



**LOON ENERGY CORPORATION**

**FINANCIAL STATEMENTS**

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

US\$, unless otherwise stated

(unaudited)

**NOTIFICATION OF CONDENSED UNAUDITED 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 six-month periods ended June 30, 2021.

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

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Current assets		
Cash	\$ 705	\$ 5,330
Prepaid expenses and other receivables (Note 3)	2,077	3,326
Total Assets	<u>\$ 2,782</u>	<u>\$ 8,656</u>
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 11,038	\$ 12,310
Notes payable to related parties (Note 5)	82,218	56,504
	<u>93,256</u>	<u>68,814</u>
Shareholders' Deficiency		
Share capital (Note 7)	17,269,736	17,269,736
Contributed surplus (Note 7(c))	2,399,203	2,360,566
Deficit	<u>(19,759,413)</u>	<u>(19,690,460)</u>
	<u>(90,474)</u>	<u>(60,158)</u>
Total Liabilities and Shareholders' Deficiency	<u>\$ 2,782</u>	<u>\$ 8,656</u>
Going Concern (Note 2(b))		

See accompanying notes to the financial statements.

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

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Operations				
General and administrative	\$ (7,460)	\$ (3,844)	\$ (24,794)	\$ (6,872)
Share-based compensation (Note 7(c))	(4,381)	-	(38,637)	-
Finance costs				
Interest expense (Note 5)	(2,308)	(16,655)	(3,989)	(32,756)
Foreign exchange gain/(loss)	(832)	(13,949)	(1,533)	17,044
	<u>(3,140)</u>	<u>(30,604)</u>	<u>(5,522)</u>	<u>(15,712)</u>
Net loss and comprehensive loss	<u>\$ (14,981)</u>	<u>\$ (34,448)</u>	<u>\$ (68,953)</u>	<u>\$ (22,584)</u>
Net loss per share (basic and diluted)	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</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)**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Operating activities				
Net (loss)	\$ (14,981)	\$ (34,448)	\$ (68,953)	\$ (22,584)
Items not involving cash:				
Share-based compensation (Note 7(c))	4,381	-	38,637	-
Interest expense (Notes 5 & 6)	2,308	16,655	3,989	32,756
Foreign exchange (gain)/loss	923	13,575	1,742	(17,450)
	(7,369)	(4,218)	(24,585)	(7,278)
Changes in non-cash working capital	(14,401)	(10,706)	78	(8,807)
	(21,770)	(14,924)	(24,507)	(16,085)
Financing				
Issuance of notes payable (Note 5)	20,008	18,513	20,008	18,513
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(166)	930	(126)	352
Change in cash and cash equivalents	(1,928)	4,519	(4,625)	2,780
Cash and cash equivalents, beginning of period	2,633	5,886	5,330	7,625
Cash and cash equivalents, end of period	\$ 705	\$ 10,405	\$ 705	\$ 10,405

See accompanying notes to the condensed interim financial statements.

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

	<b>Number of Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total</b>
Balances, December 31, 2019	5,984,600	\$16,620,159	\$2,360,566	(\$19,788,386)	(\$807,661)
Net loss and comprehensive loss	-	-	-	(22,584)	(22,584)
Balances, June 30, 2020	5,984,600	\$16,620,159	\$2,360,566	(\$19,810,970)	(\$830,245)
Balances, December 31, 2020	10,250,270	\$17,269,736	\$2,360,566	(\$19,690,460)	(\$60,158)
Share-based compensation	-	-	38,637	-	38,637
Net loss and comprehensive loss	-	-	-	(68,953)	(68,953)
Balances, June 30, 2021	10,250,270	\$17,269,736	\$2,399,203	(\$19,759,413)	(\$90,474)

Shares were issued during the fourth quarter of 2020 to settle outstanding fees and debts owing to Directors and Officers of the Company (Note 6).

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 (Note 7). For ease of comparison, the number of shares presented throughout these financial statements has been adjusted retroactively to reflect the consolidation.

See accompanying notes to the financial statements.

**Loon Energy Corporation**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2021 and 2020**  
**US\$, unless otherwise stated**

**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 400, 444 7 Avenue SW, Calgary, Alberta T2P 0X8.

**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, 2020, 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, 2020.

These financial statements were approved by the Company’s Board of Directors on August 13, 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 2021, 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 June 30, 2021, the Company was indebted in the aggregate amount of \$82,218 (December 31, 2020 - \$31,977) to Mr. Michael Stein, a Director and Chief Executive Officer of Loon. (See note 8, Related Party Transactions.)

As at June 30, 2021, the Company had a working capital deficiency of \$90,474, of which \$82,218 is the aggregate of Notes Payable to 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) Use of estimates and judgments**

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, 2020.

**Loon Energy Corporation**  
**Notes to the Condensed Interim Financial Statements**  
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During the six months ended June 30, 2021, the Company issued stock options to certain Officers and Directors. Management is required to make certain estimates when determining the fair value of stock option awards that have vested. These estimates affect the amount recognized as share-based compensation in the statement of operations and comprehensive income and loss.

**(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. Prepaid Expenses and Other Receivables**

Accounts receivable includes Goods and Services Tax input tax credits receivable for the second quarter of 2021 and General and Administrative Expenses paid in the second quarter of 2021 which relate to, and will be recognized during the third quarter of 2021.

**4. Accounts Payable and Accrued Liabilities**

Accounts payable is comprised primarily of legal fees related to public company costs of compliance.

**5. Notes Payable to Related Parties**

	As at June 30, 2021	As at December 31, 2020
Balance outstanding beginning of year	\$ 56,504	\$ 541,398
Issuance of Notes Payable	20,008	73,008
Accrued interest	3,989	33,694
Foreign exchange adjustment	1,717	746
Notes and interest settled through the issuance of shares (Note 6)	-	(562,789)
Notes and interest forgiven by Note holders (Note 6)	-	(29,553)
Balance outstanding end of period	<u>\$ 82,218</u>	<u>\$ 56,504</u>

Beginning in December 2014 and continuing through 2020, three members of the Company's Board of Directors at that time advanced cash to fund Loon's activities. Following the settlement in October 2020 of the accumulated debt to these individuals (see Note 6), the acquisition by Mr. Stein of a secured Note Payable to Mr. Timothy Elliott, Chairman of the Board that originated in September 2020, and further advances during 2020 by Mr. Stein, the total balance outstanding of the secured Notes payable to Mr. Stein as at June 30, 2021 was \$78,214 (\$Cdn 96,943) plus accrued interest of \$4,004 (\$Cdn 4,963). The secured promissory notes are due on demand, with interest calculated at a rate of 12% per annum and compounded annually on December 31.

**6. 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
	<u>\$ 649,577</u>	<u>\$ 152,583</u>	<u>\$ 802,160</u>

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) (Note 7) 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 were restricted from trading the shares until after April 9, 2021.

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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.

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 certain current and former Directors and Officers and \$562,789 of outstanding Notes and Interest Payable (Note 6). 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 June 30, 2021	As at December 31, 2020
Shares outstanding, beginning of period	10,250,270	5,984,600
Issuance of shares on settlement of debts (Note 6)	-	4,265,670
	<u>10,250,270</u>	<u>10,250,270</u>
Weighted average number of shares outstanding, with effect of share consolidation applied retroactively	<u>10,250,270</u>	<u>6,253,391</u>

**(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.

	Six months ended June 30, 2021	2020
Net loss attributable to shareholders	\$ (68,953)	\$ (22,584)
Weighted average number of shares outstanding	10,250,270	5,984,600
Loss per share - Basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>

**(c) Stock options**

On February 26, 2021, the Company granted 750,000 incentive share purchase options (the "Options") to certain Directors and Officers. The Options have an exercise price of \$Cdn 0.13 per share, vest immediately, and expire on February 26, 2024.

On June 4, 2021 two Officers holding 300,000 of the 750,000 Options granted on February 26, 2021 resigned from the Company. Under the terms of the Option agreements, the Options will expire 90 days following the date of resignation, on September 2, 2021.

On June 16, 2021 the Company granted 150,000 Options to a Director of the Company. The Options have an exercise price of \$Cdn 0.13 per share, vest immediately, and expire on February 26, 2024.

During the six months ended June 30, 2021, the Company recorded share-based compensation of \$38,637 (2020 - \$nil) to recognize the estimated fair value of these options.



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The fair value of stock options granted was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free rate:	0.5%
Expected life:	3 years
Expected volatility:	50%
Share price at grant:	\$Cdn 0.12 to \$Cdn 0.15 per share

**8. Related Party Transactions**

As at June 30, 2021 the Company had secured Notes payable to Mr. Stein, Chief Executive Officer and Director, in the amount of \$ 78,214 (\$Cdn 94,943) plus accrued interest of \$4,004 (\$Cdn 4,963). 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 5). On April 8, 2021, Mr. Stein advanced an additional amount of \$20,008 (\$Cdn 25,000), which has been added to the principal of an existing Note payable to Mr. Stein.

**9. 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.