# LOON ENERGY CORPORATION

## FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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: *"Michael P. Stein"*

Chief Executive Officer

Signed: "*Paul H. Rose*"

Chief Financial Officer

March 23, 2021

# 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, 2020 and 2019 and the statements of operations and comprehensive income, changes in equity and cash flows for the years 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, 2020 and 2019, and its financial performance and its cash flows for the years 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.

## Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) to the financial statements which indicates that at December 31, 2020 the Company had a deficit of $19,690,460. 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.

1500-333 11 Avenue SW Calgary AB T2R 1L9 Tel: 403.233.7750 Fax: 403.266.5267
www.kmss.ca

# 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.

Kenway Mack Slusarchuk Stewart LLP

Chartered Professional Accountants

March 23, 2021
Calgary, Alberta

# Loon Energy Corporation
## Statements of Financial Position
### US$

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Current assets | | |
| Cash | $ 5,330 | $ 7,625 |
| Prepaid expenses and other receivables (Note 6) | 3,326 | 1,082 |
| Total Assets | $ 8,656 | $ 8,707 |
| | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 7) | $ 12,310 | $ 62,809 |
| Fees payable to directors and officers (Note 8, 10) | - | 212,161 |
| Notes payable to related parties (Note 9, 10) | 56,504 | 541,398 |
| | 68,814 | 816,368 |
| | | |
| Shareholders' Deficiency | | |
| Share capital (Note 12(a)) | 17,269,736 | 16,620,159 |
| Contributed surplus | 2,360,566 | 2,360,566 |
| Deficit | (19,690,460) | (19,788,386) |
| | (60,158) | (807,661) |
| Total Liabilities and Shareholders' Deficiency | $ 8,656 | $ 8,707 |

Going Concern (Note 2(b))

See accompanying notes to the financial statements.

# Loon Energy Corporation
## Statements of Operations and Comprehensive Income
## US$

| | Year ended December 31, 2020 | 2019 |
|---|---|---|
| Operations | | |
| General and administrative | $ (59,207) | $ (30,217) |
| Financing | | |
| Interest expense (Note 9) | (33,694) | (102,001) |
| Foreign exchange gain (loss) | 2,418 | (22,778) |
| | (31,276) | (124,779) |
| Other | | |
| Gain on settlement of debts (Note 5) | 188,409 | 136,023 |
| Net income/(loss) and comprehensive income/(loss) | $ 97,926 | $ (18,973) |
| Net income/(loss) per share (basic and diluted) (Note 12(b)) | $ 0.02 | $ (0.00) |

See accompanying notes to the financial statements.

**Loon Energy Corporation**
**Statements of Cash Flows**
**US$**

| | Year ended December 31, 2020 | 2019 |
|---|---|---|
| Operating activities | | |
| Net income (loss) | $ 97,926 | $ (18,973) |
| Items not involving cash: | | |
| Gains on settlement of debts (Note 5) | (188,409) | (136,023) |
| Interest expense (Note 9) | 33,694 | 102,001 |
| Unrealized foreign exchange loss | 320 | 24,948 |
| | (56,469) | (28,047) |
| Changes in non-cash working capital | (16,634) | (11,250) |
| | (73,103) | (39,297) |
| Financing | | |
| Issuance of notes payable (Note 9) | 73,008 | 6,066 |
| Foreign exchange loss realized on settlement of debt | (2,667) | - |
| | 70,341 | 6,066 |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | 467 | (810) |
| Change in cash | (2,295) | (34,041) |
| Cash, beginning of year | 7,625 | 41,666 |
| Cash, end of year | $ 5,330 | $ 7,625 |

See accompanying notes to the financial statements.

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

| | Number of Shares | Share Capital | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|
| Balances, December 31, 2018 | 5,984,600 | $16,620,159 | $2,360,566 | ($19,769,413) | ($788,688) |
| Net loss and comprehensive loss | - | - | - | (18,973) | (18,973) |
| Balances, December 31, 2019 | 5,984,600 | $16,620,159 | $2,360,566 | ($19,788,386) | ($807,661) |
| | | | | | |
| Balances, December 31, 2019 | 5,984,600 | $16,620,159 | $2,360,566 | ($19,788,386) | ($807,661) |
| Shares issued (Note 12(a)) | 4,265,670 | 649,577 | - | - | 649,577 |
| Net income and comprehensive income | - | - | - | 97,926 | 97,926 |
| Balances, December 31, 2020 | 10,250,270 | $17,269,736 | $2,360,566 | ($19,690,460) | ($60,158) |

Effective December 17, 2020, the Company's shares were consolidated such that one new common share was issued for every four common shares outstanding. For ease of comparison, the number of shares presented throughout these financial statements have been adjusted retroactively to reflect the consolidation.

See accompanying notes to the 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**").

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. Effective December 17, 2020, the Company's shares were consolidated such that one new common share was issued for every four common shares previously outstanding.

Loon's registered head office is located at 1100, 700 - 4th Avenue SW, Calgary, Alberta.

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). 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 11).

## 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 ("**IASB**").

These financial statements were approved by the Company's Board of Directors on March 23, 2021.

### (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 2014 and continuing through 2020, certain members of the Company's Board of Directors advanced cash to fund Loon's activities and were issued secured promissory notes (the "**Notes**") by the Company. As at December 31, 2020, and after the Debt Settlement agreements described in Notes 9 and 10 were concluded, the Company was indebted in the aggregate amount of $24,507 (2019 - $368,523) to Mr. Timothy Elliott, Chairman of the Board of Directors of Loon, in the aggregate amount of $31,997 (2019 - $nil) to Mr. Michael Stein, Director and Chief Executive Officer of Loon, in the aggregate amount of $nil (2019 - $144,454) to Jock Graham, a former member of the Board of Directors of Loon and in the aggregate amount of $nil (2019 - $28,421) to Norman Holton, President and Corporate Secretary of the Company.

As at December 31, 2020, the Company had a working capital deficiency of $60,158 of which $56,504 is the aggregate of Notes Payable to Mr. Elliott and Mr. Stein. 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.

### (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 Note 2(b) – Going concern.

Management made critical judgments to determine that the fair market value to be assigned to the Loon shares issued from treasury regarding the Debt Settlements would fall within a range of $Cdn 0.005 per share to $Cdn 0.05 per share. Management has used a fair market value for the treasury shares issued of $Cdn 0.05 per share based on NEX trading activity during the period before and after the share issuance together with the TSXV's minimum share issuance price and approval received from the TSXV to issue the shares for the Debt Settlement.

At December 31, 2020, there were no other 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 in effect 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) Finance income and expenses

Finance expense consists of interest on notes payable.

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

### (c) 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.

### (d) 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 cost: 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 operations and comprehensive income.

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

At December 31, 2020, 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.

**(e) 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.

### (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 directors and 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

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods after December 31, 2020. There are currently no such pronouncements that are expected to have a significant impact on the Company's financial statements.

## 5. Gains on Settlement of Debts

| | As at December 31, 2020 | 2019 |
|---|---|---|
| Gain on settlement of Accounts Payable (Note 7) | $ 35,826 | $ - |
| Gain on settlement of Fees Payable to Directors and Officers (Note 8) | 123,030 | - |
| Gain on settlement of Notes Payable (Note 9) | 29,553 | - |
| Gain on termination of PacWest note (Note 11) | - | 136,023 |
| Balance outstanding end of year | $ 188,409 | $ 136,023 |

The Company realized gains during the year ended December 31, 2020 from terminations and settlements of various indebtedness for amounts less than their carrying value. Certain accounts payable to an un-related supplier of services were formally terminated for less than their carrying value. Debt settlement agreements (the "**Settlement Agreements**") entered into with Directors and Officers related to unpaid fees and Notes Payable were also settled for less than their carrying value through the issuance of common shares. (See Notes 8, 9 and 10).

During the year ended December 31, 2019 a gain was realized on termination of notes payable to PacWest pursuant to a proposed amalgamation agreement that was terminated by mutual agreement. (See Note 11).

## 6. Prepaid Expenses and Other Receivables

Accounts receivable includes Goods and Services Tax ("GST") input tax credits receivable for the fourth quarter of 2020 and prepaid listing fees of the TSX which relate to the first quarter of 2021 and will be recognized as expense in 2021. The prior year balance includes GST input tax credits of the fourth quarter of 2019 and unamortized balances of General and Administrative Expenses paid on an annual basis and recognized in expense over the period of service.

## 7. Accounts Payable and Accrued Liabilities

Accounts payable is comprised primarily of legal fees and accruals for public company costs of compliance. Accounts payable in 2019 was mainly comprised of legal fees related to the proposed amalgamation agreement (since terminated) with Pac West and accruals for public company costs of compliance.

## 8. Fees Payable to Directors and Officers

| | As at December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Bonus payable to Directors and Officers | $ 212,161 | $ 201,993 |
| Foreign exchange adjustment | (2,343) | 10,168 |
| Fees settled through the issuance of shares (Note 10) | (86,788) | - |
| Fees forgiven by Directors and Officers (Note 10) | (123,030) | - |
| Balance outstanding end of year | $ - | $ 212,161 |

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 on the unpaid liability was accrued 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.

On October 13, 2020 Directors and Officers entered into Settlement Agreements with the Company (Note 10). Prior to execution of the Settlement Agreements, the unpaid bonus portion of the Fees Payable were valued at $206,593 ($Cdn 271,333), after accounting for changes to foreign exchange rates, plus accrued interest of $3,226 ($Cdn 4,237) for total Fees Payable of $209,818 ($Cdn $275,570).

## 9. Notes Payable to Related Parties

| | As at December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Balance outstanding beginning of year | $ 541,398 | $ 444,280 |
| Issuance of Notes Payable | 73,008 | 6,066 |
| Accrued interest | 33,694 | 87,144 |
| Foreign exchange adjustment | 746 | 3,908 |
| Notes and interest settled through the issuance of shares (Note 10) | (562,789) | - |
| Notes and interest forgiven by Note holders (Note 10) | (29,553) | - |
| Balance outstanding end of year | $ 56,504 | $ 541,398 |

Beginning in December 2014 and continuing through 2019 and 2020, three members of the Company's Board of Directors at that time, advanced cash to fund Loon's activities. In exchange for the advances, the Company issued promissory notes which were due on demand with interest calculated at a rate of 12% per annum and compounded quarterly.

On October 13, 2020, the three Directors entered into Settlement Agreements with the Company (Note 10) to settle all Notes payable and accrued interest which were unpaid as at June 30, 2020, including an advance made during the year and prior to June 30, 2020 by one of these Directors in the amount of $18,513. The value of the Notes and accrued interest included in the Settlement Agreements on the settlement date was $592,342. Pursuant to the Settlement Agreements, interest on Notes advanced prior to June 30, 2020, ceased to accrue after June 30, 2020.

An advance of $22,518 (Cdn$ 30,000) was made by Mr. Elliott, Chairman of the Board, on September 1, 2020 and an advance of $31,978 ($Cdn 40,715) was made by Mr. Stein, Chief Executive Officer and Director, on December 29, 2020. These two Notes are secured and due on demand with interest calculated at a rate of 12% per annum and compounded annually on December 31. Upon demand notice having been received, the interest rate increases to 24% per annum on any balance that remains unpaid. The balance outstanding of the Note Payable to Mr. Elliott as at December 31,2020, after unrealized foreign exchange adjustments, is valued at $23,562 ($Cdn $30,000) plus accrued interest of $945 ($Cdn 1,203) and the balance outstanding of the Note Payable to Mr. Stein is valued at $31,978 ($Cdn 41,705) plus accrued interest of $20 ($Cdn 25).

Pursuant to the terms of the PacWest Agreement, the three Noteholders 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 prior year results.

## 10. Settlement of Debts

| | Settled | Forgiven | Total |
|---|---|---|---|
| Fees payable to Directors and Officers | $ 86,788 | $ 123,030 | $ 209,818 |
| Notes payable to related parties | 562,789 | 29,553 | 592,342 |
| | $ 649,577 | $ 152,583 | $ 802,160 |

On October 13, 2020 Directors and Officers entered into Settlement Agreements with the Company, whereby the Fees payable to Directors and Officers and Notes payable to related parties were settled for consideration consisting of 4,265,670 treasury shares issued by the Company at a stated value of $Cdn 0.05 ($US 0.03807) per share for a portion of the outstanding debts with the remaining unpaid amounts then being forgiven.

The holders of shares issued pursuant to the Settlement Agreements are restricted from trading the shares until after April 9, 2021.

## 11. Notes Payable

| | As at December 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Balance outstanding beginning of year | $ - | $ 115,038 |
| Accrued interest | - | 14,857 |
| Foreign exchange adjustment | - | 6,128 |
| Forgiveness of loan and interest | - | (136,023) |
| Balance outstanding end of year | $ - | $ - |

In connection with the proposed Amalgamation with PacWest, 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.

## 12. 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 December 8, 2020, the Company issued 4,265,670 common shares at a stated value of $Cdn 0.05 ($US 0.03807), to settle $86,788 of outstanding Fees Payable to Directors and Officers and $562,789 of outstanding Notes and Interest Payable. The Company determined that the fair market value to be assigned to the Loon shares issued from treasury regarding the Debt Settlement would fall within a range of $Cdn 0.005 per share to $Cdn 0.05 per share. Management has used a fair market value for the treasury shares issued of $Cdn 0.05 per share based on NEX trading activity during the period before and after the share issuance together with the TSXV's minimum share issuance price and approval received from the TSXV to issue the shares for the Debt Settlement.

Effective December 17, 2020, the Company's shares were consolidated such that one new common share was issued for every four common shares outstanding. For ease of comparison, the number of shares and per share amounts presented throughout these financial statements have been adjusted retroactively.

| | As at December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Shares outstanding, beginning of year | 5,984,600 | 5,984,600 |
| Issuance of shares on settlement of debts (Note 10) | 4,265,670 | - |
| | 10,250,270 | 5,984,600 |
| Weighted average number of shares outstanding, with effect of share consolidation applied retroactively | 6,253,391 | 5,984,600 |

### (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, | |
|---|---|---|
| | 2020 | 2019 |
| Net income (loss) attributable to shareholders | $ 97,926 | $ (18,973) |
| *Weighted average number of shares outstanding* | *6,253,391* | *5,984,600* |
| Income (loss) per share - Basic and diluted | $ 0.02 | $ (0.00) |

### (c) Stock options

As at December 31, 2020, there are no unexercised or unvested share purchase options. On February 26, 2021, the Company announced the approval by its Board of Directors of the issuance of 750,000 incentive share purchase options to certain Directors and Officers (See Note 17).

## 13. 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 ("$Cdn") and the United States dollar ("$US"). At December 31, 2020 and 2019 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, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| Cash and cash equivalents | $ | 6,786 | $ | 9,834 |
| Prepaid expenses and other receivables | | 4,278 | | 1,430 |
| Accounts payable | | (15,628) | | (81,575) |
| Notes and interest payable to related parties | | (71,943) | | (126,512) |
| Directors' fees and interest payable | | - | | (275,570) |
| Net foreign exchange exposure | $ | (76,507) | $ | (472,393) |
| $US equivalent at year end exchange rate | $ | (60,089) | $ | (363,695) |

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 $6,009 (2019 - $36,370).

### (b) Credit risk

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

### (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, 2020, the Company's working capital deficiency was $60,158 (December 31, 2019: $807,661). 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.

## 14. Related Party Transactions

During the year ended December 31, 2020, additional funding was advanced to the Company by two members of the Board of Directors in the form of secured notes payable which totaled $73,008 (2019 - $6,066).

On October 13, 2020, Directors and Officers entered into debt Settlement Agreements with the Company, whereby Fees Payable to Directors and Officers and certain Notes Payable and accrued interest were settled (Notes 8, 9 and 10).

As at December 31, 2020 the Company had secured Notes payable to Mr. Elliott, Chairman of the Board, in the amount of $23,562 (2019 - $232,765) plus $945 (2019 - $135,758) of accrued interest and to Mr. Stein, Chief Executive Officer and Director, in the amount of $31,978 (2019 - $nil) plus accrued interest of $20 (2019 - $nil). The secured Notes payable are due on demand with interest calculated at a rate of 12% per annum, compounded annually on December 31 (see Note 9). As at December 31, 2020, the Company had Notes payable to Jock Graham, a former member of the Board of Directors of Loon, in the amount of $nil (2019 - $97,676) plus $nil (2019 - $46,778) of accrued interest. As at December 31, 2020, the Company had Notes payable to Norman Holton, President and Corporate Secretary of Loon, in the amount of $nil (2019 - $23,097) plus $nil (2019 - $5,324) of accrued interest.

## 15. Income Tax

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

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Income (loss) before income taxes | $ 97,926 | $ (18,973) |
| Federal and provincial statutory rate | 24.00% | 26.50% |
| Expected income tax payable (recovery) | 23,502 | (5,028) |
| Foreign exchange and other | (24,248) | (92,949) |
| Tax rate changes | - | 97,705 |
| Changes in unrecognized deferred tax assets | 746 | 272 |
| Current income tax recovery | $ - | $ - |

The general federal/provincial tax rate in Alberta, Canada was 24.0% in 2020 (2019 –26.5%).

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

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Non-capital losses | $ 2,553,347 | $ 2,550,436 |

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 (2019 - $2.6 million) that, in the absence of any events that may cause an earlier, shortened tax year, expire between 2029 and 2040 as follows:

| | As at December 31, | |
|---|---|---|
| Year of expiry | 2020 | 2019 |
| | $ Cdn | $Cdn |
| 2029 | $ 727,791 | $ 727,791 |
| 2030 | 788,838 | 788,838 |
| 2031 | 334,328 | 334,328 |
| 2032 | 219,459 | 219,459 |
| 2033 | 127,387 | 127,387 |
| 2034 | 71,922 | 71,922 |
| 2035 | 96,345 | 96,345 |
| 2036 | 110,132 | 110,132 |
| 2037 | 283,172 | 283,172 |
| 2038 | 192,331 | 192,331 |
| 2039 | 175,924 | 175,924 |
| 2040 | 123,386 | - |
| | $ 3,251,015 | $ 3,127,629 |
| $US equivalent at year end exchange rates | $ 2,553,347 | $ 2,550,436 |

## 16. Novel Coronavirus ("COVID-19")

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19" was declared a global pandemic by the World Health Organization on March 11, 2020. The Government of Alberta declared a State of Emergency with regards to the pandemic on March 17, 2020. Governments worldwide enacted emergency measures to combat the spread of the virus. These measures, which include public health measures requiring the closure of non-essential businesses, 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. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. On April 30, 2020 the Government of Alberta announced a phased relaunch strategy outlining the relaxing of certain measures starting mid-May 2020, conditional on the results of ongoing monitoring of testing results for COVID-19 in the province.

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.

## 17. Subsequent Events

On February 26, 2021, Loon's Board of Directors announced the granting of 750,000 share purchase options to certain Directors and Officers at an exercise price of $Cdn 0.13 per share, with all unexercised share purchase options expiring February 26, 2024.

On February 26, 2021, Mr. Stein and Mr. Elliott entered in an Assignment Agreement, under the terms of which the secured Promissory Note payable to Mr. Elliott on December 31, 2020 (Note 9) was assigned to Mr. Stein. The secured Promissory Note now payable to Mr. Stein continues to be outstanding at the same principal amount and interest continues to accrue in accordance with the terms of the Note.