



**LOON ENERGY CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
US\$



## Management's Report

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

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 Consolidated Financial Statements.

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

Signed: "*Timothy Elliott*"

Director and Chief Executive Officer

Signed: "*Harvey McKenzie*"

Director and Chief Financial Officer

April 6, 2022

## Independent Auditors' Report

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

### Opinion

We have audited the consolidated financial statements of Loon Energy Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, 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 Consolidated 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 consolidated 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 consolidated financial statements which indicates that at December 31, 2021 the Company had a deficit of \$19,827,836. 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 Consolidated 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 consolidated 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 consolidated 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 consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

## Independent Auditors' Report (continued)

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.

A handwritten signature in black ink, appearing to read "Kenney Mack Shusarchuk Stewart".

Chartered Professional Accountants

April 6, 2022  
Calgary, Alberta

**Loon Energy Corporation**  
**Consolidated Statements of Financial Position**  
**US\$**

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Current assets		
Cash	\$ 519	\$ 5,330
Prepaid expenses and other receivables (Note 7)	<u>16,614</u>	<u>3,326</u>
Total Assets	<u>\$ 17,133</u>	<u>\$ 8,656</u>
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 23,191	\$ 12,310
Notes payable to related parties (Note 10, 11)	<u>125,696</u>	<u>56,504</u>
	<u>148,887</u>	<u>68,814</u>
Shareholders' Deficiency		
Share capital (Note 12(a))	17,269,736	17,269,736
Contributed surplus	2,426,346	2,360,566
Deficit	<u>(19,827,836)</u>	<u>(19,690,460)</u>
	<u>(131,754)</u>	<u>(60,158)</u>
Total Liabilities and Shareholders' Deficiency	<u>\$ 17,133</u>	<u>\$ 8,656</u>
Going Concern (Note 2(b))		

See accompanying notes to the financial statements.

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

	<b>Year ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Operations		
General and administrative (Note 5)	\$ (62,895)	\$ (59,207)
Share-based compensation (Note 12(c))	(65,780)	-
Financing		
Interest expense (Note 10)	(9,060)	(33,694)
Foreign exchange gain	359	2,418
	<u>(8,701)</u>	<u>(31,276)</u>
Other		
Gain on settlement of debts (Note 6)	-	188,409
Net income/(loss) and comprehensive income/(loss)	<u>\$ (137,376)</u>	<u>\$ 97,926</u>
Net income/(loss) per share (basic and diluted) (Note 12(b))	<u>\$ (0.01)</u>	<u>\$ 0.02</u>

See accompanying notes to the financial statements.

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

	<b>Year ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Operating activities		
Net income (loss)	\$ (137,376)	\$ 97,926
Items not involving cash:		
Share-based compensation (Note 12c)	65,780	-
Gains on settlement of debts (Note 5)	-	(188,409)
Interest expense (Note 9)	9,060	33,694
Unrealized foreign exchange (gain)/loss	(124)	320
	(62,660)	(56,469)
Changes in non-cash working capital	(2,347)	(16,634)
	(65,007)	(73,103)
Financing		
Issuance of notes payable (Note 9)	60,313	73,008
Foreign exchange loss realized on settlement of debt	-	(2,667)
	60,313	70,341
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(117)	467
Change in cash	(4,811)	(2,295)
Cash, beginning of year	5,330	7,625
Cash, end of year	\$ 519	\$ 5,330

See accompanying notes to the financial statements.



**Loon Energy Corporation**  
**Consolidated 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)
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)
Balances, December 31, 2020	10,250,270	\$17,269,736	\$2,360,566	(\$19,690,460)	(\$60,158)
Share-based compensation	-	-	65,780	-	65,780
Net loss and comprehensive loss	-	-	-	(137,376)	(137,376)
Balances, December 31, 2021	10,250,270	\$17,269,736	\$2,426,346	(\$19,827,836)	(\$131,754)

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.

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

**1. Reporting Entity**

Loon Energy Corporation and its wholly owned subsidiary 1000033135 Ontario Inc. (“**Loon**” or the “**Company**”) were 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**”) and on November 23, 2021 under the laws of Ontario respectively. Loon’s registered head office is located at 4100, 66 Wellington Street West, Toronto, Ontario.

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 the 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.

The Company entered into a definitive acquisition agreement on November 30, 2021 as amended on December 23, 2021 and March 1, 2022 (the “Definitive Agreement”) with Optimind Pharma Inc. (“**Optimind**”), a private company incorporated under the Province of Ontario, whereby Loon has agreed to acquire all of the issued and outstanding shares (the “Target Shares”) of Optimind (the “Transaction”). Loon’s shares were halted from trading on November 15, 2021 and remain halted pending completion of the Transaction.

Under the terms of the Definitive Agreement, all of the Target Shares will be exchanged on the basis of one common share of the Company for each Target Share. To facilitate the execution of the transaction, on November 23, 2021 the Company incorporated 1000033135 Ontario Inc (the “Subsidiary”). As part of the Transaction, the Company has agreed to settle up to \$138,133 (Cdn\$ 175,000) of debt with certain creditors of the Company by way of issuance of common shares of the Company at a price of Cdn\$ 0.095 per share (the “Debt Settlement”). The Debt Settlement will only be completed immediately prior to closing of the Transaction in order for the Company not to have any material liabilities on closing. Following the Debt Settlement, but prior to the Amalgamation, Loon will complete a share consolidation on the basis of one (1) new share for such number of old shares which shall result in 8,150,000 Loon common shares being issued and outstanding following the consolidation.

Optimind has agreed to complete a concurrent financing of a minimum of \$394,000 (Cdn\$ 500,000) and a maximum of \$592,000 (Cdn\$ 750,000) comprised of subscription receipts that are automatically exchangeable for convertible debentures of the resulting issuer which will have the following terms: (i) matures 18 months from commencement of trading of the Resulting Issuer Shares on the CSE; (ii) 10% interest per annum and payable on maturity; (iii) convertible at Cdn\$ 0.20 per unit, with each unit comprised of one share and 0.6 warrant, with each full warrant exercisable into a share at Cdn\$ 0.40 per share for two years from the issue date of the convertible debenture; and, (iv) forced conversion of the convertible debenture if the shares close higher than Cdn\$ 0.40 per share for 10 consecutive trading days. Optimind has agreed to have a minimum of \$1,380,00 (Cdn\$1,750,000) in cash on closing of the Transaction. Completion of the Transaction is subject to a number of conditions and there can be no assurance that the Transaction will be completed as proposed or at all.

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

**2. Basis of Preparation**

**(a) Statement of compliance**

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

These consolidated financial statements were approved by the Company’s Board of Directors on April 6, 2022.

**(b) Going concern**

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. 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 December 31, 2021, the Company was indebted to Mr. Michael Stein, former Director and Chief Executive Officer of Loon and current significant shareholder, (“Mr. Stein”), in the aggregate amount of \$125,696 (2020 - \$31,997) and to Mr. Timothy Elliott, Chairman of the Board of Directors of Loon and current Chief Executive Officer (“Mr. Elliott”) in the aggregated amount of \$nil (2020 - \$24,507). The Notes are secured, due on demand and bear interest at 12% per annum, compounded annually on December 31.

As at December 31, 2021, the Company had a working capital deficiency of \$131,754 of which \$125,696 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) Basis of measurement**

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

**(d) Functional and presentation currency**

The consolidated financial statements are presented in U.S. dollars. 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 critical judgements and 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 estimates 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

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

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.

During the year ended December 31, 2021, the Company issued stock options to certain Officers and Directors. Management made critical estimates to determine that the fair value of stock option awards. These estimates affect the amount recognized as share-based compensation in the statement of operations and comprehensive income and loss.

At December 31, 2021, 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

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

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 and notes 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, 2021, 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.

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

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, 2021. There are currently no such pronouncements that are expected to have a significant impact on the Company's financial statements.

**5. General and Administrative**

Under the terms of the Definitive Agreement, Optimind is to reimburse the Company for up to Cdn\$ 30,000 of legal fees incurred in relation to the Transaction plus the costs of the shareholder meeting to be held on January 4, 2022. As at December 31, 2022, Optimind had reimbursed the Company \$11,724 (Cdn\$15,000) of legal fees and \$1,530 (Cdn\$ 1,958) of shareholder meeting expenses. As at December 31, 2022, the Company has accrued an additional \$13,092 of recoveries, consisting of \$11,724 (Cdn\$15,000) of legal fees and \$1,249 (Cdn\$ 1,597) of shareholder meeting expenses which the Company incurred in 2021. General and administrative expenses of \$62,895 are comprised of \$89,122 less total recoveries collected and accrued of \$26,227.

**6. Gains on Settlement of Debts**

	As at December 31,	
	2021	2020
Gain on settlement of Accounts Payable (Note 8)	\$ -	\$ 35,826
Gain on settlement of Fees Payable to Directors and Officers (Note 9)	-	123,030
Gain on settlement of Notes Payable (Note 10)	-	29,553
Balance outstanding end of year	\$ -	\$ 188,409

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 9, 10 and 11).

**7. Prepaid Expenses and Other Receivables**

Under the terms of the Definitive Agreement, Optimind is to reimburse the Company for up to Cdn\$ 30,000 of legal fees incurred in relation to the Transaction plus the costs of the shareholder meeting which was held on January 4, 2022 (see

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

Note 17 Subsequent Events). The Company has accrued unpaid recoveries of \$13,092 consisting of \$11,724 (Cdn\$ 15,000) of legal fees and \$1,249 (Cdn\$1,597) of shareholder meeting expenses incurred in 2021.

Accounts receivable also includes Goods and Services Tax (“GST”) input tax credits receivable for the fourth quarter of 2021 and prepaid listing fees of the TSX which relate to the first quarter of 2022 and will be recognized as expense in 2022. The prior year balance includes GST input tax credits of the fourth quarter of 2020 and prepaid listing fees of the TSX which related to the first quarter of 2020 and were recognized as expense in 2021.

## **8. Accounts Payable and Accrued Liabilities**

Accounts payable is comprised primarily of legal fees and accruals for public company costs of compliance. Accounts payable in 2020 was mainly comprised of accruals for public company costs of compliance.

## **9. Fees Payable to Directors and Officers**

	As at December 31,	
	2021	2020
Bonus payable to Directors and Officers	\$ -	\$ 212,161
Foreign exchange adjustment	-	(2,343)
Fees settled through the issuance of shares (Note 11)	-	(86,788)
Fees forgiven by Directors and Officers (Note 11)	-	(123,030)
Balance outstanding end of year	\$ -	\$ -

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 11). 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).

## **10. Notes Payable to Related Parties**

	As at December 31,	
	2021	2020
Balance outstanding beginning of year	\$ 56,504	\$ 541,398
Issuance of Notes Payable	60,313	73,008
Accrued interest	9,060	33,694
Foreign exchange adjustment	(181)	746
Notes and interest settled through the issuance of shares (Note 11)	-	(562,789)
Notes and interest forgiven by Note holders (Note 11)	-	(29,553)
Balance outstanding end of year	\$ 125,696	\$ 56,504

Beginning in December 2014 and continuing through 2021, certain members of the Company’s Board of Directors advanced cash to fund Loon’s activities. In exchange for the advances, the Company issued promissory notes.

As at December 31, 2021, the balance of the secured Note Payable to Mr. Stein is \$125,696 (2020 - \$31,998) and to Mr. Elliott is \$nil (2020 - \$24,507). 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

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

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.

The Notes Payable are secured, due on demand and bear 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. On December 31, 2021 accrued interest of \$9,060 (2020 - \$965) was added to the Principal and will accrue interest from that date forward.

On October 13, 2020, two former Directors and Mr. Elliott entered into Settlement Agreements with the Company (Note 9) to settle all Notes payable and accrued interest which were unpaid as at June 30, 2020, including an advance made prior to June 30, 2020 by Mr. Elliott 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.

## **11. Settlement of Debts**

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.

	Settled	Forgiven	Total
Fees payable to Directors and Officers (Note 9)	\$ 86,788	\$ 123,030	\$ 209,818
Notes payable to related parties (Note 10)	562,789	29,553	592,342
	<u>\$ 649,577</u>	<u>\$ 152,583</u>	<u>\$ 802,160</u>

## **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.



**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

	As at December 31,	
	2021	2020
Shares outstanding, beginning of year	10,250,270	5,984,600
Issuance of shares on settlement of debts (Note 10)	-	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.

	Year ended December 31,	
	2021	2020
Net income (loss) attributable to shareholders	\$ (137,376)	\$ 97,926
<i>Weighted average number of shares outstanding</i>	<i>10,250,270</i>	<i>6,253,391</i>
Income (loss) per share - Basic and diluted	<u>\$ (0.01)</u>	<u>\$ 0.02</u>

**(c) Stock options**

	As at December 31,	
	2021	2020
	# of options	# of options
Options granted	900,000	-
Options expired	(300,000)	-
Balance outstanding end of year	<u>600,000</u>	<u>-</u>

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 expired 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 year ended December 31, 2021, the Company recorded share-based compensation of \$65,780 (2020 - \$nil) to recognize the estimated fair value of these options. The fair value of stock options granted was estimated using the Black-sholes Option Pricing Model with the following assumptions:

Risk-free rate:	0.5%
Expected life:	3 years
Expected volatility:	100%
Share price at grant:	Cdn\$ 0.12 – Cdn\$ 0.15 per share

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

**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, 2021 and 2020 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,	
	2021	2020
	Cdn \$	Cdn \$
Cash and cash equivalents	\$ 659	\$ 6,786
Prepaid expenses and other receivables	19,836	4,278
Accounts payable	(29,403)	(15,628)
Notes and interest payable to related parties	(159,351)	(71,943)
Net foreign exchange exposure	<u>\$ (168,259)</u>	<u>\$ (76,507)</u>
US\$ equivalent at year end exchange rate	<u>\$ (132,733)</u>	<u>\$ (60,089)</u>

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 \$13,273 (2020 - \$6,009).

**(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.

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

As at December 31, 2021, the Company's working capital deficiency was \$131,754 (December 31, 2020: \$60,158). 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, 2021, additional funding was advanced to the Company in the form of secured Notes Payable by Mr. Stein, which totaled \$60,313. During the year ended December 31, 2020, \$73,008 of additional funding was advanced to the Company in the form of secured Notes Payable by Mr. Stein (\$31,978) and by Mr. Elliott (\$41,030).

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, 2021, the balance of the Note Payable to Mr. Stein is \$125,696 (2020 - \$31,998) and to Mr. Elliott is \$nil (2020 - \$24,507). 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.

#### **15. Income Tax**

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

	Year ended December 31,	
	2021	2020
Income (loss) before income taxes	\$ (137,376)	\$ 97,926
Federal and provincial statutory rate	23.00%	24.00%
Expected income tax payable (recovery)	(31,596)	23,502
Foreign exchange and other	(2,444)	(24,248)
Share-based compensation	15,129	-
Changes in unrecognized deferred tax assets	18,911	746
Current income tax recovery	\$ -	\$ -

The general federal/provincial tax rate in Alberta, Canada was 23.0% in 2021 (2020 –24.0%).

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

	As at December 31,	
	2021	2020
Non-capital losses	\$ 2,598,354	\$ 2,516,129

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.

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

The Company has non-capital losses for Canadian income tax purposes of \$ 2.6 million (2020 - \$2.5 million) that, in the absence of any events that may cause an earlier, shortened tax year, expire between 2029 and 2041 as follows:

Year of expiry	As at December 31,	
	2021	2020
	Cdn \$	Cdn \$
2029	\$ 680,404	\$ 680,404
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	123,386
2041	90,431	-
	<u>\$ 3,294,059</u>	<u>\$ 3,203,628</u>
US\$ equivalent at year end exchange rates	<u>\$ 2,598,354</u>	<u>\$ 2,516,129</u>

#### 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 January 4, 2022, the Company’s shareholders approved the proposed Reverse Takeover of the Company by Optimind.

On January 5, 2022, the Company filed Articles of Continuance to Ontario and moved its head office to 4100, 66 Wellington Street West Toronto, Ontario.

On March 1, 2022, the Company and Optimind executed an amendment to the Definitive Agreement and agreed that the closing of the Transaction shall occur on or prior to June 30, 2022. Optimind also agreed to reimburse certain expenses of the company in the amount of \$13,521 (Cdn\$ 17,115).

**Loon Energy Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2021 and 2020**  
**US\$**

On March 2, 2022, Optimind paid the Company \$30,462 (Cdn\$ 38,589) for General and Administrative expenses, of which \$13,092 was related to expenses incurred in 2021 (Notes 5 and 7) and \$17,370 was related to expenses incurred in 2022. The 2022 expenses related to costs of the Transaction and audit and accounting fees in accordance with the amendment of March 1, 2022.