



**2014 Management's
Discussion and Analysis**

For the year ended December 31, 2014

MANAGEMENT'S DISCUSSION + ANALYSIS

The following management discussion and analysis ("MD&A"), as provided by the management of LGX Oil + Gas Inc. (formerly known as Bowood Energy Inc.) ("LGX" or the "Company") of the financial condition and performance of LGX for the three months and year ended December 31, 2014, as described below, as of March 24, 2015, is to be read in conjunction with the audited consolidated financial statements and related notes for the for the year ended December 31, 2014. 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.

Emergency Order for the Protection of the Greater Sage-Grouse

An Emergency Order for the Protection of the Greater Sage-Grouse pursuant to *the Species at Risk Act* (Canada) ("Emergency Order") to address the imminent threats to the survival and recovery of the Greater Sage-Grouse, including protecting the habitat in southeast Alberta and southwest Saskatchewan identified in the order to help stabilize the Sage-Grouse population and begin its recovery, came into effect on February 18, 2014. A copy of the Emergency Order is attached to the material change report of LGX dated January 3, 2014. The material change report has been filed on SEDAR and may be reviewed under LGX's profile at the SEDAR website at www.sedar.com.

As at December 31, 2014 and December 31, 2013, LGX has been in full compliance with the Province of Alberta's comprehensive legislative and regulatory framework for the protection of the Greater Sage-Grouse which has been in place since 1996.

LGX has concluded that the Emergency Order has the potential to have a significant adverse effect on LGX's ability to maintain and increase production at Manyberries and to prevent the drilling of new wells there and may result in potential revisions to the reserves attributable to the Manyberries property in any future estimate of such reserves.

The Company has made provision for impairment losses of its Manyberries property as at December 31, 2014 in the amount of \$8,350,000 relating to its property, plant and equipment (2013 - \$nil) and based on management's best estimates, the \$30.6 million carrying amount of its net assets in the Manyberries area at December 31, 2014 (December 31, 2013 - \$38.8 million) is recoverable as the Company: (i) continues to operate its Manyberries property in accordance with the prohibitions of the Emergency Order; (ii) is seeking an order of the Federal Court quashing the Emergency Order; and (iii) may pursue compensation for losses arising from any impact to LGX's operations at Manyberries pursuant to the provisions of the Species at Risk Act (Canada).

Non-IFRS Measures

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

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

(\$)	Three Months Ended			Year Ended		
	December 31			December 31		
	2014	2013	% change	2014	2013	% change
Cash flow generated by (used) in operating activities	528,294	6,245,163	(92)	1,721,010	5,447,799	(68)
Transaction costs	-	-	n/a	-	48,034	(100)
Changes in non-cash working capital	(60,439)	(5,119,328)	(99)	4,837,697	(1,063,483)	(555)
Funds generated by operations	467,855	1,125,835	(58)	6,558,707	4,432,350	48

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.

MANAGEMENT'S DISCUSSION + ANALYSIS

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. The following table reconciles the net debt and working capital surplus (deficit) as presented by the Company:

(\$)	As at December 31 2014	As at December 31 2013
Total current assets	4,169,410	5,096,827
Total current liabilities	(34,501,520)	(24,732,691)
Net debt and working capital surplus (deficit)	(30,332,110)	(19,635,864)

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

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

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

Forward-Looking Statements – This MD&A and the accompanying President's Message contain forward-looking statements. More particularly, they contain forward-looking statements concerning: (i) the prospectivity of LGX's properties with respect to the Big Valley (Three Forks) and Banff Formations; (ii) the expectation that, at current commodity prices, LGX may approach non-compliance with the existing financial covenants under its credit facilities in the near future; (iii) anticipated savings on operating expenses, G&A and capital costs; (iv) the anticipated 2015 average rate of production; (v) LGX's expectation that it will generate slightly positive funds flow from operations at current strip pricing for 2015; (vi) expected decreases in transportation and operating expenses, (vii) the potential impact of the Emergency Order on LGX's operations, reserves and financial position and the recoverability of the carrying amount of the Manyberries property; (viii) the sufficiency of LGX's liquidity to fund operating, interest and general and administrative expenses, (ix) the collectability of receivables, (x) the expected continuation of depressed oil pricing and the impact on LGX's credit facilities; (xi) estimated decommissioning liabilities and the timing of expenditures to satisfy decommissioning liabilities; (xii) the expected timing to satisfy accounts payable; and (xiii) LGX's ability to continue as a going concern.

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: (i) prevailing commodity prices; (ii) the availability and cost of capital, labour and services; (iii) the effectiveness of cost reduction initiatives; (iv) the performance of existing wells, (v) the availability and performance of facilities and pipelines, (vi) the geological characteristics of LGX's properties, (vii) prevailing weather and break-up conditions, royalty regimes and exchange rates, (viii) the application of regulatory and licensing requirements, and (ix) the application of the previously announced emergency order for the protection of the Greater Sage-Grouse (the "Emergency Order") and the Species at Risk Act (Canada) to the Corporation's Manyberries property.

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. Most importantly, certain of the forward-looking statements are highly dependent on prevailing commodity prices and significant fluctuations in prevailing commodity prices may impact anticipated cash flows, production and compliance with debt covenants. Other factors and risks 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), uncertainty as to the availability and cost of capital, labour and services, exchange rate fluctuations, fluctuations in oil price differentials, unexpected adverse

MANAGEMENT'S DISCUSSION + ANALYSIS

weather conditions, changes to existing laws and regulations, uncertainties as to the application and impact of the Emergency Order and uncertainties as to the outcome of efforts by LGX to quash or amend the Emergency Order or to obtain compensation for losses related to the Emergency Order. These and other risks are set out in more detail in this MD&A under the heading "Risk Assessment" and in LGX's Annual Information Form for the year ended December 31, 2014 dated March 24, 2015.

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

Caution Respecting Initial Production Results - The production results for the two Big Valley (Three Forks) wells disclosed in this President's Message are initial results for the first thirty days of production only and are not determinative of the rates at which such wells will continue production and decline thereafter. These results are not necessarily indicative of current performance, long-term performance or ultimate recovery from the wells. Readers are cautioned not to place undue reliance on such rates in considering the long-term performance of the wells or the aggregate production of the Company.

GOING CONCERN

The consolidated financial statements for the year ended December 31, 2014 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 presented in Note 3. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying amounts of its assets and to meet its liabilities as they become due.

The Company reported an impairment on exploration and evaluation assets and property, plant and equipment of \$33,750,000 (2013 - \$250,000) and a net loss of \$42,922,011 for the year ended December 31, 2014 (2013 - \$20,326,748). For the year ended December 31, 2014, the Company reported net cash flow from operating activities of \$1,721,010 (2013 - \$5,447,799). At December 31, 2014, the Company had drawn \$20,340,000 (2013 - \$11,050,000) against its credit facilities of \$30,000,000 (2013 - \$25,000,000) and had other working capital deficiencies of \$9,992,110 (2013 - \$8,585,864). As the senior credit facility is a demand loan, it may be called at any time. The junior credit facility is term, but subject to acceleration in the event of breach of covenants. As the lending value of the credit facility is tied closely to reserves, which is directly linked to oil and natural gas forecasted benchmark prices, and current over-supply and depressed pricing is expected to continue for the immediate future, there is no assurance that the credit facility will be renewed on current terms or levels when it is next formally reviewed, no later than May 31, 2015. Should the bank not extend the loan, the Company would need to seek alternative forms of debt or equity financing, which would be difficult in the current environment, or dispose of certain assets to repay the outstanding indebtedness. Low oil prices, declining production and the Emergency Order may reduce the ability of the Company to generate positive cash flows from its operations and in turn may reduce the Company's ability to develop its properties.

These circumstances create material uncertainty that lends significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

These consolidated financial statements include an adjustment to derecognize the Company's deferred tax asset as there is doubt whether the Company may have sufficient future net income to realize the deferred tax asset under current market conditions. With the exception of the adjustment noted above, these financial statements do not include any other adjustments to the amounts and classifications of assets and liabilities, and the reported revenues and expenses, that might be necessary should the Company not be able to continue as a going concern, and therefore, be required to realize its assets and discharge its liabilities other than in the normal course of business and at carrying amounts different from those reflected in the accompanying financial statements. Any such adjustments could be material.

With cash flows impacted by oil prices at five year lows, LGX is working proactively to ensure it has the ability to meet its financial obligations under its credit facilities and satisfy the 2015 drilling commitments under its lease of lands on the Blood Reserve. At current commodity prices, the Company expects that it may approach non-compliance with the existing financial covenants under its credit facilities in the near future and will continue proactive discussions with its lender regarding the facility and the covenants. In order to address the above factors, the Company is currently evaluating measures, including but not limited to: asset sales, accessing third party capital, joint ventures and drilling commitment extension. There is no assurance that these initiatives will be successful.

MANAGEMENT'S DISCUSSION + ANALYSIS

RESULTS OF OPERATIONS

Production

	Three Months Ended			Year Ended		
	December 31			December 31		
	2014	2013	% change	2014	2013	% change
Daily Production						
Crude oil and natural gas liquids (Bbls per day)	628	718	(13)	636	619	3
Natural gas (Mcf per day)	1,446	1,482	(2)	1,350	1,673	(19)
Total (Boe per day)	869	965	(10)	861	898	(4)

For the three months ended December 31, 2014, LGX's production was 869 Boe per day compared to 965 Boe per day for the same period in the prior year. This decrease was due primarily to decreased production volumes in the Manyberries area due to natural declines as well as the Company choosing to delay workover operations under the current pricing environment. This decrease was partially offset by the drilling and subsequent tie-in of two successful oil wells in the Alberta Bakken late in the fourth quarter. Crude oil and natural gas liquids production for the three months ended December 31, 2014 was 628 Bbls per day compared to 718 Bbls per day for the three months ended December 31, 2013. Natural gas production was 1,446 Mcf per day for the three months ended December 31, 2014 compared to 1,482 Mcf per day for the three months ended December 31, 2013.

Average production for the year ended December 31, 2014 was 861 Boe per day compared to 898 Boe per day in the prior year. This decrease was due primarily to lower production volumes in the Manyberries area as a result of natural declines combined with the Company delaying workover operations under the current pricing environment as discussed above. This decrease was partially offset by the drilling and subsequent tie-in of two successful oil wells in the Alberta Bakken late in the fourth quarter. Crude oil and natural gas liquids production was 636 Boe per day for the year ended December 31, 2014 compared to 619 Boe per day in the prior year. Natural gas production was 1,350 Mcf per day for the year ended December 31, 2014 compared to 1,673 Boe per day in the prior year.

During the three months and year ended December 31, 2014, the Company drilled 2 gross (2 net) oil wells with a 100 percent drilling success rate.

Realized Commodity Prices

	Three Months Ended			Year Ended		
	December 31			December 31		
	2014	2013	% change	2014	2013	% change
Daily Average Benchmark Prices						
Crude oil – WTI (US\$ per Bbl)	73.12	97.50	(25)	92.92	98.00	(5)
Crude oil – WTI (\$ per Bbl)	83.04	102.33	(19)	102.62	100.93	2
Crude oil – Canadian Light Sweet (\$ per Bbl) ⁽¹⁾	75.32	86.32	(13)	94.40	93.31	1
Natural gas – AECO-C Spot (\$ per Mcf)	3.63	3.52	3	4.48	3.13	43
Exchange rate – (US/CAD)	0.881	0.953	(8)	0.905	0.971	(7)
LGX's average realized prices						
Crude oil and natural gas liquids (\$ per Bbl)	71.00	78.26	(9)	89.79	84.60	6
Natural gas (\$ per Mcf)	3.75	3.46	8	4.50	3.05	48
Barrels of oil equivalent (\$ per Boe)	57.55	63.55	(9)	73.38	63.99	15

(1) Edmonton Par prices are discontinued as of May 1, 2014, and replaced by Canadian Light crude blend which is traded daily on the Net Energy Index. Natural Resources Canada publishes Canadian Light Sweet price at Edmonton under the Select Crude Prices.

LGX's realized price for its crude oil and natural gas liquids sales in the fourth quarter of 2014 was \$71.00 per Bbl (2013 – \$78.26) compared to a C\$ WTI price of \$83.04 per Bbl (2013 - \$102.33 per Bbl). LGX's oil production is light sweet crude produced in southern Alberta. For the year ended December 31, 2014, LGX's realized price for its crude oil and natural gas liquid sales was \$89.79 (2013- \$84.60 per Bbl) compared to a C\$ WTI price of \$102.62 per Bbl (2013 - \$100.93).

For the fourth quarter of 2014, the Company's realized price for its natural gas was \$3.75 per Mcf (2013 – \$3.46) compared to an AECO-C price of \$3.63 per Mcf (2013 - \$3.52). For the year ended December 31, 2014, LGX's realized price for natural gas sales was \$4.50 per Mcf (2013 – \$3.05) compared to an AECO-C price of \$4.48 (2013 - \$3.13).

MANAGEMENT'S DISCUSSION + ANALYSIS

Revenue

	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% change	2014	2013	% change
<i>(\$, except per Boe and percent amounts)</i>						
Petroleum and natural gas sales by product						
Crude oil and natural gas liquids	4,102,359	5,169,820	(21)	20,844,617	19,114,511	9
Natural gas	498,996	471,958	6	2,217,093	1,859,845	19
Total petroleum and natural gas sales	4,601,355	5,641,778	(18)	23,061,710	20,974,356	10
\$ per Boe	57.55	63.55	(9)	73.38	63.99	15
Royalties						
Royalties	747,099	1,120,990	(33)	2,965,573	3,586,656	(17)
\$ per Boe	9.34	12.63	(26)	9.44	10.94	(14)
% of petroleum and natural gas sales	16.2	19.9	(19)	12.9	17.1	(25)
Revenue						
Petroleum and natural gas sales, net of royalties	3,854,256	4,520,788	(15)	20,096,137	17,387,700	16
\$ per Boe	48.21	50.92	(5)	63.94	53.05	21

For the three months ended December 31, 2014, LGX's petroleum and natural gas sales were \$4,601,355 compared to \$5,641,778 for the three months ended December 31, 2013. The decrease for the three months ended December 31, 2014 can be attributed to a lower average realized price per Boe combined with lower production volumes related to the Manyberries properties, offset by higher production volumes related to the successful drilling efforts in the fourth quarters of 2013 and 2014 in the Alberta Bakken compared to the three months ended December 31, 2013. For the year ended December 31, 2014, LGX's petroleum and natural gas sales were \$23,061,710 compared to \$20,974,356 for the prior year. The increase for the year ended December 31, 2014 can be attributed to a higher average realized price per Boe combined with higher production volumes in the Alberta Bakken, offset by lower production volumes related to the Manyberries properties.

Royalties consist of royalties to provincial governments, freehold landowners and overriding royalty owners. For the three months ended December 31, 2014, total royalties were \$747,099 compared to \$1,120,990 for the three months ended December 31, 2013. The decrease is attributable to the decrease in petroleum and natural gas sales discussed above. The Company's average royalty rate for the three months ended December 31, 2014 was 16.2 percent compared to 19.9 percent in the prior year. This decrease is due to additional royalty assessments on acquired properties recorded during the fourth quarter of 2013 relating to periods prior to acquisition of the Manyberries properties in 2013 as well as overall lower royalties on production from the Alberta Bakken area as compared to other areas in the LGX portfolio. Royalties are calculated based on commodity revenue, net of associated transportation costs, well productivity and before any commodity hedging gains or losses.

For the year ended December 31, 2014, total royalties decreased 17 percent to \$2,965,573 from \$3,586,656 in the prior year. The company's average royalty rate for the year ended December 31, 2014, decreased 25 percent to 12.9 percent, compared to 17.1 percent in the prior year. The decreases in the total royalties and the royalty rate are due to the petroleum and natural gas sales from the Alberta Bakken making up a higher proportion of total petroleum and natural gas sales in 2014 and those sales from the Alberta Bakken properties having a lower royalty rate than those historically shown on the other LGX properties, combined with the additional royalty assessments discussed above.

Operating and Transportation Expenses

	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% change	2014	2013	% change
<i>(\$, except per Boe amounts)</i>						
Operating expenses	2,343,998	2,582,181	(9)	8,788,607	9,346,807	(6)
\$ per Boe	29.32	29.09	1	27.97	28.52	(2)
Transportation expenses	293,321	277,955	6	1,344,405	869,266	55
\$ per Boe	3.67	3.13	17	4.28	2.65	62
Total operating costs	2,637,319	2,860,136	(8)	10,133,012	10,216,073	(1)
\$ per Boe	32.99	32.22	2	32.24	31.17	3

Total operating costs during the fourth quarter of 2014 were \$2,637,319, compared to \$2,860,136 in the same period in prior year. The decrease in total operating costs is attributable to decreased production volumes in the fourth quarter of 2014. On a per Boe basis, operating expenses for the three months ended December 31, 2014 were \$29.32 (2013 - \$29.09). On a per Boe basis, transportation expenses for the three months ended December 31, 2014 were \$3.67 (2013 - \$3.13). The increase in transportation expenses per Boe is due to increased trucking rates in 2014 compared 2013 as well as the need to additionally truck volumes in

MANAGEMENT'S DISCUSSION + ANALYSIS

the Alberta Bakken area for the fourth quarter of 2014 compared to the fourth quarter of 2013. Total operating costs (including operating and transportation expenses) on a per Boe basis were \$32.99 (2013 – \$32.22).

Total operating costs during the year ended December 31, 2014 were \$10,133,012, a 1 percent decrease, compared to \$10,216,073 in the prior year. The decrease in total operating costs is attributable to decreased production volumes and a reduction in downhole workovers throughout the year compared to the prior year. On a per Boe basis, operating expenses for the year ended December 31, 2014 were \$27.97 (2013 – \$28.52). The decrease in operating expenses on a per Boe basis is due to the reduction in downhole workovers discussed above. On a per Boe basis, transportation expenses for the year ended December 31, 2014 were \$4.28 (2013 - \$2.65). The significant increase in transportation expenses on a per Boe basis is due to an increase in trucking rates combined with the need to truck volumes in the Alberta Bakken area for the full twelve months in 2014 compared to only one month in 2013. Total operating costs (including operating and transportation expenses) on a per Boe basis were \$32.24 (2013 - \$31.17).

Exploration and Evaluation Expenses

(\$)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% change	2014	2013	% change
Exploration and evaluation expenses	15,401	11,233,809	(100)	1,076,725	24,706,092	(96)

During the three months ended December 31, 2014, the Company recorded \$15,401 of exploration and evaluation expenses compared to \$11,233,809 in the same period in the prior year. During the year ended December 31, 2014, the Company recorded \$1,076,725 of exploration and evaluation expenses compared to \$24,706,092 in the prior year. The decrease in exploration and evaluation expenses for the quarter and year ended December 31, 2014 are mainly attributable to the significant expiration of land leases in the Alberta Bakken area in 2013 compared to 2014.

Depletion and Depreciation

(\$, except per Boe amounts)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% change	2014	2013	% change
Depletion and depreciation	1,992,606	2,251,621	(12)	8,082,601	7,773,193	4
\$ per Boe	24.92	25.36	(2)	25.72	23.72	8

For the three months ended December 31, 2014, depletion and depreciation expense was \$1,992,606 (2013 - \$2,251,621). The decrease is due primarily to decreased production volumes for the Company in the fourth quarter of 2014 compared to the same period in the prior year. On a per Boe basis, depletion and depreciation for the fourth quarter of 2014 was \$24.92 (2013 – \$25.36). This decrease, on a per Boe basis, is due to an increase in reserves from the year end reserve report for the Company as a whole.

For the year ended December 31, 2014, depletion and depreciation expense was \$8,082,601 (2013 - \$7,773,193). This increase is due to new depletion added in the fourth quarter of 2014 resulting from Alberta Bakken exploration and evaluation assets reclassified to petroleum and natural gas assets during the quarter, offset by lower production volumes for the Company as a whole for the year, compared to the prior year. On a per Boe basis, depletion and depreciation for the year ended December 31, 2014 was \$25.72 (2013 - \$23.72). This increase, on a per Boe basis, is due to lower production volumes in 2014 compared to the prior year.

Impairment

(\$, except per Boe amounts)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% change	2014	2013	% change
Impairment	33,750,000	250,000	13,400	33,750,000	250,000	13,400

For the three months and year ended December 31, 2014, the Company recognized a \$33,750,000 impairment loss compared to a \$250,000 impairment loss for the same periods in the prior year.

MANAGEMENT'S DISCUSSION + ANALYSIS

At December 31, 2014, due to the decline of oil and natural gas commodity prices in the fourth quarter of 2014, impairment tests were carried out on the carrying amount of exploration and evaluation assets ("E&E") and property, plant and equipment ("PP&E") of each of the Company's cash-generating units (CGUs) resulting in a \$33,750,000 impairment loss recorded in the following CGUs:

- Alberta Bakken CGU, composed of primarily light oil and natural gas producing assets and undeveloped land located in southern Alberta, recognized a \$16,150,000 E&E impairment and a \$7,500,000 PP&E impairment. The Alberta Bakken CGU had a recoverable amount of \$44.0 million at December 31, 2014.
- Manyberries, CGU, composed of primarily light oil assets located in southwest Alberta, recognized an \$8,350,000 impairment of PP&E. The Manyberries CGU had a recoverable amount of \$30.6 million at December 31, 2014.
- Armada CGU, composed of natural gas and light oil producing assets located in southern Alberta, recognized a \$1,050,000 PP&E impairment. The Armada CGU had a recoverable amount of \$5.1 million at December 31, 2014.
- Southern Alberta Minors CGU, composed of mainly light oil producing assets in southern Alberta, recognized a \$700,000 impairment of PP&E. The Southern Alberta Minors CGU had a recoverable amount of \$2.0 million at December 31, 2014.

The E&E and PP&E impairments noted above are recorded in net loss and may only be reversed in future periods if there is significant indication that an impairment loss recognized in prior periods no longer exist or may have decreased, but only to the extent of what the carrying amount of E&E or PP&E would have been had no impairment been recognized.

The impairment tests are sensitive to lower commodity prices, which have been under significant downward pressure recently. Further declines in forecasted oil and natural gas commodity prices could result in additional impairment losses in future periods if the recoverable amounts of CGUs are further eroded by these price decreases.

At December 31, 2013, the Emergency Order, decreased reserve engineers reserve estimates and increased operating expenses for the year ended December 31, 2013 were identified as potential impairment indicators for the Company's E&E and PP&E. As a result, impairment testing was performed resulting in a \$250,000 D&P impairment loss recorded for the year ended December 31, 2013 in net loss relating to the Company's Armada CGU. At December 31, 2013, the Armada CGU had a recoverable amount of \$6.7 million.

General and Administrative Expenses

(\$, except per Boe amounts)	Three Months Ended			Year Ended		
	December 31			December 31		
	2014	2013	% change	2014	2013	% change
General and administrative expenses	636,207	618,600	3	2,977,641	2,683,315	11
Recoveries	(140,895)	(128,438)	10	(331,039)	(142,768)	132
Capitalized general and administrative expenses	(75,150)	(75,150)	-	(300,600)	(300,600)	-
Total net general and administrative expenses	420,162	415,012	1	2,346,002	2,239,947	5
\$ per Boe	5.26	4.67	13	7.47	6.83	9

During the fourth quarter of 2014, net general and administrative expenses ("G&A") increased 1 percent to \$420,162 compared to \$415,012 in the same period in 2013. On a per Boe basis, the G&A expense was \$5.26 per Boe for the three months ended December 31, 2014 (2013 - \$4.67). This increase is due to the decrease in production volumes for the three months ended December 31, 2014 compared to the same period in the prior year. Net G&A for the quarter was comprised of \$636,207 (2013 - \$618,600) in general and administrative expenses less \$140,895 (2013 - \$128,438) in recoveries and \$75,150 (2013 - \$75,150) in capitalized G&A. G&A expenses for LGX consist primarily of the monthly Services Agreement fee charged by Legacy Oil + Gas Inc. ("Legacy").

For the year ended December 31, 2014, net general and administrative expenses ("G&A") increased 5 percent to \$2,346,002 compared to \$2,239,947 in the prior year. This increase was primarily due to additional legal fees incurred during the year to understand and assess the Emergency Order. On a per Boe basis, the G&A expense increased by 9 percent to \$7.47 per Boe for the year ended December 31, 2014 compared to \$6.83 per Boe for the prior year. Net G&A for the year ended December 31, 2014 was comprised of \$2,977,641 (2013 - \$2,683,315) in general and administrative expenses less \$331,039 (2013 - \$142,768) in recoveries and \$300,600 (2013 - \$300,600) in capitalized G&A. For the year ended December 31, 2014, G&A expenses for LGX consisted primarily of monthly management fees charged by Legacy per the Services Agreement.

MANAGEMENT'S DISCUSSION + ANALYSIS

Share-based Payments

(\$)	Three Months Ended			Year Ended		
	December 31			December 31		
	2014	2013	% change	2014	2013	% change
Share-based payments expense	179,307	128,791	39	587,080	643,317	(9)

For the three months ended December 31, 2014, the Company expensed \$179,307 in share-based payments related to stock options compared to \$128,791 for the same period in the prior year. This increase is primarily due to new stock options granted in the third quarter of 2014.

For the year ended December 31, 2014, the Company expensed \$587,080 in share-based payments related to stock options compared to \$643,317 for the prior year. This decrease is mainly due to the vesting of options granted in the first half of 2013 combined with new stock options granted in the latter half of 2014, therefore, only included in expense for half of 2014.

Finance Costs and Foreign Exchange Loss

(\$)	Three Months Ended			Year Ended		
	December 31			December 31		
	2014	2013	% change	2014	2013	% change
Interest expense and finance charges	313,519	61,329	411	1,034,808	306,298	238
Accretion on decommissioning liabilities	195,561	161,682	21	782,000	637,649	23
Total finance costs	509,080	223,011	128	1,816,808	943,947	92
Foreign exchange loss	-	1,906	(100)	-	1,906	(100)

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

During the fourth quarter of 2014, interest and finance charges increased to \$313,519 compared to \$61,329 for the same period in 2013. This increase was due to the increase in the average debt balance in the fourth quarter of 2014 compared to the fourth quarter of 2013 as well as the Company entering into a new bank facility late in the third quarter of 2014 which carried slightly higher rates compared to the facility in place in the prior year. During the fourth quarter of 2014, accretion on decommissioning liabilities was \$195,561 (2013 - \$161,682). This increase relates to additional accretion on the new Alberta Bakken wells drilled in the fourth quarter of 2013 and the third quarter of 2014.

For the year ended December 31, 2014, interest and finance charges increased to \$1,034,808 compared to \$306,298 in 2013. The increase in interest and finance charges during the year ended December 31, 2014 was due to higher average bank debt compared to the prior year. For the year ended December 31, 2014, accretion on decommissioning liabilities was \$782,000 compared to \$637,649 for the prior year. The increase relates to additional accretion on the new Alberta Bakken wells as discussed above.

During the fourth quarter of 2014 and the year ended December 31, 2014, the Company had no foreign exchange losses, translating foreign denominated working capital, compared to nominal foreign exchange losses for the same periods in the prior year.

Other Expenses and Other Loss (Income)

(\$)	Three Months Ended			Year Ended		
	December 31			December 31		
	2014	2013	% change	2014	2013	% change
Transaction costs	-	-	n/a	-	48,034	(100)
Loss (gain) on acquisitions and dispositions	268,998	(1,209,641)	(122)	268,998	(1,209,641)	(122)
Total other expenses and other loss (income)	268,998	(1,209,641)	(122)	268,998	(1,161,607)	(123)

For the three months ended December 31, 2014 and December 31, 2013, the Company incurred no transaction costs.

For the year ended December 31, 2014, the Company incurred transaction costs of \$nil (2013 - \$48,034). The 2013 transaction costs relate to additional transactions costs from prior business combinations.

For the three months and year ended December 31, 2014, the Company recorded a \$268,998 loss as a result of a minor disposition in the fourth quarter, compared to a \$1,209,641 gain on acquisition as a result of finalizing the reverse acquisition of

MANAGEMENT'S DISCUSSION + ANALYSIS

LGX by Legacy Oil + Gas Inc.'s Southern Alberta Assets in the same periods in the prior year. As the final purchase price adjustments had been recorded directly in net income, there was no effect on the purchase price equations previously presented.

Income Taxes

(\$)	Three Months Ended			Year Ended		
	December 31			December 31		
	2014	2013	% change	2014	2013	% change
Deferred income tax expense (recovery)	5,381,820	(3,858,385)	(239)	4,956,922	(7,898,420)	(163)

A deferred income tax expense of \$5,381,820 was recognized for the three months ended December 31, 2014, resulting in an effective deferred income tax rate of 15 percent of the net loss before tax compared to the applicable Canadian statutory tax rate of 25 percent. An income tax recovery was recognized for the three months ended December 31, 2013 of \$3,858,385. The deferred tax expense for the three months ended December 31, 2014 include an adjustment to derecognize the Company's deferred tax asset as there is doubt whether the Company may have sufficient future net income to realize the deferred tax asset under current market conditions.

A deferred income tax expense of \$4,956,922 was recognized for the year ended December 31, 2014, resulting in an effective deferred income tax rate of 13 percent of the net loss before tax. The effective deferred income tax rate is higher than the applicable Canadian statutory tax rate of 25 percent as a result of a deferred tax allowance recognized in 2014. An income tax recovery of \$7,898,420 was recognized for the year ended December 31, 2013. The deferred tax expense for the year ended December 31, 2014 include an adjustment to derecognize the Company's deferred tax asset as there is doubt whether the Company may have sufficient future net income to realize the deferred tax asset under current market conditions.

Net Income (Loss) and Funds Generated by Operations

(\$, except per Boe amounts)	Three Months Ended			Year Ended		
	December 31			December 31		
	2014	2013	% change	2014	2013	% change
Net income (loss)	(41,300,437)	(7,775,472)	431	(42,922,011)	(20,326,748)	111
Per share basic	(0.47)	(0.09)	422	(0.48)	(0.23)	109
Per share diluted	(0.47)	(0.09)	422	(0.48)	(0.23)	109
Funds generated by operations	467,855	1,125,835	(58)	6,558,707	4,432,350	48
Per share basic	0.01	0.01	-	0.07	0.05	40
Per share diluted	0.01	0.01	-	0.07	0.05	40
\$ per Boe	5.85	12.68	(54)	20.87	13.53	54

For the three months ended December 31, 2014, net loss of \$41,300,437 was recognized compared to net loss of \$7,775,472 during the same period in 2013 due primarily to an impairment of \$33,750,000 on the property, plant and equipment and exploration and evaluation assets in the fourth quarter of 2014 compared to an impairment of \$250,000 in the fourth quarter of 2013, a significant decrease in exploration and evaluation expenses in the fourth quarter of 2014 as well as a loss on disposition and deferred tax expense in the current period compared to a gain on acquisition and deferred tax recovery in the prior year. Basic and diluted net loss per share for the fourth quarter of 2014 was \$0.47, compared to basic and diluted net loss per share of \$0.09 for 2013. Funds generated by operations decreased 58 percent to \$467,855 for the fourth quarter of 2014, compared to \$1,125,835 during the same period in 2013, due primarily to a decrease in production volumes and a decrease in operating netbacks. Basic and diluted funds generated by operations per share for the quarter ended December 31, 2014 were \$0.01, compared to \$0.01 in the same period in the prior year.

For the year ended December 31, 2014, net loss of \$42,922,011 was recognized compared to net loss of \$20,326,748 during 2013 primarily due primarily to an impairment of \$33,750,000 on the property, plant and equipment and exploration and evaluation assets in 2014 compared to an impairment of \$250,000 in the prior year, a significant decrease in exploration and evaluation expenses in 2014 compared to the prior year, increased finance costs in the current year as well as a loss on acquisition and deferred tax expense in the current period compared to an acquisition gain and deferred tax recovery in the prior year, offset by by increased operating netback on decreased production volumes. Basic and diluted net loss per share for the year ended December 31, 2014 was \$0.48, compared to basic and diluted net loss per share of \$0.23 in the prior year. Funds generated by operations increased 48 percent to \$6,558,707 for the year ended December 31, 2014, compared to funds used in operations of \$4,432,350 in 2013, due primarily to lower production volumes. Basic and diluted funds generated by operations per share for the year ended December 31, 2014 were \$0.07, compared to \$0.05 in the prior year.

MANAGEMENT'S DISCUSSION + ANALYSIS

The following table summarizes the operating netbacks and funds generated by operations on a per Boe basis for the three months and years ended December 31, 2014 and 2013:

(\$ per Boe)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% change	2014	2013	% change
Petroleum and natural gas sales	57.55	63.55	(9)	73.38	63.99	15
Royalties	(9.34)	(12.63)	(26)	(9.44)	(10.94)	(14)
Revenue	48.21	50.92	(5)	63.94	53.05	21
Operating expenses	(29.32)	(29.09)	1	(27.97)	(28.52)	(2)
Transportation expenses	(3.67)	(3.13)	17	(4.28)	(2.65)	62
Operating netback	15.22	18.70	(19)	31.69	21.88	45
Exploration and evaluation expenses (cash portion)	(0.19)	(0.30)	(37)	(0.07)	(0.49)	(86)
General and administrative expenses	(5.26)	(4.67)	13	(7.47)	(6.83)	9
Finance costs – Interest expense and finance charges (cash portion)	(3.92)	(0.69)	468	(3.28)	(0.93)	253
Realized foreign exchange loss	-	(0.02)	(100)	-	(0.01)	(100)
Decommissioning liabilities settled	-	(0.34)	(100)	-	(0.09)	(100)
Funds generated by operations	5.85	12.68	(54)	20.87	13.53	54

SELECTED ANNUAL INFORMATION

(\$, except per share amounts)	2014	2013	2012
Petroleum and natural gas sales	23,061,710	20,974,356	4,817,600
Petroleum and natural gas sales, net of royalties	20,096,137	17,387,700	4,046,322
Net Income (Loss)	(42,922,011)	(20,326,748)	3,419,269
Per share basic	(0.48)	(0.23)	0.15
Per share diluted	(0.48)	(0.23)	0.15
Total assets	110,227,014	135,247,379	148,469,818
Working capital surplus (deficit) ⁽¹⁾	(9,992,110)	(8,585,864)	(8,056,927)
Bank debt ⁽¹⁾	(20,340,000)	(11,050,000)	(1,850,000)
Net debt and working capital surplus (deficit) ⁽¹⁾	(30,332,110)	(19,635,864)	(9,906,927)

⁽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.

MANAGEMENT'S DISCUSSION + ANALYSIS

SUMMARY OF QUARTERLY RESULTS

The table below contains fourth quarter 2014 results of LGX as well as comparisons to the previous seven quarterly results for the Company:

	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1
Financial								
<i>(\$, except per share amounts)</i>								
Petroleum and natural gas sales	4,601,355	5,059,868	6,311,665	7,088,822	5,641,778	5,698,496	4,993,556	4,640,526
Petroleum and natural gas sales net of royalties	3,854,256	4,331,707	5,490,455	6,419,719	4,520,788	4,819,532	4,156,240	3,891,140
Funds generated by (used in) operations	467,855	1,148,432	1,874,662	3,067,758	1,125,835	581,632	1,609,234	1,115,649
- Per share basic	0.01	0.01	0.02	0.03	0.01	0.01	0.02	0.01
- Per share diluted	0.01	0.01	0.02	0.03	0.01	0.01	0.02	0.01
Net Income (Loss)	(41,300,437)	(1,074,202)	(727,033)	179,661	(7,775,472)	(8,270,280)	(3,127,371)	(1,153,625)
- Per share basic	(0.47)	(0.01)	(0.01)	-	(0.09)	(0.09)	(0.04)	(0.01)
- Per share diluted	(0.47)	(0.01)	(0.01)	-	(0.09)	(0.09)	(0.04)	(0.01)
Capital expenditures								
- Exploration and development	9,179,368	5,872,876	493,819	1,931,988	12,782,541	1,696,828	361,856	480,220
- Acquisitions and (dispositions) ⁽¹⁾	(220,000)	-	-	-	-	-	-	-
Net debt and working capital surplus (deficit)	(30,332,110)	(21,840,956)	(17,116,598)	(18,495,587)	(19,635,864)	(9,189,958)	(8,058,946)	(9,307,723)
Total assets	110,227,014	138,687,831	134,272,969	135,417,520	135,247,379	133,374,916	141,694,415	147,121,183
Operating								
Production								
- Crude oil and natural gas liquids (Bbls per day)	628	537	646	734	718	567	578	612
- Natural gas (Mcf per day)	1,446	1,360	1,307	1,285	1,482	1,677	1,729	1,806
- Total daily production (Boe per day)	869	764	864	948	965	847	866	913
- Increase/(Decrease) over prior quarter	14%	(12%)	(9%)	(2%)	14%	(2%)	(5%)	33%
Average realized price								
- Crude oil and natural gas liquids (\$ per Bbl)	71.00	92.22	98.15	97.12	78.26	102.23	84.63	75.54
- Natural gas (\$ per Mcf)	3.75	4.03	4.55	5.82	3.46	2.37	3.44	2.95
- Barrels of oil equivalent (\$ per Boe)	57.55	71.99	80.28	83.09	63.55	73.13	63.37	56.47
Netback (\$ per Boe)								
- Petroleum and natural gas sales	57.55	71.99	80.28	83.09	63.55	73.13	63.37	56.47
- Royalties	9.34	10.36	10.44	7.84	12.63	11.28	10.63	9.12
- Operating expenses	29.32	29.30	29.28	24.42	29.09	43.46	20.17	21.77
- Transportation expenses	3.67	4.35	4.13	4.93	3.13	2.63	2.81	2.02
- Operating netback	15.22	27.98	36.43	45.90	18.70	15.76	29.76	23.56

(1) Includes cash consideration, share consideration and net debt and working capital assumed.

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

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

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

MANAGEMENT'S DISCUSSION + ANALYSIS

CAPITAL EXPENDITURES

The Company's capital expenditures consist of the following:

(\$)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% change	2014	2013	% change
Capital expenditures – Exploration and development						
Land acquisitions and retention	(10,493)	93,626	(111)	132,074	377,145	(65)
Geological and geophysical	-	121,928	(100)	1,216	601,670	(100)
Drilling and completions	8,203,987	11,767,339	(30)	14,601,098	12,967,489	13
Equipping and facilities	910,724	724,498	26	2,401,138	1,074,541	123
Capitalized general and administrative expenses	75,150	75,150	-	300,600	300,600	-
Other	-	-	n/a	41,925	-	n/a
Capital expenditures – Exploration and development ⁽¹⁾	9,179,368	12,782,541	(28)	17,478,051	15,321,445	14
Capital expenditures – Acquisitions and dispositions						
Dispositions – Cash consideration	(220,000)	-	n/a	(220,000)	-	n/a
Total capital expenditures	8,959,368	12,782,541	(30)	17,258,051	15,321,445	13

(1) Total property, plant and equipment (petroleum and natural gas assets and corporate assets) and exploration and evaluation asset additions for the period.

CAPITALIZATION AND CAPITAL RESOURCES

Share Capital

	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Outstanding Common Shares				
Weighted average Common Shares outstanding ⁽¹⁾				
- Basic	88,658,427	88,658,427	88,658,427	88,658,427
- Diluted	88,658,427	88,658,427	88,659,427	88,659,427

	December 31 2014	December 31 2013
Outstanding Securities		
- Common Shares	88,658,427	88,658,427
- Common Share Warrants	6,000,000	6,000,000
- Common Share Options	7,140,500	3,652,000

(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, 2014 was \$17,731,685.

	As at December 31 2014	As at December 31 2013
Common Shares Outstanding	88,658,427	88,658,427
Share Price ⁽²⁾	\$0.20	\$0.65
Total Market Capitalization	\$17,731,685	\$57,627,978

(2) Represents the closing price on the TSX Venture Exchange ("TSX-V") at December 31, 2014 and 2013

There is a significant difference between the Company's net assets and market capitalization as at December 31, 2014. Management believes that the market capitalization of the Company continues to be dominated by external factors such as overall market confidence, global debt concerns and global liquidity issues and does not reflect the fair value of the Company's net assets.

As at March 24, 2015, the Company had 88,658,427 common shares outstanding.

MANAGEMENT'S DISCUSSION + ANALYSIS

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, 2014, the Company had a net debt and working capital deficit of \$30,332,110 (December 31, 2013 - \$19,635,864). The Company continuously monitors its trade and other receivables and its allowance for doubtful accounts. As at December 31, 2014 and December 31, 2013, there have been no impairment issues and management considers trade and other receivables collectible within the next operating cycle.

At December 31, 2014, the Company had a \$20,000,000 revolving demand credit facility ("Senior Commitment") and a \$10,000,000 non-revolving term facility ("Junior Commitment") with ATB. The features of the term facility include a two year committed term (subject to extension upon mutual consent) available in two tranches with full payment of the principle on maturity. The revolving portion of the new facility is a borrowing base subject to annual review by ATB, with the next review scheduled no later than May 31, 2015. Security for the credit facilities is provided by \$50,000,000 and \$25,000,000 floating charge demand debentures, respectively for the Senior and Junior Commitment. 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 is subject to certain reporting, financial and non-financial covenants to these credit facilities. The Senior Commitment requires the Company to maintain a Working Capital Ratio (defined as current assets, but adding undrawn availability under the facilities to current liabilities and excluding the impact of financial derivative commodity contracts, if any) of not less than 1:1. The Junior Commitments requires the Company to maintain (i) an Adjusted Working Capital Ratio (defined as current assets plus any undrawn availability under the Senior Commitment to current liabilities, but excluding any principal amount outstanding under the Senior Commitment) of not less than 1:1; (ii) a Debt to EBITDA ratio below 4:1 (Debt is defined as all obligations, liabilities and indebtedness on the balance sheet and EBITDA is defined as earning plus interest expense and other financing costs, depletion and depreciation and income taxes); and (iii) a present pre-income tax value of the future cash flows from the Company's proved developed producing petroleum and natural gas reserves utilizing the lender's forecasted commodity price deck then in effect and utilizing a 10% discount rate to Debt ratio of not less than 1.5:1 on specified dates.

The working capital and adjusted working capital ratio exclude any liabilities related to LGX's Alberta Bakken development drilling program for 2014 and any amounts drawn under the Junior Commitment (for the Senior Commitment calculation) and the Senior Commitment (for the Junior Commitment calculation).

The Company reduces this risk by complying with the covenants of the credit facility agreement and maintaining a minimal balance on the facilities. At December 31, 2014, the Company was in compliance with all such covenants.

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

(\$)	As at December 31 2014	As at December 31 2013
Capital resources		
Bank debt available	9,660,000	13,950,000
Working capital deficit (excluding Bank debt)	(9,992,110)	(8,585,864)
Total capital resources available	(332,110)	5,364,136

As discussed in above in Going Concern, the Company faces circumstances that create material uncertainty that lends significant doubt as to the ability of the Company to meet its obligations as they come due.

With cash flows impacted by oil prices at five year lows, LGX is working proactively to ensure it has the ability to meet its financial obligations under its credit facilities and satisfy the 2015 drilling commitments under its lease of lands on the Blood Reserve. At current commodity prices, the Company expects that it may approach non-compliance with the existing financial covenants under its credit facilities in the near future and will continue proactive discussions with its lender regarding the facility and the covenants. In order to address the above factors, the Company is currently evaluating measures, including but not limited to: asset sales, accessing third party capital, joint ventures and drilling commitment extension. There is no assurance that these initiatives will be successful.

MANAGEMENT'S DISCUSSION + ANALYSIS

After anticipated reductions and savings on operating expenses and G&A and without giving effect to any production additions from drilling in 2015, LGX expects to average 725 Boe per day of production in 2015 and generate slightly positive funds flow from operations at current strip pricing for 2015.

The management team at LGX continues to aggressively pursue opportunities that improve the upside potential, sustainability and autonomy of LGX.

ACCOUNTING POLICIES AND ESTIMATES

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

The audited consolidated financial statements for the year ended December 31, 2014 have been prepared using the same accounting policies and methods as those used in the audited consolidated financial statements for the year ended December 31, 2013 and are described in Note 3 of the 2014 consolidated financial statements, except for new and revised standards, effective January 1, 2014, as described below.

Accounting standards, issued up to March 24, 2015, effective for periods beginning on or after January 1, 2014, have been adopted as of December 31, 2014.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, assumptions and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Actual results may differ from such estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Significant estimates and judgments made by management in the preparation of consolidated financial statements are outlined below and in Note 2 of the audited consolidated financial statements for the year ended December 31, 2014:

Reserve estimates

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

Impairment indicators and discount rate

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

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

MANAGEMENT'S DISCUSSION + ANALYSIS

Decommissioning costs

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

Technical feasibility and commercial viability of exploration and evaluation assets

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

Income taxes

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

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

Fair value measurement

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

Measurement of share-based payments

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

Business combinations

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

Contingencies

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

MANAGEMENT'S DISCUSSION + ANALYSIS

New and Revised Accounting Policies Adopted

The Company adopted the following new or revised standards and interpretations, along with all consequential amendments, effective January 1, 2014. These changes are made in accordance with the applicable transitional provisions.

Levies

IFRIC 21, *Levies*, provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity that is imposed by a government in accordance with legislation other than income taxes or fines or penalties imposed for breaches of legislation, notes that levies do not arise from executory contracts or other contractual arrangements and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. This IFRIC is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The adoption of this interpretation had no impact on LGX's consolidated financial statements.

Financial Instruments: Presentation

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, *Financial Instruments: Presentation*. The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The adoption of this amendment had no impact on LGX's consolidated financial statements.

Future Accounting Changes Not Yet Adopted

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

Financial Instruments

IFRS 9, *Financial Instruments*, was issued in July 2014 and is intended to replace IAS 39, *Financial Instruments: Recognition and Measurement*, and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is in the process of assessing the impacts of adopting this new standard.

Revenue

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations as the single source for accounting for revenue for all companies in all industries and replaces current guidance including industry or product specific guidance. IFRS 15 provides specific and detailed guidance in many areas where current standards have been more limited, and thus may provide for less flexibility in developing and applying accounting policies and practices. This standard is required to be adopted either retrospectively or using a modified transition approach and is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company is in the process of assessing the impacts of adopting this new standard.

RISK ASSESSMENT

There are a number of risk facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to a sector. The following reviews the general and specific risks to which the Company is exposed as described in the Company's Annual Information Form ("AIF") for the year ended December 31, 2014 dated March 24, 2015, available on the Company's profile at www.sedar.com. While the management of LGX realizes that these risks cannot be eliminated, they are committed to monitoring and mitigating these risks.

Funding of 2015 Capital Expenditures

LGX has a drilling commitment under the Blood Lease for 2015 as described under the heading "Blood Lease" below. In addition, LGX will have to make capital expenditures in 2015 to maintain existing production. The amount of cash flow that LGX will generate to fund capital expenditures in 2015 will be highly dependent upon prevailing commodity prices and such cash flow may not be sufficient to fund all required or planned capital expenditures. As a result, LGX may need to fund capital expenditures through additional debt or equity financing or complete a transaction, such as a joint venture or farmout, to reduce or share such

MANAGEMENT'S DISCUSSION + ANALYSIS

expenditures. There can be no assurance that sufficient debt or equity financing will be available on favourable terms or at all. There can be no assurance that LGX will be able to complete a transaction, such as a joint venture or farmout, on favourable terms or at all. A failure by LGX to access sufficient capital to fund its capital expenditures would have a material adverse effect on the market price for the Common Shares and on LGX's operations and financial condition.

Blood Lease

The initial term of the Blood Lease ends on September 30, 2015. LGX has applied to the IOGC pursuant to the *Indian Oil and Gas Regulations* to continue the term of the Blood Lease for a further five years. The extent and terms of any such continuation are uncertain as at the date of the AIF.

Pursuant to the Blood Lease, LGX has a commitment to spud two test wells on the Blood Lease on or before September 30, 2015. If LGX does not fulfill this drilling commitment, LGX would be in default under the Blood Lease and would not be entitled to a continuance of the term of the Blood Lease. In this circumstance, the Blood Lease shall be continued only as to the spacing units related to the existing wells producing or deemed capable of production.

Any failure to obtain a continuance with respect to any material portion of the lands held under the Blood Lease or to obtain such a continuance on favourable terms may have a material adverse effect on LGX's operations, reserves and future prospects.

Credit Facilities and Variation in Interest Rates

LGX's credit facilities consist of a \$20,000,000 revolving demand credit facility and a \$10,000,000 non-revolving term facility. Amounts owing under the \$20,000,000 revolving demand credit facility can be demanded by LGX's lender at any time. The revolving demand facility contains a financial covenant from LGX to the lender with respect to the maintenance of a specific working capital ratio. Amounts owing under the \$10,000,000 non-revolving term facility are repayable by August 21, 2016, subject to extension upon mutual consent. The non-revolving credit facility contains certain financial covenants from LGX to the lender, including with respect to the maintenance of a specific working capital ratio and ratio of debt to trailing EBITDA, the breach of which would result in the acceleration of the repayment of amounts due under the facility.

\$20,340,000 was drawn on the combined credit facilities as at December 31, 2014 and, after taking working capital deficiency as of that date, LGX did not have any remaining borrowing capacity under the facilities as at that date.

The borrowing limit under the \$20,000,000 revolving demand credit facility is reviewed by the lender annually, with the next review scheduled for no later than May 31, 2015. The amount available for borrowing under the demand revolving credit facility is dependent on the lender's assessment of the value of LGX's borrowing base. Any material reduction in the estimated oil and natural gas reserves of LGX or the value thereof would reduce the borrowing base and result in a reduction of the amounts available for borrowing under the credit facility. There is a risk that the credit facility will, on review, not be renewed for the same amount or on the same terms.

Any material reduction in the amounts available for borrowing under the credit facilities or any demand for repayment or acceleration of repayment of amounts owing under the credit facilities would result in LGX needing to obtain alternate financing. There is no assurance that LGX would be able to obtain such financing on favourable terms or at all. Any failure to obtain suitable replacement financing would have a material adverse effect on the market price for the Common Shares and on LGX's operations and financial condition.

LGX's existing credit facilities and any replacement credit facilities may not provide sufficient liquidity. The amounts available under LGX's existing credit facilities may not be sufficient for future operations.

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

Volatility of Oil and Natural Gas Prices and Markets

LGX's financial performance and condition are substantially dependent on the prevailing price of oil and, to a lesser extent, the prevailing price of natural gas. There has been a significant deterioration in the price of oil in the fourth quarter of 2014 and the first quarter of 2015 from the prices that prevailed in recent financial years. Continued low oil pricing or further decreases in the oil or natural gas prices realized by LGX could have a material adverse effect on LGX's operations, reserves and financial condition, including by: (i) reducing net production revenue, cash flow and profitability, (ii) negatively impacting the volume and value of LGX's reserves, (iii) requiring a delay or cancellation of planned capital expenditures and drilling and development activity, with a resulting negative impact on future production, and (iv) negatively impacting LGX's liquidity and capital resources, including the availability of its credit facilities and compliance with financial covenants under its credit facilities.

MANAGEMENT'S DISCUSSION + ANALYSIS

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 and willingness 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 Canadian Light Sweet, 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.

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.

Emergency Order

LGX has concluded that the Emergency Order has the potential to have a significant adverse effect on LGX's ability to maintain and increase production at its Manyberries property and to prevent the drilling of new wells there. The Emergency Order may also have a significant adverse effect on the reserves volumes assigned to the Manyberries property in future estimates of such. See "Environmental Matters – Emergency Order" and "Statement of Reserves Data – Effect of the Emergency Order on Reserves Data".

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

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

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 or cost of such equipment to LGX and may delay exploration and development activities.

Oil and natural gas exploration and development activities are dependent on access to areas where operations are to be conducted. Seasonal weather variations, including freeze-up and break-up, affect access in certain circumstances. Unexpected adverse weather conditions, such as flooding or prolonged break-up, can have a significant negative impact on capital expenditures, operations and costs.

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

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

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

MANAGEMENT'S DISCUSSION + ANALYSIS

and natural gas it produces or to obtain favourable prices for the oil and natural gas it produces.

Environmental Concerns

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

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

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

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

Recording of Impairment

Under International Financial Reporting Standards, when indicators of impairment exist, the carrying value of Property, Plant and Equipment ("PP&E"), Exploration and Evaluation ("E&E") assets and Goodwill is compared to its recoverable amount. A decline in oil and gas prices or a reduction in reserves may be an indicator of impairment and may result in a write-down of the value of LGX's assets. While these write-downs would not affect cash flow from operations, the charge to earnings may be viewed unfavourably by investors and adversely impact the market price of the Common Shares. PP&E or E&E asset write-downs may also be reversed to earnings in future periods should the conditions that caused impairment reverse. Goodwill impairments are not allowed to be reversed in future periods. The calculation of impairment value is subject to management estimates and assumptions.

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.

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 GLJ Report 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.

MANAGEMENT'S DISCUSSION + ANALYSIS

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

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

Price Volatility of Publicly Traded Securities

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

Issuance of Debt

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

Abandonment and Reclamation Costs

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

MANAGEMENT'S DISCUSSION + ANALYSIS

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.

The acquisition of title to petroleum and natural gas properties on First Nations lands is a very detailed and time-consuming process. While the Corporation 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 Corporation's ability to explore, develop and/or operate the portion of its Alberta Bakken assets that are located on the Blood Tribe Reserve or to enforce its rights with respect thereto. In addition, other parties may dispute LGX's title to the lands included in the Blood Lease in which it has an interest and such properties may be subject to prior unregistered agreements or transfers or claims by aboriginal people, and title may be affected by undetected encumbrances or defects or government actions.

MANAGEMENT'S DISCUSSION + ANALYSIS

An impairment to or defect in LGX's title to the Blood Lease or any of the lands included in the Blood Lease could have a material adverse effect on LGX's business, financial condition or results of operation. In addition, such claims, whether or not valid, will involve additional costs and expenses to defend or settle, which could adversely affect LGX's profitability.

Corporate Matters

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

Failure to Maintain Listing of the Common Shares

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

Structure of LGX

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

Changes in Legislation

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

OUTSTANDING SHARE DATA

Common Shares

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

As at December 31, 2014, a total of 88,658,427 common shares were issued and outstanding. In addition, a total of 7,140,500 stock options to acquire common shares and 6,000,000 warrants to acquire common shares were outstanding.

RELATED PARTY TRANSACTIONS

On July 5, 2012, Legacy and the Company entered into a management, technical and administrative services agreement whereby the Company will be managed by Legacy's current management team and staff, in exchange for a monthly fee of \$167,000 excluding GST. The management fee charged to the Company by Legacy is for the provision of management and administrative services and is intended to cover the cost of administrative expense and salary costs incurred by Legacy. Under the terms of the Services Agreement, Legacy invoiced the Company \$2,104,200 during the year ended December 31, 2014 (2013 - \$2,104,200) of which \$nil was payable as at December 31, 2014 (December 31, 2013 - \$nil). In relation to capital and operations activity, the Company has a net trade payable to Legacy of \$9,590 as at December 31, 2014 (December 31, 2013 - \$1,922,598).

The Company incurred fees of \$429,380 for corporate and legal services rendered by law firms (2013 - \$79,485), which a board member is a partner of, for the year ended December 31, 2014. At December 31, 2014, \$2,543 was payable (2013 - \$7,817). These fees were incurred in the normal course of business under similar terms and conditions as transactions with unrelated companies.

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

MANAGEMENT'S DISCUSSION + ANALYSIS

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 Officer, the Vice President and Chief Financial Officer and other Vice Presidents.

The remuneration of key management personnel for the years ended December 31, 2014 and 2013 are as follows:

(\$)	Year Ended December 31 2014	Year Ended December 31 2013
Salaries, bonuses and other benefits	-	-
Share-based payments	570,633	594,760
Total remuneration of key management	570,633	594,760

The only remuneration of directors of LGX for the year ended December 31, 2014 was in the form of share based payments of \$74,851 (2013 - \$87,031). The President and Chief Executive Officer of the Company is also a director of LGX and received no compensation in 2014 specifically in relation to his duties as a director of LGX.

COMMITMENTS AND CONTINGENCIES

Drilling commitments

Pursuant to the Blood Lease, LGX has a commitment to spud two test wells on the Blood Lease on or before September 30, 2015. Each test well must be drilled thereafter to a minimum depth of 1,000 metres or 5 metres into the Devonian, whichever occurs first. If LGX does not fulfill this drilling commitment, LGX would be in default under the Blood Lease and would not be entitled to a continuance of the term of the Blood Lease. In this circumstance, the Blood Lease shall be continued only as to the spacing units related to the existing wells producing or deemed capable of production. This, in turn, would have a material adverse effect on LGX's reserves as it would eliminate the reserves assigned to future drilling locations on lands held under the Blood Lease.

Services Agreement

Legacy and LGX entered into a management, technical and administrative services agreement whereby LGX will be managed by Legacy Oil + Gas Inc.'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 24, 2015, is also available on the Company's profile at www.sedar.com.