LGX OIL + GAS INC.

2012 Management's Discussion and Analysis

For the year ended December 31, 2012

MANAGEMENT'S DISCUSSION + ANALYSIS

The following management discussion and analysis ("MD&A"), as provided by the management of LGX Oil + Gas Inc. ("LGX" or the "Company") (formerly known as Bowood Energy Inc.) of the financial condition and performance of LGX/SA Assets for the three and twelve months ended December 31, 2012, as described below, as of March 18, 2013, is to be read in conjunction with the audited consolidated financial statements and related notes for the for the year ended December 31, 2012 and the audited carve-out financial statements of Legacy Oil + Gas Inc.'s Southern Alberta Assets for the year ended December 31, 2011 and notes thereto. 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 10,000,000 post-consolidation (200,000,000 pre-consolidation) common shares of LGX (the "Asset Purchase"). Following completion of the Asset Purchase:

- LGX had 23,746,669 post-consolidation (474,933,373 pre-consolidation) common shares outstanding, 42.1% of which were owned by Legacy;
- The former officers of LGX resigned and were replaced by Trent Yanko as President and Chief Executive Officer, Matt Janisch as Vice-President, Finance and Chief Financial Officer and Mark Franko as Corporate Secretary;
- The board of directors of LGX was reconstituted;
- Legacy and LGX entered into a management, technical and administrative services agreement ("Services Agreement") whereby LGX will be managed by Legacy's current management team and staff, in exchange for a monthly fee; and
- The LGX shareholders approved a proposed name change to LGX Oil + Gas Inc. from Bowood Energy Inc. and a consolidation of the LGX common shares on a 20 to 1 basis.

In accordance with IFRS 3, *Business Combinations*, and the guidance provided by IAS 27, *Consolidation and Separate Financial Statements*, the SA Assets was identified as the accounting "acquirer" – being the entity that obtains control of the acquiree, LGX.

Following the Asset Purchase, control was determined as follows:

- Legacy holds the single largest ownership interest in LGX and other ownership interests are comparatively dispersed. Total voting participation at the July 5, 2012 shareholder's meeting was approximately 33 percent of the shares outstanding. After the closing of the strategic transaction, this would constitute approximately 14 percent of the total shares whereas Legacy's ownership would constitute 33 percent of the total shares outstanding.
- 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.
- The new management of LGX holds the same positions with Legacy; and
- Two of the five directors of LGX are also directors of Legacy including the chairman of the board of LGX, James Pasieka.

Alone, not one of these factors would demonstrate that Legacy has control of LGX, however, combined as a whole, these factors indicate that the power to dictate the financial and operating policies of the entity as to obtain benefits from its activities lies within the ownership of the SA Assets (i.e. Legacy) and thus the SA Assets are identified as the acquirer in this scenario. As a result of such consideration, a change in control was deemed to have occurred and the Asset Purchase will be accounted for as a reverse acquisition under IFRS 3.

As a result of the Asset Purchase and 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, 2012 dated March 18, 2013 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 to December 31 (LGX/SA Assets subsequent to the reverse acquisition). The LGX AIF is available on the Company's profile at www.sedar.com

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. 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 whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

Funds generated by operations is calculated based on cash flow from operating activities before changes in non–cash working capital and transaction costs. Funds generated by operations per share–diluted is calculated based on cash flow from operating activities before changes in non-cash working capital from operating activities and transaction costs. Funds generated by (used in) 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 (used in) operations:

	Three Months Ended December 31			Year Ended December 31		
($)	2012	2011	% change	2012	2011	% change
Cash flow generated by (used) in operating activities	1,700,683	(13,733)	12,484	(2,392,014)	(66,328)	3,506
Transaction costs	522,026	-	n/a	523,051	-	n/a
Changes in non-cash working capital	(1,759,666)	40,399	4,456	2,193,561	40,399	5,330
Funds generated by (used in) operations	463,043	26,666	1,636	324,598	(25,929)	1,352

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.

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.

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.

Forward-Looking Information – This MD&A and the accompanying President's Message contain forward-looking statements. More particularly, they contain forward-looking statements concerning LGX's planned exploration and development activities, planned capital expenditures, forecast 2013 average and exit rates of production, expected increases to operating costs and the sufficiency of internal funds flow from operations, combined with available credit facilities, to fund operating, interest and general and administrative expenses and forecast cash flow from operations for 2013.

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 expectations and assumptions concerning the success of future drilling, development and completion activities, the performance of existing wells, the performance of new wells, the availability and performance of facilities and pipelines, the geological characteristics of LGX's properties, the successful application of drilling, completion and seismic technology, prevailing weather conditions, commodity prices, royalty regimes and exchange rates, the application of regulatory and licensing requirements and 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 conditions and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. 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, 2012 dated March 18, 2013.

The forward-looking statements contained in this MD&A and accompanying President's Message are made as of the date hereof and LGX 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		
	2012	2011	% change	2012	2011	% change
Daily Production						
Crude oil and natural gas liquids (Bbls per day)	430	12	3,483	146	3	4,767
Natural gas (Mcf per day)	1,528	-	n/a	871	-	n/a
Total (Boe per day)	685	12	5,608	291	3	9,600

For the three months ended December 31, 2012, LGX's production was 685 Boe per day as compared to 12 Boe per day for the same period in the prior year. This increase is due to the acquisition of Manyberries properties in Southeast Alberta on November 7, 2012 ("Manyberries Asset Acquisition") and the reverse takeover of former Bowood properties as compared to the nominal production of the SA Assets for the same period in 2011. Crude oil and natural gas liquids production for the three months ended December 31, 2012 was 430 Bbls per day while natural gas production was 1,528 Mcf per day.

Average production for the year ended December 31, 2012 was 291 Boe per day as compared to 3 Boe per day for 2011. Crude oil production was 146 Boe per day for the year ended December 31, 2012. Natural gas production was 871 Mcf per day for the year ended December 31, 2012. The increase in average production in 2012 as compared to the nominal production of the SA Assets in 2011 is due to the common control transaction as well as the Manyberries Asset Acquisition.

During the three and twelve months ended December 31, 2012, the Company drilled 1 gross (1 net) oil wells with a 100 percent drilling success rate.

Realized Commodity Prices

	Three Months Ended December 31			Year Ended December 31		
	2012	2011	% change	2012	2011	% change
Daily Average Benchmark Prices						
Crude oil – WTI (US$ per Bbl)	88.20	94.02	(6)	94.19	95.14	(1)
Crude oil – WTI ($ per Bbl)	87.41	96.18	(9)	94.11	94.06	0
Crude oil – Edmonton Par ($ per Bbl)	84.27	97.97	(14)	86.54	95.62	(10)
Natural gas – AECO-C Spot ($ per Mcf)	3.05	3.49	(13)	2.43	3.72	(35)
Exchange rate – (US/CAD)	1.009	0.978	3	1.001	1.012	(1)
LGX's average realized prices						
Crude oil and natural gas liquids ($ per Bbl)	72.18	94.26	(23)	74.10	95.03	(22)
Natural gas ($ per Mcf)	3.32	-	n/a	2.69	-	n/a
Barrels of oil equivalent ($ per Boe)	52.71	94.26	(44)	45.23	95.03	(52)

LGX's realized price for its crude oil and natural gas liquids sales in the fourth quarter of 2012 was $72.18 per Bbl (2011 – $94.26) compared to a WTI price of Canadian $87.41 per Bbl (2011 - $96.18 per Bbl). LGX's oil production is light sweet crude produced in southern Alberta. For 2012 year-to-date, LGX's realized price for its crude oil and natural gas liquids sales was $74.10 (2011 – $95.03) compared to a WTI price of Canadian $94.11 per Bbl (2011 - $94.06 per Bbl).

For the fourth quarter of 2012, the Company's realized price for its natural gas was $3.32 per Mcf (2011 – n/a) and for 2012 year-to-date LGX's realized price for its natural gas sales was $2.69 per Mcf (2011 – n/a). For the equivalent period in the prior year SA Assets had no natural gas sales.

Revenue

	Three Months Ended December 31			Year Ended December 31		
($, except per Boe and percent amounts)	**2012**	**2011**	**% change**	**2012**	**2011**	**% change**
Petroleum and natural gas sales by product						
Crude oil and natural gas liquids	2,855,265	104,061	2,644	3,959,663	104,061	3,705
Natural gas	466,805	-	n/a	857,937	-	n/a
Total petroleum and natural gas sales	3,322,070	104,061	3,092	4,817,600	104,061	4,530
$ per Boe	52.71	94.26	(44)	45.23	95.03	(52)
Royalties						
Royalty expenses	546,552	16,136	3,287	771,278	16,136	4,680
$ per Boe	8.67	14.62	(41)	7.24	14.74	(51)
% of petroleum and natural gas sales	16.5	15.5	6	16.0	15.5	3
Revenue						
Petroleum and natural gas sales, net of royalties	2,775,518	87,925	3,057	4,046,322	87,925	4,502
$ per Boe	44.04	79.64	(45)	37.99	80.29	(53)

For the three months ended December 31, 2012, LGX's petroleum and natural gas sales were $3,322,070 as compared to $104,061 for the three months ended December 31, 2011. The increase in revenues is due to the increase in production volumes over the same period.

For 2012, LGX's petroleum and natural gas sales were $4,817,600 compared to $104,061 for 2011. This increase is due to the increase in production volumes over the same period.

Royalty expenses consist of royalties paid to provincial governments, freehold landowners and overriding royalty owners. For the three months ended December 31, 2012, total royalties were $546,552 as compared to $16,136 for the three months ended December 31, 2011. The increase is attributable to the increase in revenues discussed above. The Company's average royalty rate for the three months ended December 31, 2012 was 16.5 percent as compared to 15.5 percent in 2011. Royalties are calculated and paid 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, 2012, total royalties were $771,278 as compared to $16,136 for 2011. The increase is due to the increase in revenues as a result of the increase in production volumes as discussed above. The Company's average royalty rate for the twelve months ended December 31, 2012 was 16.0 percent as compared to 15.5 percent in 2011.

The Company expects the average royalty rate to increase in 2013 as royalties on the Manyberries properties are higher than those historically shown in historical LGX properties.

Operating and Transportation Expenses

	Three Months Ended December 31			Year Ended December 31		
($, except per Boe amounts)	**2012**	**2011**	**% change**	**2012**	**2011**	**% change**
Operating expenses	1,412,541	46,901	2,912	2,051,673	68,717	2,886
$ per Boe	22.41	42.48	(47)	19.26	62.76	(69)
Transportation expenses	137,920	3,429	3,922	191,924	3,429	5,497
$ per Boe	2.19	3.11	(30)	1.80	3.13	(42)
Total operating costs	1,550,461	50,330	2,981	2,243,597	72,146	3,010
$ per Boe	24.60	45.59	(46)	21.06	65.84	(68)

Total operating costs during the fourth quarter of 2012 were $1.6 million, a 2,981 percent increase, compared to $50,330 during the same period in 2011. The increase in total operating costs is attributable to increased production volumes as there was only nominal production in SA Assets for the same period in the prior year. On a per Boe basis, operating expenses for the three months ended December 31, 2012 were $22.41. On a per Boe basis, transportation expenses for the three months ended December 31, 2012 were $2.19. Total operating costs (including operating and transportation expenses) on a per Boe basis were $24.60.

Total operating costs during the year ended December 31, 2012 were $2.2 million, a 3,010 percent increase, compared to $72,146 during 2011. The increase in total operating costs is attributable to increased production volumes. On a per Boe basis, operating expenses for the year ended December 31, 2012 were $19.26. On a per Boe basis, transportation expenses for the year ended December 31, 2012 were $1.80. Total operating costs (including operating and transportation expenses) on a per Boe basis were $21.06.

The Company expects total operating cost, on a per boe basis, to increase in 2013 as operating cost on the Manyberries properties are historically higher than those found in LGX's historical properties.

Exploration and Evaluation Expenses

During the three and twelve months ended December 31, 2012, the Company recorded $4,866,156 of exploration and evaluation expenses compared to $76,736 in the three months ended December 31, 2011 and $1,935,744 for the year ended 2011. The exploration and evaluation expenses in 2012 are attributable to land expiries in the current year as compared to unsuccessful exploration and evaluation costs derecognized in 2011.

Depletion and Depreciation

For the three month period ended December 31, 2012, depletion and depreciation expense was $1,346,194. On a per Boe basis, depletion and depreciation for the fourth quarter of 2012 was $21.36.

For the year ended December 31, 2012, depletion and depreciation expense was $1,668,132. On a per Boe basis, depletion and depreciation for the year ended December 31, 2012 was $15.66.

Share-based Payments

For the three months ended December 31, 2012, the Company expensed $143,129 in share-based payments related to outstanding stock options compared to $13,906 for the same period in the prior year. This increase is primarily due to new stock options granted in the latter half of 2012.

For the year ended December 31, 2012, the Company expensed $207,005 in share-based payments related to outstanding stock options compared to $74,894 for 2011. This increase is primarily due to new stock options granted during the 2012 year.

General and Administrative Expenses

	Three Months Ended December 31			**Year Ended December 31**		
($, except per Boe amounts)	**2012**	**2011**	**% change**	**2012**	**2011**	**% change**
General and administrative expenses	734,930	10,629	6,814	1,512,641	41,408	3,553
Recoveries	(12,021)	-	n/a	(15,863)	-	n/a
Capitalized general and administrative expenses	(75,150)	-	n/a	(150,300)	-	n/a
Total net general and administrative expenses	647,759	10,629	5,994	1,346,478	41,408	3,152
$ per Boe	10.28	9.63	7	12.64	37.82	(67)

During the fourth quarter of 2012, net general and administrative expenses ("G&A") increased 5,994 percent to $647,759 compared to $10,629 in the same period in 2011. On a per Boe basis, the G&A expense was $10.28 per Boe for the three months ended December 31, 2012. Net G&A for the quarter was comprised of $734,930 (2011 - $10,629) in general and administrative expenses less $12,021 (2011 - $nil) in recoveries and $75,150 (2011 - $nil) in capitalized G&A.

For the year ended December 31, 2012, net general and administrative expenses ("G&A") increased 3,152 percent to $1,346,478 compared to $41,408 in 2011. On a per Boe basis, the G&A expense was $12.64 per Boe for the year ended December 31, 2012. Net G&A for the year ended December 31, 2012 was comprised of $1,512,641 (2011 - $41,408) in general and administrative expenses less $15,863 (2011 - $nil) in recoveries and $150,300 (2011 - $nil) in capitalized G&A.

Finance Costs

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

During the fourth quarter of 2012, interest and finance charges increased 4,635 percent to $114,255 compared to $2,413 for the same period in 2011. The increase in interest and finance charges during the quarter was due to higher average bank debt compared to the same period in the prior year. During the fourth quarter of 2012, accretion on decommissioning liabilities was $64,308.

For 2012 year-to-date, interest and finance charges increased 1,607 percent to $131,649 compared to $7,714 for the same period in 2011. The increase in interest and finance charges during the quarter was due to higher average bank debt compared to the same period in the prior year. For the year ended December 31, 2012, accretion on decommissioning liabilities was $88,820.

Other Expenses and Other Loss (Income)

For the three and twelve months ended December 31, 2012, the Company incurred transaction costs of $522,026 and $523,051 respectively. The majority of all transaction costs were incurred during the fourth quarter of 2012 and relate to the SA Assets reverse acquisition of LGX as well as the Manyberries Asset Acquisition.

During the three and twelve months ended December 31, 2012, the Company recorded a $10.8 million gain on the SA Assets reverse acquisition of LGX. The gain was a result of $28.7 million in net assets acquired for consideration of $17.9 million (13,746,669 post-consolidation 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 (post-consolidation price).

Income Taxes

A deferred income tax recovery of $399,185 was recorded for the three months ended December 31, 2012, resulting in an effective deferred income tax recovery rate of 5 percent of the net loss before tax. The effective deferred income tax recovery rate is lower than the Canadian statutory income tax rate due mainly to the de-recognition of certain Canadian tax pool balances in the period as well as non-deductible expenditures for income tax purposes (including share-based payments). The Company de-recognized certain Canadian cumulative foreign resource pools, capital loss pools and successored resource pools in the period as significant uncertainty exists surrounding the ability to realize the value of the stated pools at the current time. No deferred income tax expense or recovery was recorded in the same period of the prior year.

A deferred income tax recovery of $587,422 was recorded for the year ended December 31, 2012, resulting in an effective deferred income tax recovery rate of negative 21 percent of net income before tax. An income tax recovery was recorded in the period even though the Company reported net income before tax. The deferred income tax recovery is mainly attributable to the non-taxable income recorded as part of the reverse acquisition, offset in part by the de-recognition of certain Canadian tax pool balances in the period as well as non-deductible expenditures for income tax purposes (including share-based payments). No deferred income tax expense or recovery was recorded in the same period of the prior year.

Net Income (Loss) and Funds Generated by Operations

For the quarter ended December 31, 2012, net loss of $7,023,085 was realized compared to a net loss of $66,089 during the same period in 2011. Basic and diluted net loss per share for the fourth quarter of 2012 was $0.11. Funds generated by operations increased 1,636 percent to $463,043 for the three months ended December 31, 2012, compared to $26,666 during the same period in 2011. Basic and diluted funds generated by operations per share for the fourth quarter of 2012 were $0.01.

For 2012, net income of $3,419,269 was realized compared to a net loss of $2,043,981 during 2011. The Company realized net income in the year ended December 31, 2012 compared to a net loss in 2011 due to the $10.8 million gain as a result of the SA Assets reverse acquisition of LGX. Basic and diluted net income per share for the 2012 year-to-date was $0.15. Funds generated by (used in) operations increased 1,352 percent to $324,598 for the twelve months ended December 31, 2012, compared to ($25,929) during 2011. Basic and diluted funds used in operations per share for the year ended 2012 were $0.01.

For the quarter and year ended December 31, 2012, LGX has recorded an impairment expense of $943,500 (2011 - $nil) relating to the Company's Armada cash-generating unit in southern Alberta.

The following table summarizes the netbacks on a per Boe basis for the three and twelve months ended December 31, 2012 and 2011:

	Three Months Ended December 31			Year Ended December 31		
($ per Boe)	**2012**	**2011**	**% change**	**2012**	**2011**	**% change**
Petroleum and natural gas sales	52.71	94.26	(44)	45.23	95.03	(52)
Royalties	(8.67)	(14.62)	(41)	(7.24)	(14.74)	(51)
Revenue	44.04	79.64	(45)	37.99	80.29	(53)
Operating expenses	(22.41)	(42.48)	(47)	(19.26)	(62.76)	(69)
Transportation expenses	(2.19)	(3.11)	(30)	(1.80)	(3.13)	(42)
Operating netback	19.44	34.05	(43)	16.93	14.40	18
Exploration and evaluation expenses (cash portion)	-	-	n/a	-	-	n/a
General and administrative expenses	(10.28)	(9.63)	7	(12.64)	(37.82)	(67)
Financing costs – Interest expense and finance charges	(1.81)	-	n/a	(1.24)	-	n/a
Realized gain on foreign exchange	-	-	n/a	-	-	n/a
Decommissioning liabilities settled	-	-	n/a	-	-	n/a
Funds generated by operations	7.35	24.42	(67)	3.05	(23.42)	(113)

SELECTED ANNUAL INFORMATION

($, except per share amounts)	**2012**	**2011**	**2010**
Petroleum and natural gas sales	4,817,600	104,061	-
Petroleum and natural gas sales, net of royalties	4,046,322	87,925	-
Net Income (Loss)	3,419,269	(2,043,981)	-
Per share basic	0.15	n/a	n/a
Per share diluted	0.15	n/a	n/a
Total assets	148,469,818	35,256,877	13,533,956
Working capital surplus (deficit) (1)	(8,056,926)	(3,466,967)	(9,000)
Bank debt (1)	(1,850,000)	-	-
Net debt and working capital surplus (deficit) (1)	(9,906,927)	(3,466,967)	(9,000)

(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 2012 results as well as comparisons to the previous seven quarterly results for the Company:

	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1
Financial								
($, except per share amounts)								
Petroleum and natural gas sales	3,322,070	1,050,641	125,412	319,477	104,061	-	-	-
Petroleum and natural gas sales, net of royalties	2,775,518	864,621	116,196	289,987	87,925	-	-	-
Funds generated by operations	463,043	(345,347)	38,286	168,616	26,966	(15,028)	(19,823)	(17,744)
- Per share basic	0.01	(0.01)	-	-	-	-	-	-
- Per share diluted	0.01	(0.01)	-	-	-	-	-	-
Net Income (Loss)	(7,023,085)	10,254,593	29,498	158,263	(66,089)	(100,863)	(1,035,290)	(841,739)
- Per share basic	(0.11)	0.38	-	-	-	-	-	-
- Per share diluted	(0.11)	0.38	-	-	-	-	-	-
Capital expenditures (excluding acquisitions)	7,379,378	1,418,395	35,446	1,110,275	6,061,593	7,629,923	7,744,402	2,040,149
Net acquisitions (cash consideration) (1)	42,378,028	-	-	-	-	-	-	-
Net debt and working capital surplus (deficit)	(9,906,927)	(5,043,920)	(32,065)	(561,482)	(3,466,967)	(3,796,297)	(4,267,392)	(1,439,620)
Total Assets	148,469,817	76,967,098	36,461,424	36,632,345	38,803,877	30,717,196	21,723,144	14,872,674
Operating								
Production								
- Crude oil and natural gas liquids (Bbls per day)	430	95	16	38	12	-	-	-
- Natural gas (Mcf per day)	1,528	1,939	-	-	-	-	-	-
- Total daily production (Boe per day)	685	418	16	38	12	-	-	-
- Increase/(Decrease) over prior quarter	64%	2513%	(58%)	217%	n/a	n/a	n/a	n/a
Average realized price								
- Crude oil and natural gas liquids ($ per Bbl)	72.18	75.46	86.55	91.61	94.26	n/a	n/a	n/a
- Natural gas ($ per Mcf)	3.32	2.19	n/a	n/a	n/a	n/a	n/a	n/a
- Barrels of oil equivalent ($ per Boe)	52.71	27.32	86.55	91.61	94.26	n/a	n/a	n/a
Netback ($ per Boe)								
- Petroleum and natural gas sales	52.71	27.33	86.55	91.61	94.26	n/a	n/a	n/a
- Royalties	8.67	4.84	6.36	8.46	14.62	n/a	n/a	n/a
- Operating expenses	22.41	12.06	47.12	30.73	42.48	n/a	n/a	n/a
- Transportation expenses	2.19	1.11	2.02	2.39	3.11	n/a	n/a	n/a
- Operating netback	19.44	9.32	31.05	50.03	34.05	n/a	n/a	n/a

(1) For the three months ended December 31, 2012, the Company issued 4,069,767 common shares valued at $3,011,628 as part consideration for the Manyberries Asset Acquisition on November 7, 2012. For the year ended December 31, 2012, the Company issued 4,069,767 common shares valued at $3,011,638 as part consideration for the Manyberries Asset Acquisition and 13,746,669 common to former Bowood Energy Inc. shareholders valued at $17,870,670 as part of the SA Assets reverse acquisition of LGX.

MANAGEMENT'S DISCUSSION + ANALYSIS

SUMMARY OF HISTORICAL QUARTERLY RESULTS of LGX/BOWOOD

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

			LGX/Bowood results prior to the reverse acquisition						
	2012 Q4	**2012 Q3**	**2012 Q2**	**2012 Q1**	**2011 Q4**	**2011 Q3**	**2011 Q2**	**2011 Q1**	**2010 Q4**
Financial									
($, except per share amounts)									
Petroleum and natural gas sales	3,322,070	1,050,641	1,155,040	1,551,799	1,855,678	1,575,360	1,332,199	1,586,564	1,095,671
Petroleum and natural gas sales, net of royalties	2,775,518	864,621	947,368	1,250,154	1,692,935	1,449,765	1,242,842	1,394,092	994,485
Funds generated by operations	463,043	(345,347)	(447,380)	141,236	294,684	292,563	104,949	314,314	317,249
- Per share basic	0.01	(0.01)	(0.03)	0.01	0.02	0.02	0.01	0.02	-
- Per share diluted	0.01	(0.01)	(0.03)	0.01	0.02	0.02	0.01	0.02	-
Net Income (Loss)	(7,023,085)	10,254,593	(1,565,810)	(822,455)	(12,276,692)	(1,213,387)	134,238	(663,824)	(75,148)
- Per share basic	(0.11)	0.38	(0.11)	(0.06)	(0.89)	(0.09)	0.01	(0.04)	-
- Per share diluted	(0.11)	0.38	(0.11)	(0.06)	(0.89)	(0.09)	0.01	(0.04)	-
Capital expenditures (excluding acquisitions)	7,379,378	1,418,395	182,828	356,457	2,159,483	4,759,425	2,878,030	1,564,134	9,341,000
Net debt and working capital surplus (deficit)	(9,906,927)	(5,043,920)	(5,125,595)	(4,500,560)	(4,280,792)	(2,147,171)	2,318,300	4,428,561	5,552,955
Total Assets	148,469,817	76,967,098	43,228,188	44,950,952	45,126,885	59,273,426	59,713,837	57,307,136	50,784,334
Operating									
Production									
- Crude oil and natural gas liquids (Bbls per day)	430	95	108	131	115	88	55	109	38
- Natural gas (Mcf per day)	1,528	1,939	2,260	2,600	2,905	2,753	2,258	2,290	2,522
- Total daily production (Boe per day)	685	418	485	564	600	547	431	490	458
- Increase/(Decrease) over prior quarter	64%	(14%)	(14%)	(6%)	10%	27%	(12%)	7%	(11%)
Average realized price									
- Crude oil and natural gas liquids ($ per Bbl)	72.18	75.46	76.34	86.03	91.19	77.41	96.51	78.58	70.05
- Natural gas ($ per Mcf)	3.32	2.19	1.97	2.22	3.33	3.75	4.13	3.96	3.67
- Barrels of oil equivalent ($ per Boe)	52.71	27.32	26.17	30.24	33.62	31.30	33.97	35.98	26.00
Netback ($ per Boe)									
- Petroleum and natural gas sales	52.71	27.33	26.17	30.24	33.62	31.30	33.97	35.98	26.00
- Royalties	8.67	4.84	4.71	5.87	2.95	2.50	2.28	4.36	2.32
- Operating expenses	22.41	12.06	12.95	11.09	12.63	13.52	14.76	12.32	9.03
- Transportation expenses	2.19	1.11	n/a	n/a	n/a	n/a	n/a	n/a	n/a
- Operating netback	19.44	9.32	8.51	13.28	18.04	15.28	16.93	19.30	14.65

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 corporate acquisitions.

	Three Months Ended December 31			Year Ended December 31		
($)	**2012**	**2011**	**% change**	**2012**	**2011**	**% change**
Property, plant and equipment additions	3,984	-	n/a	7,506	-	n/a
Exploration and evaluation asset additions	7,375,394	6,061,591	22	9,928,589	23,476,065	(58)
Total capital expenditures excluding acquisitions	7,379,378	6,061,591	22	9,936,095	23,476,065	(58)
Net acquisitions (cash portion)	42,378,028	-	n/a	42,378,028	-	n/a
Total capital expenditures including net acquisitions (cash portion)	49,757,406	6,061,591	721	52,314,123	23,476,065	123

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

	Three Months Ended December 31			Year Ended December 31		
($)	**2012**	**2011**	**% change**	**2012**	**2011**	**% change**
Land acquisitions and retention	32,158	931,567	(97)	200,361	5,201,550	(96)
Geological and geophysical	5,031,503	224,956	2,137	5,802,983	668,181	768
Drilling and completions	2,047,151	4,204,988	(51)	3,532,366	16,878,979	(79)
Equipping and facilities	193,416	700,080	(72)	250,085	727,355	(66)
Capitalized general and administrative expenses	75,150	-	n/a	150,300	-	n/a
Other	-	-	n/a	-	-	n/a
Total capital expenditures excluding net acquisitions	7,379,378	6,061,591	22	9,936,095	23,476,065	(58)

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. SA Assets had no issued and outstanding share capital for the year ended December 31, 2011.

CAPITALIZATION AND CAPITAL RESOURCES

Share Capital

	Three Months Ended December 31		Year Ended December 31	
	2012	**2011**	**2012**	**2011**
Outstanding Common Shares				
Weighted average Common Shares outstanding [(1)]				
- Basic	65,179,608	-	23,142,542	-
- Diluted	65,179,608	-	23,142,542	-

	December 31 2012
Outstanding Securities	
- Common Shares	88,658,427
- Common Share Warrants	6,000,000
- Common Share Options	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.

Total Market Capitalization

The Company's equity market capitalization at December 31, 2012 was $60.3 million.

	December 31, 2012
Common Shares Outstanding	88,658,427
Share Price (1)	$0.68
Total Market Capitalization	$60,287,730

(1) Represents the last price traded on the TSX Venture Exchange ("TSX-V") on December 31, 2012

There is a significant difference between the Company's net assets and market capitalization as at December 31, 2012. Management believes that the market capitalization of the Company continues to be dominated by external factors such as overall market confidence, Eurozone debt concerns and global liquidity issues.

As at March 18, 2013, 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, 2012, the Company had a $25.0 million 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, 2012, $1,000,000 had been drawn on the Company's production facility and $850,000 on the Company's operating line (2011 - $nil). 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 million 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 of not less than 1.0:1.0. At December 31, 2012, the Company is 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 2012	As at December 31 2011
Capital resources		
Bank debt available	23,150,000	-
Working capital (deficit)	(8,056,927)	(3,466,967)
Total capital resources available	15,093,073	(3,466,967)

OUTLOOK AND SENSITIVITIES

The Company intends to focus capital in 2013 to honoring its two well commitments on its Alberta Bakken properties located on the lands of the Blood Tribe First Nation. Approximately $5.9 million of capital spending has been allocated to these two wells. The Company is also planning $1.5 million of capital spending on recompletion and optimization operations on its Manyberries properties acquired in late 2012 with another $0.2 million allocated to reclamation projects on these properties. No capital has been budgeted for acquisitions, although the Company continues to evaluate new opportunities, both within and beyond its core areas. This program is expected to be funded by available cash, cash flow from operating activities and the Company's credit facility. Note that the 2013 capital expenditure program is continually reviewed and actual capital spending in 2013 could be significantly different from the budgeted program in light of changes to the operational and economic environment.

The Company forecasts its cash flow from operations to be approximately $6.5 million in 2013, based on recent strip pricing and an average interest rate of 4.6 percent. Based on the above assumptions, the following sensitivities are provided to demonstrate the estimated impact on cash flow from operations due to changes in commodity prices, the USD/CAD foreign exchange and interest rates:

Cash Flow from Operations impact on the 2013 fiscal year

Change in WTI oil price by US $1.00 per barrel	$0.2 million
Change in AECO natural gas price by Cdn $1.00 per Mcf	$0.7 million
Change in value of USD/CAD foreign exchange rate by Cdn $0.01	$0.1 million
Change in interest rate by 1 percent	$0.1 million

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These audited consolidated financial statements have been prepared using the accounting policies as described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2012 and have been consistently applied for all reporting periods presented. The preparation of financial statements in accordance with IFRS requires the use of certain significant accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies. Refer below for a summary of the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements. The accompanying consolidated financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position and cash flows.

Basis of Presentation of Comparative Figures

The comparative figures as presented are the audited carve-out financial statements of Legacy Oil + Gas Inc.'s Southern Alberta Assets for the year ended December 31, 2011 and have been prepared in connection with the Asset Purchase.

The carve-out financial statements present the historic Statement of Comprehensive Loss, Statement of Cash Flows, and Statement of Financial Position of the SA Asssets, on a carve-out basis from Legacy as if they had operated as a stand-alone entity subject to Legacy's control. The assets are comprised of crude oil and natural gas properties in Southern Alberta. The carve-out financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), including all IFRS issued and in effect as at May 28, 2012.

The carve-out financial statements included Legacy's interest in the assets, liabilities, revenues, expenses, and cash flows directly attributable to the SA Assets and management's estimates of general and administrative expenses and share-based payments directly related to the operations. The carve-out financial statements have been derived from the accounting records of Legacy and should be read in conjunction with Legacy's annual audited consolidated financial statements and notes thereto for the three month period ended March 31, 2012 and March 31, 2011 related to the predecessor ownership of the SA Assets. The preparation of the carve-out financial statements requires the use of significant judgements by management in the allocation of the reported amounts to the carve-out assets. The carve-out financial statements do not necessarily reflect what the results of operations, financial position, and cash flows would have been, had the SA Assets been a separate entity, or future results of the SA Assets business, as it will exist upon completion of the arrangement.

The operating results of the SA Assets have been specifically identified based on the actual operating information in Legacy's accounting system. Certain other expenses presented in the Statement of Comprehensive Loss represents allocations and estimates of cost of services incurred by Legacy. These allocations and estimates are based on methodologies that management believes to be reasonable and included general and administrative expenses and share-based payments. The majority of the assets and liabilities of the SA Assets have been identified based on the existing accounting records.

Realized and unrealized gains and losses from derivative financial instruments entered into by Legacy as part of the Commodity Risk Management Program have not been allocated to the carve-out assets. Realized and unrealized gains and losses from investments entered into by Legacy as part of overall corporate strategy have not been allocated to the carve-out assets.

General and administrative expenses and share-based payments have been allocated based on the specific employees working on the carve-out assets as relative to the total employee headcount of Legacy and the predecessor company holding the assets for the respective periods. These estimates are considered by management to be the best available approximation of expenses that

SA Assets would have incurred had it operated on a stand-alone basis over the periods presented.
A deferred income tax asset has not been recorded in SA Assets as the assets do not have a history of earnings therefore no assurance can be given that a deferred tax asset could be recognized in the future.

Legacy's direct ownership in SA Assets is shown as a net investment in place of Shareholders' Equity because a direct ownership by shareholders in SA Assets did not exist at March 31, 2012 or December 31, 2011. All excess cash flows are assumed to be distributed to Legacy and all cash flow deficiencies are assumed to be funded by Legacy, through the net investment.

The assets of SA Assets are available for the satisfaction of the debts, contingent liabilities, and commitments of Legacy and not just those liabilities presented in the accompanying statement of financial position.

Exploration and evaluation assets related to SA Assets are accounted for similar to the accounting for said assets in Legacy as all costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs, other direct costs of exploration (drilling, testing and evaluating the technical feasibility and commercial viability of extraction) and appraisal and including any directly attributable general and administration costs and share-based payments, are accumulated and capitalized as exploration and evaluation assets.

Certain costs incurred prior to acquiring the legal rights to explore are charged directly to net income.

Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then, the carrying value of the relevant exploration and evaluation asset will be reclassified as a petroleum and natural gas asset into the CGU to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. Technical feasibility and commercial viability are considered to be demonstrable when proved or probable reserves are determined to exist. If it is determined that technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in net income.

Expired land leases included as undeveloped land in exploration and evaluation assets are recognized in exploration and evaluation cost in net income upon expiry.

Impairments of exploration and evaluation assets are only reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been had no impairment been recognized.

Goodwill has not been allocated to the SA Assets carve-out financial statements.

The decommissioning liabilities were allocated to the carve-out financial statements based on Legacy's existing accounting records specific to the carved-out assets. Changes in the decommissioning liabilities relate to the specific assets included in the carve-out financial statements.

Basis of measurement

The consolidated financial statements have been prepared on a going concern basis under the historical cost basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due, except for the revaluation to fair value of certain financial assets and financial liabilities, as detailed in the Company's accounting policies below.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars ("$", "Canadian $", "Cdn $" or "CAD"), which is the Company's functional currency. All financial information is rounded to the nearest dollar, except per unit amounts and where otherwise indicated.

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.

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 ("CGU's"), based on separately identifiable and largely independent cash inflows. The determination of the Company's CGU's is subject to judgment.

The recoverable amounts of CGU's and individual assets have been determined based on the higher of the value-in-use calculations and fair value less costs to sell. 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 value of petroleum and natural gas 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 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 technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven and probable reserves, completion of drilling and testing. Upon determination, exploration and evaluation costs attributable to those reserves are reclassified to depletable property, plant and equipment. 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.

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.

Consideration of control at reverse acquisition date where SA Assets holds less than 50% of equity interest

The management of the Company made significant judgments that LGX Oil + Gas Inc. was controlled by SA Assets/Legacy, even though SA Assets/Legacy holds less than half of the voting rights of this subsidiary on July 5, 2012, the reverse acquisition date. The management of SA Assets/Legacy considers that the Company has deemed control of LGX on July 5, 2012 as it had the power to govern the financial and operating policies of LGX so as to obtain benefits from its activities even though it had less than 50% of the voting rights of LGX through a combination of the following:

- Legacy is the majority shareholder of LGX with a 42% equity interest in LGX on July 5, 2012, the acquisition date of LGX, and an 18% equity interest as at December 31, 2012;
- Legacy and LGX entered into a management, technical and administrative services agreement ("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;
- the new management of LGX at July 5, 2012, is made up of Trent Yanko, President and CEO, and Matt Janisch, Vice-President, Finance and CFO who hold the same positions with Legacy;
- two of the five directors of LGX are also directors of Legacy including the chairman of the board of LGX;
- the remaining equity interests of LGX was dispersed and LGX did not have a history of other shareholders forming a group to exercise their votes collectively; and
- 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.

These factors indicated that the power to dictate the financial and operating policies of the entity as to obtain benefits from its activities lied within the ownership of the SA Assets (i.e. Legacy) and thus the SA Assets are identified as the acquirer in this scenario on July 5, 2012.

Refer to Note 5 of the audited consolidated financial statements for the year ended December 31, 2012 for the reverse acquisition of LGX by SA Assets.

ACCOUNTING POLICIES

Principles of Consolidation

Subsidiaries

Subsidiaries are fully consolidated from the date on which control is transferred to the Company.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The LGX results include 100% of the results of the entities it controls; the minority interest share, which LGX does not own, is recorded as net income attributable to non-controlling interest in the consolidated statement of comprehensive income (loss) and as non-controlling interest on the consolidated statement of financial position.

Income (loss) resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Joint Interests

Significantly all of the Company's activities are conducted jointly with others through unincorporated joint ventures ("Joint Ventures"). The Company accounts for its share of the results and net assets of these Joint Ventures as jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

Business Combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the Company reconsiders the amounts allocated to the identifiable assets and liabilities. If after careful reconsideration, the excess continues to be present, the Company recognizes an acquisition gain in net income (loss). Transaction costs associated with a business combination are expensed as incurred.

Property, Plant and Equipment

The Company's property, plant and equipment consist of petroleum and natural gas assets (oil and natural gas development and production assets) and corporate assets.

Capitalization

Property, plant and equipment is stated at cost, less accumulated depletion and depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning liability, if any, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Exchanges of assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. The gain or loss on derecognition of the asset given up is recognized in net income.

Expenditures on major maintenance, inspections or overhauls are capitalized when the item enhances the life or performance of an asset above its original standard. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. All other maintenance expenditures are expensed as incurred.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in net income in the period in which the item is derecognized.

Depletion and depreciation

The costs related to area cost centres for petroleum and natural gas properties, including related pipelines and facilities, are depleted using a unit-of-production method based on the commercial proved and probable reserves allocated to its CGU.

Petroleum and natural gas assets are not depleted until production commences. The depletion calculation takes into account the estimated future development costs required to develop the proved and probable 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.

Corporate assets are stated in the statement of financial position at cost less accumulated depreciation. Depreciation is calculated on a declining balance method so as to write off the cost of these assets, less estimated residual values, over their estimated useful lives. The useful lives of the Company's corporate assets are as follows:

Office equipment, furniture and fixtures	5 Years
Computer hardware	2 Years
Computer software	1 Year

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Impairment

The carrying amounts of property, plant and equipment are grouped into CGU's and the CGU's are reviewed quarterly for indicators of impairment. Indicators are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If indicators of impairment exist, the recoverable amount of the CGU is estimated. If the carrying amount of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net income.

The assessment for impairment entails comparing the carrying value of the CGU with its recoverable amount. Each CGU is identified in accordance with IAS 36, *Impairment of Assets*. The Company's property, plant and equipment are grouped into CGU's based on separately identifiable and largely independent cash inflows considering geological characteristics, shared infrastructure and exposure to market risks. Estimates of future cash flows used in the calculation of the recoverable amount are based on reserve evaluation reports prepared by independent reservoir engineers.

The recoverable amount is the higher of fair value, less costs to sell, and the value-in-use. Fair value, less costs to sell, is assessed by utilizing market valuation based on an arm's length transaction between active participants. In the absence of such information, fair value less costs to sell is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted using market-based rates to reflect a market participant's view of the risks associated with the assets. Value-in-use is assessed using the expected future cash flows discounted at a pre-tax rate.

Impairments of property, plant and equipment are only reversed when there is significant evidence that the impairments no longer exist, but only to the extent of what the carrying amount would have been had no impairment been recognized.

Exploration and Evaluation Assets

Capitalization

All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs, other direct costs of exploration (drilling, testing and evaluating the technical feasibility and commercial viability of extraction) and appraisal and including any directly attributable general and administration costs and share-based payments, are accumulated and capitalized as exploration and evaluation assets.

Certain costs incurred prior to acquiring the legal rights to explore are charged directly to net income.

Amortization

Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then, the carrying value of the relevant exploration and evaluation asset will be reclassified as a petroleum and natural gas asset into the CGU to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven and probable reserves, completion of drilling and testing. Upon determination, exploration and evaluation costs attributable to those reserves are reclassified to depletable property, plant and equipment. If it is determined that technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in net income.

Expired land leases included as undeveloped land in exploration and evaluation assets are recognized in exploration and evaluation cost in net income upon expiry.

Impairment

If and when facts and circumstances indicate that the carrying value of an exploration and evaluation asset may exceed its recoverable amount, an impairment review is performed. For exploration and evaluation assets, when there are such indications, an impairment test is carried out by grouping the exploration and evaluation assets with property, plant and equipment CGU's to which they belong for impairment testing. The equivalent combined carrying value of the CGU's is compared against the recoverable amount of the CGU's and any resulting impairment loss is written off to net income. The recoverable amount is the greater of fair value, less costs to sell, or value-in-use.

Impairments of exploration and evaluation assets are only reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been had no impairment been recognized.

Common-control Transaction

Business combinations involving entities under common control are outside the scope of IFRS 3, *Business Combinations*. An entity is required to develop an accounting policy as IFRS provides no guidance on the accounting for these types of transactions. The two most common methods utilized are the purchase method and the predecessor values method. A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination and control is not transitory. Management has determined the predecessor values method to be most appropriate. The predecessor method requires the financial statements to be prepared using the predecessor carrying values without any step up to fair value. The difference between any consideration and the aggregate carrying value of the assets and liabilities are recorded as a reserve from common-control transaction in shareholders' equity.

Financial Instruments

Financial assets and liabilities

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions that define the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Financial assets and financial liabilities are initially recognized at fair value. This initial fair value is normally the transaction price plus, in the case of financial assets not at fair value through net income, directly attributable transaction costs.

The subsequent measurement of the Company's financial instruments depends on their classification determined by the purpose for which the instruments were acquired, as follows:

Financial assets and liabilities held-for-trading

Financial derivative contracts are classified as held-for-trading. These assets are carried on the statement of financial position at fair value with gains or losses recognized in net income in the period in which they arise. Financial assets and liabilities held-for-trading are classified as current except for the portion expected to be realized or paid beyond twelve months from the statement of financial position date, which is classified as non-current. The Company has no held-for-trading financial assets and liabilities at December 31, 2012. The SA Assets had no held-for-trading financial assets and liabilities at December 31, 2011.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are not classified as loans and receivables and are initially recognized at fair value plus transaction costs. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Available-for-sale investments are classified as non-current, unless the investments mature within twelve months, or management expects to dispose of them within twelve months. The Company has no available-for-sale investments at December 31, 2012. The SA Assets had no available-for-sale financial investments at December 31, 2011.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognized in net income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Company's loans and receivables are comprised of trade and other receivables which are included in current assets due to their short-term nature, the reclamation fund and cash and cash equivalents.

Other financial liabilities at amortized cost

Financial liabilities at amortized cost include trade and other payables and bank debt. Trade and other payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest rate method. Bank debt is recognized initially at fair value, net of any transaction costs incurred and subsequently at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Financial derivative contracts

The Company may use derivative financial instruments to manage its exposure to movements in commodity prices and interest rates, which include crude oil and natural gas commodity contracts and interest rate swaps ("financial derivative contracts"). These instruments are not used for trading or speculative purposes. Financial derivative contracts are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date. Financial derivative contracts are carried as assets when their fair value is positive and as liabilities when the fair value is negative. Transaction costs are recognized in income or loss when incurred. At December 31, 2012, the Company has no financial derivative contracts and at December 31, 2011, the SA Assets had no financial derivative contracts.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held with banks and other short-term highly liquid investments with maturities of three months or less from inception. Cash and cash equivalents are categorized as loans and receivables and carried at amortized cost using the effective interest rate method.

Share Capital

Common shares and share warrants are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Flow-through Common Shares

Flow-through common shares enable an investor to claim a deduction for tax purposes related to eligible capital expenditures incurred by the issuer. The issuer renounces the right to claim these deductions and effectively flows the deductions directly to the investor.

The proceeds from the issuance are allocated between the offering of shares and the sale of tax benefits when the shares are offered. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the flow-through shares. A deferred liability is recognized for this difference. This deferred liability is derecognized when the qualifying tax attributes are renounced to the investor. At the time the renunciation documents are filed with the taxing authorities and the qualifying expenditures have been incurred, a deferred tax liability is recognized for the tax benefits foregone. Any difference between the liability set up for the premium on the flow-through shares and the tax effect on the renounced expenditures is recognized in income (loss).

Decommissioning Liabilities

The Company recognizes the present value of a decommissioning liability in the period in which it is incurred. The obligation is recorded as a liability on a discounted basis using the relevant risk free rate, with a corresponding increase to the carrying amount of the related asset. Over time, the liabilities are accreted for the change in their present value and the capitalized costs are depleted on a unit-of-production basis over the life of the underlying proved plus probable reserves. Accretion expense is included in finance costs recognized in net income. Revisions to the discount rate, estimated timing or amount of future cash flows would also result in an increase or decrease to the decommissioning liability and related asset.

Leases

Agreements under which payments are made to owners in return for the right to use an asset for a period are accounted for as leases. All of the Company's leases are treated as operating leases and the costs are recognized in income on a straight-line basis over the leased term period.

Revenue Recognition

Revenue includes the sale of oil, natural gas and natural gas liquids and is recorded when all of the following conditions are satisfied, which is generally at the time the product enters the pipeline:

- The significant risks and rewards of ownership of the product are transferred to the buyer, which is usually when legal title passes to the external party;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the products sold;
- The amount of revenue can be reliably measured;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from the production of oil and natural gas from properties in which the Company has an interest with joint venture partners are recognized on the basis of the Company's working interest in those properties. Revenue is measured net of discounts, customs duties and royalties. With respect to the latter, the entity is acting as a collection agent on behalf of others.

Share-based Payments

The Company follows the fair value method of valuing stock option grants using the Black-Scholes pricing model. Share-based payments expense is determined based on the estimated fair value of shares on the date of grant. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. The expense is recognized over the service period, with a corresponding increase to contributed surplus. The Company capitalizes the qualifying portion of share-based payments directly attributable to the development activities of exploration and evaluation assets and petroleum and natural gas assets, with a corresponding decrease to share-based payments expense. At the time the stock options are exercised, the issuance of common shares is recorded as an increase to shareholders' capital and a corresponding decrease to contributed surplus.

Finance Costs

Finance costs comprise interest expense and finance charges on borrowings and accretion of the discount on decommissioning liabilities.

Income Taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred income tax assets and liabilities are presented as non-current.

Current tax is the expected tax payable in respect of taxable income, using tax rates enacted or substantively enacted at the reporting date as well as adjustments to tax payable in respect of previous years. Deferred tax is recognized using the balance sheet method whereby temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes are calculated. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when the intent is to settle current tax assets and liabilities on a net basis or the tax assets and liabilities are expected to be realized simultaneously.

Foreign Currency Translation

Foreign operations

The Company has non-significant operations in the United States ("U.S.") transacted by a U.S. and Canadian subsidiary. The assets and liabilities of foreign operations are restated to Canadian dollars at exchange rates in effect at the reporting date; the resulting unrealized gain or loss is included in other comprehensive income. The income and expenses of foreign operations are restated to Canadian dollars using the average exchange rate for the period, which is considered a reasonable approximation to actual rates. The resulting gain or loss is included in other comprehensive income.

Foreign transactions

Transactions in foreign currencies not incurred by the Company's U.S. subsidiary are translated to Canadian dollars at exchange rates in effect at the transaction dates. Foreign currency assets and liabilities are restated to Canadian dollars at exchange rates in effect at the reporting date and income and expenses are restated to Canadian dollars using the average exchange rate for the period. Gains and losses resulting from the settlement or restatement of foreign currency transactions are included in net income.

Earnings Per Share

Earnings per share is presented for basic and diluted earnings. Basic per share information is computed by dividing the net income for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. The weighted average number of shares for fully diluted earnings per share information is calculated using the treasury stock method whereby it is assumed that proceeds obtained upon exercise of share warrants and stock options issued under the Company's Stock Option Plan would be used to purchase common shares at the average market price during the period. The treasury stock method also assumes that the deemed proceeds related to unrecognized share-based payments expense are used to repurchase shares at the average market price during the period. Under the treasury stock method, stock options and share warrants have a dilutive effect only when the average market price of the common shares during the period exceeds the exercise price of the options or warrants (they are "in-the-money"). Exercise of in-the-money stock options and share warrants is assumed at the beginning of the year or date of issuance, if later. Should the Company have a net loss for the period, stock options and share warrants would be anti-dilutive and therefore will have no effect on the determination of loss per share.

Changes in Accounting Policies

Accounting standards, issued up to March 18 2013, for periods beginning on or after January 1, 2012, have been adopted as of December 31, 2012.

Recent Accounting Pronouncements

IFRS 9*, Financial Instruments,* was issued in November 2009. This standard is the first step in the process to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, which may affect the Company's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 9, if any.

IFRS 10, *Consolidation*, was issued on May 12, 2011. This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities,* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 10, if any.

IFRS 11, *Joint Arrangements*, was issued on May 12, 2011. This standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 11, if any.

IFRS 12, *Disclosure of Interests in Other Entities*, was issued on May 12, 2011. This standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 12, if any.

IFRS 13, *Fair Value Measurement*, was issued on May 12, 2011. This is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 13, if any.

Amendments to Other Standards

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to split items of other comprehensive income between those that are reclassified to net income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012. The Company is in the process of assessing the impact of this amendment, if any.

IAS 27, *Separate Financial Statements*, has been amended to address accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28, *Investments in Associates and Joint Ventures*, has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. Both of these amended standards are not applicable until January 1, 2013 but are available for early adoption. The Company is in the process of assessing the impact of these amendments, if any.

IAS 32, *Financial Instruments: Presentation*, has been amended to clarify the requirements for offsetting financial assets and liabilities. The standard clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. The standard is required to be adopted retrospectively for periods on or after January 1, 2014. The Company is in the process of assessing the impact of these amendments, if any.

IFRS 7, *Financial Instruments: Disclosure*, has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting or similar agreements. The standard is required to be adopted retrospectively for periods beginning on or after January 1, 2013. The Company is in the process of assessing the impact of these amendments, if any.

RISK ASSESSMENT

There are a number of risks 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 general and specific risks to which the Company is exposed have been described in the Company's MD&A for the year ended December 31, 2012. In addition, LGX is also subject to other risks and uncertainties which are described in the Company's Annual Information Form dated March 18, 2013.

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 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 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

The availability of 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 2013 remains constrained due to increased demand and competition for such services. Such constraint may increase the 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 reservoir engineering reports and set forth herein, 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 GLJ 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 GLJ Report 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 above 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 and Interest 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. In addition, variations in interest rates could result in a significant change in the amount LGX will pay to service debt, potentially adversely affecting the value of the Common Shares.

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.

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.

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 the Company has diligently investigated title to the Blood Lease, 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 the Company'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 the Company'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 the Company's title to the Blood Lease or any of the lands included in the Blood Lease could have a material adverse effect on the Company'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 the Company'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, 2012, a total of 88,658,427 common shares were issued and outstanding. In addition, a total of 1,886,500 stock options to acquire common shares and 6,000,000 warrants to acquire common shares were outstanding.

RELATED PARTY TRANSACTIONS

Related Party Transaction with Legacy

Refer to Note 5 of the audited consolidated financial statements for the year ended December 31, 2012 for the SA Assets common-control transaction as well as the reverse acquisition of LGX.

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. Under the terms of the Services Agreement, Legacy invoiced the Company $1,052,100 during the year ended December 31, 2012. At December 31, 2012, the outstanding balance payable to Legacy, recorded as trade accounts payable was $1,052,100. 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 paid by Legacy.

In relation to capital and operations activity prior to and subsequent to the reverse acquisition, the Company had a net trade payable to Legacy of $2,959,614 as at December 31, 2012 (December 30, 2011 - $nil), which included the management fee discussed above.

Subsequent to the reverse acquisition, the Company incurred fees of $316,322 for corporate and legal services rendered by a law firm for the year ended December 31, 2012 of which $68,656 was payable at December 31, 2012. During the year ended December 31, 2012 up to reverse acquisition, the SA Assets did not incur any fees rendered by this firm (2011 – $nil). A board member and the Corporate Secretary are partners of the firm. These fees were incurred in the normal course of business under the same terms and conditions as transactions with unrelated companies. All related party transactions are measured at the 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, 2012 and 2011 are as follows:

($)	**Year Ended December 31 2012**	**Year Ended December 31 2011**
Salaries, bonuses and other benefits	-	-
Share-based payments	194,761	-
Total remuneration of key management	194,761	-

The only remuneration of directors of LGX for the year ended December 31, 2012 was in the form of share based payments of $36,661 (2011 - $nil). The President and Chief Executive Officer of the Company is also a director of LGX and received no compensation in 2012 specifically in relation to his duties as a director of LGX. Included in the Services Agreement is an amount for this service, which is not specifically disclosed.

COMMITMENTS AND CONTINGENGIES

Drilling commitments

The Company is committed to drill a minimum of 2 vertical 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.

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.

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 18, 2013, is also available on the Company's profile at www.sedar.com.