Loon Energy Corporation
Management's Discussion and Analysis
For the three month periods ended March 31, 2013 and 2012
(US$, unless otherwise stated)

This Management's Discussion and Analysis ("**MD&A**") document dated May 29, 2013 is provided by the management of Loon Energy Corporation ("**Loon Corp**" or "**Company**") and should be read in conjunction with the condensed consolidated interim financial statements for the three month periods ended March 31, 2013 and 2012 and the audited consolidated financial statements for the years ended December 31, 2012 and December 31, 2011 and the 2012 annual MD&A.

Basis of Presentation

This MD&A is prepared using United States dollars ("**US Dollars**") which is the reporting currency of the Company. The condensed consolidated interim financial statements for the three month period ended March 31, 2013 are prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed consolidated interim financial statements for the three months ended March 31, 2013.

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

Guatemala

During the first quarter of 2013, the Company incorporated a new entity, Loon Petroleo Ltd. ("**Loon Petroleo**"), for the purpose of establishing a branch in Guatemala. Separate bids were submitted by Loon Petroleo for three blocks located in Guatemala, and for which the outcome of the bidding round is not yet known. For purposes of the submissions, performance bonds in the aggregate amount of $0.3 million were posted.

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 Buganviles Association Contract lands are located in the Upper Magdelena Valley area of central Colombia. The Company has fulfilled its required work commitments with respect to this contract area and Ecopetrol approved the Operator's Commerciality Application in March 2009 for the Delta-1 well. 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.

Loon Corp presently holds a net 10% working interest in the Buganviles Association Contract area as a result of the farm-out agreement with an unrelated company concluded in 2010.

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, which expired in 2010.

The Operator is currently executing an abandonment plan for Block 127 and 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 2013 and 2012, though the Company continues to pursue international oil and gas opportunities.

Selected annual information

Working capital (deficiency)

	As at March 31, 2013	As at December 31,
Current assets	$ 574,988	$ 1,162,870
Current liabilities	(788,278)	(714,096)
	$ (213,290)	$ 448,774

	Three month periods ended Mar 31, 2013	2012
Expenses		
General and administrative	$ 356,829	$ 76,749
Stock based compensation	2,576	44,412
	359,405	121,161
Finance costs		
Accretion	916	873
Foreign exchange (gain) loss	5,235	(470)
	6,151	403
Net loss and comprehensive loss	$ 365,556	$ 121,564
Net loss per share		
Basic and diluted	$ (0.02)	$ (0.01)

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

	Three months ended Mar 31, 2013	2012
Basic and diluted	19,949,136	9,949,136

General and Administrative Expenses

The general and administrative expenses for the three months ended March 31, 2013 were $356.829, compared to $76,749 for the comparative three month period ended March 31, 2012. The increase in 2013 general and administrative expenses is attributable to activities in Guatemala, including incorporation of a new subsidiary, the establishment of a new branch in Guatemala and the increase in consulting, advisory and legal costs related to the submission of bids for three oil and natural gas licenses in Guatemala.

	Three month periods ended Mar 31, 2013	2012
Fees and consulting	$ 60,368	$ 29,739
Advisory costs	225,682	35,497
Third party overhead	19,230	1,107
Other administration costs	51,549	10,406
	$ 356,829	$ 76,749

Stock based compensation

Stock based compensation expense for the period ended March 31, 2013 was $2,576, compared to $44,412 for the comparative period ended March 31, 2012. 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 2013 expense, as compared to 2012, reflects the vesting of the 2010 options.

Decommissioning obligation

Accretion expense for the period ended March 31, 2013 was $916, compared to $873 for the comparative period ended March 31, 2012. As of March 31, 2013, the Peruvian and Colombian assets were fully accreted with the exception of certain properties in Colombia. The accretion to the decommissioning obligation for these remaining properties will be recognized over the next three years.

Summary of Quarterly Data

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

	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Net loss	$ (365,556)	$ (114,217)	$ (106,318)	$ (225,912)
Per share - basic and diluted	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.02)

	Q 2012	Q4 2011	Q3 2011	Q2 2011
Net loss	$ (121,564)	$ (736,982)	$ (213,911)	$ (280,884)
Per share - basic and diluted	$ (0.01)	$ (0.08)	$ (0.02)	$ (0.03)

During the three months ended March 31, 2013, the Company recognized general and administrative expenses of $356,829, which included advisory costs relating to legal, audit and corporate services of $225,682, other administrative costs of $51,549, third party charges from CEPSA of $19,230 and consulting fees of $60,368. The Company recognized stock based compensation expense of $2,576.

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.

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, 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 and March 31, 2013	19,949,136	$ 16,570,265

The following table summarizes information about the options outstanding as at March 31, 2013:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2012	708,500	0.13	3.9
Balance outstanding, March 31, 2013	708,500	$ 0.13	3.7
Exercisable At March 31, 2013	434,500	$ 0.14	3.2

There have been no changes in the number of shares or share purchase options outstanding between March 31, 2013 and May 29, 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 three months ended March 31, 2013, these fees totaled $2,971 (2012 - $3,150). At March 31, 2013, the Company owed $23,993 (December 31, 2012 - $20,873) to Kulczyk Oil for these services. Certain expenditures of the Company are paid by Kulczyk Oil on behalf of the Company and as at March 31, 2013 the Company owed $122,829 (December 31, 2012 - $82,965) 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 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 and which is pursuing an acquisition of properties in Guatemala. 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 March 31, 2013. 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 March 31, 2013 the Company has working capital deficit of $0.2 million and incurred a net loss of $0.3 million for the three month period ended March 31, 2013. 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.

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.

Changes in Accounting Policies

On January 1, 2013, the Company adopted new standards with respect to consolidation (IFRS 10), joint arrangements (IFRS 11), disclosure of interest in other entities (IFRS 12), fair value measurements (IFRS 13), amendments to financial instrument disclosures (IFRS 7) as well as amendments related to investments in associates and joint ventures (IAS 28). The adoption of these amendments and standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

Approval

The Company's Board of Directors has approved the disclosure contained within this MD&A on May 29, 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**.