

**Loon Energy Corporation**  
**Management's Discussion and Analysis**  
**For the three and nine month periods ended September 30, 2015 and 2014**  
**(US\$, unless otherwise stated)**

This Management's Discussion and Analysis ("MD&A") document dated November 25, 2015 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 nine month periods ended September 30, 2015 and 2014, the audited consolidated financial statements for the years ended December 31, 2014 and December 31, 2013 and the 2014 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 and nine month periods ended September 30, 2015 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 nine month periods ended September 30, 2015.

### **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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Loon acquired interests in certain South American oil and gas assets in December 2008 from Serinus in accordance with a legal Plan of Arrangement under the ABCA. These oil and gas assets included interests in properties in Colombia obtained by way of farm-out agreements, and an interest in a block of exploration lands in Peru. The Company and its partner relinquished the block in Peru after the completion of a seismic program, and while Loon retains a minority interest in one Association Contract in Colombia, no further operations on the property are presently anticipated. In 2013, the Company submitted bids on exploration and development properties in Guatemala, however it elected to not proceed with further operations when only one such bid was successful. Loon's present activities consist primarily of complying with the legal and regulatory requirements to legally wind-up its activities in Colombia, Peru and Guatemala, with the Company's intention being to pursue and evaluate future exploration and development opportunities in the international oil and gas arena.

### **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 Company's interest was reduced to a 10% net working interest after a farm-out agreement in 2010 with Petrodorado South America S.A. ("**Petrodorado**") under the terms of which Petrodorado paid the Company's share of costs to drill and complete two wells. The Buganviles Association Contract lands are located in the Upper Magdalena Valley area of central Colombia. The Company has fulfilled its required work commitments with respect to this contract area. The only producing well on this property, the Delta-1 well, did not produce commercial volumes of oil or gas in 2014, and was suspended as of the end of that year. The Operator has advised that they plan to abandon the Delta-1 well.



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The Company received cash calls from the Operator in 2010 to fund the drilling and completion of two Baganviles wells. Upon the execution of the Petrodorado farm-out agreement in September 2010, these cash call amounts became payable by Petrodorado, and to date, Petrodorado has paid a total of \$2 million under the farm-out agreement. As at September 30, 2015, the Company's recorded payable to the Operator remains at \$400,152, however the Company is not in agreement with, and questions the validity of this claim.

The Company does not currently have any definitive plans to return to 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 which granted Loon Peru the right to explore for and produce hydrocarbons from Block 127 in the Marañon Basin area of northeast Peru.

In 2010, the Operator, Compañía Española de Petróleos, S.A. ("**CEPSA**"), and Loon Peru 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. During 2014, the Company received confirmation from CEPSA that Loon Peru has no outstanding liabilities or further obligations arising from its former property in Peru, including further abandonment and/or reclamation activities. All costs related to the Company's property in Peru had been written-off in previous periods. Subsequent to September 30, 2015, the Loon Peru branch was formally extinguished in accordance with Peruvian Law and was de-registered by the Peruvian tax authority.

**Guatemala**

During 2013, the Company incorporated a new indirect wholly-owned entity, Loon Petroleo Ltd. ("**Loon Petroleo**"), formerly named Zacapa Energy Ltd., 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, three performance bonds in the aggregate amount of \$300,000 were posted.

In 2013 the Company was notified by government authorities that it had been awarded one of the blocks that had been bid for following which the cash posted for the two unsuccessful bids in the amount of \$200,000 was released. In 2014, management decided to not pursue activities in Guatemala and the remaining cash posted for the awarded bid in the amount of \$100,000 was returned to the Company upon expiry of the pledge with the bank. On July 20, 2015, Loon Petroleo was wound-up and de-registered as a company.

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

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The Company has not been operational during 2015 and 2014, though the Company continues to pursue the acquisition of international oil and gas opportunities.

**Selected Information**

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**Working capital deficiency**

	As at September 30, 2015	As at December 31, 2014
Current assets	\$ 62,172	\$ 67,333
Current liabilities	(575,101)	(511,780)
	<u>\$ (512,929)</u>	<u>\$ (444,447)</u>



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	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Expenses				
General and administrative	\$ (17,341)	\$ (30,580)	\$ (67,787)	\$ (77,357)
Stock based compensation (Note 5)	-	(455)	-	(1,844)
	<u>(17,341)</u>	<u>(31,035)</u>	<u>(67,787)</u>	<u>(79,201)</u>
Other income (Note 6)	-	120,000	-	120,000
Finance costs				
Accretion	(1,015)	(732)	(3,045)	(2,196)
Interest expense (Note 3)	(4,537)	-	(9,110)	-
Foreign exchange gain/(loss)	1,757	114	2,563	(1,597)
	<u>(3,795)</u>	<u>(618)</u>	<u>(9,592)</u>	<u>(3,793)</u>
Loss before tax	(21,136)	88,347	(77,379)	37,006
Current tax recovery	5,852	-	5,852	-
Net loss and comprehensive loss	<u>\$ (15,284)</u>	<u>\$ (31,653)</u>	<u>\$ (71,527)</u>	<u>\$ (82,994)</u>
Net loss per share (basic and diluted)	<u>\$ (0.00)</u>	<u>\$ 0.00</u>	<u>\$ (0.00)</u>	<u>\$ 0.00</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Basic and diluted	<u>19,949,136</u>	<u>19,949,136</u>	<u>19,949,136</u>	<u>19,949,136</u>

### **General and Administrative Expenses**

The general and administrative expenses for the three and nine month periods ended September 30, 2015 were \$17,341 and \$67,787 compared to \$30,580 and \$77,357 for the comparative three and nine month periods ended September 30, 2014. Lower general and administrative expenses in 2015 were attributable to decreased advisory costs as the Company has limited activity while it continues to legally wind-up its activities in Colombia, and Peru.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Advisory costs	\$ 7,233	\$ 24,514	\$ 34,035	\$ 30,719
Other administration costs	10,108	6,066	16,411	16,058
	<u>\$ 17,341</u>	<u>\$ 30,580</u>	<u>\$ 50,446</u>	<u>\$ 46,777</u>

### **Stock Based Compensation**

Stock based compensation expense for the three and nine month periods ended September 30, 2015 was \$nil and \$nil, compared to \$455 and \$1,844 for the comparative three and nine month periods ended September 30, 2014. All outstanding share purchase options vested during the third quarter of 2014 and therefore, no further expense will be recognized related to these options.



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**Other Income**

During the three and nine month periods ended September 30, 2014, the Company recorded \$120,000 (2013: \$nil) of other income arising from the reversal of the decommissioning liability in Peru.

**Decommissioning Obligation**

Accretion expense for the three and nine month periods ended September 30, 2015 was \$1,015 and \$3,045 compared to \$732 and \$2,196 for the comparative three and nine month periods ended September 30, 2014. As of December 31, 2014, the Colombian assets were fully accreted with the exception of the Ventilador, Visure and Tuqueque properties. The accretion to the decommissioning obligation for these remaining properties will be recognized over the next year.

**Summary of Quarterly Data**

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

	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>	<b>Q4 2014</b>
Net earnings (loss)	\$ (15,284)	\$ (39,707)	\$ (16,536)	\$ (270,161)
Per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
General and administrative	\$ 17,341	\$ 34,650	\$ 15,796	\$ 36,586
Advisory costs	7,233	26,253	7,782	23,996
Other administrative costs	10,108	8,397	8,014	12,590
Stock based compensation	\$ -	\$ -	\$ -	\$ -
Accretion	\$ 1,015	\$ 1,015	\$ 1,015	\$ 941
Bad debt expense	\$ -	\$ -	\$ -	\$ 232,708
Interest expense	\$ 4,537	\$ 2,962	\$ 1,611	\$ 132
Foreign Exchange	\$ (1,757)	\$ 1,080	\$ (1,886)	\$ (206)
Income tax recovery	\$ (5,852)	\$ -	\$ -	\$ -
Working capital deficiency	\$ (512,929)	\$ (498,660)	\$ (459,968)	\$ (444,447)
	<b>Q3 2014</b>	<b>Q2 2014</b>	<b>Q1 2014</b>	<b>Q4 2013</b>
Net loss	\$ 88,347	\$ (23,917)	\$ (27,424)	\$ (179,100)
Per share - basic and diluted	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.01)
General and administrative	\$ 30,580	\$ 20,285	\$ 26,492	\$ 179,751
Advisory costs	24,514	14,341	16,378	136,861
Other administrative costs	6,066	5,944	10,114	42,890
Stock based compensation	\$ 455	\$ 704	\$ 685	\$ 573
Accretion	\$ 732	\$ 732	\$ 732	\$ (1,869)
Other income	\$ (120,000)			
Foreign Exchange	\$ (114)	\$ 2,196	\$ (485)	\$ 645
Working capital (deficiency)	\$ (175,227)	\$ (264,761)	\$ (242,280)	\$ (316,273)



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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, 2014 and September 30, 2015	19,949,136	\$ 16,570,265

The following table summarizes information about common share purchase options outstanding as at September 30, 2015:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance outstanding, December 31, 2014	688,500	\$ 0.13	1.9
Expired/Forfeited	(30,000)	\$ 0.13	2.2
Balance outstanding, September 30, 2015	658,500	\$ 0.13	1.1
Exercisable at September 30, 2015	658,500	\$ 0.13	1.1

There has been no change to the number of shares outstanding between September 30, 2015 and November 25, 2015. A total of 397,500 share purchase options have expired during the same period reducing the number of options outstanding to 261,000 as of November 25, 2015.

**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 nine month periods ended September 30, 2015, these fees totaled \$2,282 and \$7,144 (2014 - \$2,754 and \$8,213). At September 30, 2015, the Company owed \$nil (December 31, 2014: \$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.

As at September 30, 2015, the Company had a note payable to Timothy Elliott, Chairman of the Board of Directors of Loon Energy, in the amount of \$130,000 plus \$8,276 of accrued interest. The note payable is due on demand with interest calculated at a rate of 12% per annum.

As at September 30, 2015, the Company had a note payable to Jock Graham, a member of the Board of Directors of Loon, in the amount of \$20,000 plus \$967 of accrued interest. The note payable is due on demand with interest calculated at a rate of 12% per annum.

The Company 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. The block to which the guarantee is related has been 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. More particularly, as part of the Arrangement that saw Serinus spin off its Colombian and Peruvian assets to Loon in 2008, Loon and Serinus entered into an indemnification agreement in which Loon agreed to indemnify Serinus for any and all liabilities, claims, etc. associated with the share and asset transfers that were part of the spin-off of those assets.



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

### **Liquidity and Capital Resources**

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The Company is an oil and gas exploration and development company formerly active in Colombia, Peru and Guatemala. The Company's sole remaining property is in Colombia, has no proved reserves and does not generate positive net production revenue. Loon's present activities consist primarily of complying with the legal and regulatory requirements to wind-up its activities in Colombia, Peru with the successful wind-up of its Guatemala subsidiary having been completed in July 2015.

These condensed consolidated interim 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. To date, the Company's exploration and development operations and activities 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. In Q4 2014 and continuing in 2015, certain members of the Company's Board of Directors advanced cash to fund Loon's activities. As at September 30, 2015, the Company carried interest bearing, demand notes payable to in the aggregate amount of \$138,276 to Timothy Elliott, Chairman of the Board of Directors of Loon, in the aggregate amount of \$20,966 to Jock Graham, a member of the Board of Directors of Loon.

As at September 30, 2015, the Company had a working capital deficiency of \$512,929. The need to raise capital to fund the working capital deficiency, ongoing operations, and to fund additional business opportunities creates 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 other arrangements will be available when needed. The financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

### **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 condensed consolidated interim 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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Below is a brief description of new IFRS standards and amendments that are not yet effective and have not been applied in the preparation of these financial statements. There are no other standards or interpretations issued but not yet adopted that are anticipated to have a material impact on the Corporation's financial statements.

On May 28 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The new standard is effective for annual periods beginning on

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or after January 1, 2017, with early adoption permitted. On April 28, 2015, the IASB proposed to defer the effective date by one year to January 1, 2018, which was approved on July 22, 2015. The Corporation intends to adopt IFRS 15 on the finalized adoption date and is currently evaluating the impact of adopting the standard on its consolidated financial statements.

On July 24, 2014, the IASB issued the complete IFRS 9, "Financial Instruments" to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 is effective for years beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Corporation is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements.

On December 18, 2014, the IASB issued amendments to IAS 1, "Presentation of Financial Statements". These amendments will not require significant changes to the Corporation's current practices but are intended to facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Corporation intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The Corporation does not expect these amendments to have a material impact.

### **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.

### **Approval**

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The Company's Board of Directors approved the disclosure contained within this MD&A on November 25, 2015.

### **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 1500, 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).

