

Loon Energy Corporation
Management's Discussion and Analysis
For the three and nine-month periods ended September 30, 2018
(US\$, unless otherwise stated)

This Management's Discussion and Analysis ("MD&A") document dated November 28, 2018 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 and nine-month periods ended September 30, 2018 and 2017, the audited consolidated financial statements for the years ended December 31, 2017 and December 31, 2016 and the 2017 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 and nine-month periods ended September 30, 2018 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 and nine-month periods ended September 30, 2018.

Overview

Loon Energy Corporation ("Loon", "Loon Corp") was formerly an international oil and gas exploration and development company, whose present activities consist of the investigation and evaluation of future business opportunities. The Company has 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 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. On May 3, 2018 Serinus Energy Inc. continued to Jersey and changed its name to Serinus Energy plc ("Serinus").

On September 14, 2018, Loon entered into an amalgamation agreement (the "Agreement") with Pacific West Canopy Holdings Ltd ("PacWest"), a privately held corporation existing under the Business Corporations Act (British Columbia). The execution of the proposed amalgamation (the "Transaction") is contingent upon the fulfillment of the terms and conditions of the Agreement by Loon and PacWest.

Loon is a publicly listed company whose common shares were traded under the symbol "LNE" on the TSX Venture Exchange ("TSXV") until March 3, 2017, when 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 in accordance with a legal Plan of Arrangement under the ABCA as described above. 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's interest in Peru was relinquished in 2010, and the Company's sole remaining property interest in Colombia was relinquished during 2017. 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.

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



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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.

In August 2016, Loon Colombia was successfully wound-up and deregistered as a Bermuda company, however the Company’s ownership interest in the Buganviles Association Contract had been transferred to Loon Energy Corporation, the Canadian parent.

In November 2017, the Company reached a settlement agreement with the Operator of the Colombian property under the terms of which the Company assigned its interest in the Buganviles Association Contract (“the Contract”) to the Operator in exchange for the release of the Company from any and all existing and potential future liabilities related to or arising from the Contract.

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 2018 or 2017, though the Company continues to pursue and evaluate other business opportunities, including the potential acquisition of international oil and gas interests.

Selected annual information

Working capital deficiency

	As at September 30, 2018	As at December 31, 2017
Current assets	\$ 112,831	\$ 10,017
Current liabilities	(879,796)	(633,859)
	<u>\$ (766,965)</u>	<u>\$ (623,842)</u>

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	Three months ended September		Nine months ended September 30,	
	2018	2017	2018	2017
Expenses				
General and administrative	\$ (99,717)	\$ (10,131)	\$ (124,915)	\$ (315,505)
Finance costs				
Interest expense	(1,786)	(10,108)	(26,108)	(30,377)
Foreign exchange gain/(loss)	(5,783)	(8,717)	7,900	(9,790)
	<u>(7,569)</u>	<u>(18,825)</u>	<u>(18,208)</u>	<u>(40,167)</u>
Net loss and comprehensive loss	<u>\$ (107,286)</u>	<u>\$ (28,956)</u>	<u>\$ (143,123)</u>	<u>\$ (355,672)</u>
Net loss per share (basic and diluted)	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net loss attributable to shareholders	\$ (107,286)	\$ (28,956)	\$ (143,123)	\$ (355,672)
Weighted average number of shares outstanding	<u>23,938,379</u>	<u>22,938,379</u>	<u>23,938,379</u>	<u>22,243,316</u>
Loss per share - Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>

General and Administrative Expenses

General and administrative expenses for the three and nine-month periods ended September 30, 2018 were \$99,717 and \$124,915 compared to \$10,131 and \$315,505 for the comparative periods ended September 30, 2017. Advisory costs incurred in the third quarter of 2018 are mainly comprised of legal fees related to the proposed amalgamation with PacWest. General and administrative expenses in 2017 were mainly attributable to a bonus declared payable to Directors and Officers and legal costs to liquidate Loon Energy Holdings, the Bermuda subsidiary.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Advisory costs	\$ 91,398	\$ -	\$ 94,311	\$ 270,581
Other administration costs	8,319	10,131	30,604	44,924
	<u>\$ 99,717</u>	<u>\$ 10,131</u>	<u>\$ 124,915</u>	<u>\$ 315,505</u>

Interest expense

Interest expense for the three and nine-month periods ended September 30, 2018 was \$1,786 and \$26,108 compared to \$10,108 and \$30,377 for the comparative periods ended September 30, 2017. The Directors and Officers have agreed that interest will not accrue on the Notes payable to them after June 30, 2018. If the Transaction is not executed by June 30, 2019, the interest terms will be reinstated and applied retroactively, from July 1, 2018. Accordingly, interest expense has decreased in both the current three and nine-month periods, which is offset slightly due to additional accrued interest related to the issuance of new promissory notes in accordance with the proposed amalgamation with PacWest.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest expense	<u>\$ 1,786</u>	<u>\$ 10,108</u>	<u>\$ 26,108</u>	<u>\$ 30,377</u>



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Decommissioning obligation

In November 2017, the Company reached a settlement agreement with the Operator of the Bugarvilles Association Contract ("the Contract") in Colombia, under the terms of which the Company assigned its interest in the Contract to the Operator in exchange for the release of the Company from any and all existing and potential future liabilities related to or arising from the Contract. This settlement agreement had the effect of the Company derecognizing the remaining Decommissioning Provision of \$212,920 and reporting a gain, in 2017.

Summary of Quarterly Data

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

	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Net income (loss)	\$ (107,286)	\$ (23,930)	\$ (11,907)	\$ 546,114
Per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.02
Gain on disposal of property interest	\$ -	\$ -	\$ -	\$ 613,071
General and administrative	\$ 99,717	\$ 17,395	\$ 7,803	\$ 56,909
Advisory costs	91,398	911	2,002	52,447
Other administrative costs	8,319	16,484	5,801	4,462
Interest expense	\$ 1,786	\$ 12,628	\$ 11,694	\$ 11,219
Foreign exchange loss (gain)	\$ 5,783	\$ (6,093)	\$ (7,590)	\$ (1,171)
Working capital deficiency	\$ (766,965)	\$ (659,679)	\$ (635,749)	\$ (623,842)
	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net loss	\$ (28,956)	\$ (38,280)	\$ (288,436)	\$ (33,221)
Per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
General and administrative	\$ -	\$ 25,364	\$ 280,010	\$ 26,108
Advisory costs	-	7,232	263,349	20,682
Other administrative costs	\$ 10,131	18,132	16,661	5,426
Interest expense	10,131	\$ 9,106	\$ 11,163	\$ 7,102
Foreign exchange loss (gain)		\$ 3,810	\$ (2,737)	\$ 12
Working capital (deficiency)	\$ 10,108			
	\$ 8,717	\$ (928,081)	\$ (939,695)	\$ (651,259)

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.

Related Party Transactions

As at September 30, 2018, the Company had notes payable to Timothy Elliott, Chairman of the Board of Directors of Loon Energy, in the aggregate amount of \$226,710 (2017 - \$196,220) plus \$76,623 (2017 - \$51,947) of accrued interest. As at September 30, 2018, the Company had notes payable to Jock Graham, a member of the Board of Directors of Loon Energy,



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in the amount of \$97,739 (2017 - \$78,838) plus \$23,250 (2017 - \$13,201) of accrued interest. As at September 30, 2018, the Company had notes payable to Norman Holton, a Director and Chief Executive Officer of Loon Energy, in the amount of \$23,175 (2017 - \$nil) plus \$696 (2017 - \$nil) of accrued interest. All of the above Notes Payable are due on demand with interest calculated at a rate of 12% per annum, compounded quarterly. The Directors and Officers have agreed that interest will not accrue on the notes after June 30, 2018. If the Transaction is not executed by June 30, 2019, the interest terms will be reinstated and applied retroactively from July 1, 2018.

On February 21, 2017, the Board of Directors declared a bonus payable in Canadian currency to Directors and Officers of the Company in the amount of \$257,110 (Cdn\$ 339,150). On April 26, 2017, \$49,894 (Cdn\$ 66,817) of this bonus was settled through the issuance of common shares of the Company. As at September 30, 2018 the bonus was unpaid, and with changes to foreign exchange rates is now valued at \$209,605 plus accrued interest of \$3,273 (Cdn\$ 4,237). Interest does not accrue on the unpaid balance of Fees Payable to Directors and Officers subsequent to March 31, 2017.

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

The Company and Serinus are related as they have the same principal shareholder with significant influence over both companies. At September 30, 2018, the Company owed \$nil (December 31, 2017: \$nil) to Serinus. 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. The Company's former interests in all relevant properties in Colombia and Peru have since been relinquished and accordingly, the Company's management believes that no liabilities relevant to the indemnification agreement are likely to arise.

Liquidity and Capital Resources

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. As at September 30, 2018, the Company had a working capital deficiency of \$766,965 (December 31, 2017 - \$623,842) of which \$661,071 is the aggregate of Notes Payable to Directors and Officers and amounts due to Directors and Officers of the Company

Beginning in Q4 2014 and continuing to date, three members of the Company's Board of Directors advanced cash to fund Loon's activities. As at September 30, 2018, the Company was indebted in the aggregate amount of \$303,333 (December 31, 2017 - \$269,925) to Timothy Elliott, Chairman of the Board of Directors of Loon, in the aggregate amount of \$120,989 (December 31, 2017 - \$109,074) to Jock Graham, a member of the Board of Directors of Loon and in the aggregate amount of \$23,871 (December 31, 2017 - \$nil) to Norman Holton, a Director and Chief Executive Officer of the Company.

In connection with the Transaction, the Company received \$76,558 (\$Cdn 100,000) on July 27, from an entity which is not at arm's length with certain persons related to PacWest and issued an unsecured promissory note in return therefor. The Note accrues interest at a rate of 12% per annum, compounding quarterly and becomes due and payable on the earlier of two business days following completion of the Transaction and July 27, 2019.

Additionally, pursuant to the Agreement, PacWest has agreed to advance an additional \$Cdn 150,000 on similar terms and conditions. On September 21, 2018 the Company issued a promissory note with a principal amount of \$38,710 (\$Cdn 50,000). The notes accrue interest at a rate of 12% per annum, compounding quarterly and become due and payable on the earlier of two business days following completion of the Transaction and September 21, 2019

Proceeds of the note are to be used to fund expenses related to completing the proposed Business Combination Transaction and maintaining in good standing the Company's corporate existence, status as a reporting issuer and current public company listing on the NEX board of the TSX Venture Exchange.

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



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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 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 and nine-month periods ended September 30, 2018, 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, 2017 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:

- completion of the proposed Transaction with Pacwest;
- 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;



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- 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.

Approval

The Company's Board of Directors approved the disclosure contained within this MD&A on November 28, 2018.

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 1100, 700 – 4th Avenue S.W., Calgary, Alberta, Canada T2P 3J4 (Phone: +1 403 875-2008) or by e-mail at nholton@loonenergy.com.

