Loon Energy Corporation
Management's Discussion and Analysis
For the three and nine months ended September 30, 2010 and 2009
(US$, unless otherwise stated)

This Management's Discussion and Analysis ("**MD&A**") document dated November 25, 2010 is provided by the management of Loon Energy Corporation ("**Loon Corp**" or "**Company**") and should be read in conjunction with the unaudited interim consolidated financial statements as at, and for the three and nine month periods ended September 30, 2010 and 2009 and the 2009 annual financial statements and MD&A.

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. Pursuant to the Arrangement, 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, the common shares of Loon Corp were listed on the TSX Venture Exchange under the symbol LNE and Loon received $3.15 million of cash. The implementation of the Arrangement on December 10, 2008 also resulted in Loon changing its name to Kulczyk Oil Ventures Inc. ("**Kulczyk Oil**").

Additional information relating to Loon Corp can be accessed at 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.

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, they may not be comparable to such measures used by other companies.

The Company calculates these non-GAAP measures as follows:

Net operating revenue (loss)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Petroleum and natural gas sales	$ -	$ 10,897	$ -	$ 37,346
Less: Royalties	-	(872)	-	(2,988)
	-	10,025	-	34,358
Operating expenses	-	75,336	-	218,543
Net operating loss	$ -	$ (65,311)	$ -	$ (184,185)

Working capital	September 30, 2010	December 31, 2009
Current assets	$ 3,460,753	$ 2,033,248
Current liabilities	(2,399,614)	(759,937)
	$ 1,061,139	$ 1,273,311

Operations Overview

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. The Ventilador-2 well remained suspended throughout the current period.

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 will be retained for a period of two years. During the year ended December 31, 2009 the Delta-1 well produced sporadically and was shut in on January 15, 2010. The well remains shut-in as of September 30, 2010. The Company has fulfilled its required work commitments with respect to this contract area. The 2009 reserve report has re-categorized the Buganviles reserves from "proven" to "probable".

During the third quarter of fiscal 2010, Loon entered into a farm-out agreement with Petrodorado South America S.A. ("**Petrodorado**") under which Petrodorado will pay Loon's 20% share of the authorized cost to drill and complete two wells in Colombia to earn 75% (net 15%) of Loon's interest in the Buganviles Association Contract. The farm-outagreement provides for a reduction in Petrodorado's earned interest from net 15% to net 10% upon payment by Loon of 10% of the authorized completion costs for both wells.

On October 16, 2010, the first of the wells, the Visure-1X exploratory well, commenced drilling and the second well, the Tuqueque-1X exploratory well, is expected to commence drilling in November 2010. The Visure-1X well has a planned total depth of 3,600 feet and is targeting the Cretaceous formations of the Lower and Upper Guadalupe and the Barzalosa formations. The Company's share of the current authorized costs to drill the Visure -1X well is $562,635. The Tuqueque-1X well has a planned total depth of 8,500 feet and is targeting the Tetun and Caballos formations of Cretaceous age. The Company's share of the current authorized costs to drill the Tuqueque-1X well is $1,382,947. The Buganviles Association Contract lands are located in the Upper Magdelena Valley area of central Colombia.

On November 9, 2010, the Company exercised its option to re-acquire a reversion interest of 5% granted to Petrodorado as part of the farm-out agreement. The Company paid Petrodorado for 50% of authorized completion costs related to the Visure-1X and Tuqueque-1X wells as consideration for the reversion interest. As a result, the Company's working interest is 10% in the Buganviles association contract area.

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. The gross costs of the phase 1 work commitments were initially estimated at $15 million.

Much of the Company's existing commitments for the first two exploration periods were to be funded by CEPSA Peru S.A. ("**CEPSA Peru**") under the terms of a farm-out agreement dated October 29, 2007, which was approved by the Government of Peru during the second quarter of 2008. Under the terms of the farm-out 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. CEPSA Peru is the operator of Block 127. The Phase 1 work commitments were satisfied in 2010 and the Company's share of total expenditures related to the first exploration period, including the seismic acquisition was $1,116,805.

In May 2010, PERUPETRO S.A. granted CEPSA Peru a six month extension to the phase 1 exploration period that would enable CEPSA and Loon Peru to finalize the identification of viable drilling targets. CEPSA Peru advised Loon that it did not intend to proceed to the second exploration phase on September 30, 2010. Efforts to find a partner who would commit to the additional work program required to continue into the next exploration period were not successful and the Company has decided that it will not enter into the second exploration phase with the consequence that it will withdraw from Block 127. With the withdrawal of the Company from Block 127 in Peru, all petroleum and natural gas property expenditures related to Block 127 have been fully written off as at September 30, 2010. Cepsa Peru and the Company are currently developing an abandonment plan for Block 127, which is expected to be undertaken in the remainder of 2010 and into 2011.

Corporate

On July 15, 2010, Petrodorado Energy Ltd. ("**Petrodorado**") and the Company entered into a non-binding letter of intent, pursuant to which and subject to entering into a definitive agreement and certain other conditions being met, the parties agreed to the acquisition of all outstanding shares of the Company by Petrodorado. During October of 2010, it was determined that the proposed acquisition of Loon by Petrodorado will not proceed.

Selected quarterly information

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Petroleum and natural gas sales	$ -	$ 10,897	$ -	$ 37,346
Less: Royalties	-	(872)	-	(2,988)
	-	10,025	-	34,358
Less: Operating expenses	-	75,336	-	218,543
Net operating loss	-	(65,311)	-	(184,185)
General and administrative	179,381	104,305	290,786	430,156
Loss/(gain) on foreign exchange	33,064	(88,239)	56,574	(117,405)
Depletion, depreciation and accretion	2,539	18,707	7,571	75,905
Impairment of petroleum and natural gas properties	1,116,805	-	1,116,805	-
Income tax (recovery)	(121,786)	-	(121,786)	-
	1,210,003	34,773	1,349,950	388,656
Net loss	$ (1,210,003)	$ (100,084)	$ (1,349,950)	$ (572,841)
Net loss per share - basic & diluted	$ (0.01)	$ 0.00	$ (0.01)	$ (0.01)

	September 30, 2010	December 31, 2009
Total assets	$ 4,107,003	$ 3,759,705
Long-term financial liabilities (asset retirement obligations)	$ 183,680	$ 126,109

Oil and Gas Production and Revenue

The Company did not generate oil and a gas revenue for the three and nine months ended September 30, 2010.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Gross oil and gas revenues	$ -	$ 10,897	$ -	$ 37,346
Gas production (Mcf)	-	-	-	-
Gas price ($/Mcf)	$ -	$ -	$ -	$ -
Oil production (bbls)	-	*329*	-	*1,431*
Oil price ($/bbl)	$ -	$ 33.12	$ -	$ 26.10
BOE production	-	*329*	-	*1,431*
BOE per day	-	*4*	-	*5*

Royalties

For the three and nine months ended September 30, 2010, no royalties were paid as no production revenues were generated. 2009 royalties were paid at a rate of 8% on oil sales from the Delta-1 well.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Government royalties	$ -	$ 872	$ -	$ 2,988
Royalties per BOE	$ -	$ 2.65	$ -	$ 2.09
Royalties as a % of revenue	0%	8%	0%	8%

Operating Expenses

Operating expenses for the three and nine month periods ended September 30, 2010 were nil, compared to $218,543 ($152.72 per BOE) and $75,336 ($228.98 per BOE) for the three and nine months ended September 30, 2009. The operating costs in 2009 arose from oil production at the Delta-1 well, which produced sporadically and was shut-in on January 15, 2010.

General and Administrative Expenses

The general and administrative expenses for the three and nine month periods ended September 30, 2010 were $179,381 and $290,786 respectively, compared to $104,305 and $430,156 for the three and nine month periods ended September 30, 2009. The 2010 general and administrative expenses are higher for the three months ended September 30, 2010 than the comparative period in 2009 due to increased legal and consulting services in connection with the proposed transaction with Petrodorado.

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

Current year DD&A is comprised solely of accretion expense of the asset retirement obligation. Accretion expense for the three and nine month periods ended September 30, 2010 was $2,539 and $7,571 respectively, compared to $18,707 and $75,905 of depletion, depreciation and accretion taken in the three and nine month periods ending September 30, 2009.

As a result of the shut-in of the Buganviles contract area on January 15, 2010, no production revenues were generated and no depletion was taken for the three and nine month periods ended September 30, 2010. Depletion will not be taken on the petroleum and natural gas assets until such time as production continues. Additionally, no impairment was required for the Buganviles contract area as sufficient probable reserves exist.

Net Loss

Net loss for the three and nine month periods ended September 30, 2010 was $1,210,003 and $1,349,950 respectively, compared to a net loss of $100,084 and $572,841 for the three and nine month periods ended September 30, 2009. The increase in net loss is due primarily to the impairment of the Peruvian petroleum and natural gas assets in the third quarter of fiscal 2010.

Property and Equipment Expenditures

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Colombia	$ 3,100	$ 4,362
Peru	9,124	270,576
Total	$ 12,224	$ 274,938

Total property and equipment expenditures for the three and nine month period ended September 30, 2010 was $94,663 and $274,938 respectively. In addition, Loon recovered $288,340 of capital expenditures previously made to the Colombian operator.

Summary of Quarterly Data

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

	Q3 2010	**Q2 2010**	**Q1 2010**	**Q4 2009**
Production per day				
Oil and NGL's (bbls)	*-*	*-*	*-*	*1*
Natural gas (Mcf)	*-*	*-*	*-*	*-*
BOE's	*-*	*-*	*-*	*1*
Petroleum and natural gas sales	$ -	$ -	$ -	$ 8,768
Net loss	$ (1,210,003)	$ (86,419)	$ (53,528)	$ (269,255)
Per share - basic and diluted	$ (0.01)	$ (0.00)	$ (0.00)	$ (0.00)

	Q3 2009	**Q2 2009**	**Q1 2009**	**Q4 2008**
Production per day				
Oil and NGL's (bbls)	*5*	*5*	*4*	*11*
Natural gas (Mcf)	*-*	*-*	*-*	*-*
BOE's	*5*	*5*	*4*	*11*
Petroleum and natural gas sales	$ 10,897	$ 19,535	$ 6,914	$ 22,950
Net loss	$ (100,084)	$ (286,438)	$ (186,319)	$ (655,400)
Per share - basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)

The Q1 2009 net losses decreased as compared to Q4 2008 due to the re-organization of the Company. Prior to 2009, general and administrative expenses were an allocation of total general and administrative expenditures between the Company and Kulczyk Oil, whereas 2009 expenses are solely those incurred by the Company. The increased net loss in Q2 2009 was due to a slight reduction in petroleum and natural gas sales as well as an unrealized foreign exchange loss recognized on translation of financial information. The reduced net loss in Q3 2009 was due to unrealized foreign exchange gains recognized on translation of financial information. The increase in the net loss in Q4 2009 was the result of increased operating expenses as production activities continued and normal general and administrative spending. The decrease in the net loss in Q1 and Q2 2010 was the result of suspended production and decreased corporate activities. The increase to the net loss in Q3 2010 is due to the impairment of Peruvian petroleum and natural gas properties and costs associated with a proposed transaction.

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 September 30, 2010 and November 25, 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 as at December 31, 2009 and September 30, 2010	*95,991,364*	$ 15,139,980

	Three months ended September 30	
	2010	2009
Weighted average number of shares outstanding	95,991,364	95,991,364

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. 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 nine months ended September 30, 2010 these fees totalled $9,450 (2009 - $7,706). At September 30, 2010, the Company owed $1,050 (2009 - $1,837) 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 September 30, 2010 the Company owed $7,217 (2009 - $18,420) for these costs. During the nine months ended September 30, 2010 the Company reimbursed Kulczyk Oil for $53,338 of expenditures paid on behalf the Company.

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, a wholly owned subsidiary of the Company. The Company has entered into an indemnification agreement with Kulczyk Oil in respect of the Loon Guarantee. This process requires the formal approval of the Government of Peru which has not yet been obtained. The Company announced on October 25, 2010 that it will not proceed to the second exploration stage and therefore the maximum liability to Kulczyk Oil that may arise from the Loon Guarantee is based on the minimum work obligation for the first exploration phase. The first exploration minimum work program has been completed and there is no longer a material exposure to the guarantee.

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 a farm-out agreement through which a third party pays 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 September 30, 2010 together with the funding to be provided by the Company's joint venture partner in Colombia pursuant to a farm-out agreement should be sufficient to fund existing capital commitments for the next twelve months.

The Company has working capital of $1,061,139 as at September 30, 2010 (December 31, 2009 - $1,273,311). 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.

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 year ended December 31, 2009 and 2008, and are further discussed below.

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

a) 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**") for 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 be required to transition to IFRS effective January 1, 2011. The Company intends to issue its first interim financial statements under IFRS for the three month period ending March 31, 2011.

To date, education and initial assessment activities have been conducted and management has performed a formal conversion assessment. Based on 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 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 assets will form two cash generating units under IFRS. The net book value of Peru is anticipated to be allocated to E&E assets under IFRS.

Property, plant and equipment– the carrying amount 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 a "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 and value in use.

Internal Controls over Financial Reporting

The board of directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee meets at least annually with the Company's external auditors to review accounting, internal control, financial reporting, and audit matters. Internal controls over financial reporting have not changed since the last reporting period.

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@loonenergy.com**.