

Longreach Oil and Gas Limited Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Longreach Oil And Gas Limited ("Longreach" or the "Company") is dated November 28, 2013 and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2012 and the unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2013. 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.

Exploration & Evaluation Property Overview

Exploration, Evaluation and Development Risks

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.

Furthermore, there is no certainty that any portion of the resources discussed below will be discovered. If discovered, there is no certainty that the resources will be commercially viable to produce. The prospective resources have been risked for a chance of discovery but have not been risked for a chance of development if a discovery is made. There is no certainty that Longreach will be able to develop the resources assuming a discovery and the timing of such development.

Definitions:

***"Best Estimate"** is a classification of estimated resources described in the COGE Handbook as being considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the Best Estimate. If probabilistic methods are used, there should be a 50% probability (P50) that the quantities actually recovered will equal or exceed the Best Estimate.*

***"Prospective Resource Estimates"** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be subclassified based on project maturity. Prospective resources entail more commercial and exploration risks than those relating to reserves and contingent resources. The prospective resources reported herein are partially risked resources that have been risked for chance of discovery, but have not been risked for chance of development. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to the timing or cost of such development.*

Sidi Moktar Onshore (Net Working Interest 50%)

On September 19, 2011, Longreach acquired a 50% interest in the Sidi Moktar exploration licences pursuant to a percentage interests transfer agreement (the "Farm-in Agreement") signed with Maghreb Petroleum Exploration ("MPE") on May 16, 2011. Under the Farm-in Agreement, Longreach is responsible for carrying MPE through the minimum work programme commitments required pursuant to the petroleum agreement entered into between MPE and ONHYM, the Moroccan state energy company (the "Petroleum Agreement") in respect of the Sidi Moktar exploration licences. In the event that the joint venture parties to the Petroleum Agreement elect to enter in to an exploitation concession, Longreach will carry MPE for development costs until the first commercially produced hydrocarbons. The Company has posted a bank guarantee of \$2.5 million with respect to this commitment.

Sidi Moktar is comprised of three blocks (Sidi Moktar West, Sidi Moktar South and Sidi Moktar North) totalling currently 2,683 square kilometres, which covers the majority of the hydrocarbon basin of Essaouira, located in central onshore Morocco. During the quarter, Longreach was required to relinquish 1,816 square kilometers of acreage in accordance with the Petroleum Agreement. The acreage relinquished was determined to be the least prospective acreage on the exploration licenses. The blocks surround the producing Meskala field which is operated by ONHYM, the Moroccan state energy company. Four fields within Sidi Moktar have produced approximately 30.5 billion cubic feet ("Bcf") of natural gas from Jurassic aged reservoirs (source: ONHYM).

The licence has a significant amount of historical exploration data available to Longreach, including 6,172km of 2D seismic and 43 exploration and development wells. Longreach has interpreted over 4,500kms of existing 2D seismic data and has completed the reprocessing of 1,750km of the existing data and acquired, processed and interpreted 520km of 2D seismic data. Longreach has also completed comprehensive petrophysical and petrographic analyses of the neighbouring wells and outcrop sections to better understand the reservoir and seal potential of the Lower Liassic and Triassic stratigraphic section. Subsequently, a portfolio of 12 prospects and leads has been mapped, ranked and risked. The neighbouring Meskala field in 2011 produced approximately 3.6 mmcf/d of natural gas and 168 bbl/d of condensate from the Triassic (source: ONHYM).

Using the above listed data and studies, the Company finalised the well locations for a two well drilling programme. Having completed successfully the minimum work programme obligations for the Initial Period of the exploration licence, in June 2013 the joint venture partners elected to move into the First Extension period (phase two of the exploration licence), which pursuant to the Petroleum Agreement, has a minimum work programme requirement to drill one well to a minimum depth of 2,400 metres.

On November 15, 2013, Longreach announced an updated an Independent Technical Report of the Company's petroleum assets including Sidi Moktar licence prepared by Gaffney, Cline & Associates ("Gaffney, Cline", or "GCA"), a qualified reserves evaluator in accordance with (NI) 51-101 requirements using the COGE Handbook. The report's effective date is June 30th, 2013. GCA confirmed that Longreach's 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 Jurassic carbonate seals. GCA's best estimate of unrisked prospective resources are 420 Bcf of natural gas and 25.1 MMbbl ("millions of barrels") of condensate for the Koba prospect with a geological chance of success of 25% and 91 Bcf of gas and 6.1 MMbbl of condensate for the Kamar Subcrop prospect, with a geological chance of success of 11%. The Kamar well will also test the Kamar Onlap, stratigraphically above the Kamar Subcrop prospect) to which GCA estimated 231.8 Bcf of natural gas and 13.9 MMbbl of condensate with a geological chance of success of 6%.

On November 18, 2013, the Company commenced drilling the Koba-1 well, targeting the Lower Liassic and Upper Triassic clastic reservoirs. The Koba-1 well has a planned total depth of 2,700 metres and operations are anticipated to take approximately 50 days. The Company is planning its second well, the Kamar-1 well in the first quarter of 2014.

To date, approximately \$12.74 million has been spent by the Company on this licence with approximately \$9.72 million spent in the current nine month period and \$4.56 million spent in the current quarter.

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 working interest in the Sidi Moussa Offshore licence and the Foum Draa Offshore licence. Located directly west of Agadir, the two licences cover an area of approximately 12,714 square kilometres (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 and 2002. On Foum Draa, the reprocessing of 1,500km² of 3D seismic (PSTM) is now complete. The processing of PSDM (500km²) was completed during fourth quarter of 2011. On Sidi Moussa, the reprocessing of 2,000km of 2D seismic has been completed together with the geological interpretation.

Extensive geological and geophysical interpretation has enabled Longreach and its joint venture partners to identify 33 prospects with significant resource potential. Netherland, Sewell & Associates a qualified reserves evaluator has attributed a NI 51-101 compliant gross unrisked prospective resource estimate of 2.3 billion boe (Best Estimate) for 22 prospects and leads on the licences with an effective date of December 31, 2011. In Foum Draa these are predominately lower Cretaceous channel sands and salt diapir related structures. In Sidi Moussa the identified prospects are fault related structures in the Jurassic or Triassic.

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 paid its equity interest share of past costs, being US\$129,990 net to Longreach and will pay the first \$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 been reduced from 7.5% to 1.5% as a result of the approval received from the Moroccan Energy Ministry. Genel Energy has secured a rig to drill in Sidi Moussa in 2014.

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 Fom 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 \$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 Fom Draa Licence (including in relation to the ONHYM 25% carried interest). Longreach's net interest in the Fom Draa exploration license has been reduced from 7.5% to 2.5% as a result of the approval received from the Moroccan Energy Ministry in March 2013. In October, Cairn Energy commenced drilling the FD II-Alpha-1 exploration well which is located in 1,500 metres of water approximately 120 kilometres offshore Morocco. The well has a planned total depth of 5,500 metres TVDSS and operations are anticipated to take approximately 60 days. The Alpha prospect is a slope apron clastic fan of Cretaceous/Jurassic age.

To date, approximately \$378,540 of costs has been incurred by Longreach which have been offset by back cost recoveries of \$279,990 as previously noted. The carrying value of the Fom Draa Offshore and Sidi Moussa Offshore is \$156,317 at September 30, 2013.

Tarfaya Onshore (Net Working Interest 22.5%)

The joint venture partners have reprocessed 1,400km of the original 2D seismic shot on the Tarfaya licence. The results of the seismic reprocessing were completed during 2010. To date, 15 leads have been identified, the most prospective of which are located in the north east section of the licence. A 2D infill seismic programme of 608 km was acquired over Triassic leads in the east of the licence area. Having successfully completed the minimum work programme obligations for the Initial Period of the exploration licence, the joint venture partners elected to move into the First Extension period, which pursuant to the Hydrocarbon Agreement has a minimum work programme requirement to drill one well to a minimum depth of 3,500 metres by April 30, 2014 and in a success case acquire 250 km² of 3D seismic data. The Company has posted a \$300,000 bank guarantee with respect to this commitment.

To date, approximately \$2.26 million has been spent by the Company on the Tarfaya licence.

Zag Onshore (Net Working Interest 22.5%)

Having completed successfully the reconnaissance permit requirements, the joint venture partners were granted a full exploration licence by the Ministry of Energy in August 2009. The exploration licence is for eight years, split into three work phases. The initial phase lasted for 39 months in which the joint venture partners were required to shoot a minimum of 500km of 2D seismic.

A 15,000 km² aeromagnetic survey has been completed on the licence and a 1,674 km 2D seismic survey was completed in January 2012, largely on the eastern part of the licence area. This was the first seismic data ever acquired on this licence. Interpretation has evidenced a portfolio of structural leads. There is no resources estimate on this licence area as yet.

Having completed successfully the minimum work programme obligations for the Initial Period of the exploration licence, the joint venture partners elected to move into the First Extension period, which pursuant to the Hydrocarbon Agreement has a minimum work programme requirement to drill one well to test either the Ordovician formation or to a minimum depth of 3,000 metres by May 31, 2015. The Company has posted a \$600,000 bank guarantee with respect to this commitment.

To date, approximately \$2.19 million has been spent by the Company on this licence.

Summary of Quarterly Results

<i>(\$ thousands)</i>	Three months ended September 30, 2013	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended December 31, 2012
Net income (loss)	(2,089)	(1,074)	(1,634)	(10,710)
Income (loss) per share (basic & diluted)	(0.02)	(0.01)	(0.02)	(0.39)
Net capital expenditures	3,356	2,429	2,173	2,034
Working capital surplus	18,896	25,462	29,145	32,560
Total assets	39,023	39,213	39,851	42,068
<i>(\$ thousands)</i>	Three months ended September 30, 2012	Three months ended June 30, 2012	Three months ended March 31, 2012	Three months ended December 31, 2011
Net income (loss)	(725)	(372)	(527)	350
Earnings (loss) per share (basic & diluted)	(0.031)	(0.016)	(0.021)	\$0.01
Net capital expenditures	458	335	331	1,580
Working capital surplus	4,984	5,909	6,793	7,359
Total assets	11,736	12,085	13,852	14,974

The \$6.6 million decrease in the current working capital from June 30, 2013 to September 30, 2013 is primarily due to \$4.5 million of capital expenditures related to the Sidi Mokhtar licence, \$0.9 million related to a the AIM listing that was aborted subsequent to quarter ended and \$0.74 million of general and administrative expenses. The working capital will continue to decrease as the Company is currently drilling its first well on the Sidi Mokhtar licence.

During the first quarter of fiscal 2013, the Company incurred a \$645,445 loss with respect to the devaluation of the Canadian Dollar, Euro, and Sterling relative to the US Dollar. General and administrative expenses also increased as a result of increased staffing and regulatory costs.

In the fourth quarter of 2012, the Company incurred a one-time charge of \$10,397,249 with respect to the APIC transaction that was offset by a gain of \$498,285 related to non-compensation warrant fair value changes in volatility rates, length of warrants and the Company's share price. 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 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's loss was offset

by a gain of \$213,732 with respect to the non-compensation warrant fair value computation.

The net earnings in the fourth quarter of 2011, is primarily related to the Company's non-compensation warrants. The Company has recorded a fair value adjustment of \$297,325 in the three month period ended December 31, 2011.

Pre-licence

Pre-licence costs represent unrecoverable exploration and evaluation costs associated with an area and costs incurred prior to obtaining the legal rights to explore. The costs in exploration and evaluation expense include pre-licence costs and land expiries. No pre-licence costs were incurred in either of the three or nine month periods ended September 30, 2013 or 2012.

Administrative

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Wages & Benefits	\$ 331,267	\$ 121,857	\$ 946,903	\$ 380,611
Professional fees	72,158	214,220	336,482	380,006
Consulting fees	121,853	140,935	433,505	267,173
Director fees	67,500	60,000	197,500	180,000
Public Company Costs	65,691	8,221	214,496	38,785
Travel	101,452	54,407	391,400	126,198
Rent	47,920	11,540	130,315	35,476
Bank Charges	55,661	22,358	81,055	53,289
Other	21,619	44,010	132,439	98,752
	885,121	677,548	2,864,095	1,560,290
Less G&A capitalised	(147,246)	-	(400,013)	-
	\$ 737,875	\$ 677,548	\$ 2,464,082	\$ 1,560,290

Administrative costs for the three and nine month periods ended September 30, 2013 were 9% and 58%, respectively, higher than comparable periods in 2012. The higher general and administrative cost when compared to the comparative 2012 periods is due to increased activity levels in the 2013 periods and public company costs.

During the respective three and nine month periods ending September 30, 2013, the Company respectively, capitalised \$147,246 and \$400,013 of salaries and administrative costs directly related to exploration and evaluation activities on the Sidi Moktar licence. The Company commenced capitalising salaries and administrative costs in the fourth quarter of 2012.

Taxes

The Company does not expect to pay corporate taxes into the foreseeable future based on the tax holiday in Morocco 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 September 30, 2013, Longreach has a current working capital surplus of approximately \$18.9 million (December 31, 2012 - \$32.6 million) inclusive of restricted cash. The Company has sufficient working capital to meet its current commitments however, to meet the Company's future work programme requirements further capital will be required. The Company considers itself to be in the exploration phase; it is in the process of exploring its crude oil and natural gas licences and has not yet determined whether they contain reserves that are recoverable economically. The success of the Company's exploration and development of its crude oil 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 develop fully its licences. While the Company seeks to manage these risks, many of these factors are beyond its control. The Company does not have presently 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 similar efforts will be successful in the future. Longreach will endeavour to use equity issues to fund its near term exploration programme and administrative costs.

To date, the Company's cumulative net exploration activities of \$17,341,171 have been incurred of which \$9,983,849 was incurred in 2013 as compared with \$1,059,617 of expenditures incurred in the comparative nine month period in 2012. During the current period the Company recovered \$279,990 of back costs incurred pursuant to the Genel and Cairn farm-out agreements. The majority of the costs incurred to date are costs with respect to the geological and geophysical work programmes however, commencing in the current quarter approximately \$4.0 million was incurred with respect to rig mobilisation, site preparation and the procurement of drilling supplies for the Koba-1 well in Sidi Moktar.

The decommissioning liability was set-up in the current quarter as a result of the Koba-1 well pad being constructed. The future liability will increase based on the present value of the decommissioning liability for the current period and will fluctuate commensurate with the asset retirement obligation as new wells are drilled and evaluated, licences extended or acquired through acquisitions and property disposals.

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	2013	2014	2015	2016
Jersey	£	1,800	£1,800	£0	£0	£0
Morocco	MAD	108,000	MAD 108,000	MAD 0	MAD 0	MAD 0
Morocco	€	16,200	€ 10,800	€ 5,400	€ 0	€ 0
UK	£	4,800	£4,800	£0	£0	£0
Canada	\$	110,781	\$ 19,515	\$ 40,326	\$ 40,752	\$ 10,188

The Jersey and United Kingdom office lease arrangements can be terminated on three and one months' notice respectively. The Morocco leases expire on December 31, 2013 and March 31, 2014. The Canadian office lease arrangement expires on March 31, 2016.

In addition, in August 2013, the Company entered into a rig contact with Saipem SpA, an Italian based drilling company. At September 30, 2013, Longreach's minimum commitment under the rig contract is approximately \$3.1 million.

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. To date, the Company has not 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 periods ended September, 2013 and December 31, 2012 or thereafter. The Company incurred a realised \$567,493 foreign exchange loss on currency conversions during the current period. Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates on the foreign cash and restricted cash balances at September 30, 2013 would have impacted the cash flows of the Company during the period ended September 30, 2013 by approximately \$5,900.

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 \$16,890 for the current period ended September 30, 2013. The Company does not have any non-compensation warrants issued as at September 30, 2013 or thereafter.

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
Options	December 16, 2013	\$1.20	500,000	
	August 16, 2014	\$1.05	650,000	
	October 3, 2014	\$0.75	50,000	
	May 22, 2017	\$0.60	500,000	
	December 21, 2013	\$0.54	258,141	
	September 17, 2014	\$0.54	181,999	
	April 15, 2015	\$0.54	139,284	
	December 21, 2013	\$1.18	167,141	
	February 28, 2017	\$1.18	687,142	
	January 15, 2018	\$0.70	3,845,000	
	May 16, 2018	\$0.70	<u>300,000</u>	
				7,278,707

Critical Accounting Estimates

A summary of the Company's significant accounting policies is contained in note 3 to the annual 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 independent 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 recognises 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, directors and consultants 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 corporate 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.

New Accounting Standards

The Company has adopted the following new and amended standards effective as of January 1, 2013. These changes did not have a material impact on the Company's interim financial statements.

- IFRS 7: Financial Instruments: Disclosures
- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interest in Other Entities
- IFRS 13: Fair Value Measurement
- IAS 34: Amendment to Interim Financial Reporting

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 (“Polisario”). 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 crude oil 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 crude oil 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 Company'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 title opinions and, to the best of the Company's knowledge, legal title to all of their properties are in good standing; this should not be construed as a guarantee of title. 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. Investors 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.