Longreach Oil and Gas Limited
Condensed Consolidated Financial Statements
March 31, 2014
(Unaudited)

Contents

Longreach Oil and Gas Limited
Condensed Consolidated Statements of Financial Position
In United States Dollars
(Unaudited)

	Notes		March 31, 2014		December 31, 2013
Assets					
Current					
Cash and cash equivalents		**$**	**2,778,804**	$	12,305,037
Other current assets			**62,815**		63,141
Restricted cash	**3**		**327,344**		327,163
			3,168,963		12,695,341
Non-current					
Restricted cash	**3**		**3,100,000**		3,100,000
Investment and advances			**181,155**		181,155
Exploration and evaluation assets	**4**		**31,527,295**		25,476,298
Property and equipment	**5**		**111,560**		114,677
			34,920,010		28,872,190
		$	**38,088,973**	$	41,567,471
Liabilities					
Current					
Accounts payable and accrued liabilities		**$**	**5,957,040**	$	8,777,284
Decommissioning obligations	**6**		**1,005,604**		752,051
			6,962,644		9,529,335
Shareholders' Equity					
Share capital	**7**		**50,731,693**		50,731,693
Share based payment reserve			**4,272,499**		4,139,390
Deficit			**(23,877,863)**		(22,832,947)
			31,126,329		32,038,136
		$	**38,088,973**	$	41,567,471

The accompanying notes are an integral part of these condensed consolidated financial statements.

Longreach Oil and Gas Limited
Condensed Consolidated Statements of Operations and Comprehensive Loss
In United States Dollars
(Unaudited)

For the Three Month Period Ended March 31,	Notes		2014		2013
Expenses					
Administrative		$	835,405	$	845,597
Share based payments	7		99,646		166,484
Exploration and evaluation	4		30,000		-
Depreciation	5		12,839		3,019
Accretion expense	6		2,807		-
Foreign exchange loss			66,899		645,123
			1,047,596		1,660,223
Other income					
Finance income:					
Interest			2,680		9,351
Warrant fair value adjustment (loss)			-		16,890
			2,680		26,241
Net loss and comprehensive loss for the period		$	(1,044,916)	$	(1,633,982)
Net income (loss) per share					
- **Basic and diluted**		$	(0.01)	$	(0.02)
Weighted average shares outstanding					
- **Basic and diluted**			81,149,037		81,093,814

The accompanying notes are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

In United States Dollars

(Unaudited)

	Share Capital	Share Based Payment Reserve	Deficit	Total Equity
Balance, December 31, 2013	$ 50,731,693	$ 4,139,390	$ (22,832,947)	$ 32,038,136
Net loss for the period	-	-	(1,044,916)	(1,044,916)
Share-based payments	-	133,109	-	133,109
Balance, March 31, 2014	$ 50,731,693	$ 4,272,499	$ (23,877,863)	$ 31,126,329

	Share Capital	Share Based Payment Reserve	Deficit	Total Equity
Balance, December 31, 2012	$ 50,797,099	$ 2,903,402	$ (13,333,009)	$ 40,367,492
Net loss for the period	-	-	(1,633,982)	(1,633,982)
Issue of shares	206,760	-	-	206,760
Share-based payments	-	215,138	-	215,138
Balance, March 31, 2013	$ 51,003,859	$ 3,118,540	$ (14,966,991)	$ 39,125,408

The accompanying notes are an integral part of these condensed consolidated financial statements.

Longreach Oil and Gas Limited
Condensed Consolidated Statements of Cash Flows
In United States Dollars
(Unaudited)

For the three month period ended March 31,	Notes		2014		2013
Cash flows from (used in) operating activities					
Net loss for the period		$	(1,044,916)	$	(1,633,982)
Items not involving cash:					
Foreign exchange loss			5,628		75,349
Stock based compensation	7		99,646		166,484
Accretion expense	6		2,807		
Depreciation	5		12,839		3,019
Warrant fair market value adjustment			-		(16,890)
Changes in non-cash working capital balances:					
Other current assets			326		172,577
Accounts payable and accrued liabilities			(582,245)		(400,203)
Cash flow used in operating activities			(1,505,915)		(1,633,646)
Cash flows from (used in) financing activities					
Loan payable			-		(406,833)
Exercise of warrants			-		189,871
Cash flow from financing activities			-		(216,962)
Cash flows from (used in) investing activities					
Expenditures on property and equipment			(9,722)		(11,901)
Expenditures on exploration and evaluation assets			(8,004,787)		(2,276,973)
Restricted cash	3		(181)		(221,823)
Cash flow provided by (used in) investing activities			(8,014,690)		(2,510,697)
Decrease in cash and cash equivalents			(9,520,605)		(4,361,305)
Effect of change of exchange rate changes on cash			(5,628)		(74,559)
Cash and cash equivalents, beginning of period			12,305,037		30,669,483
Cash and cash equivalents, end of period		$	2,778,804	$	26,233,619
Supplemental information					
Interest paid		$	-	$	-
Corporate Taxes paid		$	-	$	-

The accompanying notes are an integral part of these condensed consolidated financial statements.

In United States Dollars

1. Corporate Information

Longreach Oil And Gas Limited ("Longreach" or "the Company") is a publicly traded corporation on the TSX Venture Exchange ("TSX-V") under the trading symbol LOI that is engaged in the evaluation, acquisition, exploration and development of oil and gas properties in Morocco with four exploration licences (*Sidi Moktar onshore, Zag onshore, Sidi Moussa offshore and Foum Draa offshore).*

Longreach is a Jersey limited company governed by the Companies (Jersey) Law 1991 (the "CJL"). The registered office of the Company is located at Queensway House, St Helier, Jersey, Channel Islands, JE1 1ES.

The Company's business is the business carried on by its wholly-owned subsidiary, Ventures, and that carried on by Longreach Oil and Gas Limited. Ventures was incorporated as a Jersey limited company under the CJL on April 4, 2006. Chairman Capital Corp., a capital pool company and predecessor of Longreach, was incorporated under the Business Corporations Act (Ontario) on May 31, 2006. On August 12, 2010, in connection with a proposed reverse takeover by Ventures, Chairman Capital Corp. changed its name to "Longreach Oil and Gas Limited", and consolidated its outstanding securities on a 5-to-1 basis. On September 24, 2010, the Company completed a reverse takeover with Ventures (the "Transaction"), which constituted the Company's qualifying transaction under the Exchange policies governing capital pool companies.

The following sets out the operating subsidiaries of the Company and the Company's ownership interest in those subsidiaries:

Name of Subsidiary	Jurisdiction of Incorporation	Ownership
Longreach Oil and Gas Ventures Limited	Jersey, Channel Islands	100%
Longreach Oil and Gas (Canada) Limited	Canada	100%
Longreach Oil and Gas (UK) Ltd.	United Kingdom	100%

2. Basis of Presentation

Statement of compliance
These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. These condensed consolidated financial statements were authorised for issue by the Board of Directors on May 29, 2014. They do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013.

These condensed consolidated financial statements have been prepared on the historical cost basis, except for the warrants associated with the equity financing which are measured at their estimated fair value. The condensed consolidated financial statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2013.

Effective January 1, 2014, the Company has adopted the following standards, IFRIC 21 – "Levies", and revisions to IAS 32 – "Financial Instruments: Presentation". The adoption of these standards has not had any impact on the Company's condensed consolidated financial statements and related disclosures.

In United States Dollars

2. Basis of Presentation - continued

Going concern assumption

The Company is in the process of exploring its oil and gas properties and has not yet established whether the properties contain reserves that are economically recoverable. The recovery of amounts capitalised for property interests on the consolidated statement of financial position are dependent upon the existence of economically recoverable hydrocarbons, the ability of the Company to complete exploration and/or development of the properties, including related financing requirements and upon future profitable production or, alternatively, upon proceeds from the disposition of the properties. To date, the Company has not earned revenues relative to its costs incurred for exploration activities. These consolidated financial statements have been prepared on a going concern basis, under which the Company is assumed to be able to realise its assets and discharge its liabilities in the normal course of operations. The Company's ongoing activities are dependent upon its ability to obtain sufficient financing to fund its current and future operations and future acquisition costs. There is no certainty that such financing will be obtained on terms acceptable to management which may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of property and equipment, liabilities, the reported expenses, and the classifications used in the consolidated statement of financial position. Such adjustments could be material. In order to fund Longreach's near term exploration programme and administrative expenditures the Company completed an interim debenture financing of $9.7 Million (Canadian) in April 2014 (Note 11(a)) and intends to obtain further financing in 2014 which may include a rights offering or private placement.

Functional and presentation currency

These condensed consolidated financial statements are presented in United States ("US") Dollars, which is the Company's functional currency. The following are the US Dollar foreign exchange rates at the respective periods:

Currency	March 31, 2014	December 31, 2013	March 31, 2013
Average rate for the period:			
Pounds Sterling	0.6042	0.6395	0.6441
Canadian Dollar	1.1019	1.0298	1.0077
Euro	0.7297	0.7532	0.7573
Moroccan Dirhams	8.1088	8.3287	8.3631
Period end rate:			
Pounds Sterling	0.6009	0.6064	0.6575
Canadian Dollar	1.1058	1.0694	1.0171
Euro	0.7271	0.7263	0.7800
Moroccan Dirhams	7.9612	8.0589	8.3899

Use of estimates and judgments

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by the directors in the preparation of these consolidated financial statements are as follows:

2. Basis of Presentation - continued

i. The consolidated financial statements include accruals and provisions based on management's interpretation of the terms of existing license terms and commitments. Best available information is used to determine the accruals at each period end. The Company is at varying stages of negotiations with certain partners to settle differences in opinion of the obligations of each party under existing agreements. The accruals made by management in this regard may be significantly different from those determined by the Company's partners or amounts agreed to as a result of negotiations. The effect on the consolidated financial statements resulting from such adjustments, if any, may be material and will be reflected prospectively.

ii. Costs associated with acquiring oil and natural gas licenses and exploratory drilling are accumulated as exploration and evaluation ("E&E") assets pending determination of technical feasibility and commercial viability. Establishment of technical feasibility and commercial viability is subject to judgment which management has determined to be based on the allocation of commercial reserves to the exploration area. Upon determination of commercial reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets referred to as oil and natural gas properties.

iii. Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognised in the period when it becomes probable that there will be a future cash outflow. In 2013, the Company recorded a decommissioning obligation on the Koba-1 well and in the current quarter recorded a decommissioning obligation on the Kamar well both at Sidi Moktar.

iv. Compensation costs recognised for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

v. The Company's non-compensation based warrants are treated as derivative financial liabilities. The estimated fair value of each is adjusted on a quarterly basis with gains or losses recognised in the statement of operations and comprehensive income. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term.

vi. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. Therefore, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realised from future taxable earnings. The Company has yet to record any deferred tax assets or liabilities.

vii. The recoverability of the Company's investment is dependent on the liquidity of a private Company's shares, which is based in part on its performance. The Company will assess at each reporting period whether there is any objective evidence that a financial asset has been impaired. When the fair value of the investment cannot be derived from active markets, they are determined using recent transactions or a variety of valuation techniques that may include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

In United States Dollars

3. Restricted Cash

The Company has a restricted cash balance, which represents the following bank deposits securing licenses as follows:

	In favor of		March 31, 2014		December 31, 2013
Tarfaya licence	San Leon	**$**	**300,000**	$	300,000
Zag exploration licence	San Leon		**600,000**		600,000
Sidi Moktar farm-in arrangement *(Note 8(a))*	MPE		**2,500,000**		2,500,000
Other	Barclays		**27,344**		27,163
			3,427,344		3,427,163
Current portion of restricted cash			**(327,344)**		(327,163)
		$	**3,100,000**	$	3,100,000

Additional details with respect to the work commitments of the licences are as disclosed in Note 8.

4. Exploration and Evaluation Assets

Balance, December 31, 2013	$	25,476,298
Additions		6,050,997
Balance, March 31, 2014	$	31,527,295

The Company's exploration and evaluation assets consist entirely of costs pertaining to the Company's licences in Morocco. At December 31, 2013, the $2,151,594 costs associated with the Tarfaya license were considered to be impaired as the required work commitments were not achieved and the license expired subsequent to year end. During the quarter, the Company's net share of costs related to the Tarfaya license was $30,000 with the costs expensed. The evaluation of the technical feasibility or commercial viability of the other licences has not been established.

During the period, the Company capitalised $59,411 (Q1 2013 - $88,425) of administrative salaries and costs and $33,463 (Q1 2013 - $48,654) related to share based payments directly related to exploration and evaluation activities on the Sidi Moktar license.

5. Property and Equipment

Cost		
Balance, December 31, 2013	$	164,248
Additions		9,722
Balance, March 31, 2014	$	173,970
Accumulated depreciation		
Balance, December 31, 2013	$	(49,571)
Depreciation charge		(12,839)
Balance, March 31, 2014	$	(62,410)
Net book value		
Net book value, December 31, 2013	$	114,677
Net book value, March 31, 2014	$	111,560

All of the Company's property and equipment consists of office equipment and furniture and is located in Morocco, Canada and in the United Kingdom.

In United States Dollars

6. Decommissioning Obligations

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the estimated obligation associated with the decommissioning of oil and natural gas properties.

	March 31, 2014	December 31, 2013
Obligation, beginning of period	**$ 752,051**	$ -
Liabilities incurred	**250,000**	750,000
Change in estimated cash flows	**746**	-
Accretion expenses	**2,807**	2,051
Obligation, end of period	**$ 1,005,604**	$ 752,051

The undiscounted amount of cash, required to settle the current decommissioning obligations on the Koba and Kamar wells, adjusted for inflation, is estimated at $1,057,400. The obligations were calculated using a risk free discount rate of 1.50 percent and an inflation rate of 2.0 percent. It is expected that the costs are expected to occur in 2017 but this may be extended following the final results of the Koba-1 and Kamar-1 wells, and an extension of the Sidi Moktar license.

7. Share Capital

(a) Authorised
Unlimited number of Common Shares without nominal or par value.

(b) Issued

	March 31, 2014			December 31, 2013		
	Issued		**Amounts**	Issued		Amounts
Common Shares						
Opening balance	**81,149,037**	**$**	**50,731,693**	80,829,145	$	50,502,432
Exercise of warrants	**-**		**-**	290,178		206,760
Exercise of stock options	**-**		**-**	29,714		22,501
Balance, end of period	**81,149,037**	**$**	**50,731,693**	81,149,037	$	50,731,693
Warrants						
Opening balance	**-**	**$**	**-**	715,863	$	294,668
Agent warrants	**-**		**-**	-		-
Expired broker warrants	**-**		**-**	(715,863)		(294,668)
Balance, end of period	**-**	**$**	**-**	-	$	-
		$	**50,731,693**		$	50,731,693

In United States Dollars

7. Share Capital - continued

(c) Stock options

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase from treasury a number of common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. The options vest at various rates as determined by the Board. The maximum term of the options is five years. The options are non-transferable if not exercised. A summary of the status of the Company's stock option plan as at March 31, 2014 and December 31, 2013 and changes during the respective periods ended on those dates is presented below:

	March 31, 2014		December 31, 2013	
Stock Options	**Number of options**	**Weighted average Exercise Price (CAD $)**	Number of options	Weighted average exercise price (CAD $)
Beginning of period	**6,353,425**	**$0.77**	3,133,707	$0.94
Granted	**-**	**-**	4,145,000	$0.70
Exercised	**-**	**-**	(29,714)	$0.54
Expired/Fortified	**(2,510,000)**	**$0.74**	(895,568)	$1.03
End of period	**3,843,425**	**$0.79**	6,353,425	$0.77
Exercisable, end of period	**2,103,425**	**$0.87**	1,875,092	$0.96

Date of Grant	**Number Outstanding**	**Exercise Price (CAD $)**	**Weighted Average Remaining Contractual Life**	**Date of Expiry**	**Number Exercisable March 31, 2014**
August 16, 2011 *(i)*	250,000	$1.05	0.38 years	August 16, 2014	250,000
October 3, 2011 *(i)*	50,000	$0.75	0.51 years	October 3, 2014	50,000
May 22, 2012 *(i)*	65,000	$0.60	3.15 years	May 22, 2017	21,667
December 21, 2012	181,999	$0.54	0.47 years	September 17, 2014	181,999
December 21, 2012	139,284	$0.54	1.04 years	April 15, 2015	139,284
December 21, 2012	687,142	$1.18	2.92 years	February 28, 2017	687,142
January 15, 2013 *(i)*	2,320,000	$0.70	3.80 years	January 15, 2018	773,333
May 16, 2013	150,000	$0.70	4.13 years	May 16, 2018	-
	3,843,425		3.12 years		2,103,425

(i) Subsequent to March 31, 2014, 340,000 options were forfeited, of which 40,000 options were exercisable at $0.60, 200,000 options were exercisable at $0.70, 50,000 options were exercisable at $0.75 and 50,000 options were exercisable at $1.05.

In United States Dollars

8. Commitments and Contingencies

(a) Sidi Moktar Farm-in

On May 16, 2012, Longreach entered into a Farm-in Agreement with Maghreb Petroleum Exploration S.A. ("MPE"). Pursuant to the Farm-in Agreement, Longreach will acquire a 50% interest in the onshore Sidi Moktar exploration licences referred to as Sidi Moktar West, Sidi Moktar South and Sidi Moktar North located in the Essaouira Basin in Central Morocco. In consideration for the acquisition of that interest, Longreach will be responsible for carrying out a work programme of acquiring, processing and interpreting new seismic data and drilling two earning wells by August 28, 2017. The Company has posted a bank guarantee of $2.5 million (Note 3) with respect to this commitment.

(b) Zag licence

Included in restricted cash is $600,000 related to certain work commitments that need to be completed by May 2015. The Company has committed to its percentage share of further geophysical studies and the drilling of one exploration well. In 2012, the Company entered into an agreement with the operator whereby if the license is sold, farmed-out or other triggering event occurs, Longreach may be liable for up to $1.1 million to the operator. This liability has not been recorded at the balance sheet date to the uncertainty of the triggering event occurring.

(c) Tarfaya licence

Included in restricted cash is $300,000 related to certain work commitments that were required to be completed by April 2014. The Company committed to its percentage share of further geophysical studies and the drilling of one exploratory well however, the operator failed to complete these commitments within the required licence period and Longreach may be subject to a penalty of $1.5 million which has been accrued in these financial statements. The $300,000 of restricted cash will be available to offset this estimated liability.

(d) Sidi Moussa licence

The Company has been advised by the operator Genel that it plans to drill an offshore exploration well targeting the Mid-Jurassic / Lower Triassic reservoirs in 2014. Longreach's estimated participation cost is approximately $1 million.

(e) Office Leases

The Company has the following office lease agreements with monthly costs exclusive of common costs as follows:

Office Location	Currency of Rental Commitment	Total Base Rent Commitment	2014	2015	2016
Jersey	£	1,800	1,800	-	-
Morocco	€	21,600	12,150	5,400	-
UK	£	8,000	8,000	-	-
Canada	$	81,185	30,245	40,752	10,188

The United Kingdom office lease arrangement can be terminated on two months' notice respectively. The Morocco lease expires on March 31, 2015. The Canadian office lease arrangement expires on March 31, 2016. The Jersey office lease expired in April 2014.

9. Financial Instruments

The Company may hold various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to, credit, and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimises its exposure to the extent practical.

(a) Commodity Price Risk
The Company will be subject to commodity price risk for the sale of its production. The Company may enter into contracts for risk management purposes only, in order to protect a portion of its future cash flow from the volatility of petroleum commodity prices. To date the Company has no production and has not entered into any financial instrument exposed to commodity risk.

(b) Market Risk
Market risk is comprised of two components: currency risk and interest rate risk.

(c) Credit Risk
Credit risk is the risk that arises when a party to a financial instrument will be unable to discharge its obligations as they become due. The Company's financial assets exposed to credit risk are cash and cash equivalents, restricted cash, and accounts receivable. Cash and cash equivalents and restricted cash is placed with major financial institutions. The maximum credit risk is approximate to the carrying value of such financial instruments. Management assesses quarterly if there should be any impairment of the financial assets of the Company. At March 31, 2014, none of the Company's financial assets are considered to be impaired.

(d) Interest Risk
Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is not exposed to interest rate risk as it borrows funds at a non-interest bearing rate as disclosed in Note 9. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

(e) Fair Value of Financial Instruments
The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents and restricted cash have been classified as level 1. The investment in the Aizan convertible debenture and non-compensatory warrants are classified as level 2. The investment in the common equity of Aizan has been classified as level 3.

All financial assets (except for cash and cash equivalents and restricted cash which are classified as FVPL), are classified as either loans or receivables and are accounted for on an amortised cost basis. All financial liabilities are classified as other liabilities other than the warrants attributed to equity financing which are classified as FVPL. The investment in Aizan has been designated as available-for-sale. There have been no changes to the aforementioned classifications during the financial period ended March 31, 2014.

9. Financial Instruments - continued

(f) Foreign Currency Exchange Risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currencies other than USD. The Company is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in property and equipment in foreign currencies. The Company incurs expenditures in Pound Sterling, Euros, Moroccan Dirhams and Canadian Dollars and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place at March 31, 2014 or December 31, 2013.

Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates on the foreign cash balances at March 31, 2014 would have impacted the cash flows of the Company during the 2014 fiscal period by approximately $7,000 (2013 - $38,000).

(g) Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. When these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing. The loans payable are due on demand and the accounts payable have general terms ranging from 30 to 90 days from receipt of the invoice or joint venture billing. Note 2 further discusses the ability of the Company to meet its obligations as they come due.

10. Capital Risk Management

The Company defines capital as total debt and shareholders' equity. The Board's policy is to maintain a capital base so as to maintain investor, creditor, and market confidence and sustain future development of the business.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimises the costs of capital at an acceptable level of risk.

The Company manages the capital structure and makes adjustments to it in light of the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire, or dispose of assets. In order to facilitate the management of its capital requirements the Company prepares an annual expenditure budget that is updated as necessary, depending on various factors. The Company has not changed its approach to capital management during the current year. The Company is not subject to any external capital restrictions. Longreach will be required to complete debt or equity financing to fund its exploration and development plans.

11. Subsequent Events

Except as disclosed elsewhere in these consolidated financial statements, the Company had the following subsequent events:

(a) On April 10, 2014, Longreach completed a debenture financing of CAD$9.7 million in order to fund the near term exploration programme of the Kamar-1 well, and administrative expenses. The debentures mature two years from the date of closing and bear an interest rate of 10% per annum, payable quarterly in arrears. Following the first anniversary of the date of closing, holders of Debentures may convert from time to time, in whole or in part, outstanding principal under the Debentures into Common Shares of the Company at a conversion price equal to the greater of: (a) CAD$0.30 (subject to typical adjustments in certain circumstances); and (b) the current market price of the Shares at the time of conversion (based on the volume weighted average trading price of the Shares for the 20 trading days ending on the fifth trading day preceding the date of conversion). The Debentures provide customary events of default including failure to pay interest when due within 30 days, failure to repay principal on redemption or maturity, and the occurrence of insolvency events or proceedings. In addition, the Company has made certain covenants in favour of holders of Debentures, including covenanting not to incur additional indebtedness, covenanting to use commercially reasonable efforts to complete an equity financing within one year for the purpose of repaying or refinancing the Debentures, and covenanting to use commercially reasonable efforts to seek shareholder approval in certain circumstances for the creation of a new control person, if requested by a holder of Debentures who would otherwise need such approval in order to permit the full conversion of Debentures. The Company also issued to the Debenture holders 9,700,000 warrants with each warrant being exercisable for a term of two years following closing and may be exercised for one Share at an exercise price of CAD$0.30 per share (subject to typical adjustments in certain circumstances).

(b) On April 30, 2014, the Company issued 4.13 million stock options to members of management, directors and consultants of Longreach with an exercise price of CAD$0.30. These options will vest in thirds, with one-third vesting on the first anniversary of the grant date, one-third vesting on the second anniversary of the grant date and one-third vesting on the third anniversary of the grant date.