

**Loon Energy Corporation**  
**Management's Discussion and Analysis**  
**For the three month periods ended March 31, 2014 and 2013**  
**(US\$, unless otherwise stated)**

This Management's Discussion and Analysis ("MD&A") document dated May 28, 2014 is provided by the management of Loon Energy Corporation ("**Loon Corp**" or "**Company**") and should be read in conjunction with the condensed consolidated interim financial statements for the three month periods ended March 31, 2014 and 2013, the audited consolidated financial statements for the years ended December 31, 2013 and December 31, 2012 and the 2013 annual MD&A.

### **Basis of Presentation**

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This MD&A is prepared using United States dollars ("**US Dollars**") which is the reporting currency of the Company. The condensed consolidated interim financial statements for the three month period ended March 31, 2014 are prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company confirms that its auditors have not reviewed the condensed consolidated interim financial statements for the three month period ended March 31, 2014.

### **Overview**

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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 Corp 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**"). Effective June 24, 2013, Kulczyk Oil changed its name to Serinus Energy Inc. ("**Serinus**").

### **Operations Overview**

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#### **Guatemala**

During 2013, the Company incorporated a new indirect wholly-owned entity, Zacapa Energy Ltd., which subsequently changed its name to Loon Petroleo Ltd. ("**Loon Petroleo**"), for the purpose of establishing a branch in Guatemala through which separate bids were submitted for three exploration blocks located in Guatemala. For purposes of the submissions, performance bonds in the aggregate amount of \$0.3 million were posted.

In 2013 the Company was notified that it had been awarded one of the blocks that had been bid for following which the cash posted for the two unsuccessful bids of \$0.2 million was released. Management decided to not pursue activities in Guatemala and the remaining cash posted for the awarded bid of \$0.1 million was released.

#### **Colombia**

##### Buganviles Association Contract

Through a farm-in agreement, the Company earned a 20% non-operated participating interest in a 60,817 hectare block of land covered by the Buganviles Association Contract between Holywell Resources S.A. and Empresa Colombiana de Petróleos ("**Ecopetrol**"), the Colombian national oil company. The Buganviles Association Contract lands are located in the Upper Magdalena Valley area of central Colombia. 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 Company has fulfilled its required work commitments with respect to this contract area. The Delta-1 well came on production late in September 2008, and Ecopetrol approved the Operator's Commerciality Application in March 2009. The license for the Buganviles



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Association Contract had expired on June 30, 2012; however, in 2013 notification was received from the Operator that the term of the Bugarviles Association Contract has been extended to November 16, 2028.

During fiscal 2010, Loon Corp entered into a farm-out agreement with Petrodorado South America S.A. ("**Petrodorado**") under which Petrodorado agreed to pay Loon Corp's 20% share of the authorized cost to drill and complete two wells in Colombia to earn 75% (net 15%) of Loon Corp's interest in the Bugarviles Association Contract, excluding the Delta-1 well. The farm-out agreement included an option for the Company to re-acquire a reversionary interest. The exercise of this option by the Company in November 2010 reduced the working interest earned by Petrodorado from net 15% to net 10%. As a result, Loon Corp holds a net 10% working interest in the Bugarviles Association Contract area.

The Company received cash calls from the Operator to fund the drilling and completion of two Bugarviles wells – Visure-1X and Tuqueque-1X. Upon the execution of the farm-out agreement in September 2010, these cash call amounts became payable by Petrodorado. To date Petrodorado has paid a total of \$2 million under the farm-out agreement. The Company has recorded a receivable from Petrodorado for \$232,708 representing the unpaid cash calls to be paid by Petrodorado to fund the drilling of these two wells on behalf of the Company under the terms of the farm-out agreement and which forms a portion of both the accounts receivable from Petrodorado and accounts payable to the Operator.

The Company does not currently have any definitive plans to return to the drilling program or further develop the concession.

#### **Peru**

The Company, through its wholly-owned subsidiary, Loon Peru Limited ("**Loon Peru**"), had an exploration license contract with PERUPETRO S.A granting Loon Peru the right to explore for and produce hydrocarbons from Block 127 in the Maranon Basin area of northeast Peru.

In 2010, the Operator, Compañía Española de Petróleos, S.A. ("**CEPSA**"), and Loon decided to not enter into the second exploration phase and withdraw from Block 127. All petroleum and natural gas property expenditures related to Block 127 were fully written off in 2010. CEPSA and the Company are currently executing an abandonment plan for Block 127. Abandonment activities are expected to be completed in 2014.

#### **Significant factors affecting Company's results of operations**

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The Company has not been operational during 2014 and 2013, though the Company continues to pursue the acquisition of international oil and gas opportunities.

During 2012, CAD \$1.0 million was raised, as further described in Share Data below.



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**Selected annual information**

**Working capital (deficiency)**

	As at March 31, 2014	As at December 31, 2013
Current assets	\$ 364,644	\$ 379,738
Current liabilities	(606,924)	(696,011)
	<u>\$ (242,280)</u>	<u>\$ (316,273)</u>
	Three month periods ended Mar 31,	
	2014	2013
Expenses		
General and administrative	\$ 26,492	\$ 356,829
Stock based compensation	685	2,576
	<u>27,177</u>	<u>359,405</u>
Finance costs		
Accretion	732	916
Foreign exchange (gain) loss	(485)	5,235
	<u>247</u>	<u>6,151</u>
Net loss and comprehensive loss	<u>\$ 27,424</u>	<u>\$ 365,556</u>
Net loss per share		
Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>

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

	Three months ended Mar 31, 2014	2013
Basic and diluted	<u>19,949,136</u>	<u>19,949,136</u>

**General and Administrative Expenses**

The general and administrative expenses for the three months ended March 31, 2014 were \$26,492 compared to \$356,829 for the comparative three month period ended March 31, 2013. Higher general and administrative expenses in 2013 is attributable to activities in Guatemala, including incorporation of a new subsidiary, the establishment of a new branch in Guatemala and an increase in consulting, advisory and legal costs related to the submission of bids for three oil and natural gas licenses in Guatemala.

	2014	2013
Advisory costs	\$ 16,378	\$ 286,050
Third party overhead	-	19,230
Other administration costs	10,114	51,549
	<u>\$ 26,492</u>	<u>\$ 356,829</u>



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**Stock based compensation**

Stock based compensation expense for the period ended March 31, 2014 was \$685, compared to \$2,576 for the comparative period ended March 31, 2013. The stock based compensation arises from the issuance of options to Directors, officers and consultants of the Company during the third quarter of 2010 and the third quarter of 2012. The decrease in the 2014 expense, as compared to 2013, reflects the vesting of the 2010 options.

**Decommissioning obligation**

Accretion expense for the three months ended March 31, 2014 was \$732 compared to \$916 for the comparative period ended March 31, 2013. As of March 31, 2014, the Peruvian and Colombian assets were fully accreted with the exception of Ventilador, Visure and Tuqueque properties in Colombia. The accretion to the decommissioning obligation for these remaining properties will be recognized over the next two years.

**Summary of Quarterly Data**

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

	<u>Q1 2014</u>	<u>Q4 2013</u>	<u>Q3 2013</u>	<u>Q2 2013</u>
Net loss	\$ (27,424)	\$ (179,100)	\$ (87,009)	\$ (41,907)
Per share - basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.00)
General and administrative	\$ 26,492	\$ 179,751	\$ 83,527	\$ 37,157
Advisory costs	16,378	136,861	75,107	25,770
Other administrative costs	10,114	42,890	8,420	11,387
Third party overhead	-	-	-	-
Stock based compensation	\$ 685	\$ 573	\$ 1,919	\$ 2,578
Accretion	\$ 732	\$ (1,869)	\$ 916	\$ 916
Foreign Exchange (gain) loss	\$ (485)	\$ 645	\$ 647	\$ 1,256
Working capital (deficiency)	\$ (242,280)	\$ (316,273)	\$ (135,877)	\$ (251,703)
	<u>Q1 2013</u>	<u>Q4 2012</u>	<u>Q3 2012</u>	<u>Q2 2012</u>
Net loss	\$ (365,556)	\$ (114,217)	\$ (106,318)	\$ (225,912)
Per share - basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.02)
General and administrative	\$ 356,829	\$ 73,262	\$ 72,063	\$ 134,136
Advisory costs	286,050	15,496	44,303	95,845
Other administrative costs	51,549	45,396	27,760	37,166
Third party overhead	19,230	12,370	-	1,125
Stock based compensation	\$ 2,576	\$ 30,819	\$ 59,633	\$ 67,526
Accretion	\$ 916	\$ (701)	\$ 873	\$ 873
Foreign Exchange (gain) loss	\$ 5,235	\$ 10,837	\$ (26,251)	\$ 23,377
Working capital (deficiency)	\$ (213,290)	\$ 448,774	\$ 589,409	\$ 532,873



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**Share Data**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are no preferred shares outstanding.

	Number of Shares	Carrying amount
Balance, December 31, 2013 and March 31, 2014	19,949,136	\$ 16,570,265

In June 2012, the Company completed a non-brokered private placement consisting of 10,000,000 common shares at an issue price of CAD\$0.10 per share for gross proceeds of CAD\$1,000,000 (USD\$ 1,006,395). The Company paid \$27,366 in share issue costs.

The following table summarizes information about the options outstanding as at March 31, 2014:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2013	688,500	\$ 0.13	2.9
Balance outstanding, March 31, 2014	688,500	\$ 0.13	2.7
Exercisable At March 31, 2014	558,167	\$ 0.13	2.5

There have been no changes in the number of shares or share purchase options outstanding between March 31, 2014 and May 28, 2014.

**Related Party Transactions**

The Company has no employees, and management and administrative services are provided by the management and staff of Serinus pursuant to a services agreement. Administrative costs incurred by Serinus for the benefit of the Company are charged to the Company based on specific identification and an allocation of administrative costs that relate to both Serinus and the Company. For the three month period ended March 31, 2014, these fees totaled \$2,714 (2013 - \$2,971). At March 31, 2014, the Company owed \$2,850 (December 31, 2013 - \$nil) to Serinus for these services. Serinus and the Company are related as they have five common directors and officers and the same principal shareholder.

Serinus remains legally responsible for a guarantee issued in August 2007 (“**the Loon Peru 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 block to which the guarantee is related is in the process of being relinquished and it is not currently anticipated that the guarantee will be replaced. The Company has entered into an indemnification agreement with Serinus in respect of the Loon Peru Guarantee.

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



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**Liquidity and Capital Resources**

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The Company is an oil and gas exploration and development company with properties located in Colombia. Of the Company's properties in Colombia, the Delta-1 well is in the development stage with two other wells in the exploration stage. The properties have no proved reserves at March 31, 2014. The Company does not generate sustained, commercial production from operations.

The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business and do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid. To date, the Company's exploration and development operations have been financed by way of equity issuances, debt facilities and by farm-out arrangements with third parties who pay for all or a portion of the Company's expenditures to earn a portion of the Company's ownership interests. As at March 31, 2014 the Company has a working capital deficiency of \$242,280 and incurred a net loss of \$27,424 for the three month period ended March 31, 2014. The Company is pursuing international oil and gas opportunities and will require additional capital to fund the working capital deficit, ongoing operating activities and international exploration opportunities. The need to raise capital to fund the working capital deficit, ongoing operations, acquire additional concessions and for exploration and development opportunities creates a significant doubt as to the Company's ability to continue as a going concern. There are no guarantees that additional capital, either through additional equity, debt or farm-out arrangements will be available when needed.

**Forward Looking Statements**

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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;



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- the availability of capital; and
- alternatives to and changing demand for petroleum products.

Furthermore, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitable in the future.

The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These statements apply only as of the date of this MD&A.

### **Critical Accounting Estimates**

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The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the opinion of management, the Company's 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.

### **Internal Controls over Financial Reporting**

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

### **Changes in Accounting Policies**

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On January 1, 2014, the Company adopted the amendment to IAS 36. This amendment requires entities to disclose the recoverable amount of an impaired Cash Generating Unit ("CGU") if the amount is based on fair value less costs of disposal. Adoption of the amendment had no impact to the consolidated financial statements.

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

### **Approval**

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The Company's Board of Directors approved the disclosure contained within this MD&A on May 28, 2014.

### **Additional Information**

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Additional information regarding the Company and its business and operations is available on the Company's profile at [www.sedar.com](http://www.sedar.com). Copies of the information can also be obtained by contacting the Company at Loon Energy Corporation 1170, 700 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta, Canada T2P 3J4 (Phone: +1 403 264-8877) or by e-mail at [ryaniw@loonenergy.com](mailto:ryaniw@loonenergy.com).

