US 0.0123) per common share, to settle outstanding Fees Payable to Directors and Officers of the Company. The Company's common shares are listed for trading on the NEX board of the TSX Venture Exchange and as such are subject to a minimum issuance price deemed to be $Cdn 0.05 per share.

	Shares	Share Capital ($)
Balance, December 31, 2016	19,949,136	$ 16,570,265
Shares issued	3,989,243	49,894
Balance, June 30, 2017	23,938,379	$ 16,620,159

(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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net loss attributable to shareholders	$ (38,280)	$ (25,124)	$ (326,716)	$ (48,740)
Weighted average number of shares outstanding	*22,798,595*	*19,949,136*	*21,381,737*	*19,949,136*
Loss per share - Basic and diluted	$ (0.00)	$ (0.00)	$ (0.02)	$ (0.00)

(c) Stock Options

The following table summarizes information about the options outstanding as at June 30, 2017 and December 31, 2016:

	Options Outstanding	**Weighted Average Exercise Price**	**Weighted Average Contractual Life (years)**
Balance outstanding, December 31, 2016	254,000	$ 0.10	0.7
Balance outstanding, June 30, 2017	Nil	$ 0.10	0.4
Exercisable at June 30, 2017	Nil	$ 0.10	0.4

By agreement with the options holders, all outstanding share purchase options have been cancelled and as at June 30, 2017 there are no unexercised or unvested options.

6. 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. The service agreement with Serinus was terminated effective September 1, 2016. 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. For the three and six month periods ended June 30, 2017, these fees totaled $nil and $nil (2016 - $2,318 and $4,493). At June 30, 2017, the Company owed $nil (December 31, 2016: $nil) to Serinus.

As at June 30, 2017, the Company had notes payable to Timothy Elliott, Chairman of the Board of Directors of Loon Energy, in the aggregate amount of $196,220 (2016 - $130,000) plus $44,662 (2016 - $16,920) of accrued interest. The note payable is due on demand with interest calculated at a rate of 12% per annum, compounded quarterly. As at June 30, 2017, the Company had notes payable to Jock Graham, a member of the Board of Directors of Loon Energy, in the amount of $78,838 (2016 - $20,000) plus $10,498 (2016 - $2,259) of accrued interest. The note payable is due on demand with interest calculated at a rate of 12% per annum, compounded quarterly (See Note 4).

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.

7. Segmented Information

	Colombia	Corporate	Total
Total assets, at June 30, 2017	$ -	$ 21,693	$ 21,693
For the three month period ended June 30, 2017			
General and administrative	$ -	$ 25,364	$ 25,364
Interest expense	-	9,106	9,106
Foreign exchange loss	-	3,810	3,810
Net loss	$ -	$ 38,280	$ 38,280
For the six month period ended June 30, 2017			
General and administrative	$ -	$ 305,374	$ 305,374
Interest expense	-	20,269	20,269
Foreign exchange loss	-	1,073	1,073
Net loss	$ -	$ 326,716	$ 326,716

Loon Energy Corporation
Notes to the Condensed Consolidated Interim Financial Statements
For the three and six month periods ended June 30, 2017 and 2016
US$
(unaudited)

	Colombia	Corporate	Total
Total assets, at December 31, 2016	$ -	$ 6,374	$ 6,374
For the three month period ended June 30, 2016			
General and administrative	$ 12,103	$ 7,266	$ 19,369
Interest expense	-	5,545	5,545
Foreign exchange loss	-	210	210
Net loss	$ 12,103	$ 13,021	$ 25,124
For the six month period ended June 30, 2016			
General and administrative	$ 16,406	$ 20,900	$ 37,306
Interest expense	-	10,945	10,945
Foreign exchange loss	-	489	489
Net loss	$ 16,406	$ 32,334	$ 48,740