Loon Energy Corporation
Management's Discussion and Analysis
For the years ended December 31, 2012 and 2011
(US$, unless otherwise stated)

This Management's Discussion and Analysis ("**MD&A**") document dated April 23, 2013 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, 2012 and December 31, 2011.

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, 2012 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

<u>Buganviles Association Contract</u>

Through a farm-in agreement, the Company earned a 20% non-operated participating interest in a 60,817 hectare block of land covered by the Buganviles Association Contract between Holywell Resources S.A. and Empresa Colombiana de Petróleos ("**Ecopetrol**"), the Colombian national oil company. The Buganviles Association Contract lands are located in the Upper Magdelena Valley area of central Colombia. 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, and Ecopetrol approved the Operator's Commerciality Application in March 2009. The license for the Buganviles Association Contract expired on June 30, 2012. The Operator has applied for a two year extension of the contract and an update on the status of the extension is expected from Ecopetrol.

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 September 30, 2012, 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 flowed a minor amount of heavy oil before being suspended. 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 the end of 2013.

The Company 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 from Petrodorado and accounts payable to the Operator.

The Company does not currently have any definitive plans to return to the drilling program or further develop the concession.

Peru

The Company, through its wholly-owned subsidiary, Loon Peru Limited ("**Loon Peru**"), has an exploration license contract with PERUPETRO S.A granting Loon Peru the right to explore for and produce hydrocarbons from Block 127 in the Maranon Basin area of northeast 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 2013.

Significant factors affecting Company's results of operations

The Company has not been operational during 2012 and 2011, though the Company continues to pursue international oil and gas opportunities.

During 2011, CAD $1.0 million of financing was raised, as further described in Share Data below.

Selected annual information

Working capital (deficiency)

	Years ended December 31,		
	2012	2011	2010
Current assets	$ 1,162,870	$ 617,221	$ 1,547,231
Current liabilities	(714,096)	(783,773)	(759,446)
	$ 448,774	$ (166,552)	$ 787,785

	2012	2011	2010
Expenses			
General and administrative	$ 356,210	$ 485,678	$ 988,902
Stock based compensation	202,390	464,107	392,706
Impairment of petroleum and natural gas properties	-	528,926	1,186,804
	558,600	1,478,711	2,568,412
Finance costs			
Accretion	1,918	1,366	6,477
Foreign exchange (gain) loss	7,493	5,322	68,731
	9,411	6,688	75,208
Net loss and comprehensive loss	$ 568,011	$ 1,485,399	$ 2,643,620
Net loss per share			
Basic and diluted	$ (0.04)	$ (0.15)	$ (0.26)

The following table summarizes the weighted average common shares used in calculating the net loss per share.

	2012	2011	2010
Basic and diluted	15,675,163	9,949,136	9,633,657

General and Administrative Expenses

The general and administrative expenses for the year ended December 31, 2012 were $356,210, compared to $485,678 for the comparative year ended December 31, 2011. The 2012 general and administrative expenses are lower than the comparative period mainly due to lower legal, advisory and insurance costs, resulting from a lower level of activity.

	2012	2011
Fees and consulting	$ 113,640	$ 143,523
Advisory costs	107,240	238,481
Third party overhead	14,602	15,662
Other administration costs	120,728	88,012
	$ 356,210	$ 485,678

Stock based compensation

Stock based compensation expense for the year ended December 31, 2012 was $202,390, compared to $464,107 for the year ended December 31, 2011. The stock based compensation arises from the issuance of options to Directors, officers and consultants of the Company during the third quarter of 2010 and the third quarter of 2012. The decrease in the 2012 expense, as compared to 2011, reflects the vesting of the 2010 options. The 2010 options were repriced during the second quarter of 2012, see "Share Data". During the third quarter of 2012, 411,000 options were granted, see "Share Data".

Decommissioning obligation

Accretion expense for the year ended December 31, 2012 was $1,918, compared to $1,366 for the year ended December 31, 2011. As of December 31, 2012, 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 three years.

Property and Equipment and Evaluation and Exploration Expenditures

There were no Evaluation and Exploration or Property and Equipment expenditures for the year ended December 31, 2012. The expenditures for the period ended December 31, 2011 of $343,337 resulted from the recognition of the exercise of the 5% reversionary working interest buy-back of the Colombian assets. The Company's share of costs to drill the Tuqueque-1X well are paid by Petrodorado under a farm-out agreement. An additional $20,000 of decommissioning obligation was recognized during the comparative period for the Visure property held in Colombia. These costs were included in a provision for impairment recorded in the fourth quarter of 2011, as described below.

Impairment

During 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 in 2011.

Summary of Quarterly Data

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

	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net loss	$ (114,217)	$ (106,318)	$ (225,912)	$ (121,564)
Per share - basic and diluted	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)

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

During the three months ended December 31, 2012, the Company recognized general and administrative expenses of $73,262, which included advisory costs relating to legal and audit of $16,136, other administrative costs of $45,589, and consulting fees of $9,860. The Company recognized stock based compensation expense of $30,819.

During the three months ended September 30, 2012, the Company recognized general and administrative expenses of $72,063, which included advisory costs relating to legal and audit of $10,379, other administrative costs of $27,760, directors insurance of $5,000 and consulting fees of $28,924. The Company recognized stock based compensation expense of $59,633.

During the three months ended June 30, 2012, general and administrative expenses of $134,136 included $52,000 of audit fees and legal fees and $9,000 of Directors' Fees. The Company recognized stock based compensation expense of $67,526.

During the three months ended March 31, 2012, general and administrative expenses of $76,749 included $42,000 of audit and legal fees and $24,000 of Directors' Fees. The Company recognized stock based compensation expense of $44,412.

During the three months ended December 31, 2011, the Company recognized stock based compensation expense of $59,332 and an impairment of the value of its Colombian assets of $528,926. 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.

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
Balance, December 31, 2010 and December 31, 2011	9,949,136	$ 15,591,236
Shares issued on private placement	10,000,000	1,006,395
Share issuance costs	-	(27,366)
Balance, December 31, 2012	19,949,136	$ 16,570,265

In June 2012, the Company completed a non-brokered private placement consisting of 10,000,000 common shares at an issue price of CAD$0.10 per share for gross proceeds of CAD$1,000,000 (USD$ 1,006,395). The Company paid $27,366 in share issue costs.

During the second quarter, the Board approved a repricing of the share purchase options, from an exercise price of $1.30 per option to $0.16 per option, which is reflected in the stock based compensation. During the third quarter, the Board approved the issuance of 411,000 options at an exercise price of $0.10 per option.

The following table summarizes information about the options outstanding as at December 31, 2012 and 2011, adjusted for the 1 for 10 share consolidation and the repricing of options in 2012:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2010	958,000	$ 0.16	4.9
Options forfeited/cancelled	(66,500)	0.16	4.9
Balance outstanding, December 31, 2011	891,500	$ 0.16	3.9
Options granted	411,000	0.10	4.7
Options forfeited/cancelled	(594,000)	0.16	2.9
Balance outstanding, December 31, 2012	708,500	$ 0.13	3.9
Exercisable At December 31, 2012	434,500	$ 0.14	3.5

There have been no changes in the number of shares or share purchase options outstanding between December 31, 2012 and April 23, 2013.

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 year ended December 31, 2012, these fees totalled $12,081 (2011 - $11,856). At December 31, 2012, the Company owed $20,873 (2011 - $8,543) to Kulczyk Oil for these services. Certain expenditures of the Company are paid by Kulczyk Oil on behalf of the Company and as at December 31, 2012 the Company owed $82,965 (2011 - $49,718) for these costs. Kulczyk Oil and the Company are related as they have four common directors, five common officers (two of whom are also directors) 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 begun the process of replacing the Loon Peru Guarantee. However, the block to which the guarantee is related is in the process of being relinquished and it is not currently anticipated that the guarantee will be replaced. The Company has entered into an indemnification agreement with Kulczyk Oil in respect of the Loon Peru Guarantee. 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, 2012. 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, debt facilities 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. As at December 31, 2012 the Company has working capital of $0.4 million and incurred a net loss of $0.6 million for the year ended December 31, 2012. As a result of the private placement funds received in June 2012, the Company has improved its short term and medium term liquidity position. The Company is pursuing international oil and gas opportunities and will require capital to fund its international exploration activities. The need to raise capital to acquire additional concessions and for exploration and development opportunities creates a significant doubt regarding the Company's ability to continue as a going concern. There are no guarantees that additional capital, either through additional equity, debt or farm-out arrangements will be available when needed.

Financial risk management

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net income or the value of its financial instruments.

Interest rate risk

The Company maintains its cash and cash equivalents in instruments that are redeemable at any time without penalty thereby reducing its exposure to interest rate fluctuations thereon. Interest rate risk is not considered material.

Foreign currency exchange risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar ("CAD") and the United States dollar. At December 31, 2012 and 2011 the Company's primary foreign currency exposure relates to Canadian dollar cash balances net of accounts payable and accrued liabilities in Canada as follows:

	December 31, 2012	December 31, 2011
Cash and cash equivalents	$ 855,493	$ 104,593
Accounts receivable	12,299	13,346
Accounts payable and accrued liabilities	(115,417)	(213,607)
Net foreign exchange exposure	$ 752,375	$ (95,668)

At December 31, 2012 and 2011, the Company's net loss is not significantly impacted by changes in the US to Canadian dollar exchange rates.

Credit risk

Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash and cash equivalents.

The Company's accounts receivable as at December 31, 2012 included $24,073 (2011 - $193,202) of recoverable goods and services taxes. The Company does not consider the credit risk relating to the outstanding amounts to be significant.

The Company has received cash calls from the Operator to fund the drilling and completion of two Buganviles wells in Colombia. Upon the execution of the farm-out agreement in September 2010, these cash call amounts became payable by Petrodorado. The Company has recorded a receivable from Petrodorado for $232,708 (2011 - $232,708) representing the unpaid cash calls to be paid by Petrodorado under the terms of the farm-out agreement and the same amount as an account payable due to the Operator. The Company does not consider the credit risk relating to Petrodorado to be significant given the nature of the farm in agreements.

The Company does not have a provision for doubtful accounts at December 31, 2012 and 2011 and was not required to write off any significant balances in the years then ended.

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 internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company on either a timely or commercial basis or that actual exploration expenditures may exceed those planned. Additional equity, debt or farm-out arrangements may be required and there are no guarantees that such additional capital funding will be available when needed.

Capital management

As at December 31, 2012, the Company's working capital amounted to $448,774 (December 31, 2011 - $166,552 deficit). Consistent with prior years, the Company manages its capital structure to maximize financial flexibility making adjustments in light of changes in economic conditions and risk characteristics of the underlying assets. Further, each potential acquisition and investment opportunity is assessed to determine the nature and total amount of capital required together with the relative proportions of debt and equity to be deployed. The Company does not presently utilize any quantitative measures to monitor its capital.

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, 2012:

- Notes 5, 6 and 7 – Impairment of property and equipment and evaluation and exploration assets
- Note 8 – Decommissioning provision
- Note 10 – Stock-based compensation

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:

Certain new accounting standards and interpretations have been published that the Company is mandated to adopt effective January 1, 2013. These changes will not have any impact on the consolidated financial statements of 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 applied prospectively from the beginning of the annual period in which the standard is adopted. Early adoption is permitted.

Approval

The Company's Board of Directors has approved the disclosure contained within this MD&A on April 23, 2013.

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**.