

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

This Management's Discussion and Analysis ("MD&A") document dated April 16, 2015 is provided by the management of Loon Energy Corporation ("Loon" or "Company") and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2014 and December 31, 2013.

### **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 audited consolidated financial statements for the year ended December 31, 2014 are prepared in accordance with International Financial Reporting Standards ("IFRS").

### **Overview**

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Loon Energy Corporation is an international oil and gas exploration and development company with a management office in Calgary, Alberta, Canada. Loon was incorporated pursuant to the provisions of the *Business Corporation Act* (Alberta) ("ABCA") on October 30, 2008 and its common shares are listed on the TSX Venture Exchange under the symbol LNE.

### **Operations Overview**

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Loon acquired interests in certain South American oil and gas assets in December 2008 from Serinus Energy Inc. ("Serinus"; formerly Kulczyk Oil Ventures Inc, and prior to that, Loon Energy Inc.) 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. More recently, 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 many 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 the year. The operator has advised that they plan to abandon the Delta-1 well in 2015.

The Company received cash calls from the Operator in 2010 to fund the drilling and completion of two Buganviles 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. Since 2011, the Company has carried a receivable from Petrodorado for \$232,708 representing 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. As at December 31, 2014, the Company's payable to the Operator remains at \$400,152. As at December 31, 2014, the Company has established a bad debt allowance against the \$232,708 receivable from Petrodorado because of the uncertainty of collection.



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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 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 additional abandonment and/or reclamation activities. All costs related to the Company’s property in Peru had been written-off in previous periods, and as a result, Loon recognized \$120,000 of other income relating to the reversal of the decommissioning provision during the current year.

**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, three equal 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 of \$200,000 was released. In 2014, management decided to not pursue activities in Guatemala and the remaining cash posted for the awarded bid of \$100,000 was returned to the Company upon expiry of the pledge with the bank.

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

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The Company has not conducted any active oil and gas operations 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.

**Selected annual information**

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**Working capital deficiency**

	Years ended December 31,		
	2014	2013	2012
Current assets	\$ 67,333	\$ 379,738	\$ 1,162,870
Current liabilities	(511,780)	(696,011)	(714,096)
	\$ (444,447)	\$ (316,273)	\$ 448,774



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	<u>2014</u>	<u>2013</u>	<u>2012</u>
Expenses			
General and administrative	\$ (113,943)	\$ (657,264)	\$ (356,210)
Bad debt expense	(232,708)	-	-
Other income	120,000	-	-
Stock based compensation	(1,844)	(7,646)	(202,390)
	<u>(228,495)</u>	<u>(664,910)</u>	<u>(558,600)</u>
Finance costs			
Accretion	(3,137)	(879)	(1,918)
Interest expense	(132)	-	-
Foreign exchange loss	(1,391)	(7,783)	(7,493)
	<u>(4,660)</u>	<u>(8,662)</u>	<u>(9,411)</u>
Net loss and comprehensive loss	<u>\$ (233,155)</u>	<u>\$ (673,572)</u>	<u>\$ (568,011)</u>
Net loss per share (basic and diluted)	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Basic and diluted	<u>19,949,136</u>	<u>19,949,136</u>	<u>15,675,163</u>

**General and Administrative Expenses**

General and administrative expenses for the year ended December 31, 2014 were \$113,943 compared to \$657,264 for the year ended December 31, 2013. Higher general and administrative expenses in 2013 are 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.

	<u>2014</u>	<u>2013</u>
Advisory costs	79,229	523,788
Third party overhead	-	19,230
Other administration costs	34,714	114,246
	<u>\$ 113,943</u>	<u>\$ 657,264</u>

**Stock based compensation**

Stock based compensation expense for the year ended December 31, 2014 was \$1,844, compared to \$7,646 for the year ended December 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 2012. The decrease in the 2014 expense, as compared to 2013, reflects the vesting of the 2012 options.

**Bad Debt expense**

During the year ended December 31, 2014, the Company recorded \$232,708 (2013: \$nil) of bad debt expense arising from the allowance provided against the Petrodorado receivable.

**Other Income**

During the year ended December 31, 2014, the Company recorded \$120,000 (2013: \$nil) of other income arising from the reversal of the decommissioning liability in Peru.



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**Decommissioning obligation**

Accretion expense for the year ended December 31, 2014 was \$3,137 compared to \$879 for the comparative year ended December 31, 2013. The accretion to the decommissioning obligation for the remaining Colombian 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.

	<b>Q4 2014</b>	<b>Q3 2014</b>	<b>Q2 2014</b>	<b>Q1 2014</b>
Net earnings (loss)	\$ (270,161)	\$ 88,347	\$ (23,917)	\$ (27,424)
Per share - basic and diluted	\$ (0.01)	\$ 0.00	\$ (0.00)	\$ (0.00)
General and administrative	\$ 36,586	\$ 30,580	\$ 20,285	\$ 26,492
Advisory costs	23,996	24,514	14,341	16,378
Other administrative costs	12,590	6,066	5,944	10,114
Third party overhead	-	-	-	-
Stock based compensation	\$ -	\$ 455	\$ 704	\$ 685
Accretion	\$ 941	\$ 732	\$ 732	\$ 732
Other income	\$ -	\$ (120,000)	\$ -	\$ -
Bad debt expense	\$ 232,708	\$ -	\$ -	\$ -
Interest expense	\$ 132	\$ -	\$ -	\$ -
Foreign Exchange	\$ (206)	\$ (114)	\$ 2,196	\$ (485)
Working capital deficiency	\$ (444,447)	\$ (175,227)	\$ (264,761)	\$ (242,280)
	<b>Q4 2013</b>	<b>Q3 2013</b>	<b>Q2 2013</b>	<b>Q1 2013</b>
Net loss	\$ (179,100)	\$ (87,009)	\$ (41,907)	\$ (365,556)
Per share - basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.02)
General and administrative	\$ 179,751	\$ 83,528	\$ 37,157	\$ 356,829
Advisory costs	136,861	75,107	25,770	286,050
Other administrative costs	42,890	8,421	11,387	51,549
Third party overhead	-	-	-	19,230
Stock based compensation	\$ 573	\$ 1,919	\$ 2,578	\$ 2,576
Accretion	\$ (1,869)	\$ 916	\$ 916	\$ 916
Foreign Exchange	\$ 645	\$ 646	\$ 1,256	\$ 5,235
Working capital (deficiency)	\$ (316,273)	\$ (135,877)	\$ (251,703)	\$ (213,290)

**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.

	<b>Number of Shares</b>	<b>Carrying amount</b>
Balance, December 31, 2013 and December 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 issuance costs.



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

	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Contractual Life (years)</b>
Balance outstanding, December 31, 2013	688,500	\$ 0.13	2.9
Balance outstanding, December 31, 2014	688,500	\$ 0.13	1.9
Exercisable at December 31, 2014	688,500	\$ 0.13	1.9

There have been no changes in the number of shares or share purchase options outstanding between December 31, 2014 and April 16, 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 year ended December 31, 2014, these fees totaled \$10,862 (2013 - \$11,654). At December 31, 2014, the Company owed \$nil (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.

As at December 31, 2014, the Company had a note payable to Timothy Elliott, Chairman of the Board of Loon Energy, in the amount of \$50,000. The note payable is due on demand with interest calculated at a rate of 12% per annum. Subsequent to year end an additional \$10,000 was advanced to the Company on the same terms.

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 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 which will be formally terminated once confirmation has been received from Peruvian authorities that the guarantee has been terminated.

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 a minority interest in a property located in Colombia. The Colombian property has no proved reserves at December 31, 2014, and 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. During the current year, the Chairman of the Company's Board of Directors advanced cash to fund Loon's activities, and as at December 31, 2014, the Company carried an interest bearing, demand note payable to Timothy Elliott, Chairman of the Board of Loon Energy, in the amount of \$50,000. Mr. Elliott has provided additional cash advances subsequent to the Company's year-end under the same terms.

As at December 31, 2014 the Company has a working capital deficiency of \$444,447. The Company is pursuing international oil and gas opportunities and will require additional capital to fund the working capital deficiency, ongoing



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operating activities and international exploration opportunities. The need to raise capital to fund the working capital deficiency, 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.

**Financial Risk Management**

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**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net income or the value of its financial instruments.

**Interest rate risk**

The Company maintains its cash and cash equivalents in instruments that are redeemable at any time without penalty thereby reducing its exposure to interest rate fluctuations thereon. Interest rate risk is not considered material.

**Foreign currency exchange risk**

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar ("CAD") and the United States dollar. At December 31, 2014 and 2013 the Company's primary foreign currency exposure relates to Canadian dollar cash balances net of accounts payable and accrued liabilities in Canada as follows:

	December 31,	
	2014	2013
Cash and cash equivalents	\$ 1,406	\$ 13,975
Accounts receivable	9,440	9,559
Accounts payable and accrued liabilities	(20,500)	(26,396)
Net foreign exchange exposure	\$ (9,654)	\$ (2,862)

At December 31, 2014 and 2013, the Company's net loss is not significantly impacted by changes in the US to Canadian dollar exchange rates.

**Credit Risk**

Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash and cash equivalents.

The Company has received cash calls from the Operator to fund the drilling and completion of two Buganviles wells in Colombia. Upon the execution of the farm-out agreement in September 2010, these cash call amounts became payable by Petrodorado. Since 2011 the Company has recorded a receivable from Petrodorado for \$232,708 (2012 - \$232,708) representing the unpaid cash calls to be paid by Petrodorado under the terms of the farm-out agreement and the same amount as an account payable due to the Operator. The Company has considered the credit risk relating to Petrodorado, and as a result of this evaluation, has recorded a bad debt allowance against the receivable in the amount of \$232,708 in 2014.

The Company's accounts receivable as at December 31, 2014 included \$786 (2013 - \$922) of recoverable goods and services taxes. The Company does not consider the credit risk relating to the outstanding amounts to be significant.

**Liquidity Risk**

The Company monitors its liquidity position regularly to assess whether it has the resources necessary to fund planned exploration commitments on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources of financing such as farm-out agreements or debt. However,



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as an exploration company without internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company on either a timely or commercial basis, that future exploration and development opportunities may not be available at a cost the Company can afford, or that actual expenditures to acquire, and then further develop properties that may be acquired may exceed those planned. Additional equity, debt or farm-out arrangements may be required and there are no guarantees that such additional capital funding will be available when needed.

### **Capital Management**

As at December 31, 2014, the Company's working capital deficiency was \$444,447 (December 31, 2013: \$316,273). Consistent with prior years, the Company manages its capital structure to maximize financial flexibility making adjustments in light of changes in economic conditions and risk characteristics of the underlying assets. Further, each potential acquisition and investment opportunity is assessed to determine the nature and total amount of capital required together with the relative proportions of debt and equity to be deployed. The Company does not presently utilize any quantitative measures to monitor its capital.

### **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.

Information about significant areas of estimation uncertainty 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:

- Note 7 – Decommissioning provision
- Note 11(b) – Allowance for doubtful accounts

At December 31, 2014, there were no critical judgments required to be made by management when applying the Company's significant accounting policies.

### **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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In July 2014, the IASB issued IFRS 9, "*Financial Instruments*" to replace IAS 39 which provides a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard is effective for the Company for annual periods beginning on January 1, 2018, with required retrospective application and early adoption permitted. The extent of the impact of adoption of the standard has not yet been determined.

In May 2014, the IASB issued IFRS 15, "*Revenue from Contracts with Customers*" to replace IAS 18 which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for the Company for annual periods beginning on January 1, 2017, with required retrospective application and early adoption permitted. The extent of the impact of adoption of the standard has not yet been determined.



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**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;
- 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 April 16, 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).

