

Loon Energy Corporation
Management's Discussion and Analysis
For the three and six months ended June 30, 2009 and 2008
(US\$, unless otherwise stated)

This Management's Discussion and Analysis ("MD&A") document dated August 27, 2009 is provided by the management of Loon Energy Company ("Loon Corp" or "Company") and should be read in conjunction with the unaudited interim consolidated financial statements as at, and for the three and six month periods ended June 30, 2009 and 2008, and with the audited consolidated financial statements as at, and for the year ended December 31, 2008.

Overview

Loon Energy Corporation ("Loon Corp" or the "Company") 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, 2008 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 certain information, particularly as it relates to periods prior to December 10, 2008, the date the Arrangement was implemented, is "carved-out" of the MD&A previously issued by Loon. 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 comparative 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 unaudited interim consolidated financial statements of Loon Corp have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company uses the United States dollar as its measurement and reporting currency.

The consolidated financial statements prepared for Loon Corp follow continuity of interest guidelines. Loon Corp received 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 unaudited 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 unaudited 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



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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 information presented herein 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	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Petroleum and natural gas sales	\$ 19,535	\$ 171,936	\$ 26,449	\$ 389,943
Less: Royalties	<u>(1,563)</u>	<u>(8,188)</u>	<u>(2,116)</u>	<u>(18,569)</u>
	17,972	163,748	24,333	371,374
 Operating expenses	 <u>76,940</u>	 <u>44,097</u>	 <u>143,207</u>	 <u>67,915</u>
Net operating revenue (loss)	<u>\$ (58,968)</u>	<u>\$ 119,651</u>	<u>\$ (118,874)</u>	<u>\$ 303,459</u>
 Working capital			June 30,	December 31,
			2009	2008
Current assets			\$ 2,892,318	\$ 3,247,567
Current liabilities			<u>(544,905)</u>	<u>(450,280)</u>
			<u>\$ 2,347,413</u>	<u>\$ 2,797,287</u>

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



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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 farm-in 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. A Commerciality Application submitted by the operator to Ecopetrol was approved in March 2009 with the consequence that fifty percent of the lands, or approximately 75,000 acres, will be retained for a period of two years.

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 first two year exploration period is expected to conclude in the first quarter of 2010, as the time taken by regulatory authorities to approve work programs does not count against the duration of the exploration period.

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 earned 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 a \$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. 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.



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Three Month and Six Month Comparative Statement of Operations

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Petroleum and natural gas sales	\$ 19,535	\$ 171,936	\$ 26,449	\$ 389,943
Less: Royalties	(1,563)	(8,188)	(2,116)	(18,569)
	<u>17,972</u>	<u>163,748</u>	<u>24,333</u>	<u>371,374</u>
Less: Operating expenses	76,940	44,097	143,207	67,915
Net operating revenue	<u>(58,968)</u>	<u>119,651</u>	<u>(118,874)</u>	<u>303,459</u>
General and administrative	142,623	358,554	325,851	988,550
Stock based compensation	-	32,708	-	110,423
Loss/(gain) on foreign exchange	44,686	203,967	(29,166)	(74,394)
Depletion, depreciation and accretion	40,161	72,923	57,198	288,847
	<u>227,470</u>	<u>668,152</u>	<u>353,883</u>	<u>1,313,426</u>
Net loss	<u>\$ (286,438)</u>	<u>\$ (548,501)</u>	<u>\$ (472,757)</u>	<u>\$ (1,009,967)</u>
Net loss per share				
- basic & diluted	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Total assets			<u>\$ 3,903,269</u>	<u>\$ 5,978,401</u>
Long-term financial liabilities (Asset retirement obligations)			<u>\$ 115,366</u>	<u>\$ 107,481</u>

Oil and Gas Production and Revenue

The Company's oil and gas revenues for the three months and six months ended June 30, 2009 are from oil sales from the Delta-1 well. The oil and gas revenues for the three and six months ended June 30, 2008 are from natural gas sales at Ventilador-2. 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.

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Gross oil and gas revenues	\$ 19,535	\$ 171,936	\$ 26,449	\$ 389,943
Gas production (Mcf)	-	64,328	-	142,461
Gas price (\$/Mcf)	\$ -	\$ 2.67	\$ -	\$ 2.74
Oil production (bbls)	465	-	779	-
Oil price (\$/bbl)	\$ 42.01	\$ -	\$ 33.95	\$ -
BOE production	465	10,721	779	23,744
BOE per day	5	118	4	131

Royalties

For the three and six months ended June 30, 2009 royalties were paid at a rate of 8% on oil sales from Delta-1 well. For the three and six months ended June 30, 2008 royalties were paid at a rate of 5% on natural gas sales from Ventilador-2.



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	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Government royalties	\$ 1,563	\$ 8,188	\$ 2,116	\$ 18,569
Royalties per BOE	\$ 3.36	\$ 0.76	\$ 2.72	\$ 0.78
Royalties as a % of revenue	8%	5%	8%	5%

Operating Expenses

Operating expenses for the three months ended June 30, 2009 were \$76,940 (\$165.46 per BOE) compared to \$44,097 (\$4.11 per BOE) for the three months ended June 30, 2008. For the six months ended June 30, 2009 operating expenses were \$143,207 (\$183.83 per BOE) and for the comparative period in 2008 operating costs were \$67,915 (\$2.86 per BOE). The operating costs in 2009 arise from oil production at the Delta-1 well whereas operating expense in 2008 arise from natural gas production at Ventilador-2. Current period operating costs are high relative to what would otherwise be expected because of the high fixed costs of rental equipment that the operator is using at the well-site.

Depletion, Depreciation and Accretion (DD&A)

Depletion, depreciation and accretion expense was \$40,161 (\$86.37 per BOE) for the three months ending June 30, 2009 compared to \$72,923 (\$6.80 per BOE) for the three months ending June 30, 2008. For the six months ended June 30, 2009 depletion, depreciation and accretion was \$57,198 (\$73.42 per BOE) and for the comparative period in 2008 they totalled \$288,847 (\$12.17 per BOE). The decrease in depletion, depreciation and accretion expense for the 2009 period is due to the limited production at the Delta-1 well in the six months of 2009.

Net Loss

Net loss was \$286,438 for the three months ended June 30, 2009 compared to a net loss of \$548,501 for the three months ended June 30, 2008. Net loss for the six months ended June 30, 2009 was \$472,757 compared to a net loss of \$1,009,967 for the comparative period of 2008. The reduction in the loss for the three months and six months ended June 30, 2009 is due to lower general and administrative expenditures in the current period. General and administrative expenses for the comparative period expense were an allocation of Loon Energy Inc's total general and administrative expenditures between the Company and Kulczyk Oil whereas the current period expenses are solely those incurred by the Company.

Summary of Quarterly Data

The following tables set forth selected quarterly financial information for the most recent eight financial quarters. With the exception of the information for Q1 and Q2 2009, and Q1 and Q2 2008, the information contained in these tables has not been audited or reviewed by the Company's auditors.

	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Production per day				
<i>Oil and NGL's (bbls)</i>	5	4	11	-
<i>Natural gas (Mcf)</i>	-	-	-	427
<i>BOE's</i>	5	4	11	71
Petroleum and natural gas sales	\$ 19,535	\$ 6,914	\$ 37,808	\$ 71,382
Net loss	\$ (286,438)	\$ (186,319)	\$ (676,503)	\$ (1,603,936)
Per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.02)



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	<u>Q2 2008</u>	<u>Q1 2008</u>	<u>Q4 2007</u>	<u>Q3 2007</u>
Production per day				
<i>Oil and NGL's (bbls)</i>	-	-	-	-
<i>Natural gas (Mcf)</i>	708	858	810	765
<i>BOE's</i>	118	143	135	128
Petroleum and natural gas sales	\$ 171,936	\$ 218,007	\$ 119,446	\$ 122,146
Net loss	\$ (548,501)	\$ (461,466)	\$ (1,274,283)	\$ (655,882)
Per share - basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)

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 June 30, 2009 and August 27, 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:

	<u>Number of Shares</u>	<u>Carrying amount</u>
Balance, December 31, 2007	-	\$ 12,241,368
Allocation pursuant to Plan of Arrangement	-	2,898,612
Balance, December 31, 2008 and June 30, 2009	<u>95,991,364</u>	<u>\$ 15,139,980</u>

	<u>Three months ended June 30, 2009</u>	<u>Three months ended June 30, 2008</u>	<u>Six months ended June 30, 2009</u>	<u>Six months ended June 30, 2008</u>
Weighted average number of shares outstanding	95,991,364	95,991,364	95,991,364	95,991,364

As the Company is in a loss position for both periods, 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 in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon.

Credit risk

Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash and cash equivalents.



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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 June 30, 2009 the Company's primary foreign currency exposure relates to Canadian dollar cash balances, accounts payable and accrued liabilities in Canada in the amount of C\$99,598.

Cash and cash equivalents	CAD \$	160,918
Accounts payable and accrued liabilities		<u>(61,320)</u>
Net foreign exchange exposure	CAD \$	<u>99,598</u>

At June 30, 2009, 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 increased by approximately \$9,600. Conversely, if the Canadian dollar had weakened by 10%, an equal decrease of approximately \$9,600 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 assess whether 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

The Company has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil pursuant to a services agreement which was 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. For the three months ended June 30, 2009, these fees totalled \$2,565 and for the six months ended June 30, 2009 these fees totalled \$4,974. At June 30, 2009, the Company owed \$4,974 to Kulczyk Oil for these services.

The Company did not have a bank account from December 10, 2008 to April, 2009, and accordingly, expenses incurred over that period by the Company were funded by Kulczyk Oil on behalf of the Company. As at June 30, 2009, the Company owed \$79,843 to Kulczyk Oil for these expenses.

The following related party transactions were incurred by Loon Energy Inc. prior to the reorganization of Loon Energy Inc. into Kulczyk Oil and the Company. As such, the amounts described below have been allocated to the Company following the continuity of interest basis.

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- i) Jura Energy Corporation ("Jura"), a public company in which Kulczyk Oil owns 6.4% of the outstanding common shares, provides financial and accounting services to Kulczyk Oil. For the three months ended June 30, 2008, the fees totalled \$44,913 and for the six months ended June 30, 2008 the fees totalled \$67,383. Timothy M. Elliott, a director of the Company, and Norman W. Holton, an 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.
- ii) Nemmoco Petroleum Corporation, a private company which is 25% 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 three months ended June 30, 2008, the fees totalled \$31,664 and for the six months ended June 30, 2008 the fees totalled \$63,300.

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 June 30, 2009 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 \$2,347,413 at June 30, 2009 (December 31, 2008 - \$2,797,287). 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

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. The first exploration period work commitments are presently expected to cost \$10.75 million, with the work program commitments for the second exploration period expected to cost \$15.0 million. 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 two-year exploration period, expected to conclude in the first quarter of 2010. 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 within Block 127 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.

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



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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 apply 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



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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.

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 the 2011 fiscal year, and will include comparative figures for the 2010 fiscal year prepared in accordance with IFRS. Over the next two years, Canadian GAAP will be modified, to a certain extent, to converge with IFRS.

An evaluation of IFRS conversion requirements that pertain to the Company will be conducted throughout the second half of 2009 and into early 2010, 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 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"). 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. There have been no material changes to DC&P or ICFR during the three months ended June 30, 2009.

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@loon-energy.com.

