LOON ENERGY CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 Canadian generally accepted accounting principles. 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.

KPMG 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"	*"Signed"*
Norman W. Holton Chief Executive Officer	Paul H. Rose, CA Chief Financial Officer

April 29, 2010

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Loon Energy Corporation as at December 31, 2009 and 2008 and the consolidated statements of operations, deficit, other comprehensive loss, accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
April 29, 2010

Loon Energy Corporation
Consolidated Balance Sheets
US$

	December 31, 2009	December 31, 2008
Assets		
Current		
Cash and cash equivalents (note 5)	$ 1,969,109	$ 3,103,592
Accounts receivable	64,139	143,975
	2,033,248	3,247,567
Property and equipment (note 6)	1,726,457	1,029,761
	$ 3,759,705	$ 4,277,328
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 584,306	$ 350,280
Income taxes payable	175,631	100,000
	759,937	450,280
Asset retirement obligation (note 7)	126,109	111,293
	886,046	561,573
Shareholders' Equity		
Share capital (note 9)	15,139,980	15,139,980
Contributed surplus (note 11)	1,291,873	1,291,873
Deficit	(13,621,840)	(12,779,744)
Accumulated other comprehensive income	63,646	63,646
	2,873,659	3,715,755
	$ 3,759,705	$ 4,277,328

Future operations (note 2)
Commitments (note 3)

Loon Energy Corporation

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

US$

	Years ended December 31, 2009	Years ended December 31, 2008
Deficit		
Balance, beginning of year	$ (12,779,744)	$ (9,489,338)
Net loss	(842,096)	(3,290,406)
Balance, end of year	$ (13,621,840)	$ (12,779,744)
Accumulated Other Comprehensive Income		
Balance, beginning of year	$ 63,646	$ 538,291
Unrealized loss on translation of statements into reporting currency	-	(474,645)
Balance, end of year	$ 63,646	$ 63,646
Total of Deficit and Accumulated Other Comprehensive Income		
Balance, end of year	$ (13,558,194)	$ (12,716,098)
Other Comprehensive Loss		
Net loss being other comprehensive loss	$ (842,096)	$ (3,290,406)

Loon Energy Corporation
Consolidated Statements of Operations
US$

	Years ended December 31, 2009	2008
Petroleum and natural gas sales	$ 46,114	$ 499,133
Less: Royalties	(3,689)	(24,768)
	42,425	474,365
Expenses		
Operating	271,231	194,992
General and administrative	544,650	2,374,523
Stock based compensation (note 10)	-	159,965
Foreign exchange gain	(105,813)	(687,162)
Depletion, depreciation and accretion	98,822	399,067
Impairment of petroleum and natural gas properties (note 6)	-	1,223,386
	808,890	3,664,771
Loss before income taxes	(766,465)	(3,190,406)
Current income tax (note 14)	75,631	100,000
Net loss	$ (842,096)	$ (3,290,406)
Net loss per share		
Basic and diluted	$ (0.01)	$ (0.03)

Loon Energy Corporation

Consolidated Statements of Cash Flows

US$

	Years ended December 31, 2009	2008
Operating activities		
Net loss	$ (842,096)	$ (3,290,406)
Items not involving cash:		
Depletion, depreciation, accretion and impairment	98,822	1,622,453
Stock based compensation expense	-	159,965
Unrealized foreign exchange gain	-	(673,031)
	(743,274)	(2,181,019)
Changes in non-cash working capital	324,791	137,819
	(418,483)	(2,043,200)
Financing		
Allocation of share capital (notes 1 and 4(a))	-	2,898,612
Investing		
Restricted cash	-	2,250,000
Property and equipment expenditures	(780,702)	(1,591,261)
Changes in working capital related to capital expenditures	64,702	1,341,178
	(716,000)	1,999,917
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	-	110,216
Change in cash and cash equivalents	(1,134,483)	2,965,545
Cash and cash equivalents, beginning of year	3,103,592	138,047
Cash and cash equivalents, end of year	$ 1,969,109	$ 3,103,592

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 security holders 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**"). The Company's consolidated financial statements 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 share of the Company for each share of Loon owned and therefore retained 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 (\$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 December 31, 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 commitments 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 and commitments

Colombia

<u>Abanico Association Contract</u>

The Company owns a 49% non-operated working interest in the area covered by the Abanico Association Contract. The Company fulfilled its required work commitments with respect thereto in 2007.

<u>Buganviles Association Contract</u>

Through a farm-in agreement, the Company earned a 20% non-operated 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-1well 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 year ended December 31, 2009 the Delta-1 well produced sporadically and in January, 2010 was shut in.

The Company has fulfilled its required work commitments with respect to this concession.

3. International operations and commitments (continued)

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 Block 127 in the Marañon Basin area of northeast Peru. Under the terms of the agreement, Loon Peru committed to a Phase 1 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 on May 16, 2010. The gross costs of the phase 1 commitments were initially estimated at $15 million.

Much of the Company's existing commitments for the first two exploration periods are 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. In the event that 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. CEPSA Peru is the operator of Block 127.

Subsequent to December 31, 2009, the Phase 1 work commitments were satisfied. The Company's share of total expenditures related to the first exploration period, including the seismic acquisition, are $705,691.

CEPSA provided notice to PERUPETRO S.A. in April 2010 of its intent to proceed to the second exploration period subject however to the identification of viable drilling targets after evaluation of the seismic information obtained during the first exploration period. A decision on the drilling of an exploration well on the block is scheduled for the second quarter of 2010.

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.

4. Significant accounting policies

(a) Continuity of interest financial statements

The 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 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.

4. Significant accounting policies (continued)

(b) Change in reporting currency and foreign currency translation

Effective December 10, 2008, the Company changed its reporting currency from Canadian dollars (CAD $) to United States dollars (US$ or $) as the Company anticipates that the majority of its future income streams and the basis of evaluation of new projects will be denominated in US$. The Company has restated prior period's comparative information.

Effective December 10, 2008 the Company re-classified the subsidiaries and the parent Company from integrated to self-sustaining operations. This re-classification was made as it is anticipated that all future income streams and the majority of expenditures will be denominated in US$. Accordingly, all entities now use the US$ as their functional currency. The Company has prospectively adopted the current rate method of foreign currency translation. Under this method revenues and expenses are translated using the average exchange rates for the applicable period, assets and liabilities are translated using the exchange rates in effect on the balance sheet dates, and shareholder's equity is translated using historical rates in effect at the date of each transaction. Resulting exchange differences are reported as a separate component of other comprehensive income.

For the year ended December 31, 2008, the Company recorded a loss of $474,645 in accumulated other comprehensive loss with this amount arising from the prospective adoption of the current rate method for foreign currency translation.

(c) Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

(d) Property and equipment

The Company follows the full-cost method of accounting for its resource activities, and accordingly all costs related to the exploration for and development of petroleum and natural gas reserves are accumulated in one cost centre for each country. Capitalized costs include: land, lease acquisition and concession costs, geological and geophysical expenditures, the carrying costs associated with undeveloped and non-producing properties, drilling and completion costs of productive and non-productive properties, and related production, gathering and plant equipment costs. A portion of overhead charges directly related to acquisition, exploration and development activities are capitalized. Proceeds received from the disposition of properties are normally credited to the cost centre without recognition of a gain or loss unless such treatment would result in a change of 20% or more to the depletion rate.

The Company performs a cost recovery test for each cost centre at least annually to evaluate and if appropriate, recognize impairment when the carrying value of property and equipment exceeds the undiscounted future cash flows from proven reserves using estimated future commodity prices. The amount of any impairment to be recognized is determined as the excess of the carrying value over fair value. Fair value is determined using proven and probable reserves together with undeveloped land, and is based on the present value of expected future cash flows discounted at a risk-free rate of interest.

The Company also completes an analysis of the carrying value of undeveloped properties at least annually to ensure there are no indicators of impairment. These indicators would include, but are not limited to, results of seismic reprocessing and acquisition, licence expirations and if management determines a project or property is no longer economically feasible.

(e) Depletion and depreciation

Depletion and depreciation of petroleum and natural gas properties and equipment is provided using the unit-of-production method and proved reserves. Expenditures on undeveloped properties are excluded from the depletion provision until related reserves are proven or impairment is recognized. Volumes are converted to equivalent units on the basis that one barrel of oil is equivalent to six thousand cubic feet of natural gas.

(f) 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.

4. Significant accounting policies (continued)

(g) Asset retirement obligations

The Company recognizes the fair value of its asset retirement obligation as a liability at the time it incurs an obligation for the future abandonment and reclamation costs resulting from its resource operations. The asset retirement obligation is initially measured at its estimated fair value, which is the discounted future value of the liability, with the liability then accreting each subsequent period until the obligation is settled. The estimated fair value of the asset retirement obligation is capitalized to the petroleum and natural gas properties and equipment accounts, and is depleted over the estimated useful life of these assets.

(h) Joint operations

The Company conducts all of its exploration, development and production activities with partners, and accordingly these consolidated financial statements reflect only the Company's proportionate interest in such activities.

(i) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as defined by the standard.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net earnings or loss. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Cash including short-term deposits are designated as held-for-trading and are measured at carrying value which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities.

(j) Revenue recognition

Revenue derived from the sale of the Company's petroleum and natural gas products is recognized when title to the product passes from the Company to its customer and when collection is reasonably assured.

(k) Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income taxes and liabilities. Future income tax assets and liabilities are calculated using tax rates that are substantively enacted and are expected to apply in the periods that the temporary differences are expected to reverse. To the extent that management does not consider it more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

(l) Stock based compensation

The Company has not issued any options since its formation. In 2008, compensation costs arising from share purchase options issued by Kulczyk Oil were allocated to the Company. These options were accounted for using the fair value method which estimates the value of the options at the date of grant using the Black-Scholes option pricing model. Options that may be issued in the future by the Company will be valued using the same methodology. The fair value thus established will be recognized as an expense over the life of the options with a corresponding increase to contributed surplus. When options are exercised, the proceeds received and the applicable amount in contributed surplus will be credited to share capital. When options are forfeited, the amount of compensation expense relating to unvested options will be credited against the contributed surplus account.

4. Significant accounting policies (continued)

(m) Loss per share

Basic loss per share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per share, when appropriate, is calculated using the treasury stock method which adjusts the weighted average shares outstanding to recognize the effect, if any, of in-the-money stock options.

(n) Use of estimates

In preparing the Company's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the measurement and disclosure of contingent assets and liabilities at the date of the consolidated financial statements together with the reported amounts of revenues and expenses for the reporting periods then ended. Actual results could differ from these estimates. Estimates and judgements used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the consolidated financial statements are prepared. Predicting the outcome of future events cannot be done with certainty however, and therefore estimates used may change as new events occur, additional experience is acquired or the Company's operating environment changes.

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

	December 31, 2009	December 31, 2008
Petroleum and natural gas properties	$ 9,145,774	$ 8,365,072
Accumulated depletion and depreciation	(7,419,317)	(7,335,311)
	$ 1,726,457	$ 1,029,761
Colombia	$ 930,226	$ 939,221
Peru	796,231	90,540
	$ 1,726,457	$ 1,029,761

At December 31, 2009, the Company performed a ceiling test on the Colombian cost centre test based on a third party engineering report prepared for the Buganviles Association Contract area dated January 1, 2010. This test indicated that no impairment needed to be recorded against the Colombian cost centre for the year ended December 31, 2009. The following oil prices were used in the third party reserve evaluation:

	Year				
West Texas Intermediate	2010	2011	2012	2013	2014
US$/STB	$80	$83	$86	$90	$94

The Company recorded impairment of $1,223,386 on its Colombian cost centre during 2008 based on a third party engineering report dated October 1, 2008 prepared for the Buganviles Association Contract area, and the suspension of the Ventilador 2 well.

Costs incurred in Peru of $796,231 at December 31, 2009 (December 31, 2008 - $90,540) 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.

During the year ended December 31, 2008, the Company collected $700,000 from CEPSA Peru S.A. in accordance with the terms of the farmout agreement dated October 29, 2007. These funds reduced the Company's capitalized costs recorded to date for the acquisition of the Block 127 concession in Peru.

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.

	December 31, 2009	December 31, 2008
Balance beginning of year	$ 111,293	$ 101,621
Obligations incurred	-	12,213
Accretion	14,816	7,623
Adoption of change in foreign currency translation	-	(10,164)
Balance, end of year	$ 126,109	$ 111,293

8. Capital Management

As at December 31, 2009, the Company's total capital resources amounted to $2.9 million (December 31, 2008 - $3.7 million). 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.

9. Share capital

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. 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 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.

	Number of Shares	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 December 31, 2009	*95,991,364*	$ 15,139,980

	Year ended December 31, 2009	2008
Weighted average number of shares outstanding	*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.

10. Stock based compensation expense

For the year ended December 31, 2008, the stock based compensation of Loon Energy Inc. was allocated between the Company and Kulczyk Oil as detailed in note 4(a). As part of the Arrangement, a stock option plan was approved for the Company however no stock options have been granted under the plan, and accordingly, no stock based compensation expense has been recorded with respect to the Company's option plan.

	Year ended December 31, 2009	2008
Total stock based compensation - Loon Energy Inc.	$ -	$ 341,642
Allocated to Kulczyk Oil	-	(181,677)
Allocated to Loon Energy Corporation	$ -	$ 159,965

The fair value of the options granted for the year ended December 31, 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

11. Contributed surplus

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

12. Financial instruments

Financial risk management

The Company as part of its operations carries a number of financial instruments including cash and short-term deposits, accounts receivable, and accounts payable and accrued liabilities. The Company is exposed to the following risks related to its financial assets and liabilities:

(a) 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.

12. Financial instruments (continued)

(b) Credit risk

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

The Company's accounts receivable as at December 31, 2009 were comprised of net operating revenue and cash calls and are due from its joint venture partner in Colombia. The Company does not consider the credit risk relating to the outstanding amounts to be significant as the Company owes the joint venture partner funds in excess of the amounts receivable.

(c) 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 December 31, 2009 and 2008 the Company's primary foreign currency exposure relates to Canadian dollar cash balances net of accounts payable and accrued liabilities in Canada as follows:

	Year ended December 31,	
	2009	2008
	CAD	CAD
Cash and cash equivalents	$ 52,601	$ -
Accounts payable and accrued liabilities	(69,530)	57,452
Net foreign exchange exposure	$ (16,929)	$ 57,452

At December 31, 2009 and 2008, the Company's net losss is not significantly impacted by chares in the US to Canadian dollar exchange rates.

(d) Fair value

The carrying value of the Company's financial assets and liabilities approximate their fair values due to their demand nature or because of their relatively short term to maturity.

(e) Liquidity risk

The Company monitors its liquidity position regularly to assess whether it has the resources necessary to fund planned exploration commitments on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources of financing such as farm-out agreements. However, as an exploration company at an early stage of development and without significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required by work programmes to retain concession licences, farm-out arrangements and securing new equity or debt capital.

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 year ended December 31, 2009 these fees totalled $10,550 (2008 - $56,813). At December 31, 2009, the Company owed $Nil (2008 - $56,813) to Kulczyk Oil for these services. Certain expenditures of the Company are paid for by Kulczyk Oil on behalf of the Company and as at December 31, 2009 the Company owed $26,120 (2008 - $Nil) for these costs.

13. Related party transactions (continued)

Kulczyk Oil remains legally responsible for a guarantee issued in August 2007 ("the **Loon Guarantee**") to the Government of Peru regarding the granting of the Block 127 license contract to Loon Peru Limited. The process has begun to have the Company replace the Loon Guarantee. This process requires the formal approval of the Government of Peru. The Company has entered into an indemnification agreement with Kulczyk Oil in respect of the Loon Guarantee.

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 year ended December 31, 2008 the fees totalled $107,816. 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 the Company at its offices in Dubai on a cost sharing basis. For the year ended December 31, 2008 the fees totalled $118,160.

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

14. Income taxes

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

	Years ended December 31, 2009	2008
Loss before income taxes	$ (752,465)	$ (3,190,406)
Federal and provincial statutory rate	*29.00%*	*29.50%*
Expected income tax recovery	$ (218,215)	$ (941,170)
Stock based compensation	-	47,190
Tax rate differences and change in valuation allowance	293,846	993,980
Current income tax expense	$ 75,631	$ 100,000

The tax effects of temporary differences that give rise to future tax balances are:

	December 31, 2009	2008
Property and equipment	$ 10,609	$ (15,749)
Asset retirement obligations	31,541	27,835
Non-capital losses (expire up until 2028)	231,618	33,602
	273,768	45,688
Less: valuation allowance	(273,768)	(45,688)
Future income tax asset/(liability)	$ -	$ -

15. Segmented information

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

Colombia

	Year ended December 31, 2009	2008
Petroleum and natural gas sales	$ 46,114	$ 499,133
Royalties	(3,689)	(24,768)
Operating expenses	(285,231)	(194,992)
General and administrative	(45,076)	-
Depletion, depreciation and accretion	(98,822)	(399,067)
Impairment of oil and gas assets	-	(1,223,386)
Net loss	$ (386,704)	$ (1,343,080)
Capital expenditures	$ 75,011	$ 1,894,670
Total assets	$ 930,226	$ 939,221

Peru

	Year ended December 31, 2009	2008
Net loss	$ -	$ -
Capital expenditures (recoveries)	$ 705,691	$ (303,409)
Total assets	$ 796,231	$ 90,540

Corporate

	Year ended December 31, 2009	2008
General and administrative	$ (485,574)	$ (2,374,523)
Stock based compensation expense	-	(159,965)
Gain on foreign exchange	105,813	687,162
Net loss	$ (379,761)	$ (1,847,326)
Capital expenditures	$ -	$ -
Total assets	$ 2,033,248	$ 3,247,567