Loon Energy Corporation
Management's Discussion and Analysis
For the years ended December 31, 2009 and 2008
(US$, unless otherwise stated)

This Management's Discussion and Analysis ("**MD&A**") document dated April 29, 2010 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 as at, and for the years ended December 31, 2009 and 2008.

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 security holders 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 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**"). The Company uses the United Stated dollar as its measurement and reporting currency.

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 stated that Loon Corp would receive, at a minimum, US$3.0 million of cash as at December 9, 2008 ($3,150,000 was received upon closing of the Arrangement).

The comparative 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 2008 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.

As the determination of certain assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of management, the Company's consolidated 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.

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 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

	Year ended December 31, 2009	2008
Petroleum and natural gas sales	$ 46,114	$ 499,133
Less: Royalties	(3,689)	(24,768)
	42,425	474,365
Operating expenses	271,231	194,992
Net operating revenue (loss)	$ (228,806)	$ 279,373

	Year ended December 31, 2009	2008
	US$	US$
Current assets	$ 2,033,248	$ 3,247,567
Current liabilities	(759,937)	(450,280)
	$ 1,273,311	$ 2,797,287

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.

Buganviles Association Contract

Through a farm-in agreement, the Company earned a 20% non-operated participating interest in a 60,817 hectare block of lands covered by the Buganviles Association Contract between Holywell Resources S.A. and Empresa Colombiana de Petróleos ("Ecopetrol"), the Colombian national oil company. The Company earned its interest by paying $1.0 million of the estimated $3.4 million "dry-hole" cost of the Delta-1 well plus 20% of costs incurred thereafter. The Delta-1well came on production late in September 2008. Ecopetrol approved the operator's Commerciality Application in March 2009 the consequence of which is that fifty percent of the lands, or approximately 75,000 acres, will be retained for a period of two years. During the year ended December 31, 2009 the Delta-1 well produced sporadically and in January, 2010 was shut in.

The Company has fulfilled its required work commitments with respect to this concession.

During the current year, the operator of the Delta-1 well completed a work-over/stimulation project on the Delta-1 well without the Company's knowledge or permission. The well then continued to produce sporadically and subsequent to year-end production was suspended. As the work-over was not approved by the operating committee, the Company does not have any obligation to fund the costs of the work-over. The 2009 reserve report has re-catogorized the Buganviles reserves from "proven" to "probable". The ceiling test performed on the Buganviles cost center did not require any impairment. The operating committee will evaluate options for the Delta-1 well during the second quarter 2010.

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. 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, which expires on May 16, 2010. The gross costs of the phase 1 commitments were initially estimated at $15 million.

Much of the Company's existing commitments for the first two exploration periods are 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 that 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. CEPSA Peru is the operator of Block 127.

Subsequent to December 31, 2009, the phase 1 work commitments were satisfied. The Company's share of total expenditures related to the first exploration period, including the seismic acquisition, are $705,691.

CEPSA provided notice to PERUPETRO S.A. in April 2010 of its intent to proceed to the second exploration period subject however to the identification of viable drilling targets after evaluation of the seismic information obtained during the first exploration period. A decision on the drilling of an exploration well on the block is scheduled for the second quarter of 2010.

The Company has a commitment to a third party geophysical company relating to its Peru concession which requires 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 when 75 million barrels of oil equivalent are assessed as proven reserves.

Selected annual information

	Years ended December 31,		
	2009	2008	2007
Petroleum and natural gas sales	$ 46,114	$ 499,133	$ 402,682
Less: Royalties	(3,689)	(24,768)	(19,175)
	42,425	474,365	383,507
Less: Operating expenses	271,231	194,992	95,286
Net operating (loss)/revenue	(228,806)	279,373	288,221
General and administrative	544,650	2,374,523	1,131,513
Stock based compensation	-	159,965	469,929
Loss/(gain) on foreign exchange	(105,813)	(687,162)	388,280
Depletion, depreciation and accretion	98,822	399,067	555,447
Impairment of petroleum and natural gas properties	-	1,223,386	379,248
	537,659	3,469,779	2,924,417
Loss before income taxes	(766,465)	(3,190,406)	(2,636,196)
Current income tax	75,631	100,000	-
Net loss	$ (842,096)	$ (3,290,406)	$ (2,636,196)
Net loss per share - basic & diluted	$ (0.01)	$ (0.03)	$ (0.03)
Total assets	$ 3,759,705	$ 4,277,328	$ 4,581,404
Long-term financial liabilities (asset retirement obligations)	$ 126,109	$ 111,293	$ 101,621

Oil and Gas Production and Revenue

The Company's oil and gas revenues for the year ended December 31, 2009 are from oil sales from the Delta-1 well. During the year ended December 31, 2009, the Delta-1 well produced sporadically and was eventually shut in subsequent to year end. The oil and gas revenues for the year ended December 31, 2008 are from natural gas sales at Ventilador-2 and oil sales from the Delta 1 well. 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 Ventilador-2 well to resume production.

	Years ended December 31,		
	2009	2008	2007
Gross oil and gas revenues	$ 46,114	$ 499,133	$ 402,682
Gas production (Mcf)	-	*181,822*	*232,112*
Gas price ($/Mcf)	$ -	$ 2.75	$ 1.73
Oil production (bbls)	*1,636*	*1,026*	-
Oil price ($/bbl)	$ 28.18	$ 36.85	$ -
BOE production	*1,636*	*31,330*	*38,685*
BOE per day	*4*	*86*	*106*

Royalties

For the year ended December 31, 2009, royalties were paid at a rate of 8% on oil sales from the Delta-1 well. For the years ended December 31, 2008 and 2007, royalties were paid at a rate of 5% on natural gas sales from Ventilador-2. For the year ended December 31, 2008 there was an immaterial amount of royalties paid on oil sales from the Delta-1 well.

	Year ended December 31,		
	2009	2008	2007
Government royalties	$ 3,689	$ 24,768	$ 19,175
Royalties per BOE	$ 2.25	$ 0.79	$ 0.50
Royalties as a % of revenue	8%	5%	5%

Operating Expenses

Operating expenses for the year ended December 31, 2009 were $271,231 ($165.79 per BOE) compared to $194,992 ($6.22 per BOE) for the year ended December 31, 2008 and $95,286 ($2.60 per BOE) in 2007. The operating costs in 2009 arise from oil production at the Delta-1 well whereas operating costs in 2008 and 2007 arise from natural gas production at Ventilador-2. Current year 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.

General and Administrative Expenses

The general and administrative expenses for the year ended December 31, 2009 were $544,650 compared to $2,374,523 for the year ended December 31, 2008 and $1,131,513 for the year ended December 31, 2007. The 2009 general and administrative expenses represent actual expenses incurred by the Company and are less than previous years because of diminished levels of activity for the Company. The 2008 and 2007 comparative information 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 2008 consolidated financial statements.

Depletion, Depreciation and Accretion ("DD&A")

Depletion, depreciation and accretion expense was $98,822 ($60.40 per BOE) for the year ending December 31, 2009 compared to $399,067 ($12.74 per BOE) for the year ending December 31, 2008 and $555,447 ($17.73 per BOE) for the year ending December 31, 2007. The decrease in depletion, depreciation and accretion expense for the 2009 year is due to the limited production at the Delta-1 well in the year ended of 2009. The higher unit cost is due to the decreasing production volumes.

The Delta-1well began producing oil late in the third quarter of 2008. The Company had a third party engineering report prepared as at October 1, 2008 on the Buganviles Association Contract where the Delta-1 well is located. During 2008 the natural gas well, Ventilador-2 located in the Abanico Association Contract, was suspended. Based on the third party engineering report and the suspension of the Ventilador-2 well, the Company recorded impairment of $1,223,386 on its Colombian cost centre during the year ending 2008. The Company also recorded impairment in 2007 of $379,248 on its Colombian cost center.

Net Loss

Net loss was $842,096 for the year ended December 31, 2009 compared to a net loss of $3,290,406 for the year ended December 31, 2008. The net loss for the year ended December 31, 2007 was $2,636,417. The reduction in the loss for the year ended December 31, 2009 is due to lower general and administrative expenditures in the current year and the impairment that was calculated on the Colombian properties during the year ended December 31, 2008. The net loss for the year ended December 31, 2007 was lower than the net loss for year ended December 31, 2008 due to the lower general and administrative expenses, and the smaller impairment taken on the property.

Summary of Quarterly Data

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

	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Production per day				
Oil and NGL's (bbls)	*3*	*5*	*5*	*4*
Natural gas (Mcf)	-	-	-	-
BOE's	*3*	*5*	*5*	*4*
Petroleum and natural gas sales	$ 8,768	$ 10,897	$ 19,535	$ 6,914
Net loss	$ (269,255)	$ (100,084)	$ (286,438)	$ (186,319)
Per share - basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

	Q4 2008	Q3 2008	Q2 2008	Q1 2008
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	$ 22,950	$ 86,240	$ 171,936	$ 218,007
Net loss	$ (655,400)	$ (1,625,039)	$ (548,501)	$ (461,466)
Per share - basic and diluted	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.00)

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, 2009 and April 29, 2010.

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
Balance, December 31, 2007	-	$ 12,241,368
Allocation pursuant to Plan of Arrangement	-	2,898,612
Balance, December 31, 2008 and December 31, 2009	*95,991,364*	$ 15,139,980

	Year ended December 31, 2009	Year ended December 31, 2008
Weighted average number of shares outstanding	*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.

The Company's accounts receivable as at December 31, 2009 were 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 the Company owes the joint venture partner funds in excess of the amounts receivable.

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, 2009 and 2008 the Company's primary foreign currency exposure relates to Canadian dollar cash balances, net of accounts payable and accrued liabilities in Canada in the amount of CAD$(16,929) as follows:

	Year ended December 31, 2009 CAD	Year ended December 31, 2008 CAD
Cash and cash equivalents	$ 52,601	$ -
Accounts payable and accrued liabilities	(69,530)	57,452
Net foreign exchange exposure	$ (16,929)	$ 57,452

At December 31, 2009and 2008, the Company's net loss is not significantly impacted by changes in the US to Canadian dollar exchange rates.

Fair value

The carrying value of the Company's financial assets and liabilities approximate their fair values due to 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. This structure 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 year ended December 31, 2009 these fees totalled $10,550 (2008 - $56,813). At December 31, 2009, the Company owed $Nil (2008 - $56,813) to Kulczyk Oil for these services. Certain expenditures of the Company are paid for by Kulczyk Oil on behalf of the Company and as at December 31, 2009 the Company owed $26,120 (2008 - $Nil) for these costs.

Kulczyk Oil remains legally responsible for a guarantee issued in August 2007 ("the Loon Guarantee") to the Government of Peru regarding the granting of the Block 127 license contract to Loon Peru Limited. The process has begun to have the Company replace the Loon Guarantee. This process requires the formal approval of the Government of Peru. The Company has entered into an indemnification agreement with Kulczyk Oil in respect of the Loon Guarantee.

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:

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 year ended December 31, 2008 the fees totalled $107,816. 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 year ended December 31, 2008 the fees totalled $118,160.

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, 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 $1,362,942 at December 31, 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 were initially estimated to cost $15.25 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 substantially 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, which expires May 16, 2010. The operator has applied for a six month extension to the phase 1 exploration period. The Company estimates that its share of the total expenditure in the first exploration period will be approximately $1,000,000. 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 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, 2009 and 2008, and are further discussed below.

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 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

Publicly accountable entities will be required to adopt International Financial Reporting Standards ("IFRS") in interim and annual financial statements for fiscal years beginning on or after January 1, 2011 including comparative figures for the prior year. The Company will transition to IFRS effective January 1, 2011 and intends to issue its first interim financial statements under IFRS for the three month period ending March 31, 2011 and a complete set of financial statements under IFRS for the year ending December 31, 2011.

During 2009, education and initial assessment activities were conducted, however, a formal conversion assessment and the associated conversion plan has not yet been developed.

Further evaluation of IFRS conversion requirements that pertain to the Company will be conducted during the second quarter of 2010. This will lead to the development of an implementation plan to transition the Company's financial reporting process, including internal controls and information systems to IFRS. The Company will be in a position to estimate the initial financial impact of the transition to IFRS after the evaluation is completed.

Based on initial assessment activities completed to date, the following are the more significant IFRS differences impacting the financial statements of the Company:

> IFRS adoption election for oil and gas entities – at this time management anticipates applying the IFRS 1 election whereby property, plant and equipment ("PP&E") will be allocated to exploration and evaluation assets ("E&E") and development assets (those assets included in cash generating units) based on their carrying amount under Canadian GAAP as at January 1, 2010. The Company anticipates that its Colombian net book value will form at least one cash generating unit under IFRS. The net book value of Peru is anticipated to be allocated to E&E assets under IFRS.
>
> Property, plant and equipment ("PP&E") – the carrying value of Company's undeveloped properties will be considered E&E assets under IFRS. IFRS permits an entity to elect the level at which E&E assets will be tested for impairment whilst in the E&E stage. E&E assets can be tested for impairment at a granular level or aggregated up to the level of an operating segment. Management has not determined if it will continue to assess E&E assets under IFRS at the same level as under Canadian GAAP. Under Canadian GAAP, the Company assesses its undeveloped properties for impairment at the level of an oil and gas concession (i.e. Peru). The carrying values of the Company's developed Colombian assets are tested for impairment under Canadian GAAP using the "ceiling test". Under IFRS, impairment of the Colombian cash generating unit or units will be based on the recoverable amount being the greater of fair value less costs to sell or value in use.

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**.