



**LOON ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2011 AND 2010  
(Unaudited)

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

	Notes	March 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
<b>Current</b>				
Cash and cash equivalents		\$ 480,665	\$ 575,782	\$ 1,969,109
Accounts receivable		258,473	781,134	64,139
Taxes receivable		190,315	190,315	-
		<u>929,453</u>	<u>1,547,231</u>	<u>2,033,248</u>
<b>Long term assets</b>				
Property and equipment	6	149,588	149,588	419,226
Evaluation and exploration	7	363,337	-	796,231
		<u>512,925</u>	<u>149,588</u>	<u>1,215,457</u>
<b>Total Assets</b>		<u><u>\$ 1,442,378</u></u>	<u><u>\$ 1,696,819</u></u>	<u><u>\$ 3,248,705</u></u>
<b>Liabilities</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		\$ 609,973	\$ 759,446	\$ 584,306
Decommissioning provision	8	120,000	-	-
Income taxes payable		-	-	175,631
		<u>729,973</u>	<u>759,446</u>	<u>759,937</u>
Decommissioning provision	8	186,617	286,270	159,793
		<u>916,590</u>	<u>1,045,716</u>	<u>919,730</u>
<b>Shareholders' Equity</b>				
Share capital	9	15,591,236	15,591,236	15,139,980
Contributed surplus		1,812,926	1,684,579	1,291,873
Deficit		(16,878,374)	(16,624,712)	(14,102,878)
		<u>525,788</u>	<u>651,103</u>	<u>2,328,975</u>
<b>Total Liabilities and Shareholders' Equity</b>		<u><u>\$ 1,442,378</u></u>	<u><u>\$ 1,696,819</u></u>	<u><u>\$ 3,248,705</u></u>

Future Operations (note 2)

**Loon Energy Corporation**  
**Condensed Consolidated Interim Statements of Changes in Equity**  
(Unaudited)  
US\$

	Share Capital	Contributed Surplus	Deficit	Total
Balance at January 1, 2010	\$ 15,139,980	\$ 1,291,873	\$ (14,102,878)	\$ 2,328,975
Net loss and comprehensive loss	-	-	(52,597)	(52,597)
Balance at March 31, 2010	15,139,980	1,291,873	(14,155,475)	2,276,378
Shares issued for compensation	451,256	-	-	451,256
Stock based compensation	-	392,706	-	392,706
Net loss and comprehensive loss	-	-	(2,469,237)	(2,469,237)
Balance at December 31, 2010	15,591,236	1,684,579	(16,624,712)	651,103
Stock based compensation	-	128,347	-	128,347
Net loss and comprehensive loss	-	-	(253,662)	(253,662)
Balance at March 31, 2011	\$ 15,591,236	\$ 1,812,926	\$ (16,878,374)	\$ 525,788

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

		For the three months ended March 31,	
Notes		2011	2010
<b>Expenses</b>			
Operating		\$ -	\$ 6,131
General and administrative		103,966	36,205
Stock based compensation	10	128,347	-
		<u>232,313</u>	<u>42,336</u>
<b>Finance costs</b>			
Accretion	8	347	1,644
Foreign exchange loss		21,002	8,617
		<u>21,349</u>	<u>10,261</u>
<b>Net loss and comprehensive loss</b>		<u>\$ 253,662</u>	<u>\$ 52,597</u>
<b>Net loss per share</b>			
Basic and diluted		<u>\$ 0.00</u>	<u>\$ 0.00</u>

**Loon Energy Corporation**  
**Condensed Consolidated Interim Statements of Cash Flows**  
(Unaudited)  
US\$

	Notes	For the period ended March 31,	
		2011	2010
Operating activities			
Net loss		\$ (253,662)	\$ (52,597)
Items not involving cash:			
Accretion	6	347	1,644
Stock based compensation		128,347	-
Foreign exchange loss		12,523	8,617
		(112,445)	(42,336)
Changes in non-cash working capital		21,844	(19,044)
		(90,601)	(61,380)
Investing			
Property and equipment expenditures		-	(180,274)
Changes in non-cash working capital related to capital expenditures		(8,011)	(107,582)
		(8,011)	(287,856)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		3,495	(8,617)
Change in cash and cash equivalents		(95,117)	(357,853)
Cash and cash equivalents, beginning of period		575,782	1,969,109
Cash and cash equivalents, end of period		\$ 480,665	\$ 1,611,256

**Loon Energy Corporation**  
Notes to the Condensed Consolidated Interim Financial Statements  
For the periods ended March 31, 2011 and 2010  
(Unaudited)  
US\$

**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 resource properties located in Colombia and Peru. 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. Certain amounts have been reclassified to conform with current year presentation.

Statement of Compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 *Interim Financial Reporting*, and do not include all the information required for full annual financial statements. This is the first interim financial reporting period of the first fiscal year for which the Company has adopted International Financial Reporting Standards (“**IFRS**”). The Company has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* for the preparation of these consolidated interim financial statements.

An explanation of how the transition to IFRS has affected the reported consolidated financial position, financial performance and cash flows of the Company is provided in note 5. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian Generally Accepted Accounting Principles (“**GAAP**”) to those reported for those periods and at the date of transition under IFRS.

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on June 27, 2011.

a) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis.

b) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in US dollars, which is the functional currency of the Company and its subsidiaries.

c) Use of estimates and judgments:

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management applying the Company’s accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS consolidated financial statements, and are outlined in:

- Note 7 - valuation of exploration and evaluation assets
- Note 10 - measurement of share-based compensation

(d) Accounting Standards and Interpretations:

The Company has applied all Standards and Interpretations issued or adopted by the International Accounting Standards Board (“**IASB**”) and the International Financial Reporting Interpretations Committee (“**IFRIC**”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2010. The same accounting policies have been applied for all periods presented. The following recent IFRS pronouncements have not been adopted by the Company.

**Loon Energy Corporation**  
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**1. Basis of preparation (continued)**

*Consolidated Financial Statements*

IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in Standards Interpretations Committee ("SIC")-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess.

*Joint Arrangements*

IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method.

*Disclosure of Interests in Other Entities*

IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and non-consolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

*Fair Value Measurement*

IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single standard a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

*Financial Instruments*

IFRS 9 Financial Instruments (to replace IAS 39) is effective for annual period beginning on or after January 1, 2013.

Management is currently assessing the impact of these standards.

**2. Future operations**

The Company is an oil and gas exploration and development company with properties principally located in Colombia. Of the Company's properties, the Delta-1 well is in the development stage but not currently producing on a commercial basis. Two other wells are in the exploration stage. The properties have no proved reserves at March 31, 2011. The Company does not generate production from operations that is sufficient to fund the continued exploration and development of all of the Company's oil and gas properties.

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 and do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid. To date, the Company's exploration and development operations have been financed by way of equity issuances and by farm-out arrangements with third parties who pay for all or a portion of the Company's expenditures to earn a portion of the Company's ownership interests. The Company's cash and existing farm-out arrangements are not sufficient to fund the exploration and development program over the next twelve months. Additional equity

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**2. Future operations (continued)**

or farm-out arrangements will be required to fund the exploration and development program and there are no guarantees that additional equity or farm-out arrangements will be available when needed.

**3. International operations and commitments**

**Colombia**

Buganviles Association Contract

Through a farm-in agreement, the Company earned a 20% non-operated participating interest in the Buganviles Association Contract. The Company has fulfilled its required work commitments with respect to this contract. The license for the Buganviles Association Contract has been extended as a result of the production history on the license.

In September 2010, Loon Energy entered into a farm-out agreement with Petrodorado South America S.A. ("**Petrodorado**") under which Petrodorado agreed to pay the Company's 20% share of the authorized costs to drill and complete two wells in Colombia to earn 75% (net 15%) of the Company's interest in the Buganviles Association Contract. The Company exercised its option to earn a reversionary interest equal to a 5% working interest through a payment by the Company of 50% of the authorized completion costs for both wells. As such, the working interest earned by Petrodorado under the terms of the farm-out agreement was reduced from 15% to 10%. As at March 31, 2011, the Company holds a 10% working interest in the Buganviles Association Contract.

The Company has received cash calls from the Operator to fund the drilling and completion of two Buganviles wells in Colombia. Upon the execution of the farm-out agreement in September 2010, these cash call amounts became payable by Petrodorado. To date Petrodorado has paid a total of \$2 million under the farm-out agreement. The Company has recorded a receivable from Petrodorado for \$232,708 under the farm-out agreement in respect of the amount payable to the Colombian Operator for the remaining amount due to fund the drilling of these two wells. The \$232,708 represents the unpaid cash calls to be paid by Petrodorado on behalf of the Company under the terms of the farm-out agreement and forms a portion of the accounts receivable and accounts payable balances.

**Peru**

The operator of the block in Peru in which the Company holds an interest, has elected, with Loon's concurrence, to not proceed into the second exploration phase and allowed the license for Block 127 to expire on November 16, 2010. The operator and the Company are currently developing and executing an abandonment plan for the block, which is expected to be completed by the end of 2011.

**4. Significant accounting policies**

**(a) Principles of consolidation**

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

**(i) Subsidiaries**

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Loon has one direct wholly-owned subsidiary, Loon Energy Holdings Limited ("**LEHL**"). Through LEHL, Loon has two indirect wholly-owned subsidiaries, Loon Colombia Limited ("**LCL**") and Loon Peru Limited ("**LPL**").

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**4. Significant accounting policies (continued)**

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the income statement.

(ii) Jointly controlled operations and jointly controlled assets

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

**(b) Foreign currency**

The reporting and functional currency of the Company and all its subsidiaries is the United States dollars ("US\$" or "\$"). Transactions in foreign currencies are translated to United States dollars at exchange rates 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.

**(c) Property and equipment and intangible exploration assets**

a. Recognition and measurement

Exploration and evaluation ("E&E") expenditures

Pre-license costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. Interest and borrowing costs incurred on E&E assets are not capitalized. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped by concession or field area.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven reserves. A review of each exploration license or field is carried out, at least annually, to ascertain whether the project is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property and equipment referred to as oil and natural gas interests.

Development and production costs

Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are

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**4. Significant accounting policies (continued)**

grouped into cash generating units (“CGU”) for impairment testing and categorized within property and equipment as oil and natural gas interests.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within profit or loss.

b. Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized costs generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

c. Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable.

There are no proven reserves or production in the Company. As a result, no depletion is recorded.

**(d) Impairment**

(i) 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.

(ii) Non-financial assets:

The carrying amounts of the Company’s non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property and equipment as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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US\$

**4. Significant accounting policies (continued)**

For the purpose of impairment testing, assets, except E&E assets, are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit or group of units on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

**(e) Finance income and expenses**

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred on exploration and evaluation assets are expensed as incurred. Borrowing costs derived on debt specifically related to the construction of qualifying assets, if any, in the development stage will be capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate that will be used to determine the amount of borrowing costs to be capitalized will be the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

**(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.

**(g) Decommissioning obligation**

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

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US\$

**4. Significant accounting policies (continued)**

**(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 measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("FVTPL"), available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities classified as FVTPL are measured at fair value with changes in fair values recognized in net earnings or loss. Financial assets available-for-sale are measured at fair value, with changes in 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 FVTPL 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.

The fair value of cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value. The Company does not hold any other financial instruments.

**(j) Stock based compensation**

The Company has issued options to directors, officers and employees to purchase common shares. The fair value of options on the date they are granted to employees is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

**(k) Loss per share**

Basic 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 employees.

**(l) 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.

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,

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**4. Significant accounting policies (continued)**

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.

**5. First time adoption of IFRS**

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Prior to IFRS, the Company applied Canadian GAAP. Under IFRS 1 'First time Adoption of International Financial Reporting Standards', IFRS standards are applied retrospectively at the transition date with the offsetting adjustments to assets and liabilities generally included in the deficit.

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in some changes to the reported financial position and results of operations of the Company.

**5.1. Consolidated Statement of Financial Position**

Presented below are reconciliations to IFRS of the consolidated statements of financial position of the Company from the amounts reported under Canadian GAAP.

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**5. First time adoption of IFRS (continued)**

	Cdn GAAP January 1, 2010	Notes			IFRS January 1, 2010
		a	c	d	
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 1,969,109				\$ 1,969,109
Accounts receivable	64,139				64,139
<b>Total Current Assets</b>	<u>2,033,248</u>				<u>2,033,248</u>
<b>Non Current Assets</b>					
Property and equipment	1,726,457	(796,231)		(511,000)	419,226
Exploration and evaluation assets	-	796,231			796,231
<b>Total Assets</b>	<u>\$ 3,759,705</u>				<u>\$ 3,248,705</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	\$ 584,306				\$ 584,306
Income taxes payable	175,631				175,631
<b>Total Current Liabilities</b>	<u>759,937</u>				<u>759,937</u>
Decommissioning provision	126,109		33,684		159,793
<b>Total Liabilities</b>	<u>886,046</u>				<u>919,730</u>
<b>Shareholders' Equity</b>					
Share capital	15,139,980				15,139,980
Contributed surplus	1,291,873				1,291,873
Accumulated other comprehensive income	63,646	(63,646)			-
Deficit	(13,621,840)	63,646	(33,684)	(511,000)	(14,102,878)
<b>Total Shareholders' Equity</b>	<u>2,873,659</u>				<u>2,328,975</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 3,759,705</u>				<u>\$ 3,248,705</u>

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US\$

**5. First time adoption of IFRS (continued)**

	Cdn GAAP December 31, 2010	Notes				IFRS December 31, 2010 (unaudited)
		a	b	c	d	
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 575,782					\$ 575,782
Accounts receivable	971,449					971,449
<b>Total Current Assets</b>	<u>1,547,231</u>					<u>1,547,231</u>
<b>Non Current Assets</b>						
Property and equipment	660,588				(511,000)	149,588
Exploration and evaluation assets	-					-
<b>Total Assets</b>	<u>\$ 2,207,819</u>					<u>\$ 1,696,819</u>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued liabilities	\$ 759,446					\$ 759,446
Income taxes payable	-					-
<b>Total Current Liabilities</b>	<u>759,446</u>					<u>759,446</u>
Decommissioning provision	256,310			29,960		286,270
<b>Total Liabilities</b>	<u>1,015,756</u>					<u>1,045,716</u>
<b>Shareholders' Equity</b>						
Share capital	15,591,236					15,591,236
Contributed surplus	1,687,325		2,746			1,690,071
Accumulated other comprehensive income	63,646	(63,646)				-
Deficit	(16,150,144)	63,646	(2,746)	(29,960)	(511,000)	(16,630,203)
<b>Total Shareholders' Equity</b>	<u>1,192,063</u>					<u>651,103</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 2,207,819</u>					<u>\$ 1,696,819</u>

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**5. First time adoption of IFRS (continued)**

	Cdn GAAP			IFRS	
	March 31	Notes			March 31
	2010	a	c	d	2010
					(unaudited)
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 1,611,256				\$ 1,611,256
Accounts receivable	171,721				171,721
<b>Total Current Assets</b>	<u>1,782,977</u>				<u>1,782,977</u>
<b>Non Current Assets</b>					
Property and equipment	1,906,731	(975,243)		(511,000)	420,488
Exploration and evaluation assets	-	975,243			975,243
<b>Total Assets</b>	<u>\$ 3,689,708</u>				<u>\$ 3,178,708</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	\$ 556,462				\$ 556,462
Income taxes payable	184,431				184,431
<b>Total Current Liabilities</b>	<u>740,893</u>				<u>740,893</u>
Decommissioning provision	128,684		32,753		161,437
<b>Total Liabilities</b>	<u>869,577</u>				<u>902,330</u>
<b>Shareholders' Equity</b>					
Share capital	15,139,980				15,139,980
Contributed surplus	1,291,873				1,291,873
Deficit	(13,675,368)	63,646	(32,753)	(511,000)	(14,155,475)
Accumulated other comprehensive income	63,646	(63,646)			-
<b>Total Shareholders' Equity</b>	<u>2,820,131</u>				<u>2,276,378</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 3,689,708</u>				<u>\$ 3,178,708</u>

**5.2. Consolidated Statement of Operations and Comprehensive Loss**

Presented below are reconciliations to IFRS of the net loss and comprehensive loss of the Company from the amounts reported under Canadian GAAP:

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**5. First time adoption of IFRS (continued)**

	Cdn GAAP			IFRS	
	Three months March 31, 2010 (unaudited)	Notes a	b	c	Three months March 31, 2010 (unaudited)
Operating Expenses	\$ 6,131				6,131
General and administrative	36,205	-			36,205
Stock based compensation	-			-	-
Capital tax expense	-				-
Depreciation	2,575	(2,575)			-
	<u>44,911</u>				<u>42,336</u>
Finance expense					
Accretion expense	-	2,575		(931)	1,644
Foreign exchange loss	8,617				8,617
	<u>8,617</u>				<u>10,261</u>
Net Loss	53,528				52,597
Other comprehensive loss					-
	<u>\$ 53,528</u>				<u>\$ 52,597</u>
Basic and Diluted Loss per Share	<u>0.00</u>				<u>\$ 0.00</u>

	Cdn GAAP			IFRS	
	Year ended December 31, 2010	Notes a	b	d	Year ended December 31, 2010 (unaudited)
Operating Expenses	\$ -				\$ -
General and administrative	988,902				988,902
Stock based compensation	395,452		(2,746)		392,706
Depreciation	10,201	(10,201)			-
Impairment of exploration and evaluation assets	1,186,804				1,186,804
	<u>2,581,359</u>				<u>2,568,412</u>
Finance expense					
Accretion expense	-	10,201		(3,724)	6,477
Foreign exchange loss	68,731				68,731
	<u>68,731</u>				<u>75,208</u>
Loss before taxes	2,650,090				2,643,620
Income tax recovery	(121,786)				(121,786)
Net Loss and Comprehensive Loss	<u>\$ 2,528,304</u>				<u>\$ 2,521,834</u>

**5.3. Statement of Cash Flows**

The adoption of IFRS did not impact the amounts reported under Canadian GAAP as operating, investing and financing cash flows in the consolidated statements of cash flows.

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## 5. First time adoption of IFRS (continued)

### Notes to the IFRS reconciliations

#### (a) Reclassifications

##### (i) Exploration and evaluation (“E&E”) assets

E&E assets consist of the Company’s exploration projects which are pending the determination of commercial viability and technical feasibility. Under Canadian GAAP these costs were grouped with property and equipment. Under IFRS, E&E assets are classified as a separate line in the statement of financial position.

##### (ii) Accumulated other comprehensive income

On the date of adoption of IFRS, the Company elected to reclassify foreign exchange translation losses included in accumulated other comprehensive income recognized in accordance with Canadian GAAP to deficit. As such, the accumulated other comprehensive income at January 1, 2010, which consisted entirely of cumulative translation differences, was reclassified to the deficit.

##### (iii) Accretion on decommission provision

Under Canadian GAAP accretion on the decommissioning provision was included in depreciation and depletion. Under IFRS it is required to be included in interest expense.

#### (b) Adjustment of stock based compensation expense

Forfeitures – Under Canadian GAAP forfeitures of awards were recognized as they occurred. Under IFRS, forfeitures are estimated on the grant date and are adjusted for actual experiences in subsequent periods.

#### (c) Adjustment of decommissioning provision

Under IFRS, the decommissioning provision is recorded using a risk-free discount rate. As such, the liability on the Consolidated Statement of Financial Position has been adjusted as of January 1, 2010.

#### (d) Adjustment of property and equipment

The Company applied the full cost oil and gas exemption under IFRS 1 whereby the carrying value of the full cost pool, by country, was assigned to E&E assets and producing assets.

At transition to IFRS, the Company reviewed the fair value of its development assets. The estimated fair value, based on a discounted cash flow derived from probable reserves as assessed by the Company’s independent resource evaluator, was lower than the carrying value under Canadian GAAP. Based on this analysis, the net book value was reduced by \$511,000 to reflect the estimated fair value.

## 6. Property and equipment

Oil and natural gas interests		Colombia		Peru		Total
Opening balance at January 1, 2010	\$	419,226	\$	-	\$	419,226
Cost recovery from operator		(269,638)		-		(269,638)
Closing balance at December 31, 2010 and March 31, 2011	\$	149,588	\$	-	\$	149,588

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**6. Property and equipment (continued)**

The reduction in the balance of property and equipment in Colombia arises from an agreement with the Colombian operator to settle the outstanding account balance for an amount less than was previously recorded.

The Company recorded no production from its Colombian properties in the period ended March 31, 2011, and the independent reserve evaluator has classified all reserves as probable. Until such time as production commences no depletion will be taken on the Colombian petroleum and natural gas properties.

**7. Evaluation and exploration**

	Colombia		Peru		Total
Opening balance at January 1, 2010	\$ -		\$ 796,231		\$ 796,231
Additions	-		390,573		390,573
Impairment	-		(1,186,804)		(1,186,804)
Balance at December 31, 2010	-		-		-
Additions	363,337		-		363,337
Closing balance at March 31, 2011	\$ 363,337		\$ -		\$ 363,337

The increase in the balance of evaluation and exploration assets in Colombia arises from the consideration paid by the Company to Petrodorado to increase its participation in the Colombian properties from 5% to 10% (note 3), as well as the provision for decommissioning costs.

Evaluation and exploration assets in Peru were \$nil for the period ended March 31, 2011 and for the year ended December 31, 2010 because the Operator and the Company decided to not enter into the second exploration phase of the concession agreement resulting in a withdrawal from Block 127 in Peru. All previously capitalized expenditures related to Block 127 were fully written off as at December 31, 2010, and an impairment charge of \$1,186,804 recorded.

**8. Decommissioning Provision**

The Company's decommissioning provisions result from its working interest ownership in petroleum and natural gas properties in Colombia and Peru, including well sites, gathering systems and processing facilities. The Company's estimate of the total undiscounted cash flows required to settle the obligations is \$322,750 (March 31, 2010 - \$205,144) which is expected to be incurred between 2011 and 2016. A risk-free rate of 3.2 percent and inflation at a rate of 2.0 percent were used to calculate the decommissioning provision.

	Colombia		Peru		Total
Balance at December 31, 2010	\$ 166,270		\$ 120,000		\$ 286,270
Provision for new wells	20,000		-		20,000
Accretion	347		-		347
Balance at March 31, 2011	\$ 186,617		\$ 120,000		\$ 306,617

**9. 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 at December 31, 2009	95,991,364	\$ 15,139,980
Shares issued for compensation	3,500,000	451,256
Balance at December 31, 2010 and March 31, 2011	99,491,364	\$ 15,591,236

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**9. Share capital (continued)**

	Three months ended March 31	
	2011	2010
Weighted average number of shares outstanding	99,491,364	95,991,364

On November 25, 2010, a total of 3,500,000 shares were issued as compensation for services rendered by certain Officers and Directors of the company. The Company has not issued any preferred shares.

**10. Stock Based Compensation**

During the period ended March 31, 2011 and December 31, 2010, the Company recorded \$128,347 and \$392,706 of stock based compensation expense respectively with respect to options issued during the fourth quarter of fiscal 2010. The Company issued 9,580,000 options to Directors and other key individuals that provided technical and management services to the Company. The options vest annually with one third vesting immediately and one third vesting on the first and second anniversary of the grant date. The options have a term of five years. The Company has not capitalized any of the stock based compensation expense.

The following table summarizes information about the options outstanding as at March 31, 2011:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2010	9,580,000	\$ 0.13	4.9
Options granted	-	-	-
Balance outstanding, March 31, 2011	9,580,000	\$ 0.13	4.9

**11. 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 period ended March 31, 2011 these fees totalled \$3,150 (2010 - \$2,882). At March 31, 2011, the Company owed \$3,150 (2010 - \$nil) 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, 2011 the Company owed \$47,050 (2010 - \$12,551) for these costs. During the period ended March 31, 2011 the Company reimbursed Kulczyk Oil for \$102,787 of expenditures paid on behalf of the Company.

Kulczyk Oil remains legally responsible for a guarantee issued in August 2007 (“the **Loon Peru 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 Company has entered into an indemnification agreement with Kulczyk Oil in respect of the Loon Guarantee. The transfer of the Loon Peru Guarantee from Kulczyk Oil to the Company requires the formal approval of the Government of Peru which has not yet been obtained. The Company has fulfilled its work commitments under the first phase of the exploration program, and the Company and its operator announced on October 25, 2010 that the joint venture will not proceed to the second exploration phase. As a result, the Company believes there is no longer a material exposure to the guarantee.

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**12. Income tax**

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

	March 31,	
	2011	2010
Loss before income taxes	\$ (253,662)	\$ (52,597)
<i>Federal and provincial statutory rate</i>	26.50%	29.00%
Expected income tax recovery	\$ (67,220)	\$ (15,253)
Stock based compensation	34,012	-
Tax rate differences and change in tax benefits not recognized	33,208	15,253
Current income tax expense (recovery)	<u>\$ -</u>	<u>\$ -</u>

**13. Segmented information**

	For the period ended March 31, 2011			
	Colombia	Peru	Corporate	Total
General and administrative	\$ 20,662	\$ (21,183)	\$ 104,487	\$ 103,966
(Gain)/loss on foreign exchange	(2,434)	-	23,436	21,002
Stock based compensation	-	-	128,347	128,347
Depletion and accretion	-	347	-	347
Loss/(Income)	<u>\$ 18,228</u>	<u>\$ (20,836)</u>	<u>\$ 256,270</u>	<u>\$ 253,662</u>
Capital expenditures	\$ 363,337	\$ -	\$ -	\$ 363,337
Total assets, as at March 31, 2011	\$ 1,253,627	\$ 190,386	\$ (1,635)	\$ 1,442,378

  

	For the period ended March 31, 2010			
	Colombia	Peru	Corporate	Total
Operating expenses	\$ 6,131	\$ -	\$ -	\$ 6,131
General and administrative	18,592	-	17,613	36,205
Foreign exchange loss	-	-	8,617	8,617
Accretion	1,644	-	-	1,644
Loss	<u>\$ 26,367</u>	<u>\$ -</u>	<u>\$ 26,230</u>	<u>\$ 52,597</u>
Capital expenditures	\$ 1,262	\$ 179,012	\$ -	\$ 180,274
Total assets, as at March 31, 2010	\$ 420,488	\$ 975,243	\$ 1,782,977	\$ 3,178,708