2013 Management's Discussion and Analysis

For the year ended December 31, 2013

MANAGEMENT'S DISCUSSION + ANALYSIS

The following management discussion and analysis ("MD&A"), as provided by the management of LGX Oil + Gas Inc. (formerly known as Bowood Energy Inc.) ("LGX" or the "Company") of the financial condition and performance of LGX for the three months and year ended December 31, 2013, as described below, as of March 24, 2014, is to be read in conjunction with the audited consolidated financial statements and related notes for the for the year ended December 31, 2013. The Company prepares its financial statements in accordance with International Financial Reporting Standards and interpretations (collectively referred to as "IFRS") as issued by the International Accounting Standards Board ("IASB"). All tabular amounts are stated in Canadian dollars unless indicated otherwise.

Common-Control Transaction with Legacy Oil + Gas Inc. and Reverse Acquisition of LGX

On July 5, 2012, the shareholders of LGX approved a strategic transaction with Legacy Oil + Gas Inc. ("Legacy") whereby Legacy sold certain undeveloped land in southern Alberta ("Legacy Oil + Gas Inc.'s Southern Alberta Assets" or "SA Assets") to LGX in exchange for an equity interest in LGX (the "Asset Purchase"). In accordance with IFRS and based on management's significant judgments, the Asset Purchase was accounted for as a reverse acquisition whereby SA Assets was identified as the accounting "acquirer" - being the entity that obtains control of the acquiree, LGX.

As a result of the Asset Purchase and this common-control transaction and reverse acquisition, the reader is cautioned that the MD&A and accompanying audited consolidated financial statements present the historic financial position, results of operations and cash flows of SA Assets, for all prior periods up to and including July 5, 2012 and the results of operations from July 5, 2012 forward include both SA Assets and LGX (referred to collectively with its subsidiaries as "LGX" or the "Company"), unless otherwise indicated.

In addition, the reader is cautioned that annual disclosures in LGX's Annual Information Form ("AIF") for the year ended December 31, 2013 dated March 24, 2014 presents the annual information of Bowood Energy Inc. for the period beginning January 1, 2012 to July 5, 2012 (Bowood Energy Inc. prior to the reverse acquisition) and the information of LGX for the period July 5, 2012 forward to December 31, 2013 (LGX/SA Assets subsequent to the reverse acquisition). The LGX AIF is available on the Company's profile at www.sedar.com.

With the adoption of new IFRS statements effective January 1, 2013, as described in Note 4 of the audited consolidated financial statements for the year ended December 31, 2013, the Company re-assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of new IFRS statements did not result in any change in the consolidation status of any of its subsidiaries as well as the reverse acquisition as presented.

Emergency Order for the Protection of the Greater Sage-Grouse

In December 2013, the Company and other producers received notice from the Federal Minister of Environment of an Emergency Order for the Protection of the Greater Sage-Grouse pursuant to *the Species at Risk Act* (Canada) ("Emergency Order") to address the imminent threats to the survival and recovery of the Greater Sage-Grouse, including protecting the habitat in southeast Alberta and southwest Saskatchewan identified in the order to help stabilize the Greater Sage-Grouse population and begin its recovery. The Emergency Order came into effect on February 18, 2014.

Among other things, the Emergency Order imposes a year-round prohibition on killing or moving sagebrush, native grasses or native forbs, constructing or installing new sources of chronic noise, constructing new roads or widening existing roads and installing or constructing new structures or machines in excess of 1.2 metres in height. In addition, between April 1 and May 30 each year, the Emergency Order prohibits the operation of a facility, vehicle or machine that produces noise exceeding 45dB(A) within 3.2 kilometers of Greater Sage-Grouse mating sites from 1.5 hours before sunset to 1.5 hours after sunrise.

The Emergency Order applies to specified federal and provincial Crown lands. The majority of LGX's Manyberries property is located on specified provincial Crown lands covered by the Emergency Order. The Emergency Order does not affect LGX's Alberta Bakken properties.

A copy of the Emergency Order is attached to the material change report of LGX dated January 3, 2014. The material change report has been filed on SEDAR and may be reviewed under LGX's profile at the SEDAR website at www.sedar.com.

LGX has concluded that the Emergency Order has the potential to have a significant adverse effect on LGX's ability to maintain and increase production at Manyberries and to prevent the drilling of new wells there.

LGX, in conjunction with another producer in the affected area, has filed an application with the Federal Court of Canada for judicial review of the Emergency Order on the grounds that certain provisions of the *Species at Risk Act* (Canada) are *ultra vires* the jurisdiction of the Parliament of Canada and are of no force and effect, and that the Minister of Environment and Governor General in Council failed to consult with LGX and the other producer, and therefore did not adhere to the requirements of procedural fairness and natural justice in recommending and making the Emergency Order. As a result of the failure to consult, the Minister and Governor General in Council relied on a number of erroneous facts and assumptions, rendering their decisions unreasonable.

LGX and the other producer are seeking an order of the Federal Court quashing the Emergency Order. LGX may pursue compensation for losses arising from any impact to operations at Manyberries pursuant to the provisions of the *Species at Risk Act* (Canada). LGX may also seek additional relief to protect its interests at Manyberries.

LGX has been in full compliance with the Province of Alberta's comprehensive legislative and regulatory framework for the protection of the Greater Sage-Grouse which has been in place since 1996, including the provincial recovery plan for the Greater Sage-Grouse.

The Emergency Order came into effect after the effective date of the independent engineering report evaluating the Company's reserves as at December 31, 2013 and the ultimate impact of the Emergency Order on the Company's reserves remains uncertain. The existence of the Emergency Order may result in potential revisions to the reserves attributable to the Manyberries property in any future estimate of such reserves.

The Company has not made provision for any impairment losses of its Manyberries property in the consolidated financial statements for the year ended December 31, 2013 and based on management's best estimates, the $38.8 million carrying amount of its net assets in the Manyberries area at December 31, 2013 is recoverable as the Company: (i) is seeking an order of the Federal Court quashing the Emergency Order; and (ii) may pursue compensation for losses arising from any impact to LGX's operations at Manyberries pursuant to the provisions of the *Species at Risk Act* (Canada).

Non-IFRS Measures

The MD&A contains the term funds generated by operations, which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with IFRS as an indicator of the Company's performance. Funds generated by operations is a measure not defined in IFRS that is commonly used in the oil and gas industry and is a benchmark LGX uses to evaluate its performance. Funds generated by operations represent cash provided by operating activities before changes in non-cash working capital and transaction costs. The Company considers it a key measure as it demonstrates the ability of the Company's continuing operations to generate the cash flow necessary to fund future growth through capital investment and to repay debt. LGX's determination of funds generated by operations may not be comparable to that reported by other companies. The Company also presents funds generated by operations per share and per share diluted whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share and diluted earnings per share. Funds generated by operations as presented is not intended to represent cash flow from operating activities, net income (loss) or other measures of financial performance calculated in accordance with IFRS.

The following table reconciles the cash flow from operating activities to funds generated by operations for the Company:

	Three Months Ended December 31			**Year Ended December 31**		
($)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
Cash flow generated by (used) in operating activities	6,245,163	1,700,683	267	5,447,799	(2,392,014)	(328)
Transaction costs	-	522,026	(100)	48,034	523,051	(91)
Changes in non-cash working capital	(5,119,328)	(1,759,666)	191	(1,063,483)	2,193,561	(148)
Funds generated by operations	1,125,835	463,043	143	4,432,350	324,598	1,265

The MD&A contains the term netback and operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by IFRS and prior thereto, Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback is used by research analysts to compare operating performance and the Company's ability to maintain current operations and meet the forecasted capital program. The Company's operating netback is the net result of the Company's revenue (consisting of petroleum and natural gas sales, net of royalties), operating expenses and transportation expenses, as found in the accompanying consolidated financial statements, divided by production for the period.

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The MD&A contains the term net debt and working capital surplus (deficit). The Company uses net debt and working capital surplus (deficit) to evaluate financial leverage. Net debt and working capital surplus (deficit) includes the Company's bank debt plus total current liabilities less total current assets. The following table reconciles the net debt and working capital surplus (deficit) as presented by the Company:

($)	**As at December 31 2013**	**As at December 31 2012**
Total current assets	5,096,827	5,014,007
Total current liabilities	(24,732,691)	(14,920,933)
Net debt and working capital surplus (deficit)	(19,635,864)	(9,906,926)

The MD&A contains the term net acquisitions (cash consideration) which does not have any standardized meaning prescribed by IFRS and therefore may not be comparable with other entities. The Company uses net acquisitions (cash consideration) to present the total cash consideration paid for the acquisition of property, plant and equipment and exploration and evaluation assets acquired as part of business combinations net of cash consideration received for the divestitures of property, plant and equipment as well as exploration and evaluation assets. Net acquisitions (cash consideration) is used by the Company to present the net cash flow effect of these acquisitions and divestitures on the Company's cash flows for the period presented.

Financial Presentation - Certain prior period comparative figures have been reclassified to conform to the presentation adopted in the current period.

Boe Presentation – Boe means barrel of oil equivalent. All Boe conversions in the report are derived by converting gas to oil at the ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent. Boe may be misleading, particularly if used in isolation. A Boe conversion rate of 1 Boe: 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio of oil compared to natural gas based on currently prevailing prices is significantly different than the energy equivalency ratio of 1 Boe : 6 Mcf, utilizing a conversion ratio of 1 Boe : 6 Mcf may be misleading as an indication of value.

Forward-Looking Information – This MD&A and the accompanying President's Message contain forward-looking statements. More particularly, they contain forward-looking statements concerning: (i) the amount of planned capital expenditures for 2014, (ii) the breakdown of planned capital expenditures by class and area, (iii) planned drilling and development activities, (iv) the anticipated 2014 average and exit rates of production, (v) the potential impact of the Emergency Order on LGX's operations, reserves and financial position, (iv) expected decreases in workovers and operating expenses, (v) the sufficiency of the LGX's liquidity to fund operating, interest and general and administrative expenses, (vi) estimated decommissioning liabilities and the timing of expenditures to satisfy decommissioning liabilities, (vii) the expected timing to satisfy accounts payable and (viii) the anticipated sufficiency of the present sources of capital and budgeted cash flows for 2014 to satisfy the Board approved capital program for 2014.

The forward-looking statements contained in this MD&A and accompanying President's Message are based on certain key expectations and assumptions made by LGX, including the operational parameters specifically set out in the President's Message and expectations and assumptions concerning: (i) the application of the Emergency Order and the Species at Risk Act (Canada), (ii) the success of future drilling, development and completion activities, (iii) the performance of existing wells, (iv) the performance of new wells, (v) the availability and performance of facilities and pipelines, (vi) the geological characteristics of LGX's properties, (vii) the successful application of drilling, completion and seismic technology, (viii) prevailing weather and break-up conditions, commodity prices, royalty regimes and exchange rates, (ix) the application of regulatory and licensing requirements, and (x) the availability of capital, labour and services.

Although LGX believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because LGX can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), constraint in the availability of services, commodity price and exchange rate fluctuations, adverse weather or break-up conditions and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures, uncertainties as to the application and impact of the Emergency Order and uncertainties as to the outcome of efforts by LGX to quash or amend the Emergency Order or to obtain compensation for losses related to the Emergency Order. These and other risks are set out in more detail in this MD&A under the heading "Risk Assessment" and in LGX's Annual Information Form for the year ended December 31, 2013 dated March 24, 2014.

The forward-looking statements contained in this MD&A and accompanying President's Message are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

RESULTS OF OPERATIONS

Production

	Three Months Ended December 31			Year Ended December 31		
	2013	2012	% change	2013	2012	% change
Daily Production						
Crude oil and natural gas liquids (Bbls per day)	718	430	67	619	146	324
Natural gas (Mcf per day)	1,482	1,528	(3)	1,673	871	92
Total (Boe per day)	965	685	41	898	291	209

For the three months ended December 31, 2013, LGX's production was 965 Boe per day compared to 685 Boe per day for the same period in the prior year. This increase is due to the acquisition of the Manyberries properties in southeast Alberta midway through the fourth quarter of 2012 combined with successful drilling, completion and tie-in efforts in the Alberta Bakken in the fourth quarter of 2013. Crude oil and natural gas liquids production for the three months ended December 31, 2013 was 718 Bbls per day while natural gas production was 1,482 Mcf per day.

Average production for the year ended December 31, 2013 was 898 Boe per day compared to 291 Boe per day in the prior year. Crude oil and natural gas liquids production was 619 Boe per day for the year ended December 31, 2013 compared to 146 Boe per day in the prior year. Natural gas production was 1,673 Mcf per day for the year ended December 31, 2013 compared to 871 Boe per day in the prior year. The increase in average production is primarily due to the reverse acquisition of Bowood Energy Ltd. by Legacy Oil + Gas Inc.'s Southern Alberta Assets in the third quarter of 2012 as well as the acquisition of the Manyberries properties in southeast Alberta in the fourth quarter of 2012.

During the three months and year ended December 31, 2013, the Company drilled 2 gross (2 net) oil wells with a 100 percent drilling success rate.

Realized Commodity Prices

	Three Months Ended December 31			Year Ended December 31		
	2013	2012	% change	2013	2012	% change
Daily Average Benchmark Prices						
Crude oil – WTI (US$ per Bbl)	97.50	88.20	11	98.00	94.19	4
Crude oil – WTI ($ per Bbl)	102.33	87.41	17	100.93	94.11	7
Crude oil – Edmonton Par ($ per Bbl)	86.32	84.27	2	93.31	86.54	8
Natural gas – AECO-C Spot ($ per Mcf)	3.52	3.05	15	3.13	2.43	29
Exchange rate – (US/CAD)	0.953	1.009	(6)	0.971	1.001	(3)
LGX's average realized prices						
Crude oil and natural gas liquids ($ per Bbl)	78.26	72.18	8	84.60	74.10	14
Natural gas ($ per Mcf)	3.46	3.32	4	3.05	2.69	13
Barrels of oil equivalent ($ per Boe)	63.55	52.71	21	63.99	45.23	41

LGX's realized price for its crude oil and natural gas liquids sales in the fourth quarter of 2013 was $78.26 per Bbl (2012 – $72.18) compared to a C$ WTI price of $102.33 per Bbl (2012 - $87.41 per Bbl). LGX's oil production is light sweet crude produced in southern Alberta. For the year ended December 31, 2013, LGX's realized price for its crude oil and natural gas liquid sales was $84.60 (2012- $74.10 per Bbl) compared to a C$ WTI price of $100.93 per Bbl (2012 - $94.11).

For the fourth quarter of 2013, the Company's realized price for its natural gas was $3.46 per Mcf (2012 – $3.32) compared to an AECO-C price of $3.52 per Mcf (2012 - $3.05). For the year ended December 31, 2013, LGX's realized price for natural gas sales was $3.05 per Mcf (2012 – $2.69) compared to an AECO-C price of $3.13 (2012 - $2.43).

Revenue

($, except per Boe and percent amounts)	Three Months Ended December 31 2013	2012	% change	Year Ended December 31 2013	2012	% change
Petroleum and natural gas sales by product						
Crude oil and natural gas liquids	5,169,820	2,855,265	81	19,114,511	3,959,663	383
Natural gas	471,958	466,805	1	1,859,845	857,937	117
Total petroleum and natural gas sales	5,641,778	3,322,070	70	20,974,356	4,817,600	335
$ per Boe	63.55	52.71	21	63.99	45.23	41
Royalties						
Royalties	1,120,990	546,552	105	3,586,656	771,278	365
$ per Boe	12.63	8.67	46	10.94	7.24	51
% of petroleum and natural gas sales	19.9	16.5	21	17.1	16.0	7
Revenue						
Petroleum and natural gas sales, net of royalties	4,520,788	2,775,518	63	17,387,700	4,046,322	330
$ per Boe	50.92	44.04	16	53.05	37.99	40

For the three months ended December 31, 2013, LGX's petroleum and natural gas sales were $5,641,778 compared to $3,322,070 for the three months ended December 31, 2012. For the year ended December 31, 2013, LGX's petroleum and natural gas sales were $20,974,356 compared to $4,817,600 for the prior year. The increase for the three months and year ended December 31, 2013 can be attributed to higher production volumes related to the Manyberries properties acquired midway through the fourth quarter of 2012 and successful drilling efforts in the Alberta Bakken in the fourth quarter of 2013.

Royalties consist of royalties to provincial governments, freehold landowners and overriding royalty owners. For the three months ended December 31, 2013, total royalties were $1,120,990 compared to $546,552 for the three months ended December 31, 2012. The increase is attributable to the increase in revenues discussed above. The Company's average royalty rate for the three months ended December 31, 2013 was 19.9 percent compared to 16.5 percent in the prior year. This increase is due to additional royalty assessments on acquired properties recorded during the fourth quarter of 2013 relating to periods prior to acquisition as well as Manyberries properties having higher average royalties than those historically shown on the other LGX properties. Royalties are calculated based on commodity revenue, net of associated transportation costs, well productivity and before any commodity hedging gains or losses.

For the year ended December 31, 2013, total royalties increased 365 percent to $3,586,656 from $771,278 in the prior year. The company's average royalty rate for the year ended December 31, 2013, increased 7 percent to 17.1 percent, compared to 16.0 percent in the prior year. This increase is due to the Manyberries properties having higher average royalties than those historically shown on the other LGX properties.

Operating and Transportation Expenses

($, except per Boe amounts)	Three Months Ended December 31 2013	2012	% change	Year Ended December 31 2013	2012	% change
Operating expenses	2,582,181	1,412,541	83	9,346,807	2,051,673	356
$ per Boe	29.09	22.41	30	28.52	19.26	48
Transportation expenses	277,955	137,920	102	869,266	191,924	353
$ per Boe	3.13	2.19	43	2.65	1.80	47
Total operating costs	2,860,136	1,550,461	84	10,216,073	2,243,597	355
$ per Boe	32.22	24.60	31	31.17	21.06	48

Total operating costs during the fourth quarter of 2013 were $2,860,136, compared to $1,550,461 in the prior year. The increase in total operating costs is attributable to increased production volumes in the fourth quarter of 2013 and downhole workovers on the Manyberries property incurred in the same period due to delays caused by wet weather earlier in the year. LGX expects workover levels in 2014 to be far less as prior to LGX acquiring the field it was a non-core asset to a senior producer. The Company expects to see operating expenses in total and on a per Boe basis to decrease going forward as routine workovers that had been neglected prior to 2013 were completed in the latter half of the year. On a per Boe basis, operating expenses for the three months ended December 31, 2013 were $29.09 (2012 - $22.41). On a per Boe basis, transportation expenses for the three months ended December 31, 2013 were $3.13 (2012 - $2.19). Total operating costs (including operating and transportation expenses) on a per Boe basis were $32.22 (2012 – $24.60).

Total operating costs during the year ended December 31, 2013 were $10,216,073, a 355 percent increase, compared to $2,243,597 in the prior year. The increase in total operating costs is attributable to increased production volumes and various downhole workovers throughout the year. On a per Boe basis, operating expenses for the year ended December 31, 2013 were $28.52 (2012 – $19.26). On a per Boe basis, transportation expenses for the year ended December 31, 2013 were $2.65 (2012 - $1.80). Total operating costs (including operating and transportation expenses) on a per Boe basis were $31.17 (2012 - $21.06).

Exploration and Evaluation Expenses

	Three Months Ended December 31			Year Ended December 31		
($)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
Exploration and evaluation expenses	11,233,809	4,866,156	131	24,706,092	4,866,156	408

During the three months ended December 31, 2013, the Company recorded $11,233,809 of exploration and evaluation expenses compared to $4,866,156 in the same period in the prior year. During the year ended December 31, 2013 the Company recorded $24,706,092 of exploration and evaluation expenses compared to $4,866,156 in the prior year. The exploration and evaluation expenses in 2013 are mainly attributable to expiration of land leases in the Alberta Bakken area.

Depletion and Depreciation and Impairment

	Three Months Ended December 31			Year Ended December 31		
($, except per Boe amounts)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
Depletion and depreciation	2,251,621	1,346,194	67	7,773,193	1,668,132	366
$ per Boe	25.36	21.36	19	23.72	15.66	51
Impairment	250,000	943,500	(74)	250,000	943,500	(74)

For the three months ended December 31, 2013, depletion and depreciation expense was $2,251,621 (2012 - $1,346,194). The increase is primarily due to higher production volumes in the fourth quarter of 2013 compared to the same period in the prior year as well as new depletion added in the fourth quarter of 2013 resulting from Alberta Bakken exploration and evaluation assets reclassified to petroleum and natural gas assets during the quarter. On a per Boe basis, depletion and depreciation for the fourth quarter of 2013 was $25.36 (2012 – $21.36). This increase, on a per Boe basis, is due to higher depletion rates of new Alberta Bakken petroleum and natural gas properties reclassified from exploration and evaluation assets in the fourth quarter of 2013. This increase was partially offset by an increase in reserves for the Company as a whole.

For the year ended December 31, 2013, depletion and depreciation expense was $7,773,193 (2012 - $1,668,132). This increase is due to higher production volumes for the year ended December 31, 2013 as well as new depletion added in the fourth quarter of 2013 resulting from Alberta Bakken exploration and evaluation assets reclassified to petroleum and natural gas assets during the quarter, compared to the prior year. On a per Boe basis, depletion and depreciation for the year ended December 31, 2013 was $23.72 (2012 - $15.66). This increase, on a per Boe basis, is due to higher depletion rates on the Manyberries property as well as higher depletion rates of new Alberta Bakken petroleum and natural gas properties reclassified from exploration and evaluation assets in the fourth quarter of 2013 compared to historical LGX depletion rates prior to the Manyberries acquisition in 2012.

For the three months and year ended December 31, 2013, a pre-tax impairment expense of $250,000 was recorded relating to the Company's Armada cash-generating unit in southern Alberta (2012 - $943,500). This impairment expense resulted from the carrying value of the cash-generating unit being less than the recoverable amount of $6,731,000 as at December 31, 2013 (2012 - $7,424,000). The recoverable amount for the cash-generating unit was determined using a discounted cash flow analysis.

General and Administrative Expenses

	Three Months Ended December 31			Year Ended December 31		
($, except per Boe amounts)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
General and administrative expenses	618,600	734,930	(16)	2,683,315	1,512,641	77
Recoveries	(128,438)	(12,021)	968	(142,768)	(15,863)	800
Capitalized general and administrative expenses	(75,150)	(75,150)	-	(300,600)	(150,300)	100
Total net general and administrative expenses	415,012	647,759	(36)	2,239,947	1,346,478	66
$ per Boe	4.67	10.28	(55)	6.83	12.64	(46)

During the fourth quarter of 2013, net general and administrative expenses ("G&A") decreased 36 percent to $415,012 compared to $647,759 in the same period in 2012 due to G&A recoveries as capital spending increased in the fourth quarter of 2013. On a per Boe basis, the G&A expense was $4.67 per Boe for the three months ended December 31, 2013 (2012 - $10.28). Net G&A for the quarter was comprised of $618,600 (2012 - $734,930) in general and administrative expenses less $128,438 (2012 - $12,021) in recoveries and $75,150 (2012 - $75,150) in capitalized G&A. G&A expenses for LGX consist primarily of the monthly Services Agreement fee charged by Legacy.

For the year ended December 31, 2013, net general and administrative expenses ("G&A") increased 66 percent to $2,239,947 compared to $1,346,478 in the prior year. On a per Boe basis, the G&A expense decreased by 46 percent to $6.83 per Boe for the year ended December 31, 2013 compared to $12.64 per Boe for the prior year. Net G&A for the year ended December 31, 2013 was comprised of $2,683,315 (2012 - $1,512,641) in general and administrative expenses less $142,768 (2012 - $15,863) in recoveries and $300,600 (2012 - $150,300) in capitalized G&A. For the year ended December 31, 2013, G&A expenses for LGX consisted primarily of monthly management fees charged by Legacy per the Services Agreement.

Share-based Payments

	Three Months Ended December 31			Year Ended December 31		
($)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
Share-based payments expense	128,791	143,129	(10)	643,317	207,005	211

For the three months ended December 31, 2013, the Company expensed $128,791 in share-based payments related to stock options compared to $143,129 for the same period in the prior year. This decrease is primarily due to the vesting of stock options previously granted in 2012.

For the year ended December 31, 2013, the Company expensed $643,317 in share-based payments related to stock options compared to $207,005 for the prior year. This increase is mainly due to new stock options granted in the latter half of 2012 and the first half of 2013.

Finance Costs and Foreign Exchange Loss

	Three Months Ended December 31			Year Ended December 31		
($)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
Interest expense and finance charges	61,329	114,255	(46)	306,298	131,649	133
Accretion on decommissioning liabilities	161,682	64,308	151	637,649	88,820	618
Total finance costs	223,011	178,563	25	943,947	220,469	328
Foreign exchange loss	1,906	-	n/a	1,906	-	n/a

Finance costs include interest expense and finance charges as well as accretion on decommissioning liabilities.

During the fourth quarter of 2013, interest and finance charges decreased to $61,329 compared to $114,255 for the same period in 2012. This decrease was due to initial fees incurred to set up the credit facility in 2012, which were not incurred in 2013. During the fourth quarter of 2013, accretion on decommissioning liabilities was $161,682 (2012 - $64,308).

For the year ended December 31, 2013, interest and finance charges increased to $306,298 compared to $131,649 in 2012. The increase in interest and finance charges during the year ended December 31, 2013 was due to higher average bank debt compared to the prior year. Prior to the reverse acquisition of LGX, the SA Assets had no debt allocated to them. For the year ended December 31, 2013, accretion on decommissioning liabilities was $637,649 compared to $88,820 for the prior year.

During the fourth quarter of 2013 and the year ended December 31, 2013, the Company had nominal foreign exchange losses, translating foreign denominated working capital.

Other Expenses and Other Loss (Income)

	Three Months Ended December 31			Year Ended December 31		
($)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
Transaction costs	-	522,026	(100)	48,034	523,051	(91)
Gain on acquisition	(1,209,641)	-	n/a	(1,209,641)	(10,803,913)	(89)
Total other expenses and other loss (income)	(1,209,641)	522,026	(332)	943,947	220,469	328

For the three months ended December 31, 2013, the Company incurred transaction costs of $nil (2012 - $522,026).

For the year ended December 31, 2013, the Company incurred transaction costs of $48,034 (2012 - $523,051). These transaction costs relate to additional transactions costs from prior period business combinations.

For the three months and year ended December 31, 2013, the Company recorded a $1,209,641 gain on acquisition as a result of finalizing the reverse acquisition of LGX by SA Assets. As the final purchase price adjustments had been recorded directly in net income, there was no effect on the purchase price equations previously presented.

For the year ended December 31, 2012, the Company recorded a $10,803,913 gain on the SA Assets reverse acquisition of LGX in the second quarter. The gain was a result of $28,674,582 in net assets acquired for consideration of $17,870,670 (13,746,669 common shares at the closing price of $1.30 per common share at July 5, 2012). At the announcement date of May 14, 2012 of the SA Assets reverse acquisition of LGX, the share price was $2.40 per common share.

Income Taxes

	Three Months Ended December 31			Year Ended December 31		
($)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
Deferred income tax recovery	(3,858,385)	(399,185)	867	(7,898,420)	(587,422)	1,245

A deferred income tax recovery of $3,858,385 was recorded for the three months ended December 31, 2013, resulting in an effective deferred income tax recovery rate of 33 percent of the net loss before tax compared to the applicable Canadian statutory tax rate of 25%. An income tax recovery was recorded for the three months ended December 31, 2012 for $399,185.

A deferred income tax recovery of $7,898,420 was recorded for the year ended December 31, 2013, resulting in an effective deferred income tax recovery rate of 28 percent of the net loss before tax, the effective deferred income tax recovery rate is higher than the applicable Canadian statutory tax rate of 25% due to the LGX reverse acquisition final adjustments recognized in 2013. An income tax recovery was recorded for the year ended December 31, 2012 for $587,422.

Net Income (Loss) and Funds Generated by Operations

	Three Months Ended December 31			Year Ended December 31		
($, except per Boe amounts)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
Net income (loss)	(7,775,472)	(7,023,085)	11	(20,326,748)	3,419,269	(694)
Per share basic	(0.09)	(0.11)	(18)	(0.23)	0.15	(253)
Per share diluted	(0.09)	(0.11)	(18)	(0.23)	0.15	(253)
Funds generated by operations	1,125,835	463,043	143	4,432,350	324,598	1,265
Per share basic	0.01	0.01	-	0.05	0.01	400
Per share diluted	0.01	0.01	-	0.05	0.01	400
$ per Boe	12.68	7.35	73	13.53	3.05	344

For the quarter ended December 31, 2013, net loss of $7,775,472 was recognized compared to net loss of $7,023,085 during the same period in 2012 due to exploration and evaluation expenses and increased depletion and depreciation in the current period offset by a lower impairment and an additional LGX reverse acquisition gain recognized in the fourth quarter of 2013 on final adjustment. Basic and diluted net loss per share for the fourth quarter of 2013 was $0.09, compared to basic and diluted net loss per share of $0.11 for 2012. Funds generated by operations increased 143 percent to $1,125,835 for the three months ended December 31, 2013, compared to $463,043 during the same period in 2012, due primarily to higher production volumes. Basic and diluted funds generated by operations per share for the quarter ended December 31, 2013 were $0.01, compared to $0.01 in the prior year.

For the year ended December 31, 2013, net loss of $20,326,748 was recognized compared to net income of $3,419,269 during 2012 primarily due to exploration and evaluation expenses in the current year offset by increased operating netback on increased production volumes, the LGX reverse acquisition gain recognized in the prior year and increased share-based payments, general and administrative expenses and finance costs in the current year compared to the prior year, due primarily to higher production volumes. Basic and diluted net loss per share for the year ended December 31, 2013 were $0.23, compared to basic and diluted net earnings per share of $0.15, respectively, in the prior year. Funds generated by operations increased 1,265 percent to $4,432,350 for the year ended December 31, 2013, compared to funds used in operations of $324,598 in 2012, due primarily to higher production volumes and operating netback on a per Boe basis. Basic and diluted funds generated by operations per share for the year ended December 31, 2013 were $0.05, compared to $0.01 in the prior year.

For the quarter and year ended December 31, 2013, LGX has recorded an impairment expense of $250,000 (2012 - $943,500) relating to the Company's Armada cash-generating unit in southern Alberta.

The following table summarizes the operating netbacks and funds generated by operations on a per Boe basis for the three months and years ended December 31, 2013 and 2012:

	Three Months Ended December 31			**Year Ended December 31**		
($ per Boe)	**2013**	**2012**	**% change**	**2013**	**2012**	**% change**
Petroleum and natural gas sales	63.55	52.71	21	63.99	45.23	41
Royalties	(12.63)	(8.67)	46	(10.94)	(7.24)	51
Revenue	50.92	44.04	16	53.05	37.99	40
Operating expenses	(29.09)	(22.41)	30	(28.52)	(19.26)	48
Transportation expenses	(3.13)	(2.19)	43	(2.65)	(1.80)	47
Operating netback	18.70	19.44	(4)	21.88	16.93	29
Exploration and evaluation expenses (cash portion)	(0.30)	-	n/a	(0.49)	-	n/a
General and administrative expenses	(4.67)	(10.28)	(55)	(6.83)	(12.64)	(46)
Finance costs						
– Interest expense and finance charges (cash portion)	(0.69)	(1.81)	(62)	(0.93)	(1.24)	(25)
Realized foreign exchange gain (loss)	(0.02)	-	n/a	(0.01)	-	n/a
Decommissioning liabilities settled	(0.34)	-	n/a	(0.09)	-	n/a
Funds generated by operations	12.68	7.35	73	13.53	3.05	344

SELECTED ANNUAL INFORMATION

($, except per share amounts)	**2013**	**2012**	**2011**
Petroleum and natural gas sales	20,974,356	4,817,600	104,061
Petroleum and natural gas sales, net of royalties	17,387,700	4,046,322	87,925
Net Income (Loss)	(20,326,748)	3,419,269	(2,043,981)
Per share basic	(0.23)	0.15	n/a
Per share diluted	(0.23)	0.15	n/a
Total assets	135,247,379	148,469,818	35,256,877
Working capital surplus (deficit) [(1)]	(8,585,864)	(8,056,927)	(3,466,967)
Bank debt [(1)]	(11,050,000)	(1,850,000)	-
Net debt and working capital surplus (deficit) [(1)]	(19,635,864)	(9,906,927)	(3,466,967)

(1) The working capital surplus comprises total current assets less total current liabilities, excluding current bank debt. Net debt and working capital surplus (deficit) includes the Company's bank debt plus total current liabilities less total current assets. Net debt and working capital surplus (deficit) excludes deferred taxes and excludes decommissioning liabilities.

SUMMARY OF QUARTERLY RESULTS

The table below contains fourth quarter 2013 results of LGX as well as comparisons to the previous seven quarterly results for the Company:

	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Financial								
($, except per share amounts)								
Petroleum and natural gas sales	5,641,778	5,698,496	4,993,556	4,640,526	3,322,070	1,050,641	125,412	319,477
Petroleum and natural gas sales, net of royalties	4,520,788	4,819,532	4,156,240	3,891,140	2,775,518	864,621	116,196	289,987
Funds generated by (used in) operations	1,125,835	581,632	1,609,234	1,115,649	463,043	(345,347)	38,286	168,616
- Per share basic	0.01	0.01	0.02	0.01	0.01	(0.01)	-	-
- Per share diluted	0.01	0.01	0.02	0.01	0.01	(0.01)	-	-
Net Income (Loss)	(7,775,472)	(8,270,280)	(3,127,371)	(1,153,625)	(7,023,085)	10,254,593	29,498	158,263
- Per share basic	(0.09)	(0.09)	(0.04)	(0.01)	(0.11)	0.38	-	-
- Per share diluted	(0.09)	(0.09)	(0.04)	(0.01)	(0.11)	0.38	-	-
Capital expenditures (excluding acquisitions)	12,782,541	1,696,828	361,856	480,220	7,379,378	1,418,395	35,446	1,110,275
Net acquisitions (cash consideration)	-	-	-	-	42,378,028	-	-	-
Net debt and working capital surplus (deficit)	(19,635,864)	(9,189,958)	(8,058,946)	(9,307,723)	(9,906,927)	(5,043,920)	(32,065)	(561,482)
Total assets	135,247,379	133,374,916	141,694,415	147,121,183	148,469,817	76,967,098	36,461,424	36,632,245
Operating								
Production								
- Crude oil and natural gas liquids (Bbls per day)	718	567	578	612	430	95	16	38
- Natural gas (Mcf per day)	1,482	1,677	1,729	1,806	1,528	1,939	-	-
- Total daily production (Boe per day)	965	847	866	913	685	418	16	38
- Increase/(Decrease) over prior quarter	14%	(2%)	(5%)	33%	64%	2,513%	(58%)	217%
Average realized price								
- Crude oil and natural gas liquids ($ per Bbl)	78.26	102.23	84.63	75.54	72.18	75.46	86.55	91.61
- Natural gas ($ per Mcf)	3.46	2.37	3.44	2.95	3.32	2.19	n/a	n/a
- Barrels of oil equivalent ($ per Boe)	63.55	73.13	63.37	56.47	52.71	27.32	86.55	91.61
Netback ($ per Boe)								
- Petroleum and natural gas sales	63.55	73.13	63.37	56.47	52.71	27.33	86.55	91.61
- Royalties	12.63	11.28	10.63	9.12	8.67	4.84	6.36	8.46
- Operating expenses	29.09	43.46	20.17	21.77	22.41	12.06	47.12	30.73
- Transportation expenses	3.13	2.63	2.81	2.02	2.19	1.11	2.02	2.39
- Operating netback	18.70	15.76	29.76	23.56	19.44	9.32	31.05	50.03

The Company's petroleum and natural gas sales have generally increased over the past eight quarters due to LGX's drilling program as well as business combinations. The Canadian dollar WTI benchmark price and corporate oil price differentials have also contributed to the fluctuations in the petroleum and natural gas sales.

Over the past eight quarters, net income has fluctuated primarily due to changes in funds flow from operations, exploration and evaluation expenses, gains from business combinations, transaction costs incurred on business combinations as well as associated fluctuations in the deferred tax expense (recovery).

Capital expenditures fluctuated through this period as a result of timing of the Company's drilling program and acquisitions.

SUMMARY OF HISTORICAL QUARTERLY RESULTS of LGX/BOWOOD

The chart below summarizes the first, second, third and fourth quarter 2013, third and fourth quarter 2012 results of LGX, subsequent to the reverse acquisition on July 5, 2012, as well as the quarterly results of Bowood Energy Inc. (“Bowood”) for the two quarters prior to the common-control transaction and reverse acquisition at July 5, 2012.

							Bowood Results prior to the reverse acquisition	
	2013 Q4	**2013 Q3**	**2013 Q2**	**2013 Q1**	**2012 Q4**	**2012 Q3**	**2012 Q2**	**2012 Q1**
Financial								
($, except per share amounts)								
Petroleum and natural gas sales	5,641,778	5,698,496	4,993,556	4,640,526	3,322,070	1,050,641	1,155,040	1,551,799
Petroleum and natural gas sales, net of royalties	4,520,788	4,819,532	4,156,240	3,891,140	2,775,518	864,621	947,368	1,250,154
Funds generated by operations	1,125,835	581,632	1,609,234	1,115,649	463,043	(345,347)	(447,380)	141,236
- Per share basic	0.01	0.01	0.02	0.01	0.01	(0.01)	(0.03)	0.01
- Per share diluted	0.01	0.01	0.02	0.01	0.01	(0.01)	(0.03)	0.01
Net Income (Loss)	(7,775,472)	(8,270,280)	(3,127,371)	(1,153,625)	(7,023,085)	10,254,593	(1,565,810)	(822,455)
- Per share basic	(0.09)	(0.09)	(0.04)	(0.01)	(0.11)	0.38	(0.11)	(0.06)
- Per share diluted	(0.09)	(0.09)	(0.04)	(0.01)	(0.11)	0.38	(0.11)	(0.06)
Capital expenditures (excluding acquisitions)	12,782,541	1,695,828	361,856	480,220	7,379,378	1,418,395	182,828	356,457
Net debt and working capital surplus (deficit)	(19,635,864)	(9,189,958)	(8,058,946)	(9,307,723)	(9,906,927)	(5,043,920)	(5,125,595)	(4,500,560)
Total assets	135,247,379	133,374,916	141,694,415	147,121,183	148,469,817	76,967,098	43,228,188	44,950,952
Operating								
Production								
- Crude oil and natural gas liquids (Bbls per day)	718	567	578	612	430	95	108	131
- Natural gas (Mcf per day)	1,482	1,677	1,729	1,806	1,528	1,939	2,260	2,600
- Total daily production (Boe per day)	965	847	866	913	685	418	485	564
- Increase/(Decrease) over prior quarter	14%	(2%)	(5%)	33%	64%	(14%)	(14%)	(6%)
Average realized price								
- Crude oil and natural gas liquids ($ per Bbl)	78.26	102.23	84.63	75.54	72.18	75.46	76.34	86.03
- Natural gas ($ per Mcf)	3.46	2.37	3.44	2.95	3.32	2.19	1.97	2.22
- Barrels of oil equivalent ($ per Boe)	63.55	73.13	63.37	56.47	52.71	27.32	26.17	30.24
Netback ($ per Boe)								
- Petroleum and natural gas sales	63.55	73.13	63.37	56.47	52.71	27.33	26.17	30.24
- Royalties	12.63	11.28	10.63	9.12	8.67	4.84	4.71	5.87
- Operating expenses	29.09	43.46	20.17	21.77	22.41	12.06	12.95	11.09
- Transportation expenses	3.13	2.63	2.81	2.02	2.19	1.11	n/a	n/a
- Operating netback	18.70	15.76	29.76	23.56	19.44	9.32	8.51	13.28

CAPITAL EXPENDITURES

The Company's capital expenditures consists of capital expenditures on exploration and evaluation assets, capital expenditures on property, plant and equipment and the cash portion of net acquisitions.

	Three Months Ended December 31			Year Ended December 31		
($)	2013	2012	% change	2013	2012	% change
Property, plant and equipment additions	1,085,595	3,984	27,149	1,536,160	7,506	20,366
Exploration and evaluation asset additions	11,696,946	7,375,394	59	13,785,285	9,928,589	39
Total capital expenditures excluding acquisitions	12,782,541	7,379,378	73	15,321,445	9,936,095	54
Net acquisitions (cash portion)	-	42,378,028	(100)	-	42,378,028	(100)
Total capital expenditures including net acquisitions (cash portion)	12,782,541	49,757,406	(74)	15,321,445	52,314,123	(71)

Total capital expenditures excluding net acquisitions above consist of the following:

	Three Months Ended December 31			Year Ended December 31		
($)	2013	2012	% change	2013	2012	% change
Land acquisitions and retention	93,626	32,158	191	377,145	200,361	88
Geological and geophysical	121,928	5,031,503	(98)	601,670	5,802,983	(90)
Drilling and completions	11,767,339	2,047,151	475	12,967,489	3,532,366	267
Equipping and facilities	724,498	193,416	275	1,074,541	250,085	330
Capitalized general and administrative expenses	75,150	75,150	0	300,600	150,300	100
Total capital expenditures excluding net acquisitions	12,782,541	7,379,378	73	15,321,445	9,936,095	54

During the year ended December 31, 2013, subsequent to the SA Assets common-control transaction and reverse acquisition of LGX on July 5, 2012, the Company issued 4,069,767 common shares as part consideration for the Manyberries Asset Acquisition.

CAPITALIZATION AND CAPITAL RESOURCES

Share Capital

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	2013	2012
Outstanding Common Shares				
Weighted average Common Shares outstanding (1)				
- Basic	88,658,427	65,179,608	88,658,427	23,142,542
- Diluted	88,658,427	65,179,608	88,659,427	23,142,542

	December 31 2013	December 31 2012
Outstanding Securities		
- Common Shares	88,658,427	88,658,427
- Common Share Warrants	6,000,000	6,000,000
- Common Share Options	3,652,000	1,886,500

(1) Per share information is calculated on the basis of the weighted average number of Common Shares outstanding during the fiscal period. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted to Common Shares. Diluted per share information is calculated using the treasury stock method which assumes that any proceeds received by the Company upon exercise of in-the-money stock options or share warrants plus the unamortized share-based payments expense would be used to buy back "in the money" Common Shares at the average market price for the period.

On August 20, 2012, the LGX shareholders approved a consolidation of the LGX common shares on a 20 to 1 basis. Unless otherwise indicated, all figures and comparatives have been restated and disclosed as post-consolidation numbers.

Total Market Capitalization

The Company's equity market capitalization at December 31, 2013 was $57,627,978.

	As at December 31 2013	As at December 31 2012
Common Shares Outstanding	88,658,427	88,658,427
Share Price (2)	$0.65	$0.68
Total Market Capitalization	$57,627,978	$60,287,730

(2) Represents the closing price on the TSX Venture Exchange ("TSX-V") at December 31, 2013 and 2012

There is a significant difference between the Company's net assets and market capitalization as at December 31, 2013. Management believes that the market capitalization of the Company continues to be dominated by external factors such as overall market confidence, global debt concerns and global liquidity issues and does not reflect the fair value of the Company's net assets.

As at March 24, 2014, the Company had 88,658,427 common shares outstanding.

Liquidity and Capital Resources

The Company's primary sources of liquidity to meet operating expenses and fund its exploration and development capital program are derived from the Company's internal funds flow from operations and the Company's revolving operating bank credit facility. The Company utilizes this facility to fund daily operating activities and acquisitions as needed. Because of the liquidity and capital resource alternatives available to the Company, including internal funds flow from operations, the Company believes that its liquidity is sufficient to fund operating, interest and general and administrative expenses.

At December 31, 2013, the Company had a $25,000,000 revolving demand credit facility with a Canadian financial institution comprised of a $5,000,000 operating loan facility, a $15,000,000 production loan facility and a $5,000,000 acquisition/development facility. As at December 31, 2013, $8,000,000 had been drawn on the Company's production facility and $3,050,000 on the Company's operating line. The credit facility provides that advances may be made by way of direct advances, bankers' acceptances or letters of guarantee, drawings on the credit facility bear interest at the bank's prime rate plus an additional margin based on the Company's debt to cash flow ratio and type of borrowing. Security for the credit facility is provided by a $75,000,000 demand debenture.

The Company's bank indebtedness does not have a specific maturity date as it is a demand facility. This means that the lender has the ability to demand repayment of all outstanding indebtedness or a portion thereof at any time. If that were to occur, the Company would be required to source alternate credit facilities or sell assets to repay the indebtedness. The Company reduces this risk by complying with the covenants of the credit facility agreement and maintaining a minimal balance on the facility. The covenants require maintaining a current ratio, excluding any current liabilities under the credit facility, of not less than 1.0:1.0. At December 31, 2013 and 2012, the Company was in compliance with all such covenants.

On an ongoing basis, the Company will review its capital expenditures to ensure that cash flow and or access to credit facilities is available to fund these capital expenditures. The Company has the flexibility to adjust capital expenditures based on cash flow to manage debt levels.

($)	As at December 31 2013	As at December 31 2012
Capital resources		
Bank debt available	13,950,000	23,150,000
Working capital deficit (excluding Bank debt)	(8,585,864)	(8,056,927)
Total capital resources available	5,364,136	15,093,073

The Company believes the present sources of capital and budgeted cash flows for 2014 are sufficient to satisfy the Board approved capital program for 2014.

ACCOUNTING POLICIES AND ESTIMATES

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

The audited consolidated financial statements for the year ended December 31, 2013 have been prepared using the same accounting policies and methods as those used in the audited consolidated financial statements for the year ended December 31, 2012 and are described in Note 3 of the 2013 consolidated financial statements, except for new and revised standards, effective January 1, 2013, as described in Note 4 of these audited consolidated financial statements.

Accounting standards, issued up to March 24, 2014, effective for periods beginning on or after January 1, 2013, have been adopted as of December 31, 2013.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, assumptions and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Actual results may differ from such estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Significant estimates and judgments made by management in the preparation of consolidated financial statements are outlined below and in Note 2 of the audited consolidated financial statements for the year ended December 31, 2013:

Reserve estimates

Petroleum and natural gas assets are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reservoir engineering reports and techniques and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Reserves estimates and data contained within reserve reports, although not reported as part of the Company's consolidated financial statements, can have a significant effect on net income, assets and liabilities as a result of their impact on depletion and depreciation, decommissioning liabilities, deferred taxes, asset impairments and accounting for business combinations. Independent reservoir engineers perform evaluations of the Company's oil and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable oil and natural gas reserves are based upon a number of variables and assumptions such as geoscientific interpretation, production forecasts, commodity prices, costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available or as economic conditions change.

Impairment indicators and discount rate

For purposes of impairment testing, exploration and evaluation assets and petroleum and natural gas assets are aggregated into cash-generating units ("CGUs"), based on separately identifiable and largely independent cash inflows. The determination of the Company's CGUs is subject to judgment.

The recoverable amounts of CGUs and individual assets have been determined based on the higher of the value-in-use calculations and fair value less costs to dispose. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the field and economical reserves recoverable and may require a material adjustment to the carrying amount of exploration and evaluation assets, petroleum and natural gas assets or other assets. The Company monitors internal and external indicators of impairment relating to its assets.

Decommissioning costs

At the end of the operating life of the Company's facilities and properties and upon retirement of its oil and natural gas assets, decommissioning costs will be incurred by the Company. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities. The decommissioning liability, the related asset and the amount expensed are impacted by estimates with respect to the costs and timing of decommissioning.

Technical feasibility and commercial viability of exploration and evaluation assets

The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves and other factors, results in the transfer of assets from exploration and evaluation assets to petroleum and natural gas assets. As discussed above, the estimate of proved and probable reserves is inherently complex and requires significant judgment. Thus, any material change to reserve estimates could affect the technical feasibility and commercial viability of the underlying assets.

Income taxes

Tax regulations and legislation and the interpretations thereof are subject to change. The deferred income tax calculation recognizes the extent that temporary differences will be realized (asset) or payable (liability) in future periods. The calculation of deferred income tax involves a significant amount of estimation including an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable income and the application of tax laws. Changes in tax regulations and legislation and the other assumptions listed are subject to measurement uncertainty.

The Company recognizes the net future tax benefit related to a deferred tax asset to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Fair value measurement

The estimated fair value of financial instruments and other assets is reliant upon a number of estimated variables including forward commodity prices, foreign exchange rates and interest rates, volatility curves and risk of non-performance. A change in any one of these factors could result in a change to the overall estimated valuation of the instrument or asset.

Measurement of share-based payments

Share-based payments recorded pursuant to share-based compensation plans are subject to estimated fair values, forfeiture rates, volatility and the future attainment of performance criteria, if any.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation. Future net income can be affected as a result of changes in future depletion and depreciation or asset impairment.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Consolidation of an entity in which the Company holds less than 50%

The management of the Company made significant judgments that LGX Oil + Gas Inc. (formerly Bowood Energy Inc.) was controlled by Legacy as of July 5, 2012, even though Legacy held less than half of the voting rights of this subsidiary. The management of Legacy concluded that the Company had deemed control of LGX at July 5, 2012 even though it had less than 50% of the voting rights of LGX through a combination of the following: (i) Legacy was the majority shareholder of LGX with a 42% equity interest in LGX on July 5, 2012, the acquisition date of LGX; (ii) Legacy and LGX entered into a management, technical and administrative services agreement whereby LGX will be managed by Legacy's current management team and staff and whereby Legacy is engaged as an independent contractor to perform technical, corporate, regulatory, administrative and asset management services to permit LGX to operate, maintain and develop LGX's assets, in exchange for a monthly fee; (iii) The new management of LGX on July 5, 2012 was made up of Trent Yanko, President and CEO, and Matt Janisch, Vice-President, Finance and CFO who hold the same positions with Legacy; (iv) The board of directors of LGX was reconstituted with two of the five directors of LGX also being directors of Legacy, including the chairman of the board of LGX; (v) The remaining equity interests of LGX were dispersed and LGX did not have a history of other shareholders forming a group to exercise their votes collectively; and (vi) The historical representation at general shareholder meetings and the voting participation of LGX shareholders in relation to the Company's equity interest was not considered sufficient to direct LGX's financial and operating policies.

Derecognition of LGX as subsidiary and recognition of investment in LGX as an investment in associate

The management of the Company made significant judgments that Legacy lost control of LGX as subsidiary on November 7, 2012, but retains significant influence at November 7, 2012, December 31, 2012 and December 31, 2013. On November 7, 2012, LGX issued additional equity as part of a bought deal financing and an acquisition. Subsequent to the bought deal financing and acquisition by LGX, Legacy held an 18% equity interest in LGX compared to a 42% equity interest as at July 5, 2012 and a 33% equity interest as at September 30, 2012.

Consistent with the guidance under IFRS, the management of the Company re-assessed the circumstances as at November 7, 2012, December 31, 2012 and December 31, 2013 as well as the significant judgments made that Legacy controlled LGX as at July 5, 2012 even though Legacy did not hold 50% of the voting rights of LGX. In particular, the Company noted the following changes subsequent to the LGX bought deal financing and acquisition on November 7, 2012: (i) Legacy's voting rights, relative to the size and dispersion of the holdings of other LGX voters changed: There are a small number of shareholders in LGX, if voting in aggregate, that would have the ability to outnumber Legacy's voting power; (ii) There is potential for Legacy's representation on the LGX board to be voted out through aggregation of a small number of parties' voting power as Legacy is not contractually entitled to LGX board representation; and (iii) Management evaluated the level of involvement of new LGX shareholders in the business of LGX and noted that they are active with both operational and financial inquiries of the management of LGX with respect to current and forecasted operations and placed additional scrutiny on LGX, as managed by Legacy, in finding growth opportunities and promoting value creation.

Based on the above factors, the management of Legacy concluded that Legacy ceased to have control of LGX as at November 7, 2012. As a result the loss of control of LGX, Legacy derecognized LGX as a subsidiary on November 7, 2012. In addition, Legacy retained significant influence in LGX and recognized its investment in LGX as an investment in an associate as of November 7, 2012 as a result of: (i) The Services Agreement whereby LGX is managed by Legacy; all the officers of Legacy are also holding the same position as officers of LGX; and (ii) Two of the five directors of LGX are also directors of Legacy, including the chairman of the board of LGX.

Future Accounting Changes Not Yet Adopted

The following standards and amendments have not been adopted as they apply to future periods. They may result in future changes to the Company's existing accounting policies and disclosures. LGX is currently evaluating the impact that these standards will have on the Company's results of operations and financial position, if any:

Financial Instruments

IFRS 9, *Financial Instruments*, introduces new requirements for the classification and measurement of financial assets and financial liabilities, including derecognition. IFRS 9 requires all recognized financial assets under the scope of the current IAS 39, *Financial Instruments: Recognition and Measurement*, to be subsequently measured at amortized cost or fair value. In addition, IFRS 9 requires that changes in fair value attributable to a financial liability's credit risk must be presented in other comprehensive income, rather than in income or loss. The effective date of IFRS 9 has not yet been determined. The Company is in the process of assessing the impacts of these new requirements.

Amendments to Offsetting Financial Assets and Financial Liabilities and Related Disclosures

IFRS 7, *Financial Instruments: Disclosures* and IAS 32, *Financial Instruments: Presentation*, include amendments to IAS 32 to clarify existing application issues relating to the offset of financial assets and financial liabilities requirements, effective January 1, 2014 with retrospective application required. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement". The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Company is in the process of assessing these amendments, but anticipates that the application of these amendments may result in more disclosure being made with regard to offsetting financial assets and liabilities in the future

RISK ASSESSMENT

There are a number of risk facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to a sector. The following reviews the general and specific risks to which the Company is exposed as described in the Company's Annual Information Form ("AIF") for the year ended December 31, 2013 dated March 24, 2014, available on the Company's profile at www.sedar.com. While the management of LGX realizes that these risks cannot be eliminated, they are committed to monitoring and mitigating these risks.

Emergency Order

LGX has concluded that the Emergency Order has the potential to have a significant adverse effect on LGX's ability to maintain and increase production at its Manyberries property and to prevent the drilling of new wells there. The Emergency Order may also have a significant adverse effect on the reserves volumes assigned to the Manyberries property in future estimates of such. See "Emergency Order for the Protection of the Greater Sage-Grouse".

LGX is involved in legal proceedings whereby it is seeking to quash the Emergency Order. There is no guarantee that LGX will be successful in having the Emergency Order quashed or in obtaining any material amendments to the Emergency Order that would lessen the impact of the Emergency Order on LGX's Manyberries property. There is no guarantee that LGX will be able to obtain any compensation from any party for losses suffered as a result of the application of the Emergency Order.

The ultimate impact of the Emergency Order on LGX's operations, prospects and reserves remains uncertain, but the Emergency Order may have a significant adverse effect on the operations, prospects, reserves and financial results of LGX and the value of the common shares.

Credit Facilities and Variation in Interest Rates

As at December 31, 2013, LGX owed $11,050,000 under its secured credit facilities against a borrowing limit of $25,000,000. Repayment of all outstanding amounts under the credit facilities may be demanded on relatively short notice if an event of default occurs. The amounts available for borrowing under LGX's credit facilities are dependent on the lenders' assessment of the value of LGX's borrowing base. Any material reduction in the estimated oil and natural gas reserves of LGX would reduce the borrowing base and result in a reduction of the amounts available for borrowing under the credit facilities. There is a risk that the credit facilities will not be renewed for the same amount or on the same terms. Any material reduction in the amounts available for borrowing under the credit facilities and any demand for repayment of amounts owing under the credit facilities would result in LGX needing to obtain alternate financing. Any failure to obtain suitable replacement financing would have a material adverse effect on LGX's business and the market price for the common shares.

LGX's existing credit facilities and any replacement credit facilities may not provide sufficient liquidity. The amounts available under LGX's existing credit facilities may not be sufficient for future operations, or LGX may not be able to obtain additional financing on economic terms attractive to it, if at all.

The interest rate payable by LGX under its secured credit facilities is not fixed. Any increase in interest rates would increase the amount that LGX pays to service its debt and a significant increase in interest rates may materially adversely affect LGX's financial results.

Substantial Capital Requirements; Liquidity

LGX may have to make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If revenues or reserves decline, LGX may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the company. Moreover, future activities may require LGX to alter its capitalization significantly. The inability of the company to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

Operational Risks

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, LGX is not fully insured against all of these risks, nor are all such risks insurable. Although LGX maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event LGX could incur significant costs that could have a materially adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to LGX and may delay exploration and development activities.
Oil and natural gas exploration and development activities are dependent on access to areas where operations are to be conducted. Seasonal weather variations, including freeze-up and break-up, affect access in certain circumstances. Unexpected adverse weather conditions, such as flooding or prolonged break-up, can have a significant negative impact on capital expenditures, operations and costs.

To the extent LGX is not the operator of all its oil and natural gas properties, it is dependent on such operators for the timing of activities related to such properties and is largely unable to direct or control the activities of the operators. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although LGX intends to operate the majority of its properties, there is no guarantee that it will remain operator of such properties or that LGX will operate other properties it may acquire in the future.

In addition, the success of LGX will be largely dependent upon the performance of its management and key employees. LGX does not have any key man insurance policies and, therefore, there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on LGX.

LGX's ability to market oil and natural gas from its wells also depends upon numerous other factors beyond its control, including, among other things, the availability of natural gas processing and storage capacity, the availability of pipeline capacity, the price of oilfield services and the effects of inclement weather. Because of these factors, LGX may be unable to market some or all of the oil and natural gas it produces or to obtain favourable prices for the oil and natural gas it produces.

Volatility of Oil and Natural Gas Prices and Markets

LGX's financial performance and condition are substantially dependent on the prevailing prices of oil and natural gas which are unstable and subject to fluctuation. Fluctuations in oil or natural gas prices could have an adverse effect on LGX's operations and financial condition and the value and amount of its reserves. Prices for crude oil fluctuate in response to global and North American supply of and demand for oil, market performance and uncertainty and a variety of other factors which are outside the control of LGX including, but not limited, to the world economy and OPEC's ability to adjust supply to world demand, government regulation, political stability and the availability of alternative fuel sources. In addition, the prices received by LGX for its oil are subject to differentials against such benchmarks as WTI and Edmonton Par which can fluctuate substantially and result in LGX realizing prices substantially below such benchmarks. Natural gas prices are influenced primarily by factors within North America, including North American supply and demand, economic performance, weather conditions and availability and pricing of alternative fuel sources.

Decreases in oil and natural gas prices realized by LGX will result in reduced net production revenue and may change the economics of producing from some wells, which could result in a reduction in the volume of LGX's reserves. Any further substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in LGX's net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to LGX will in part be determined by LGX's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt be repaid.

LGX may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, LGX will not benefit from such increases.

Environmental Concerns

Many aspects of the oil and natural gas business present environmental risks and hazards, including the risk that LGX may be in noncompliance with an environmental law, regulation, permit, licence, or other regulatory approval, possibly unintentionally or without knowledge. Such risks may expose LGX to fines or penalties, third party liabilities or to the requirement to remediate, which could be material.

The operational hazards associated with possible blowouts, accidents, oil spills, natural gas leaks, fires, or other damage to a well or a pipeline may require LGX to incur costs and delays to undertake corrective actions, could result in environmental damage or contamination or could result in serious injury or death to employees, consultants, contractors or members of the public, creating the potential for significant liability to LGX. Also, the occurrence of any such incident could damage LGX's reputation in surrounding communities and make it more difficult for LGX to pursue its operations in those areas.

Compliance with environmental laws and regulations, including the Emergency Order, could materially increase LGX's costs. LGX may incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety. In particular, LGX may be required to incur significant costs to comply with future federal or provincial greenhouse gas emissions reduction requirements or other regulations or future laws regulating or restricting the use of hydraulic fracturing, if enacted.

Although LGX maintains insurance consistent with prudent industry practice, it is not fully insured against certain environmental risks, either because such insurance is not available or because of high premium costs. In particular, insurance against risks from environmental pollution occurring over time (as opposed to sudden and catastrophic damages) is not available on economically reasonable terms. Accordingly, LGX's properties may be subject to liability due to hazards that cannot be insured against, or that have not been insured against due to prohibitive premium costs or for other reasons. It is also possible that changing regulatory requirements or emerging jurisprudence could render such insurance of less benefit to LGX.

Hydraulic Fracturing

The proliferation of the use of hydraulic fracturing as a recovery technique employed in oil and natural gas drilling has given rise to increased public scrutiny of its environmental aspects, particularly with respect to its potential impact on local aquifers. LGX utilizes hydraulic fracturing in a significant portion of the light oil wells it drills and completes. Negative public perception of hydraulic fracturing may place pressure on governments in the jurisdictions where LGX operates to implement additional regulatory requirements or limitations on the utilization of hydraulic fracturing, which in turn could restrict LGX's operations and increase its costs.

Availability of Services

While the services necessary to drill and complete the types of horizontal oil wells that may form a portion of LGX's planned exploration and development activities in 2014 are expected to be available, increased demand and competition for such services may increase LGX's costs of such services or result in the delay of planned exploration and development activities.

Reserve Estimates

There are numerous uncertainties inherent in evaluating quantities of reserves and the net present value of future net revenue to be derived therefrom, including many factors beyond the control of LGX. The reserves information contained in the independent engineering reports and set forth in the AIF, including information respecting the net present value of future net revenue from reserves, represents an estimate only. This estimate is based on a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the independent engineering report was prepared and many of these assumptions are subject to change and are beyond the control of LGX. Ultimately, the actual reserves attributable to LGX's properties will vary from the estimates contained in the independent engineering reports and those variations may be material and affect the market price of the common shares.

Reserve Replacement

LGX's future oil and natural gas reserves and production and the cash flows to be derived therefrom are highly dependent on successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves LGX may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in reserves will depend not only on LGX's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that LGX's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Industry Regulation and Competition

There is strong competition relating to all aspects of the oil and natural gas industry. LGX will actively compete for capital, skilled personnel, undeveloped land, reserve acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations with a substantial number of other organizations, many of which may have greater technical and financial resources than LGX. Some of those organizations not only explore for, develop and produce oil and natural gas but also carry on refining operations and market petroleum and other products on a world-wide basis and as such have greater and more diverse resources on which to draw. LGX's ability to increase reserves and production in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling.

The marketability of oil and natural gas acquired or discovered will be affected by numerous factors beyond the control of LGX. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. Oil and natural gas operations (exploration, production, pricing, marketing, transportation and royalty rates) are subject to extensive controls and regulations imposed by various levels of government, including those described in the AIF under the heading "Industry Conditions", which may be amended from time to time. LGX's oil and natural gas operations may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Changes to the regulation of the oil and gas industry in jurisdictions in which LGX operates may adversely impact LGX's ability to economically develop existing reserves and add new reserves.

Variations in Foreign Exchange Rates

LGX's expenses will be denominated in Canadian dollars, while the price of oil and natural gas will generally be denominated in U.S. dollars or impacted by the Canadian dollar to U.S. dollar exchange rate. As the exchange rate for the Canadian dollar versus the U.S. dollar increases, LGX will generally receive fewer Canadian dollars for its production. If the value of the Canadian dollar against the U.S. dollar increases, the financial results of LGX may be negatively affected. LGX's management may initiate certain hedges to mitigate these risks. Future fluctuations in the Canadian/United States foreign exchange rate may impact the future value of LGX's reserves as determined by independent evaluators.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, has experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the market price for the common shares will be subject to market trends generally, notwithstanding the financial and operational performance of LGX.

Issuance of Debt

From time to time LGX may enter into transactions to acquire assets or shares of other corporations. These transactions may be financed partially or wholly through debt, which may increase debt levels above industry standards. LGX's articles and by-laws do not limit the amount of indebtedness it may incur. The level of LGX's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Abandonment and Reclamation Costs

LGX will be responsible for compliance with terms and conditions of environmental and regulatory approvals and all laws and regulations regarding abandonment and reclamation in respect of its properties, which abandonment and reclamation costs may be substantial. A breach of such legislation or regulations may result in the imposition of fines and penalties, including an order for cessation of operations at the site until satisfactory remedies are made.

Possible Failure to Realize Anticipated Benefits of Future Acquisitions

LGX may complete acquisitions to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits including, among other things, potential cost savings. Achieving the benefits of any future acquisitions depends, in part, on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as LGX's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with its own. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect LGX's ability to achieve the anticipated benefits of these and future acquisitions.

Delay in Cash Receipts and Credit Worthiness of Counterparties

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of LGX's properties, and by the operator to LGX, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of LGX's properties or the establishment by the operator of reserves for such expenses. In addition, the insolvency or financial impairment of any counterparty owing money to LGX, including industry partners and marketing agents, could prevent LGX from collecting such debts.

Dilution

Common shares, including rights, warrants, special warrants, subscription receipts and other securities to purchase, to convert into or to exchange into common shares, may be created, issued, sold and delivered on such terms and conditions and at such times as the Board may determine. In addition, LGX may issue additional common shares from time to time pursuant to LGX's stock option plan. The issuance of these common shares would result in dilution to holders of common shares.

Net Asset Value

LGX's net asset value will vary depending upon a number of factors beyond the control of LGX's management, including oil and natural gas prices. The trading price of the common Shares is also determined by a number of factors which are beyond the control of management and such trading price may be greater than or less than the net asset value of LGX.

Reliance on Management

Shareholders will be dependent on the management of LGX in respect of the administration and management of all matters relating to LGX and its properties and operations. Investors who are not willing to rely on the management of LGX should not invest in common shares.

Permits and Licenses

The operations of LGX may require licenses and permits from various governmental authorities. There can be no assurance that LGX will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells as determined appropriate by management, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of LGX which could result in a reduction of LGX's interest in a property or well and the revenue received by LGX therefrom.

Blood Lease

The acquisition of title to petroleum and natural gas properties on First Nations lands is a very detailed and time-consuming process. While LGX has diligently investigated title to the Blood Lease (as defined in the AIF), all or any of the lands included in the Blood Lease may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. There is no guarantee that title to the Blood Lease or any of the lands included in the Blood Lease will not be challenged or impugned. There may be valid challenges to the title of the Blood Lease or any of the lands included in the Blood Lease, which, if successful, could impair LGX's ability to explore, develop and/or operate the portion of its Alberta Bakken assets that are located on the Blood Tribe Reserve or to enforce its rights with respect thereto. In addition, other parties may dispute LGX's title to the lands included in the Blood Lease in which it has an interest and such properties may be subject to prior unregistered agreements or transfers or claims by aboriginal people, and title may be affected by undetected encumbrances or defects or government actions. An impairment to or defect in LGX's title to the Blood Lease or any of the lands included in the Blood Lease could have a material adverse effect on LGX's business, financial condition or results of operation. In addition, such claims, whether or not valid, will involve additional costs and expenses to defend or settle, which could adversely affect LGX's profitability.

Corporate Matters

To date, LGX has not paid any dividends on its outstanding common shares. Certain of the directors and officers of LGX are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of LGX, as the case may be, and as officers and directors of such other companies.

Failure to Maintain Listing of the Common Shares

The common shares are currently listed for trading on the facilities of the TSXV. The failure of LGX to meet the applicable listing or other requirements of the TSXV in the future may result in the common shares ceasing to be listed for trading on the TSXV, which would have a material adverse effect on the value of the common shares. There can be no assurance that the common shares will continue to be listed for trading on the TSXV.

Structure of LGX

From time to time, LGX may take steps to organize its affairs in a manner that minimizes taxes and other expenses payable with respect to the operation of LGX and its subsidiaries. If the manner in which LGX structures its affairs is successfully challenged by a taxation or other authority, LGX and the holders of common shares may be adversely affected.

Changes in Legislation

It is possible that the Canadian federal and provincial government or regulatory authorities could choose to change the Canadian federal income tax laws, royalty regimes, environmental laws or other laws applicable to oil and gas companies and that any such changes could materially adversely affect LGX, its shareholders and the market value of the common shares.

OUTSTANDING SHARE DATA

Common Shares

LGX is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. Holders of common shares are entitled to one vote per share at meetings of shareholders of LGX, to receive dividends if, as and when declared by the board of directors and to receive pro rata the remaining property and assets of LGX upon its dissolution or winding-up, subject to the rights of shares having priority over the common shares.

As at December 31, 2013, a total of 88,658,427 common shares were issued and outstanding. In addition, a total of 3,652,000 stock options to acquire common shares and 6,000,000 warrants to acquire common shares were outstanding.

RELATED PARTY TRANSACTIONS

On July 5, 2012, Legacy and the Company entered into a management, technical and administrative services agreement whereby the Company will be managed by Legacy's current management team and staff, in exchange for a monthly fee of $167,000 excluding GST. The management fee charged to the Company by Legacy is for the provision of management and administrative services and is intended to cover the cost of administrative expense and salary costs incurred by Legacy. Under the terms of the Services Agreement, Legacy invoiced the Company $2,104,200 during the year ended December 31, 2013 (2012 - $1,052,100) of which none was payable as at December 31, 2013 (December 31, 2012 - $1,052,100). In relation to capital and operations activity, the Company has a net trade payable to Legacy of $1,922,598 as at December 31, 2013 (December 31, 2012 - $2,959,614), which includes the management fee discussed above.

The Company incurred fees of $79,485 for corporate and legal services rendered by law firms, which a board member and the Corporate Secretary are partners of, for the year ended December 31, 2013. At December 31, 2013, $7,817 was payable (2012 - $68,656). These fees were incurred in the normal course of business under similar terms and conditions as transactions with unrelated companies.

These related party transactions are measured at the agreed exchange amount and settled in cash.

Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (whether executive or otherwise) of the Company.

LGX's key management includes its executive officers, the Corporate Secretary and its directors. The executive officers are comprised of the President and Chief Executive Office, the Vice President and Chief Financial Officer and other Vice Presidents.

The remuneration of key management personnel for the years ended December 31, 2013 and 2012 are as follows:

($)	**Year Ended December 31 2013**	**Year Ended December 31 2012**
Salaries, bonuses and other benefits	-	-
Share-based payments	594,760	194,761
Total remuneration of key management	594,760	194,761

The only remuneration of directors of LGX for the year ended December 31, 2013 was in the form of share based payments of $87,031 (2012 - $36,661). The President and Chief Executive Officer of the Company is also a director of LGX and received no compensation in 2013 specifically in relation to his duties as a director of LGX.

COMMITMENTS AND CONTINGENGIES

Drilling commitments

The Company is committed to drill a minimum of two wells on its Alberta Bakken properties located on the lands of the Blood Tribe First Nation in each of the years ending September 30, 2013, 2014 and 2015, to a minimum of 1,000 metres total depth or 5 metres into the Devonian formation, whichever first occurs. As at December 31, 2013, the fiscal 2013 commitments have been met.

Services Agreement

Legacy and LGX entered into a management, technical and administrative services agreement whereby LGX will be managed by Legacy's current management team and staff as of July 5, 2012, in exchange for a monthly fee of $167,000. The agreement will continue until terminated by either party with 90 days' notice.

EVENTS AFTER THE REPORTING PERIOD

The Emergency Order for the protection of the Greater Sage-Grouse issued pursuant to the *Species at Risk Act* (Canada) came into effect on February 18, 2014. The Emergency Order and management's consideration for the effect thereof is described in "Emergency Order for the Protection of the Greater Sage-Grouse".

ADDITIONAL INFORMATION

Additional information regarding LGX and its business and operations can be obtained by contacting the Company at LGX Oil + Gas Inc., 4400, Eighth Avenue Place, 525 - 8th Avenue, SW, Calgary, Alberta, Canada T2P 1G1 or by e-mail at info@lgxoil.com. Additional information, including its most recently filed annual information form ("AIF") dated March 24, 2014, is also available on the Company's profile at www.sedar.com.