LOON ENERGY CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

(Unaudited)

Loon Energy Corporation

Consolidated Balance Sheets

US$

(Unaudited)

	September 30 2010	December 31, 2009
Assets		
Current		
Cash and cash equivalents	$ 1,300,447	$ 1,969,109
Accounts receivable (note 3)	2,160,306	64,139
	3,460,753	2,033,248
Property and equipment (note 5)	646,250	1,726,457
	$ 4,107,003	$ 3,759,705
Liabilities		
Current		
Accounts payable and accrued liabilities (note 3)	$ 2,379,614	$ 584,306
Income taxes payable (note 9)	20,000	175,631
	2,399,614	759,937
Asset retirement obligation (note 6)	183,680	126,109
	2,583,294	886,046
Shareholders' Equity		
Share capital (note 7)	15,139,980	15,139,980
Contributed surplus	1,291,873	1,291,873
Deficit	(14,971,790)	(13,621,840)
Accumulated other comprehensive income	63,646	63,646
	1,523,709	2,873,659
	$ 4,107,003	$ 3,759,705

Future operations (note 2)
Commitments (note 3)
Subsequent events (note 11)

Loon Energy Corporation

Consolidated Statements of Operations and Deficit

US$

(Unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Petroleum and natural gas sales	$ -	$ 10,897	$ -	$ 37,346
Less: Royalties	-	(872)	-	(2,988)
	-	10,025	-	34,358
Expenses				
Operating	-	75,336	-	218,543
General and administrative	179,381	104,305	290,786	430,156
Foreign exchange loss (gain)	33,064	(88,239)	56,574	(117,405)
Depletion, depreciation and accretion	2,539	18,707	7,571	75,905
Impairment of petroleum and natural gas properties (note 5)	1,116,805	-	1,116,805	-
	1,331,789	110,109	1,471,736	607,199
Loss before income taxes	(1,331,789)	(100,084)	(1,471,736)	(572,841)
Current income tax recovery (note 9)	(121,786)	-	(121,786)	-
Net loss and comprehensive loss	(1,210,003)	(100,084)	(1,349,950)	(572,841)
Deficit, beginning of period	(13,761,787)	(13,252,501)	(13,621,840)	(12,779,744)
Deficit, end of period	$ (14,971,790)	$ (13,352,585)	$ (14,971,790)	$ (13,352,585)
Net loss per share				
Basic and diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)

Loon Energy Corporation

Consolidated Statements of Cash Flows

US$

(Unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Operating activities				
Net loss	$ (1,210,003)	$ (100,084)	$ (1,349,950)	$ (572,841)
Items not involving cash:				
Depletion, depreciation and accretion	2,539	18,707	7,571	75,905
Impairment of petroleum and natural gas properties	1,116,805	-	1,116,805	-
Foreign exchange gain (loss)	33,064	-	56,574	(48,798)
	(57,595)	(81,377)	(169,000)	(545,734)
Changes in non-cash working capital	(36,910)	6,772	(77,244)	232,070
	(94,505)	(74,605)	(246,244)	(313,664)
Investing				
Property and equipment expenditures	(12,223)	(41,098)	(274,938)	(75,414)
Changes in working capital related to capital expenditures	(9,137)	41,098	(147,481)	75,414
	(21,360)	-	(422,419)	-
Change in cash and cash equivalents	(115,865)	(74,605)	(668,663)	(313,664)
Cash and cash equivalents, beginning of period	1,416,312	2,864,533	1,969,109	3,103,592
Cash and cash equivalents, end of period	$ 1,300,447	$ 2,789,928	$ 1,300,447	$ 2,789,928
Supplemental cash flow information				
Taxes paid	$ -	$ -	$ 33,845	$ -

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 September 30, 2010 together with the funding to be provided by a farm-out agreement related to the Company's interest in the Buganviles Association contract in Colombia, as more fully described in note 3, 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.

3. International operations and commitments

Colombia

Abanico Association Contract

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.

Buganviles Association Contract

Through a farm-in agreement, the Company earned a 20% non-operated participating interest in the Buganviles Association Contract, an area which includes one suspended oil well. The Company has fulfilled its required work commitments with respect to this contract. The remaining lands held under this contract will expire in March 2011, subject to extension which must be obtained from the Colombian national oil company.

During the third quarter of fiscal 2010, Loon entered into a farm-out agreement with Petrodorado South America S.A. ("**Petrodorado**") under which Petrodorado will pay Loon's 20% share of the authorized cost to drill and complete two wells in Colombia to earn 75% (net 15%) of Loon's interest in the Buganviles Association Contract. The farm-outagreement provides for a reduction in Petrodorado's earned interest from net 15% to net 10% upon payment by Loon of 10% of the authorized completion costs for both wells. In early September, Loon received a cash call from the operator to fund the drilling of these two wells. Upon the execution of the farm-out agreement in late September, the amounts became payable by Petrodorado. As such, Loon has recorded a receivable from Petrodorado for $1.9 million to offset the amount payable to the Colombian operator for the same amount.

3. International operations and commitments

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. CEPSA Peru earned 80% of Loon Peru's interest in the block in return for consideration and became the operator of the block. Consideration included the payment of the first $10.75 million of expenditures incurred in fulfilling the minimum work commitment for the first exploration period. The Company's share of total expenditures related to the first exploration period, including the seismic acquisition was $1,116,805.

As of September 30, 2010, the Phase 1 work commitments were satisfied. Cepsa Peru has elected to not proceed into the second exploration phase. Due to insufficient time for Loon to seek out a partner to commit to the additional work programs, Loon has also elected to not proceed into the second exploration phase and will allow the license for Block 127 to expire on November 16, 2010. Cepsa Peru and the Company are currently developing an abandonment plan for Block 127, which is expected to be undertaken in the remainder of 2010 and into 2011.

4. Significant accounting policies

The interim consolidated financial statements of the Company are prepared 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

	September 30, 2010	December 31, 2009
Petroleum and natural gas properties	$ 9,119,150	$ 9,145,774
Accumulated depletion and depreciation	(8,472,900)	(7,419,317)
	$ 646,250	$ 1,726,457
Petroleum and natural gas properties net book value by segment		
Colombia	$ 646,250	$ 930,226
Peru	-	796,231
	$ 646,250	$ 1,726,457

Due to the 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 and no depletion was recorded on the Colombian cost centre throughout fiscal 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. The reduction in the balance of petroleum and natural gas properties in Colombia is due largely to the settlement of the outstanding account with the Colombian operator.

In May 2010, PERUPETRO S.A. granted CEPSA Peru a six month extension to the phase 1 exploration period that would enable CEPSA and Loon Peru to finalize the identification of viable drilling targets. CEPSA Peru advised Loon that it did not intend to proceed to the second exploration phase on September 30, 2010. Efforts to find a partner who would commit to the additional work program required to continue into the next exploration period were not successful and the Company has decided that it will not enter into the second exploration phase with the consequence that it will withdraw from Block 127. With the planned withdrawal of the Company from Block 127 in Peru, all petroleum and natural gas property expenditures related to Block 127 have been fully written off as at September 30, 2010 and an impairment charge of $1,116,805 recorded.

6. Asset retirement obligation

The Company's asset retirement obligations result from its working interest ownership in petroleum and natural gas properties in Colombia, 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 $224,287 (December 31, 2009 - $174,287) which is expected to be incurred between 2011 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.

	September 30, 2010	December 31, 2009
Balance beginning of period	$ 126,109	$ 111,293
Accretion	7,571	14,816
Additions	50,000	-
Balance, end of period	$ 183,680	$ 126,109

7. Share capital

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

Common Shares	Number of Shares	Carrying amount
Balance as at December 31, 2009 and September 30, 2010	95,991,364	$ 15,139,980

	Three and nine months ended September 30, 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 nine months ended September 30, 2010 these fees totalled $9,450 (2009 - $7,706). At September 30, 2010, the Company owed $1,050 (2009 - $1,837) 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 September 30, 2010 the Company owed $7,217 (2009 - $18,420) for these costs. During the nine months ended September 30, 2010 the Company reimbursed Kulczyk Oil for $53,338 of expenditures paid on behalf the Company.

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 Company has entered into an indemnification agreement with Kulczyk Oil in respect of the Loon Guarantee. This process requires the formal approval of the Government of Peru which has not yet been obtained. The Company announced on October 25, 2010 that it will not proceed to the second exploration stage and therefore the maximum liability to Kulczyk Oil that may arise from the Loon Guarantee is based on the minimum work obligation for the first exploration phase. The first exploration minimum work program has been completed and there is no longer a material exposure to the guarantee.

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

9. Income Taxes

During fiscal 2009, a tax liability in the amount of $175,631 was recorded with respect to expected taxes owing in Colombia by the Company's wholly owned subsidiary Loon Colombia Limited for the 2007, 2008 and 2009 taxation years. During the third quarter of fiscal 2010, new information was obtained that indicated that actual taxes payable was considerably lower than originally expected. This change in estimate has been adjusted and recorded as a tax recovery in the period.

10. Segmented Information

Colombia

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Petroleum and natural gas sales	$ -	$ 10,897	$ -	$ 37,346
Royalties	-	(872)	-	(2,988)
Operating expenses	-	(75,336)	-	(218,543)
General and administrative	(125,995)	-	(168,399)	-
Loss on foreign exchange	-	-	(9,183)	-
Depletion, depreciation and accretion	(2,539)	(18,707)	(7,571)	(75,905)
Loss before income taxes	(128,534)	(84,018)	(185,153)	(260,090)
Current income tax recovery	121,786	-	121,786	-
Loss after income taxes	$ (6,748)	$ (84,018)	$ (63,367)	$ (260,090)
Capital expenditures	$ 3,100	$ 33,240	$ 4,362	$ 59,485
Total assets, at period end	$ 2,731,831	$ 930,969	$ 2,731,831	$ 930,969

Peru

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
General and administrative	$ 25,995	$ -	$ 22,487	$ -
Loss on foreign exchange	490	-	-	-
Impairment of P&NG properties	(1,116,805)	-	(1,116,805)	-
Loss	$ (1,090,320)	$ -	$ (1,094,318)	$ -
Capital expenditures	$ 9,124	$ 7,858	$ 270,576	$ 15,929
Total assets, at period end	$ 216,429	$ 104,624	$ 216,429	$ 104,624

Corporate

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
General and administrative	$ (79,379)	$ (104,305)	$ (144,874)	$ (430,156)
Loss on foreign exchange	(33,555)	88,239	(47,391)	117,406
Loss	$ (112,934)	$ (16,066)	$ (192,265)	$ (312,750)
Total assets, at period end	$ 1,158,743	$ 2,775,222	$ 1,158,743	$ 2,775,222

11. Subsequent events

On July 15, 2010, Petrodorado Energy Ltd. and the Company entered into a non-binding letter of intent, pursuant to which and subject to entering into a definitive agreement and certain other conditions being met, the parties agreed to the acquisition of all outstanding shares of the Company by Petrodorado. During October of 2010, it was determined that the proposed acquisition of Loon by Petrodorado will not proceed.

On October 16, 2010, the first of the wells under the Petrodorado farm-out agreement, the Visure-1X exploratory well, commenced drilling and the second well, the Tuqueque-1X exploratory well, is expected to commence drilling in November 2010. The Company's share of the current authorized costs to drill the Visure -1X well is $562,635. The Company's share of the current authorized costs to drill the Tuqueque-1X well is $1,382,947. Under the farm-out agreement, the Company's share of each well will be paid by Petrodorado as consideration for the purchase of working interest.

On November 9, 2010, the Company exercised its option to pay 10% of the completion costs of the two wells under the Petrodorado farm-out agreement, being Visure-1X and Tuqueque-1X. As a result, the Company's working interest is 10% in the Buganviles association contract area.