



LOON ENERGY CORPORATION

FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

US\$

(unaudited)

NOTIFICATION OF CONDENSED UNAUDITED 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 interim financial statements for the three and nine-month periods ended September 30, 2020.

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

	September 30, 2020	December 31, 2019
Assets		
Current		
Cash and cash equivalents	\$ 15,542	\$ 7,625
Prepaid expenses and other current assets	2,030	1,082
Total Assets	<u>\$ 17,572</u>	<u>\$ 8,707</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 3)	\$ 3,519	\$ 62,809
Fees payable to directors and officers (Note 4)	206,595	212,161
Notes payable to related parties (Note 5)	613,189	541,398
	<u>823,303</u>	<u>816,368</u>
Shareholders' Deficiency		
Share capital (Note 7)	16,620,159	16,620,159
Contributed surplus	2,360,566	2,360,566
Deficit	<u>(19,786,456)</u>	<u>(19,788,386)</u>
	<u>(805,731)</u>	<u>(807,661)</u>
Total Liabilities and Shareholders' Deficiency	<u>\$ 17,572</u>	<u>\$ 8,707</u>

Going Concern (Note 2(b))

Contingency (Note 5)

See accompanying notes to the financial statements.

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

	Three months ended September		Nine months ended September	
	2020	2019	2020	2019
Gain on termination of accounts payable	\$ 35,825	\$ -	\$ 35,825	\$ -
Operations				
General and administrative	(3,025)	(4,157)	(9,897)	(17,975)
Finance costs				
Interest expense (Note 5)	(222)	(19,019)	(32,978)	(82,281)
Foreign exchange gain/(loss)	(8,064)	5,537	8,980	(13,261)
	<u>(8,286)</u>	<u>(13,482)</u>	<u>(23,998)</u>	<u>(95,542)</u>
Net income (loss) and comprehensive loss income (loss)	<u>\$ 24,514</u>	<u>\$ (17,639)</u>	<u>\$ 1,930</u>	<u>\$ (113,517)</u>
Net income (loss) per share (basic and diluted)	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>

See accompanying notes to the condensed interim financial statements.

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

	Three months ended September		Nine months ended September	
	2020	2019	2020	2019
Operating activities				
Net income (loss)	\$ 24,514	\$ (17,639)	\$ 1,930	\$ (113,517)
Items not involving cash:				
Interest expense (Notes 5 & 6)	222	19,019	32,978	82,281
Foreign exchange (gain) loss	9,530	(5,690)	(7,920)	12,013
	34,266	(4,310)	26,988	(19,223)
Changes in non-cash working capital	(51,377)	4,551	(60,185)	(20,502)
	<u>(17,111)</u>	<u>241</u>	<u>(33,197)</u>	<u>(39,725)</u>
Financing				
Issuance of notes payable (Note 5)	22,517	-	41,030	-
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(269)	133	84	946
Change in cash and cash equivalents	5,137	374	7,917	(38,779)
Cash and cash equivalents, beginning of period	10,405	2,513	7,625	41,666
Cash and cash equivalents, end of period	<u>\$ 15,542</u>	<u>\$ 2,887</u>	<u>\$ 15,542</u>	<u>\$ 2,887</u>

Loon Energy Corporation
Condensed Interim Statements of Changes in Equity
US\$, except share numbers
(unaudited)

	Number of Shares	Share Capital	Contributed Surplus	Deficit	Total
Balances, December 31, 2018	23,938,379	\$16,620,159	\$2,360,566	(\$19,769,413)	(\$788,688)
Net loss and comprehensive loss	-	-	-	(113,517)	(113,517)
Balances, September 30, 2019	23,938,379	\$16,620,159	\$2,360,566	(\$19,882,930)	(\$902,205)
Balances, December 31, 2019	23,938,379	\$16,620,159	\$2,360,566	(\$19,788,386)	(\$807,661)
Net loss and comprehensive loss	-	-	-	1,930	1,930
Balances, September 30, 2020	23,938,379	\$16,620,159	\$2,360,566	(\$19,786,456)	(\$805,731)

See accompanying notes to the financial statements.

Loon Energy Corporation
Notes to the Condensed Interim Financial Statements
For the Nine months ended September 30, 2020 and 2019
US\$
(unaudited)

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. 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 6).

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 were suspended from trading on October 31, 2018 and subsequently resumed trading on October 8, 2020.

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 condensed 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 interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements of the Company for the year ended December 31, 2019, 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, 2019.

These financial statements were approved by the Company’s Board of Directors on November 26, 2020.

(b) Going concern

The Company was formerly an oil and gas exploration and development company, and its last remaining property interest was relinquished during 2017.

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 2019, members of the Company’s Board of Directors advanced cash to fund Loon’s activities. As at September 30, 2020, the Company was indebted in the aggregate amount of \$431,283 to Timothy Elliott, Chairman of the Board of Directors of Loon, in the aggregate amount of \$152,550 to Jock Graham, a member of the Board of Directors of Loon and in the aggregate amount of \$29,356 to Norman Holton, Chief Executive Officer of the Company.

As at September 30, 2020, the Company had a working capital deficiency of \$805,731, of which \$819,784 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

Loon Energy Corporation
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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) Adoption of new accounting pronouncements

For the nine-month period ended September 30, 2020, the Company did not adopt any new IFRS standards nor were any applicable pronouncements announced.

(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 interim financial statements are described in note 3 to the financial statements for the year ended December 31, 2019.

3. Accounts Payable and Accrued Liabilities

	As at September 30, 2020	As at December 31, 2019
Balance outstanding, end of period	\$ 3,519	\$ 62,809

Accounts payable is mainly comprised of accruals for public company costs of compliance. In September 2020, the Company negotiated a reduction of outstanding legal fees in the amount of \$35,712 (Cdn\$ 47,388). The gain was recognized in the period ended September 30, 2020.

4. Fees Payable to Directors and Officers

	As at September 30, 2020	As at December 31, 2019
Fees payable to Directors and Officers	\$ 212,161	\$ 201,993
Foreign exchange adjustment	(5,566)	10,168
Balance outstanding end of period	\$ 206,595	\$ 212,161

On February 21, 2017, the Board of Directors agreed to provide compensation in lieu of fees 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 amount was settled through the issuance of common shares of the Company. As at September 30, 2020 the remaining amount unpaid was valued at \$203,418 (Cdn\$ 271,333), after accounting for changes to foreign exchange rates, plus accrued interest of \$3,177 (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.

Loon Energy Corporation
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5. Notes Payable to Related Parties

	As at September 30, 2020	As at December 31, 2019
Balance outstanding beginning of period	\$ 541,398	\$ 444,280
Issuance of notes payable	41,030	6,066
Accrued interest	32,978	87,144
Foreign exchange adjustment	(2,217)	3,908
Balance outstanding end of period	<u>\$ 613,189</u>	<u>\$ 541,398</u>

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 \$195,903 and Canadian dollar notes of \$117,655 (Cdn\$ 156,936) and accrued interest of \$24,573 (Cdn\$ 32,777).

During the nine-month period ended September 30, 2020, \$41,030 (Cdn\$ 55,000) of new notes were issued (2019 - \$nil) in recognition of further cash advances made, with \$22,517 (Cdn\$ 30,000) of these cash advances having been made in the last quarter. 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.

On October 13, 2020, Directors and Officers entered into debt settlement agreements with the Company, under the terms of which the aggregate of all notes payable outstanding on June 30, 2030 were settled for proceeds consisting of Common Shares issued at a price of Cdn\$ 0.05 per share (see Note 9). Further, interest on these Notes to be settled ceased to accrue after June 30, 2020.

6. Notes Payable

	As at September 30, 2020	As at December 31, 2019
Balance outstanding beginning of period	\$ -	\$ 115,038
Accrued interest	-	14,857
Foreign exchange adjustment	-	6,128
Forgiveness of loan and interest	-	(136,023)
Balance outstanding end of period	<u>\$ -</u>	<u>\$ -</u>

In connection with the PacWest 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.

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7. 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.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net income (loss) attributable to shareholders	\$ 24,514	\$ (17,639)	\$ 1,930	\$ (113,517)
Weighted average number of shares outstanding	23,938,379	23,938,379	23,938,379	23,938,379
Income (loss) per share - Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

(c) Stock Options

As at September 30, 2020, there are no unexercised or unvested options.

8. Related Party Transactions

As at September 30, 2020, the Company had notes payable to Timothy Elliott, Chairman of the Board of Directors of Loon Energy, in the aggregate amount of \$273,040 (2019 - \$226,022) plus \$158,243 (2019 - \$124,866) of accrued interest. During the nine month period ended September 30, 2020, \$41,030 (Cdn\$ 55,000) of new notes were issued (2019 - \$nil) in recognition of further cash advances made by Mr. Elliott, with \$22,517 (Cdn\$ 30,000) of these cash advances having been made in the last quarter. The notes payable are due on demand with interest calculated at a rate of 12% per annum, compounded quarterly. As at September 30, 2020, the Company had notes payable to Jock Graham, a member of the Board of Directors of Loon, in the aggregate amount of \$97,182 (2019 - \$97,315) plus \$55,368 (2019 - \$42,445) of accrued interest. As at September 30, 2020, the Company had notes payable to Norman Holton, Chief Executive Officer of Loon, in the aggregate amount of \$22,491 (2019 - \$22,653) plus \$6,865 (2019 - \$4,403) of accrued interest.

On October 13, 2020, Directors and Officers entered into debt settlement agreements with the Company, under the terms of which the aggregate of all notes payable outstanding on June 30, 2030 were settled for proceeds consisting of Common Shares issued at a price of Cdn\$ 0.05 per share (see Note 9). Further, interest on these Notes to be settled ceased to accrue after June 30, 2020.

The above related party transactions were recorded at exchange amounts agreed to by both parties which approximate fair value.

9. Subsequent Events

On October 8, 2020, the Company's shares resumed trading on NEX.

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On October 13, 2020, the Company entered into debt settlement agreements with its Directors and Officers. Directors and Officers agreed to forgive an aggregate of \$143,841 of the Fees Payable to Directors and Officers (see Note 4).and to settle remaining Fees Payable and certain of the Notes Payable totaling, in aggregate, \$646,316 by way of issuance of common shares at a price per share of Cdn\$ 0.05. The debt settlement agreements stipulate an exchange rate of Cdn\$ 1.32 per US\$ 1.00, and accordingly Cdn\$ 853,134 will be settled upon issuance of 17,062,680 common shares, such issuance being subject to TSXV and shareholder approval. After settlement of the debts in accordance with these agreements, the sole Note Payable remaining outstanding will be \$22,517 (Cdn\$30,000) due to Tim Elliott, Chairman of the Board of Directors which reflects a cash advance made to the Company by Mr. Elliott on September 1, 2020.

10. Novel Coronavirus (COVID-19)

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.