Kulczyk Oil Ventures Inc.

(Formerly Loon Energy Inc.)

Management's Discussion and Analysis

For the years ended December 31, 2008 and 2007

(US$, unless otherwise stated)

This Management Discussion and Analysis ("**MD&A**") dated March 23, 2009 is provided by the management of Kulczyk Oil Ventures Inc. ("**Kulczyk Oil**", or "**Company**") and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2008 and 2007.

Overview

Kulczyk Oil is an international oil and gas exploration and development company with management offices in Calgary, Alberta, Canada and in Dubai, United Arab Emirates. Kulczyk Oil is the successor to Loon Energy Inc. ("**Loon**") in accordance with a Plan of Arrangement ("**Arrangement**") under the *Business Corporations Act* (Alberta). The Arrangement was approved at a special meeting of securityholders held on December 9, 2008 and by the Court of Queen's Bench of Alberta on December 10, 2008. Pursuant to the Arrangement, the assets of the Company in Colombia and Peru were transferred to a new company named Loon Energy Corporation ("**Loon Corp**") and the Company, which retained the assets in Brunei, Syria, Slovenia and an investment in Jura Energy Corporation, changed its name to Kulczyk Oil Ventures Inc.

This MD&A pertains specifically to the assets and operations that constitute Kulczyk Oil, and certain comparative information has been "carved-out" of Loon's previously issued MD&A for the referenced periods. Additional information relating to Loon, including consolidated financial statements and MD&A for the referenced periods, and upon which this MD&A for Kulczyk Oil is based, can be accessed at www.kulczykoil.ca or www.sedar.com.

In accordance with the Arrangement, the common shares of Kulczyk Oil were de-listed from the TSX Venture Exchange. On February 11, 2009 the Company announced that it had entered into an agreement with Bank Zachodni WBK S.A. and Dom Maklerski BZ WBK S.A., both members of the Allied Irish Bank Capital Group and into a separate agreement with Lazard & Co., Limited pursuant to which these firms will assist the Company with the listing of its common shares and with an initial public offering on the Warsaw Stock Exchange. These are expected to be completed in the fourth quarter of 2009 subject to the satisfaction of various conditions including market conditions and the business progress of Kulczyk Oil.

Basis of Presentation

The consolidated financial statements of Kulczyk Oil have been prepared by management in accordance with Canadian generally accepted accounting principles ("**GAAP**"). In the current fiscal period the Company changed its reporting currency from Canadian dollars to United States dollars. Refer to page 13 of this MD&A for further information regarding the change in reporting currency and the consequent impact on the consolidated financial statements.

Implementation of the Arrangement on December 10, 2008 resulted in all of Loon's assets and liabilities in Colombia and Peru being transferred into Loon Corp with the assets and liabilities associated with Brunei, Slovenia and Syria and corporate assets, principally the shares of Jura Energy Corporation ("**Jura**"), remaining in the Company. Under the Arrangement, each Loon shareholder received one common share of Loon Corp and had the option to put their common shares of the Company back to the Company for CAD$0.25 per common share.

The consolidated financial statements prepared for each of Loon Corp and Kulczyk Oil follow continuity of interest guidelines. Kulczyk Oil retained the net assets associated with resource properties located in Brunei, Syria and Slovenia, together with the investment in shares of Jura. As Kulczyk Oil is the new name for Loon these consolidated financial statements include the legal share capital of Loon.

The financial information presented herein has been extracted from the books and records of Loon until December 10, 2008, the date the Arrangement was implemented. Certain financial statement items were maintained at a corporate rather than on a property-by-property basis by Loon and accordingly, it was necessary to make allocations of amounts reported in the consolidated financial statements of Loon in order to prepare the consolidated carve-out financial statements for the Company. The allocations that were made include:

> Share capital and related share issuance expenses were allocated based on the expenditure requirements of Loon Energy Corporation and the Company.

General and administrative expense, stock based compensation expense, unrealized loss/(gain) on foreign exchange and realized loss/(gain) on foreign exchange were allocated based on the ratio of capital expenditures in the respective entity to the total capital expenditures of Loon.

Future income taxes were estimated on the basis that each entity was a separate legal entity.

As the determination of certain assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the consolidated financial statements required the use of estimates and assumptions which have been made using careful judgement. In the opinion of management, the 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.

BOE Presentation

Production information is commonly reported in units of barrels of oil equivalent ("**BOE**") which may be misleading, particularly if used in isolation. The BOE conversion ratio is based on an energy equivalency and all BOE conversions in this report are derived by converting natural gas to oil at the ratio of six thousand cubic feet of gas to one barrel of oil.

Forward-looking statements

This MD&A contains forward-looking statements. Readers are advised that any forward-looking statements contained in this MD&A are expressly qualified by the cautionary statements contained within the Forward-looking Statement section of this document.

Non-GAAP Measures

The financial data presented in this MD&A has been prepared in accordance with GAAP except for the term "working capital" which is not a recognized measure under GAAP and does not have standardized meaning prescribed by GAAP. This non-GAAP measure is presented for information purposes only and should not be considered an alternative to, or more meaningful than information presented in accordance with GAAP. Management believes working capital may be a useful supplemental measure as it is used by the Company to measure and evaluate the timing and amount of capital required to fund future operations. The Company's method of calculating this measure may differ from those of other companies and, accordingly, it may not be comparable to measures used by other companies.

Kulczyk Oil calculates this non-GAAP measure as follows:

	December 31, 2008	December 31, 2007
	US$	US$
Current assets	$ 9,777,447	$ 12,270,804
Current liabilities	(1,939,675)	(3,283,519)
	$ 7,837,772	$ 8,987,285

Operations Overview

The Company has demonstrated its ability to source, negotiate and conclude agreements for exploration and development opportunities, and to partially finance the expenditure commitments pursuant to these agreements via farm-out arrangements. Company management intends to continue following this successful business model in developing future opportunities while it continues to develop existing projects.

Brunei

Loon Brunei Limited, a wholly-owned subsidiary of Kulczyk Oil owns a 40% working interest in a Production Sharing Agreement ("**PSA**") dated August 26, 2006 between Brunei National Petroleum Company Sendirian Berhad ("PetroleumBRUNEI"), QAF Brunei Sdn Bhd ("**QAF**") and the Company, which gives it the right to explore for and produce oil and gas from Block L, a 550,000 acre exploration and development area covering onshore and offshore areas of northeastern Brunei Darussalam ("**Brunei**").

Under the terms of the PSA, as amended February 20, 2008, the consortium agreed to complete the following work in Phase One of the work program:

- re-process 1,500 kilometres of existing seismic data;
- acquire 350 square kilometres of 3D onshore seismic data; and
- drill 2 onshore exploration wells, each to a depth of 2,000 metres.

PetroleumBRUNEI has agreed to an extension of time for the Phase One work program from August 28, 2009 to August 28, 2010. The documentation required to formally give effect to the extentsion, being prepared by PetroleumBRUNEI, will also provide for the reduction in the duration of time for the optional Phase Two work progam by one year to August 28, 2012.

On February 26, 2008, Nations Petroleum (SE Asia) Limited ("**Nations**"), a wholly-owned subsidiary of Nations Petroleum Company Ltd., exercised an option granted to it by the Company in 2007 to acquire a 50% interest in the PSA and committed to fund the first $20.5 million of exploration expenditures for the block. This agreement has resulted in the Company being reimbursed for approximately $1.4 million of previously incurred costs. As part of the approval of this transaction by PetroleumBRUNEI, Loon Brunei, and Nations have agreed to spend $4.5 million on additional work increasing the Phase One work commitment to a minimum of $25.0 million. As at December 31, 2008, approximately $7.5 million has been incurred by Nations against the $20.5 million that they must fund. The Company expects that the remaining amount of expenditure that Nations must fully fund will be incurred by the end of the third quarter of 2009.

On February 11, 2008 the Company announced the award of a contract for a 350 square kilometre 3D seismic acquisition survey with an estimated cost of approximately $15.3 million. Work under the contract commenced in the second quarter of 2008 and is ongoing. Surveying, line clearing and shothole drilling is completed and the acquisition of field data, now approximately 70% shot, is expected to be finished in May, 2009. The Company expects to drill the initial onshore exploration well in the first half of 2010.

During 2007, the Company concluded a settlement agreement relating to a legal challenge to its title to the Brunei PSA (the "**Settlement Agreement**") under which the Company made a one-time $1.2 million payment, agreed to pay a total of $800,000 in quarterly instalments over the succeeding 18 months, and to pay a maximum of $3.5 million out of 10% of the Company's share of profit oil as defined in the Brunei PSA. Pursuant to the Settlement Agreement, all disputes are resolved and there can be no further claims or assertions brought forth in connection with this matter. Accounts payable at December 31, 2008 include the remaining payments that are required under the Settlement Agreement of $270,000, excluding the amounts, if any, that may be payable based on the Company's share of future profit oil.

Syria

On September 20, 2007, the Company formally signed a Contract for the Exploration, Development and Production of Petroleum ("**PSC**") with the Government of the Syrian Arab Republic and Syrian Petroleum Company which gives the Company the right to explore for and develop hydrocarbons from Block 9 which encompasses an area of more than 10,000 square kilometres in northwest Syria. The PSC was ratified by the Syrian parliament on November 13, 2007 and became effective November 29, 2007. In accordance with the terms of the PSC, the Company posted a guarantee in the amount of $7.5 million.

Under the terms of the Block 9 PSC, Kulczyk Oil has a first phase exploration period of four years during which it has committed to reprocess certain existing seismic data on Block 9, acquire 600 kilometres of 2D seismic and drill two exploration wells. Minimum expenditures related to exploration are to be $7.5 million. The exploration period can be

extended for up to nine years in phases by performing additional work on an agreed basis. The Company has reprocessed 1,709 kilometres of pre-existing seismic data in the second half of 2008 and is is beginning the work on an environmental impact assessment prior to initiating the acquisition of additional seismic data. As at December 31, 2008, the Company has incurred expenditures in Syria of approximately $2.6 million.

Slovenia

The Company was active in Slovenia from 2003 to 2005 but the project was essentially inactive during 2006 and 2007. The purchase of a partner's interest in the project by a third party lead to renewed activity in late 2007 and continued in 2008 as the partners are currently reviewing the technical merits of the project.

The Company has an interest of 30% in shallow rights and 10.5% in deep rights underlying the Petisovsci Anticline, a large structure located under the eastern part of the country adjacent to the border with Hungary. Prior operations saw the drilling of a well (Pt-123) into the shallow reservoirs, the drilling of a well (D-14) into the deeper part of the structure and the re-completion of a number of older shallow wells which were previously productive for oil. The minor production developed from these operations ceased in late 2005.

Investment

The Company has exposure to exploration, development and appraisal programs in Pakistan through its shareholding in Jura. The Company owns 7,479,419 (6.4%) common shares of Jura, the value of which at December 31, 2008 was $610,764 based on the quoted market price of Jura common shares. Two directors of the Company (T. Elliott and N. Holton) are directors of Jura.

Domestic Activity

Kulczyk Oil had very minor production in Canada which it held for a number of years. During the fourth quarter of 2007, the Company sold a portion of its Canadian production. During the second quarter of 2008, the remaining Canadian producing assets were sold with an effective date of December 31, 2007 for proceeds of CAD$215,000, which is equal to the gain recorded on the sale.

Annual Financial Information

	Years ended December 31,		
	2008	2007	2006
	US$	US$	US$
Other revenue			
Interest and other income	$ 273,075	$ 845,412	$ 534,393
Gain on sale of subsidiary	-	-	8,114,801
Other expenses (recoveries)			
General and administative	2,672,461	6,667,084	1,307,437
(Recovery)/impairment of note receivable	-	(705,922)	668,336
Stock based compensation	181,677	719,318	1,195,036
Unrealized loss on investment	7,968,130	-	-
Unrealized (gain) loss on foreign exchange	(3,998,595)	658,695	(9,476)
Realized loss on foreign exchange	44,579	174,357	-
Depletion, depreciation and accretion	54,690	25,606	2,470
Impairment of petroleum and natural gas properties	-	1,411,272	-
Earnings (loss) before income taxes and discontinued operations	(6,649,867)	(8,104,998)	5,485,391
Current income tax (recovery) expense	-	(344,507)	339,386
Earnings (loss) from discontinued Canadian petroleum and natural gas activities	201,481	(41,162)	89,480
Net earnings (loss)	$ (6,448,386)	$ (7,801,653)	$ 5,235,485
Net earnings (loss) per share			
- basic and diluted (before discontinued operations)	$ (0.07)	$ (0.08)	$ 0.07
- basic and diluted (after discontinued operations)	$ (0.07)	$ (0.08)	$ 0.07
Total assets	$ 22,371,373	$ 26,546,182	$ 16,868,466
Long-term financial liabilities (asset retirement oblgiation)	$ 15,372	$ 74,710	$ 113,209

Discontinued operations

The Company's Canadian and oil and gas properties were all sold with an effective date of December 31, 2007, and accordingly, the results are reported as discontinued operations in the consolidated financial statements.

Interest and Other Income

Interest and other income for the year ended December 31, 2008 was $273,075 compared to $845,412 for the year ended December 31, 2007. The decrease of $572,337 is due to reduced rates of return on investments experienced in 2008 compared to 2007 and because of lower cash balances during 2008.

General and Administrative

General and administrative costs for the year ended December 31, 2008 are $2,672,461 compared to $6,667,084 for the year ended December 31, 2007. The 2007 comparative amount includes $4,935,086 in legal expenses related to the Brunei legal

case that did not recur in the current period. General and administrative costs for the year ended December 31, 2007 net of legal costs were $1,731,998. The increase in general and administrative costs (excluding Brunei legal costs) for 2008 is due to the expenses arising from the Plan of Arrangement completed in the fourth quarter of the year.

Unrealized loss on investment

As at December 31, 2008, the Company initially recorded a total unrealized loss of $7,968,130 related to its investment in Jura's common shares in accumulated other comprehensive loss. However due to the overall negative market conditions and the downward trend of the Jura stock price, the amount recorded in accumulated other comprehensive loss was assessed by management as being other than temporary and accordingly has been transferred to the statement of operations for the year ended December 31, 2008.

Depletion, Depreciation and Accretion (DD&A)

For the years ended December 31, 2008 and 2007, DD&A consisted only of deprecation on office assets and accretion on asset retirement obligations. The Company's petroleum and natural gas properties in Brunei, Syria and Slovenia are in a pre-production phase as they do not yet have any proven reserves attributable to them, and accordingly, there is no DD&A provision calculated thereon.

The Company recorded impairment of $1,411,272 for the year ended December 31, 2007 on its Tunisian cost centre because of an exploratory well that was drilled and abandoned. The Company disposed of its remaining Canadian petroleum and natural gas properties in the second quarter of 2008 with an effective date of December 31, 2007. As this sale representing the end of Canadian operations, the DD&A provision on this production is reported as discontinued operations in the consolidated financial statements.

Net Loss

Net loss was $6,448,386 for the year ended December 31, 2008 compared to a net loss of $7,801,653 for the year ended December 31, 2007. The reduction in net loss was due to decreases in general and administrative expenses for 2008 and unrealized gain on foreign exchange that was offset by unrealized loss on investment.

Fourth quarter

The focus of the Company's management during the fourth quarter was the Plan of Arrangement that was approved by shareholders on December 9, 2008, and implemented on December 10, 2008. Due to the costs associated with this, the Company's general and administrative expenditure was $1,181,693 for the fourth quarter of 2008 compared to $473,900 for the third quarter of 2008.

The Company also reclassified the unrealized loss of $7,968,130 on the investment in Jura shares from accumulated other comprehensive loss to the statement of operations. This was due to the overall negative market conditions and the downward trend of the Jura stock price.

In addition to the work on the Plan of Arrangement, the Company continued to monitor the work being completed in its current petroleum and natural gas properties while investigating and evaluating potential exploration and development opportunities and acquisitions.

Summary of Quarterly Data

The following tables set forth selected quarterly financial information for the most recent eight financial quarters. The information contained in these tables has not been audited or reviewed by the Company's auditor.

	Q4 2008	Q3 2008	Q2 2008	Q1 2008
	US$	US$	US$	US$
Petroleum and natural gas sales	$ -	$ -	$ -	$ -
(Loss)/income after tax	$ (5,594,783)	$ (349,568)	$ (209,578)	$ (294,456)
Per share - basic and diluted (before and after discontinued operations)	$ (0.05)	$ (0.00)	$ (0.00)	$ (0.00)

	Q4 2007	Q3 2007	Q2 2007	Q1 2007
	US$	US$	US$	US$
Petroleum and natural gas sales	$ -	$ -	$ -	$ -
(Loss)/income after tax	$ (1,269,878)	$ (5,428,613)	$ (532,311)	$ (570,851)
Per share - basic and diluted (before and after discontinued operations)	$ (0.02)	$ (0.07)	$ (0.01)	$ (0.01)

Capital Expenditures

The Company has been reimbursed by Nations for certain past costs related to the initial acquisition of Block L in Brunei pursuant to the exercise by Nations of their Option to earn a 50% interest in the Block. During 2008 the expenditures in Syria related to the reprocessing of seismic data. In 2007, the Company incurred $1.7 million of acquisition costs for Block 9 in Syria, with $1,000,000 of these costs being a signing bonus when the concession was granted to the Company. During the year ended December 31, 2007 the Company drilled an unsuccessful exploratory well in Tunisia. All costs associated with the well, totalling $1,411,272, were written off.

	Years ended December 31, 2008	2007
	US$	US$
Brunei	$ 11,952	$ (1,108,769)
Syria	844,762	1,710,482
Other and Corporate	364,531	1,427,731
Total expenditures	$ 1,221,245	$ 2,029,444

Share Data

The Company is authorized to issue an unlimited number of common shares of which 125,425,605 common shares and 9,110,000 options to purchase common shares were outstanding as at December 31, 2008 and March 23, 2009. The Company did not issue any shares pursuant to the exercise of stock options during the year ended December 31, 2008.

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

Summary of common shares outstanding:

	Number of Shares	Carrying amount
		US$
Balance, December 31, 2006	*70,991,364*	$ 13,835,757
Issued for cash net of share issue costs of $473,282	*25,000,000*	22,804,185
Less carrying value of share capital allocated to Loon Energy Corporation (note 1)	-	(5,690,887)
Balance, December 31, 2007	*95,991,364*	30,949,055
Issued for cash net of share issue costs of $nil	*48,000,000*	9,556,423
Repurchased to treasury as part of put right option	*(18,565,759)*	(3,696,297)
Transfer to contributed surplus due to repurchase price being less than the carrying value per share	-	(1,182,815)
Less carrying value of share capital allocated to Loon Energy Corporation (note 1)	-	(2,898,612)
Balance, December 31, 2008	*125,425,605*	$ 32,727,754

On July 13, 2007, the Company closed a private placement equity financing through which 25,000,000 common shares were issued at CAD$1.00 per share for gross proceeds of CAD$25 million. All of the common shares were bought by Kulczyk Investment House International S.à.r.l. ("**Kulczyk Investment House**"). The private placement increased the total shareholdings of Kulczyk Investment House in Loon to 37,279,763 common shares or approximately 39% of the issued and outstanding common shares of the Company.

The Plan of Arrangement gave each shareholder of the Company the right ("**Put Right**"), exercisable in advance of the meeting on December 9, 2008, to require the Company to repurchase shares at a price of CAD$0.25. A maximum of CAD$12 million was available for shareholders of the Company who decided to exercise the Put Right. To provide the Company with the funds necessary to finance the Put Right and with additional capital in the event that all of the funds were not used for that purpose, Kulczyk Investment House subscribed for 48,000,000 shares of the Company at CAD$0.25 per share for gross proceeds of $9,556,423 (CAD$12 million).

On December 10, 2008, holders of 18,565,759 common shares exercised their Put Right and the Company paid out $3,696,297 (CAD$4,641,440) to re-purchase their shares. After the redemption of the shares under the Put Right, Kulczyk Investment House's ownership percentage of the issued and outstanding shares of the Company is approximately 68%.

The redemption price per share of CAD$0.25 was less than the carrying value per share at the time of redemption, therefore the difference is reclassified from share capital to contributed surplus.

	Year ended December 31, 2008	2007
Weighted average number of shares outstanding	*97,684,841*	*82,566,706*

As the Company is in a loss position the effect of outstanding options is anti-dilutive to the net loss per share.

The following table summarizes information about common share purchase options outstanding and exercisable at March 16, 2009:

Options outstanding				Options exercisable		
	Exercise price	*Options*	*Contractual life remaining, years (weighted average)*	*Options*		Exercise price
$	0.16	750,000	0.8	750,000	$	0.16
$	0.21	700,000	1.1	700,000	$	0.21
$	0.24	100,000	1.1	100,000	$	0.24
$	0.70	500,000	1.6	500,000	$	0.70
$	0.95	1,930,000	1.9	1,930,000	$	0.95
$	0.95	2,460,000	2.6	2,460,000	$	0.95
$	0.50	150,000	3.8	150,000	$	0.50
$	0.55	475,000	3.8	475,000	$	0.55
$	0.65	75,000	4.2	25,000	$	0.65
$	0.61	1,760,000	4.4	586,667	$	0.61
$	0.70	210,000	4.6	70,000	$	0.70
$	0.70	9,110,000	2.6	7,746,667	$	0.72

Financial Instruments

The Company as part of its operations carries a number of financial instruments including cash and short-term deposits, restricted cash, accounts receivable, marketable securities and accounts payable and accrued liabilities. The Company is exposed to the following risks related to its financial assets and liabilities:

Interest rate risk

The Company maintains its cash and cash equivalents and restricted cash in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon. Interest rate risks on the Company's obligations are not considered material.

Credit risk

The Company's cash and cash equivalents and restricted cash are held with major financial institutions. Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash, cash equivalents and restricted cash.

Accounts receivable as at December 31, 2008 consists of commodity taxes recoverable from the federal government of Canada and interest earned on restricted cash deposits for which credit risk is assessed as being low.

Market risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar and the United States dollar. At December 31, 2008 the Company's primary exposures relate to Canadian dollar denominated working capital and cash balances held in Canada.

Cash and cash equivalents	CAD	$	8,038,189
Accounts receivable			249,220
Prepaids			202,703
Accounts payable and accrued liabilities			(2,206,302)
Net foreign exchange exposure	CAD	$	6,283,810

At December 31, 2008, if the Canadian dollar had strengthened by 10% compared to the U.S. dollar and all other variables were held constant, after tax net loss would have increased by $0.8 million. Conversely, if the Canadian dollar had weakened by 10%, an equal decrease of $0.8 million to after tax net loss would have resulted.

At December 31, 2008, if the value of Jura Energy Corporation shares had been 10% higher the impact would have been a $61,076 reduction in the unrealized loss recorded in the statement of operations. If the share price had been 10% lower the same amount would have increased the unrealized loss.

Fair value

The carrying value of the Company's financial assets and liabilities, except for its investment in Jura Energy Corporation, approximate their fair values due to their demand nature or because of their relatively short term to maturity. The investment in Jura is recorded at fair value based on the quoted market price for the shares.

Liquidity risk

The Company monitors its liquidity position regularly to ensure that it has funds necessary to complete 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. However, as an exploration company at an early stage of development and without significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required by work programmes to retain concession licences, farm out arrangements and seeking new equity capital.

Related Party Transactions

Jura, a public company in which the Company owns 6.4% of the outstanding common shares, commenced providing financial and accounting services to the Company in May 2007. For the year ended December 31, 2008, the fees totalled $90,236 (December 31, 2007: $178,918). At December 31, 2008, the Company owed $31,629 to Jura (December 31, 2007 - $65,910). Two directors of the Company, Timothy M. Elliott and Norman W. Holton, are directors of Jura and Paul H. Rose, Chief Financial Officer of the Company is also the Chief Financial Officer of Jura.

Nemmoco Petroleum Corporation ("**Nemmoco**"), a private company of which 25% is owned by, Timothy M. Elliott, an officer and director of the Company, provides certain personnel and general, accounting and administrative services to the Company at its offices in Dubai on a cost sharing basis. For the year ended December 31, 2008, the fees totalled $99,698 (December 31, 2007: $85,803). At December 31, 2008, the Company owed $18,149(December 31, 2007 - $42,720) to Nemmoco in relation to these administrative services.

Loon Energy Corporation ("Loon Corp") has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil pursuant to a shared services structure. This structure was implemented on December 10, 2008, the date of the Plan of Arrangement. Based on the allocation of costs noted above in the *Basis of Presentation* section of this document and other specific expenses which had been paid by Kulczyk Oil on behalf of Loon

Corp, Loon Corp owed Kulczyk Oil $56,813 as at December 31, 2008. Kulczyk Oil and Loon Energy are related as they have common directors and officers and the same principal shareholder.

All of the common shares issued in the CAD$12,000,000 and CAD$25,000,000 private placements completed on December 10, 2008 and July 13, 2007 respectively, were bought by Kulczyk Investment House, a private company which had a prior ownership interest in the Company and had a representative on the board of the Company at the time the common shares were issued.

Prior to May, 2007 when its 12,279,763 shares of the Company were acquired by Kulczyk Investment House, TUSK Energy Corporation ("**TUSK**") purchased shares of the Company through the open market, by private placement and through the exercise of share purchase warrants. Norman W. Holton, a director and officer of the Company, was then a director of TUSK. TUSK supplied certain personnel and general, accounting and administrative services to the Company until May 31, 2007 when the arrangement was terminated. For the years ending December 31, 2007 their fees totalled $19,553.

The Company had a note receivable due from CTI Petroleum Canada Inc. ("**CTI**") which was repaid during the second quarter of 2007. The president of CTI was a director of TUSK at the time of the loan. Prior to 2007, a portion of the note receivable was written-off therefore the repayment of the note in 2007 resulted in the recognition of the gain in the statement of operations.

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

Liquidity and Capital Resources

The Company's exploration activities and overhead costs are financed by way of equity issuances and by farm-out agreements through which third parties pay for all or a portion of the Company's expenditures to earn a portion of the Company's ownership interest. The Company believes that its cash resources at December 31, 2008 together with the "carry" resulting from existing farmout arrangements will be sufficient to finance current operations and planned capital spending anticipated for the next twelve months. The majority of the costs arising from the Brunei work commitment ($22.75 million of the total $25.0 million) are expected to be paid for by other parties pursuant to agreements with those parties to earn a portion of the Company's working interests. The Company has posted a guarantee for the minimum cost of the work commitment in Syria ($7.5 million), which is secured by cash on deposit.

Additional capital or further commitment from farm-in partners will be required to complete the full exploration and development programs as presently contemplated under the Company's current agreements. Should capital or farm-in partners not be available in the future when planned expenditures on oil and gas properties are required, operations may have to be suspended or revaluated. The uncertainty in the global capital markets that is currently being experienced could have a negative impact on the Company's ability to access capital in the future.

The Company had a working capital surplus of $7,837,772 at December 31, 2008 (December 31, 2007 - $8,987,285) with an additional $7.5 million posted as cash security for a bank guarantee related to Syria.

On an ongoing basis the Company will typically utilize four sources of funding to finance its capital expenditure program: internally generated funds, debt where appropriate, new equity issues if available on favourable terms, and asset sales. When financing corporate acquisitions, the Company may also assume certain future liabilities.

Commitments

Brunei

The work commitments over the period ending August28, 2010 in accordance with the Production Sharing Agreement ("**PSA**") for Brunei will require expenditures presently estimated to amount to a minimum of $25.0 million of which the

Company's minimum share would be $2.25 million. The remaining $22.75 million will be funded by Nations Petroleum Brunei Limited ("**Nations**") pursuant to the agreements described in the "Operations Review" section of this MD&A. The agreement with Nations requires them to fund the first $20.5 million of expenditures during the Phase One work program. As at December 31, 2008, approximately $7.5 million has been incurred by Nations. The Company expects that the remaining amount of expenditure that Nations must fully fund will be incurred by the third quarter of 2009.

The Company has accrued payments aggregating $270,000 in the financial statements as at December 31, 2008 that relate to an agreement reached to settle a legal challenge to the Company's title under the PSA. Pursuant to the Settlement Agreement, the Company also agreed to pay a maximum of $3.5 million out of 10% of its share of profit oil as defined in the Brunei PSA. No amount has been accrued in these financial statements for this contingent liability.

Syria

In 2007, the Company signed a contract for the Exploration, Development and Production of Petroleum ("PSC") with the Government of the Syrian Arab Republic and the Syrian Petroleum Company for Block 9 in northwest Syria.

Under the terms of the Block 9 PSC, the Company has a first phase exploration period of four years during which it has committed to acquire and process seismic information and drill two exploration wells. The exploration period can be extended for up to nine years in phases by performing additional work on an agreed basis. In accordance with the terms of the PSC, the Company posted a guarantee in the amount of $7.5 million which is the Company's estimated minimum capital expenditure required for the work commitment in the PSC. As at December 31, 2008, approximately $2.6 million in expenditures have been incurred in Syria of which approximately $740,000 are eligible exploration costs for the first phase exploration period, and which therefore reduce by a like amount the amount of the guarantee required to be posted.

Office Space

During the fourth quarter of 2008 the Company signed a lease agreement for new space for its Calgary office. This lease commenced on December 1, 2008 and expires on August 30, 2011. The commitment is $120,610 each year for the term of the agreement. The Company anticipates subleasing the previous space under contract. The Company's lease agreement for its former Calgary office space expires on October 31, 2012; the commitment is $120,529 each year for the remaining four years of the agreement.

Forward Looking Statements

This MD&A contains forward-looking statements. These statements relate to future events or future performance of the Company. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "predict", "seek", "propose", "expect", "potential", "continue", and similar expressions, are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Company's current views with respect to certain events, and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance, or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated, or expected. Specific forward-looking statements in this MD&A, among others, include statements pertaining to the following:

- factors upon which the Company will decide whether or not to undertake a specific course of action;
- world-wide supply and demand for petroleum products;
- expectations regarding the Company's ability to raise capital;
- treatment under governmental regulatory regimes; and
- commodity prices.

With respect to forward-looking statements in this MD&A, the Company has made assumptions, regarding, among other things:

- the impact of increasing competition;
- the ability of farm-out partners to satisfy their obligations;
- the Company's ability to obtain additional financing on satisfactory terms; and
- the Company's ability to attract and retain qualified personnel.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- general economic conditions;
- volatility in global market prices for oil and natural gas;
- competition;
- liabilities and risks, including environmental liability and risks, inherent in oil and gas operations;
- the availability of capital; and
- alternatives to and changing demand for petroleum products.

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

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

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates. Information regarding the accounting policies selected by the Company, and the critical accounting estimates used are set out in the Company's consolidated financial statements for the years ended December 31, 2008 and 2007, and are further discussed in this Management's Discussion and Analysis document.

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

Cost recovery test on property and equipment

The Company performs a cost recovery test for each cost centre at least annually to evaluate and if appropriate, recognize impairment when the carrying value of property and equipment exceeds the undiscounted future cash flows from proven reserves using estimated future commodity prices. The amount of any impairment to be recognized is determined as the excess of the carrying value over fair value. Fair value is determined using proven and probable reserves together with undeveloped land, and is based on the present value of expected future cash flows discounted at a risk-free rate of interest.

The Company also completes an analysis of the carrying value of undeveloped properties at least annually to ensure there are no indicators of impairment. These indicators would include, but are not limited to, results of seismic reprocessing and acquisition, licence expirations and the determination by management that a project or property is no longer economically feasible.

Impairments, if any, are highly dependent on finding commercial reserves and the amount and potential effect of impairments in the future could be significant.

New Accounting Policies

Change in reporting currency and foreign currency translation

Effective December 10, 2008, the Company changed its reporting currency from Canadian dollars (CAD $) to United States dollars (US$ or $), as the Company anticipates that the majority of its future income stream and sources of new capital will be denominated in US$. The Company has restated prior period comparative information.

Effective December 10, 2008, the Company reclassified all entities within the corporate group from integrated to self-sustaining foreign operations. The change in the functional currency of both the Company and its subsidiaries was made for a number of reasons:

1. Kulczyk Oil, , delisted from the TSX Venture Exchange coincident with the implementation of the Arrangement and intends to list its shares on the Warsaw Stock Exchange later in 2009;
2. Future financings will no longer be completed in Canadian dollars; .
3. The operating subsidiaries were reclassified because of the change in currency of future sources of capital that will be used on the planned capital expenditures in each of these entities; and
4. Future income streams and expenditures for operating subsidiaries will be denominated in US$.

The Company has prospectively adopted the current rate method of foreign currency translation. Under this method revenues and expenses are translated using the average exchange rates for the applicable period, assets and liabilities are translated using the exchange rates in effect on the balance sheet dates, and shareholders' equity is translated using historical rates in effect at the date of each transaction. Resulting exchange differences are reported as a separate component of other comprehensive loss.

For the year ended December 31, 2008, the Company recorded $5,244,613 in accumulated other comprehensive loss, with this amount arising from the prospective adoption of the current rate method for foreign currency translation of the accounts of its reclassified self-sustaining foreign operations, adoption of US$ as functional currency for the parent entity and the change in reporting currency from Canadian to United States dollars. All comparative financial information has been translated and restated as if the US$ had been used as the Company's reporting currency but the subsidiaries remain classified as integrated.

Other changes in accounting policies

The Canadian Institute of Chartered Accountants ("**CICA**") issued the following new accounting standards that apply to the Company effective January 1, 2008. These standards, which have been adopted prospectively, did not have a material effect on the consolidated financial statements.

Financial instruments – disclosure and presentation

CICA handbook section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation" replace section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. They are also intended to remove any duplicate disclosures and simplify the disclosures about concentrations of risk, credit risk, liquidity risk and price risk previously found in Section 3861. The new presentation standard carries forward the former presentation requirements.

Capital disclosures

CICA handbook section 1535, "Capital Disclosures" requires additional disclosure of objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements.

Future Accounting Policies

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable profit-oriented enterprises will be required to use International Financial Reporting Standards ("**IFRS**") in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. For the Company, this will mean that interim and annual consolidated financial statements will be prepared in accordance with IFRS for 2011 fiscal year, and will include comparative figures for the 2010 fiscal year prepared in accordance with IFRS as well. Over the next twoyears, Canadian GAAP will be modified to converge with IFRS.

An evaluation of IFRS conversion requirements that pertain to the Company will be conducted throughout the first half of 2009, which will then lead to the development of an implementation plan to transition the Company's financial reporting process, including internal controls and information systems to IFRS. During this evaluation, IFRS early adoption provisions will be investigated, and the Company will evaluate whether early adoption is allowable and/or feasible. The evaluation will also allow the Company to be in a position to estimate the initial financial impact of the transition to IFRS so key stakeholders and users of the financial information can begin to understand the overall consequences of this process.

Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

The Company is not required to and is not certifying as to the design and operating effectiveness of disclosure controls and procedures ("**DC&P**") and internal controls over financial reporting ("**ICFR**") The following comments with respect to DC&P and ICFR are based on management's observations of the Company's control environment and not on a complete assessment of DC&P and ICFR as the Company has not completed an evaluation of the design or operating effectiveness of DC&P and ICFR.

The preparation of this MD&A is supported by a set of DC&P as at December 31, 2008. DC&P have been designed to provide reasonable assurance that material information required to be disclosed by the Company is accumulated, appropriately processed and communicated to the Company's management to allow timely decisions regarding and preparation of required disclosures. The Company's Chief Executive Officer and Chief Financial Officer believe that the Company's DC&P provide a reasonable level of assurance that they are effective, however they do not expect that the DC&P will prevent all errors and/or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing ICFR or causing them to be designed under their supervision. The Company has undergone significant growth and faces increased complexity that arises from expanding its operations into additional countries. Senior management believes that the design and function of its systems of ICFR provide reasonable, not absolute assurance regarding the reliability of financial reporting systems and the preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP.

The Company recognizes that its ICFR has a number of inherent weaknesses due to the geographical distribution of the Company's senior management staff, and the limited number of staff employed by the Company. Management has designed and implemented compensating internal controls which it believes mitigates risk arising from these weaknesses, but recognizes that such risks cannot be completely eliminated. At the Company's present stage of development, it is not economically feasible to achieve complete segregation of otherwise incompatible duties, and the compensating controls in place consist primarily of management and Board review and oversight to mitigate these limitations to its ICFR. Further, management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient from time to time, and accordingly relies on compensating controls which include seeking assistance and advice from independent experts on taxation issues, and on accounting pronouncements and complex accounting and reporting issues when deemed necessary.

A system of ICFR, no matter how well conceived or operated can provide only reasonable, not absolute, assurance that the objectives of the ICFR are met. At present, the Chief Executive Officer, the Vice- Chairman and the Chief Financial Officer oversee all material transactions and there is daily oversight by management of the Company. Interim and annual consolidated financial statements are reviewed by the Company's senior management, the Audit Committee and the Board of Directors.

Approval

The Company's Board of Directors has approved the disclosure contained within this MD&A.

Additional information regarding Loon and its business and operations is available at **www.sedar.com**. Information is also accessible on the Company's website at **www.kulczykoil.ca.** Copies of the information can also be obtained by contacting the Company at Kulczyk Oil Ventures Inc., 1170, 700 – 4th Avenue S.W., Calgary, Alberta T2P 3J4 (Phone: +403-264-8877) or by e-mail at **ryaniw@kulczykoil.ca**.