



# NEWS RELEASE

August 9, 2011

## LEGACY OIL + GAS INC. ANNOUNCES SECOND QUARTER 2011 RESULTS, BOTTINEAU COUNTY SPEARFISH DRILLING SUCCESS AND 2011 GUIDANCE

CALGARY, ALBERTA (August 9, 2011) Legacy Oil + Gas Inc. ("Legacy" or the "Company") (TSX:LEG) is pleased to announce it has filed on SEDAR its interim financial statements and related Management's Discussion and Analysis ("MD&A") for the three and six months ended June 30, 2011. Selected financial and operational information is outlined below and should be read in conjunction with the interim financial statements and the related MD&A which are available for review at [www.legacyoilandgas.com](http://www.legacyoilandgas.com) or [www.sedar.com](http://www.sedar.com).

| Financial + Operational Highlights                       | Three Months Ended |           |          | Six Months Ended |           |          |
|--|--------------------|-----------|----------|------------------|-----------|----------|
|  | June 30            |           |          | June 30          |           |          |
|  | 2011               | 2010      | % change | 2011             | 2010      | % change |
| <b>Financial</b> (Cdn \$000's, except per share amounts) |                    |           |          |                  |           |          |
| Petroleum and natural gas sales, net of royalties        | 64,307             | 30,600    | 110      | 133,616          | 66,474    | 101      |
| Funds generated by operations <sup>(1)</sup>             | 40,498             | 21,216    | 91       | 84,382           | 47,544    | 77       |
| Per share basic  | 0.28               | 0.27      | 4        | 0.61             | 0.63      | (3)      |
| Per share diluted <sup>(2)</sup>                         | 0.28               | 0.26      | 8        | 0.59             | 0.60      | (2)      |
| Net income (loss)  | 6,885              | (1,662)   | 514      | 4,031            | 2,537     | 59       |
| Per share basic  | 0.05               | (0.02)    | 350      | 0.03             | 0.03      | -        |
| Per share diluted <sup>(2)</sup>                         | 0.05               | (0.02)    | 350      | 0.03             | 0.03      | -        |
| Capital expenditures (excluding acquisitions)            | 40,110             | 27,542    | 46       | 115,246          | 77,346    | 49       |
| Acquisitions (cash consideration)                        | 1,507              | 18,930    | (92)     | 99,878           | 19,369    | 416      |
| Net debt and working capital surplus (deficit)           | (254,310)          | (110,662) | 130      | (254,310)        | (110,662) | 130      |
| <b>Operating</b>   |                    |           |          |                  |           |          |
| Production   |                    |           |          |                  |           |          |
| Crude oil (Bbls per day)                                 | 7,195              | 5,477     | 31       | 7,990            | 5,699     | 40       |
| Heavy oil (Bbls per day)                                 | 323                | -         | n/a      | 324              | -         | n/a      |
| Natural gas (Mcf per day)                                | 11,176             | 1,341     | 733      | 12,954           | 1,353     | 857      |
| Natural gas liquids (Bbls per day)                       | 821                | 17        | 4,729    | 1,047            | 43        | 2,334    |
| Barrels of oil equivalent (Boe per day) <sup>(3)</sup>   | 10,202             | 5,717     | 78       | 11,520           | 5,967     | 93       |
| Average realized price                                   |                    |           |          |                  |           |          |
| Crude oil (\$ per Bbl)                                   | 101.25             | 73.34     | 38       | 92.93            | 75.85     | 23       |
| Heavy oil (\$ per Bbl)                                   | 75.59              | -         | n/a      | 70.04            | -         | n/a      |
| Natural gas (\$ per Mcf)                                 | 4.16               | 3.56      | 17       | 4.17             | 4.13      | 1        |
| Natural gas liquids (\$ per Bbl)                         | 72.02              | 23.39     | 208      | 67.35            | 40.19     | 68       |
| Barrels of oil equivalent (\$ per Boe) <sup>(3)</sup>    | 84.16              | 71.16     | 18       | 77.23            | 73.66     | 5        |
| Netback (\$ per Boe)                                     |                    |           |          |                  |           |          |
| Petroleum and natural gas sales                          | 84.16              | 71.16     | 18       | 77.23            | 73.66     | 5        |
| Royalties  | 14.89              | 12.34     | 21       | 13.15            | 12.12     | 8        |
| Operating expenses                                       | 14.94              | 10.94     | 37       | 14.62            | 11.45     | 28       |
| Transportation expenses                                  | 2.99               | 1.47      | 103      | 2.50             | 1.67      | 50       |
| Operating Netback (\$ per Boe)                           | 51.34              | 46.41     | 11       | 46.96            | 48.42     | (3)      |
| Undeveloped land holdings (gross acres)                  | 639,263            | 475,424   | 34       | 639,263          | 475,424   | 34       |
| (net acres)  | 484,104            | 351,917   | 38       | 484,104          | 351,917   | 38       |
| <b>Common Shares</b> (000's)                             |                    |           |          |                  |           |          |
| Common shares outstanding, end of period                 | 142,860            | 82,337    | 74       | 142,860          | 82,337    | 74       |
| Weighted average common shares (basic)                   | 142,860            | 77,442    | 84       | 138,106          | 75,848    | 82       |
| Weighted average common shares (diluted) <sup>(2)</sup>  | 146,202            | 80,527    | 82       | 142,377          | 78,779    | 81       |

- (1) Management uses funds generated by operations to analyze operating performance and leverage. Funds generated by operations, as presented, does not have a standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures for other entities.
- (2) In calculating the net income (loss) per share diluted, Legacy Oil + Gas Inc. ("Legacy" or the "Company") excludes the effect of outstanding stock options and share warrants outstanding and uses the weighted average common shares (basic) where the Company has a net loss for the period. In calculating, funds generated by operations per share diluted, the Company includes the effect of outstanding stock options and share warrants using the treasury stock method.
- (3) Boe means barrel of oil equivalent. All Boe conversions in this report are derived by converting natural gas to oil equivalent at a 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.

## ACCOMPLISHMENTS

- At Bottineau County, North Dakota, three of the five wells drilled and completed in late 2010/early 2011 are on production, with an average 60 day initial production rate of 100 Boe per day, per well. These wells have confirmed the presence of an emerging light oil resource play in the Spearfish Formation and proven the productive potential of a large portion of Legacy's Bottineau County acreage
- In the Southern Alberta Bakken play, Legacy is currently completing its first horizontal well and has recovered light oil during these operations. Legacy has spud its second commitment horizontal well on this play
- In Turner Valley, the horizontal well recompleted earlier in 2011 is undergoing remedial work to replace the pump. Upon completion of this work, it is expected that the well's capability will be in excess of the 110 Boe per day rate seen after the recompletion
- Production of 10,202 Boe per day was up 78 percent year over year; this increase was achieved in spite of severe weather conditions caused by an extended and pervasive spring break-up and associated flooding, which restricted Legacy's ability to produce wells, as well as severely restricted the Company's ability to drill new wells to offset production declines. In addition, the Quirk Creek gas plant was shut-in for a turnaround for approximately half the quarter, which shut-in almost 2,000 Boe per day of the Company's Turner Valley production
- Funds generated by operations of \$40.5 million was up 91 percent year over year; funds generated by operations per diluted share of \$0.28 was up 8 percent year over year
- Earnings of \$6.9 million was up 514 percent year over year; earnings per diluted share of \$0.05 was up 350 percent year over year
- Increased undeveloped land holdings year over year from 351,917 net acres to 484,104 net acres, a 38 percent increase
- Drilled 9 gross (5.9 net) oil wells with a 100 percent drilling success
- The Company spent \$40.1 million in the quarter which was below budget due to the severe weather conditions mentioned above. Key projects funded in the quarter included the first southern Alberta Bakken well, 7 gross (4.9 net) wells in southeast Saskatchewan, road construction at Maxhamish, facility work at Turner Valley, Taylorton and Pierson, as well as land and seismic acquisition

## OPERATIONS OVERVIEW

Legacy participated in the drilling of 9 gross (5.9 net) wells targeting light oil with a 100 percent success rate. The Company spent \$40.1 million on capital expenditures in the quarter: \$23.1 million on drilling and completions, \$13.2 million on equipping and facilities and \$3.8 million on land, seismic and other. Activity in the second quarter included the drilling of 7 gross (4.9 net) Bakken horizontal wells in the Company's Taylorton area.

All five of the previously drilled Spearfish horizontal wells in Bottineau County, North Dakota have been multi-stage fracture stimulated. Three of the wells have been on production for 60 days, one well is waiting on a service rig and the final well suffered a mechanical failure of the liner system and will be re-drilled later this year, as it is located immediately adjacent to the three producing wells. Results are preliminary, but indicate an average 30 day initial production rate of 95 Boe per day, per well. However, production rates have been constrained by artificial lift capability and efforts are ongoing to further optimize production as evidenced by the average 60 day initial production rate of 100 Boe per day, per well. These wells have confirmed the presence of an emerging light oil resource play in the Spearfish and proven the productive potential of a large portion of Legacy's Bottineau County acreage position of 46,042 net undeveloped acres.

The Company will continue to produce these wells to confirm this positive initial result and is working on permitting a significant development drilling program for the second half of 2011 and into 2012, which will complement the Spearfish development program at Pierson, Manitoba where completion operations commenced in early July, with eight Spearfish horizontal wells completed to-date. Operations staff continue to work diligently to re-start a number of shut-in wells; however, the progress has been slowed by the damage sustained to the transportation infrastructure in southern Manitoba from the flooding experienced for the last number of months.

Legacy's first multi-stage acid fracture stimulated horizontal well at Turner Valley continues to perform favourably. Prior to the fracture stimulation, this was a poorly performing seven year old Rundle horizontal well and the multi-stage acid fracture has resulted in a four-fold increase over the unstimulated oil production rate. The productive potential of this well exceeds the artificial lift capability and is currently being upgraded which should result in production rates in excess of the previously disclosed rate of 110 Boe per day. The Company has spud the first two of six Rundle multi-stage fracture horizontal wells to be drilled in the remainder of 2011 and has two drilling rigs working in the field.

The scheduled maintenance outage at the Quirk Creek gas plant, which processes the majority of the sour gas from Turner Valley, lasted longer than anticipated resulting in nearly 2,000 Boe per day of production shut-in for half of the second quarter of 2011. Production was restored to previous levels prior to the end of the second quarter.

In the Southern Alberta Bakken play, Legacy is currently completing its first horizontal well and has recovered light oil during these operations. The Company is testing two different fracture stimulation designs in the same wellbore to better understand the reservoir, reduce the number of wells required to advance on the completion learning curve and to more efficiently leverage the capital spent to-date in the play. The results from the first well will be incorporated in the completion design of Legacy's second commitment horizontal well, which spud in late July. This well directly offsets the successful Big Valley vertical well at 10-30-8-23 W4M which has recovered in excess of 245 MBbl of oil and virtually no water to-date. The Company continues to acquire additional acreage in the play fairway.

At Maxhamish, construction of the all-season road and well pad was completed in mid-July. The all season infrastructure will facilitate drilling, completion and production operations throughout most of the year versus the short winter season we previously faced. Legacy has spud the first of up to four multi-stage fracture horizontal wells to be drilled over the remainder of 2011.

Challenging weather conditions across Western Canada and restricted surface access as the result of the unprecedented rain, flooding and damage to transportation infrastructure further inhibited field operations resulting in the Company spending less capital than anticipated and the delay of a number of capital projects. Consequently, Legacy still had 16 gross (14.7 net) horizontal oil wells awaiting completion at the end of the second quarter of 2011. Furthermore, to facilitate access for its field operations in both the first and second quarters, the Company incurred costs for matting leases and access roads, pumping surface water off of leases, extra trucking, and additional oil storage. Together these efforts have resulted in a \$2.00 to \$3.00 per Boe increase to operating and transportation costs. As conditions continue to improve, the Company anticipates that the majority of these incremental operating costs will abate and return to historical levels.

## **OUTLOOK AND GUIDANCE**

The severity of spring break-up in the second quarter of 2011 has presented a number of challenges for the Company to execute its capital program and maintain continuous production on its existing assets. Unprecedented wet weather and spring break-up conditions throughout the majority of Legacy's operating areas forced us to navigate vast areas of standing water, flooding, road washouts and lengthy road bans. The Company invested in matting to allow lease and road access, extra trucking, pumping standing water off leases and additional oil storage, but these efforts only went so far in light of the length and harshness of spring break-up.

Consequently, Legacy had reduced field activity and a number of wells shut-in throughout the second quarter of 2011. The previously disclosed turnaround at the Quirk Creek gas plant began at the end of April and took longer than budgeted to complete. During the plant shut down, the Company shut-in nearly 2,000 Boe per day of production from Turner Valley that would normally be processed at Quirk Creek.

However, through the perseverance of our technical and operations staff and the improvement in field conditions, Legacy has been able to advance a number of strategic initiatives during this period that have material implications to the value and growth potential of the Company.

Success in the Spearfish play in Bottineau County, North Dakota has confirmed the presence of an emerging light oil resource play in the Spearfish and proven the productive potential of a large portion of Legacy's Bottineau County acreage. As detailed earlier, production rates have improved over time as the producing wells have been optimized as the productive capability of the wells has been stronger than initially anticipated. Legacy has more than 46,000 net undeveloped acres in the area which could lead to potentially more than 570 net unrisks horizontal locations, based on eight wells per section spacing. Competitors in Manitoba, less than two miles away, are developing the Spearfish with 24 wells per section. The Company has no reserves or locations associated with Bottineau County in its current inventory.

At Pierson, Manitoba, the Company has now fractured stimulated eight of the ten wells that have been waiting on completion and has begun restarting a number of shut-in wells. Production is expected to increase rapidly as these wells are brought on-stream. Legacy has identified 234 net Spearfish horizontal locations in Pierson, based on eight wells per section spacing. Licensing and permitting new drilling locations is underway in earnest in anticipation of moving in a drilling rig into the play in the next month. The Company is investigating adding a second drilling rig to the area in the fall of 2011 to further accelerate development of the Spearfish play in both Manitoba and North Dakota.

The positive horizontal fracture stimulation result in Turner Valley has significant immediate and longer term implications. Historical unstimulated infill horizontal wells drilled at Turner Valley have resulted in a 30 day initial production rate of 80 Boe per day. The multi-stage fracture stimulation of a seven year old Rundle horizontal well resulted in production of 110 Boe per day and represents a four-fold increase over the unstimulated oil production rate. The modest 30 Boe per day increase in the initial rate adds approximately \$2 million of net present value discounted at 10 percent to the value of the average historical unstimulated horizontal well. Assuming a minimum of 76 net Rundle infill locations, this modest increase in initial rate from fracture stimulation equates to approximately \$150 million in incremental value. The Company anticipates the drilling of up to six Rundle multi-stage fracture stimulated horizontal wells in the remainder of 2011 and currently has two drilling rigs working in the field.

In the Southern Alberta Bakken play, Legacy is encouraged by the very early results from the completion of its first horizontal well at Spring Coulee. A large amount of geological, reservoir, fluid and ultimately production information from the first well will be analyzed and the results will be incorporated in the completion design of Legacy's second commitment horizontal well, which spud in late July. This well directly offsets the successful Big Valley vertical well at 10-30-8-23 W4M which has recovered in excess of 245 MBbl of oil and virtually no water to-date. The Big Valley formation in the 10-30 well is a 25 m thick dolomitic siltstone, with average porosity of 6 percent and average permeability of 2.7 mD. The Company continues to acquire additional acreage in the play fairway.

Legacy was attracted to the Southern Alberta Bakken play because of the potential for light oil resource plays in a number of different geological formations, the degree of overpressuring in the Banff/Bakken/Big Valley sequence, the number of oil shows over a very large area (greater than 1,000 square miles) and the ability to access a significant (183 gross sections), predominantly contiguous, highly prospective land base. Competitor activity and favourable disclosure has increased over the last few months and significant recent land sale activity has expanded the apparent limits of the play.

Drilling at Maxhamish is underway, with the recently completed all season road and pad infrastructure enabling improved capital efficiencies and more consistent production run times. Legacy believes the contiguous 109 gross sections of operated land encompass a significant resource of light (42° API) sweet oil in the Chinkeh formation that can be exploited utilizing horizontal multi-stage fracture stimulated technology. There is no analog for horizontal well

production from the Chinkeh and effective exploitation of this areal extensive sheet sand reservoir will require additional optimization of the completion program to improve upon previous results. Nevertheless, the first two horizontal wells drilled by Legacy in 2010 have current average production of approximately 60 Boe per day, per well with no water production. Legacy plans to drill up to four horizontal wells in Maxhamish over the remainder of 2011.

Due to the wet weather conditions and production outages mentioned above, the Company's second quarter volumes were lower than expected. As such, Legacy is revising its budget and associated production guidance for 2011. Legacy now expects to average 13,000 Boe per day of production on capital expenditures of \$280 million. Capital expenditures have been increased due to increased activity, mobilization costs and other weather related expenses and increased tie-in and facility expenditures. With current production of approximately 13,000 Boe per day, the Company still expects to exit the year at or above 15,750 Boe per day of production.

With weather related delays finally abating, industry activity has been ramping up in order to try to catch up on delayed capital programs. Legacy anticipated this level of activity and the resulting potential tightness in access to services it could create. Legacy currently has nine drilling rigs operating and anticipates taking delivery of two new state-of-the-art drilling rigs in late 2011/early 2012 which could provide incremental drilling capabilities to accelerate development in one or more of our key plays. As previously disclosed was Legacy's deal to secure fracture stimulation services for its primary operating areas, locking in pricing and access to services.

As evidenced above, Legacy has set the stage for expanded activity through the end of 2011 and into 2012. We have aggregated and advanced a number of exciting and potentially material light oil resource opportunities. As frustrating as the weather and access delays have been over the past number of months, our team at Legacy has responded with a consistent technical approach and resolute perseverance to deliver positive results on our capital initiatives. As a result, the Company is catalyst rich with results pending in the short term in a number of significant potential light oil resource plays, while being underpinned by a stable base production decline and a solid light oil development drilling inventory.

Legacy is a uniquely positioned, well-capitalized, technically driven, intermediate oil and natural gas company with a proven management team committed to aggressive, cost-effective growth of light oil reserves and production in large hydrocarbon in-place assets and resource plays. Legacy's common shares trade on the Toronto Stock Exchange under the symbol LEG.

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*Forward-Looking Information – This press release contains forward-looking statements. More particularly, this press release contains forward-looking statements concerning planned exploration and development activities in the remainder of 2011, the expected productive capacity of the recently recompleted horizontal well in Turner Valley, the potential impact on net present value of the recompletion of Rundle wells in Turner Valley, the anticipated return of operating costs to historical levels, the potential number of drilling locations in Bottineau County, North Dakota, Pierson, Manitoba and Turner Valley, the anticipated 2011 average and exit rates of production and budgeted capital expenditures for 2011.*

*The forward-looking statements contained in this press release are based on certain key expectations and assumptions made by Legacy, including expectations and assumptions concerning the success of future drilling and development activities, the performance of existing wells, the performance of new wells, the availability and performance of facilities, the geological characteristics of Legacy's properties, the successful application of drilling,*

completion and seismic technology, prevailing weather conditions, commodity prices, royalty regimes and exchange rates, the application of regulatory and licensing requirements and the availability of capital, labour and services.

Although Legacy 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 Legacy can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (which include operational risks in development, exploration and production; risk that there will be delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses; the uncertainty of well performance; and health, safety and environmental risks), uncertainty as to weather conditions, uncertainty as to the availability of labour and services, commodity price and exchange rate fluctuations and changes to existing laws and regulations. These and other risks are set out in more detail in Legacy's Annual Information Form which has been filed on SEDAR and can be accessed at [www.sedar.com](http://www.sedar.com).

The forward-looking statements contained in this press release are made as of the date hereof and Legacy 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.

**MEANING OF BOE:** When used in this press release, Boe means a barrel of oil equivalent on the basis of 1 Boe to 6 thousand cubic feet of natural gas. Boe/d means a barrel of oil equivalent per day. Boe's may be misleading, particularly if used in isolation. A Boe conversion ratio of 1 Boe for 6 thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.