

Loon Energy Corporation
Management's Discussion and Analysis
For the three month period ended March 31, 2017 and 2016
(US\$, unless otherwise stated)

This Management's Discussion and Analysis ("MD&A") document dated May 30, 2017 is provided by the management of Loon Energy Corporation ("Loon" or "Company") and should be read in conjunction with the condensed consolidated interim financial statements for the three-month periods ended March 31, 2017 and 2016, the audited consolidated financial statements for the years ended December 31, 2016 and December 31, 2015 and the 2016 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, 2017 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 confirms that its auditors have not reviewed the condensed consolidated interim financial statements for the three-month period ended March 31, 2017.

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 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 Energy") in accordance with a Plan of Arrangement ("Arrangement") under the ABCA. Pursuant to the Arrangement, the assets of Loon Energy in Colombia and Peru were transferred to Loon, each Loon Energy shareholder received one common share of Loon for each Loon Energy share held, the common shares of Loon 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 Energy changing its name to Kulczyk Oil Ventures Inc. ("Kulczyk Oil"). Effective June 24, 2013, Kulczyk Oil changed its name to Serinus Energy Inc. ("Serinus").

On March 3, 2017, the Company's listing transferred to NEX, and its trading symbol changed to "LNE.H".

Operations Overview

Loon acquired interests in certain South American oil and gas assets in December 2008 from Serinus in accordance with a legal Plan of Arrangement under the ABCA. These oil and gas assets included interests in properties in Colombia obtained by way of farm-out agreements, and an interest in a block of exploration lands in Peru. The Company and its partner relinquished the block in Peru after the completion of a seismic program, and while Loon retains a minority interest in one Association Contract in Colombia, no further operations on the property are presently anticipated. In 2013, the Company submitted bids on exploration and development properties in Guatemala, however it elected to not proceed with further operations when only one such bid was successful. Loon's present activities consist primarily of the investigation of additional business opportunities and complying with the legal and regulatory requirements to wind-up its activities in Colombia (completed August 2016), Peru (completed April 2016) Guatemala (completed in July 2015), and Bermuda (expected to be completed in 2017).

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's interest was reduced to a 10% net working interest after a farm-out agreement in 2010 with Petrodorado South America S.A. ("Petrodorado") under the terms of which Petrodorado paid the Company's share of costs to drill and complete two wells. The Buganviles Association Contract lands are located in the Upper Magdalena Valley area of central Colombia. The Company has fulfilled its required work commitments with respect to this contract area. The only producing well on this property, the Delta-1 well, did not produce



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commercial volumes of oil or gas in 2017 or 2016 and remains suspended as of March 31, 2017. The operator has proposed a plan to abandon all remaining wells within the Bugarviles Association Contract. However, as of May 30, 2017, the joint venture partners have not accepted such proposal.

The Company received cash calls from the Operator in 2010 to fund the drilling and completion of two Bugarviles wells. Upon the execution of the Petrodorado farm-out agreement in September 2010, these cash call amounts became payable by Petrodorado, and to date, Petrodorado has paid a total of \$2 million under the farm-out agreement. Unpaid cash calls in the aggregate amount of \$232,708 to fund the remaining costs of drilling of these two wells remain outstanding, and form a portion of both the accounts receivable from Petrodorado under the terms of the farm-out agreement and accounts payable to the Operator. As at December 31, 2016, and March 31, 2017, the Company has a bad debt allowance of \$232,708 against the entire receivable from Petrodorado because of the uncertainty of collection. As at December 31, 2016 and March 31, 2017, the Company's payable to the Operator remains at \$400,152. However, the Company is not in agreement with this amount, and questions the validity of the claim.

The Company has recorded a decommissioning provision resulting from its working interest ownership in petroleum and natural gas properties in Colombia, including well sites, gathering systems and processing facilities. The Company's estimate of the total undiscounted cash flows required to settle the obligations is \$212,920 (December 31, 2016 - \$212,920) which are expected to be settled in the next 12 to 24 months.

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**"), had an exploration license contract with PERUPETRO S.A granting Loon Peru the right to explore for and produce hydrocarbons from Block 127 in the Marañon Basin area of northeast Peru.

In 2010, the Operator, Compañía Española de Petróleos, S.A. ("**CEPSA**"), and Loon Peru 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. During 2015, the Company received confirmation from CEPSA that Loon Peru has no outstanding liabilities or further obligations arising from its former property in Peru, including additional abandonment and/or reclamation activities. All costs related to the Company's property in Peru had been written-off in previous periods.

On April 14, 2016, Loon Peru was successfully wound-up and deregistered as a company.

Guatemala

During 2013, the Company incorporated a new indirect wholly-owned entity, Loon Petroleo Limited ("**Loon Petroleo**") for the purpose of establishing a branch in Guatemala through which separate bids were submitted for three exploration blocks located in Guatemala. Loon Petroleo was successfully wound-up in July 2015.

Significant factors affecting Company's results of operations

The Company has not conducted any active oil and gas operations during 2017 or 2016, though the Company continues to pursue and evaluate future exploration and development opportunities in the international oil and gas arena.

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Selected annual information

Working capital deficiency

	As at March 31, 2017	As at December 31, 2016
Current assets	\$ 29,574	\$ 6,373
Current liabilities	(969,269)	(657,632)
	<u>\$ (939,695)</u>	<u>\$ (651,259)</u>
	Three months ended March 31, 2017	2016
Expenses		
General and administrative	\$ (280,010)	\$ (17,937)
Finance costs		
Interest expense	(11,163)	(5,400)
Foreign exchange gain/(loss)	2,737	(279)
	<u>(8,426)</u>	<u>(5,679)</u>
Net loss and comprehensive loss	<u>(288,436)</u>	<u>(23,616)</u>
Net loss per share (basic and diluted)	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>

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

	Three months ended March 31, 2017	2016
Net loss attributable to shareholders	\$ (288,436)	\$ (23,616)
Weighted average number of shares outstanding	19,949,136	19,949,136
Loss per share - Basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2017 were \$280,010 compared to \$17,937 for the comparative period ended March 31, 2016. Higher general and administrative expenses in 2017 were mainly attributable to a bonus declared payable to Directors and Officers.

	Three months ended March 31, 2017	2016
Advisory costs	\$ 263,349	\$ 10,705
Other administration costs	16,661	7,232
	<u>\$ 280,010</u>	<u>\$ 17,937</u>

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Interest expense

Interest expense for the three months ended March 31, 2017 was \$11,163 compared to \$5,400 for the comparative period ended March 31, 2016. Higher interest expense in 2017 is attributable to increased debt outstanding, the impact of compounding interest, and accrued interest related to unpaid Director and Officer bonuses.

	Three months ended March 31,	
	2017	2016
Interest expense	\$ 11,163	\$ 1,611

Decommissioning obligation

As at March 31, 2017, the decommissioning obligation for the remaining Colombian properties had been fully accreted and no further expense will be recognized. The settlement of decommissioning liabilities is expected to occur in the next 12 to 24 months. The Company is in dispute with the property Operator in Columbia and believes that it is unlikely that the Company will ultimately be required to settle this liability

Summary of Quarterly Data

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

	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Net loss	\$ (288,436)	\$ (33,221)	\$ (29,362)	\$ (25,124)
Per share - basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.00)
General and administrative	\$ 280,010	\$ 26,108	\$ 23,114	\$ 19,369
Advisory costs	263,349	20,682	11,960	11,891
Other administrative costs	16,661	5,426	11,154	7,478
Accretion	\$ -	\$ -	\$ -	\$ -
Interest expense	\$ 11,163	\$ 7,102	\$ 6,297	\$ 5,545
Foreign exchange loss (gain)	\$ (2,737)	\$ 12	\$ (49)	\$ 210
Income tax recovery	\$ -	\$ -	\$ -	\$ -
Working capital deficiency	\$ (939,695)	\$ (651,259)	\$ (618,083)	\$ (588,676)
	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Net loss	\$ (23,616)	\$ (27,310)	\$ (15,284)	\$ (39,707)
Per share - basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.00)
General and administrative	\$ 17,937	\$ 21,812	\$ 17,341	\$ 34,650
Advisory costs	10,705	18,436	7,233	26,253
Other administrative costs	7,232	3,376	10,108	8,397
Stock based compensation	\$ -	\$ 303	\$ 1,015	\$ 1,015
Accretion	\$ 5,400	\$ 4,537	\$ 4,537	\$ 2,962
Bad debt expense	\$ 279	\$ 658	\$ (1,757)	\$ 1,080
Other income	\$ -	\$ -	\$ (5,852)	\$ -
Interest expense				
Foreign exchange loss (gain)	\$ (563,552)	\$ (539,936)	\$ (498,660)	\$ (498,660)
	\$ (23,616)	\$ (27,310)	\$ (15,284)	\$ (39,707)
Working capital (deficiency)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.00)



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Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There were no changes during the period to the number of issued common shares nor to their stated value. There are no preferred shares outstanding.

The following table summarizes information about the options outstanding as at March 31, 2017:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2016	254,000	\$ 0.10	0.7
Balance outstanding, March 31, 2017	204,000	\$ 0.10	0.4
Exercisable at March 31, 2017	204,000	\$ 0.10	0.4

Subsequent to the reporting date and by agreement with the options holders, all share purchase options outstanding as at March 31, 2017 have been cancelled and as at May 30, 2017 there are no unexercised or unvested options.

Related Party Transactions

The Company and Serinus are related as they have the same principal shareholder with significant influence over both companies.

The Company has no employees, and certain management and administrative services were provided by the management and staff of Serinus pursuant to a services agreement. The service agreement with Serinus was terminated effective September 1, 2016. Administrative costs incurred by Serinus for the benefit of the Company were charged to the Company based on specific identification and an allocation of administrative costs that related to both Serinus and the Company. For the three-month period ended March 31, 2017, these fees totaled \$nil (2016 - \$2,175). At March 31, 2017, the Company owed \$nil (December 31, 2016: \$nil) to Serinus.

On February 21, 2017, the Board resolved to accrue fees in Canadian currency for services payable to Directors and Officers of the Company in the aggregate amount of \$257,110 (Cdn\$ 339,150). At March 31, 2017, movements in currency exchange rates changed the recorded value of the bonus accrued to \$254,566. The Board further resolved to pay interest on the unpaid balance of fees at 12% per annum, until March 31, 2017. Accrued interest as at March 31, 2017 was \$3,180 (Cdn\$ 4,237).

As at March 31, 2017, the Company had notes payable to Timothy Elliott, Chairman of the Board of Directors of Loon Energy, in the aggregate amount of \$170,215 (2016 - \$130,000) plus \$38,155 (2016 - \$16,920) of accrued interest. The note payable is due on demand with interest calculated at a rate of 12% per annum, compounded quarterly. As at March 31, 2017, the Company had notes payable to Jock Graham, a member of the Board of Directors of Loon Energy, in the amount of \$78,838 (2016 - \$20,000) plus \$7,899 (2016 - \$2,259) of accrued interest. The note payable is due on demand with interest calculated at a rate of 12% per annum, compounded quarterly.

On April 26, 2017, the Company issued 3,989,243 common shares at a deemed price of \$Cdn 0.05 per common share to settled outstanding Fees Payable to Directors and Officers of the Company and Notes Payable to Mr. Elliott and Mr. Graham in the aggregate amount of \$146,761 (\$Cdn 199,477).

The Company 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. The block to which the guarantee is related has been relinquished and it is not currently anticipated that the guarantee will be replaced. Further,



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the former Operator of the property confirmed in writing to the Company that no further liabilities relating to or arising from the property existed. As part of the Arrangement that saw Serinus spin off its Colombian and Peruvian assets to Loon in 2008, Loon and Serinus entered into an indemnification agreement in which Loon agreed to indemnify Serinus for any and all liabilities, claims, etc. associated with the share and asset transfers that were part of the spin-off of those assets, and which includes the Loon Peru Guarantee.

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 formerly active in Colombia, Peru and Guatemala. The Company's sole remaining property is in Colombia, which has no proved reserves and does not generate positive net production revenue. Loon's activities during the period consisted primarily of investigating opportunities for business development and complying with the legal and regulatory requirements to wind-up its activities in Bermuda. The successful windups of subsidiaries in Colombia and Guatemala were completed in 2016, and the windup of the subsidiary in Peru was completed in 2015.

The Company's condensed consolidated interim 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. To date, the Company's exploration and development operations and activities 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. Beginning in Q4 2014 and continuing to date, two members of the Company's Board of Directors advanced cash to fund Loon's activities. As at March 31, 2017, the Company was indebted in the aggregate amount of \$208,370 (December 31, 2016 - \$187,870) to Timothy Elliott, Chairman of the Board of Directors of Loon, and in the aggregate amount of \$86,737 (December 31, 2016 - \$54,369) to Jock Graham, a member of the Board of Directors of Loon.

As at March 31, 2017, the Company had a working capital deficiency of \$939,695 (December 31, 2016 - \$651,259). The need to raise capital to fund the working capital deficiency, ongoing operations, and acquire additional concessions for exploration and development opportunities creates significant doubt as to 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. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

Critical Accounting Estimates

The preparation of financial statements in conformity with IAS 34 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 condensed consolidated interim 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.

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

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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

For the three-month period ended March 31, 2017, the Company did not adopt any new IFRS standards nor were any applicable pronouncements announced. Refer to note 2 in the consolidated financial statements for the year ended December 31, 2016 for other pronouncements not yet adopted.

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.



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Approval

The Company's Board of Directors approved the disclosure contained within this MD&A on May 30, 2017.

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 1500, 700 – 4th Avenue S.W., Calgary, Alberta, Canada T2P 3J4 (Phone: +1 403 264-8877) or by e-mail at rvaniw@loonenergy.com.

