Loon Energy Corporation
Management's Discussion and Analysis
For the three and six month periods ended June 30, 2013 and 2012
(US$, unless otherwise stated)

This Management's Discussion and Analysis ("**MD&A**") document dated August 28, 2013 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 and six month periods ended June 30, 2013 and 2012, the audited consolidated financial statements for the years ended December 31, 2012 and December 31, 2011 and the 2012 annual MD&A.

Basis of Presentation

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 and six month periods ended June 30, 2013 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 and six month periods ended June 30, 2013.

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

Operations Overview

Guatemala

During the first six months of 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.

Subsequent to quarter end, the Company was notified that it had been awarded one of the blocks that had been bid for. The cash posted for the two unsuccessful bids of $0.2 million has since been released. Management is considering its options in respect of pursuing activities in Guatemala.

Colombia

<u>Buganviles Association Contract</u>

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 Magdelena Valley area of central Colombia. The Company has fulfilled its required work commitments with respect to this contract area and Ecopetrol approved the Operator's Commerciality Application in March 2009 for the Delta-1 well. The license for the Buganviles Association Contract expired on June 30, 2012. The Operator has applied for a two year extension of the contract and an update on the status of the extension is expected from Ecopetrol.

Loon Corp presently holds a net 10% working interest in the Buganviles Association Contract area as a result of the farm-out agreement with an unrelated company concluded in 2010.

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 indirectly wholly-owned subsidiary, Loon Peru Limited ("**Loon Peru**"), has 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, which expired in 2010.

The Operator is currently executing an abandonment plan for Block 127 and all abandonment activities are expected to be completed in 2013.

Significant factors affecting Company's results of operations

The Company has not been operational during 2013 and 2012, though the Company continues to pursue the acquisition of international oil and gas opportunities.

Selected annual information

Working capital (deficiency)

	As at June 30, 2013	As at December 31, 2012
Current assets	$ 439,927	$ 1,162,870
Current liabilities	(691,630)	(714,096)
	$ (251,703)	$ 448,774

	Three month periods ended June 30, 2013	Three month periods ended June 30, 2012	Six month periods ended June 30, 2013	Six month periods ended June 30, 2012
Expenses				
General and administrative	$ 37,157	$ 134,136	$ 393,986	$ 210,885
Stock based compensation	2,578	67,526	5,154	111,938
	39,735	201,662	399,140	322,823
Finance costs				
Accretion	916	873	1,832	1,746
Foreign exchange loss	1,256	23,377	6,491	22,907
	2,172	24,250	8,323	24,653
Net loss and comprehensive loss	$ 41,907	$ 225,912	$ 407,463	$ 347,476
Net loss per share				
Basic and diluted	$ (0.00)	$ (0.02)	$ (0.02)	$ (0.03)

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

	Three month periods ended June 30, 2013	Three month periods ended June 30, 2012	Six month periods ended June 30, 2013	Six month periods ended June 30, 2012
Basic and diluted	19,949,136	12,726,914	19,949,136	11,330,351

General and Administrative Expenses

The general and administrative expenses for the three and six month periods ended June 30, 2013 were $37,157 and $393,986, compared to $134,136 and $210,885 for the comparative three and six month periods ended June 30, 2012. The increase in 2013 general and administrative expenses 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.

	Three month periods June 30,		Six month periods ended June 30,	
	2013	2012	2013	2012
Advisory costs	25,770	95,845	311,820	161,081
Third party overhead	-	1,125	19,230	2,232
Other administration costs	11,387	37,166	62,936	47,572
	$ 37,157	$ 134,136	$ 393,986	$ 210,885

Stock based compensation

Stock based compensation expense for the three and six month period ended June 30, 2013 was $2,578 and $5,154, compared to $ 67,526 and $111,938 for the comparative periods ended June 30, 2012. 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 2013 expense, as compared to 2012, reflects the vesting of the 2010 options.

Decommissioning obligation

Accretion expense for the three and six months ended June 30, 2013 was $916 and $1,832, compared to $873 and $1,746 for the comparative periods ended June 30, 2012. As of June 30, 2013, the Peruvian and Colombian assets were fully accreted with the exception of certain properties in Colombia. The accretion to the decommissioning obligation for these remaining properties will be recognized over the next three years.

Summary of Quarterly Data

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

	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Net loss	$ (41,907)	$ (365,556)	$ (114,217)	$ (106,318)
Per share - basic and diluted	$ (0.00)	$ (0.02)	$ (0.01)	$ (0.01)

	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Net loss	$ (225,912)	$ (121,564)	$ (736,982)	$ (213,911)
Per share - basic and diluted	$ (0.02)	$ (0.01)	$ (0.08)	$ (0.02)

During the three months ended June 30, 2013, the Company recognized general and administrative expenses of $37,157, which included advisory costs relating to legal, audit and consulting services of $25,770 and other administrative costs of $11,387. The Company recognized stock based compensation expense of $2,578.

During the three months ended March 31, 2013, the Company recognized general and administrative expenses of $356,829, which included advisory costs relating to legal, audit and corporate services of $225,682, other administrative costs of $51,549, third party charges from CEPSA, the operator of the block in Peru, of $19,230 and consulting fees of $60,368. The Company recognized stock based compensation expense of $2,576.

During the three months ended December 31, 2012, the Company recognized general and administrative expenses of $73,262, which included advisory costs relating to legal and audit of $16,136, other administrative costs of $45,589, and consulting fees of $9,860. The Company recognized stock based compensation expense of $30,819.

During the three months ended September 30, 2012, the Company recognized general and administrative expenses of $72,063, which included advisory costs relating to legal and audit of $10,379, other administrative costs of $27,760, directors insurance of $5,000 and consulting fees of $28,924. The Company recognized stock based compensation expense of $59,633.

During the three months ended June 30, 2012, general and administrative expenses of $134,136 included $52,000 of audit fees and legal fees and $9,000 of Directors' Fees. The Company recognized stock based compensation expense of $67,526.

During the three months ended March 31, 2012, general and administrative expenses of $76,749 included $42,000 of audit and legal fees and $24,000 of Directors' Fees. The Company recognized stock based compensation expense of $44,412.

During the three months ended December 31, 2011, the Company recognized stock based compensation expense of $59,332 and an impairment of the value of its Colombian assets of $528,926. General and administrative expenses for the three months ended December 31, 2011 included $53,000 of audit and legal fees, $8,000 of insurance premium expenses, $3,000 of shared services expenses and $67,000 of Directors' fees related to the second, third and fourth quarters of 2011.

During the three months ended September 30, 2011, the Company recognized $149,800 of stock based compensation expense. General and administrative expenses for the three months ended September 30, 2011 included legal fees, $14,000 of management fees and $3,000 of shared services expenses.

Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. On February 21, 2012, the Company consolidated its common shares on the basis of ten pre-consolidation common shares for one post-consolidation common share. Accordingly, share transactions and balances, and per share disclosures have been revised to reflect the impact of the consolidation for all periods presented.

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

	Number of Shares		Carrying amount
Balance, December 31, 2011	9,949,136	$	15,591,236
Shares issued on private placement	10,000,000		1,006,395
Share issuance costs	-		(27,366)
Balance, December 31, 2012 and June 30, 2013	19,949,136	$	16,570,265

The following table summarizes information about the options outstanding as at June 30, 2013:

	Options Outstanding		Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2012	708,500		0.13	3.9
Balance outstanding, June 30, 2013	708,500	$	0.13	3.4
Exercisable At June 30, 2013	434,500	$	0.14	3.0

There have been no changes in the number of shares or share purchase options outstanding between June 30, 2013 and August 28, 2012.

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 and six months ended June 30, 2013, these fees totaled $2,941 and $5,912 (2012 - $2,971 and $5,980). At June 30, 2013, the Company owed $27,081 (December 31, 2012 - $20,873) to Serinus for these services. Certain expenditures of the Company are paid by Serinus on behalf of the Company and as at June 30, 2013 the Company owed $61,209 (December 31, 2012 - $82,965) for these costs. 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, an indirectly 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 Company has fulfilled its work commitments under the first phase of the exploration program, and the Company and its partners in the Block announced on October 25, 2010 that the joint venture will not proceed to the second exploration phase.

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

Liquidity and Capital Resources

The Company is an oil and gas exploration and development company with properties principally 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 June 30, 2013. 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 June 30, 2013 the Company has a working capital deficiency of $0.3 million and incurred a net loss of $0.4 million for the six month period ended June 30, 2013. As a result of the private placement funds received in June 2012, the Company has improved its short term and medium term liquidity position. The Company is pursuing international oil and gas opportunities and will require capital to fund its international exploration activities. The need to raise capital to acquire additional concessions and for exploration and development opportunities creates a significant doubt regarding 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

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" 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 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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes to those consolidated financial statements as at and for the year ended December 31, 2012:

- Notes 5, 6 and 7 – Impairment of property and equipment and evaluation and exploration assets
- Note 8 – Decommissioning provision

- Note 10 – Stock-based compensation

Internal Controls over Financial Reporting

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

On January 1, 2013, the Company adopted new standards with respect to consolidation (IFRS 10), joint arrangements (IFRS 11), disclosure of interest in other entities (IFRS 12), fair value measurements (IFRS 13), amendments to financial instrument disclosures (IFRS 7) as well as amendments related to investments in associates and joint ventures (IAS 28). The adoption of these amendments and standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

Approval

The Company's Board of Directors has approved the disclosure contained within this MD&A on August 28, 2013.

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, Canada T2P 3J4 (Phone: +1 403 264-8877) or by e-mail at **ryaniw@loonenergy.com**.