Loon Energy Corporation
Management's Discussion and Analysis
For the years ended December 31, 2008 and 2007

This Management Discussion and Analysis ("**MD&A**") dated March 18, 2009 is provided by the management of Loon Energy Company ("**Loon Corp**" or "**Company**") and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2008 and 2007.

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. The Arrangement was approved at a special meeting of the securityholders of Loon held on December 9, 2008 and by the Court of Queen's Bench of Alberta on December 10, 2008. Pursuant to the Arrangement as it pertained to the Company, 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 and the common shares of Loon Corp were listed on the TSX Venture Exchange under the symbol LNE. The implementation of the Arrangement on December 10, 2009 also resulted in Loon changing its name to Kulczyk Oil Ventures Inc. ("**Kulczyk Oil**").

This MD&A pertains specifically to the assets and operations that constitute Loon Corp, and is "carved-out" of the MD&A previously issued by Loon for the referenced periods. Additional information relating to Loon Corp can be accessed at www.sedar.com. Additional information relating to Kulczyk Oil, including consolidated financial statements and MD&A for the referenced periods, and upon which this carve-out MD&A for Loon Corp is based, can be accessed at www.kulczykoil.ca or www.sedar.com.

Basis of Presentation

The consolidated financial statements of Loon Corp have been prepared by management in accordance with Canadian generally accepted accounting principles ("**GAAP**"). In the current fiscal year, the Company changed its reporting currency from Canadian dollars to United States dollars.

The consolidated financial statements prepared for each of Loon Corp and Kulczyk Oil follow continuity of interest guidelines. Loon Corp retained the net assets associated with resource properties located in Colombia and Peru where operations commenced in 2005 and 2007, respectively. The terms of the Arrangement also state that Loon Corp would receive, at a minimum, US$3.0 million of cash as at December 9, 2008 ($3,150,000 received upon closing of the Arrangement).

The consolidated financial information presented herein has been extracted from the books and records of Loon until December 10, 2008, the date the Arrangement was implemented. Certain financial records were maintained at a corporate rather than on a property-by-property basis by Loon and accordingly it was necessary to make allocations of amounts reported in the consolidated financial statements of Loon in order to prepare the consolidated financial statements for the Company. The allocations that were made include:

- Share capital and related share issuance expenses were allocated based on the expenditure requirements of Kulczyk Oil and the Company.
- General and administrative expense, stock based compensation, unrealized loss/(gain) on foreign exchange and realized loss/(gain) on foreign exchange were allocated based on the ratio of capital expenditures in the respective entity to the total capital expenditures of Loon.
- Future income taxes were estimated on the basis that each entity was a separate legal entity.

BOE Presentation

Production information is reported in units of barrels of oil equivalent ("**BOE**"). The BOE conversion ratio is based on an energy equivalency and all BOE conversions in this report are derived by converting natural gas to oil at the ratio of six thousand cubic feet of gas to one barrel of oil.

Forward-looking statements

This MD&A contains forward-looking statements. Readers are advised that any forward-looking statements contained in this MD&A are expressly qualified by the cautionary statements contained within the Forward-looking Statement section of this document.

Non-GAAP Measures

The financial data presented has been prepared in accordance with GAAP except for the terms, "net operating revenue" and "working capital" which are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. These non-GAAP measures are presented for information purposes only and should not be considered an alternative to, or more meaningful than information presented in accordance with GAAP. Management believes that net operating revenue and working capital may be useful supplemental measures as they are used by the Company to measure operating performance and to evaluate the timing and amount of capital required to fund future operations. The Company's method of calculating these measures may differ from those of other companies and, accordingly, it may not be comparable to measures used by other companies.

The Company calculates these non-GAAP measures as follows:

Net operating revenue

	Years ended December 31, 2008	Years ended December 31, 2007
	US$	US$
Petroleum and natural gas sales	$ 499,133	$ 402,682
Less: Royalties	(24,768)	(19,175)
	474,365	383,507
Operating expenses	194,992	95,286
Net operating revenue	$ 279,373	$ 288,221

Working capital

	December 31, 2008	December 31, 2007
	US$	US$
Current assets	$ 3,247,567	$ 1,368,293
Current liabilities	(450,280)	(57,554)
	$ 2,797,287	$ 1,310,739

Operations Overview

The Company has demonstrated its ability to source, negotiate and conclude agreements for exploration and development opportunities, and to partially finance the expenditure commitments pursuant to these agreements via farm-out arrangements.

Colombia

Abanico Association Contract

In 2005, the Company committed to expend $6.0 million on exploration and development expenditures to earn 49% of the interest of Kappa Resources Colombia Ltd. ("**Kappa**") in the area covered by the Abanico Association Contract. The Company funded the drilling of a gas discovery well in the third quarter of 2005 at Ventilador-2 and drilled dry holes at Aleli-1 later that year and at Duna-1 in the first quarter of 2006. The Company fulfilled its expenditure commitment of $6.0 million during 2007. In March 2007, the Ventilador-2 natural gas well was put on-stream and production from the well continued until it was suspended in October, 2008. Gross production for the period it was producing in 2008 averaged 1.2 million cubic feet per day ("**MMcfd**").

Buganviles Association Contract

On December 9, 2007, drilling commenced on the Delta-1 well, which is located within a 60,817 hectare block of lands covered by the Buganviles Association Contract between Holywell Resources S.A. ("**Holywell**") and Empresa Colombiana de Petróleos ("**Ecopetrol**"), the Colombian national oil company. Holywell farmed a portion of its interest in the Association contract out to Kappa. Through a subsequent farmin agreement with Kappa, the Company earned a 20% participating interest in the Delta-1 oil discovery and surrounding lands by paying US$1.0 million of the estimated $3.4 million "dry-hole" cost of the well and 20% of costs incurred thereafter.

Technical problems encountered during the drilling of the well increased costs substantially and the total cost to Loon Corp for its participation in the well was $2.2 million. The well came on production late in September 2008 and averaged production of approximately 10 barrels of oil per day net to the Company for the remainder of 2008. Subsequent to year end, the operator submitted a Commerciality Application to Ecopetrol for which a decision remains outstanding. In the event the well is deemed to be commercially productive, fifty percent of the lands, or approximately 75,000 acres, will be retained for a period of two years. If the well is not capable of commercial production, the lands will expire.

Peru

On August 21, 2007 the Company announced that its wholly-owned subsidiary, Loon Peru Limited ("**Loon Peru")**, signed 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. Block 127 is approximately 2.4 million acres (approximately 9,675 square kilometres) in size and is located in the Amazon Basin area of northeast Peru.

Under the terms of the agreement, Loon Peru committed to a minimum work program to acquire, process and interpret 390 kilometres of 2D seismic and reprocess another 2,000 kilometres of 2D seismic during the first two-year exploration period. The Company posted a performance guarantee amounting to $2.25 million with the Government of Peru in accordance with the agreement.

Much of the Company's existing commitments for the first two exploration periods are expected to be funded by CEPSA Peru S.A. ("**CEPSA Peru**") under the terms of a farmout agreement dated October 29, 2007 which was approved by the Government of Peru during the second quarter of 2008. Under the terms of the farmout agreement, CEPSA Peru earns 80% of Loon Peru's interest in the block in return for consideration consisting of a payment of $700,000 to Loon Peru for past costs, replacement of the $2.25 million performance guarantee that was previously funded by the Company, and payment of the first $10.75 million of expenditures incurred in fulfilling the minimum work commitment for the first exploration period that ends in August, 2009. In the event CEPSA Peru agrees to proceed to the second exploration period of 18 months, they will fund 100% of the first $15.0 million of expenditures incurred in fulfilling the group's work commitments which includes the drilling of one exploratory well.

Annual Financial Information

	Years ended December 31, 2008 US$	2007 US$	2006 US$
Petroleum and natural gas sales	$ 499,133	$ 402,682	$ -
Less: Royalties	(24,768)	(19,175)	-
	474,365	383,507	-
Less: Operating expenses	194,992	95,286	-
Net operating revenue	279,373	288,221	-
General and administrative	2,374,523	1,131,513	270,536
Stock based compensation	159,965	469,929	247,278
Unrealized (gain) loss on foreign exchange	(673,031)	274,373	(1,961)
Realized loss on foreign exchange	(14,131)	113,907	-
Depletion, depreciation and accretion	399,067	555,447	6,616
Impairment of petroleum and natural gas properties	1,223,386	379,248	1,453,261
	3,469,779	2,924,417	1,975,730
Loss before income taxes	$ (3,190,406)	$ (2,636,196)	$ (1,975,730)
Net loss per share - basic & diluted	$ (0.03)	$ (0.03)	$ (0.03)
Total assets	$ 4,277,328	$ 4,581,404	$ 846,603
Long-term financial liabilities (Asset retirement obligations)	$ 111,293	$ 101,621	$ 74,896

Oil and Gas Production and Revenue

The Company's oil and gas revenues for the year included natural gas sales from the Ventilador-2 well for the first nine months of the year, and oil sales from Delta-1 for the last month of the year. Ventilador-2 produced natural gas for the period from January to September 2008 after which it was suspended when the producing pressure of the well dropped below the line pressure of the gathering line. There are no plans for the well to resume production. Although natural gas volumes are lower in 2008, the revenues are higher because of the higher price being received.

In October 2008, the Delta-1 oil well began production with the first sales occurring in December 2008.

	Years ended December 31, 2008 US$	2007 US$
Gross oil and gas revenues	$ 499,133	$ 402,682
Gas production (Mcf)	*181,822*	*232,112*
Gas price ($/Mcf)	$ 2.54	$ 1.73
Oil production (bbls)	*1,026*	-
Oil price ($/bbl)	$ 36.85	$ -
BOE production	*31,330*	*38,685*
BOE per day	*86*	*106*

Royalties

Royalties were paid at a rate of 5% on natural gas sales from Ventilador-2. A royalty of 8% of production is incurred on the oil production of Delta-1 well.

	Years ended December 31, 2008	Years ended December 31, 2007
	US$	US$
Government royalties	$ 24,768	$ 19,175
Royalties per BOE	$ 0.79	$ 0.50
Royalties as a % of revenue	5%	5%

Operating Expenses

Operating expenses for the year ended December 31, 2008 were $194,992 ($6.22 per BOE) compared to $95,826 ($2.46 per BOE) for the year ended December 31, 2007. The increase of operating costs of $99,166 or $3.76 per BOE is due to costs incurred during the first few months of production on the Delta-1 well. The well came on production in early October 2008 but production has been intermittent due to operational issues.

Depletion, Depreciation and Accretion (DD&A)

Depletion, depreciation and accretion expense was $399,067 ($12.74 per BOE) for the year ending December 31, 2008 compared to $555,447 ($14.36 per BOE) for the year ending December 31, 2007. The decrease in depletion, depreciation and accretion expense for the current year is because of a rate change due to the addition of proven reserves for the Delta-1 well as determined by a third party engineering report dated January 1, 2009.

Based on the ceiling test performed on its Colombian cost centre, the Company recorded impairment of $1,223,386 for the year ending December 31, 2008 compared to $379,248 for the year ending December 31, 2007.

Net Loss

Net loss was $3,290,406 for the year ended December 31, 2008 compared to a net loss of $2,636,196 for the year ended December 31, 2007. The increases in the loss for the year ended December 31, 2008 is due to higher general and administrative expenses and the larger impairment of petroleum and natural gas properties.

Fourth Quarter

During the fourth quarter of 2008 oil production from the Delta-1 well in the Buganviles Association Contract area commenced. Due to operational issues, production was intermittent for the first few months but by December 2008 the well was consistently producing approximately 50 gross BOE per day (10 net BOE per day). Subsequent to year end, the operator submitted a Commerciality Application to Ecopetrol however a decision on the application has not yet been received by the Company.

The Company incurred $911,818 of general and administrative expenses for the three months ending December 31, 2008 compared to $468,229 for the three months ending September 30, 2008. This increase is because of the Company's share of expenses related with the Plan of Arrangement that was successfully approved and implemented in the fourth quarter of 2008.

On December 10, 2008 the Company and Kulczyk Oil put a shared services structure in place under which management and administrative services are provided by the management and staff of Kulczyk Oil. 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.

Summary of Quarterly Data

The following tables set forth selected quarterly financial information for the most recent eight financial quarters. The information contained in these tables has not been audited or reviewed by the Company's auditors.

	Q4 2008	Q3 2008	Q2 2008	Q1 2008
	US$	US$	US$	US$
Production per day				
Oil and NGL's (bbls)	*11*	-	-	-
Natural gas (Mcf)	-	*427*	*708*	*858*
BOE's	*11*	*71*	*118*	*143*
Petroleum and natural gas sales	$ 37,808	$ 69,698	$ 173,620	$ 218,007
Net loss	$ (676,503)	$ (1,599,282)	$ (547,464)	$ (467,157)
Per share - basic and diluted	$ (0.01)	$ (0.02)	$ 0.00	$ (0.00)

	Q4 2007	Q3 2007	Q2 2007	Q1 2007
	US$	US$	US$	US$
Production per day				
Oil and NGL's (bbls)	-	-	-	-
Natural gas (Mcf)	*810*	*765*	*751*	*134*
BOE's	*135*	*128*	*125*	*22*
Petroleum and natural gas sales	$ 119,446	$ 122,146	$ 124,585	$ 36,505
Net loss	$ (1,274,283)	$ (655,882)	$ (585,973)	$ (120,058)
Per share - basic and diluted	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)

Capital Expenditures

The Delta-1 well in Colombia, which was drilled and completed during the first six months of 2008, accounted for the majority of the capital expenditures as shown in the table below. Outlays on capital expenditures were offset by capital recoveries in Peru from CEPSA Peru in accordance with the terms of the farmout agreement.

The Company had a recovery of prior capital expenditures in Colombia of $531,000 in the year ended December 31, 2007 from the sale of the tax benefit of its share of capital expenditures to the in-country operator.

	Years ended December 31, 2008	2007
	US$	US$
Colombia	$ 1,894,670	$ 436,984
Peru	(303,409)	564,175
Total expenditures	$ 1,591,261	$ 1,001,159

Share Data

The Company is authorized to issue an unlimited number of common shares of which 95,991,364 common shares were outstanding as at December 31, 2008 and March 18, 2009.

The Company is also authorized to issue an unlimited number of preferred shares; there are no preferred shares outstanding.

Summary of common shares outstanding:

	Number of Shares	Carrying amount
		US$
Balance, December 31, 2006	-	$ 6,550,481
Allocation pursuant to Plan of Arrangment (notes 1 and 4)	-	5,690,887
Balance, December 31, 2007	-	12,241,368
Allocation pursuant to Plan of Arrangement (notes 1 and 4)	-	2,898,612
Balance, December 31, 2008	*95,991,364*	$ 15,139,980

	Year ended December 31, 2008	2007
Weighted average number of shares outstanding	*95,991,364*	*82,566,706*

As the Company is in a loss position in 2008 and 2007 the effect of any potentially dilutive instruments is anti-dilutive to the net loss per share.

Financial Instruments

The Company as part of its operations carries a number of financial instruments including cash and short-term deposits, accounts receivable and accounts payable and accrued liabilities. The Company is exposed to the following risks related to its financial assets and liabilities:

Interest rate risk

The Company maintains its cash and cash equivalents and restricted cash in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon.

Credit risk

The Company's cash and cash equivalents are held by at Kulczyk Oil in major financial institutions. 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 are comprised of net operating revenue and cash calls and are due from its joint venture partner in Colombia. The Company does not consider the credit risk relating to the outstanding amounts to be significant as it anticipates owing the joint venture partner funds in excess of the amounts receivable due to planned capital expenditures in Colombia.

Market risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar and the United States dollar. At December 31, 2008 the Company's primary exposure relates to Canadian dollar denominated accounts payable and accrued liabilities held in Canada in the amount of CAD$57,452.

At December 31, 2008, if the Canadian dollar had strengthened by 10% compared to the U.S. dollar and all other variables were held constant, after tax net loss would have been approximately $7,000 higher. Conversely, if the Canadian dollar had weakened by 10%, an equal decrease of approximately $7,000 to after tax net loss would have resulted.

Fair value

The carrying value of the Company's financial assets and liabilities approximate their fair values due to their demand nature or because of their relatively short term to maturity.

Liquidity risk

The Company monitors its liquidity position regularly to ensure that it has funds necessary to complete 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 significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required by work programmes to retain concession licences, farm out arrangements and seeking new equity capital.

Related Party Transactions

Jura Energy Corporation ("**Jura**"), a public company in which Kulczyk Oil owns 6.4% of the outstanding common shares, commenced providing financial and accounting services to Kulczyk Oil (formerly Loon Energy Inc.) in May 2007. For the year ended December 31, 2008, the fees allocated to the Company totalled $107,816 (December 31, 2007: $59,639). Timothy M. Elliott, director of the Company, and Norman W. Holton officer and director of the Company, are directors of Jura. Paul H. Rose, Chief Financial Officer of the Company is also Chief Financial Officer of Jura.

Nemmoco Petroleum Corporation ("**Nemmoco**"), a private company of which 25% is owned by Timothy M. Elliott, a director of the Company, provides certain personnel and general, accounting and administrative services to the Company at its offices in Dubai on a cost sharing basis. For the year ended December 31, 2008, the fees totalled $118,160 (December 31, 2007: $28,602).

All of the Kulczyk Oil shares issued in a CAD$25,000,000 private placement completed on July 13, 2007 were bought by Kulczyk Investment House, a private company which had a prior ownership interest in and a representative on the Kulczyk Oil board of directors at the time the shares were issued. Portions of the proceeds of this share issuance were effectively allocated to the Company in the "carve-out" financial statements based on the Plan of Arrangement. At December 31, 2008, Kulczyk Investment House owned approximately 39% of the outstanding common shares of the Company.

The Company has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil pursuant to a shared services structure implemented on December 10, 2008, the date the Arrangement was implemented. 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. The Company owes Kulczyk Oil $56,813 as at December 31, 2008.

Prior to May 2007, when its 12,279,763 shares of Loon were acquired by Kulczyk Investment House, TUSK Energy Corporation ("**TUSK**") purchased shares through the open market, by private placement and the exercise of share purchase warrants. Norman W. Holton, an officer and director of the Company, was then a director of TUSK. TUSK, a related party during the relevant period because of its ownership of Loon shares, supplied certain personnel and general, accounting and administrative services to Loon until May 31, 2007 when the arrangement was terminated. For the year ending December 31, 2007, their fees totalled $6,518.

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

Liquidity and Capital Resources

The Company's exploration activities and overhead costs are financed by way of equity issuances and by farm-out agreements through which third parties pay for all or a portion of the Company's expenditures to earn a portion of the Company's ownership interest. The Company's cash resources at December 31, 2008 together with the funding to be provided by the Company's joint venture partner in Peru should be sufficient to fund existing capital commitments for the next twelve months.

The Company has working capital of $2,797,287 at December 31, 2008 (December 31, 2007 - $1,310,739). On an ongoing basis the Company will typically utilize four sources of funding to finance its capital expenditure program: internally generated funds, debt where appropriate, new equity issues if available on favourable terms, and asset sales. When financing corporate acquisitions, the Company may also assume certain future liabilities.

Commitments

Colombia

Late in 2007, the Company farmed in to the Buganviles Contract Association with Kappa and committed to pay US$1.0 million of the dry-hole cost of the Delta-1 well, estimated to amount to $3.4 million, plus 20% of costs over and above the dry-hole costs in order to earn a 20% interest in the well and surrounding lands. During the first quarter of 2008 the Company fulfilled this expenditure commitment.

Peru

The Company has committed to a minimum work program under the terms of an exploration license contract covering Block 127 in the Marañon Basin area of Northeast Peru which is presently expected to cost $10.75 million. Much of the Company's existing commitments for the first two exploration periods are expected to be funded by CEPSA Peru under the terms of a farmout agreement dated October 29, 2007. Under the terms of the farmout agreement, CEPSA Peru pays the first $10.75 million of expenditures incurred in fulfilling the minimum work commitment for the first exploration period that ends in August, 2009. In the event CEPSA Peru agrees to proceed to the second exploration period of 18 months, they will fund 100% of the first $15.0 million of expenditures incurred in fulfilling the work commitments which includes the drilling of one exploratory well.

The Company has a commitment to a third party geophysical company relating to its Peru concession which will require the Company to pay $250,000 to the geophysical company when commerciality is first declared, a further $500,000 when third party proven reserves are assessed at 50 million barrels of oil equivalent and an additional $250,000 at 75 million barrels of oil equivalent.

Subsequent Event

On February 23, 2009, the Company announced that it had entered into a Letter of Intent ("**LOI**") with respect to a proposed business combination which, if completed, would result in Petro Vista Energy Corporation ("**Petro Vista**") acquiring the Company in a stock transaction.

The LOI contemplates the acquisition by Petro Vista of all the issued and outstanding shares of the Company on the basis of one Unit of Petro Vista for each five shares of the Company. Each Unit of Petro Vista will consist of one common share plus one-third of a share purchase warrant. In the event that Petro Vista's daily average production volume for the first three months of 2010 is less than 500 barrels per day of oil equivalent from its existing assets, each whole warrant will be exchangeable for an additional Petro Vista common share. The Company and Petro Vista are engaged in ongoing discussions to negotiate and agree upon the final terms of a potential business acquisition. There is presently no assurance that such agreement will be reached and that the proposed business combination will be concluded or that it will be concluded on the terms specified in the LOI. The completion of the proposed business combination is also subject to regulatory approval and the approval of shareholders at a special meeting that would be held to consider the business combination with Petro Vista. It is presently anticipated that the proposed business combination will be completed in May 2009.

Upon completion of satisfactory due diligence and subject to other conditions, the Company has agreed to advance Petro Vista $2,000,000 (the "**Loan**"), repayable with interest at 10% per annum in the event the business combination is not completed on or before June 30, 2009. The Loan will be secured by a pledge of shares of certain of Petro Vista's operating subsidiaries and will be governed by a formal loan agreement to be negotiated between the Company and Petro Vista. The granting of the loan is subject to written consent of shareholders representing more than 50% of the common shares of the Company. The Loan proceeds are expected to be advanced to Petro Vista by the end of March, 2009.

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" or "resources" 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 speak only as of the date of this MD&A.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP 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 Company's consolidated financial statements for the years ended December 31, 2008 and 2007, and are further discussed in this Management's Discussion and Analysis section.

The Company considers the following accounting estimates to be critical given the uncertainties that exist at the time the consolidated financial statements are prepared:

a) Depletion and depreciation expense

Depletion and depreciation of petroleum and natural gas properties and equipment is provided using the unit-of-production method and proved reserves. The Company has retained an independent reservoir engineering firm to determine proved reserves that were used in the depletion and depreciation provision. Expenditures on undeveloped properties are excluded from the depletion provision until related reserves are proven, or impairment is recognized. Volumes are converted to equivalent units on the basis that one barrel of oil is equivalent to six thousand cubic feet of natural gas.

b) Cost recovery test on property and equipment

The Company performs a cost recovery test for each cost centre at least annually to evaluate and if appropriate, recognize impairment when the carrying value of property and equipment exceeds the undiscounted future cash flows from proven reserves using estimated future commodity prices. The amount of any impairment to be recognized is determined as the excess of the carrying value over fair value. Fair value is determined using proven and probable reserves together with undeveloped land, and is based on the present value of expected future cash flows discounted at a risk-free rate of interest. The Company also completes an analysis of the carrying value of undeveloped properties, at least annually, to ensure there are no indicators of impairment. These indicators would include, but are not limited to, results of seismic reprocessing and acquisition, licence expirations and if management determines a project or property is no longer economically feasible.

New Accounting Policies

The Canadian Institute of Chartered Accountants ("**CICA**") issued the following new accounting standards that apply to the Company effective January 1, 2008. These standards, which have been adopted prospectively, did not have a material effect on the consolidated financial statements.

Financial instruments – disclosure and presentation

CICA handbook section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation" replace section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. They are also intended to remove any duplicate disclosures and simplify the disclosures about concentrations of risk, credit risk, liquidity risk and price risk previously found in Section 3861. The new presentation standard carries forward the former presentation requirements.

Capital disclosures

CICA handbook section 1535, "Capital Disclosures" requires additional disclosure of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements.

Future Accounting Policies

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable profit-oriented enterprises will be required to use International Financial Reporting Standards ("**IFRS**") in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. For the Company, this will mean that interim and annual consolidated financial statements will be prepared in accordance with IFRS for 2011 fiscal year, and will include comparative figures for the 2010 fiscal year prepared in accordance with IFRS as well. Over the next three years, Canadian GAAP will be modified to converge with IFRS.

An evaluation of IFRS conversion requirements that pertain to the Company will be conducted throughout the first half of 2009, which will then lead to the development of an implementation plan to transition the Company's financial reporting process, including internal controls and information systems to IFRS. During this evaluation, IFRS early adoption provisions will be investigated, and the Company will evaluate whether early adoption is allowable and/or feasible. The evaluation will also allow the Company to be in a position to estimate the initial financial impact of the transition to IFRS so key stakeholders and users of the financial information can begin to understand the overall consequences of this process.

Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

The Company is not required to and is not certifying as to the design and operating effectiveness of disclosure controls and procedures ("**DC&P**") and internal controls over financial reporting ("**ICFR**") The following comments with respect to DC&P and ICFR are based on management's observations of the Company's control environment and not on a complete assessment of DC&P and ICFR as the Company has not completed an evaluation of the design or operating effectiveness of DC&P and ICFR.

The preparation of the MD&A is supported by a set of disclosure controls and procedures as at December 31, 2008. Disclosure controls and procedures are intended to provide reasonable assurance that material information required to be disclosed by the Company is accumulated, appropriately processed and communicated to the Company's management to allow timely decisions regarding and preparation of required disclosures. The Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, however they do not expect that the disclosure controls and procedures will prevent all errors and/or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing ICFR or causing them to be designed under their supervision. The Company has undergone significant growth and faces increased complexity that arises from expanding its operations into additional countries. Senior management believes that the design and function of its systems of ICFR provide reasonable, not absolute assurance regarding the reliability of financial reporting systems and the preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP.

The Company recognizes that its ICFR has a number of inherent weaknesses due to the geographical distribution of the Company's senior management staff, and the limited number of staff employed by the Company. Management has designed and implemented compensating internal controls which it believes mitigates risk arising from these weaknesses, but recognizes that such risks cannot be completely eliminated. At the Company's present stage of development, it is not economically feasible to achieve complete segregation of otherwise incompatible duties, and the compensating controls in place consist primarily of management and Board review and oversight to mitigate these limitations to its ICFR. Further, management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient from time to time, and accordingly relies on compensating controls which include seeking assistance and advice from independent experts on taxation issues, and on accounting pronouncements and complex accounting and reporting issues when deemed necessary.

A system of ICFR, no matter how well conceived or operated can provide only reasonable, not absolute, assurance that the objectives of the ICFR are met. At present, the Chief Executive Officer, the Chairman of the Board of Directors and the Chief Financial Officer oversee all material transactions and there is daily oversight by management of the Company. Consolidated financial statements are reviewed each quarter by the Company's senior management, the Audit Committee and the Board of Directors.

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: +403-264-8877) or by e-mail at **ryaniw@loon-energy.com**.