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

This Management's Discussion and Analysis ("**MD&A**") document dated June 27, 2011 is provided by the management of Loon Energy Corporation ("**Loon Corp**" or "**Company**") and should be read in conjunction with the unaudited condensed consolidated financial statements for the periods ended March 31, 2011 and March 31, 2010 (International Financial Reporting Standards financial statements), and the audited consolidated financial statements for the years ended December 31, 2010 and December 31, 2009 (Canadian GAAP financial statements).

Basis of Presentation

The consolidated financial statements of Loon Corp have been prepared by management in accordance with International Financial Reporting Standards ("**IFRS**") as a first time adopter. The opening balance sheet and the comparative quarterly financial statements for 2010 have been adjusted from Canadian generally accepted accounting principles ("**GAAP**") to IFRS. The Company uses the United States dollar as its measurement and reporting currency.

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**").

Non-IFRS Measures

The financial information presented in this MD&A has been prepared in accordance with IFRS except for the term "working capital" which is not a recognized measure under IFRS and does not have standardized meaning prescribed by IFRS. This non-IFRS measure is presented for information purposes only and should not be considered an alternative to, or more meaningful than information presented in accordance with IFRS. Management believes working capital may be a useful supplemental measure as it is used by the Company to measure and evaluate the timing and amount of capital required to fund future operations. The Company's method of calculating this measure may differ from those of other companies and, accordingly, it may not be comparable to measures used by other companies.

Loon Corp calculated this non-IFRS measure as follows:

Working capital	As at March 31, 2011	As at March 31, 2010
Current assets	$ 929,453	$ 1,782,977
Current liabilities	(729,973)	(740,893)
	$ 199,480	$ 1,042,084

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 as a result of the production history on the license.

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 March 31, 2011, Loon Corp holds a 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 drilling rig has been released. Depending on the results of the production test analysis, the Company will consider a test in the Upper Guadalupe and Barzalosa Formations. The Operator and the joint venture partners are evaluating thermal and chemical production techniques to best develop the discovery in the Lower Guadalupe Formation. The costs to drill Visure-1X have all been incurred, and 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 well has been suspended pending further analysis of the testing results. Currently, the Operator is considering options to either deepen the well or abandon the well.

The Montserrate Formation has potential net pay of 31 feet and is planned to be tested in an updip drilling location later in 2011. The Company's share of the current budgeted costs to drill the Tuqueque-1X well is approximately $1.4 million, which will be paid by Petrodorado. The Company's remaining authorized costs to drill Tuqueque-1X is $232,708. The Company has recorded a receivable from Petrodorado for the $232,708 under the farm-out agreement in respect of the amount payable to the Colombian operator.

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

Peru

On September 30, 2010 the Operator, Compañía Española de Petróleos, S.A. ("**CEPSA**"), advised Loon that it did not intend to proceed to the second exploration phase for Block 127. Efforts to find a partner who would commit to the additional work program required to continue into the next exploration period were not successful and the Company has decided that it will not enter into the second exploration phase with the consequence that it will withdraw from Block 127. All petroleum and natural gas property expenditures related to Block 127 were fully written off in 2010. CEPSA and the Company are currently developing and executing an abandonment plan for Block 127. All abandonment activities are expected to be completed by the end of 2011.

Selected annual information

Working capital	As at March 31, 2011	As at March 31, 2010
Current assets	$ 929,453	$ 1,782,977
Current liabilities	(729,973)	(740,893)
	$ 199,480	$ 1,042,084

Operations Overview

	Period ended March 31, 2011	Period ended March 31, 2010
Operating expenses	$ -	$ 6,131
General and administrative	103,966	36,205
Stock based compensation	128,347	-
Loss on foreign exchange	21,002	8,617
Accretion	347	1,644
Net loss	$ 253,662	$ 52,597
Net loss per share - basic & diluted	$ 0.00	$ (0.00)

	As at March 31, 2011	As at March 31, 2010
Total Assets	$ 1,442,378	$ 3,178,708
Decommissioning obligation	$ 306,617	$ 286,270

Operating Expenses

Operating expenses for the periods ended March 31, 2011 and 2010 were $nil and $6,131 respectively. The Company's Delta-1 well produced sporadically throughout 2010 and into 2011. The Delta-1 well production was not commercial and as such, no operating costs were recorded in 2011.

General and Administrative Expenses

The general and administrative expenses for the period ended March 31, 2011 were $103,966, compared to $36,205 for the comparative period ended March 31, 2010. The general and administrative expenses are higher in the current quarter as a result of higher professional fees.

Stock based compensation

Stock based compensation expense for the periods ended March 31, 2011 and 2010 were $128,347 and $nil respectively. The stock based compensation in the current period relates to the issuance of options granted to Directors and other key individuals of the Company on November 25, 2010.

Decommissioning obligation

Accretion expense for the period ended March 31, 2011 and 2010 was $347 and $1,644, respectively. This represents the increase in decommissioning obligations on the Colombian and Peruvian assets as a result of accreting the discount on the provision at a risk-free rate.

Depletion and impairment

Depletion is not taken on the petroleum and natural gas assets until such time as commercial production resumes. No impairment was required for the Buganviles contract area as sufficient probable reserves exist to support the carrying amount of the asset.

Property and Equipment Expenditures

	March 31, 2011	December 31, 2010
Colombia	$ 363,337	$ 1,262
Peru	-	179,012
Total	$ 363,337	$ 180,274

Changes in total property and equipment expenditures for the three month period ended March 31, 2011 were incurred as a result of the 5% working reversionary interest buy-back of the Colombian assets.

Summary of Quarterly Data

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

	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Petroleum and natural gas sales	$ -	$ -	$ -	$ -
Net loss	$ (253,662)	$ (1,174,677)	$ (1,209,072)	$ (85,488)
Per share - basic and diluted	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.00)

	Q1 2010	Q4 2009 (Canadian GAAP)	Q3 2009 (Canadian GAAP)	Q2 2009 (Canadian GAAP)
Production per day				
Oil and NGL's (bbls)	*-*	*3*	*5*	*5*
Petroleum and natural gas sales	$ -	$ 8,768	$ 10,897	$ 19,535
Net loss	$ (52,597)	$ (269,255)	$ (100,084)	$ (286,438)
Per share - basic and diluted	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.01)

The net loss in Q1 2011 is less than the next loss in Q4 2010. During the period ended March 31, 2011, the Company recognized $128,347 of stock based compensation expense with respect to 9,580, 000 options issued during the fourth quarter of fiscal 2010. During the period ended December 31, 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 ($1,186,804) and costs associated with a proposed business combination transaction.

The decrease in the net loss in Q1 and Q2 2010 compared to the respective prior quarters was the result of suspended production and decreased corporate activities.

The increase in the net loss in Q4 2009, compared to Q3 2009, was the result of increased operating expenses as production activities continued and normal general and administrative spending was incurred.

The reduced net loss in Q3 2009, compared to Q2 2009, was due to unrealized foreign exchange gains.

Share Data

The Company is authorized to issue an unlimited number of common shares of which 99,491,364 common shares were outstanding as at March 31, 2011 and June 27, 2011.

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 at December 31, 2009	95,991,364	$ 15,139,980
Shares issued for compensation	3,500,000	451,256
Balance at December 31, 2010 and March 31, 2011	99,491,364	$ 15,591,236

	Period ended March 31, 2011	Period ended March 31 2010
Weighted average number of shares outstanding	99,491,364	95,991,364

On November 25, 2010, a total of 3,500,000 shares were issued as compensation for services rendered by certain Officers and Directors of the company.

The following table summarizes information about the options outstanding as at March 31, 2011:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2009	-	$ -	-
Options granted	9,580,000	0.13	4.9
Balance outstanding , December 31, 2010 and March 31, 2011	9,580,000	$ 0.13	4.9

Related Party Transactions

As the Company has no employees, the 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 period ended March 31, 2011 these fees totalled $3,150 (2010 - $2,882). At March 31, 2011, the Company owed $3,150 (2010 - $1,814) to Kulczyk Oil for these services. Certain expenditures of the Company were paid for by Kulczyk Oil on behalf of the Company and as at March 31, 2011 the Company owed $47,050 (2010 - $12,551) for these costs.

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 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 the Operator announced on October 25, 2010 that the joint venture will not proceed to the second exploration phase. As a result, the Company believes there is no longer a material exposure to the guarantee.

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

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 March 31, 2011. The Company does not generate sustained, commercial production from operations to fund the continued exploration and development of all of the Company's oil and gas properties.

The 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 cash and existing farm-out arrangements are not sufficient to fund the 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.

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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates. Information regarding the accounting policies selected by the Company, and the critical accounting estimates used are set out in the notes to the Company's consolidated financial statements for the periods ended March 31, 2011 and 2010.

International Financial Reporting Standards

Publicly accountable entities were required to adopt IFRS for interim and annual financial statements for fiscal years beginning on January 1, 2011 including comparative figures for the prior year. The Company has transitioned to IFRS effective January 1, 2011 and as such, is a first time reporter for the period ended March 31, 2011.

The following are the significant IFRS differences which have impacted the financial statements of the Company:

IFRS adoption election for oil and gas entities:
The application of IFRS 1 whereby property, plant and equipment ("**PPE**") is allocated to exploration and evaluation assets ("**E&E**") and development assets based on their carrying amount under Canadian GAAP as at January 1, 2010. The Company's Colombian assets form two cash generating units under IFRS, one for each association contract in the country. The only well with reserve assignments at January 1, 2010, the Delta-1 well, is within the Buganviles Association Contract, therefore all of the Colombian full cost pool has been allocated to this well on conversion to IFRS. The Delta-1 well has been categorized as PPE, whereas Visure-1X and Tuqueque-1X are categorized as E&E. The Peruvian full cost pool is considered an E&E asset upon conversion to IFRS and recorded at the same amount as under Canadian GAAP.

Property, plant and equipment:
The carrying amount of Company's undeveloped properties is considered E&E assets under IFRS, whereas developed or producing properties are now classified as PPE. IFRS permits an entity to elect the level at which E&E assets will be tested for impairment. E&E assets can be tested for impairment at a granular level or aggregated up to the level of an operating segment. Management has determined that E&E assets will be assessed for impairment at the cash generating unit related to the E&E assets. Management has also determined that PPE will be assessed for impairment at the level of a cash generating unit, which will generally be at the level of a concession. Under Canadian GAAP, the Company assessed its undeveloped properties for impairment at the cost centre or country level. The carrying values of the Company's developed Colombian assets are tested for impairment under Canadian GAAP using a "ceiling test" or recoverable discounted cash flow analysis. Under IFRS, impairment of the Colombian cash generating units are based on the recoverable amount, being the greater of fair value less costs to sell and value in use.

The carrying value of property and equipment classified as PPE under IFRS was reduced by $511,000 on January 1, 2010 to reflect the estimated fair value of the Delta-1 well. The expenditures incurred on the Visure-1X and Tuqueque-1X were classified as E&E assets.

Under IFRS, at January 1, 2010, the carrying value of the assets in Peru did not require an adjustment. The impairment charge for Peru, recorded under Canadian GAAP did not differ under IFRS.

Asset retirement obligation:
Under IFRS, the Company recognizes an asset retirement obligation similar to that recorded under Canadian GAAP except, under IFRS, the net present value of future cash outflows is discounted using a risk-adjusted rate of return. Upon conversion to IFRS, the net present value of future cash outflows is discounted using a risk-free interest rate versus a credit adjusted interest rate. The conversion to IFRS resulted in an increase in the asset retirement obligation of $63,644 with a corresponding adjustment to deficit.

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.

Approval

The Company's Board of Directors has approved the disclosure contained within this MD&A.

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, T2P 3J4 (Phone: +1 403 264-8877) or by e-mail at **ryaniw@loonenergy.com**.