



LOON ENERGY CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

Loon Energy Corporation**Consolidated Balance Sheets**

US\$

(Unaudited)

	September 30, 2009	December 31, 2008
Assets		
Current		
Cash and cash equivalents (note 5)	\$ 2,789,928	\$ 3,103,592
Accounts receivable	<u>6,710</u>	<u>143,975</u>
	2,796,638	3,247,567
Property and equipment (note 6)	<u>1,035,593</u>	<u>1,029,761</u>
	<u>\$ 3,832,231</u>	<u>\$ 4,277,328</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 471,700	\$ 350,280
Income taxes payable	<u>100,000</u>	<u>100,000</u>
	571,700	450,280
Asset retirement obligation (note 7)	<u>117,617</u>	<u>111,293</u>
	<u>689,317</u>	<u>561,573</u>
Shareholders' Equity		
Share capital (note 8)	15,139,980	15,139,980
Contributed surplus (note 10)	1,291,873	1,291,873
Deficit	(13,352,585)	(12,779,744)
Accumulated other comprehensive income	<u>63,646</u>	<u>63,646</u>
	<u>3,142,914</u>	<u>3,715,755</u>
	<u>\$ 3,832,231</u>	<u>\$ 4,277,328</u>
Future operations (note 2)		
Commitments (note 11)		

Loon Energy Corporation

Consolidated Statements of Deficit, Other Comprehensive Loss and Accumulated Other Comprehensive Income

US\$

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Deficit				
Balance, beginning of period	\$ (13,252,501)	\$ (10,499,305)	\$ (12,779,744)	\$ (9,489,338)
Net loss	<u>(100,084)</u>	<u>(1,625,039)</u>	<u>(572,841)</u>	<u>(2,635,006)</u>
Balance, end of period	<u><u>\$ (13,352,585)</u></u>	<u><u>\$ (12,124,344)</u></u>	<u><u>\$ (13,352,585)</u></u>	<u><u>\$ (12,124,344)</u></u>
Accumulated Other Comprehensive Income				
Balance, beginning of period	\$ 63,646	\$ 354,040	\$ 63,646	\$ 538,291
Unrealized loss on translation of statements into reporting currency	<u>-</u>	<u>(130,215)</u>	<u>-</u>	<u>(314,466)</u>
Balance, end of period	<u><u>\$ 63,646</u></u>	<u><u>\$ 223,825</u></u>	<u><u>\$ 63,646</u></u>	<u><u>\$ 223,825</u></u>
Total of Deficit and Accumulated Other Comprehensive Income				
Balance, end of period	<u><u>\$ (13,288,939)</u></u>	<u><u>\$ (11,900,519)</u></u>	<u><u>\$ (13,288,939)</u></u>	<u><u>\$ (11,900,519)</u></u>
Other Comprehensive Loss				
Net loss being other comprehensive loss	<u><u>\$ (100,084)</u></u>	<u><u>\$ (1,625,039)</u></u>	<u><u>\$ (572,841)</u></u>	<u><u>\$ (2,635,006)</u></u>

Loon Energy Corporation
Consolidated Statements of Operations

US\$
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Petroleum and natural gas sales	\$ 10,897	\$ 86,240	\$ 37,346	\$ 476,183
Less: Royalties	(872)	(4,107)	(2,988)	(22,676)
	<u>10,025</u>	<u>82,133</u>	<u>34,358</u>	<u>453,507</u>
Expenses				
Operating	75,336	(22,606)	218,543	45,309
General and administrative	104,305	475,077	430,156	1,463,627
Stock based compensation (note 9)	-	33,140	-	143,563
Loss/(gain) on foreign exchange	(88,239)	(112,677)	(117,405)	(187,071)
Depletion, depreciation and accretion	18,707	71,451	75,905	360,298
Impairment of petroleum and natural gas properties (note 6)	-	1,262,787	-	1,262,787
	<u>110,109</u>	<u>1,707,172</u>	<u>607,199</u>	<u>3,088,513</u>
Net loss	<u>\$ (100,084)</u>	<u>\$ (1,625,039)</u>	<u>\$ (572,841)</u>	<u>\$ (2,635,006)</u>
Net loss per share				
Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>

Loon Energy Corporation
Consolidated Statements of Cash Flows

	US\$			
	(Unaudited)			
	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Operating activities				
Net loss	\$ (100,084)	\$ (1,625,039)	\$ (572,841)	\$ (2,635,006)
Items not involving cash:				
Depletion, depreciation and accretion	18,707	1,334,238	75,905	1,623,085
Stock based compensation expense	-	33,140	-	143,563
Unrealized foreign exchange gain	-	(120,133)	(48,798)	(101,871)
	<u>(81,377)</u>	<u>(377,794)</u>	<u>(545,734)</u>	<u>(970,229)</u>
Changes in non-cash working capital	6,772	329,177	183,271	(12,193)
	<u>(74,605)</u>	<u>(48,617)</u>	<u>(362,463)</u>	<u>(982,422)</u>
 Financing				
Allocation of share capital (notes 1 and 4)	-	(162,624)	-	2,327,089
 Investing				
Restricted cash	-	-	-	2,207,771
Property and equipment expenditures	(41,098)	(309,238)	(75,414)	(1,773,163)
Changes in working capital related to capital expenditures	41,098	520,479	75,414	1,082,677
	<u>-</u>	<u>211,241</u>	<u>-</u>	<u>1,517,285</u>
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	<u>-</u>	<u>-</u>	48,799	<u>-</u>
Change in cash and cash equivalents	(74,605)	-	(313,664)	2,861,953
Cash and cash equivalents, beginning of period	<u>2,864,533</u>	<u>3,000,000</u>	<u>3,103,592</u>	<u>138,047</u>
Cash and cash equivalents, end of period	<u>\$ 2,789,928</u>	<u>\$ 3,000,000</u>	<u>\$ 2,789,928</u>	<u>\$ 3,000,000</u>

Loon Energy Corporation
Notes to Consolidated Financial Statements
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(Unaudited)

1. Basis of preparation

Loon Energy Corporation was incorporated pursuant to the provisions of the *Business Corporation Act* (Alberta) on October 30, 2008 in conjunction with the reorganization of Loon Energy Inc. (“**Loon**”). The consolidated financial statements of Loon Energy Corporation are based on the Plan of Arrangement (“**Arrangement**”) prepared by Loon and approved by its securityholders on December 9, 2008 and by the Court of Queen’s Bench of Alberta on December 10, 2008. The Arrangement was implemented on December 10, 2008, and resulted in the division of all of the net assets and operations of Loon into Loon Energy Corporation (the “**Company**”, or if referring to periods prior to December 10, 2008, the operations conducted by Loon which are now held by Loon Energy Corporation) and Kulczyk Oil Ventures Inc. (“**Kulczyk Oil**”) as more fully explained in note 4. The Company’s unaudited interim consolidated financial statements have been prepared by management following continuity of interest guidelines, are presented in United States dollars and are in accordance with accounting principles generally accepted in Canada.

Under the terms of the Arrangement, Loon shareholders received one Company share for each share of Loon owned and therefore retain their same proportionate interest in the Company as they had in Loon. The Company received the net assets associated with the resource properties located in Colombia and Peru, where operations commenced in 2005 and 2007 respectively. The Arrangement stated that the Company would receive at a minimum, \$3.0 million of cash as at December 9, 2008 (\$3,150,000 received upon closing the Arrangement). Upon implementation of the Arrangement, Loon’s name was changed to Kulczyk Oil Ventures Inc.

2. Future operations

The Company’s exploration activities and overhead costs are financed by way of equity issuances and by farm-out agreements through which third parties pay for all or a portion of the Company’s expenditures to earn a portion of the Company’s ownership interest. It is anticipated that cash resources at September 30, 2009 together with the funding to be provided by the Company’s joint operations partner in Peru should be sufficient to fund existing capital commitments for the next twelve months. Additional capital or further commitment from farm-in partners will be required to fully complete the exploration and development programs as presently contemplated under the Company’s current agreements. Should capital or farm-in partners not be available in the future when planned expenditures on oil and gas properties are required, operations may have to be suspended or re-evaluated. The uncertainty in the global capital markets could have a negative impact on the Company’s ability to access capital in the future.

3. International operations

Colombia

Abanico Association Contract

In 2005, the Company committed to expend \$6.0 million on exploration and development expenditures to earn 49% of the interest of Kappa Resources Colombia Ltd. in the area covered by the Abanico Association Contract. The Company fulfilled its expenditure commitment of \$6.0 million during 2007.

Buganviles Association Contract

Through a farm-in agreement, the Company earned a 20% participating interest in a 60,817 hectare block of lands covered by the Buganviles Association Contract between Holywell Resources S.A. and Empresa Colombiana de Petróleos (“**Ecopetrol**”), the Colombian national oil company. The Company earned its interest by paying \$1.0 million of the estimated \$3.4 million “dry-hole” cost of the Delta-1 well plus 20% of costs incurred thereafter. The Delta-1 well came on production late in September 2008. Ecopetrol approved the operator’s Commerciality Application in March 2009 the consequence of which is that fifty percent of the lands, or approximately 75,000 acres, will be retained for a period of two years. During the three months ended September 30, 2009, the Delta-1 well produced sporadically and since that time, it continues to produce small quantities of oil on an intermittent basis.

Peru

On August 21, 2007, the Company announced that its wholly-owned subsidiary, Loon Peru Limited (“**Loon Peru**”), signed an exploration license contract with PERUPETRO S.A. granting Loon Peru the right to explore for and produce hydrocarbons from

Loon Energy Corporation
Notes to Consolidated Financial Statements
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3. International operations (continued)

Block 127 in the Marañon Basin area of northeast Peru. Under the terms of the agreement, Loon Peru committed to a minimum work program to acquire, process and interpret 390 kilometres of 2D seismic and reprocess another 2,000 kilometres of 2D seismic during the first two-year exploration period, which expires May 16, 2010. Subsequent to September 30, 2009, the 390 kilometre 2D seismic program was initiated and the acquisition program is on schedule to be completed by year-end and will be followed by at least two months of processing and interpretation. A decision on the drilling of an exploration well on the block will be made after the processing and interpretation of the new seismic data has been completed.

The majority of the Company's commitments for the first two exploration periods are expected to be funded by CEPSA Peru S.A. ("CEPSA Peru") under the terms of a farmout agreement dated October 29, 2007 which was approved by the Government of Peru during the second quarter of 2008. Under the terms of the farmout agreement, CEPSA Peru earned 80% of Loon Peru's interest in the block in return for consideration consisting of a payment of \$700,000 to Loon Peru for past costs, replacement of a \$2.25 million performance guarantee that was previously funded by the Company, and payment of the first \$10.75 million of expenditures incurred in fulfilling the minimum work commitment for the first exploration period. The Company estimates that its share of total expenditures related to the first exploration period, including the seismic acquisition, will be approximately \$900,000. In the event CEPSA Peru agrees to proceed to the second exploration period of 18 months, they will fund 100% of the first \$15.0 million of expenditures incurred in fulfilling the group's work commitments which includes the drilling of one exploratory well.

4. Significant accounting policies

The interim consolidated financial statements of the Company are presented in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). These unaudited interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2008. Interim consolidated financial statements do not contain all of the disclosures required for annual consolidated financial statements. Accordingly, these statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2008.

Continuity of interest financial statements

The unaudited interim consolidated financial information presented herein has been extracted from the books and records of Loon until December 10, 2008, the date the Arrangement was implemented. Certain financial statement items were maintained at a corporate rather than on a property-by-property basis by Loon and accordingly, it was necessary to make allocations of amounts reported in the consolidated financial statements of Loon in order to prepare these unaudited interim consolidated financial statements for the Company. The allocations that were made include:

Share capital and related share issuance expenses were allocated based on the expenditure requirements of Kulczyk Oil and the Company.

General and administrative expense, stock based compensation, unrealized loss/(gain) on foreign exchange and realized loss/(gain) on foreign exchange were allocated based on the ratio of capital expenditures in the respective entity to the total capital expenditures of Loon.

Future income taxes were estimated on the basis that each entity was a separate legal entity.

As the determination of certain assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the 2009 unaudited interim consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of management, these unaudited interim consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies disclosed herein and in the annual consolidated financial statements.

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5. Cash and cash equivalents

In accordance with the terms of the Arrangement, on December 10, 2008 the Company was allocated cash and cash equivalents of \$3,150,000. These funds were transferred from Kulczyk Oil in April 2009 as the Company did not have its own bank account at December 31, 2008.

6. Property and equipment

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Petroleum and natural gas properties	\$ 8,440,486	\$ 8,365,072
Accumulated depletion and depreciation	<u>(7,404,893)</u>	<u>(7,335,311)</u>
	<u>\$ 1,035,593</u>	<u>\$ 1,029,761</u>

Petroleum and natural gas properties net book value by segment

Colombia	\$ 930,969	\$ 939,221
Peru	104,624	90,540
	<u>\$ 1,035,593</u>	<u>\$ 1,029,761</u>

Costs incurred in Peru as at September 30, 2009 have been excluded from depletion as this cost centre is in a pre-production phase and does not yet have any proven reserves attributable to it.

The Delta-1 well, within the Buganviles Association Contract area, began producing oil late in the third quarter of 2008 but no sales were made until after September 30, 2008. The Company had a third party engineering report prepared as at October 1, 2008 on the Buganviles Association Contract area where the Delta-1 well is located.

Subsequent to September 30, 2008, the natural gas well, Ventilador-2 located in the Abanico Association Contract, was suspended. Based on the third party engineering report and the suspension of the Ventilador-2 well, the Company recorded impairment of \$1,262,787 on its Colombian cost centre in the third quarter of the previous fiscal year.

7. Asset retirement obligation

The Company's asset retirement obligations result from its working interest ownership in petroleum and natural gas properties, including well sites, gathering systems and processing facilities. The Company's estimate of the total undiscounted cash flows required to settle the asset retirement obligations is \$174,287 (December 31, 2008 - \$174,287) which is expected to be incurred between 2012 and 2016. A credit-adjusted risk-free rate of 9.0 percent and inflation at a rate of 2.0 percent were used to calculate the fair value of the asset retirement obligations.

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Balance beginning of period	\$ 111,293	\$ 101,621
Obligations incurred	-	12,213
Accretion	6,324	7,623
Adoption of change in foreign currency translation	<u>-</u>	<u>(10,164)</u>
Balance, end of period	<u>\$ 117,617</u>	<u>\$ 111,293</u>

8. Share capital

In accordance with the Arrangement described in notes 1 and 4, Loon Energy Corporation issued 95,991,364 common shares which represents all of its issued and outstanding share capital. The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The carrying amount of these shares is based on the allocation of share capital raised by Loon Energy Inc. that was deployed for operations in Colombia and Peru that commenced in 2005 and 2007 respectively.

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8. Share Capital (continued)

	<i>Number of Shares</i>	Carrying amount
Balance allocated pursuant to Plan of Arrangement at December 31, 2007	-	\$ 12,241,368
Allocation pursuant to Plan of Arrangement (notes 1 and 4)	-	2,898,612
Balance, December 31, 2008 and September 30, 2009	95,991,364	\$ 15,139,980

	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Weighted average number of shares outstanding	95,991,364	95,991,364	95,991,364	95,991,364

As the Company is in a loss position in 2009 and 2008, the effect of any potentially dilutive instruments is anti-dilutive to the net loss per share.

9. Stock based compensation expense

For the three and nine months ended September 30, 2008, the stock based compensation of Loon Energy Inc. was allocated between the Company and Kulczyk Oil as detailed in note 4. As part of the Arrangement, a stock option plan was approved for the Company however at September 30, 2009, there were no stock options granted under the plan, and accordingly, no stock based compensation expense was recorded.

	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Total stock based compensation - Loon Energy Inc	\$ -	\$ 66,280	\$ -	\$ 287,126
Allocated to Kulczyk Oil	-	(33,140)	-	(143,563)
Allocated to Loon Energy Corporation	\$ -	\$ 33,140	\$ -	\$ 143,563

The fair value of the options granted for the nine months ended September 30, 2008 was based on the Black-Scholes option pricing model using the following assumptions:

Fair value per option (\$CAD)	\$ 0.44
Volatility	86.0%
Interest rate	3.30%
Expected life (years)	4
Dividends	Nil

10. Contributed surplus

	Carrying amount
Balance, December 31, 2007	\$ 1,131,908
Stock based compensation	159,965
Balance, December 31, 2008 and September 30, 2009	\$ 1,291,873

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(Unaudited)

11. Commitments

Peru

The Company has committed to a minimum work program under the terms of an exploration license contract covering Block 127 in the Marañon Basin area of northeast Peru which is presently expected to cost \$15.25 million. The Company estimates that its share of the total expenditures in the first exploration period will be approximately \$900,000. Commitments arising from work programs for the second exploration period are to be funded by CEPSA Peru S.A under the terms of the October 29, 2007 farmout agreement (note 3).

The Company has a commitment to a third party geophysical company relating to its Peru concession which requires the Company to pay \$250,000 to the geophysical company when commerciality within Block 127 is first declared, a further \$500,000 when third party proven reserves are assessed at 50 million barrels of oil equivalent and an additional \$250,000 when 75 million barrels of oil equivalent are assessed as proven reserves.

12. Financial instruments

Market risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar and the United States dollar. At September 30, 2009 the Company's primary foreign currency exposure relates to Canadian dollar cash balances and accounts payable and accrued liabilities in Canada.

Cash and cash equivalents	CAD \$	84,940
Accounts payable and accrued liabilities		<u>(24,675)</u>
Net foreign exchange exposure	CAD \$	<u>60,265</u>

At September 30, 2009, if the Canadian dollar had strengthened by 10% compared to the U.S. dollar and all other variables were held constant, after tax net loss would have increased by approximately \$6,000. Conversely, if the Canadian dollar had weakened by 10%, an equal decrease of approximately \$6,000 to after tax net loss would have resulted.

13. Related party transactions

The Company has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil pursuant to a services agreement. This structure was implemented on December 10, 2008, the date the Arrangement was implemented. Administrative costs incurred by Kulczyk Oil for the benefit of the Company are allocated to the Company based on specific identification and an allocation of administrative costs that relate to both Kulczyk Oil and the Company. For the three months ended September 30, 2009, these fees totalled \$2,732 and for the nine months ended September 30, 2009 these fees totalled \$7,706. At September 30, 2009, the Company owed \$1,837 to Kulczyk Oil for these services. Certain expenditures of the Company are paid for on behalf of Kulczyk Oil and as at September 30, 2009 the Company owed \$18,420 for these costs.

The following related party transactions were incurred by Loon Energy Inc. prior to the reorganization of Loon Energy Inc. into Kulczyk Oil and the Company. As such, the amounts described below have been allocated to the Company following the continuity of interest basis as described in note 4.

- i) Jura Energy Corporation (“**Jura**”), a public company in which Kulczyk Oil owns 6.4% of the outstanding common shares, provides financial and accounting services to Kulczyk Oil. For the three months ended September 30, 2008, the fees totalled \$33,227 and for the nine months ended September 30, 2008 the fees totalled \$88,606. Timothy M. Elliott, a director of the Company, and Norman W. Holton, an officer and director of the Company, are directors of Jura. Paul H. Rose, Chief Financial Officer of the Company is also Chief Financial Officer of Jura.
- ii) Nemmoco Petroleum Corporation, a private company which is 25% owned by Timothy M. Elliott, a director of the Company, provides certain personnel and general, accounting and administrative services to Kulczyk Oil at its offices in Dubai on a cost sharing basis. For the three months ended September 30, 2008, the fees totalled \$35,268 and for the nine months ended September 30, 2008 the fees totalled \$97,896.

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

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14. Segmented information

The Company's reportable segments are organized by geographical areas and consist of Colombia, Peru and Corporate.

Colombia

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Petroleum and natural gas sales	\$ 10,897	\$ 86,240	\$ 37,346	\$ 476,183
Royalties	(872)	(4,107)	(2,988)	(22,676)
Operating expenses	(75,336)	22,606	(218,543)	(45,309)
General and administrative	-	-	-	-
Stock based compensation expense	-	-	-	-
Depletion, depreciation and accretion	(18,707)	(71,451)	(75,905)	(360,298)
Impairment of oil and gas assets	-	(1,262,787)	-	(1,262,787)
Gain / (loss) on foreign exchange	-	-	-	-
Net income (loss)	<u>\$ (84,018)</u>	<u>\$ (1,229,499)</u>	<u>\$ (260,090)</u>	<u>\$ (1,214,887)</u>
Capital expenditures	<u>\$ 33,240</u>	<u>\$ 324,151</u>	<u>\$ 59,485</u>	<u>\$ 2,294,739</u>
Total assets			<u>\$ 930,969</u>	<u>\$ 980,044</u>

Peru

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -
Royalties	-	-	-	-
Operating expenses	-	-	-	-
General and administrative	-	-	-	-
Stock based compensation expense	-	-	-	-
Depletion, depreciation and accretion	-	-	-	-
Gain / (loss) on foreign exchange	-	-	-	-
Net loss	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Capital expenditures (recoveries)	<u>\$ 7,858</u>	<u>\$ (14,913)</u>	<u>\$ 15,929</u>	<u>\$ (521,576)</u>
Total assets			<u>\$ 104,624</u>	<u>\$ 68,125</u>

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14. Segmented information (continued)

Corporate

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -
Royalties	-	-	-	-
Operating expenses	-	-	-	-
General and administrative	(104,305)	(475,077)	(430,156)	(1,463,627)
Stock based compensation expense	-	(33,140)	-	(143,563)
Depletion, depreciation and accretion	-	-	-	-
Gain / (loss) on foreign exchange	88,239	112,677	117,405	187,071
Net loss	<u>\$ (16,066)</u>	<u>\$ (395,540)</u>	<u>\$ (312,751)</u>	<u>\$ (1,420,119)</u>
Capital expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets			<u>\$ 2,775,222</u>	<u>\$ 3,153,551</u>