



KULCZYK OIL VENTURES INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008



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AUDITORS' REPORT TO THE DIRECTORS OF KULCZYK OIL VENTURES INC.

We have audited the consolidated balance sheets of Kulczyk Oil Ventures Inc. as at June 30, 2009 and December 31, 2008 and the consolidated statements of operations, deficit, other comprehensive loss, accumulated other comprehensive loss and cash flows for the six month periods ended June 30, 2009 and 2008. 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009 and December 31, 2008 and the results of its operations and its cash flows for the six month periods ended June 30, 2009 and 2008 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
August 20, 2009

KULCZYK OIL VENTURES INC.

Consolidated Balance Sheets

US\$

	June 30, 2009	December 31, 2008
Assets		
Current		
Cash and cash equivalents (note 5)	\$ 5,581,227	\$ 9,322,225
Accounts receivable	206,666	289,696
Prepaid expenses and deposits	354,928	165,526
	<u>6,142,821</u>	<u>9,777,447</u>
Restricted cash (note 6)	7,500,000	7,500,000
Investment (note 7)	579,052	610,764
Property and equipment (note 8)	7,914,061	4,483,162
	<u>\$ 22,135,934</u>	<u>\$ 22,371,373</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 3,245,769	\$ 1,936,112
Income taxes payable	-	3,563
	<u>3,245,769</u>	<u>1,939,675</u>
Asset retirement obligation (note 9)	15,924	15,372
	<u>3,261,693</u>	<u>1,955,047</u>
Shareholders' Equity		
Share capital (note 10)	32,727,754	32,727,754
Contributed surplus (note 11)	4,199,783	4,097,012
Deficit	(15,860,432)	(14,279,914)
Accumulated other comprehensive loss	(2,192,864)	(2,128,526)
	<u>18,874,241</u>	<u>20,416,326</u>
	<u>\$ 22,135,934</u>	<u>\$ 22,371,373</u>
Future operations (note 2)		
Commitments (note 12)		
Subsequent event (note 18)		

KULCZYK OIL VENTURES INC.Consolidated Statements of Deficit, Other Comprehensive Loss and Accumulated Other Comprehensive Loss
US\$

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(Unaudited)			
Deficit				
Balance, beginning of period	\$ (15,248,851)	\$ (8,150,153)	\$ (14,279,914)	\$ (7,831,528)
Net loss	<u>(611,581)</u>	<u>(215,444)</u>	<u>(1,580,518)</u>	<u>(534,069)</u>
Balance, end of period	<u>\$ (15,860,432)</u>	<u>\$ (8,365,597)</u>	<u>\$ (15,860,432)</u>	<u>\$ (8,365,597)</u>
Accumulated Other Comprehensive Loss				
Balance, beginning of period	\$ (1,891,121)	\$ (3,393,762)	\$ (2,128,526)	\$ (2,662,094)
Unrealized gain/(loss) on investment (note 7)	<u>(301,743)</u>	<u>833,650</u>	<u>(64,338)</u>	<u>979,178</u>
Unrealized loss on translation of financial statements into reporting currency	<u>-</u>	<u>877,196</u>	<u>-</u>	<u>-</u>
Balance, end of period	<u>\$ (2,192,864)</u>	<u>\$ (1,682,916)</u>	<u>\$ (2,192,864)</u>	<u>\$ (1,682,916)</u>
Total of Deficit and Accumulated Other Comprehensive Loss	<u>\$ (18,053,296)</u>	<u>\$ (10,048,513)</u>	<u>\$ (18,053,296)</u>	<u>\$ (10,048,513)</u>
Other Comprehensive Gain/(Loss)				
Net loss	\$ (611,581)	\$ (215,444)	\$ (1,580,518)	\$ (534,069)
Unrealized gain/(loss) on investment (note 7)	<u>(301,743)</u>	<u>833,650</u>	<u>(64,338)</u>	<u>979,178</u>
Other Comprehensive Gain/(Loss)	<u>\$ (913,324)</u>	<u>\$ 618,206</u>	<u>\$ (1,644,856)</u>	<u>\$ 445,109</u>

KULCZYK OIL VENTURES INC.

Consolidated Statements of Operations

US\$

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(Unaudited)			
Interest and other income	\$ 9,023	\$ 81,270	\$ 27,169	\$ 206,273
Expenses				
General and administrative	679,582	386,686	1,548,498	1,016,682
Stock based compensation (note 10(d))	51,761	35,850	102,771	113,565
Loss/(gain) on foreign exchange	(299,627)	72,120	(247,786)	(206,241)
Depletion, depreciation and accretion	10,888	15,563	26,204	29,841
Impairment of petroleum and natural gas properties (note 3)	178,000	-	178,000	-
	<u>620,604</u>	<u>510,219</u>	<u>1,607,687</u>	<u>953,847</u>
Loss before discontinued operations	(611,581)	(428,949)	(1,580,518)	(747,574)
Earnings from discontinued Canadian petroleum and natural gas activities (note 16)	-	213,505	-	213,505
Net loss	<u>\$ (611,581)</u>	<u>\$ (215,444)</u>	<u>\$ (1,580,518)</u>	<u>\$ (534,069)</u>
Net loss per share before discontinued operations				
- basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Net loss per share after discontinued operations				
- basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)

KULCZYK OIL VENTURES INC.

Consolidated Statement of Cash Flows

US\$

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2009	2008	2009	2008
	(Unaudited)			
Net loss from continuing operations	\$ (611,581)	\$ (428,949)	\$ (1,580,518)	\$ (747,574)
Items not involving cash:				
Depletion, depreciation and accretion	10,888	15,563	26,204	29,841
Stock based compensation	51,761	35,850	102,771	113,565
Impairment of petroleum and natural gas properties	178,000	-	178,000	-
Unrealized foreign exchange loss/(gain)	(456,898)	(245,278)	(380,884)	(527,041)
	<u>(827,830)</u>	<u>(622,814)</u>	<u>(1,654,427)</u>	<u>(1,131,209)</u>
Changes in non-cash working capital	(289,850)	477,808	(1,405,932)	32,062
	<u>(1,117,680)</u>	<u>(145,006)</u>	<u>(3,060,359)</u>	<u>(1,099,147)</u>
Earnings from discontinued operations (note 16)	-	(34,109)	-	(34,109)
Financing				
Allocation to Loon Energy Corporation (note 4)	-	(1,752,027)	-	(2,524,815)
Investing				
Property and equipment expenditures	(3,336,030)	(408,913)	(3,634,551)	(320,629)
Proceeds on sale of assets	-	213,505	-	213,505
Changes in working capital related to capital expenditures	2,520,062	-	2,562,603	(1,000,000)
	<u>(815,968)</u>	<u>(195,408)</u>	<u>(1,071,948)</u>	<u>(1,107,124)</u>
Effect of exchange rate changes on cash	588,597	468,603	391,309	(18,387)
Change in cash	(1,345,051)	(1,657,947)	(3,740,998)	(4,783,582)
Cash and cash equivalents, beginning of period	6,926,278	8,991,403	9,322,225	12,117,038
Cash and cash equivalents, end of period	<u>\$ 5,581,227</u>	<u>\$ 7,333,456</u>	<u>\$ 5,581,227</u>	<u>\$ 7,333,456</u>
<u>Supplemental cash flow information</u>				
Interest received	\$ 9,023	\$ 81,270	\$ 27,169	\$ 206,273

Kulczyk Oil Ventures Inc.
(Formerly Loon Energy Inc.)
Notes to Consolidated Financial Statements
For the six months ended June 30, 2009 and 2008

1. Basis of preparation

The audited consolidated financial statements of Kulczyk Oil Ventures Inc. (“**Kulczyk Oil**” or “**the Company**”) are based on the Plan of Arrangement (“**Arrangement**”) prepared by Loon Energy Inc. (“**Loon**”) and approved by shareholders on December 9, 2008. The effect of the Arrangement was a division of the net assets and operations of Loon into Kulczyk Oil and Loon Energy Corporation as more fully explained below and in note 4. The Company’s consolidated financial statements have been prepared by management following continuity of interest guidelines, are presented in United States dollars and are in accordance with accounting principles generally accepted in Canada.

Pursuant to the Arrangement, which was implemented and made effective on December 10, 2008, existing Loon shareholders retained their respective proportionate ownership interests in the common shares of the Company and received one Loon Energy Corporation share for each common share of the Company owned by such shareholders. Under the Arrangement, each Shareholder was also granted the right to put their Share back to Loon for CDN\$0.25 per Share. Kulczyk Oil retained the net assets associated with resource properties located in Brunei, Syria and Slovenia, together with the investment in shares of Jura Energy Corporation. Kulczyk Oil is the continuing, legal corporate entity, and therefore these consolidated financial statements include the legal share capital of Loon. Coincident with the implementation of the Arrangement, Loon changed its name to “Kulczyk Oil Ventures Inc.”

2. Future operations

The Company’s exploration activities and overhead costs have been financed to date 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 presently anticipated that cash resources at June 30, 2009 will not be sufficient to fund existing capital commitments for the next twelve months and as such, additional capital or further commitment from farm-in partners will be required to complete the full exploration and development programs as presently contemplated under the Company’s current agreements.

The Company has agreed to the terms of a temporary convertible debt facility with its major shareholder under which funding will be available to a maximum amount of \$8 million. The Company is planning to raise equity late in 2009, and will retire any amounts outstanding on this credit facility through its conversion to shares at the time the new equity is raised. Should this planned new equity capital not be raised when anticipated or if farm-in partners are not 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

Brunei

On August 28, 2006 Loon Brunei Limited (“Loon Brunei”), a wholly-owned subsidiary of Kulczyk Oil, and QAF Brunei Sdn. Bhd. (“QAF”) (collectively, together with assignees, referred to as the “Contractor”) signed a Production Sharing Agreement (“PSA”) with Brunei National Petroleum Company Sendirian Berhad (“**PetroleumBRUNEI**”). The PSA granted QAF and Loon Brunei the right to explore for and produce oil and gas from Block L. Block L comprises approximately 2,250 square kilometres which includes both onshore and shallow offshore areas of northern Brunei.

On April 23, 2007, Loon Brunei signed an Option Agreement with Nations Petroleum (SE Asia) Limited (“Nations”), pursuant to which Nations was granted the option to acquire a 50% interest in the PSA, in consideration for reimbursing Loon Brunei for approximately \$1.4 million of previously incurred costs, and agreeing to fund 100% of the Phase 1 work program required by the PSA to a maximum expenditure of approximately \$21.7 million. On January 28, 2008 Nations gave notice of its exercise of the option and by deed of assignment dated May 23, 2008, Nations was assigned a 50% working interest in Block L. As part of the approval of the assignment, the Contractor agreed to spend \$4.5 million on work in addition to that specified in the PSA for Phase 1. Consequently the Contractor’s work commitment for Phase 1 under the PSA consists of reprocessing all existing seismic data (to the extent that it is capable of being reprocessed), acquiring 350 sq. km of 3D seismic, drilling 2 wells to a depth of 2000 meters and conducting \$4.5 million of additional work, which additional work is to be agreed with PetroleumBRUNEI. The consequent minimum expenditure requirement specified in the PSA increased from \$20.5 million to \$25.0 million.

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3. International operations (continued)

The Brunei Block L PSA provides for an exploration period of six years from the date of the Brunei Block L PSA divided into two phases, Phase 1 and Phase 2, each of which was initially for a period of three years. In October 2008, a formal request was submitted to PetroleumBRUNEI for an extension of the term of Phase 1 by one year to August 27, 2010 with a corresponding decrease of one year to Phase 2. An amendment to the PSA providing for the extension to Phase 1 is currently being circulated for execution by the parties.

As at June 30, 2009, all existing seismic data has been reprocessed and the 3D seismic obligation has been fulfilled. As at June 30, 2009, approximately \$28.6 million in expenditures have been incurred by the Contractor in meeting its work commitments, and pursuant to the Option Agreement, Nations funded 100% of the first \$21.7 million in Phase 1 costs incurred. The Company is to fund 50% of all expenditures between \$21.7 million and \$25 million and 40% of all expenditures thereafter, and to June 30, 2009, has spent \$3.1 million.

Syria

Loon Latakia Limited, a wholly-owned subsidiary of Kulczyk Oil owns a 100% interest in a Contract for the Exploration, Development, and Production of Petroleum ("PSC") between the Government of the Syrian Arab Republic, Syrian Petroleum Company ("SPC") and the Company which became effective on November 29, 2007. This agreement gives the Company the right to explore for and produce oil and gas from Block 9, a 10,040 square kilometre block in northwestern Syria.

Under the terms of the PSC, the Company has a first phase exploration period of four years during which it has committed to reprocess all existing seismic data on Block 9, acquire 600 kilometres of 2D seismic and drill two exploration wells. The Company has notified SPC that it intends to replace the 2 seismic acquisition commitment with the acquisition of 350 sq. km of 3D seismic. The exploration period can be extended for up to nine years, in phases, by performing additional work on an agreed basis. The Company has posted a guarantee in the amount of \$7.5 million, an amount which represents the minimum exploration expenditure level specified in the PSC for the first exploration phase. As at June 30, 2009, the Company has incurred costs of approximately \$2.9 million in Syria on Block 9.

Slovenia

The Company has interests in a project in Slovenia which has seen little activity over the last three years, and in which the Company currently has no plans to invest further capital. As such, this property has been fully written off.

4. Significant accounting policies

Continuity of interest financial statements

The 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 by Loon at a corporate rather than on a property-by-property basis 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 Loon Energy Corporation and the Company.

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

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

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

Kulczyk Oil Ventures Inc.
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4. Significant accounting policies (continued)

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 stream and sources of new capital will be denominated in US\$. The Company has restated prior period comparative information.

Effective December 10, 2008, the Company reclassified all entities within the corporate group from integrated to self-sustaining foreign operations. Accordingly, all entities now use the US\$ as their functional currency. This change was made for a number of reasons:

1. The parent company, Kulczyk Oil, delisted from the Toronto Venture Exchange and intends to list its shares on the Warsaw Stock Exchange late in 2009. Accordingly, financings are no longer anticipated to be completed in Canadian dollars.
2. The operating subsidiaries were reclassified because of the change in currency of future sources of capital that will be used on the planned capital expenditures in each of these entities.
3. It is anticipated that future income streams and expenditures for operating subsidiaries will be denominated in US\$.

The Company prospectively adopted the current rate method of foreign currency translation as of December 10, 2008. 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 shareholders' 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 loss.

For the year ended December 31, 2008, the Company recorded \$5,244,613 in accumulated other comprehensive loss, with this amount arising from the prospective adoption of the current rate method for foreign currency translation of the accounts of its reclassified self-sustaining foreign operations, adoption of the US\$ as functional currency for the parent entity and the change in reporting currency from Canadian to United States dollars. All comparative financial information has been translated and restated as if the US\$ had been used as the Company's reporting currency but the subsidiaries remain classified as integrated.

Future Accounting Policy Changes

International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed that publicly accountable profit-oriented enterprises will be required to use International Financial Reporting Standards ("IFRS") in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Over the next two years, Canadian GAAP will be modified to converge with IFRS.

An evaluation of IFRS conversion requirements that pertain to the Company has commenced and will lead to the development of an implementation plan to transition the Company's financial reporting process, including internal controls and information systems to IFRS.

Summary of significant accounting policies

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned and all intercompany transactions have been eliminated.

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4. Significant accounting policies (continued)

(b) 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: concession, 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 the determination by management that a project or property is no longer economically feasible.

(c) 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.

Office and computer equipment are recorded at cost and are depreciated over the estimated useful lives of the asset using the declining balance basis at rates ranging from 20% to 30%.

(d) 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.

(e) 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.

(f) Joint operations

The Company conducts many 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.

Kulczyk Oil Ventures Inc.
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4. Significant accounting policies (continued)

(g) 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 and restricted cash 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. Investments are designated as available for sale. Trade accounts receivable are designated as loans and receivables. Trade accounts payable and accrued liabilities are designated as other financial liabilities.

(h) Revenue recognition

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

(i) Stock based compensation

The Company has issued options to acquire common shares to directors, officers and employees. These options are 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. The fair value thus established is recognized as an expense over the life of the options with a corresponding increase to contributed surplus. When the options are exercised, the proceeds received and the applicable amount in contributed surplus will be credited to share capital. If options are forfeited, the amount of compensation expense relating to unvested options is credited against the contributed surplus account.

(j) 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.

(k) Loss per share

Basic loss per share is calculated by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings 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 the in-the-money stock options.

(l) Measurement uncertainty

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 and therefore estimates used may change as new events occur, additional experience is acquired or the Company's operating environment changes.

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5. Cash and cash equivalents

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Cash	\$ 2,697,442	\$ 3,611,270
Short-term Investments in HSBC Bank Canada Banker's Acceptances or Term Deposits	<u>2,883,785</u>	<u>5,710,955</u>
	<u>\$ 5,581,227</u>	<u>\$ 9,322,225</u>

6. Restricted cash

Pursuant to the terms of a petroleum exploration license for Syria, the Company posted a performance guarantee in the amount of US\$ 7,500,000 in 2007. The funds posted as a performance guarantee will be released upon the satisfactory completion of the work commitments required under the agreement. The Company is entitled to earn interest on these funds being held on deposit.

7. Investment

On April 18, 2006, Jura Energy Corporation (“**Jura**”) acquired all of the issued and outstanding shares of Frontier Holdings Limited (“**Frontier**”), a private Bermuda company that had been jointly owned by the Company and an unrelated company. As consideration for the shares of Frontier, Jura issued 7,479,419 of its common shares to the Company. The fair value at the time of acquisition of the shares received by the Company was \$8,101,175 (CAD\$9,250,732).

As at June 30, 2009, the quoted market value of the investment was \$579,052 (CAD\$673,148) and for the period then ended, an unrealized loss of \$64,338 (CAD\$74,793) has been recorded.

8. Property and equipment

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Petroleum and natural gas properties	\$ 14,796,382	\$ 11,239,512
Accumulated depletion	<u>(7,159,073)</u>	<u>(6,981,073)</u>
	<u>7,637,309</u>	<u>4,258,439</u>
Office equipment and furniture	378,493	300,812
Accumulated depreciation	<u>(101,741)</u>	<u>(76,089)</u>
	<u>276,752</u>	<u>224,723</u>
Net book value	<u>\$ 7,914,061</u>	<u>\$ 4,483,162</u>
Petroleum and natural gas properties net book value by segment		
Brunei	\$ 3,992,787	\$ 1,020,535
Syria	2,844,764	2,597,006
Other	<u>799,758</u>	<u>640,898</u>
	<u>\$ 7,637,309</u>	<u>\$ 4,258,439</u>

The entire net book value of petroleum and natural gas properties arises from costs incurred in Brunei and Syria and other prospective projects. These costs have been excluded from depletion as these cost centres are in a pre-production phase and do not yet have any proven reserves attributable to them. The Company capitalizes costs incurred relating to prospective projects and when reviewed annually, will impair if the project is no longer being investigated.

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9. Asset retirement obligation

The Company's asset retirement obligations result from its working interest ownership in petroleum and natural gas properties, and well sites in Slovenia and Tunisia. The Company's estimate of the total undiscounted cash flows required to settle the asset retirement obligations at June 30, 2009 is \$22,098 (December 31, 2008 - \$22,098), 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.

	Six months ended June 30, 2009	Year ended December 31, 2008
	US\$	US\$
Balance, beginning of period	\$ 15,372	\$ 74,710
Obligations disposed of	-	(66,577)
Accretion	552	6,205
Adoption of change in foreign currency translation (note 4)	-	1,034
Balance, end of period	<u>\$ 15,924</u>	<u>\$ 15,372</u>

10. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The preferred shares may be issued in one or more series, with rights and privileges as determined by the Board of Directors.

(b) Issued and outstanding

Common shares issued and outstanding:

	<i>Number of Shares</i>	Carrying amount US\$
Balance, December 31, 2007	95,991,364	\$ 30,949,055
Issued for cash	48,000,000	9,556,423
Repurchased to treasury per exercise of put right option	(18,565,759)	(3,696,297)
Transfer to contributed surplus due to repurchase price being less than the carrying value per share	-	(1,182,815)
Less carrying value of share capital allocated to Loon Energy Corporation (note 1)	-	(2,898,612)
Balance, December 31, 2008 and June 30, 2009	<u>125,425,605</u>	<u>\$ 32,727,754</u>

The Plan of Arrangement gave each shareholder of the Company the right ("**put right**"), exercisable in advance of the meeting on December 9, 2008, to require the Company to repurchase their shares at a price of CAD\$0.25 per share. To provide the Company with the funds necessary to finance the put right and with additional capital in the event that all of the funds were not used for that purpose, Kulczyk Investment House International S.à.r.l. ("**Kulczyk Investment House**") subscribed for 48,000,000 shares of the Company at CAD\$0.25 per share for gross proceeds of \$9,556,423 (CAD\$12 million).

On December 10, 2008, 18,565,759 shareholders exercised the put right and the Company paid \$3,696,297 (CAD\$4,641,440) to re-purchase their shares. The redemption price per share of CAD\$0.25 was less than the carrying value per share at the time of the redemption, therefore the difference is reclassified from share capital to contributed surplus.

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10. Share capital (continued)

At June 30, 2009 and December 31, 2008, Kulczyk Investment House owns approximately 68% of the issued and outstanding shares of the Company.

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(Unaudited)			
Weighted average number of shares outstanding	125,425,605	95,991,364	125,425,605	95,991,364

As the Company is in a loss position, the effect of outstanding options is anti-dilutive to the net loss per share.

(c) Stock Options

The Company granted common share purchase options to officers, directors, employees and certain consultants with exercise prices equal to or greater than the fair value of the common shares on the grant date. As per the Plan of Arrangement these options remained with Kulczyk. Options generally vest over 2 years and have a life of 5 years.

	<i>Number of Options</i>	<i>Exercise price per option (CDN)</i>
Balance, December 31, 2007	8,970,000	
Granted	210,000	\$0.70
Forfeited	(70,000)	\$0.65
Balance, December 31, 2008	9,110,000	
Forfeited	(250,000)	\$0.54
Expired	(750,000)	\$0.16
Balance, June 30, 2009	8,110,000	

The following table summarizes information about the options outstanding and exercisable at June 30, 2009:

Options outstanding			Options exercisable		
Exercise price (CDN)	Options	<i>Contractual life remaining, years (weighted average)</i>	Options	Exercise price (CDN)	
\$ 0.21	700,000	0.1	700,000	\$ 0.21	
\$ 0.24	100,000	0.1	100,000	\$ 0.24	
\$ 0.70	500,000	0.6	500,000	\$ 0.70	
\$ 0.95	1,930,000	0.9	1,930,000	\$ 0.95	
\$ 0.95	2,460,000	1.6	2,460,000	\$ 0.95	
\$ 0.55	475,000	2.8	475,000	\$ 0.55	
\$ 0.65	75,000	3.2	49,500	\$ 0.65	
\$ 0.61	1,660,000	3.4	1,095,600	\$ 0.61	
\$ 0.70	210,000	3.6	70,000	\$ 0.70	
\$ 0.76	8,110,000	1.7	7,380,100	\$ 0.77	

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10. Share capital (continued)

The Company's shares were de-listed from trading on the Toronto Venture Exchange at the Company's request on December 10, 2008.

(d) Stock Based Compensation expense

For the six months ended June 30, 2009, stock based compensation expense was \$102,771. Based on the allocation described in note 4, a portion of the stock based compensation to June 30, 2008 has been allocated between Kulczyk Oil and Loon Energy Corporation. This resulted in stock based compensation expense for Kulczyk Oil for the six months ended June 30, 2008 of \$113,565.

	Six months ended June 30,	
	2009	2008
	<u> </u>	<u> </u>
Stock based compensation - Kulczyk Oil	\$ 102,771	\$ -
Total stock based compensation - Loon Energy Inc	-	223,988
Allocated to Loon Energy Corporation	-	<u>(110,423)</u>
Total stock based compensation - Kulczyk Oil	<u>\$ 102,771</u>	<u>\$ 113,565</u>

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

	Six months ended June 30, 2009
	<u> </u>
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
	<u> </u>
Balance, December 31, 2007	\$ 2,732,520
Stock based compensation	181,677
Transfer from share capital as redemption price paid was less than carrying value per share (note 10 b)	<u>1,182,815</u>
Balance, December 31, 2008	4,097,012
Stock based compensation	<u>102,771</u>
Balance, June 30, 2009	<u>\$ 4,199,783</u>

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12. Commitments

Brunei

The work commitment for Phase 1 under the PSA consists of reprocessing all existing seismic data (to the extent that it is capable of being reprocessed), acquiring 350 sq. km of 3D seismic, drilling 2 wells to a depth of 2000 meters and conducting \$4.5 million of additional work, which additional work is to be agreed with PetroleumBRUNEI. The consequent minimum expenditure requirement specified in the PSA for the Phase 1 exploration period increased from \$20.5 million to \$25.0 million. As at June 30, 2009, all existing seismic data has been reprocessed and the 3D seismic obligation has been fulfilled and approximately \$28.6 million in expenditures have been incurred by the Contractor in meeting its work commitments.

As Operator, Nation's has advised that drilling of the first of two exploration wells will likely commence in the first quarter of 2010 with the second exploration well likely to commence drilling in the second quarter of 2010. Management expects the Company's share of expenditures for 2010 to be approximately \$12.0 million.

Pursuant to an agreement reached to settle a legal challenge to the Company's title under the PSA, the Company agreed to pay a maximum of \$3.5 million out of 10% of its share of profit oil as defined in the Brunei PSA which has not been accrued in these financial statements.

Syria

Under the terms of the Block 9 PSC, the Company has a first phase exploration period of four years during which it has committed to acquire and process 600 line km of 2D seismic and drill two exploration wells. The Company has notified SPC that it intends to replace the 2D seismic acquisition commitment with the acquisition of 350 sq. km of 3D seismic. Planning of the seismic acquisition has commenced and management presently expects to expend approximately \$5.0 million during 2010 to complete the acquisition, processing and interpretation of 3D seismic data. The Company does not presently expect that drilling of the exploratory wells will commence until after 2010, and cannot predict the expenditures that may be required therefor until such time as potential well locations are selected based on evaluation of the seismic program.

Office Space

During the fourth quarter of 2008 the Company entered into a new lease agreement for a Calgary office. This lease commenced on December 1, 2008 and expires on August 30, 2011; the commitment is \$137,222 (CAN \$165,518) each year for the term of the agreement.

The Company's lease agreement for its former Calgary office space expires on October 31, 2012; the commitment is \$125,603 (CAN \$151,503) each year for the remaining four years of the agreement.

Public Offering

In connection with the planned public offering and listing of the common shares on the Warsaw Stock Exchange, the Company has retained investment advisors in Poland. The advisors are to be paid a monthly fee of approximately \$14,000 (€10,000) the aggregate amount of which will be off-set against the commission to be paid upon successful completion of the public offering. The advisors will be paid a commission based fee of 2.5% of the gross proceeds raised upon successful completion of the public offering with a minimum amount to be paid of \$2.1 million (€1.5 million). In the event the Company does not proceed with the listing on the Warsaw Stock Exchange, the advisors will be paid an additional fixed fee of \$350,000 (€250,000).

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13. Financial instruments

Financial risk management

The Company as part of its operations carries a number of financial instruments including cash and short-term deposits, restricted cash, accounts receivable, marketable securities 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 and restricted cash in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon. Interest rate risks on the Company's obligations are not considered material.

(b) Credit risk

The Company's cash and cash equivalents and restricted cash are held with major financial institutions. Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash, cash equivalents and restricted cash.

Accounts receivable as at June 30, 2009 consists of commodity taxes recoverable from the federal government of Canada and interest earned on restricted cash deposits for which credit risk is assessed as being low.

(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 June 30, 2009, the Company's primary exposures relate to Canadian dollar denominated working capital and cash balances held in Canada.

		June 30, 2009
Cash and cash equivalents	CDN \$	1,218,425
Accounts receivable		165,395
Prepaid expenses		387,032
Accounts payable and accrued liabilities		(739,593)
Net foreign exchange exposure	CDN \$	1,031,259

For the six months ended June 30, 2009, based on the net foreign exchange exposure at the end of the period, if the Canadian dollar had strengthened by 10% compared to the U.S. dollar and all other variables were held constant, after tax net loss would have increased by \$73,000. Conversely, if the Canadian dollar had weakened by 10%, an equal decrease of \$73,000 to after tax net loss would have resulted.

For the six months ended June 30, 2009, if the value of Jura Energy Corporation shares had been 10% higher, the impact would have been a \$58,000 reduction in the unrealized loss recorded in the other comprehensive income. If the share price had been 10% lower, the same amount would have decreased the other comprehensive income.

(d) Fair value

The carrying value of the Company's financial assets and liabilities, except for its investment in Jura (note 7), approximate their fair values due to their demand nature or because of their relatively short term to maturity. The investment in Jura is recorded at fair value based on the quoted market price for the shares.

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13. Financial instruments (continued)

(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.

The Company believes that its cash resources at June 30, 2009 together with the “carry” resulting from existing farmout arrangements will not be sufficient to finance current operations and planned capital spending anticipated for the next twelve months, and therefore additional funding will be required. The Company has agreed to the terms of a temporary convertible debt facility with its major shareholder under which funding will be available to a maximum amount of \$8 million. The Company is planning to raise equity late in 2009, and will retire any amounts outstanding on this credit facility through its conversion to shares at the time the new equity is raised.

14. Related party transactions

Jura, a public company in which the Company owns 6.4% of the outstanding common shares, provides financial and accounting services to the Company. For the six month period ended June 30, 2009, the fees totalled \$112,592 (June 30, 2008: \$67,383). At June 30, 2009, the Company owed \$22,126 to Jura (June 30, 2008- \$64,920). Two directors of the Company, Timothy M. Elliott and Norman W. Holton, are directors of Jura and Paul H. Rose, Chief Financial Officer of the Company is also the Chief Financial Officer of Jura.

Nemmoco Petroleum Corporation (“**Nemmoco**”), a private company of which 25% is owned by, Timothy M. Elliott, an officer and 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 six months ended June 30, 2009, the fees totalled \$171,600 (June 30, 2008: \$126,600). At June 30, 2009, the Company owed \$Nil (December 31, 2008- \$18,149) to Nemmoco in relation to these administrative services.

Loon Energy Corporation (“**Loon Energy**”) has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil pursuant to a shared services structure. This structure was implemented on December 10, 2008, the date of the Plan of Arrangement. For the six months ended June 30, 2009, these fees totalled \$4,974. In addition, the Company pays general and administrative costs on behalf of Loon Energy. At June 30, 2009, Loon Energy owed the company \$84,817 for administrative services and for reimbursement of general and administrative costs. Kulczyk Oil and Loon Energy are related as they have common directors and officers and the same principal shareholder.

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

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15. Income taxes

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

	Six months ended June 30,	
	2009	2008
Loss before income taxes	\$ (1,580,518)	\$ (747,574)
<i>Federal and provincial statutory rate</i>	29.0%	29.5%
Expected income tax recovery	\$ (458,350)	\$ (220,534)
Stock based compensation	29,804	33,502
Tax rate differences and change in valuation allowance	428,546	187,033
Income tax expense	<u>\$ -</u>	<u>\$ -</u>

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

	Six months ended June 30,	
	2009	2008
	US\$	US\$
Property and equipment	\$ 370,109	\$ 1,675,141
Share issuance costs	86,634	196,868
Asset retirement obligations	3,981	3,947
Non-capital losses carried forward	3,448,367	2,045,091
	3,909,091	3,921,047
Less: valuation allowance	(3,909,091)	(3,921,047)
Future income tax asset/(liability)	<u>\$ -</u>	<u>\$ -</u>

Non-capital losses are expected to expire by 2028.

16. Discontinued operations

In April 2008, the Company closed the sale of its remaining Canadian petroleum and natural gas properties with this sale having an effective date of December 31, 2007. The Company had previously sold a portion of its Canadian petroleum and natural gas properties in December 2007. The following table provides additional information with respect to the amounts included in the consolidated statement of operations related to the discontinued Canadian petroleum and natural gas activities.

	Six months ended June 30, 2009
Gain on sale of assets	<u>\$ 213,505</u>
Earnings from discontinued Canadian petroleum and natural gas activities	<u>\$ 213,505</u>

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17. Segmented information

The Company's reportable segments are organized by geographical areas and consist of Brunei, Syria, and corporate.

Brunei	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(Unaudited)			
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -
Royalties	-	-	-	-
Interest and other income	-	-	-	-
Operating expenses	-	-	-	-
General and administrative	-	-	-	-
Stock based compensation expense	-	-	-	-
Depletion, depreciation and accretion	-	-	-	-
Impairment of oil and gas assets	-	-	-	-
Unrealized loss on foreign exchange	-	-	-	-
Realized loss on foreign exchange	-	-	-	-
Loss before income taxes and discontinued operations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Capital expenditures	<u>\$ 2,972,252</u>	<u>\$ 135,942</u>	<u>\$ 2,972,252</u>	<u>\$ (22,133)</u>
Total assets	<u>\$ 3,992,787</u>	<u>\$ 1,533,335</u>	<u>\$ 3,992,787</u>	<u>\$ 1,533,335</u>

Syria	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(Unaudited)			
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -
Royalties	-	-	-	-
Interest and other income	-	-	-	-
Operating expenses	-	-	-	-
General and administrative	-	-	-	-
Stock based compensation expense	-	-	-	-
Depletion, depreciation and accretion	-	-	-	-
Impairment of oil and gas assets	-	-	-	-
Unrealized loss on foreign exchange	-	-	-	-
Realized loss on foreign exchange	-	-	-	-
Loss before income taxes and discontinued operations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Capital expenditures	<u>\$ 152,179</u>	<u>\$ 182,184</u>	<u>\$ 247,758</u>	<u>\$ 251,975</u>
Total assets	<u>\$ 10,241,527</u>	<u>\$ 9,549,155</u>	<u>\$ 10,241,527</u>	<u>\$ 9,549,155</u>

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17. Segmented information (continued)

Corporate	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(Unaudited)			
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -
Royalties	-	-	-	-
Interest and other income	9,023	81,270	27,169	206,273
Operating expenses	-	-	-	-
General and administrative	(679,582)	(386,686)	(1,548,498)	(1,016,682)
Stock based compensation expense	(51,761)	(35,850)	(102,771)	(113,565)
Depletion, depreciation and accretion	(10,888)	(15,563)	(26,204)	(29,841)
Impairment of oil and gas assets	(178,000)	-	(178,000)	-
(Loss)/ gain on foreign exchange	299,627	(72,120)	247,786	206,241
Loss before income taxes and discontinued operations	<u>\$ (611,581)</u>	<u>\$ (428,949)</u>	<u>\$ (1,580,518)</u>	<u>\$ (747,574)</u>
Capital expenditures	<u>\$ 211,599</u>	<u>\$ 90,787</u>	<u>\$ 414,541</u>	<u>\$ 90,787</u>
Total assets	<u>\$ 7,901,620</u>	<u>\$ 11,288,883</u>	<u>\$ 7,901,620</u>	<u>\$ 11,288,883</u>

18. Subsequent event

On August 17, 2009, the Company made an offer to the shareholders of a privately held company with international oil and gas interests to acquire all of their shares in exchange for newly issued common shares of the Company. In connection with the proposed acquisition, the Company advanced a \$1.0 million non-interest bearing, unsecured loan to the private company which will be retired upon closing of the acquisition or retained by the private company as a break fee if the acquisition does not close because of actions by the Company. The offer is scheduled to expire in mid-September of 2009 and, if conditions are satisfied, close at that time which would result in the issuance by the Company of approximately 75 million additional common shares. The transaction is subject to 75% approval by the shareholders of the private company and various regulatory and government agencies as well as certain government pre-emptive rights to the assets of the private company.