

PRESIDENT'S MESSAGE

ACCOMPLISHMENTS

- Increased funds generated from operations of \$1.6 million (\$0.02 per share) in the second quarter of 2013 to \$1.9 million (\$0.02 per share) in the second quarter of 2014 (16 percent increase)
- Increased operating netbacks from \$29.76 per Boe in the second quarter of 2013 to \$36.43 per Boe in the second quarter of 2014 (22 percent increase)
- Reduced net debt and working capital deficit from \$18.5 million at the end of the first quarter of 2014 to \$17.1 million at the end of the second quarter of 2014 (7 percent decrease)

OPERATIONS REVIEW

Big Valley and Banff

The Company continues to generate drilling locations and acquire surveys on its emerging Alberta Bakken play, following the success of the 14-2-9-24W4 ("14-2") Big Valley (Three Forks) discovery well on the Blood Reserve. Approval on the first follow-up well has been received and the Company expects to receive approval shortly for the second follow-up location. Spudding of the two horizontal development wells targeting the Big Valley formation is expected to take place in the third quarter with first production anticipated in the fourth quarter of 2014. LGX has identified and is preparing additional Big Valley locations for future drilling. A competitor has drilled three significant Banff wells on geological trend, five miles north of LGX lands, and continues to license and drill additional Banff wells. These Banff wells each commenced production at over 300 barrels oil per day and continue to produce strongly. The first of these wells has produced over 100,000 barrels of oil in 20 months. LGX's interpretation from geological and seismic work is that this Banff trend continues south onto the Company's land. LGX has identified numerous Banff locations on its lands for future drilling.

Manyberries

The Company was able to complete several workovers in the Manyberries field during the second quarter which increased production by approximately 100 Boe per day. These workovers were in accordance with the provisions of the previously announced order for the protection of the Greater Sage-Grouse (the "Emergency Order") and LGX is continuing to work with Environment Canada to get additional clarity on the practical application of the Emergency Order.

EXECUTIVE ADDITION

Mark Franko joined Legacy Oil + Gas Inc ("Legacy") as Vice President, Legal and General Counsel during the quarter. To maintain consistency with Legacy, Mr. Franko has been named Vice President, Legal and General Counsel of LGX as well. He was most recently a partner with McCarthy Tetrault LLP and has been the Corporate Secretary of LGX since July 2012.

MANAGEMENT'S DISCUSSION + ANALYSIS

The following management discussion and analysis ("MD&A"), as provided by the management of LGX Oil + Gas Inc. ("LGX" or the "Company") of the financial condition and performance of LGX for the three and six months ended June 30, 2014, as of August 11, 2014, is to be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the period ended June 30, 2014 and the audited consolidated financial statements for the year ended December 31, 2013 and notes thereto. The Company prepares its financial statements in accordance with International Financial Reporting Standards and interpretations (collectively referred to as "IFRS") as issued by the International Accounting Standards Board ("IASB"). All tabular amounts are stated in Canadian dollars unless indicated otherwise.

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 June 30, 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 not made provision for any impairment losses of its Manyberries property as at June 30, 2014 and December 31, 2013 and based on management's best estimates, the \$36.9 million carrying amount of its net assets in the Manyberries area at June 30, 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 | | | Six Months Ended | | |
|---|--------------------|-----------|----------|------------------|-------------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Cash flow generated by (used) in operating activities | 1,221,636 | 1,208,125 | 1 | 1,647,885 | (2,218,675) | (174) |
| Transaction costs | - | - | - | - | 35,700 | (100) |
| Changes in non-cash working capital | 653,026 | 401,109 | 63 | 3,294,535 | 4,907,858 | (33) |
| Funds generated by operations | 1,874,662 | 1,609,234 | 16 | 4,942,420 | 2,724,883 | 81 |

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

MANAGEMENT'S DISCUSSION + ANALYSIS

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 June 30 2014 | As at December 31 2013 |
|--------------------------------------|-----------------------|---------------------------|
| Total current assets | 3,102,793 | 5,096,827 |
| Total current liabilities | (20,219,391) | (24,732,691) |
| Net debt and working capital deficit | (17,116,598) | (19,635,864) |

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION + ANALYSIS

RESULTS OF OPERATIONS

Production

| | Three Months Ended | | | Six Months Ended | | |
|--|--------------------|-------|----------|------------------|-------|----------|
| | June 30 | | | June 30 | | |
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Daily Production | | | | | | |
| Crude oil and natural gas liquids (Bbls per day) | 646 | 578 | 12 | 690 | 595 | 16 |
| Natural gas (Mcf per day) | 1,307 | 1,729 | (24) | 1,296 | 1,768 | (27) |
| Total (Boe per day) | 864 | 866 | - | 906 | 890 | 2 |

For the three months ended June 30, 2014, LGX's production was 864 Boe per day compared to 866 Boe per day for the same period in the prior year. Crude oil and natural gas liquids production for the three months ended June 30, 2014 was 646 Bbls per day (2013 – 578 Bbls per day) while natural gas production was 1,307 Mcf per day (2013 – 1,729 Mcf per day). Oil volumes have increased from the prior year period as a result of successful drilling, completion and tie-in activities in the Company's Alberta Bakken property offset partially by natural declines in the Manyberries property. Natural gas volumes have decreased compared to the same period in the prior year due to third party processing issues in the Long Coulee area.

Average production for the six months ended June 30, 2014 was 906 Boe per day as compared to 890 Boe per day for 2013. Crude oil and natural gas liquids production was 690 Boe per day for the six months ended June 30, 2014 compared to 595 Boe per day in 2013. Natural gas production was 1,296 Mcf per day for the six months ended June 30, 2014 compared to 1,768 Boe per day for 2013. The increase in average oil production is due to the successful drilling, completion and tie-in activities in the Company's Alberta Bakken property, offset by natural declines in the Manyberries property. Natural gas volumes have decreased compared to the same period in the prior year due to third party processing issues in the Long Coulee area.

Realized Commodity Prices

| | Three Months Ended | | | Six Months Ended | | |
|--|--------------------|-------|----------|------------------|-------|----------|
| | June 30 | | | June 30 | | |
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Daily Average Benchmark Prices | | | | | | |
| Crude oil – WTI (US\$ per Bbl) | 102.98 | 94.23 | 9 | 100.81 | 94.28 | 7 |
| Crude oil – WTI (\$ per Bbl) | 112.30 | 96.41 | 16 | 110.57 | 95.78 | 15 |
| Crude oil – Edmonton Par (\$ per Bbl) | 104.82 | 92.96 | 13 | 102.41 | 90.82 | 13 |
| Natural gas – AECO-C Spot (\$ per Mcf) | 4.72 | 3.49 | 35 | 5.14 | 3.29 | 56 |
| Exchange rate – (US/CAD) | 0.917 | 0.977 | (6) | 0.912 | 0.984 | (7) |
| LGX's average realized prices | | | | | | |
| Crude oil and natural gas liquids (\$ per Bbl) | 98.15 | 84.63 | 16 | 97.57 | 79.97 | 22 |
| Natural gas (\$ per Mcf) | 4.55 | 3.44 | 32 | 5.18 | 3.19 | 62 |
| Barrels of oil equivalent (\$ per Boe) | 80.28 | 63.37 | 27 | 81.72 | 59.81 | 37 |

LGX's realized price for its crude oil and natural gas liquids sales in the second quarter of 2014 was \$98.15 per Bbl (2013 – \$84.63) compared to a C\$ WTI price of \$112.30 per Bbl (2013 - \$96.41 per Bbl). LGX's oil production is light sweet crude produced in southern Alberta. For the six months ended June 30, 2014, LGX's realized price for its crude oil and natural gas liquid sales was \$97.57 (2013- \$79.97 per Bbl) compared to a C\$ WTI price of \$110.57 per Bbl (2013 - \$95.78 per Bbl).

For the second quarter of 2014, the Company's realized price for its natural gas was \$4.55 per Mcf (2013 – \$3.44) compared to an AECO-C price of \$4.72 per Mcf (2013 - \$3.49). For the six months ended June 30, 2014, LGX's realized price for natural gas sales was \$5.18 per Mcf (2013-\$3.19) compared to an AECO-C price of \$5.14 per Mcf (2013 - \$3.29). The increase in the realized oil and natural gas liquids price in the second quarter and year-to-date 2014 compared to the same periods in the prior year is due to the Alberta Bakken oil production in 2014, which had a higher realized price than that produced by the Company's Manyberries property.

MANAGEMENT'S DISCUSSION + ANALYSIS

Revenue

| (\$, except per Boe and percent amounts) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|-------------------------------|-----------|----------|-----------------------------|-----------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Petroleum and natural gas sales by product | | | | | | |
| Crude oil and natural gas liquids | 5,769,944 | 4,451,611 | 30 | 12,186,011 | 8,612,222 | 41 |
| Natural gas | 541,721 | 541,945 | - | 1,214,476 | 1,021,860 | 19 |
| Total petroleum and natural gas sales | 6,311,665 | 4,993,556 | 26 | 13,400,487 | 9,634,082 | 39 |
| \$ per Boe | 80.28 | 63.37 | 27 | 81.72 | 59.81 | 37 |
| Royalties | | | | | | |
| Royalties | 821,210 | 837,316 | (2) | 1,490,313 | 1,586,702 | (6) |
| \$ per Boe | 10.44 | 10.63 | (2) | 9.09 | 9.85 | (8) |
| % of petroleum and natural gas sales | 13.0 | 16.8 | (23) | 11.1 | 16.5 | (33) |
| Revenue | | | | | | |
| Petroleum and natural gas sales, net of royalties | 5,490,455 | 4,156,240 | 32 | 11,910,174 | 8,047,380 | 48 |
| \$ per Boe | 69.84 | 52.74 | 32 | 72.63 | 49.96 | 45 |

For the three months ended June 30, 2014, LGX's petroleum and natural gas sales were \$6,311,665 compared to \$4,993,556 during the same period in 2013. For the six months ended June 30, 2014, LGX's petroleum and natural gas sales were \$13,400,487 compared to \$9,634,082 for the same period in 2013. The increase in both the three and six months ended June 30, 2014 can be attributed to higher average realized prices as well as a greater percentage of production weighted toward oil as opposed to natural gas for the three months and six months ended June 30, 2014, as compared to the same periods in the prior year.

Royalties consist of royalties to provincial governments, freehold landowners and overriding royalty owners. For the three months ended June 30, 2014, total royalties were \$821,210 compared to \$837,316 for the three months ended June 30, 2013. The Company's average royalty rate for the three months ended June 30, 2014 was 13.0 percent compared to 16.8 percent in the prior year. The decrease in total royalties and royalty rate are due to lower royalty assessments on production from the Alberta Bakken during the second quarter of 2014. Royalties are calculated based on commodity revenue, net of associated transportation costs, well productivity and before any commodity hedging gains or losses.

For the six months ended June 30, 2014, total royalties were \$1,490,313 as compared to \$1,586,702 during 2013. The Company's average royalty rate for the six months ended June 30, 2014 was 11.1 percent compared to 16.5 percent in 2013. The decrease in total royalties and royalty rate are due to lower royalty assessments on production from the Alberta Bakken during the 2014 year-to-date.

Operating and Transportation Expenses

| (\$, except per Boe amounts) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|------------------------------|-------------------------------|-----------|----------|-----------------------------|-----------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Operating expenses | 2,302,338 | 1,589,578 | 45 | 4,385,449 | 3,378,423 | 30 |
| \$ per Boe | 29.28 | 20.17 | 45 | 26.74 | 20.97 | 28 |
| Transportation expenses | 324,893 | 221,028 | 47 | 745,298 | 386,659 | 93 |
| \$ per Boe | 4.13 | 2.81 | 47 | 4.55 | 2.40 | 90 |
| Total operating costs | 2,627,231 | 1,810,606 | 45 | 5,130,747 | 3,765,082 | 36 |
| \$ per Boe | 33.41 | 22.98 | 45 | 31.29 | 23.37 | 34 |

Total operating costs during the second quarter of 2014 were \$2,627,231, compared to \$1,810,606 for the same period in the prior year. On a per Boe basis, operating expenses for the three months ended June 30, 2014 were \$29.28 (2013 - \$20.17). On a per Boe basis, transportation expenses for the three months ended June 30, 2014 were \$4.13 (2013 - \$2.81). Both the increase in operating and transportation expenses relate primarily to the Alberta Bakken well. While production from this well has been prolific on a per Boe basis, the operating costs are slightly higher than those shown in other LGX fields due primarily to economies of scale. As the play develops, the Company expects these costs to decrease. Transportation infrastructure on the wells is currently not in place therefore oil from the wells must be trucked resulting in increased transportation expense per Boe. Again, as the play develops and infrastructure is added, the Company expects these costs to decrease. As well, the Company performed various workovers late in the second quarter after break-up, which contributed to increased operating costs compared to the same period

MANAGEMENT'S DISCUSSION + ANALYSIS

in the prior year. Total operating costs (including operating and transportation expenses) on a per Boe basis were \$33.41 (2013 - \$22.98).

Total operating costs during the six months ended June 30, 2014 were \$5,130,747, compared to \$3,765,082 during 2013. The increase in total operating costs is attributable to the Alberta Bakken well and late second quarter workovers as discussed above. On a per Boe basis, operating expenses for the six months ended June 30, 2014 were \$26.74 (2013 - \$20.97). On a per Boe basis, transportation expenses for the six months ended June 30, 2014 were \$4.55 (2013 - \$2.40). Total operating costs (including operating and transportation expenses) on a per Boe basis were \$31.29 (2013 - \$23.37).

Exploration and Evaluation Expenses

| (\$) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|-------------------------------------|-------------------------------|-----------|----------|-----------------------------|-----------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Exploration and evaluation expenses | 469,939 | 3,589,164 | (87) | 740,331 | 4,045,060 | (82) |

During the three months ended June 30, 2014, the Company recorded \$469,939 of exploration and evaluation expenses compared to \$3,589,164 in the same period in the prior year. During the six months ended June 30, 2014 the Company recorded \$740,331 of exploration and evaluation expenses compared to \$4,045,060 in the same period in the prior year. The exploration and evaluation expenses in 2014 are mainly attributable to expiration of land leases in the Alberta Bakken area.

Depletion and Depreciation

| (\$, except per Boe amounts) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|------------------------------|-------------------------------|-----------|----------|-----------------------------|-----------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Depletion and depreciation | 2,060,843 | 1,816,411 | 13 | 4,263,759 | 3,725,682 | 14 |
| \$ per Boe | 26.21 | 23.05 | 14 | 26.00 | 23.13 | 12 |

For the three months ended June 30, 2014, depletion and depreciation expense was \$2,060,843 (2013 - \$1,816,411). On a per Boe basis, depletion and depreciation for the second quarter of 2014 was \$26.21 (2013 - \$23.05). This increase in depletion and depreciation expense and on a per Boe basis is due to higher depletion rates of new Alberta Bakken petroleum and natural gas properties reclassified from exploration and evaluation assets in the fourth quarter of 2013.

For the six months ended June 30, 2014, depletion and depreciation expense was \$4,263,759 (2013 - \$3,725,682). On a per Boe basis, depletion and depreciation for the six months ended June 30, 2014 was \$26.00 (2013 - \$23.13). Again, the increase in depletion and depreciation expense and on a per Boe basis is due to higher depletion rates of new Alberta Bakken petroleum and natural gas properties reclassified from exploration and evaluation assets in the fourth quarter of 2013.

General and Administrative Expenses

| (\$, except per Boe amounts) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|-------------------------------|----------|----------|-----------------------------|-----------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| General and administrative expenses | 823,288 | 721,495 | 14 | 1,608,438 | 1,430,024 | 12 |
| Recoveries | (5,956) | (4,884) | 22 | (57,939) | (6,227) | 830 |
| Capitalized general and administrative expenses | (75,150) | (75,150) | - | (150,300) | (150,300) | - |
| Total net general and administrative expenses | 742,182 | 641,461 | 16 | 1,400,199 | 1,273,497 | 10 |
| \$ per Boe | 9.45 | 8.14 | 16 | 8.54 | 7.91 | 8 |

During the second quarter of 2014, net general and administrative expenses ("G&A") increased 16 percent to \$742,182 compared to \$641,461 in the same period in the prior year. On a per Boe basis, the G&A expense was \$9.45 per Boe for the three months ended June 30, 2014 (2013 - \$8.14). Net G&A for the quarter was comprised of \$823,288 (2013 - \$721,495) in general and administrative expenses less \$5,956 (2013 - \$4,884) in recoveries and \$75,150 (2013 - \$75,150) in capitalized G&A. G&A expenses for LGX consist primarily of the monthly service agreement fee charged by Legacy Oil + Gas Inc. ("Legacy"). G&A expenses increased in the second quarter of 2014 compared to the same period in the prior year due primarily to legal fees associated with the Emergency Order.

For the six months ended June 30, 2014, net general and administrative expenses ("G&A") increased 10 percent to \$1,400,199 compared to \$1,273,497 in the same period in 2013. On a per Boe basis, the G&A expense was \$8.54 per Boe for the six months ended June 30, 2014 compared to \$7.91 per Boe for the same period in the prior year. Net G&A for the six months ending June

MANAGEMENT'S DISCUSSION + ANALYSIS

30, 2014 was comprised of \$1,608,438 (2013 - \$1,430,024) in general and administrative expenses less \$57,939 (2013 - \$6,227) in recoveries and \$150,300 (2013 - \$150,300) in capitalized G&A. As noted above, G&A expenses increased for the year-to-date ended June 30, 2014 compared to the same period in the prior year due to legal fees associated with the Emergency Order.

Share-based Payments

| (\$) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|------------------------------|-------------------------------|---------|----------|-----------------------------|---------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Share-based payments expense | 85,817 | 176,350 | (51) | 227,986 | 328,529 | (31) |

For the three months ended June 30, 2014, the Company expensed \$85,817 in share-based payments related to stock options compared to \$176,350 for the same period in the prior year. For the six months ended June 30, 2014, the Company expensed \$227,986 in share-based payments related to stock options compared to \$328,529 for the same period in 2013. The decrease in share-based payments expense for the three months and six months ended June 30, 2014, is primarily due to the vesting of stock options previously granted in 2012.

Finance Costs

| (\$) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--|-------------------------------|---------|----------|-----------------------------|---------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Interest expense and finance charges | 246,380 | 74,737 | 230 | 428,601 | 154,920 | 177 |
| Accretion on decommissioning liabilities | 195,961 | 158,520 | 24 | 393,397 | 316,274 | 24 |
| Total finance costs | 442,341 | 233,257 | 90 | 821,998 | 471,194 | 74 |

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

During the second quarter of 2014, interest and finance charges increased to \$246,380 compared to \$74,737 for the same period in the prior year due to higher average bank debt in the second quarter of 2014. During the second quarter of 2014, accretion on decommissioning liabilities was \$195,691 (2013 - \$158,520).

For 2014 year-to-date, interest and finance charges increased to \$428,601 compared to \$154,920 for the same period in 2013. The increase in interest and finance charges during the quarter was due to higher average bank debt compared to the same period in the prior year. For the six months ended June 30, 2014, accretion on decommissioning liabilities was \$393,397 compared to \$316,274 for the same period in the prior year.

Other Expenses and Other Loss (Income)

| (\$) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|-------------------|-------------------------------|------|----------|-----------------------------|--------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Transaction costs | - | - | - | - | 35,700 | (100) |

For the six months ended June 30, 2014, the Company incurred no transaction costs (2013 - \$35,700).

Income Taxes

| (\$) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|------------------------------|-------------------------------|-----------|----------|-----------------------------|-------------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Deferred income tax recovery | (210,865) | (983,638) | (79) | (127,474) | (1,316,368) | (90) |

A deferred income tax recovery of \$210,865 was recorded for the three months ended June 30, 2014, resulting in an effective deferred income tax recovery rate of 22 percent of the net income before tax. The effective deferred income tax rate differs from the applicable Canadian statutory tax rate of 25 percent mainly due to non-deductible share based payments. An income tax recovery was recorded for the three months ended June 30, 2013 for \$983,638, resulting in an effective income tax recovery rate of 24 percent of the net loss before tax.

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A deferred income tax recovery of \$127,474 was recorded for the six months ended June 30, 2014, resulting in an effective deferred income tax recovery rate of 19 percent of the net loss before tax. An income tax recovery was recorded for the six months ended June 30, 2013 for \$1,316,368, resulting in an effective income tax recovery rate of 24 percent of the net loss before tax.

Net Income (Loss) and Funds Generated by Operations

| <i>(\$, except per Boe amounts)</i> | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|-------------------------------------|-------------------------------|-------------|----------|-----------------------------|-------------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Net income (loss) | (727,033) | (3,127,371) | (77) | (547,372) | (4,280,996) | (87) |
| Per share basic | (0.01) | (0.04) | (75) | (0.01) | (0.05) | (80) |
| Per share diluted | (0.01) | (0.04) | (75) | (0.01) | (0.05) | (80) |
| Funds generated by operations | 1,874,662 | 1,609,234 | 16 | 4,942,420 | 2,724,883 | 81 |
| Per share basic | 0.02 | 0.02 | - | 0.06 | 0.03 | 100 |
| Per share diluted | 0.02 | 0.02 | - | 0.06 | 0.03 | 100 |
| \$ per Boe | 23.84 | 20.41 | 17 | 30.14 | 16.92 | 78 |

For the quarter ended June 30, 2014, a net loss of \$727,033 was recognized compared to net loss of \$3,127,371 during the same period in the prior year due primarily to a significant increase in operating netback and a decrease in exploration and evaluation expenses in the current period offset by an increase in depletion and depreciation and finance costs. Basic and diluted net loss per share for the second quarter of 2014 was \$0.01, compared to basic and diluted net loss per share of \$0.04 for the same period in the prior year. Funds generated by operations increased 16 percent to \$1,874,662 for the three months ended June 30, 2014, compared to \$1,609,234 during the same period in the prior year, due primarily to an increase in operating netback offset by increased finance costs in the current period. Basic and diluted funds generated by operations per share for the quarter ended June 30, 2014 and 2013 were \$0.02.

For 2014 year-to-date, a net loss of \$547,372 was realized compared to net loss of \$4,280,996 during the same period in 2013 due to significantly higher operating netback and lower exploration and evaluation expenses offset by increased finance costs in the current period. Basic and diluted net loss per share for the second quarter of 2014 were \$0.01, compared to basic and diluted loss per share of \$0.05 during the same period in the prior year. Funds generated by operations increased 81 percent to \$4,942,420 for the six months ended June 30, 2014, compared to \$2,724,883 during the same period in 2013, due primarily to significantly higher operating netbacks offset by higher finance costs in the current period. Basic and diluted funds generated by operations per share for the first half of 2014 were \$0.06 compared to \$0.03 during the first half of 2013.

The following table summarizes the operating netbacks and funds generated by operations on a per Boe basis for the three and six months ended June 30, 2014 and 2013:

| <i>(\$ per Boe)</i> | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|-------------------------------|---------|----------|-----------------------------|---------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Petroleum and natural gas sales | 80.28 | 63.37 | 27 | 81.72 | 59.81 | 37 |
| Royalties | (10.44) | (10.63) | (2) | (9.09) | (9.85) | (8) |
| Revenue | 69.84 | 52.74 | 32 | 72.63 | 49.96 | 45 |
| Operating expenses | (29.28) | (20.17) | 45 | (26.74) | (20.97) | 28 |
| Transportation expenses | (4.13) | (2.81) | 47 | (4.55) | (2.40) | 90 |
| Operating netback | 36.43 | 29.76 | 22 | 41.34 | 26.59 | 55 |
| Exploration and evaluation expenses (cash portion) | - | (0.26) | (100) | (0.05) | (0.80) | (94) |
| General and administrative expenses | (9.45) | (8.14) | 16 | (8.54) | (7.91) | 8 |
| Finance costs - Interest expense and finance charges (cash portion) | (3.14) | (0.95) | 231 | (2.61) | (0.96) | 172 |
| Funds generated by operations | 23.84 | 20.41 | 17 | 30.14 | 16.92 | 78 |

MANAGEMENT'S DISCUSSION + ANALYSIS

SUMMARY OF QUARTERLY RESULTS ⁽¹⁾

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

| | 2014 Q2 | 2014 Q1 | 2013 Q4 | 2013 Q3 | 2013 Q2 | 2013 Q1 | 2012 Q4 | 2012 Q3 |
|--|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Financial | | | | | | | | |
| (\$, except per share amounts) | | | | | | | | |
| Petroleum and natural gas sales | 6,311,665 | 7,088,822 | 5,641,778 | 5,698,496 | 4,993,556 | 4,640,526 | 3,322,070 | 1,050,641 |
| Petroleum and natural gas sales, net of royalties | 5,490,455 | 6,419,719 | 4,520,788 | 4,819,532 | 4,156,240 | 3,891,140 | 2,775,518 | 864,621 |
| Funds generated by (used in) operations | 1,874,662 | 3,067,758 | 1,125,835 | 581,632 | 1,609,234 | 1,115,649 | 463,043 | (345,347) |
| - Per share basic | 0.02 | 0.03 | 0.01 | 0.01 | 0.02 | 0.01 | 0.01 | (0.01) |
| - Per share diluted | 0.02 | 0.03 | 0.01 | 0.01 | 0.02 | 0.01 | 0.01 | (0.01) |
| Net Income (Loss) | (727,033) | 179,661 | (7,775,472) | (8,270,280) | (3,127,371) | (1,153,625) | (7,023,085) | 10,254,593 |
| - Per share basic | (0.01) | - | (0.09) | (0.09) | (0.04) | (0.01) | (0.11) | 0.38 |
| - Per share diluted | (0.01) | - | (0.09) | (0.09) | (0.04) | (0.01) | (0.11) | 0.38 |
| Capital expenditures | | | | | | | | |
| - Exploration and development | 493,819 | 1,931,988 | 12,782,541 | 1,696,828 | 361,856 | 480,220 | 7,379,378 | 1,418,395 |
| - Acquisitions and dispositions ⁽²⁾ | - | - | - | - | - | - | 45,268,754 | 27,255,768 |
| Net debt and working capital surplus (deficit) | (17,116,598) | (18,495,587) | (19,635,864) | (9,189,958) | (8,058,946) | (9,307,723) | (9,906,927) | (5,043,920) |
| Total assets | 134,272,969 | 135,417,520 | 135,247,379 | 133,374,916 | 141,694,415 | 147,121,183 | 148,469,817 | 76,967,098 |
| Operating | | | | | | | | |
| Production | | | | | | | | |
| - Crude oil and natural gas liquids (Bbls per day) | 646 | 734 | 718 | 567 | 578 | 612 | 430 | 95 |
| - Natural gas (Mcf per day) | 1,307 | 1,285 | 1,482 | 1,677 | 1,729 | 1,806 | 1,528 | 1,939 |
| - Total daily production (Boe per day) | 864 | 948 | 965 | 847 | 866 | 913 | 685 | 418 |
| - Increase/(Decrease) over prior quarter | (9%) | (2%) | 14% | (2%) | (5%) | 33% | 64% | 2,513% |
| Average realized price | | | | | | | | |
| - Crude oil and natural gas liquids (\$ per Bbl) | 98.15 | 97.12 | 78.26 | 102.23 | 84.63 | 75.54 | 72.18 | 75.46 |
| - Natural gas (\$ per Mcf) | 4.55 | 5.82 | 3.46 | 2.37 | 3.44 | 2.95 | 3.32 | 2.19 |
| - Barrels of oil equivalent (\$ per Boe) | 80.28 | 83.09 | 63.55 | 73.13 | 63.37 | 56.47 | 52.71 | 27.33 |
| Netback (\$ per Boe) | | | | | | | | |
| - Petroleum and natural gas sales | 80.28 | 83.09 | 63.55 | 73.13 | 63.37 | 56.47 | 52.71 | 27.33 |
| - Royalties | 10.44 | 7.84 | 12.63 | 11.28 | 10.63 | 9.12 | 8.67 | 4.84 |
| - Operating expenses | 29.28 | 24.42 | 29.09 | 43.46 | 20.17 | 21.77 | 22.41 | 12.06 |
| - Transportation expenses | 4.13 | 4.93 | 3.13 | 2.63 | 2.81 | 2.02 | 2.19 | 1.11 |
| - Operating netback | 36.43 | 45.90 | 18.70 | 15.76 | 29.76 | 23.56 | 19.44 | 9.32 |

(1) On July 5, 2012, the shareholders of LGX approved a strategic transaction with Legacy Oil + Gas Inc. ("Legacy") whereby Legacy sold certain undeveloped land in southern Alberta ("Legacy Oil + Gas Inc.'s Southern Alberta Assets" or "SA Assets") to LGX in exchange for an equity interest in LGX (the "Asset Purchase"). In accordance with IFRS and based on management's significant judgments, the Asset Purchase was accounted for as a reverse acquisition whereby SA Assets was identified as the accounting "acquirer" - being the entity that obtains control of the acquiree, LGX. As a result of the Asset Purchase and this common-control transaction and reverse acquisition, the reader is cautioned that these results present the historic financial position, results of operations and cash flows of SA Assets, for all prior periods up to and including July 5, 2012 and the results of operations from July 5, 2012 forward include both SA Assets and LGX (referred to collectively with its subsidiaries as "LGX" or the "Company"), unless otherwise indicated.

(2) 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, transaction costs incurred on business combinations as well as associated fluctuations in the deferred tax expense (recovery).

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

MANAGEMENT'S DISCUSSION + ANALYSIS

CAPITAL EXPENDITURES

The Company's capital expenditures consist of the following:

| (\$) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|-------------------------------|---------|----------|-----------------------------|---------|----------|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Capital expenditures – Exploration and development | | | | | | |
| Land acquisitions and retention | 40,043 | 13,428 | 198 | 85,889 | 46,647 | 84 |
| Geological and geophysical | 886 | - | n/a | 1,216 | 335,227 | (100) |
| Drilling and completions | 181,531 | 273,278 | (34) | 1,278,103 | 216,513 | 490 |
| Equipping and facilities | 154,284 | - | n/a | 868,374 | 93,389 | 830 |
| Capitalized general and administrative expenses | 75,150 | 75,150 | - | 150,300 | 150,300 | - |
| Other | 41,925 | - | n/a | 41,925 | - | n/a |
| Capital expenditures – Exploration and development ⁽¹⁾ | 493,819 | 361,856 | 36 | 2,425,807 | 842,076 | 188 |
| Capital expenditures – Acquisitions and dispositions | | | | | | |
| Capital expenditures – Acquisitions and dispositions | - | - | n/a | - | - | n/a |
| Total capital expenditures | 493,819 | 361,856 | 36 | 2,425,807 | 842,076 | 188 |

(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 June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|------------|-----------------------------|------------|
| | 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 | 88,658,427 | 88,658,427 |

| | As at June 30 2014 | As at 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 | 3,465,500 | 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 June 30, 2014 was \$45,215,798.

| | As at June 30 2014 | As at December 31 2013 |
|-----------------------------|-----------------------|---------------------------|
| Common Shares Outstanding | 88,658,427 | 88,658,427 |
| Share Price ⁽²⁾ | \$0.51 | \$0.65 |
| Total Market Capitalization | \$45,215,798 | \$57,627,978 |

(2) Represents the closing price on the TSX Venture Exchange ("TSX-V") at June 30, 2014 and December 31, 2013

There is a significant difference between the Company's net assets and market capitalization as at June 30, 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 August 11, 2014, 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 June 30, 2014, the Company had a net debt and working capital deficit of \$17,116,598 (December 31, 2013 - \$19,635,864). The Company continuously monitors its trade and other receivables and its allowance for doubtful accounts. As at June 30, 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 June 30, 2014, the Company had a \$25,000,000 revolving demand credit facility with a Canadian financial institution comprised of a \$5,000,000 operating loan facility, a \$13,000,000 production loan facility and a \$7,000,000 acquisition/development facility. As at June 30, 2014, \$13,000,000 had been drawn on the Company's production facility and \$1,200,000 on the Company's operating line. The credit facility provides that advances may be made by way of direct advances, bankers' acceptances or letters of guarantee, drawings on the credit facility bear interest at the bank's prime rate plus an additional margin based on the Company's debt to cash flow ratio and type of borrowing. Security for the credit facility is provided by a \$75,000,000 demand debenture.

The Company's bank indebtedness does not have a specific maturity date as it is a demand facility. This means that the lender has the ability to demand repayment of all outstanding indebtedness or a portion thereof at any time. If that were to occur, the Company would be required to source alternate credit facilities or sell assets to repay the indebtedness. The Company reduces this risk by complying with the covenants of the credit facility agreement and maintaining a minimal balance on the facility. The covenants require maintaining a current ratio, excluding any current liabilities under the credit facility, of not less than 1.0:1.0. At June 30, 2014 and December 31, 2013, 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 June 30 2014 | As at December 31 2013 |
|---|-----------------------|---------------------------|
| Capital resources | | |
| Bank debt available | 10,800,000 | 13,950,000 |
| Working capital deficit (excluding Bank debt) | (2,916,598) | (8,585,864) |
| Total capital resources available | 7,883,402 | 5,364,136 |

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

ACCOUNTING POLICIES AND ESTIMATES

The unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2014 have been prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2013, except for new accounting policies as described in Note 3 of the June 30, 2014 unaudited condensed interim consolidated financial statements and for income taxes. Income taxes on income (loss) for the interim periods are accrued using the income tax rate that would be applicable to the expected total annual income (loss). The new accounting policies adopted in the first quarter of 2014 had no effect on the Company's current and prior period financial statements.

A summary of the significant accounting policies used by LGX can be found in Note 3 of the December 31, 2013 audited consolidated financial statements. Note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2013 discloses a summary of the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Company's financial statements.

MANAGEMENT'S DISCUSSION + ANALYSIS

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to a sector. The general and specific risks to which the Company is exposed have been described in the Company's MD&A for the year ended December 31, 2013. In addition, LGX is also subject to other risks and uncertainties which are described in the Company's Annual Information Form dated March 24, 2014.

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 June 30, 2014, a total of 88,658,427 common shares were issued and outstanding. In addition, a total of 3,465,500 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 Oil + Gas Inc. ("Legacy") and the Company entered into a management, technical and administrative services agreement whereby the Company is 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 service agreement, Legacy invoiced the Company \$1,052,100 during the six months ended June 30, 2014 (2013 - \$1,052,100) of which \$175,350 was payable as at June 30, 2014 (December 31, 2013 - \$nil). In relation to capital and operations activity, the Company has a net trade payable to Legacy of \$2,168,284 as at June 30, 2014 (December 31, 2013 - \$1,922,598), which includes the management fee discussed above.

The Company incurred fees of \$398,029 for corporate and legal services rendered by a law firm (2013 - \$71,938), which a board member is a partner of, for the six months ended June 30, 2014. At June 30, 2014, \$41,516 was payable (December 31, 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.

COMMITMENTS AND CONTINGENCIES

Drilling commitments

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

Service Agreement

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

EVENTS AFTER THE REPORTING PERIOD

On July 21, 2014, the Company announced that it had granted a total of 3,697,500 stock options to directors, officers, employees and consultants of the Company pursuant to the Company's Stock Option Plan. The stock options are exercisable at a price of \$0.48 per share. The options have a five-year term and vest as to one third each year following the date of the grant.

MANAGEMENT'S DISCUSSION + ANALYSIS

ADDITIONAL INFORMATION

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

LGX OIL + GAS INC.

Condensed Interim Consolidated Statement of Comprehensive Income (Loss) (Unaudited)

| <i>(Canadian \$, except per share amounts)</i> | Note | Three Months Ended June 30 2014 | Three Months Ended June 30 2013 | Six Months Ended June 30 2014 | Six Months Ended June 30 2013 |
|--|------|---------------------------------------|---------------------------------------|-------------------------------------|-------------------------------------|
| Revenue | | | | | |
| Petroleum and natural gas sales | 4 | 6,311,665 | 4,993,556 | 13,400,487 | 9,634,082 |
| Royalties | 4 | (821,210) | (837,316) | (1,490,313) | (1,586,702) |
| | | 5,490,455 | 4,156,240 | 11,910,174 | 8,047,380 |
| Expenses and Other Loss | | | | | |
| Operating expenses | | 2,302,338 | 1,589,578 | 4,385,449 | 3,378,423 |
| Transportation expenses | | 324,893 | 221,028 | 745,298 | 386,659 |
| Exploration and evaluation expenses | 6 | 469,939 | 3,589,164 | 740,331 | 4,045,060 |
| Depletion and depreciation | 7 | 2,060,843 | 1,816,411 | 4,263,759 | 3,725,682 |
| General and administrative expenses | | 742,182 | 641,461 | 1,400,199 | 1,273,497 |
| Share-based payments | 13 | 85,817 | 176,350 | 227,986 | 328,529 |
| Finance costs | 5 | 442,341 | 233,257 | 821,998 | 471,194 |
| Transaction costs | | - | - | - | 35,700 |
| | | 6,428,353 | 8,267,249 | 12,585,020 | 13,644,744 |
| Net Loss Before Income Tax | | (937,898) | (4,111,009) | (674,846) | (5,597,364) |
| Income Taxes | | | | | |
| Deferred income tax expense (recovery) | | (210,865) | (983,638) | (127,474) | (1,316,368) |
| Net Loss | | (727,033) | (3,127,371) | (547,372) | (4,280,996) |
| Other Comprehensive Income (Loss) | | | | | |
| <i>Items that may be reclassified to Income (Loss)</i> | | | | | |
| Foreign currency translation on foreign operations | | (1,836) | 1,442 | 2,729 | 1,929 |
| Comprehensive Income (Loss) | | (728,869) | (3,125,929) | (544,643) | (4,279,067) |
| Earnings (Loss) per Common Share (\$) | | | | | |
| Basic | 12 | (0.01) | (0.04) | (0.01) | (0.05) |
| Diluted | 12 | (0.01) | (0.04) | (0.01) | (0.05) |

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

LGX OIL + GAS INC.

Condensed Interim Consolidated Statement of Financial Position (Unaudited)

| As at (Canadian \$) | Note | June 30 2014 | December 31 2013 |
|---|------|--------------------|---------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 70,221 | 177,492 |
| Trade and other receivables | | 3,032,572 | 4,919,335 |
| Total Current Assets | | 3,102,793 | 5,096,827 |
| Non-current Assets | | | |
| Exploration and evaluation assets | 6 | 36,226,710 | 36,686,008 |
| Property, plant and equipment | 7 | 89,859,070 | 88,507,622 |
| Deferred taxes | | 5,084,396 | 4,956,922 |
| Total Non-current Assets | | 131,170,176 | 130,150,552 |
| Total Assets | | 134,272,969 | 135,247,379 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Bank debt | 8 | 14,200,000 | 11,050,000 |
| Trade and other payables | | 6,019,391 | 13,682,691 |
| Total Current Liabilities | | 20,219,391 | 24,732,691 |
| Non-current Liabilities | | | |
| Decommissioning liabilities | 9 | 28,194,673 | 24,424,226 |
| Total Non-current Liabilities | | 28,194,673 | 24,424,226 |
| Total Liabilities | | 48,414,064 | 49,156,917 |
| Shareholders' Equity | | | |
| Share capital and warrants | 10 | 84,725,717 | 84,725,717 |
| Contributed surplus | | 1,571,262 | 1,258,176 |
| Reserve from common-control transaction | | 17,203,261 | 17,203,261 |
| Accumulated other comprehensive income (loss) | | 1,277 | (1,452) |
| Accumulated deficit | | (17,642,612) | (17,095,240) |
| Total Shareholders' Equity | | 85,858,905 | 86,090,462 |
| Total Shareholders' Equity and Liabilities | | 134,272,969 | 135,247,379 |
| Commitments and contingencies | 17 | | |
| Events after the reporting period | 18 | | |

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

LGX OIL + GAS INC.

Condensed Interim Consolidated Statement of Changes in Equity (Unaudited)

| <i>(Canadian \$)</i> | Note | Share Capital and Warrants | Contributed Surplus | Reserve from common-control transaction | AOCI ⁽¹⁾ | Retained Earnings (Accumulated Deficit) | Total Equity |
|---|------|-------------------------------|------------------------|---|---------------------|--|--------------------|
| Balance as at December 31, 2013 | | 84,725,717 | 1,258,176 | 17,203,261 | (1,452) | (17,095,240) | 86,090,462 |
| Net loss for the period | | - | - | - | - | (547,372) | (547,372) |
| Share-based payments | 13 | - | 313,086 | - | - | - | 313,086 |
| Foreign currency translation on foreign operations | | - | - | - | 2,729 | - | 2,729 |
| Balance as at June 30, 2014 | | 84,725,717 | 1,571,262 | 17,203,261 | 1,277 | (17,642,612) | 85,858,905 |
| Balance as at December 31, 2012 | | 84,726,460 | 376,531 | 17,203,261 | (1,241) | 3,231,508 | 105,536,519 |
| Net loss for the period | | - | - | - | - | (4,280,996) | (4,280,996) |
| Share issue costs, net of tax | 10 | (743) | - | - | - | - | (743) |
| Share-based payments | 13 | - | 454,451 | - | - | - | 454,451 |
| Foreign currency translation on foreign operations | | - | - | - | 1,929 | - | 1,929 |
| Balance as at June 30, 2013 | | 84,725,717 | 830,982 | 17,203,261 | 688 | (1,049,488) | 101,711,160 |

(1) Accumulated Other Comprehensive Income (Loss)

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

LGX OIL + GAS INC.

Condensed Interim Consolidated Statement of Cash Flows (Unaudited)

| <i>(Canadian \$)</i> | Note | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|------|-------------------------------|------------------|-----------------------------|--------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| Cash flow from (used in) operating activities | | | | | |
| Net loss for the period | | (727,033) | (3,127,371) | (547,372) | (4,280,996) |
| Adjusted for: | | | | | |
| Exploration and evaluation expenses | 6 | 469,939 | 3,568,962 | 732,124 | 3,916,062 |
| Depletion and depreciation | 7 | 2,060,843 | 1,816,411 | 4,263,759 | 3,725,682 |
| Share-based payments | 13 | 85,817 | 176,350 | 227,986 | 328,529 |
| Accretion on decommissioning liabilities | 9 | 195,961 | 158,520 | 393,397 | 316,274 |
| Deferred income tax expense (recovery) | | (210,865) | (983,638) | (127,474) | (1,316,368) |
| Cash flow from operating activities | | | | | |
| before changes in non-cash working capital | | 1,874,662 | 1,609,234 | 4,942,420 | 2,689,183 |
| Net change in non-cash working capital | 15 | (653,026) | (401,109) | (3,294,535) | (4,907,858) |
| Net cash flow from (used in) operating activities | | 1,221,636 | 1,208,125 | 1,647,885 | (2,218,675) |
| Cash flow used in investing activities | | | | | |
| Total property, plant and equipment and | | | | | |
| exploration and evaluation asset additions | 15 | (493,819) | (361,856) | (2,425,807) | (842,076) |
| Net change in non-cash working capital | 15 | (731,284) | 166,436 | (2,483,909) | (922,101) |
| Net cash flow used in investing activities | | (1,225,103) | (195,420) | (4,909,716) | (1,764,177) |
| Cash flow from (used in) financing activities | | | | | |
| Share issue costs | | - | - | - | (990) |
| Increase (Decrease) in bank debt | | (150,000) | (900,000) | 3,150,000 | 3,650,000 |
| Net cash flow from (used in) financing activities | | (150,000) | (900,000) | 3,150,000 | 3,649,010 |
| Foreign exchange gain on cash and cash equivalents | | | | | |
| held in foreign currency | | (1,523) | 3,983 | 4,560 | 5,112 |
| Increase (Decrease) in cash and cash equivalents | | (154,990) | 116,688 | (107,271) | (328,730) |
| Cash and cash equivalents, beginning of period | | 225,211 | 264,744 | 177,492 | 710,162 |
| Cash and cash equivalents, end of period | | 70,221 | 381,432 | 70,221 | 381,432 |

Supplemental cash flow information 15

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

LGX OIL + GAS INC.

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2014 (all tabular amounts in Canadian \$, except per share amounts or as otherwise indicated)
(Unaudited)

1. REPORTING ENTITY

Incorporation and Nature of Business

The principal undertaking of LGX Oil + Gas Inc. and its subsidiaries ("LGX" or the "Company"), a growth-oriented junior oil and natural gas exploration, development and production Company, includes the investment in all types of energy business-related assets, including, but not limited to, petroleum and natural gas-related assets, gathering, processing and transportation assets located in Western Canada. The operations of the Company consist of the acquisition, development, exploration and exploitation of these assets.

LGX and Legacy Oil + Gas Inc. entered into a management, technical and administrative services agreement whereby LGX is managed by Legacy's current management team and staff as of July 5, 2012, in exchange for a monthly fee.

LGX is incorporated and domiciled in Alberta, Canada, under the Business Corporations Act (Alberta). The address of the principal place of business is 4400, Eighth Avenue Place, 525 - 8th Avenue SW, Calgary, Alberta, Canada, T2P 1G1. The Company's only listing is on the TSX Venture Exchange under the symbol "OIL".

These condensed interim consolidated financial statements were approved and authorized for issue by the Company's Board of Directors on August 11, 2014.

2. BASIS OF PRESENTATION

Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2013, except for changes in accounting policies as described in Note 3 below and for income taxes. Income taxes on income (loss) in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual income (loss). The condensed interim consolidated financial statements are in compliance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed.

These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013. The accompanying condensed interim consolidated financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

Use of estimates and judgments

The preparation of financial statements in accordance with IAS 34 requires the use of certain significant accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies. Note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2013 discloses a summary of the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

In addition, significant estimates and judgments made by management in the preparation of these condensed interim consolidated financial statements are outlined below:

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consideration of the impact of the Emergency Order for the Protection of the Greater Sage-Grouse on the Manyberries property

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 June 30, 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 not made provision for any impairment losses of its Manyberries property as at June 30, 2014 and December 31, 2013 and based on management’s best estimates, the \$36.9 million carrying amount of its net assets in the Manyberries area at June 30, 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).

Functional and presentation currency

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

3. CHANGES IN ACCOUNTING POLICIES

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 condensed interim consolidated financial statements.

Future Accounting Changes Not Yet Adopted

Financial Instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments*, as the first phase in its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduced new requirements for classifying and measuring financial assets. In October 2010, the IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities. The new standard eliminates the existing multiple classification and measurement categories under IAS 39 of held-to-maturity, available-for-sale and loans receivable and replaces them with a single model that has only two classification categories - amortized cost and fair value. In November 2013, the IASB issued a new general hedge accounting standard which forms part of IFRS 9. In July of 2013, the IASB deferred the mandatory effective date of IFRS 9, which previously had been effective for annual periods beginning on or after January 1, 2015. The IASB has yet to determine the mandatory effective date; early adoption of the new standard is still permitted. As this standard is still in development and no effective date has been set, LGX will address the extent of the impact of the adoption of IFRS 9 when the financial standard and effective date has been issued.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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 this new standard.

4. REVENUE

| (\$) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|-----------|-----------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Petroleum and natural gas sales by product | | | | |
| Crude oil and natural gas liquids | 5,769,944 | 4,451,611 | 12,186,011 | 8,612,222 |
| Natural gas | 541,721 | 541,945 | 1,214,476 | 1,021,860 |
| Total petroleum and natural gas sales | 6,311,665 | 4,993,556 | 13,400,487 | 9,634,082 |
| Less: Royalties | (821,210) | (837,316) | (1,490,313) | (1,586,702) |
| Revenue | 5,490,455 | 4,156,240 | 11,910,174 | 8,047,380 |

5. FINANCE COSTS

| (\$) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|---------|-----------------------------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest expense and finance charges | 246,380 | 74,737 | 428,601 | 154,920 |
| Accretion on decommissioning liabilities (Note 9) | 195,961 | 158,520 | 393,397 | 316,274 |
| Finance costs | 442,341 | 233,257 | 821,998 | 471,194 |

6. EXPLORATION AND EVALUATION ASSETS

| (\$) | June 30 2014 | December 31 2013 |
|---|------------------------------|---------------------|
| | Balance, beginning of period | 36,686,008 |
| Additions | 187,650 | 13,785,285 |
| Capitalized share-based payments (Note 13) | 85,100 | 238,328 |
| Change in decommissioning liabilities | - | 172,190 |
| Transfer to petroleum and natural gas assets (Note 7) | - | (17,658,002) |
| Exploration and evaluation costs derecognized | (732,124) | (24,544,814) |
| Foreign currency translation | 76 | 248 |
| Balance, end of period | 36,226,710 | 36,686,008 |

Direct general and administrative costs capitalized by the Company during the six months ended June 30, 2014 and included in additions were \$150,300 (2013 - \$150,300).

For the six months ended June 30, 2014, net income (loss) includes \$740,331 of exploration and evaluation expense (2013 - \$4,045,060) consisting of \$732,124 of land lease expiries exploration and evaluation costs derecognized (2013 - \$3,916,062) and \$8,207 of pre-licensing and other costs incurred prior to acquiring the legal rights to explore charged directly to net (income) loss (2013 - \$128,998).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT

| (\$) | June 30 2014 | December 31 2013 |
|--|-----------------|---------------------|
| Petroleum and natural gas assets at cost | 104,750,254 | 99,135,047 |
| Corporate assets at cost | 7,400 | 7,400 |
| Property, plant and equipment at cost | 104,757,654 | 99,142,447 |
| Accumulated depletion, depreciation and impairment | 14,898,584 | 10,634,825 |
| Property, plant and equipment net carrying amount | 89,859,070 | 88,507,622 |

Petroleum and Natural Gas Assets

| (\$) | June 30 2014 | December 31 2013 |
|--|-----------------|---------------------|
| Cost | | |
| Balance, beginning of period | 99,135,047 | 81,367,270 |
| Additions | 2,238,157 | 1,536,160 |
| Transfer from exploration and evaluation assets (Note 6) | - | 17,658,002 |
| Change in decommissioning liabilities (Note 9) | 3,377,050 | (1,426,385) |
| Balance, end of period | 104,750,254 | 99,135,047 |
| Accumulated depletion and impairment | | |
| Balance, beginning of period | 10,630,864 | 2,609,964 |
| Depletion | 4,262,984 | 7,770,900 |
| Impairment | - | 250,000 |
| Balance, end of period | 14,893,848 | 10,630,864 |
| Net carrying amount | 89,856,406 | 88,504,183 |

At June 30, 2014, future development costs of \$53,609,000 (December 31, 2013 - \$53,609,000) are included in costs subject to depletion.

Corporate Assets

| (\$) | June 30 2014 | December 31 2013 |
|--------------------------------------|-----------------|---------------------|
| Cost | | |
| Balance, beginning and end of period | 7,400 | 7,400 |
| Accumulated depreciation | | |
| Balance, beginning of period | 3,961 | 1,668 |
| Depreciation | 775 | 2,293 |
| Balance, end of period | 4,736 | 3,961 |
| Net carrying amount | 2,664 | 3,439 |

Property, plant and equipment impairment test

IFRS requires an impairment test to assess the recoverable amount of property, plant and equipment within each cash-generating unit whenever there is an indication of impairment. The Emergency Order as described in Note 2 was identified as a potential impairment indicator for the Company's Manyberries cash-generating unit as at June 30, 2014. Management has reviewed developments since the previous assessments performed as at March 31, 2014 and December 31, 2013. No substantial changes to these outlooks were noted during this review and there are no indications the carrying amount of the Manyberries cash-generating unit is not recoverable as at June 30, 2014.

8. BANK DEBT

The following table shows the amounts drawn down on the Company's bank debt facility at June 30, 2014:

| (\$) | June 30 2014 | December 31 2013 |
|----------------------|-----------------|---------------------|
| Bank credit facility | 14,200,000 | 11,050,000 |

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At June 30, 2014, the Company had a \$25,000,000 revolving demand credit facility with a Canadian financial institution comprised of a \$5,000,000 operating loan facility, a \$13,000,000 production loan facility and a \$7,000,000 acquisition/development facility. As at June 30, 2014, \$13,000,000 had been drawn on the Company's production facility and \$1,200,000 on the Company's operating line. The credit facility provides that advances may be made by way of direct advances, bankers' acceptances or letters of guarantee. Drawings on the credit facility bear interest at the bank's prime rate plus an additional margin based on the Company's debt to cash flow ratio and type of borrowing. Security for the credit facility is provided by a \$75,000,000 demand debenture.

The Company is subject to certain covenants in its credit facility agreement and was in compliance with all such covenants as of June 30, 2014 and the Company had maintained the bank's required ratio of current assets to current liabilities, excluding any current liabilities under the credit facility, of 1:1 or better. The lending agreement defines current assets as current assets as per the Company's statement of financial position plus any undrawn amount on the credit facility. The lending agreement defines current liabilities as the current liabilities as per the Company's statement of financial position sheet less any amounts drawn on the credit facility.

9. DECOMMISSIONING LIABILITIES

The following table reconciles the decommissioning liabilities:

| (\$) | June 30 2014 | December 31 2013 |
|--|-----------------|---------------------|
| Balance, beginning of period | 24,424,226 | 25,070,620 |
| Decommissioning liabilities incurred during the period | - | 630,529 |
| Decommissioning liabilities settled during the period | - | (29,848) |
| Accretion expense during period | 393,397 | 637,649 |
| Revisions - Change in discount rate | 3,377,050 | (5,271,534) |
| Revisions - Changes in cost and timing estimates | - | 3,386,810 |
| Balance, end of period | 28,194,673 | 24,424,226 |

Decommissioning liabilities were estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim these wells and facilities and the estimated timing of these costs to be incurred in future periods. LGX has estimated the net present value of decommissioning liabilities to be \$28,194,673 as at June 30, 2014 (December 31, 2013 - \$24,424,226) based on an estimated total future undiscounted liability of \$58,319,748 (December 31, 2013 - \$58,319,748), a risk free rate of return of two and three quarters percent (December 31, 2013 - three and a quarter percent) and an inflation rate of two percent (December 31, 2013 - two percent). At June 30, 2014, the Company estimates that these payments are expected to be made over the next 50 years with the majority of payments made in years 2025 to 2040.

10. SHARE CAPITAL AND WARRANTS

Authorized

Unlimited number of common voting shares ("Common shares").

Issued and Outstanding

| (\$ - except share number) | June 30 2014 | | December 31 2013 | |
|--|-----------------|-------------------|---------------------|-------------------|
| | Number | Amount | Number | Amount |
| Common (voting) shares | | | | |
| Balance, beginning of period | 88,658,427 | 80,885,717 | 88,658,427 | 80,886,460 |
| Share issue costs, net of tax | - | - | - | (743) |
| Balance, end of period | 88,658,427 | 80,885,717 | 88,658,427 | 80,885,717 |
| Warrants | | | | |
| Balance, beginning of period | 6,000,000 | 3,840,000 | 6,000,000 | 3,840,000 |
| Balance, end of period | 6,000,000 | 3,840,000 | 6,000,000 | 3,840,000 |
| Total share capital and warrants, end of period | | 84,725,717 | | 84,725,717 |

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include shareholder's equity, bank debt and working capital/deficiency, which is defined as current assets less current liabilities. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Company monitors capital by maintaining an available credit facility to enable future spending and monitors spending against capital budgets.

The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the next year.

The Company is subject to certain non-financial and financial covenants, including current assets to current liabilities covenant (Note 8), and is in compliance with all covenants as at June 30, 2014.

12. EARNINGS (LOSS) PER SHARE AMOUNTS

The following table summarizes the weighted average shares used in calculating earnings (loss) per share:

| Earnings (Loss) per share calculation: | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-------------|-----------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Numerator (\$) | | | | |
| Net loss for the period | (727,033) | (3,127,371) | (547,372) | (4,280,996) |
| Denominator (Number) | | | | |
| Weighted average common shares outstanding – Basic | 88,658,427 | 88,658,427 | 88,658,427 | 88,658,427 |
| Effect of stock options and share warrants outstanding | - | - | - | - |
| Weighted average common shares outstanding – Diluted | 88,658,427 | 88,658,427 | 88,658,427 | 88,658,427 |
| Earnings (Loss) per share (\$) | | | | |
| Basic | (0.01) | (0.04) | (0.01) | (0.05) |
| Diluted | (0.01) | (0.04) | (0.01) | (0.05) |

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the stock options were outstanding. In calculating the weighted average number of diluted common shares outstanding for the three and six months ended June 30, 2014 and 2013, the Company excluded all stock options and share warrants outstanding as there was a loss in the period then ended and these instruments were anti-dilutive.

13. SHARE-BASED PAYMENTS AND COMPENSATION PLANS

The following table summarizes the Company's share-based payments relating to its stock options for the three and six months ended June 30, 2014 and 2013:

| (\$) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|----------------|-----------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Share-based payments expensed in net income (loss) | 85,817 | 176,350 | 227,986 | 328,529 |
| Share-based payments capitalized to: | | | | |
| Exploration and evaluation assets | 38,233 | 70,718 | 85,100 | 125,922 |
| Property, plant and equipment | - | - | - | - |
| Total Share-based payments | 124,050 | 247,068 | 313,086 | 454,451 |

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Stock Options

The following table sets forth a reconciliation of Stock Option Plan activity through to June 30, 2014:

| | Six Months Ended June 30 2014 | | Year Ended December 31 2013 | |
|---------------------------------------|-------------------------------------|----------------|-----------------------------------|----------------|
| <i>(\$ – except share number)</i> | Weighted Average Number | Exercise Price | Weighted Average Number | Exercise Price |
| Balance, beginning of period | 3,652,000 | 0.81 | 1,886,500 | 1.17 |
| Granted | - | - | 1,953,000 | 0.47 |
| Forfeited | (186,500) | 1.31 | (187,500) | 0.83 |
| Balance, end of period | 3,465,500 | 0.79 | 3,652,000 | 0.81 |
| Vested and exercisable, end of period | 1,128,470 | 0.86 | 632,151 | 1.35 |

14. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized on the condensed interim consolidated statement of financial position consist of cash and cash equivalents, trade and other receivables, trade and other payables and bank debt (Note 8).

Fair Value of Financial Instruments

As at June 30, 2014, cash and cash equivalents and trade and other receivables were classified as loans and receivables and trade and other payables and bank debt were classified as other financial liabilities.

The carrying amount of cash and cash equivalents, trade and other receivables, trade and other payables and bank debt approximate the fair value of the respective assets and liabilities due to the short-term nature of those instruments or the indexed rate of interest on the bank debt.

The Company continuously monitors its trade and other receivables and its allowance for doubtful accounts. As at June 30, 2014 and December 31, 2013, there have been no impairment issues.

Risks associated with Financial Instruments

Credit risk

The Company may be exposed to certain losses in the event that counterparties to financial instruments fail to meet their obligations in accordance with agreed terms. The Company mitigates this risk by entering into transactions with highly rated major financial institutions and by routinely assessing the financial strength of its customers.

At June 30, 2014 and December 31, 2013, financial assets on the condensed interim consolidated statement of financial position are comprised of cash and cash equivalents and trade and other receivables and the maximum credit risk associated with these financial instruments is the total carrying amount of these financial assets.

Cash equivalents include short-term deposits placed with financial institutions with strong investment grade ratings.

The Company's trade and other receivables are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing production to numerous purchasers under normal industry sale and payment terms. As is common in the petroleum and natural gas industry in western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Of the \$3,032,572 of trade and other receivables outstanding as at June 30, 2014 (December 31, 2013 – \$4,919,335), \$1,916,097 related to the sale of petroleum and natural gas and was received July 25, 2014 (December 31, 2013 – \$2,533,521 and was received January 25, 2014). This accounts receivable balance includes \$1,107,026 from joint venture partners relating to the recovery of their interest in operating costs and capital spent (December 31, 2013 - \$2,175,493). At June 30, 2014, the largest amount owing from one partner was \$342,411 (December 31, 2013 - \$526,760). For the properties LGX operates, the Company has the ability to not allocate production to joint venture partners who are in default of amounts owing.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the funding of the capital expenditure program, the Company has a credit facility, as outlined in Note 8.

LGX's financial liabilities on the statement of financial position consist of accounts payable and bank debt.

The Company expects to satisfy obligations under accounts payable in less than one year. LGX has a credit facility as outlined in Note 8. The credit facility is a \$25,000,000 revolving demand facility with a Canadian financial institution comprised of a \$5,000,000 operating loan facility, a \$13,000,000 production loan facility and a \$7,000,000 acquisition/development facility. The credit facility is formally reviewed by the bank annually.

The following are the contractual maturities of financial liabilities at June 30, 2014:

| (\$) | < 1 Year | 1-3 Years | 3-5 Years | Thereafter | Total |
|--|------------|-----------|-----------|------------|------------|
| Bank debt | 14,200,000 | - | - | - | 14,200,000 |
| Accounts payable and accrued liabilities | 6,019,391 | - | - | - | 6,019,391 |
| | 20,219,391 | - | - | - | 20,219,391 |

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. The valuation of the financial assets and liabilities on the condensed interim consolidated statement of financial position as at June 30, 2014 has not been significantly impacted by changes in currency rates. Currency rates influence petroleum and natural gas prices; however, this influence on commodity prices and the resulting impact on financial assets and liabilities cannot be accurately quantified.

Currency risk

The Company is exposed to currency risk in relation to its United States dollar denominated working capital balances or deficits held in Canada. From time to time, the Company may enter into agreements to fix the exchange rate of Canadian to the United States dollar in order to offset the risk of fluctuating working capital balances if the Canadian dollar increases or decreases in value compared to the United States dollar. However, the Company has chosen not to enter into any foreign exchange contracts as its United States dollar denominated working capital balances are not deemed significant to the consolidated LGX entity.

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact any bank indebtedness that has a floating interest rate, potentially affecting future cash flows. As a means to mitigating exposure to interest rate risk, the Company has the ability to enter into interest rate swap agreements.

For the six months ended June 30, 2014, LGX's net income (loss) before income taxes would have fluctuated by approximately \$140,286 for each 1% change in interest rates (2013 - \$45,833).

Commodity price risk

The Company may be exposed to commodity price risk arising from the effect that fluctuations of future commodity prices may have on the fair value or future cash flows of financial assets and liabilities. From time to time, 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. The use of such agreements is governed under formal policies and is subject to limits established by the Board of Directors. The Company's policy is to not use derivative financial instruments for speculative purposes. The Company has not entered into any financial derivative contracts as at June 30, 2014 or December 31, 2013.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

15. SUPPLEMENTAL CASH FLOW INFORMATION

The following table reconciles the changes in non-cash working capital as disclosed in the condensed interim consolidated statement of cash flows:

| (\$) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-------------|-----------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Cash flow from operating activities | | | | |
| Net change in non-cash working capital: | | | | |
| Trade and other receivables | 999,592 | 877,044 | 1,031,673 | 496,033 |
| Trade and other payables | (1,652,618) | (1,278,153) | (4,326,208) | (5,403,891) |
| Operating activities' net change in non-cash working capital | (653,026) | (401,109) | (3,294,535) | (4,907,858) |
| Cash flow from investing activities | | | | |
| Net change in non-cash working capital: | | | | |
| Trade and other receivables | (52,432) | (288,734) | 854,773 | (266,806) |
| Trade and other payables | (678,852) | 455,170 | (3,338,682) | (655,295) |
| Investing activities' net change in non-cash working capital | (731,284) | 166,436 | (2,483,909) | (922,101) |

The following table reconciles capital expenditures on property, plant and equipment and exploration and evaluation assets as disclosed in the condensed interim consolidated statement of cash flows:

| (\$) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-----------|-----------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Additions to property, plant and equipment (PP&E) ⁽¹⁾ | (396,688) | (195,432) | (2,238,157) | (201,228) |
| Additions to exploration and evaluation assets (E&E) (Note 6) | (97,131) | (166,424) | (187,650) | (640,848) |
| Total PP&E and E&E additions | (493,819) | (361,856) | (2,425,807) | (842,076) |

(1) Includes petroleum and natural gas asset additions and corporate asset additions (Note 7)

Other cash flow information:

| (\$) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---------------|-------------------------------|----------|-----------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest paid | (246,292) | (97,348) | (429,268) | (151,221) |

16. RELATED PARTY TRANSACTIONS

On July 5, 2012, Legacy Oil + Gas Inc. ("Legacy") and the Company entered into a management, technical and administrative services agreement whereby the Company is 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 service agreement, Legacy invoiced the Company \$1,052,100 during the six months ended June 30, 2014 (2013 - \$1,052,100) of which \$175,350 was payable as at June 30, 2014 (December 31, 2013 - \$nil). In relation to capital and operations activity, the Company has a net trade payable to Legacy of \$2,168,284 as at June 30, 2014 (December 31, 2013 - \$1,922,598), which includes the management fee discussed above.

The Company incurred fees of \$398,029 for corporate and legal services rendered by a law firm (2013 - \$71,938), which a board member is a partner of, for the six months ended June 30, 2014. At June 30, 2014, \$41,516 was payable (December 31, 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.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17. COMMITMENTS AND CONTINGENCIES

Drilling commitments

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

Service Agreement

Legacy and LGX entered into a management, technical and administrative services agreement whereby LGX is managed by Legacy's current management team and staff as of July 5, 2012, in exchange for a monthly fee of \$167,000 (Note 16). The agreement will continue until terminated by either party with 90 days' notice.

18. EVENTS AFTER THE REPORTING PERIOD

On July 21, 2014, the Company announced that it had granted a total of 3,697,500 stock options to directors, officers, employees and consultants of the Company pursuant to the Company's Stock Option Plan. The stock options are exercisable at a price of \$0.48 per share. The options have a five-year term and vest as to one third each year following the date of the grant.

CORPORATE INFORMATION

OFFICERS

Trent J. Yanko
President + Chief Executive Officer

Matt Janisch
Vice President, Finance + Chief Financial Officer

Mark Franko
Vice President, Legal, General Counsel + Corporate Secretary

Curtis Labelle
Vice President, Production

Dale Mennis
Vice President, Land

Mark Oliver
Vice President, Exploration

William Wee
Vice President, Operations

Curt Ziemer
Vice President, Accounting

DIRECTORS

James Pasieka
Chairman

Chris Bloomer ⁽¹⁾⁽²⁾

Daryl Gilbert ⁽¹⁾⁽²⁾

Trent J. Yanko

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Reserves Committee

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ENGINEERS

GLJ Petroleum Consultants Ltd.
Calgary, AB

BANKERS

National Bank of Canada
Canadian Western Bank

LEGAL COUNSEL

McCarthy Tétrault LLP
Calgary, AB

REGISTRAR + TRANSFER AGENT

Olympia Trust Company
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STOCK EXCHANGE LISTING

TSX Venture Exchange (“TSX-V”)
Trading Symbol: OIL