



LOON ENERGY CORPORATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
US\$



Management's Report

The Financial Statements of Loon Energy Corporation and related financial information were prepared by, and are the responsibility of Management. The Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The 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.

Kenway Mack Slusarchuk Stewart 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 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 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 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

June 15, 2020

Independent Auditors' Report

To: The Shareholders of **Loon Energy Corporation**

Opinion

We have audited the financial statements of Loon Energy Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2019 and the statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2019.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) to the financial statements which indicates that at December 31, 2019 the Company had a deficit of \$19,788,386. This condition, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Independent Auditors' Report (continued)

Responsibilities of Management and Those Charged With Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this Independent Auditors' report is Kevin B. Napady, CPA, CA.



Chartered Professional Accountants

June 15, 2020
Calgary, Alberta

Loon Energy Corporation
Statements of Financial Position
US\$

	December 31, 2019	December 31, 2018
Assets		
Current		
Cash	\$ 7,625	\$ 41,666
Prepaid expenses and other current assets	1,082	8,413
Total Assets	\$ 8,707	\$ 50,079
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 5)	\$ 62,809	\$ 77,456
Fees payable to directors and officers (Note 6)	212,161	201,993
Notes payable to related parties (Note 7)	541,398	444,280
Notes payable (Note 8)	-	115,038
	816,368	838,767
Shareholders' Deficiency		
Share capital (Note 9)	16,620,159	16,620,159
Contributed surplus	2,360,566	2,360,566
Deficit	(19,788,386)	(19,769,413)
	(807,661)	(788,688)
Total Liabilities and Shareholders' Deficiency	\$ 8,707	\$ 50,079
Going Concern (Note 2(b))		
Contingency (Note 7)		

See accompanying notes to the financial statements.

Loon Energy Corporation
Statements of Operations and Comprehensive Loss
US\$

	Year ended December 31,	
	2019	2018
Operations		
General and administrative	\$ (30,217)	\$ (164,856)
Financing		
Interest expense	(102,001)	(29,596)
Foreign exchange gain (loss)	(22,778)	29,606
	(124,779)	10
Other		
Gain on termination of Note Payable (Note 8)	136,023	-
Net loss	(18,973)	(164,846)
Current tax	-	-
Net loss and comprehensive loss	\$ (18,973)	\$ (164,846)
Net loss per share (basic and diluted)	\$ (0.00)	\$ (0.01)

See accompanying notes to the financial statements.

Loon Energy Corporation
Statements of Cash Flows
US\$

	Year ended December 31,	
	2019	2018
Operating activities		
Net loss	\$ (18,973)	\$ (164,846)
Items not involving cash:		
Gain on termination of Note Payable	(136,023)	-
Interest expense	102,001	29,596
Unrealized foreign exchange (gain) loss	24,948	(31,726)
	(28,047)	(166,976)
Changes in non-cash working capital	(11,250)	44,374
	(39,297)	(122,602)
Financing		
Issuance of notes payable (Notes 7 and 8)	6,066	161,963
	(810)	6
Change in cash	(34,041)	39,367
Cash, beginning of year	41,666	2,299
Cash, end of year	\$ 7,625	\$ 41,666

See accompanying notes to the financial statements.

Loon Energy Corporation
Statements of Changes in Equity
US\$, except share numbers

	Number of Shares	Share Contributed Capital	Surplus	Deficit	Total
Balances, December 31, 2017	23,938,379	\$16,620,159	\$2,360,566	(\$19,604,567)	(\$623,842)
Net loss and comprehensive loss	-	-	-	(164,846)	(164,846)
Balances, December 31, 2018	23,938,379	\$16,620,159	\$2,360,566	(\$19,769,413)	(\$788,688)
Balances, December 31, 2018	23,938,379	\$16,620,159	\$2,360,566	(\$19,769,413)	(\$788,688)
Net loss and comprehensive loss	-	-	-	(18,973)	(18,973)
Balances, December 31, 2019	23,938,379	\$16,620,159	\$2,360,566	(\$19,788,386)	(\$807,661)

See accompanying notes to the financial statements.

Loon Energy Corporation
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
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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**”).

On September 14, 2018, Loon entered into an amalgamation agreement (the “**Agreement**”) with Pacific West Canopy Holdings Ltd (“**PacWest**”), a privately held corporation existing under the Business Corporations Act (British Columbia). The execution and subsequent completion of the proposed amalgamation (the “**Transaction**”) was scheduled to close by February 28, 2019 and was dependent upon the fulfillment of the terms and conditions of the Agreement by Loon and PacWest. PacWest had not advanced to Loon the remaining \$Cdn 100,000 (see also Note 8) as specified in the Agreement. Effective December 31, 2019 Loon and PacWest mutually agreed to terminate the Agreement and release each other from any obligations, including repayment of Notes Payable and accrued interest (see also Note 8).

Loon is a Reporting Issuer in Canada, 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’s shares have been suspended from trading since October 31, 2018.

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

These financial statements were approved by the Company’s Board of Directors on TBD, 2020.

(b) Going concern

These 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. Beginning in Q4 2014 and continuing through 2018 and 2019, members of the Company’s Board of Directors advanced cash to fund Loon’s activities. As at December 31, 2019, the Company was indebted in the aggregate amount of \$368,523 to Timothy Elliott, Chairman of the Board of Directors of Loon, in the aggregate amount of \$144,454 to Jock Graham, a member of the Board of Directors of Loon and in the aggregate amount of \$28,421 to Norman Holton, Chief Executive Officer of the Company.

As at December 31, 2019, the Company had a working capital deficiency of \$807,661 of which \$753,559 is the aggregate of Notes Payable to Directors 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 or debt will be available when needed. These financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

(c) Basis of measurement

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

Loon Energy Corporation
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
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(d) Functional and presentation currency

The financial statements are presented in U.S. dollars. The functional currency of the Company is the U.S. dollar.

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 financial statements is included in the following notes:

- Note 2(b) – Going concern

At December 31, 2019, there were no critical judgments required to be made by management when applying the Company's significant accounting policies.

4. Significant Accounting Policies

(a) Foreign currency

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.

(b) 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.

(c) 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.

Loon Energy Corporation
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US\$

(d) 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.

(e) Financial instruments

Fair value hierarchy

The fair value hierarchy established three levels to classify the inputs for valuation techniques used to measure fair value as follows:

Level 1 inputs are quoted prices in active markets for identical assets and liabilities;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly, and

Level 3 inputs are unobservable inputs for the asset or liability.

Classification and measurement of financial assets

Financial assets are recognized initially at fair value. Subsequent to initial recognition, non-derivative financial assets are measured based on their classification as follows:

- i) Amortized costs: includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cashflows that represent solely payments of principal and interest; or
- ii) Fair value through other comprehensive income (“FVOCI”): includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or
- iii) Fair value through profit or loss (“FVTPL”): includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss.

Cash is recognized at fair value through net loss. Gains or losses resulting from the periodic revaluation are recognized in the statements of net loss and comprehensive loss.

The Company has no financial assets measured at amortized cost or FVOCI.

Classification and measurement of financial liabilities

A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative or designated as FVTPL on initial recognition.

The Company’s accounts payable and accrued liabilities, notes payable and fees payable are measured at amortized cost.

Accounts payable and accrued liabilities are initially measured at fair value and subsequently measured at amortized cost. Accounts payable and accrued liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Notes payable is initially measured at fair value. The contractual cash flows of the long-term debt are subsequently measured at amortized cost. Notes payable is classified as current when payment is due within 12 months after the reporting period.

At December 31, 2019, the fair value of the Company’s accounts payable and accrued liabilities and notes payable approximate their book value due to the short term nature of the liabilities.

The Company has no financial liabilities measured at FVTPL.

Loon Energy Corporation
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(f) 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.

(g) 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.

(h) Standards currently adopted

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 defines requirements for recognizing and measuring financial assets, financial liabilities and contracts to buy or sell non-financial items.

The Company adopted the new standard effective January 1, 2018. The adoption of this standard did not have a material impact on the Financial Statements.

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.

Loon adopted IFRS 16 on January 1, 2019, using the 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.

Loon Energy Corporation
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5. Accounts Payable and Accrued Liabilities

	As at December 31,	
	2019	2018
Balance outstanding end of year	\$ 62,809	\$ 77,456

Accounts payable is mainly comprised of legal fees related to the proposed amalgamation (since terminated) with PacWest and accruals for public company costs of compliance.

6. Fees Payable to Directors and Officers

	As at December 31,	
	2019	2018
Bonus payable to Directors and Officers	\$ 201,993	\$ 219,665
Foreign exchange adjustment	10,168	(17,672)
Balance outstanding end of year	\$ 212,161	\$ 201,993

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.

As at December 31, 2019 the unpaid bonus is valued at \$208,899 (\$Cdn 271,333), after accounting for changes to foreign exchange rates, plus accrued interest of \$3,262 (\$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.

7. Notes Payable to Related Parties

	As at December 31,	
	2019	2018
Balance outstanding beginning of year	\$ 444,280	\$ 379,000
Issuance of notes payable	6,066	46,693
Accrued interest	87,144	24,274
Foreign exchange adjustment	3,908	(5,687)
Balance outstanding end of year	\$ 541,398	\$ 444,280

Notes payable are due to three members of the Board of Directors of the Company. They consist, in aggregate, of US dollar notes of \$275,058, and accrued interest of \$168,939 and Canadian dollar notes of \$78,480 (\$Cdn 101,936) and accrued interest of \$18,921 (\$Cdn 24,576).

During the year ended December 31, 2019, additional notes were issued which totaled \$6,066 (2018 - \$46,693). 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.

Pursuant to the terms of the Agreement, the Directors agreed that interest would not accrue on the notes after June 30, 2018, but would be reinstated and applied retroactively, from July 1, 2018 if the Transaction was not completed by June 30, 2019. As the Transaction was not completed on June 30, 2019, interest of \$56,148 has been reinstated, and recorded in the current period results.

Loon Energy Corporation
Notes to the Financial Statements
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US\$

8. Notes Payable

	As at December 31,	
	2019	2018
Balance outstanding beginning of year	\$ 115,038	\$ -
Issuance of notes payable	-	115,270
Accrued interest	14,857	5,273
Foreign exchange adjustment	6,128	(5,505)
Forgiveness of loan and interest	(136,023)	-
Balance outstanding end of year	\$ -	\$ 115,038

In connection with the Transaction, the Company received \$76,560 (\$Cdn 100,000) on July 27, 2018 from an entity which is not at arm's length with certain persons related to PacWest and issued an unsecured promissory note related thereto. The Note accrued interest at a rate of 12% per annum, compounding quarterly and became due and payable on the earlier of two business days following completion of the Transaction and July 27, 2019.

Pursuant to the Agreement, PacWest had agreed to advance an additional \$Cdn 150,000 under similar terms and conditions. On September 21, 2018, the Company issued a promissory note with a principal amount of \$38,710 (\$Cdn 50,000). The notes accrued interest at a rate of 12% per annum, compounding quarterly and became due and payable on the earlier of two business days following completion of the Transaction and September 21, 2019. No further advances were received by the Company and effective December 31, 2019 Loon and PacWest mutually agreed to terminate the Agreement and release each other from any obligations, including repayment of loans and accrued interest.

9. 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.

(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,	
	2019	2018
Net income (loss) attributable to shareholders	\$ (18,973)	\$ (164,846)
<i>Weighted average number of shares outstanding</i>	<i>23,938,379</i>	<i>23,938,379</i>
Income (loss) per share - Basic and diluted	\$ (0.00)	\$ (0.01)

(c) Stock options

As at December 31, 2019, there are no unexercised or unvested options.

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10. 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, 2019 and 2018 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,	
	2019	2018
Cash and cash equivalents	\$ 9,834	\$ 56,637
Prepaid expenses and other current assets	1,430	2,276
Accounts payable	(81,575)	(105,661)
Notes and interest payable to related parties	(126,512)	(99,068)
Directors' fees and interest payable	(275,570)	(275,570)
Notes and interest payable	-	(154,942)
Net foreign exchange exposure	\$ (472,393)	\$ (576,328)
US\$ equivalent at year end exchange rate	\$ (363,695)	\$ (422,448)

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 \$36,370 (2018 - \$42,245).

(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, 2019 included \$222 (2018 - \$1,669) 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.

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(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 Director 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 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 (See Note 2(b)). There are no guarantees that additional capital, either through additional equity or debt will be available when needed.

As at December 31, 2019, the Company's working capital deficiency was \$807,661 (December 31, 2018: \$788,688). 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.

11. Related Party Transactions

During the year ended December 31, 2019, additional funding was advanced to the Company by members of the Board of Directors in the form of notes payable which totaled \$6,066 (2018 - \$46,693). The notes payable are due on demand with interest calculated at a rate of 12% per annum, compounded quarterly (See Note 8).

As at December 31, 2019, the Company had notes payable to Timothy Elliott, Chairman of the Board of Directors of Loon Energy, in the aggregate amount of \$232,765 (2018 - \$225,150) plus \$135,758 (2018 - \$76,536) 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, 2019, the Company had notes payable to Jock Graham, a member of the Board of Directors of Loon, in the amount of \$97,676 (2018 - \$96,773) plus \$46,778 (2018 - \$23,171) of accrued interest. As at December 31, 2019, the Company had notes payable to Norman Holton, Chief Executive Officer of Loon, in the amount of \$23,097 (2018 - \$21,990) plus \$5,324 (2018 - \$660) of accrued interest.

12. Income Tax

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

	December 31,	
	2019	2018
Income (loss) before income taxes	\$ (18,973)	\$ (164,846)
Federal and provincial statutory rate	26.50%	27.00%
Expected income tax payable (recovery)	(5,028)	(44,508)
Foreign exchange and other	(92,949)	58,138
Tax rate changes	97,705	-
Changes in unrecognized deferred tax assets	272	(13,630)
Current income tax recovery	<u>\$ -</u>	<u>\$ -</u>

The general federal/provincial tax rate in Alberta, Canada was 26.5% in 2019 (2018 – 27.0%).

Loon Energy Corporation
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
US\$

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

	December 31,	
	2019	2018
Non-capital losses	\$ 2,550,436	\$ 2,482,282

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 \$2.6 million (2018 - \$2.5 million) that expire between 2028 and 2037.

13. Subsequent event

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, was declared a global pandemic by the World Health Organization and governments worldwide have enacted emergency measures to combat the spread of the virus. These measures, which include public health measures requesting the public to stay home as much as possible, the implementation of travel bans, self imposed quarantine periods and physical distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets and oil prices have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation.