LOON ENERGY CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

Loon Energy Corporation
Consolidated Balance Sheets
US$
(Unaudited)

	March 31, 2010	December 31, 2009
Assets		
Current		
Cash and cash equivalents	$ 1,611,256	$ 1,969,109
Accounts receivable	171,721	64,139
	1,782,977	2,033,248
Property and equipment (note 5)	1,906,731	1,726,457
	$ 3,689,708	$ 3,759,705
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 556,462	$ 584,306
Income taxes payable	184,431	175,631
	740,893	759,937
Asset retirement obligation (note 6)	128,684	126,109
	869,577	886,046
Shareholders' Equity		
Share capital (note 7)	15,139,980	15,139,980
Contributed surplus	1,291,873	1,291,873
Deficit	(13,675,368)	(13,621,840)
Accumulated other comprehensive income	63,646	63,646
	2,820,131	2,873,659
	$ 3,689,708	$ 3,759,705

Future operations (note 2)
Commitments (note 3)

Loon Energy Corporation

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

US$

(Unaudited)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Deficit		
Balance, beginning of period	$ (13,621,840)	$ (12,779,744)
Net loss	(53,528)	(186,319)
Balance, end of period	$ (13,675,368)	$ (12,966,063)
Accumulated Other Comprehensive Income	$ 63,646	$ 63,646
Total of Deficit and Accumulated Other Comprehensive Income	$ (13,611,722)	$ (12,902,417)

Loon Energy Corporation
Consolidated Statements of Operations
US$
(Unaudited)

	Three months ended March 31, 2010	2009
Petroleum and natural gas sales	$ -	$ 6,914
Less: Royalties	-	(553)
	-	6,361
Expenses		
Operating	6,131	66,267
General and administrative	36,205	183,228
Foreign exchange gain (loss)	8,617	(73,852)
Depletion, depreciation and accretion	2,575	17,037
	53,528	192,680
Net loss and comprehensive loss	$ (53,528)	$ (186,319)
Net loss per share		
Basic and diluted	$ (0.00)	$ (0.00)

Loon Energy Corporation

Consolidated Statements of Cash Flows

US$

(Unaudited)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Operating activities		
Net loss	$ (53,528)	$ (186,319)
Items not involving cash:		
Depletion, depreciation, accretion and impairment	2,575	17,037
Unrealized foreign exchange gain	8,617	(73,852)
	(42,336)	(243,134)
Changes in non-cash working capital	(19,044)	243,134
	(61,380)	-
Investing		
Property and equipment expenditures	(180,274)	(17,314)
Changes in working capital related to capital expenditures	(107,582)	17,314
	(287,856)	-
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(8,617)	46,408
Change in cash and cash equivalents	(357,853)	46,408
Cash and cash equivalents, beginning of period	1,969,109	3,103,592
Cash and cash equivalents, end of period	$ 1,611,256	$ 3,150,000

1. Basis of preparation

Loon Energy Corporation (the "**Company**") 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 reorganization of Loon resulted in the Company receiving the net assets associated with the resource properties located in Colombia and Peru, where operations commenced in 2005 and 2007 respectively, and $3,150,000 of cash. Upon implementation of the re-organization, Loon's name was changed to 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.

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 March 31, 2010 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 that includes one suspended natural gas well. 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 late 2009 the Delta-1 well produced sporadically and was shut in on January 15, 2010.

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

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. 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 farm-out agreement dated October 29, 2007, which was approved by the Government of Peru during the second quarter of 2008. Under the terms of the farm-out agreement, CEPSA Peru earned 80% of Loon Peru's interest in the block in return for consideration including the payment of the first $10.75 million of expenditures incurred in fulfilling the minimum work commitment for the first exploration period. CEPSA Peru is the operator of Block 127. As of March 31, 2010, the Phase 1 work commitments were satisfied. The Company's share of total expenditures related to the first exploration period, including the seismic acquisition was $884,703.

In April 2010, CEPSA provided notice to PERUPETRO S.A. of its intent to proceed to the second exploration period subject to the identification of viable drilling targets after evaluation of the seismic information obtained during the first exploration period. In May 2010, PERUPETRO S.A. granted CEPSA a six month extension to the phase 1 exploration period that will enable CEPSA and Loon Peru to finalize the identification of viable drilling targets. The phase 1 exploration period expires on December 16, 2010. As such, a decision on the drilling of an exploration well on the block is scheduled for the second quarter of 2010. If the Company and CEPSA elect to proceed with the second exploration period of 18 months, CEPSA Peru 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.

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

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, 2009. 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, 2009.

5. Property and equipment

	March 31, 2010	December 31, 2009
Petroleum and natural gas properties	$ 9,326,048	$ 9,145,774
Accumulated depletion and depreciation	(7,419,317)	(7,419,317)
	$ 1,906,731	$ 1,726,457

Petroleum and natural gas properties net book value by segment

Colombia	$ 931,488	$ 930,226
Peru	975,243	796,231
	$ 1,906,731	$ 1,726,457

Costs incurred in Peru of $975,243 at March 31, 2010 (December 31, 2009 - $796,231) have been excluded from depletion as this cost centre is in a pre-production phase and does not yet have any production or proven reserves. Due to suspension of production for the Delta-I well on the Buganviles Association contract area in January 2010, all reserves have been classified as probable per the third party engineering report. As such, no depletion was recorded on the Colombian cost centre in the first quarter of 2010. Until such time as production commences and proven reserves are assigned, no depletion will be taken on the Colombian petroleum and natural gas properties.

6. 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, 2009 - $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.

	March 31, 2010	December 31, 2009
Balance beginning of period	$ 126,109	$ 111,293
Accretion	2,575	14,816
Balance, end of period	$ 128,684	$ 126,109

7. Share capital

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

	Number of Shares	Carrying amount
Balance as at December 31, 2009 and March 31, 2010	*95,991,364*	$ 15,139,980

	Three months ended March 31 2010	2009
Weighted average number of shares outstanding	*95,991,364*	*95,991,364*

8. 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. 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 March 31, 2010 these fees totalled $2,882 (2009 - $2,409). At March 31, 2010, the Company owed $1,814 (2009 - $59,222) 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 March 31, 2010 the Company owed $12,551 (2009 - $228,069) for these costs.

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, a wholly owned subsidiary of the Company. The process to have the Company assume the Loon Guarantee has begun with the Peruvian government authorities, however, has not yet been completed. The Company has entered into an indemnification agreement with Kulczyk Oil in respect of the Loon Guarantee.

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

9. Segmented information

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

Colombia

	Three months ended March 31 2010	2009
Petroleum and natural gas sales	$ -	$ 6,914
Royalties	-	(553)
Operating expenses	(6,131)	(66,267)
General and administrative	(9,792)	-
Depletion, depreciation and accretion	(2,575)	(17,037)
Loss before income taxes	$ (18,498)	$ (76,943)
Capital expenditures	$ 1,262	$ 17,314
Total assets, at period end	$ 931,488	$ 1,025,525

Peru

	Three months ended March 31 2010	2009
Loss before income taxes	$ -	$ -
Capital expenditures	$ 179,012	$ -
Total assets, at period end	$ 975,243	$ 90,540

10. Segmented Information (continued)

Corporate

	Three months ended March 31 2010	2009
General and administrative	$ (17,613)	$ (183,228)
Loss (gain) on foreign exchange	(8,617)	73,852
Loss before income taxes	$ (26,230)	$ (109,376)
Total assets, at period end	$ 1,782,977	$ 3,213,385