Loon Energy Corporation
Management's Discussion and Analysis
For the years ended December 31, 2011 and 2010
(US$, unless otherwise stated)

This Management's Discussion and Analysis ("**MD&A**") document dated April 30, 2012 is provided by the management of Loon Energy Corporation ("**Loon Corp**" or "**Company**") and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2011 and December 31, 2010.

Basis of Presentation

This MD&A is prepared using United States dollars ("**US Dollars**") which is the reporting currency of the Company. The audited consolidated financial statements for December 31, 2011 are prepared in accordance with International Financial Reporting Standards ("**IFRS**").

Overview

Loon Energy Corporation is an international oil and gas exploration and development company with management offices in Calgary, Alberta, Canada and in Dubai, United Arab Emirates. Loon Corp was incorporated pursuant to the provisions of the *Business Corporation* Act (Alberta) ("**ABCA**") on October 30, 2008 to receive certain of the oil and gas assets of Loon Energy Inc. ("**Loon**") in accordance with a Plan of Arrangement ("**Arrangement**") under the ABCA. Pursuant to the Arrangement, the assets of Loon in Colombia and Peru were transferred to Loon Corp, each Loon shareholder received one common share of Loon Corp for each Loon share held, the common shares of Loon Corp were listed on the TSX Venture Exchange under the symbol LNE and Loon received $3.15 million of cash. The implementation of the Arrangement on December 10, 2008 also resulted in Loon changing its name to Kulczyk Oil Ventures Inc. ("**Kulczyk Oil**").

Operations Overview

Colombia

Buganviles Association Contract

Through a farm-in agreement, the Company earned a 20% non-operated participating interest in a 60,817 hectare block of land covered by the Buganviles Association Contract between Holywell Resources S.A. and Empresa Colombiana de Petróleos ("**Ecopetrol**"), the Colombian national oil company. The Company earned its interest by paying $1.0 million of the estimated $3.4 million "dry-hole" cost of the Delta-1 well plus 20% of costs incurred thereafter. The Company has fulfilled its required work commitments with respect to this contract area. The Delta-1 well came on production late in September 2008. Ecopetrol approved the Operator's Commerciality Application in March 2009. The license for the Buganviles Association Contract has been extended to June 30, 2012.

During fiscal 2010, Loon Corp entered into a farm-out agreement with Petrodorado South America S.A. ("**Petrodorado**") under which Petrodorado agreed to pay Loon Corp's 20% share of the authorized cost to drill and complete two wells in Colombia to earn 75% (net 15%) of Loon Corp's interest in the Buganviles Association Contract, excluding the Delta-1 well. The farm-out agreement included an option for the Company to re-acquire a reversionary interest. The exercise of this option by the Company in November 2010 reduced the working interest earned by Petrodorado from net 15% to net 10%. As a result, at December 31, 2011, Loon Corp holds a net 10% working interest in the Buganviles Association Contract area.

On October 16, 2010, the first of the wells, the Visure-1X exploratory well, commenced drilling and significant oil was encountered in the Lower Guadalupe Formation. The well was perforated and stabilized before being suspended, pending the results of production test analysis. The costs to drill Visure-1X have been paid by Petrodorado.

The second well, the Tuqueque-1X exploratory well, commenced drilling in the fourth quarter of 2010, but operations on the Tuqueque-1X well were terminated at a depth of 9,303 feet and plans to deepen the well to 11,300 feet were suspended after encountering drilling challenges. The petrophysical evaluation of the upper part of the well indicated three prospective intervals, but testing in 2011 found no appreciable flow of hydrocarbons. The Operator plans to complete the abandonment of the well by May 2012.

The Company has received cash calls from the Operator to fund the drilling and completion of two Buganviles wells – Visure-1X and Tuqueque-1X. 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 representing the unpaid cash calls to be paid by Petrodorado to fund the drilling of these two wells on behalf of the Company under the terms of the farm-out agreement and which forms a portion of both the accounts receivable and accounts payable balances.

The Company does not currently have any definitive plans to return to the drilling program or further develop the concession and has reported an impairment in the amount of $528,926 related to its Colombian property and equipment and exploration and evaluation assets.

The Buganviles Association Contract lands are located in the Upper Magdelena Valley area of central Colombia.

Peru

In 2010, the Operator, Compañía Española de Petróleos, S.A. ("**CEPSA**"), and Loon decided to not enter into the second exploration phase and withdraw from Block 127. All petroleum and natural gas property expenditures related to Block 127 were fully written off in 2010. CEPSA and the Company are currently executing an abandonment plan for Block 127. All abandonment activities are expected to be completed in 2012.

Selected annual information

Working capital (deficiency)

	Years ended December 31,		
	2011	2010	2009
Current assets	$ 617,221	$1,547,231	$2,033,248
Current liabilities	783,773	759,446	759,937
	$ (166,552)	$ 787,725	$ 1,273,311

	Years ended December 31, 2011	2010	2009
Petoleum and natural gas sales	$ -	$ -	$ 46,114
Less: Royalties	-	-	(3,689)
	-	-	42,425
Less: Operating expenses	-	-	(271,231)
	-	-	(228,806)
Expenses			
General and administrative	485,678	988,902	544,650
Stock based compensation	464,107	392,706	-
Depletion and depreciation	-	-	84,497
Impairment of petroleum and natural gas properties	528,926	1,186,804	-
	1,478,711	2,568,412	629,147
Finance costs			
Accretion	1,366	6,477	14,325
Foreign exchange (gain) loss	5,322	68,731	(105,813)
	6,688	75,208	(91,488)
Net loss before income taxes	(1,485,399)	(2,643,620)	(766,465)
Current income tax (recovery)	-	(121,786)	75,631
Net loss and comprehensive loss	$ (1,485,399)	$ (2,521,834)	$ (842,096)
Net loss per share			
Basic and diluted	$ (0.15)	$ (0.26)	$ (0.09)

	As at December 31, 2011	2010	2009
Total assets	$ 617,222	$ 1,696,819	$ 3,248,705
Long-term financial liabilities (asset retirement obligations)	$ 323,638	$ 286,270	$ 159,793

Oil and Gas Production and Revenue

The Company did not generate oil and a gas revenue for the years ended December 31, 2011 or 2010. Oil production for the year ended December 31, 2009 was 1,636 barrels at an average price of $29.18 per barrel.

Royalties

For the years ended December 31, 2011 and 2010, no royalties were paid as no production revenues were generated. 2009 royalties were paid at a rate of 8% on oil sales from the Delta-1 well.

Operating Expenses

Operating expenses for the years ended December 31, 2011 and 2010 were nil, compared to $271,231 ($165.79 per BOE) in 2009. The operating costs in 2009 related to oil production at the Delta-1 well, which produced sporadically and was shut-in on January 15, 2010.

General and Administrative Expenses

The general and administrative expenses for the year ended December 31, 2011 were $485,678, compared to $988,902 for the comparative year ended December 31, 2010. The 2011 general and administrative expenses are lower than the comparative period due to legal and consulting services incurred in the prior year in connection with the unsuccessful transaction with Petrodorado. As well, the prior year includes $451,256 related to the value of shares issued in lieu of salary.

	Year ended December 31,			
	2011		2010	
Salaries and consulting	$	143,523	$	655,940
Advisory costs		238,481		266,942
Third party overhead		15,662		37,680
Other administration costs		88,012		28,338
	$	485,678	$	988,900

Stock based compensation

Stock based compensation expense for the year ended December 31, 2011 was $464,107, compared to $392,706 for the year ended December 31, 2010. The stock based compensation arises from the issuance of options granted to Directors and other key individuals of the Company on November 29, 2010.

Decommissioning obligation

Accretion expense for the year ended December 31, 2011 was $1,366, compared to $6,477 for the year ended December 31, 2010. As of December 31, 2011, the Peruvian and Colombian assets were fully accreted with the exception of the Ventilador, Visure and Tuqueque properties in Colombia. The accretion to the decommissioning obligation for these remaining properties will be recognized over the next four years.

Depletion and impairment

Depletion was not taken on the petroleum and natural gas assets in 2011 and 2010 as there was no production. In the fourth quarter of 2011, it was determined that the value of the Colombian assets was impaired due to the Company not having any definitive plans to return to the drilling program or further develop the concession. Accordingly, the Company recorded an impairment in the amount of $528,926 related to its Colombian property and equipment and exploration and evaluation assets.

Evaluation and Exploration Expenditures

There were no Evaluation and Exploration or Property and Equipment cash expenditures for the three and twelve months ended December 31, 2011. The changes in the reported balances resulted from the recognition of the exercise of the 5% working reversionary interest buy-back of the Colombian assets for $343,337 (December 31, 2010: nil). The Company's share of costs to drill the Tuqueque-1X well are paid by Petrodorado under a farm-out agreement. An additional $36,002 of decommissioning obligations was recognized for the Visure and Tuqueque properties held in Colombia.

Summary of Quarterly Data

The following tables set forth selected quarterly financial information for the most recent eight financial quarters.

	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Petroleum and natural gas sales	$ -	$ -	$ -	$ -
Net loss	$ (736,982)	$ (213,911)	$ (280,844)	$ (253,662)
Per share - basic and diluted	$ (0.08)	$ (0.02)	$ (0.03)	$ (0.02)

	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Petroleum and natural gas sales	$ -	$ -	$ -	$ -
Net loss	$ (1,174,677)	$ (1,209,072)	$ (85,488)	$ (52,597)
Per share - basic and diluted	$ (0.12)	$ (0.12)	$ (0.01)	$ (0.01)

During the three months ended December 31, 2011, the company recognized stock based compensation expense of $59,332. General and administrative expenses for the three months ended December 31, 2011 included $53,000 of audit and legal fees, $8,000 of insurance premium expenses, $3,000 of shared services expenses and $67,000 of Directors' fees related to the second, third and fourth quarters of 2011.

During the three months ended September 30, 2011, the Company recognized $149,800 of stock based compensation expense. General and administrative expenses for the three months ended September 30, 2011, included legal fees, $14,000 of management fees and $3,000 of shared services expenses.

During the three months ended June 30, 2011, the Company recognized $126,728 of stock based compensation expense. General and administrative expenses for the three months ended June 30, 2011, included $52,000 of audit and legal fees, $14,300 of management fees and $6,000 of insurance premium expenses.

During the three months ended March 31, 2011, the Company recognized $128,347 of stock based compensation expense and $79,000 of audit fees.

During the fourth quarter of 2010, there were a number of activities the Company engaged in which resulted in higher expenses. The Company issued shares in lieu of salaries with an associated cost of $441,790. Stock options were issued to senior management and directors with an associated cost of $423,939 and there was an increased general and administrative activities in connection with the unsuccessful negotiations with Petrodorado regarding what was eventually a failed business combination.

The increase to the net loss in Q3 2010 compared to Q2 2010 is due to the impairment of Peruvian petroleum and natural gas properties ($1,116,805) and costs associated with a proposed business combination transaction.

The net losses in Q1 and Q2 2010 reflect the low level of corporate and operational activity.

Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. On February 13, 2012, the board of directors of Loon resolved to consolidate the common shares of Loon on the basis of ten pre-consolidation common shares for one post-consolidation common share. The shareholders subsequently approved this share consolidation. Accordingly, share transactions and balances, and per share disclosures have been revised to reflect the impact of the consolidation for all periods presented.

The Company is also authorized to issue an unlimited number of preferred shares; there are no preferred shares outstanding.

	Number of Shares		Carrying amount
Common Shares			
Balance at December 31, 2009	9,599,136	$	15,139,980
Shares issued for compensation	350,000		451,256
Balance at December 31, 2010 and December 31, 2011	9,949,136	$	15,591,236
Balance at April 30, 2012	9,949,136	$	15,591,236

	Year ended December 31, 2011	2010
Weighted average number of shares outstanding	9,949,136	9,933,657

On November 25, 2010, a total of 350,000 shares were issued as compensation for services rendered by certain Officers and Directors of the company.

The following table summarizes information about the share purchase options outstanding as at December 31, 2011:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2009	-	$ -	-
Options granted	958,000	1.30	4.9
Balance outstanding, December 31, 2010	958,000	1.30	4.9
Options forfeited	(66,500)	1.30	4.9
Balance outstanding , December 31, 2010 and December 31, 2011	958,000	$ 1.30	3.9

Related Party Transactions

The Company has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil pursuant to a services agreement. Administrative costs incurred by Kulczyk Oil for the benefit of the Company are allocated to the Company based on specific identification and an allocation of administrative costs that relate to both Kulczyk Oil and the Company. For the three and twelve months ended December 31, 2011, these fees totalled $2,670 and $11,856 respectively (2010 - $2,526 and $11,976). At December 31, 2011, the Company owed $8,543 (2010 - $1,050) to Kulczyk Oil for these services. Certain expenditures of the Company are paid for by Kulczyk Oil on behalf of the Company and as at December 31, 2011 the Company owed $49,718 (2010 - $7,217) for these costs. Kulczyk Oil and Loon Energy are related as they have four common directors and officers and the same principal shareholder.

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 Peru 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 partners in the Block announced on October 25, 2010 that the joint venture will not proceed to the second exploration phase.

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

Liquidity and Capital Resources

The Company is an oil and gas exploration and development company with properties principally located in Colombia. Of the Company's properties in Colombia, the Delta-1 well is in the development stage with two other wells in the exploration stage. The properties have no proved reserves at December 31, 2011. The Company does not generate sustained, commercial production from operations.

The Company's 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 current liquidity position is not sufficient to fund the current working capital deficit, ongoing operations and any exploration and development program over the next twelve months. Additional equity 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.

On April 11, 2012 the Board of Directors passed a resolution to offer a private placement of up to 10 million common shares at an issue price of $0.10 per common share for aggregate gross proceeds of $1 million. The gross proceeds of the financing will be used to seek additional oil and gas opportunities in Colombia or elsewhere in the Americas and for general corporate purposes.

Forward Looking Statements

This MD&A contains forward-looking statements. These statements relate to future events or future performance of the Company. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "predict", "seek", "propose", "expect", "potential", "continue", and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Company's current views with respect to certain events, and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance, or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated, or expected. Specific forward-looking statements in this MD&A, among others, include statements pertaining to the following:

- factors upon which the Company will decide whether or not to undertake a specific course of action;
- world-wide supply and demand for petroleum products;
- expectations regarding the Company's ability to raise capital;
- treatment under governmental regulatory regimes; and
- commodity prices.

With respect to forward-looking statements in this MD&A, the Company has made assumptions, regarding, among other things:

- the impact of increasing competition;
- the ability of farm-out partners to satisfy their obligations;
- the Company's ability to obtain additional financing on satisfactory terms; and
- the Company's ability to attract and retain qualified personnel.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- general economic conditions;
- volatility in global market prices for oil and natural gas;
- competition;
- liabilities and risks, including environmental liability and risks, inherent in oil and gas operations;

- the availability of capital; and
- alternatives to and changing demand for petroleum products.

Furthermore, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitable in the future.

The forward–looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These statements apply only as of the date of this MD&A.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the opinion of management, the Company's consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies outlined in the consolidated financial statements.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes to those consolidated financial statements as at and for the year ended December 31, 2011:

- Notes 6 and 7 – Impairment of property and equipment and evaluation and exploration assets
- Note 9 – Decommissioning provision
- Note 11 – Stock-based compensation

International Financial Reporting Standards

Publicly accountable entities were required to adopt IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011 including comparative figures for the prior year. The Company has transitioned to IFRS effective January 1, 2011 and as such, is reporting under IFRS for the twelve months ended December 31, 2011. For further IFRS disclosure, see note 5 in the consolidated financial statements for the twelve months ended December 31, 2011.

Internal Controls over Financial Reporting

The board of directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee meets at least annually with the Company's external auditors to review accounting, internal control, financial reporting, and audit matters. Internal controls over financial reporting have not changed significantly since the last reporting period.

Future Changes in Accounting Policies:

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.

- *IFRS 10, "Consolidated Financial Statements" ("IFRS 10")* replaces *IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27")* and Standing Interpretations Committee ("SIC") 12, *"Consolidation – Special Purpose Entities"*. IFRS 10 revises the definition of control and focuses on the need to have power and variable returns for control to be present. IFRS 10 provides guidance on participating and protective rights and also addresses the notion of "de facto" control. It also includes guidance related to an investor with decision making rights to determine if it is acting as a principal or agent.

- IFRS 11, "Joint Arrangements" ("IFRS 11") replaces IAS 31, "Interest in Joint Ventures" ("IAS 31") and SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". IFRS 11 defines a joint arrangement as an arrangement where two or more parties have joint control. A joint arrangement is classified as either a "joint operation" or a "joint venture" depending on the facts and circumstances. A joint operation is a joint arrangement where the parties that have joint control have rights to the assets and obligations for the liabilities, related to the arrangement. A joint operator accounts for its share of the assets, liabilities, revenues and expenses of the joint arrangement. A joint venturer has the rights to the net assets of the arrangement and accounts for the arrangement as an investment using the equity method.

- IFRS 12, "Disclosure of Interest in Other Entities" ("IFRS 12") replaces the disclosure requirements previously included in IAS 27, IAS 31, and IAS 28, "Investments in Associates". It sets out the extensive disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements.

- IFRS 13, "Fair Value Measurement" provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. Early adoption is permitted. The Company is currently evaluating the impact of adopting IFRS 13 on its Consolidated Financial Statements.

- IAS 27, "Separate Financial Statements" has been amended to conform to the changes made in IFRS 10 but retains the current guidance for separate financial statements.

- IAS 28, "Investments in Associates and Joint Ventures" has been amended to conform to the changes made in IFRS 10 and IFRS 11.

The above standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is currently evaluating the impact of adopting these standards on its Consolidated Financial Statements.

Approval

The Company's Board of Directors has approved the disclosure contained within this MD&A on April 30, 2012.

Additional Information

Additional information regarding the Company and its business and operations is available on the Company's profile at **www.sedar.com**. Copies of the information can also be obtained by contacting the Company at Loon Energy Corporation 1170, 700 – 4th Avenue S.W., Calgary, Alberta, Canada T2P 3J4 (Phone: +1 403 264-8877) or by e-mail at **ryaniw@loonenergy.com**.