LOON ENERGY CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

US$

Management's Report

The Consolidated Financial Statements of Loon Energy Corporation and related financial information were prepared by, and are the responsibility of Management. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Consolidated Financial Statements and related financial information reflect amounts which must of necessity be based upon informed estimates and judgments of Management with appropriate consideration to materiality. The Company has developed and maintains systems of controls, policies and procedures in order to provide reasonable assurance that assets are properly safeguarded, and that the financial records and systems are appropriately designed and maintained, and provide relevant, timely and reliable financial information to Management.

KPMG LLP are the external auditors appointed by the shareholders, and they have conducted an independent examination of the corporate and accounting records in order to express an Auditors' Opinion on these Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the Consolidated Financial Statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Company's annual Consolidated Financial Statements and Management's Discussion and Analysis and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

Signed: Norman W. Holton
Chief Executive Officer

Signed: Paul H. Rose
Chief Financial Officer

May 30, 2018

Loon Energy Corporation
Consolidated Statements of Financial Position
US$

	December 31, 2017	December 31, 2016
Assets		
Current		
Cash and cash equivalents	$ 2,299	$ 2,190
Prepaid expenses and other current assets	7,718	4,183
	10,017	6,373
Property and equipment	-	1
Total Assets	$ 10,017	$ 6,374
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	$ 35,194	$ 415,392
Fees payable to directors and officers (Note 7)	219,665	-
Notes payable (Note 8)	379,000	242,240
	633,859	657,632
Decommissioning provision (Note 9)	-	212,920
	633,859	870,552
Shareholders' Deficiency		
Share capital (Note 10)	16,620,159	16,570,265
Contributed surplus	2,360,566	2,360,566
Deficit	(19,604,567)	(19,795,009)
	(623,842)	(864,178)
Total Liabilities and Shareholders' Deficiency	$ 10,017	$ 6,374

Going Concern (Note 2(b))

See accompanying notes to the consolidated financial statements.

Loon Energy Corporation
Consolidated Statements of Changes in Equity
US$

	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	-	-		(111,323)	(111,323)
Balances, December 31, 2016	19,949,136	$16,570,265	$2,360,566	($19,795,009)	($864,178)
Balances, December 31, 2016	19,949,136	$16,570,265	$2,360,566	($19,795,009)	($864,178)
Common shares issued	3,989,243	49,894	-	-	49,894
Net income and comprehensive income	-	-	-	190,442	190,442
Balances, December 31, 2017	23,938,379	$16,620,159	$2,360,566	($19,604,567)	($623,842)

See accompanying notes to the consolidated financial statements.

Loon Energy Corporation
Consolidated Statements of Operations and Comprehensive Income (Loss)
US$

	Year ended December 31, 2017	2016
Gain on disposal of property interest (Note 4a)	$ 613,071	$ -
Operations		
General and administrative	(372,414)	(86,527)
Financing		
Interest expense	(41,596)	(24,344)
Foreign exchange loss	(8,619)	(452)
	(50,215)	(24,796)
Net income (loss)	190,442	(111,323)
Current tax	-	-
Net income (loss) and comprehensive income (loss)	$ 190,442	$ (111,323)
Net income (loss) per share (basic and diluted)	$ 0.01	$ (0.01)

See accompanying notes to the consolidated financial statements.

Loon Energy Corporation
Consolidated Statements of Cash Flows
US$

	Year ended December 31, 2017	2016
Operating activities		
Net income (loss)	$ 190,442	$ (111,323)
Items not involving cash:		
Gain on disposal of property interest (Note 4a)	(613,071)	-
Interest expense	41,596	24,344
Foreign exchange loss	10,752	142
	(370,281)	(86,837)
Changes in non-cash working capital	271,096	8,065
	(99,185)	(78,772)
Financing		
Issuance of notes payable (Note 8)	99,177	54,117
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	117	9
Change in cash and cash equivalents	109	(24,646)
Cash and cash equivalents, beginning of year	2,190	26,836
Cash and cash equivalents, end of year	$ 2,299	$ 2,190

See accompanying notes to the consolidated 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 were traded under the symbol "LNE" on the TSX Venture Exchange ("TSXV") until March 3, 2017, when 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 1100, 700 - 4th Avenue SW, Calgary, Alberta.

2. Basis of Preparation

(a) Statement of compliance

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Company's Board of Directors on May 30, 2018.

(b) Going concern

The Company was formerly an oil and gas exploration and development company with activities in Colombia, Peru and Guatemala. The Company's last remaining property interest was in Colombia, and this property interest, which had no proved reserves and did not generate positive net production revenue was relinquished during 2017 as part of a settlement of the Company's obligations arising from its interest in this property.

Loon's present activities consist of the investigation and evaluation of future business opportunities. During 2017, the Company's management was also engaged in complying with the legal and regulatory requirements to wind-up its holding company in Bermuda (completed July 2017). The Company had previously wound up its subsidiaries in Colombia (completed August 2016), Peru (completed April 2016), and Guatemala (completed July 2015).

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. Former exploration and development activities were financed by equity issuances and by farm-out arrangements with third parties who paid 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 through 2016 and 2017, two members of the Company's Board of Directors advanced cash to fund Loon's activities. As at December 31, 2017, the Company was indebted in the aggregate amount of $269,925 to Timothy Elliott, Chairman of the Board of Directors of Loon, and in the aggregate amount of $109,075 to Jock Graham, a member of the Board of Directors of Loon. Subsequent to the Company's year-end, the Chief Executive Officer of the Company provided additional cash advances of $12,200 ($15,000 Canadian Dollars) pursuant to agreements containing the same terms and conditions as earlier notes payable agreements (Note 8).

As at December 31, 2017, the Company had a working capital deficiency of $623,842 of which $598,665 is the aggregate of Notes Payable to shareholders and amounts due to Directors and Officers of the Company. The need to raise capital to fund the working capital deficiency, ongoing operations, and the acquisition of future business opportunities that may arise, indicates the existence of a material uncertainty that may cast 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) Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis.

(d) Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and its subsidiaries.

(e) Recent accounting pronouncements

Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue, and related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The new standard moves away from a revenue recognition model based on an earnings process to an approach that is based on transfer of control of a good or service to a customer. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded to include the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers.

The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The standard is required to be adopted retrospectively to each period presented or retrospective using a modified approach as a cumulative-effect adjustment as of the date of adoption. The Company currently has no revenues and consequently no customer contracts that are within the scope of the new guidance and will analyze individual contracts to identify the impact on revenues as a result of implementing the new standard when such contracts are entered.

Financial Instruments
In July 2014, the IASB issued the last version of IFRS 9 "Financial Instruments" ("IFRS 9") to replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages it financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The IAS 39 measurement categories for financial assets will be replaced by fair value through profit or loss, fair value through other comprehensive income ("FVOCI") and amortized cost. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivable and available for sale.

IFRS 9 retains most of the IAS 39 requirements for financial liabilities. However, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded through other comprehensive income rather than net earnings. Loon currently does not designate any financial liabilities as fair value through profit or loss; therefore, there will be no impact on the accounting for financial liabilities.

The new standard also changes how debt modifications are treated. Under IAS 39, debt modifications did not have an impact on profit and loss. However, under IFRS 9, the difference between the carrying amount of the financial liability, and the present value of the estimated future contractual cash flows discounted at the original effective interest rate, must be recognized in profit and loss.

The new standard also introduces an expected credit loss model for evaluating impairment of financial assets. The new model will result in more timely recognition of expected credit losses. The Company does not expect the change in the impairment model to have a material impact on the consolidated financial statements. In addition, IFRS 9 provides a simplified hedge accounting model, aligning hedge accounting more closely with risk management activities. The Company currently does not apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018 with early adoption permitted. The Company has determined that adoption of IFRS 9 will have no impact on retained earnings.

Leases
In January 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16"), which requires entities to recognize assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue and what assets would be recorded.

IFRS 16 is effective for years beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 "Revenue From Contracts With Customers" has been adopted. The standard shall be applied retrospectively to each period presented or using a modified retrospective approach where the Company recognizes the cumulative effect as an adjustment to the opening retained earnings and applies the standard prospectively. The Company currently has no lease obligations that fall within the scope of the new standard and has determined that adoption of IFRS 9 will have no impact on retained earnings.

3. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 9 – Decommissioning provision
- Note 2(b) – Going concern

At December 31, 2017, there were no critical judgments required to be made by management when applying the Company's significant accounting policies.

4. International Operations and Commitments

(a) Colombia

Buganviles Association Contract
Through a farm-in agreement, the Company earned a 20% non-operated participating interest in a 60,817 hectare block of land covered by the Buganviles Association Contract between Holywell Resources S.A. and Empresa Colombiana de Petróleos ("**Ecopetrol**"), the Colombian national oil company. The Company's interest was reduced to a 10% net working interest after a farm-out agreement in 2010 with Petrodorado South America S.A. ("**Petrodorado**") under the terms of which Petrodorado paid the Company's share of costs to drill and complete two wells. The Buganviles Association Contract lands are located in the Upper Magdelena Valley area of central Colombia.

The Company had previously fulfilled its required work commitments with respect to this contract area. The only well capable of production on this property, the Delta-1 well, was suspended prior to the end of 2016, and did not produce commercial volumes of oil or gas in 2016 or 2017. The Operator had proposed a plan to abandon all remaining wells within the Buganviles Association Contract, however the joint venture partners had not accepted such proposal.

In August 2016, Loon Colombia was successfully wound-up and deregistered as a Bermuda company, however the Company's ownership interest in the Buganviles Association Contract had been transferred to Loon Energy Corporation, the Canadian parent.

In November 2017, the Company reached a settlement agreement with the Operator, under the terms of which the Company assigned its interest in the Buganviles Association Contract ("the Contract") to the Operator in exchange for the release of the Company from any and all existing and potential future liabilities related to or arising from the Contract. The Company had previously written the value of its Colombian property investment down to a nominal amount, however the November 2017 settlement agreement had the effect of the Company derecognizing operating liabilities in the amount of $400,152 together with the remaining Decommissioning Provision of $212,920, all of which related to the Buganviles Association Contract, resulting in a gain on disposal in the amount of $613,071.

(b) Peru

The Company, through its then indirectly wholly-owned subsidiary, Loon Peru Limited ("**Loon Peru**") had an exploration license contract with PERUPETRO S.A. granting Loon Peru the right to explore for and produce hydrocarbons from Block 127 in the Maranon Basin area of northeast Peru. The Block 127 license was relinquished in 2010 and all petroleum and natural gas property expenditures were fully written off in 2010. During 2014, the Company received notification from the Operator, Compañía Española de Petróleos, S.A. ("**CEPSA**") that Loon Peru no longer had any obligations owed arising from its former property in Peru, including further abandonment and/or reclamation activities.

On April 14, 2016, Loon Peru was successfully wound-up and deregistered as a company.

(c) Guatemala

During 2013, the Company pursued the acquisition of exploration blocks in Guatemala. Activities were abandoned in 2014 when Company officials were notified that only one of three exploration blocks bid for had been awarded. A subsidiary and branch established for the purpose of making the bids were wound-up in 2016.

5. Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiaries.

(i) Subsidiaries

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control exists when the Company is exposed to or has the rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. During a portion of 2017 and all of 2016, Loon had one direct wholly-owned subsidiary, Loon Energy Holdings Limited ("**LEHL**"). Through LEHL, Loon had, during a portion of 2016, three indirect wholly-owned subsidiaries, Loon Colombia Limited ("**LCL**"), Loon Peru Limited ("**LPL**") and Loon Petroleo Limited (**"Loon Petroleo"**).

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the income statement.

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

The reporting and functional currency of the Company and all its subsidiaries is the United States dollar ("**US$**" or "**$**"). Transactions in foreign currencies are translated to United States dollars at exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the Company's functional currency at the period-end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

(c) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(d) Finance income and expenses

Finance expense comprises interest on notes payable.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments with original maturities of three months or less.

(f) Decommissioning obligation

The Company's former activities gave rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

(g) Financial instruments

All financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("**FVTPL**"), available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities classified as FVTPL are measured at fair value with changes in fair values recognized in net earnings or loss. Financial assets available-for-sale are measured at fair value, with changes in fair values recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Accounts receivable are designated as loans and receivables. Accounts payable, accrued liabilities and notes payable are designated as other financial liabilities.

The fair value of cash and cash equivalents, prepaid expenses and other current assets, accounts payable and accrued liabilities, fees payable to Directors and notes payable approximate their carrying value. The Company does not hold any other financial instruments.

(h) Stock based compensation

The Company has issued options to directors, officers and consultants to purchase common shares. The fair value of options on the date they are granted is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(i) Income or Loss per share

Basic income or loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to officers.

(j) Income tax

Income tax expense includes current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

6. Accounts Payable and Accrued Liabilities

	As at December 31, 2017	As at December 31, 2016
Joint Venture (Note 4a)	$ -	$ 400,152
Accounts payable and accruals	35,194	15,240
Balance outstanding end of year	$ 35,194	$ 415,392

7. Fees Payable to Directors and Officers

	As at December 31, 2017	As at December 31, 2016
Bonus payable to Directors and Officers	$ 257,110	$ -
Foreign exchange adjustment	9,218	-
Accrued interest	3,231	-
Settled in shares of the company	(49,894)	-
Balance outstanding end of year	$ 219,665	$ -

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). Interest was accrued on this bonus at a rate of 12% per annum until March 31, 2017. On April 26, 2017 $49,894 (Cdn$ 66,817) of this bonus was settled through the issuance of common shares of the Company (Note 10(a)). As at December 31, 2017 the unpaid bonus is valued at $216,288 (Cdn$ 271,333), after accounting for changes to foreign exchange rates, plus accrued interest of $3,377 (Cdn$ 4,237). By decision of the Board of Directors, interest on the unpaid balance of Fees Payable to Directors and Officers does not accrue subsequent to March 31, 2017.

8. Notes Payable

	As at December 31, 2017	As at December 31, 2016
Balance outstanding beginning of year	$ 242,240	$ 163,779
Issuance of notes payable	99,177	54,117
Accrued interest	38,159	24,344
Foreign exchange adjustment	(576)	-
Balance outstanding end of year	$ 379,000	$ 242,240

Notes payable are due to the Chairman of the Board of the Company and a member of the Board of Directors of the Company. They consist of US dollar notes of $275,058, and accrued interest of $75,438 and Canadian dollar notes of $27,645 (Cdn $34,680) and accrued interest of $859 ($Cdn 1,078). During the year ended December 31, 2017, additional notes were issued which totaled $99,177 (2016 - $54,117). 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 and compounded quarterly.

Subsequent to year-end, an additional $12,200 ($15,000 Canadian Dollars) was advanced to the Company by the Chief Executive Officer on the same terms and conditions as the previous notes.

9. Decommissioning Provision

The Company's decommissioning provisions resulted from its working interest ownership in a petroleum and natural gas property in Colombia, including well sites, gathering systems and processing facilities. The Company's estimate of the total undiscounted cash flows required to settle the obligations was $212,920 at December 31, 2016. During 2017, the Company assigned its interest in the Colombia property to the Operator for consideration including the settlement of all existing and potential future liabilities or obligations in respect of these properties (Note 4a). Accordingly, the decommissioning provision was derecognized and taken into income in the current year.

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Balance at December 31, 2015	$	209,572
Accretion expense		3,348
Balance at December 31, 2016		212,920
Derecognition on settlement of Colombian obligation (Note 4a)		(212,920)
Balance at December 31, 2017	$	-

10. 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 at a fair value of $Cdn 0.017 ($US 0.0123) per common share to settle outstanding Fees Payable to Directors and Officers of the Company in the amount of $49,894. The Company's common shares are listed for trading on the NEX board of the TSX Venture Exchange.

(b) Per share amounts

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

	Year ended December 31,			
	2017		2016	
Net income (loss) attributable to shareholders	$	190,442	$	(111,323)
Weighted average number of shares outstanding		*22,670,565*		*19,949,136*
Income (loss) per share - Basic and diluted	$	0.01	$	(0.01)

(c) Stock Options

The following table summarizes information about the options outstanding as at December 31, 2017 and 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, December 31, 2017	Nil		n/a	n/a
Exercisable at December 31, 2017	Nil		n/a	n/a

During the second quarter of 2017, option holders agreed to cancel all outstanding share purchase options and as at December 31, 2017, there are no unexercised or unvested options. All share purchase options vested during 2014.

11. Personnel Expenses

The Company has no employees and recorded $nil (2016 - $nil) of stock-based compensation expense.

12. Financial Risk Management

(a) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net income or the value of its financial instruments.

(i) Interest rate risk

The Company maintains its cash and cash equivalents in instruments that are redeemable at any time without penalty thereby reducing its exposure to interest rate fluctuations thereon. Interest rate risk is not considered material.

(ii) Foreign currency exchange risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar ("**CAD**") and the United States dollar. At December 31, 2017 and 2016 the Company's primary foreign currency exposure relates to Canadian dollar cash and accounts receivable balances net of accounts payable and accrued liabilities in Canada as follows:

	As at December 31, 2017	2016
Cash and cash equivalents	$ 2,245	$ 399
Prepaid expenses and other current assets	3,757	701
Accounts payable	(43,748)	(20,456)
Promissory notes and interest payable	(35,758)	-
Directors' fees and interest payable	(275,570)	-
Net foreign exchange exposure	$ (349,074)	$ (19,356)
US$ equivalent at year end exchange rate	$ (278,247)	$ (14,416)

Based on the net foreign exposure at the end of the year, if these currencies had strengthened or weakened by 10% compared to the U.S. dollar and all other variables were held constant, the after tax net earnings would have decreased or increased by approximately $27,825 (2016 - $1,440).

(b) Credit Risk

Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash and cash equivalents.

The Company's accounts receivable as at December 31, 2017 included $2,282 (2016 - $522) of goods and services taxes recoverable from the Government of Canada. The Company does not consider the credit risk relating to the outstanding amounts to be significant.

(c) Liquidity Risk and Capital Management

The Company was an exploration and development resource company formerly active in South and Central America, however its last remaining resource property interest was relinquished during 2017. The Company's management is currently evaluating new business opportunities, however, without internally generated cash flow and a consequent reliance on shareholder advances to fund activities, there are inherent liquidity risks including the possibility that additional financing may not be available to the Company on either a timely or commercial basis, or that future business opportunities may not be available at a cost the Company can afford. The need to raise capital to fund the working capital deficiency, ongoing operations, and evaluate and acquire new business opportunities creates significant doubt as to the Company's ability to continue as a going concern (See Note 2(b)). There are no guarantees that additional capital, either through additional equity, debt or farm-out arrangements will be available when needed.

As at December 31, 2017, the Company's working capital deficiency was $623,842 (December 31, 2016: $621,259). Consistent with prior years, the Company manages its capital structure to maximize financial flexibility, making adjustments in light of changes in economic conditions and risk characteristics of the underlying assets. Further, each potential acquisition and investment opportunity is assessed to determine the nature and total amount of capital required together with the relative proportions of debt and equity to be deployed. The Company does not presently utilize any quantitative measures to monitor its capital.

13. Related Party Transactions

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

The Company has no employees, and management and administrative services are provided by Officers and consultants to the Company. Certain management and administrative services were formerly 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 year ended December 31, 2017, these fees totaled $nil (2016 - $6,020). At December 31, 2017, the Company owed $nil (December 31, 2016: $nil) to Serinus related to management and administrative services.

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 was terminated in February, 2017. For the year ended December 31, 2017, rental fees totaled $1,058 (2016 - $3,025). Pursuant to the rental agreement, the Company had outstanding deposits receivable at December 31, 2016 of $763. These deposits were applied against rent expense in 2017.

As at December 31, 2017, the Company had notes payable to Timothy Elliott, Chairman of the Board of Directors of Loon Energy, in the aggregate amount of $210,042 (2016 - $155,379) plus $59,883 (2016 - $32,491) of accrued interest. The notes payable are due on demand with interest calculated at a rate of 12% per annum, compounded quarterly. As at December 31, 2017, the Company had notes payable to Jock Graham, a member of the Board of Directors of Loon, in the amount of $92,661 (2016 - $48,738) plus $16,413 (2016 - $5,631) of accrued interest.). During the year ended December 31, 2017, additional notes were issued which totaled $99,177 (2016 - $54,117). The notes payable are due on demand with interest calculated at a rate of 12% per annum, compounded quarterly (See Note 7).

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. The Company's former interests in all relevant properties in Colombia and Peru have since been relinquished and accordingly, the Company's management believes that no liabilities relevant to the indemnification agreement are likely to arise.

14. Income Tax

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

	December 31, 2017	December 31, 2016
Income (loss) before income taxes	$ 190,442	$ (111,323)
Federal and provincial statutory rate	27.00%	27.00%
Expected income tax payable (recovery)	51,419	(30,057)
Changes in unrecognized deferred tax assets	(51,419)	21,938
Expiry of tax deductions	-	-
Tax rate differences and other	-	8,119
Current income tax recovery	$ -	$ -

The general federal/provincial tax rate in Alberta, Canada was 27.0% in 2017 (2016 – 27.0%). The Company is not currently taxable in any of the jurisdictions within which it conducts operations.

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2017	December 31, 2016
Asset retirement obligations	$ -	$ 212,920
Non-capital losses	2,545,761	2,027,106
	2,545,761	$ 2,240,026

Deferred tax assets have not been recognized in respect of these items because it is not considered probable that future taxable profits will be available against which such losses could be utilized.

The Company has non-capital losses for Canadian income tax purposes of $2.5 million (2016 - $1.8 million) that expire between 2028 and 2037.

15. Segmented Information

	Colombia	**Corporate**	**Total**
Total assets, at December 31, 2017	$ -	$ 10,017	$ 10,017
For the year ended December 31, 2017			
Gain on disposal of property interest	$ 613,071	$ -	$ 613,071
General and administrative	-	(372,414)	(372,414)
Interest expense	-	(41,596)	(41,596)
Foreign exchange loss	-	(8,619)	(8,619)
Earnings before tax	$ 613,071	(422,629)	190,442
Current tax	-	-	-
Net earnings	$ 613,071	$ (422,629)	$ 190,442

	Colombia	Corporate	Total
Total assets, at December 31, 2016	$ -	$ 6,374	$ 6,374
For the year ended December 31, 2016			
General and administrative	$ 23,949	$ 62,578	$ 86,527
Accretion	-	-	-
Interest expense	-	24,344	24,344
Foreign exchange gain	-	452	452
Loss before tax	23,949	87,374	111,323
Current tax recovery	-	-	-
Net loss	$ 23,949	$ 87,374	$ 111,323

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Loon Energy Corporation

We have audited the accompanying consolidated financial statements of Loon Energy Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Loon Energy Corporation as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 2(b) in the consolidated financial statements which describes that Loon Energy Corporation will require capital to fund the working capital deficiency, ongoing operations and the acquisition of future business opportunities. This condition, as described further in note 2(b), indicates the existence of a material uncertainty that may cast significant doubt about Loon Energy Corporation's ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

May 30, 2018
Calgary, Canada