Longreach Oil and Gas Limited
Management's Discussion and Analysis

This management's discussion and analysis of the financial condition and results of operations ("MD&A") of Longreach Oil And Gas Limited ("Longreach" or the "Company") is dated April 24, 2013 and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2012. These financial statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all financial measures are expressed in United States dollars. This MD&A contains forward looking information based on the Company's current expectations and projections.

Additional information relating to the Company is available on SEDAR at www.sedar.com or the Company's website at www.longreachoilandgas.com.

Statements throughout this MD&A that are not historical facts may be considered "forward-looking statements." These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company's objectives, goals or future plans are forward-looking statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties and actual results could differ materially from those currently anticipated. These risks and uncertainties include, but are not limited to, changes in market conditions, law or government policy, operating conditions and costs, operating performance, demand for oil and gas and related products, price and exchange rate fluctuations, commercial negotiations or other technical and economic factors. Forward-looking statements are based on current expectations, estimates and projections of future production and capital spending as at the date of this MD&A and the Company assumes no obligation to update or revise forward-looking statements to reflect new events or circumstances, except as required by law or accounting standards.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed course of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Selected Annual Information

($ thousands, except per share amounts)	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Net income (loss)	(12,334)	982	(1,513)
Net income (loss) per share – basic and diluted	(0.49)	0.05	(0.13)
Net exploration and evaluation expenditures	3,158	3,722	373
Working capital surplus	32,561	7,637	3,479
Total assets	42,068	14,974	5,989
Weighted average shares outstanding (000s)	28,171	17,898	10,796
Current shares outstanding at April 24, 2013 (000s)	81,119		

The Company is in the exploration stage and thus no oil and gas revenues have been generated to date.

On December 21, 2012, the Company closed the APIC Petroleum Corporation ("APIC") transaction via the issuance of 57,363,747 common shares at $0.70 per share with Longreach assuming approximately $30.2 million of working capital upon closing of the transaction. The APIC transaction was accounted for as an asset transaction with $10.397 million as the excess consideration over the net assets acquired being charged to the statement of operations. The APIC transaction is a onetime charge that accounted for the majority of the Company's loss in the 2012 fiscal year and the increase in working capital.

The increase in working capital at the end of December 2011 is due to a $10.13 million CAD financing completed in July 2011 via the issuance of 9,650,442 units at $1.05 CAD per unit. Each unit consisted of one common share and one share purchase warrant with each warrant being exercisable at $1.25 CAD until January 29, 2013.

The net income amount for 2011 is the result of the accounting treatment of the Company's non-compensation warrants. Under IFRS, these warrants are considered a financial instrument as they contain an embedded derivative which must be classified as a derivative liability and measured at fair value with changes recognised in the statement of net income and comprehensive income as they arise. These warrants convert at a Canadian dollar price even though the Company's functional currency is US dollar. Had these warrants converted at a US dollar price they would not be considered an embedded derivative under IFRS. The Company has recorded a positive fair value adjustment of $3,435,510 in 2011 and $310,695 in fiscal 2012. In 2010 a finance charge of $427,972 was incurred related to the fair value adjustment of warrants issued in September 2010. Management strips out these amounts from net income for their internal purposes and believe this is a better reflection of the Company's performance.

Exploration & Evaluation Property Overview

Sidi Moktar Onshore (Net Working Interest 50%)

Longreach has a 50% operating interest in the onshore Sidi Moktar exploration licence ("Sidi Moktar"). Sidi Moktar is comprised of three blocks (Sidi Moktar West, Sidi Moktar South and Sidi Moktar North) totalling 4,711 square kilometres, which covers the majority of the hydrocarbon basin of Essaouira, located in central onshore Morocco. The blocks surround the producing Meskala field which is operated by ONHYM, the Moroccan state energy company (Morocco's major producing field). Four fields within Sidi Moktar have historically produced 30.5 Bcf of gas from Jurassic aged reservoirs.

The licence has a significant amount of historical exploration data available to Longreach, including 6,172km of 2D Seismic and 43 exploration & development wells. Longreach has interpreted over 4,500km of existing 2D seismic data and has completed the reprocessing of 1,750km of the existing data. Longreach has also completed a comprehensive petrophysical analysis of the neighbouring wells to better understand the reservoir and seal potential of the entire Triassic stratigraphic section. Subsequently a portfolio of 12 prospects and leads has been mapped. The neighbouring Meskala field is currently producing from the Triassic.

On 11 March 2013, Longreach announced an updated independent assessment of the Company's prospective resources on the Sidi Moktar licence which has been completed by Gaffney, Cline & Associates ("Gaffney, Cline", or "GCA") in accordance with NI 51-101 requirements using the COGE Handbook. GCA confirmed that Longreach's thorough reinterpretation of the seismic and other data has resulted in a new model for the structural evolution of the Sidi Moktar area and concurs with Longreach's interpretation that the anticlines are more likely formed by inversion of Permo-Triassic half grabens and that there is potential for hydrocarbon bearing clastic reservoirs to be found below the historical hydrocarbon discoveries. GCA's independent assessment attributes prospective resource estimates of 349 Bcf of gas and 21 MMbbl of condensate (Best estimates) for the Koba prospect with a Geological Chance of Success of 22% and 78 Bcf of gas and 5 MMbbl of condensate for the Kamar prospect with a Geological Chance of Success of 18%. The aggregate prospective resource estimates for the 12 prospects and leads net to Longreach is 494 Bcf of gas and 26 MMbbl of condensate (Best estimate).

The Company also completed the acquisition of 520 km of new 2D seismic data over the portfolio of prospects and leads in fulfilment of the Licence commitment of 500km. Priority lines, over Longreach's drill-ready targets, Koba and Kamar, are being processed and incorporated into the Company's interpretation to finalise the well locations for the 2013 drilling programme.

To date approximately $3.018 million has been spent on this licence.

Foum Draa Offshore (Net Working Interest 2.5%) and Sidi Moussa Offshore (Net Working Interest 1.5%)

In September 2009, Longreach agreed to terms to earn a 7.5% net interest in the Sidi Moussa & Foum Draa offshore licences. Located directly west of Agadir, the licences cover an area of approximately 12,714 square kilometers (3.14 million acres).

Extensive high quality 2D and 3D seismic data have been acquired on these licences, including 5,260 km² of 3D seismic shot in 2001/2002. On Foum Draa, the reprocessing of 1,500km² of 3D seismic (PSTM) is now complete. The processing of PSDM (500km²) was completed during Q4 2011. On Sidi Moussa the reprocessing of 2,000km of 2D seismic has been completed together with geological interpretation.

Extensive geological and geophysical interpretation has enabled Longreach and its joint venture partners to identify 33 prospects with significant resource potential. In Foum Draa these are predominately lower Cretaceous diapir related structures. In Sidi Moussa the identified prospects are fault related structures in the Jurassic or Triassic. Netherland, Sewell & Associates have attributed a NI 51-101 compliant gross unrisked prospective resource estimate of 2.3 billion boe (Best Estimate) and 6.7 billion boe (High Estimate), for 22 prospects and leads on the licences.

On August 23, 2012, Longreach entered into a farm-out agreement with Genel Energy plc ("Genel") whereby Genel acquired a 60% operated equity interest in the Sidi Moussa Offshore licence pro rata from Longreach and each of its joint venture partners. The Sidi Moussa farm-out to Genel has been approved by Moroccan authorities and is now complete. Genel will pay its equity interest share of past costs, being US$1.5 million (US$150,000 net to Longreach) and will pay the first US$50 million towards drilling of the commitment well required under the terms of the First Extension Period of the Sidi Moussa Licence (including in relation to the ONHYM 25% carried interest). Longreach's net interest in the Sidi Moussa exploration licence has now been reduced from 7.5% to 1.5% as a result of the approval received from the Moroccan Energy Ministry.

On August 28, 2012, Longreach entered into a farm-out agreement with Cairn Energy plc ("Cairn") whereby Cairn, through its subsidiary Capricorn Exploration and Development Company Limited, acquired a 50% operated equity interest in the Foum Draa Offshore licence pro rata from Longreach and each of its joint venture partners. The Foum Draa farm-out to Cairn has been approved by Moroccan authorities and is now complete. Cairn paid its equity interest share of past costs, being US$1.5 million (US$150,000 net to Longreach) and will pay the first US$60 million towards drilling of the commitment well required under the terms of the First Extension Period of the Foum Draa Licence (including in relation to the ONHYM 25% carried interest). Longreach's net interest in the Foum Draa exploration license has now been reduced from 7.5% to 2.5% as a result of the approval received from the Moroccan Energy Ministry in March 2013.

To date approximately, $419,500 has been spent on Foum Draa Offshore and Sidi Moussa Offshore.

Tarfaya Onshore (Net Working Interest 22.5%)

In April 2009, the joint venture partners awarded Spectrum; a UK based seismic services company the contract to reprocess 1,400km of the original 2D seismic shot on the Tarfaya licence. To date 15 leads have been identified, the most prospective of which are located in the north east section of the licence. The results of the seismic reprocessing were completed during 2010 and this allowed the joint venture partners to plot co-ordinates for a 2D infill seismic programme over the most prospective leads. It was decided by the joint venture partners and ONHYM to concentrate the majority of the seismic over the J North lead which is located in the North East of the Tarfaya licence with an area structure of 105km². In May 2011 the joint venture partners awarded Novaseis Sp. the contract to acquire 2D seismic in Tarfaya. This seismic programme commenced in July 2011 and was overseen by the operator San Leon Energy. The acquisition was completed on time and within budget in September 2011. A total of 608km of 2D seismic was shot, beyond the minimum work programme requirement of 500km. Processing and interpretation of this new seismic is now complete.

To date approximately $2.09 million has been spent on the Tarfaya licence.

Zag Onshore (Net Working Interest 22.5%)

Having completed successfully the reconnaissance permit requirements, the joint venture partners signed a full exploration permit with ONHYM in September 2009. The exploration licence is for 8 years, split into three work phases. The initial phase lasts for 2 ½ years in which the joint venture partners are required to shoot a minimum of 500km of 2D seismic.

A 15,000 km^2 aeromagnetic survey has been completed on the licence. Following successful completion of the Tarfaya seismic, Novaseis Sp were contracted to shoot 1,674 kms of 2D seismic, largely on the eastern part of the licence area. This was completed in January 2012 and is the first seismic data ever acquired on this licence. Processing is now complete and interpretation is expected to be completed in 2013. There is no resources estimate on this licence area yet.

To date, approximately $2.10 million has been spent on this licence.

APIC Transaction

On December 21, 2012, via a statutory scheme of arrangement (the "Transaction") under Jersey law, whereby Longreach acquired APIC Petroleum Corporation ("APIC") via the issuance of one Longreach share for every 5.3846 APIC shares. The acquisition of APIC has been accounted for as an asset transaction as the acquisition of APIC does not constitute a business combination for accounting purposes resulting in Longreach being the continuing entity for accounting purposes. The fair value of the net assets of APIC acquired have been estimated as follows:

Net assets acquired:		
Cash	$	30,371,841
Other current assets		133,224
Investments and advances		180,000
Accounts payable and accrued liabilities		(54,834)
Non-compensatory replacement warrants *(i)*		(39,793)
Fair value of the net assets acquired	$	30,590,438
Consideration:		
57,363,747 ordinary shares *(ii)*	$	40,613,962
1,433,707 Replacement options *(iii)*		373,725
	$	40,987,687
Excess of consideration over net assets acquired included in statement of operations *(iv)*	$	10,397,249

(i) Longreach also issued 580,358 non-compensatory replacement warrants exercisable at CAD$0.646152. The fair market value of the warrants is $39,793 and was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield – nil, expected volatility 50%, risk free rate – 1.1%, expected life – 0.06 years. As the replacement warrants are non-compensatory in nature they are treated as derivative financial liability.

(ii) The total consideration amount for the acquisition of APIC has been based on a share price of CAD $0.70, which is the share price of Longreach on December 21, 2012, the closing date of the Transaction.

(iii) Pursuant to the acquisition of APIC by Longreach, the Company issued 1,433,707 replacement options with 579,424 replacement options exercisable at CAD$0.54 and 854,283 replacement options exercisable at CAD$1.18. The weighted average fair market value per replacement option of $ CAD$0.258 was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield – nil, expected volatility 70%, risk free rate – 1.5%, expected life from – 1.00 to 4.11 years and an estimated forfeiture rate 5%.

(iv) The excess consideration over the fair value of the net assets acquired is recorded in the current period in the statement of operations and comprehensive loss.

The working capital will primarily be used for the drilling of wells at Sidi Moktar, geological and geophysical studies and for general corporate purposes.

The transaction between Longreach and APIC had the following related party transactions:

Longreach and APIC had a common non-executive Director who declared his interest in respect to the Transaction as a result of serving on both Boards. The common non-executive Director of APIC and Longreach abstained from voting in his capacity as a Director on the Transaction. Further, the non-executive Director's, employer received a transaction fee of $100,000 (CAD) from APIC in connection with the completion of the APIC Arrangement and $484,840 (CAD) of commissions related to the $30 million (CAD) APIC private placement.

In addition, a Longreach non-executive Director participated in the APIC financing and was issued 142,857 Longreach shares.

The aforementioned payments are considered related party transactions and are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties.

Summary of Quarterly Results

($ thousands)	Three months ended December 31, 2012	Three months ended September 30, 2012	Three months ended June 30, 2012	Three months ended March 31, 2012
Net income (loss)	(10,710)	(725)	(372)	(527)
Income (loss) per share (basic & diluted)	(0.39)	(0.031)	(0.016)	(0.021)
Net capital expenditures	2,034	458	335	331
Working capital surplus	32,560	4,984	5,909	6,793
Total assets	42,068	11,736	12,085	13,852

($ thousands)	Three months ended December 31, 2011	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended March 31, 2011
Net income (loss)	350	563	(208)	277
Earnings (loss) per share (basic & diluted)	$0.01	$0.03	$(0.015)	$0.02
Net capital expenditures	1,580	1,576	494	72
Working capital surplus	7,359	9,940	2,168	3,145
Total assets	14,974	14,123	5,741	5,781

Previously discussed, the Company incurred a one-time charge of $10,397,249 with respect to the APIC transaction that was offset by $498,285 of non-compensation warrant fair value income due to changes in volatility rates, length of warrants and the Company's share price.

The loss in the first three quarters of 2012 is attributed to increased administrative costs related to increased expenses, continuous disclosure costs and the non-compensation warrant fair value loss of $146,209 in the third quarter, and $255,112 in the first quarter. In the second quarter of fiscal 2012, the Company recorded a gain of $213,732 with respect to the non-compensation warrant fair value computation.

Costs with respect to the exploration and evaluation expenditures have all been capitalised other than $63,035 in the second quarter of 2011 whereby the costs were expensed as pre-license expenditures in accordance with IFRS standards.

The net earnings in the first and fourth quarters of 2011, is primarily related to the Company's non-compensation warrants. These warrants are considered a financial instrument as they contain an embedded derivative which must under IFRS be classified as a derivative liability and measured at fair value with changes recognised in the statement of operations and comprehensive loss as they arise. The Company has recorded a fair value adjustment of $297,325 in the three month period ended December 31, 2011, $2,276,528 in the three month period ended September 30, 2011, $440,657 in the three month period ended September 30, 2011 and $421,000 in the three month period ended March 31, 2011. A finance charge of $427,972 was recorded in the fourth quarter of 2010.

The net loss in the September 30, 2011, quarter is due to the increase in general and administrative expenditures related to the Company's $10.13 million CAD financing which closed on July 29, 2011. In addition, $386,700 was allocated to the issuance of the non-compensation warrants in the quarter.

Administrative

	For the three months ended December 31,		For the year ended December 31,	
	2012	2011	**2012**	2011
Wages	**$ 137,265**	$ -	**$ 637,876**	$ -
Professional fees	**226,278**	174,050	**606,284**	422,345
Consulting fees	**55,602**	71,665	**322,775**	455,588
Director fees	**60,000**	66,540	**120,000**	100,000
Miscellaneous fees	**20,302**	-	**59,088**	-
Travel	**29,157**	26,017	**155,355**	131,325
Rent	**12,050**	11,622	**47,526**	49,319
Other	**35,380**	140,448	**177,420**	205,851
	$ 566,034	$ 490,342	**$ 2,126,324**	$ 1,364,428

Administrative costs for the three month and fiscal period ended December 31, 2012 were 15.3% and 950.8%, higher respectively, than the comparative 2011 periods. The higher general and administrative costs are due to increased activity levels in the 2012 periods and $470,191 of costs with respect to the APIC transaction in the fourth quarter.

During the three month and fiscal period ended December 31, 2012, the Company paid certain officers and executive directors a total of $123,639 and $456,039 for salaries and management fees. In addition, the Company incurred $240,000 in director's fees in 2012. In addition, two firms where two non-executive Directors are employees received fees of $70,962 for advisory services. These related party transactions are in the normal course of operations and measured at exchange amounts which are incurred under the same terms or conditions with other third parties.

During the year the Company capitalised $58,694.00 of administrative salaries directly related to exploration and evaluation activities on the Sidi Moktar license.

Pre-licence

These costs represent unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore. The costs included in exploration and evaluation expense include pre-licence costs and land expiries. No pre-licence expenditures were incurred in the current fiscal year. During the year ended December 31, 2011, $63,035 of pre-licence costs were incurred with respect to the MPE farm-in at Sidi Moktar.

Taxes

Presently the Company does not expect to pay corporation taxes into the foreseeable future based on existing tax pools, planned capital activities and current forecasts of taxable income other than on service fees charged by the subsidiaries. However, the current tax horizon will ultimately depend on several factors including commodity prices, future production, corporate expenses, and both the type and amount of capital expenditures incurred in future reporting periods.

Liquidity and Capital Resources

At December 31, 2012, Longreach has a current working capital surplus of approximately $32.7 million (December 31, 2011 - $7.36 million). The Company has sufficient working capital to meet its current commitments. The Company considers itself to be in the development stage, as it is in the process of exploring its petroleum and natural gas licences and has not yet determined whether they contain reserves that are economically recoverable. The success of the Company's exploration and development of its petroleum and natural gas licences will be influenced by significant financial risks, legal and political risks, fluctuations in commodity prices and currency exchange rates, varying levels of taxation and the ability of the Company to discover economically recoverable reserves and to bring such reserves into production on an economic basis. The Company will be required to obtain additional financing to fully develop its licences. While the Company seeks to manage these risks, many of these factors are beyond its control. The Company does not presently have a loan facility available. Although management's efforts to raise capital and complete accretive asset acquisitions have been successful in the past, there is no certainty that they will do so in the future. Longreach will endeavour to use equity issues to fund its near term exploration programme.

To date the Company's cumulative exploration activities of approximately $7.64 million has been incurred of which $3,157,856 was incurred in 2012 with $3,722,075 of expenditures incurred in the comparative period in 2011. The majority of the costs incurred in 2012 and 2011 are costs with respect to the seismic programmes. The Company's current working capital surplus allows Longreach to fund the near term work programmes to guarantee the concession licences.

The Company has no off-balance sheet arrangements.

Financial Instruments (including non-compensation warrants)

Crude oil and natural gas operations involve certain risks and uncertainties. These risks include, but are not limited to, commodity prices, foreign exchange rates, credit, operational and safety.

Risks associated with commodity prices, interest and exchange rates are generally beyond the control of the Company; however, various hedging products may be considered to reduce the volatility in these areas.

Safety and environmental risks are addressed by compliance with government regulations as well as adoption and compliance of the Company's safety and

environmental standards policy. The Company hasn't drilled a well on any of its licence areas.

The Company will be exposed to concentration of credit risk as substantially all of the Company's accounts receivable will be with joint venture partners on Sidi Moktar. The Company will mitigate this risk where possible. If significant amounts of capital are to be spent on behalf of a joint venture partner, the partner is "cash called" in advance of the capital spending taking place.

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currency other than the United States Dollar. The Company is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in property and equipment in foreign currencies. The Corporation incurs expenditures in United States Dollars, Pound Sterling, Euros, Dirham (Moroccan currency) and Canadian Dollars and is exposed to fluctuations in exchange rates in these currencies. There are no fixed exchange rate contracts in place as at or during the years ended December 31, 2012 or 2011, or thereafter. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates on the foreign cash and restricted cash balances at December 31, 2012 would have impacted the cash flows of the Company during the year ended December 31, 2012 by approximately $303,000.

The Company's non-compensation warrants are considered a financial instrument as they contain an embedded derivative. The warrants entitle the holder to acquire a fixed number of ordinary shares for a fixed Canadian Dollar price per share. An obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognised in the statement of operations and comprehensive income as they arise. The Company has recorded a recovery of $310,695 for the year ended December 31, 2012 (December 31, 2011 - $3,435,510) which $498,285 was record in the current quarter as finance income (fourth quarter of 2011 - $2,412,504). Previously discussed the Company assumed a $39,793 liability with respect to the replacement warrants issued as part of the APIC Transaction on December 21, 2012. In 2011, the Company incurred a finance charge with respect to the warrants issued in the July 2011 financing of $386,700 based on the proportionate allocation of the total share issue costs of $1,360,288 between the split to share capital and warrants in the financing.

Outstanding Share Data

The Company has authorised an unlimited number of Common shares, without par value. The Company currently has 81,119,324 common shares outstanding. The following details the share capital structure as of the date of this MD&A.

	Expiry Date	Exercise Price (CAD)	Number	Total Number
Common shares				81,119,324
Warrants	October 4, 2013	$1.00	136,836	
	July 29, 2013	$1.05	579,027	

				715,863
Options	August 16, 2011	$1.20	500,000	
	August 16, 2011	$1.05	650,000	
	October 3, 2011	$0.75	50,000	
	May 22, 2012	$0.60	500,000	
	December 21, 2012	$0.54	258,141	
	December 21, 2012	$0.54	181,999	
	December 21, 2012	$0.54	139,284	
	December 21, 2012	$1.18	167,141	
	December 21, 2012	$1.18	687,142	
				3,133,707

Critical Accounting Estimates

A summary of the Company's significant accounting policies is contained in note 3 to the consolidated financial statements. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond Longreach's control. The following is a discussion of the accounting estimates that are critical to the financial statements.

Crude oil and natural gas assets - reserves estimates
Longreach will retain a qualified engineer to evaluate its crude oil and natural gas reserves, prepare an evaluation report, and report to the Reserves Committee of the Board of Directors. The process of estimating crude oil and natural gas reserves is subjective and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. These estimates will change over time as additional data from ongoing development and production activities become available and as economic conditions affecting crude oil and natural gas prices and costs change. Reserves can be classified as proved, probable or possible with decreasing levels of likelihood that the reserves will be ultimately produced.

Reserve estimates will be a key input to the Company's depletion calculations and impairment tests. Property, plant and equipment within each area will be depleted using the unit-of-production method based on proved reserves using estimated future prices and costs. In addition, the costs subject to depletion include an estimate of future costs to be incurred in developing proved reserves. A revision in reserve estimates or future development costs could result in the recognition of higher depletion charged to net income.

Under the IFRS, the carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of

money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. Exploration and Evaluation assets are allocated to the related CGUs to assess for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment). An impairment loss is recognised in income if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Reserve, revenue, royalty and operating cost estimates and the timing of future cash flows are all critical components of the impairment test. Revisions of these estimates could result in a write-down of the carrying amount of crude oil and natural gas properties.

Decommissioning liabilities

The Company will recognise the estimated fair value of the decommission liability in the period in which it is incurred. The future asset retirement obligation is an estimate based on the Company's ownership interest in wells and facilities and reflects estimated costs to complete the abandonment and reclamation as well as the estimated timing of the costs to be incurred in future periods. Estimates of the costs associated with abandonment and reclamation activities require judgement concerning the method, timing and extent of future retirement activities. The capitalised amount will be depleted on a unit-of-production method over the life of the proved and probable reserves. The liability amount is increased each reporting period due to the passage of time and this accretion amount is charged to earnings in the period, which is included as a financing expense. Actual costs incurred on settlement of the decommissioning liability are charged against the liability. Judgements affecting current and annual expense are subject to future revisions based on changes in technology, abandonment timing, costs, discount rates and the regulatory environment.

Share based payments

Stock options issued to employees and directors under the Company's stock option plan are accounted for using the fair value method of accounting for stock-based compensation. The fair value of the option is recognised as a share based payment and contributed surplus over the vesting period of the option. Share based payment is determined on the date of an option grant using the Black-Scholes option pricing model. The Black-Scholes pricing model requires the estimation of several variables including estimated volatility of Longreach's stock price over the life of the option, estimated option forfeitures, estimated life of the option, estimated risk-free rate and estimated dividend rate. A change to these estimates would alter the valuation of the option and would result in a different related share based payment.

Non-compensation based warrants

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.

Income taxes
Longreach follows the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Current tax is the expected Corporation tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting year end, and any adjustment to tax payable in respect to previous periods. Tax interpretations and legislation in which the Company operates are subject to change. Thus income taxes are subject to measurement uncertainty and interpretations.

Accounting Pronouncements Not Yet Adopted

In November 2009, the IASB published IFRS 9, “Financial Instruments,” which covers the classification and measurement of financial assets as part of its project to replace IAS 39, “Financial Instruments: Recognition and Measurement.” In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognise financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company’s own credit risk out of earnings and recognise the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively. The Company has not determined the impact of the new standard on the consolidated financial statements and will not be an early adopter of the standard.

IFRS 10 *Consolidated Financial Statements* provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. The Company has determined the standard will not have an impact on the Company.

IFRS 11 *Joint Arrangements* will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation would be removed, equity accounting would be required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not determined the impact of the new standard on the consolidated financial statements and will not be an early adopter of the standard.

IFRS 12 *Disclosure of Interests in Other Entities* aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. The Company has determined the standard will not have an impact on the Company.

IFRS 13 *Fair Value Measurement* provides comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. The Company has determined the impact of the new standard on the consolidated financial statements and will not be an early adopter of the standard.

IFRS 28 In May 2011, the IASB issued amendments to IAS 28, *"Investments in Associates and Joint Ventures"*, to establish the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures. The standard is required to be adopted for periods beginning January 1, 2013. The Company has determined the standard will not have an impact on the Company.

Amendments to IAS 1 Presentation of Financial Statements

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Company does not expect the amendments to IAS 1 to have a material impact on the financial statements.

Amendments to IAS 19 Employee Benefits

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

Amendments to IAS 32, Offsetting Financial Assets and Liabilities

The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

Risks and Uncertainties

Management defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition and/or results of operations of Longreach. The following section describes specific and general risks that could affect the Company. The following descriptions of risk do not include all possible risks as there may be other risks of which management is currently unaware. Moreover, the likelihood that a risk will occur or the nature and

extent of its consequences if it does occur, are not possible to predict with certainty, and the actual effect of any risk or its consequences on the business could be materially different from those described below.

Exploration and Development

The exploration and development of oil and natural gas deposits involve a number of uncertainties that even thorough evaluation, experience and knowledge of the industry cannot eliminate. It is impossible to guarantee that the exploration programme on Longreach's properties will generate economically recoverable reserves. The commercial viability of a new hydrocarbon pool is dependent upon a number of factors which are inherent to reserves, such as the content and the proximity of infrastructure, as well as oil and natural gas prices which are subject to considerable volatility, regulatory issues such as price regulation, royalties, land and other taxes, import and export of oil and natural gas, and environmental protection issues. The individual impact generated by these factors cannot be predicted with any certainty but, once combined, may result in non-economical reserves. In addition to the risks described above, the Company will also remain subject to normal risks inherent to the oil and natural gas industry such as unusual and unexpected geological changes in the parameters and variables of the petroleum system and operations.

Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which Longreach has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of natural resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. Although the Company may obtain liability insurance, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Resource Estimates

Although Longreach has reviewed the estimates related to the potential resource evaluation and probabilities attached thereto and is of the opinion that the methods used to appraise its estimates are adequate, estimates are not guarantees of actual amounts or measurements, even though they will be calculated or validated by independent appraisers upon the commencement of commercial production. Any resources disclosed by the Company should not be interpreted as assurances of property life or of the profitability of current or future operations given that there are numerous uncertainties inherent in the estimation of economically recoverable oil and natural gas reserves.

Disputed territory in the Western Sahara

The territory that lies in the west of the Sahara desert is currently claimed by both the Moroccan government and a pro-independence movement, known as the Polisario Frente. The Polisario presents itself as the representation of the indigenous peoples of Western Sahara. Since 1991 a United Nations-brokered cease fire agreement has been in place between the Moroccan government and the Polisario. In 2007, the Kingdom of Morocco initiated an offer to grant autonomous status to the Western Sahara. The initiative offers a share of proceeds collected by the state from the exploitation of natural resources within the territory. The Zag Licence and the Tarfaya Licence overlap some of the territory that is disputed. There can be no assurance as to how the dispute over such territory will be resolved or the effect any resolution may have on Longreach's ability to undertake exploration and or other activities relating to the Zag Licence and the Tarfaya Licence.

Political Risk

Exploration may be affected in varying degrees by social unrest and/or government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income and other taxes, expropriation of property, environmental legislation and site safety.

Disruptions in Production

Other factors affecting the production and sale of oil and natural gas that could result in decreases in profitability include: (i) expiration or termination of leases, permits or licences, or sales price re-determinations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries, if any; (iv) work stoppages or other labour difficulties; (v) worker vacation schedules and related maintenance activities; and (vi) changes in the market and general economic conditions.

Weather conditions, equipment replacement or repair, fires, amounts of rock and other natural materials and geological conditions can have a significant and adverse impact on operating results.

Fluctuating Prices

Prices received for production and associated operating expenses are impacted in varying degrees by factors outside management's control. These factors include, but are not limited to, the following:

1. world market forces, including the ability of Organisation of Petroleum Exporting Countries to set limits and maintain production levels and prices for crude oil;
2. political conditions, including the risk of hostilities in the Middle East and other regions throughout the world;
3. increases or decreases in crude oil quality and market differentials;
4. market forces, most notably shifts in the balance between supply and demand for the crude oil and natural gas and the implications for the price of crude oil and natural gas;
5. global and local weather conditions;

6. price and availability of alternative fuels; and
7. the effect of energy conservation measures and government regulation.

Oil and gas prices will have a direct impact on Longreach's future earnings, and are subject to volatile fluctuations. While prices for oil and gas have increased significantly since the start of 2003, there is no assurance that this trend will continue or that current prices will be sustained. The Company's future revenues are expected to be in large part derived from the extraction and sale of oil and natural gas. The price of oil will be affected by numerous factors beyond the Company's control, including international economic and political trends, expectations of inflation, war, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the price of oil and gas, and therefore the economic viability of any of the Company's production or exploration projects, cannot accurately be predicted.

Environmental and Other Regulation

The oil and natural gas industry in Morocco is subject to extensive controls and regulations imposed by various levels of government. Compliance with such regulations and controls can require significant expenditures or result in operational restrictions. Failure to comply with the requirements of such controls and regulations may result in suspension or revocation of necessary licences and authorisations, civil liability for pollution damage and imposition of material fines and penalties, all of which might have a significant negative impact on earnings and overall competitiveness.

The operations of the Company are, and will continue to be affected in varying degrees by laws and regulations regarding environmental protection. The Company is committed to meeting its responsibilities to protect the environment, and the Company will take such steps as required to ensure compliance with environmental legislation in all jurisdictions in which it operates. The Company believes that it is reasonably likely that the trends towards stricter standards in environmental legislation and regulation will continue and anticipates making increased expenditures of both a capital and expense nature as a result of increasingly stringent laws relating to the protection of the environment. However, it is not currently possible to quantify any such increased expenditures and it is not anticipated that the Company's competitive position will be adversely affected by current or future environmental laws and regulations governing its oil and natural gas operations.

All phases of Longreach's operations will be subject to environmental regulation in Morocco. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. In addition, certain types of operations may require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental

regulations has the potential to reduce the profitability of operations. The exploration, development and future production activities of the Company will require certain permits and licences from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, development and production, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all licences and permits which Longreach may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake.

Additional Funding Requirements

Longreach is in the exploration stage as it is in the process of exploring its petroleum and natural gas properties and has not yet determined whether they contain reserves that are economically recoverable. Thus the Company does not have a positive operating cash flow. The Company is dependent on future equity financings to continue to explore and develop its petroleum and natural gas licences and to bring such reserves into production on an economic basis. The Company will be required to obtain additional financing to continue its exploration and potential development activities.

Market for Securities and Volatility of Share Price

A public trading market in the Company's securities having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of Longreach securities at any given time, and that is dependent on the individual decisions of investors over which the Company has no control.

There can be no assurance that an active trading market in securities of the Company will be established and sustained. The market price for the Company's securities could be subject to wide fluctuations. The stock market has, from time to time, experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Changes in Legislation

The oil and natural gas industry in Morocco is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and the Company cannot predict what additional legislation or amendments may be enacted. Amendments to, or more stringent enforcement of, current laws, regulations and permits governing operations and activities of oil and natural gas companies, including environmental laws and regulations which are evolving in Morocco could have a material adverse impact on the Company and cause increases in expenditures and costs, affect the Company's ability to expand or transfer existing operations or require the Company to abandon or delay the development of new oil and natural gas properties.

Legal Title Matters

The joint venture's properties may be subject to unforeseen title claims. While the Company will investigate diligently title to all property and will follow usual industry practice in obtaining satisfactory legal title opinions and, to the best of the Company's knowledge, legal title to all of their joint venture properties is in good standing; this should not be construed as a guarantee of legal title. Legal title to the properties may be affected by undisclosed and undetected defects.

Dependence on Management and Key Personnel

The Company's success depends in large part on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on the Company's business, financial condition, results of operation, and prospects. The Company does not have any key person insurance in effect. The contributions of the existing management team to the immediate and near term operations at the Company are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation at its business. Investor must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Company.

Competition

The oil and natural gas industry is competitive in all its phases. The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company in the search for, and the acquisition of, properties as well as for the recruitment and retention of qualified employees. The Company's ability to increase its interests in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects.

Joint Venture Risk

The properties in which the Company has an interest are operated through joint ventures with other companies and are subject to the risks normally associated with the conduct of joint ventures. The Company is not the operator of four of its current joint venture properties. Such risks include: inability to exert control over strategic decisions made in respect of such properties; disagreement with partners on how to develop and operate properties efficiently; inability of partners to meet their obligations to the joint venture or third parties; and litigation between partners regarding joint venture matters. Any failure of a party to the joint venture to meet its obligations, or any disputes with respect to the parties' respective rights and obligations, could have a material adverse effect on the joint ventures or their respective properties, which could have a material adverse effect on the Company.

Dividends

The Company has neither declared nor paid any dividends on its ordinary shares since the date of its incorporation. Any payments of dividends on the ordinary

shares of the Company will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the Company's board of directors may consider appropriate in the circumstance. It is unlikely that the Company will pay dividends in the immediate or foreseeable future.