Longreach Oil and Gas

Annual Report and Accounts 2010

TSX-V: LOI

Longreach Oil and Gas Ltd. is a fast growing oil and gas exploration company, with significant licence interests in southern onshore and offshore Morocco. Our acreage is highly prospective and is covered extensively by 2D and 3D seismic. Longreach is working with its partners on the identification of near term drill targets.

Currently Longreach is the only oil and gas company with assets exculsively in Morocco and our focus will remain in North Africa. The fiscal terms in Morocco are regarded as amongst the most favourable worldwide, and the hydrocarbon potential is now being fully discovered and understood. Our knowledge, experience and relationships formed puts us in a strong position to further develop our interests within the country.

24/09/10
Longreach closes its qualifying transaction and concurrent private placement

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04/10/10
Listing and commencement of trading

Total Shares Outstanding:
13,814,956

Longreach's successes are built on strong foundations of technical, commercial and financial skills. Our technical team has more than 30 years of geological experience within Morocco. Our management team has direct relationships at the highest levels of the Moroccan Natural Resource Ministry.

Management

Chairman, CEO
Bryan M. Benitz

- 40 years of experience
- Other Directorships: Africa Oil, Kirrin Resources
- Previous experience: Tanganyika Oil ($2.1bn to SINOPEC), Scandinavian Minerals ($281m to First Quantum), Gulfstream Resources, MagIndustries
- Former member TSX & NYSE

Director, COO
Andrew Benitz

- Deutsche Bank Oil and Gas corporate finance
- Deutsche Bank ECM team
- BComm (Hons) Edinburgh University & University of Alberta

VP Operations
Jay Bhattacherjee

- 14 years experience, Reservoir Engineer
  - Apache
  - Pengrowth Management
  - Scotia Waterous
- Chemical & Petroleum Engineering University of Calgary

CFO
Michal Holub

- Croverro Energy Limited
- CFO, Serrano Energy Ltd
- Controller with RedStar Oil & Gas
- Chartered Accountant, BDO Dunwoody LLP

Board of Directors

Non Executive Director
Yogeshwar Sharma

- CEO of Hardy Oil and Gas
- 35 years of international oil and gas industry experience
- Schlumberger Doll Research in the USA
- Elf International in France
- Mech. Eng at University of Alberta
- Post Graduate University of Calgary in Chemical Engineering.

Non Executive Director
D. Campbell Deacon

- 30 years experience
- Other Directorships: Deacon & Co, Azure Dynamics
- Previous experience: UTS Energy, Scandinavian Minerals, Deacon BZW
- Bachelor of Arts, Guelph University

Non Executive Director
Jonathan Morley-Kirk

- Chartered Accountant specialising in emerging market investments.
- Other Directorships: Dimension Resources, Petrokamchatka
- Previous experience: Chairman of Fox-Davies

Non Executive Director
Dr Mahmoud Zizi

- 30 years of experience as a petroleum geologist
- 27 years at ONHYM, Scholarship at Rice University, Texas

Chairman's Statement

The year 2010 was transformational for Longreach. We became a public company by means of a reverse takeover of a TSX-V listed shell named Chairman Capital. In doing so, our original shareholders faced minimum dilution of only 2%. Concurrently with this process we undertook a successful fund raising by Private Placement of C$3,500,000, in spite of difficult market conditions.

Rigorous due diligence and full disclosure requirements of the Toronto Stock Exchange were cleared with shares being listed for trading on 4th October 2010 – symbol LOI. This funding will allow the company to meet the first stage financial obligations as required on the four licenses, as more fully reported in this Annual Report, during the ensuing year.

Management was heavily involved in evaluating the extensive work of upgrading the enormous inventory of data available on our varying interests in the four licenses held with our partners San Leon and Serica. I am most encouraged in this regard.

Bulking up management is a priority as we move forward and I welcome Jay Bhattacherjee who joined the company in mid-year as Vice President Operations. Jay's professional background and operational experience will have an immense influence on the company's progress. His engineering and management skills are a welcome addition to our team.

I also welcome a new Independent Director, Jonathan Morley-Kirk, a resident of Jersey who adds greatly to our experienced Board. His accountancy background will be invaluable and Jonathan has agreed to become Chairman of the Audit Committee. As a Director of other resource industry companies his participation will be of great help as Longreach matures in its development.

Longreach strategy and subsequent events in 2011

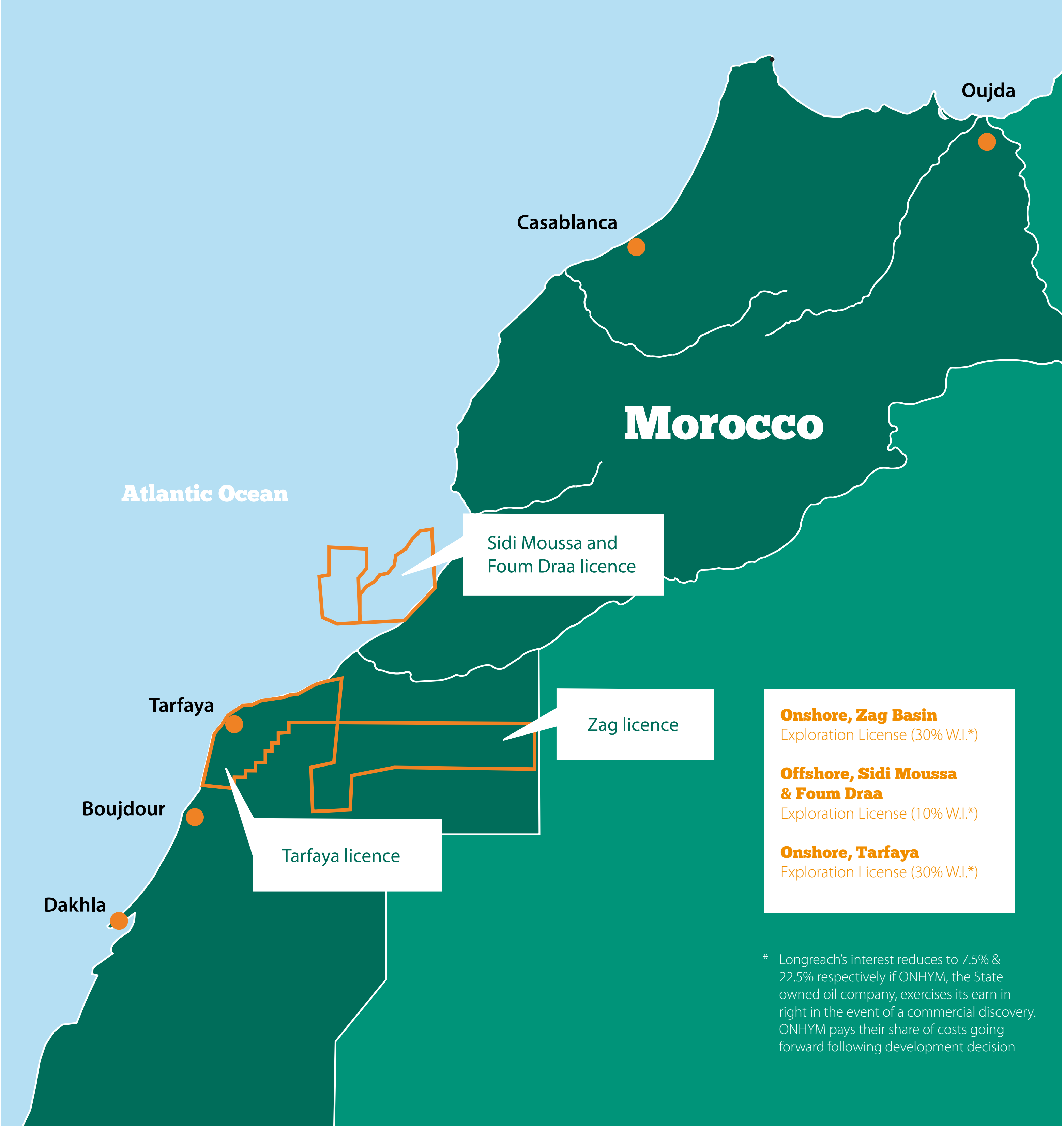
Since year end, events throughout North Africa have rapidly led to turmoil and chaos that has extended into most of the Arab world in varying degrees. Morocco is affected. However, as a nation it appears to be well cushioned by its own cultural and political background, particularly as it has evolved in the last decade. Since 2000, massive changes have been implemented by King Mohammed VI and his closest advisors. This process continues unabated. Morocco's longstanding alignment with Europe and North America continues unimpaired – historical ties are evident and strong.

I remain confident that Longreach's strategy will remain intact and relationships with our host nation will continue to develop in a suitably fruitful way. We are fully committed to this enormous opportunity of playing our part in developing the hydrocarbon resource potential of this energy hungry nation. Energy self-sufficiency is a key priority, as evidenced by its highly attractive fiscal regime as applied to the petroleum industry.

Finally, as Chairman and fellow shareholder of Longreach, I extend a welcome to our new shareholders who have supported us during the last few months. The management team continues to work diligently in pursuit of corporate success, ably assisted by our Board of Directors, legal counsel, audit and financial advisors, for which I am most grateful. We look forward to a very busy 2011.

Bryan Benitz
Chairman
Longreach Oil and Gas

Concession Summary Licences



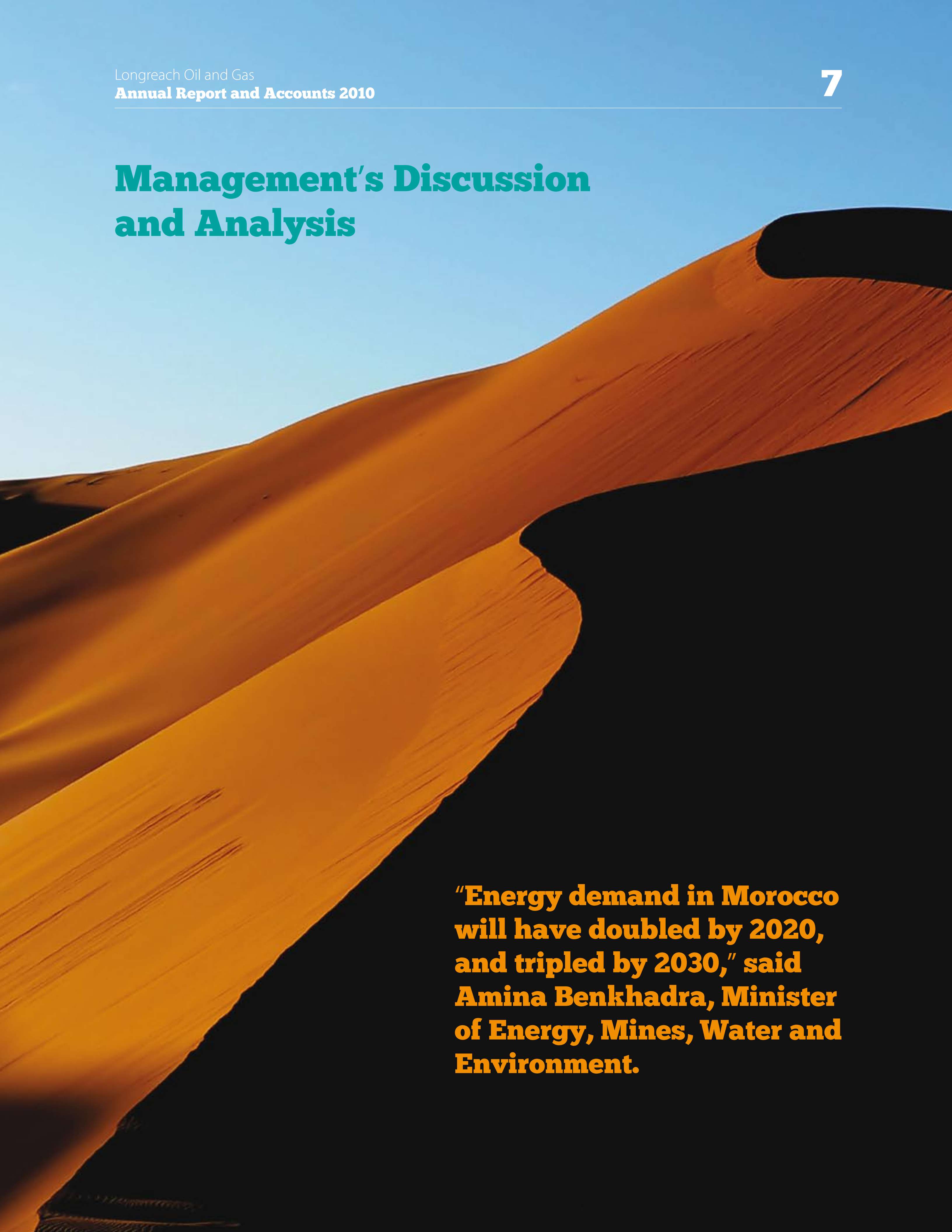
Onshore, Zag Basin
Exploration License (30% W.I.*)

Offshore, Sidi Moussa & Foum Draa
Exploration License (10% W.I.*)

Onshore, Tarfaya
Exploration License (30% W.I.*)

* Longreach's interest reduces to 7.5% & 22.5% respectively if ONHYM, the State owned oil company, exercises its earn in right in the event of a commercial discovery. ONHYM pays their share of costs going forward following development decision

Management's Discussion and Analysis



"Energy demand in Morocco will have doubled by 2020, and tripled by 2030," said Amina Benkhadra, Minister of Energy, Mines, Water and Environment.

The following Management's Discussion and Analysis ("MD&A") of the financial results of Longreach Oil and Gas Limited ("Longreach" or "the Company") formerly Chairman Capital Corp., should be read in conjunction with the audited consolidated financial statements of Longreach for the years ended December 31, 2010 and 2009. The aforementioned financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A is dated April 19, 2011. All currency amounts are expressed in British Pound ("£") unless otherwise stated.

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.

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.

Reverse Take Over Transaction

Effective September 24, 2010, Longreach acquired 100% of the issued and outstanding shares of Longreach Oil And Gas Ventures Limited. Pursuant to the terms of the transaction: (i) all of the issued and outstanding common shares of Chairman Capital Corp. were exchanged for 200,000 common shares of Longreach; and (ii) each of the 3,000,000 issued and outstanding Ventures shares (immediately prior to the private placement) were exchanged for 9,672,000 shares of Longreach. As a result of this share issuance, the shareholders of Ventures obtained control of the Company by controlling 98% of the common shares of Longreach immediately following the acquisition and prior to the private placement. The acquisition has been accounted for as a reverse takeover with the acquiring entity being Longreach Oil And Gas Ventures Limited and the acquired entity being Longreach. Under reverse takeover accounting the purchase consideration paid by Longreach Oil And Gas Ventures Limited is an amount equal to the fair value of the net assets of Longreach and is allocated to the fair values of the net assets of Longreach on the date of acquisition. As a result of the reverse takeover transaction these financial statements are a continuation of the financial statements of Longreach Oil And Gas Ventures Limited and accordingly the comparative financial statements are those of Longreach Oil And Gas Ventures Limited.

As a result of the completion of the RTO transaction and private placement, there are **13,814,956** shares of Longreach issued and outstanding and **2,249,030** warrants issued as at December 31, 2010 and as of the date of the MD&A.

Select Annual Information

($ thousands, except per share amounts)	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008
Net income (loss)	(532)	(189)	134
Per share – basic and diluted	(0.05)	(0.02)	0.01
Net capital expenditures (recovery)	245	-	123
Working capital surplus (deficiency)	2,167	547	775
Total assets	3,749	1,433	1,065
Weighted average shares outstanding (000s)	10,796	9,672	9,591
Current shares outstanding at April 19, 2011	13,815		

Property Overview

Sidi Moussa & Foum Draa Earn In

In June 2009, Longreach agreed terms to earn a gross 10% interest in the highly exciting Sidi Moussa & Foum Draa offshore licenses. Located directly west of Agadir the licenses cover an area of 12,714 square kilometers (3.14 million acres). Extensive high quality 2D and 3D seismic work has been completed on these licenses and from this work programme, a significant number of leads have been identified with world class prospectivety.. The leads are prospective from the Cretaceous through to Triassic aged reservoirs and display similar characteristics to the Scotian Margin. The joint venture partners have begun a seismic reprocessing programme that will focus on the most promising leads. This will be conducted both in-house and through external contractors and be led by Serica who are proven international operators. During 2010 the company expended approxiamtely £46,006 on Sidi Moussa and Forum Draa offshore licenses. It is anticipated that the seismic interpretation will be completed in the early third quarter of fiscal 2011.

Tarfaya Onshore

In April 2009, the joint venture partners awarded Spectrum; a UK based seismic services company the contract to reprocess a preferred list of 1,400km of the original 2D seismic shot on the Tarfaya license. To date 15 leads have been identified, the most prospective of which are located in the north east section of the license. The results of the seismic processing are now complete and this has allowed us to plot co-ordinates for a new 500km 2D infill seismic programme over the most prospective leads. This seismic programme is projected to start June 2011 and will be overseen by the operator San Leon Energy who are a proven international operator.

Zag Basin Onshore

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

Towards the end of 2009 we entered a data exchange with PetroCanada (now Suncor) together with its joint venture partner RWE, who own the license directly to the north of Zag. We exchanged aeromagnetic survey and interpretation data that has allowed us to understand on a wider scale the prospectivity of the entire basin. The Zag basin is the westernmost extension of the world class North African Paleozoic gas prolific basins. With major discoveries directly east of Zag we are confident about Zag's prospects.

In 2010, the company incurred approxiamtely £194,400 (of which £174,400 was incurred in the fourth quarter) of costs related to the planning of the 2D seismic programme on the Tarafaya and Zag Basin license.

The seismic programme is currently scheduled to commence early third quarter of 2011.

General and Administrative

	For the three months ended December 31,		For the year ended December 31,	
General and administrative (£)	**2010**	2009	**2010**	2009
Professional fees	**120,698**	45,487	**264,529**	65,183
Consulting fees	**97,905**	-	**176,382**	13,312
Travel	**20,524**	-	**20,717**	1,378
Advisor and sponsor fees	**-**	-	**78,275**	-
Other	**62,694**	895	**116,833**	7,342
Total General and administrative (£)	**301,821**	46,382	**656,736**	87,215

The increase in the general and administrative expenditures in 2010 is due to the increased activity levels in preparing for the Company's public listing on the TSX Venture Exchange. Longreach did not capitalize any indirect overhead costs in the respective periods. The increase in the fourth quarter general and administrative expenses is due to the Company commencing active operations and $104,412 of costs related to the RTO transaction settled with shares.

A requirement of the TSX Venture Exchange was for the Company to obtain an Advisor and a Sponsor in conjunction with the RTO transaction. The advisor and sponsor were paid £23,275 via the issuance of 50,000 Common Shares, £55,000 being the fair value of the issuance of 186,836 Warrants and a £23,275 cash payment.

During the year ended December 31, 2010, the Company paid certain officers and directors a total of £138,665 for consulting fees and services rendered. The 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.

Income Taxes

Presently the Company does not expect to pay current taxes into the foreseeable future based on existing tax pools, planned capital activities and current forecasts of taxable income. 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 during in future reporting periods.

Liquidity and Capital Resources

As at December 31, 2010, Longreach has a working capital surplus of approximately £2.17 million. The Company considers itself to be in the development stage, as it is in the process of exploring its petroleum and natural gas licenses 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 licenses 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 its licenses. While the Company seeks to manage these risks, many of these factors are beyond its control. The Company presently does not have a loan facility available. Although management's efforts to raise capital and complete accretive asset acquisition have been successful in the past endeavors there is no certainty that they will be able to do so in the future. Longreach will endeavor to use equity issues to fund its near term exploration programme.

To date the Company's cumulative exploration activities of approximately £0.449 million has been incurred of which £0.24 million was incurred in 2010 with no expenditures incurred in 2009. The Company's current working capital surplus allows Longreach to fund the near term work programmes to guarantee the concession licenses.

Financial Instruments

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.

Operational risks are managed through a comprehensive insurance programme designed to protect the Company from significant losses arising from risk exposures. 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 is exposed to concentration of credit risk as substantially all of the Company's accounts receivable will be with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company mitigates this risk by entering into transactions with long-standing, reputable counterparts and partners. 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 British pound. 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 Pound sterling, Euros, United States dollars and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place as at or during the years ended December 31, 2010 or 2009, 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, 2010 would have impacted the cash flows of the Company during the year ended December 31, 2010 by approximately £28,800 (2009 - £12,200).

Summary of Quarterly Results

($ thousands, except per share amounts)	Three months ended December 31, 2010	Three months ended September 30, 2010	Three months ended June 30, 2010	Three months ended March 31, 2010
Net loss	157	262	49	63
Net capital expenditures (recovery)	225	20	-	-
Working capital surplus (deficiency)	2,167	2,202	448	547
Total assets	3,749	3,268	1,539	1,552

($ thousands, except per share amounts)	Three months ended December 31, 2009	Three months ended September 30, 2009	Three months ended June 30, 2009	Three months ended March 31, 2009
Net loss	157	33	96	2
Net capital expenditures (recovery)	-	-	-	-
Working capital surplus (deficiency)	547	877	N/A	N/A
Total assets	1,433	1,468	N/A	N/A

N/A – as the Company was privately owned.

The increase in expenditures commencing in the third quarter of 2010 is due to the Company completing the RTO transaction and preparing for the capital programme which commenced in the fourth quarter.

Critical Accounting Estimates

Note 2 to the annual audited financial statements describe the Company's significant accounting policies. The policies discussed below are considered particularly important as they require management to make informed judgments, some of which may relate to matters that are inherently uncertain. The financial statements have been prepared in accordance with Canadian GAAP. In preparing financial statements, management makes certain assumptions, judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. The basis for these estimates is historical experience and various other assumptions that management believes to be reasonable. Actual results could differ from the estimates under different assumptions or conditions.

Full Cost Accounting – The Company follows the full cost method of accounting. All costs for exploration and development of reserves are capitalized in a single cost centre on a country by country basis; the costs are then depleted on the unit of production method based on estimated proved reserves. The capitalized costs can not exceed a ceiling amount. If the capitalized costs are determined to be in excess of this reserve based ceiling amount, the excess is written off. An alternative method of accounting for oil and natural gas operations is the successful efforts method. Under this method the cost centre is defined to be a property rather than a single cost centre and exploratory dry holes and geological and geophysical costs are charged to earnings when incurred.

Reserves – The Company will engage independent qualified reserve evaluators to evaluate its reserves each year once commercial production commences. Reserve determinations involve forecasts based on property performance, future prices, future production and the timing of expenditures; all these are subject to uncertainty. Reserve estimates have a significant impact on reported financial results as they are the basis for the calculation of depreciation and depletion. Revisions can change reported depletion and depreciation and earnings; downward revisions could result in a ceiling test write down.

Asset Retirement Obligation – The Company provides for the estimated abandonment costs using a fair value method based on cost estimates determined under current legislative requirements and industry practice. The amount of the liability is affected by the estimated cost per well, the timing of the expenditures and the discount factor used. These estimates will change and the revisions will impact future accretion, depletion and depreciation rates.

Taxes - The utilization of future tax assets subject to an expiry date are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes of estimates in future periods could be significant.

Stock based Compensation – The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. This model is used to value the stock options granted. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Financial Reporting Update

Accounting standards adopted

In June 2009, the CICA amended Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company adopted this standard prospectively effective December 31, 2009, resulting in increased note disclosures for financial instruments.

In July 2009, the CICA amended section 3855, Financial Instruments – Recognition and Measurement, in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The Company adopted this standard prospectively effective December 31, 2009. The adoption of this section had no effect on the results of operations or financial position of the Company.

On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not have a significant impact on the Company's financial statements.

Transition to International Financial Reporting Standards ("IFRS")

In February 2008, the CICA confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The Company's financial statements up to and including the December 31, 2010 financial statements will continue to be reported in accordance with Canadian GAAP as it exists on each reporting date. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared on an IFRS basis.

Full cost oil and gas companies can elect to use the recorded amount under a previous GAAP as the deemed cost for oil and gas assets on the transition date to IFRS. The Company is currently planning to use this exemption.

The Company has identified key differences between Canadian GAAP and IFRS and is currently in the process or preparing its opening IFRS balance sheet at January 1, 2010. Changes in IFRS will not have a material impact on the financial statements due to the level of operations. Possible differences between current accounting policies and expected accounting policies under IFRS include the following:

Depletion and depreciation of Property and Equipment will be based on significant components. The net book value of Property and Equipment will be allocated to new cost centres on the basis of the reserve volumes or values, using the deemed cost election. Depletion of oil and gas properties will generally continue to be calculated using the unit-of-production method; however the Company has the option to base the calculation on either proved reserves or proved plus probable reserves. The Company has concluded that it will use proved plus probable reserves.

Oil and gas properties will be classified as either Property and Equipment or Exploration and Evaluation assets ("E&E"). Upon transition to IFRS, the Company will reclassify all E&E expenditures that are currently included in Property and Equipment on the balance sheet. These assets will be measured at cost and will not be depleted, but will be assessed for impairment when indicators suggest the possibility of impairment. E&E will primarily consist of undeveloped land and exploratory drilling costs.

Business Combinations – IFRS allows the use of IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations. The Company will use this exemption on any acquisitions prior to January 1, 2010.

The Company currently expenses its stock-based compensation on a graded vesting schedule in accordance with IFRS principles however the Company will also be required to incorporate a forfeiture multiplier rather than account for forfeitures as they occur under Canadian GAAP.

Under Canadian GAAP, impairment testing on oil and gas properties is performed on a country by country cost centre level, while under IFRS it will be performed at a lower level, referred to as a cash generating unit. This will result in more than one impairment test.

Under the full cost accounting guideline, gains or losses are not recognized upon the disposition of petroleum and natural gas assets unless the disposition results in a significant change in the depletion rate. Under IFRS, gains and losses are recognized in net income on the disposal of an item of petroleum and natural gas assets. The amount of the gain or loss is determined by comparing the proceeds from disposal with the carrying amount of the item. This will include transactions such as sales of assets, farm-outs, asset swaps and other non-monetary transactions which typically did not result in gains or losses being recorded under Canadian GAAP.

Under IFRS, asset retirement obligations (referred to as "decommissioning liabilities" under IFRS) are likely to increase as a result of the change from a credit-adjusted risk-free rate in the discounting of the liabilities to their present value. In addition, any change in the discount rate would affect the entire liability and not just current-period additions.

Due to the recent withdrawal of the exposure draft on IAS 12 – Income Taxes in November 2009, and the issuance of the exposure draft on IAS 37 – Provisions, Contingent Liabilities and Contingent Assets in January 2010, the Company is still assessing the impact of these revised standards on its IFRS transition.

Risks and Uncertainties

The Company is subject to a number of risk factors due to the nature of the resource business in which it is engaged, which include but are not limited to international geopolitical risk, liquidity risk, currency risk, volatility in oil and gas prices, the ability to secure drilling and completion services and success in exploration and development programmes, which are difficult to forecast.

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 programmes on the Company'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, taxes, royalties, land tax, 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. The Company will 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 the Company 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 in an amount which is expected to be adequate, 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

Despite the fact that the Company has reviewed the estimates related to the potential resource evaluation and probabilities attached thereto it is of the opinion that the methods used to appraise its estimates are adequate, these figures remain estimates, even though they will be calculated or validated by independent appraisers upon the commencement of commercial production. Any reserves 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.

Political and Social 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 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 licenses, or sales price re-determinations or suspension of deliveries; (ii) future litigation; (iii) the timing and amount of insurance recoveries; (iv) work stoppages or other labor 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 other geological conditions can have a significant impact on operating results.

Fluctuating Prices

Oil and gas prices will have a direct impact on the Company's earnings and are subject to volatile price 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 Factors

All phases of the Company'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 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 a potential to reduce the profitability of operations. The exploration, development and production activities of the Company will require certain permits and licenses from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, development and production, labor 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 licenses and permits which the Company 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

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

Credit Risk

The Company is exposed to concentration of credit risk as substantially all of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

Exchange Rate Risk

To the extent revenues and expenditures denominated in or strongly linked to the U.S. dollar are not equivalent the Company will be exposed to exchange rate risk. The Company's general and administrative expenses are paid in varying currencies.

Fair Value Risk

Due to the short term nature of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities, their carrying values approximate their fair values.

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 will be unable to predict what additional legislation or amendments may be enacted. Amendments to 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, or more stringent implementation thereof, 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.

Title Matters

The Company's properties may be subject to unforeseen title claims. While the Company will diligently investigate title to all property and will follow usual industry practice in obtaining satisfactory title opinions and, to the best of the Company's knowledge, title to all of the Company's properties is 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

The Company strongly depends on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term.

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.

Dividends

Any payments of dividends on the common 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.

Joint Venture Risk

The properties in which Longreach 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. Longreach is not the operator of any 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 Longreach.

Independent Auditor's Report

To the Shareholders of Longreach Oil and Gas Limited:

We have audited the accompanying consolidated financial statements of Longreach Oil and Gas Limited, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations and comprehensive income, deficit and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Longreach Oil and Gas Limited as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our report, we draw attention to Note 1 to the consolidated financial statements which indicates that Longreach Oil and Gas Limited incurred a net loss of £532,080 during the year ended December 31, 2010 (2009 - £189,460) and generated negative cash flow from operating activities before changes in non-cash working capital balances of £391,456 (2009 - £189,460). These conditions, along with other matters as set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about Longreach Oil and Gas Limited's ability to continue as a going concern.

Deloitte & Touche LLP

Chartered Accountants
April 19, 2011
Calgary, Canada
Longreach Oil and Gas Limited
Consolidated Balance Sheets

Consolidated Balance Sheets

As at December 31		2010		2009
Assets				
Current				
Cash	**£**	**1,816,570**	£	36,712
Marketable securities (Note 4)		**211,322**		-
Accounts receivable and other		**46,287**		7,737
Restricted cash (Note 6)		**1,223,344**		1,181,537
		3,297,523		1,225,986
Property and equipment (Note 7)		**451,938**		207,332
	£	**£3,749,461**	£	1,433,318
Liabilities				
Current				
Accounts payable and accrued liabilities	**£**	**341,098**	£	£32,775
Loans payable		**788,970**		582,403
		1,130,068		615,178
Nature of Operations and Going Concern Assumption (Note 1)				
Commitments and Contingencies (Note 12)				
Shareholders' Equity				
Share capital (Note 9(a))		**2,227,037**		30,000
Share purchase loan (Note 5)		**-**		(21,000)
Contributed surplus (Note 9(e))		**1,032,000**		891,000
Deficit		**(714,999)**		(81,860)
Accumulated other comprehensive income (Note 10)		**75,355**		-
		2,619,393		818,140
	£	**3,749,461**	£	1,433,318

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

On behalf of the Board:

Chairman
Bryan Benitz

Director
Jonathan Morley-Kirk

Consolidated Statements of Operations and Comprehensive Income

For the years ended December 31,		**2010**		2009
Expenses				
General and administrative	**£**	**656,736**	£	87,215
Unrealized foreign exchange (gain) loss		**(69,973)**		55,528
Financing expense		**24,829**		48,040
		611,592		190,783
Other items				
Interest income		**37,449**		1,323
Gain on sale of marketable securities (Note 4)		**42,063**		-
		79,512		1,323
Net loss for the year		**(532,080)**		(189,460)
Other comprehensive income				
Gain on revaluation of marketable securities		**75,355**		-
Comprehensive loss for the year	**£**	**(456,725)**	£	(189,460)
Net loss per share				
- basic and diluted	**£**	**(0.05)**	£	(0.02)
Weighted average shares outstanding				
- basic and diluted [1]		**10,796,210**		9,618,339

[1] Options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive

Consolidated Statements of Deficit

For the years ended December 31,		2010		2009
Retained earnings (deficit), beginning of year	£	(81,860)	£	107,600
Net Loss for the year		(532,080)		(189,460)
Acquisition of subsidiary (Note 3)		(101,059)		-
Deficit, end of year	£	(714,999)	£	(81,860)

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

Consolidated Statements of Cash Flows

For the years ended December 31,		2010		2009
Cash flows from (used in) operating activities				
Net loss for the year	£	**(532,080)**	£	(189,460)
Items not involving cash:				
Sponsor share consideration		**23,275**		-
Sponsor and Advisor warrant expense		**55,000**		-
Debt settlement with shares		**104,412**		-
Gain on sale of marketable securities		**(42,063)**		-
		(391,456)		(189,460)
Changes in non cash working capital balances:				
Accounts receivable		**(38,550)**		(7,737)
Accounts payable and accrued liabilities		**(34,442)**		(24,785)
Cash flow used in operating activities		**(464,448)**		(221,982)
Cash flows from (used in) financing activities				
Loan payable		**135,573**		582,403
Issue of common shares		**2,155,996**		-
Share issuance costs		**(141,646)**		-
Cash flow from financing activities		**2,149,923**		582,403
Cash flows from (used in) investing activities				
Changes in non-cash working capital balances		**241,217**		-
Net cash acquired on the acquisition (Note 3)		**489**		
Proceeds on the disposal of marketable securities		**118,040**		-
Expenditures on property and equipment		**(244,606)**		-
Restricted cash		**(41,807)**		(613,156)
Cash flow provided by (used in) investing activities		**73,333**		(613,156)
Effect of exchange rate changes on cash		**21,050**		
Increase (decrease) in cash		**1,779,858**		(252,735)
Cash, beginning of year		**36,712**		289,447
Cash, end of year	£	**1,816,570**	£	36,712
Supplemental information				
Interest paid	£	**-**	£	-
Taxes paid	£	**-**	£	-

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

Notes to Consolidated Financial Statements December 31, 2010 and 2009

1. Nature of Operations and Going Concern Assumption

Longreach Oil And Gas Limited ("Longreach" or "the Company") was incorporated as Chairman Capital Corp pursuant to the provisions of the Business Corporations Act (Ontario) on May 31, 2006 and was classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 ("Policy 2.4") of the TSX Venture Exchange (the "Exchange"). On August 13, 2010, Longreach continued from the province of Ontario to Jersey, Channel Islands under the Companies (Jersey) law 1991.

On September 24, 2010, the Company announced the completion of the acquisition of 100% of the issued and outstanding shares of Longreach Oil And Gas Ventures Limited ("Ventures"). This satisfied the requirement of a CPC, and the Company was listed on the Exchange (the "Qualifying Transaction"). Ventures was incorporated in Jersey, Channel Islands on April 4, 2006. The acquisition was accounted as a reverse takeover whereas Ventures was the deemed acquirer (Note 3). The accompanying audited consolidated financial statements reflect the historical results of Ventures, and the consolidated results of operations of the Company subsequent to the acquisition of Ventures. The Company's principal business activities include the evaluation, acquisition, exploration and development of oil and gas properties in Morocco.

The Company is in the process of exploring its oil and gas properties and has not yet established whether the properties contain reserves that are economically recoverable. The recovery of amounts capitalized for property interests on the balance sheet are dependent upon the existence of economically recoverable hydrocarbons, the ability of the Company to complete exploration and/or development of the properties, including related financing requirements and upon future profitable production or, alternatively, upon proceeds from the disposition of the properties. To date, the Company has not earned revenues relative to its costs incurred for exploration activities. Accordingly, it is considered to be in the development stage as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11. These consolidated financial statements have been prepared on a going concern basis, under which the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ongoing activities dependent upon its ability to obtain sufficient financing to fund its current and future operations and future acquisition costs. There is no certainty that such financing will be obtained on terms acceptable to management which may cast significant doubt about the Company's ability to continue as going concern . The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of property and equipment, liabilities, the reported expenses, and the balance sheet classifications used. Such adjustments could be material.

2. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Foreign currency translation

Monetary assets and liabilities denominated in a currency other than the British pound ("£") are translated at the rates of exchange in effect at the balance sheet date while revenues and expense are translated at

transaction date exchange rates. Exchange gains and losses are included in determination of net income as foreign exchange gain or loss.
The Company's functional and reporting currency is the £ unless otherwise stated.

(b) Cash and cash equivalents
Cash and cash equivalents consists of cash on hand, bank balances, term deposits and investments with maturities from the date of inception of three months or less.

(c) Marketable securities
Investments and securities held for trading include investments that do not meet the criteria for classification as cash deposits. These securities include common shares. These investments and securities are designated as available for sale and are carried at fair value. Changes in the fair value of investments and securities are recognized through other comprehensive income.

(d) Financial instruments
All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to other than temporary impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is settled or other than temporary impaired.
- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

The financial instruments recognized on Longreach's balance sheet approximated their estimated fair values. There were no financial assets on the balance sheet which were designated as available-for-sale. Cash and cash equivalents were classified as held-for-trading, all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis, and all financial liabilities were classified as other liabilities. The fair values of these financial instruments are approximately the same as their carrying values.

Transaction costs related to held for trading financial assets are treated as expenses at the time they are incurred. Transaction costs related to available-for-sale financial assets and loans and receivables are added to the carrying value of the asset and transaction costs related to other liabilities are netted against the carrying value of liability. They are then recognized over the expected life of the instrument using the effective interest method.

(e) Comprehensive income
Comprehensive income consists of net income and other comprehensive income (OCI) which includes unrealized gains and losses on available-for-sale investments.

(f) Joint venture operations
Substantially all of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(g) Revenue recognition

Revenue from the sale of oil, gas and liquids will be recognized based on volume delivered at contractual delivery points and rates. The costs associated with the delivery, including operating, transportation and production-based royalty expenses, are recognized in the same year in which the related revenue is earned and recorded. Interest income is recognized when earned.

(h) Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying value and the tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year in which the change is substantively enacted. A valuation allowance is recorded for the future income tax assets when the balances are not more likely than not to be realized.

(i) Property and equipment

The Company follows the full cost method of accounting for oil and natural gas operations whereby all costs relating to the acquisition, exploration and development of oil and natural gas reserves are initially capitalized into a single Morocco cost centre. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, related production equipment costs, asset retirement and abandonment costs and overhead charges directly related to acquisition, exploration and development activities.

Capitalized costs, excluding costs related to unproven properties, are depleted and depreciated using the unit-of-production method based on estimated proven oil and natural gas reserves before the deduction of royalties as determined by independent petroleum engineers. Petroleum and natural gas reserves and production are converted to equivalent barrels of oil using a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Company assesses the carrying value of its property, plant and equipment for impairment annually or as circumstances dictate. Impairment is indicated when the carrying value of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Cash flows are calculated using expected future Dubai product prices, and costs and are discounted using a risk-free interest rate. Any impairment is measured as the excess of the carrying amount over the estimated discounted future net cash flows associated with the Company's proved and probable reserves. Reserves are determined pursuant to Canadian Securities Administrators' National Instrument 51-101, "Standards of Disclosure of Oil and Gas Activities". Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to earnings in the period the impairment occurs.

Proceeds from the sale of petroleum and natural gas properties will be applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a greater than 20% change in the depletion and depreciation rate.

Office equipment and furniture is carried at cost and amortized using the declining balance method at rates ranging from 10% to 25%.

(j) Asset retirement obligation

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which a legal obligation is incurred or when a reasonable estimate of the fair value can be made, and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time, which is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

(k) Stock-based compensation plan

The Company accounts for stock options granted to employees, directors and consultants using the fair value method of accounting. Under this method, stock-based compensation is recorded as an expense over the vesting terms of the options, with a corresponding increase recorded as contributed surplus. Stock-based compensation expense is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option pricing model. When stock options are exercised, the consideration received with the corresponding amounts previously recorded in contributed surplus are credited to share capital. Forfeitures are accounted for as they occur which result in reduction in compensation expense if the options have not vested.

(l) Per share information

Basic per share amounts are calculated using the total weighted average number of common shares outstanding during the year. Diluted per share calculations reflect the exercise or conversion of potentially dilutive securities or other contracts to issue shares at the later of the date of grant of such securities or the beginning of the year. The Company computes diluted earnings per share using the treasury stock method to determine the dilutive effect of securities or other contracts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding, in-the-money options are used to purchase common shares of the Company at their average market price for the year.

(m) Measurement uncertainty

The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. Although the ultimate impact of these matters on the net income or loss cannot be determined at this time, it could be material for any one quarter or year. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting year. Actual results can differ from those estimates.

Recorded amounts for depletion and depreciation of petroleum and natural gas properties and equipment are based on estimates. The ceiling test and impairment calculations are based on estimates of oil and natural gas reserves, future costs required to develop those reserves and the fair value of unproved properties. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty and the effect on the financial statements in future years could be significant.

The value of the asset retirement obligation depends on estimates of current market interest rates, future restoration and reclamation expenditures and the timing of expenditures. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in estimates in future years could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock option plan has characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. By their nature, these estimates are subject to measurement uncertainty with respect to the fair value ascribed to the options granted.

(n) Change in accounting policies

Effective January 1, 2010, the Company prospectively early adopted CICA Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. The adoption of this standard did not have an impact on the financial statements of the Company.

Effective January 1, 2010, the Company prospectively early adopted CICA Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of this standard did not have an impact on the financial statements of the Company.

Effective January 1, 2010, the Company prospectively adopted CICA Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The adoption of this standard resulted in additional disclosures described in Note 13(f).

Effective January 1, 2010, the Company prospectively adopted the amended CICA Section 3855, "Financial Instruments – Recognition and Measurement", in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The adoption of the amendments of this standard did not have an impact on the financial statements of the Company.

(o) Accounting pronouncement

In February 2008, the Canadian Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The first reporting period under IFRS will be the three months ended March 31, 2011. Management is currently finalizing its assessment of the impact of the convergence of Canadian GAAP with IFRS on the Corporation's results of operations, financial position and financial statement disclosures.

3. Reverse Takeover Transaction

Effective September 24, 2010, Longreach acquired 100% of the issued and outstanding shares of Ventures. Pursuant to the terms of the transaction: (i) all of the issued and outstanding common shares of Longreach were exchanged for 200,000 common shares of Ventures; and (ii) each of the 3,000,000 issued and outstanding Ventures shares (immediately prior to the private placement) were exchanged for 9,672,000 shares of Longreach. As a result of this share issuance, the shareholders of Ventures obtained control of the Company by controlling 98% of the common shares of Longreach immediately following the acquisition and prior to the private placement. The acquisition has been accounted for as a reverse takeover with the acquiring entity being Ventures and the acquired entity being Longreach. Such a reverse takeover transaction involving a non-public enterprise and a non-operating public enterprise with nominal net non-monetary assets is accounted as capital transaction. Consequently, the purchase consideration paid by Ventures is an amount equal to the fair value of the net assets of Longreach and is allocated to the fair values of the net assets of Longreach on the date of acquisition. As a result of the reverse takeover transaction these financial statements are a continuation of the financial statements of Ventures and accordingly the comparative financial statements are those of Ventures. The fair value of the net assets of Longreach acquired is as follows:

Cash	£	489
Accounts payable and accrued liabilities		(101,548)
Net liabilities assumed	£	(101,059)

As the amount represents a net asset deficiency, it has been charged to the deficit.

4. Investment in Marketable Securities

During the year, the Company received 1,324,964 San Leon Energy PLC ("San Leon") common shares as consideration for putting up certain bank guarantees (Note 6(b)). The common shares of San Leon are listed on the listed on the AIM market of the London Stock Exchange. As the Company continues to hold the bank guarantee a corresponding liability was set up upon receipt of the San Leon common shares.

In December 2010, the Company sold 474,964 San Leon common shares at £0.25 per share common share for proceeds of £118,040. At December 31, 2010, the Company fair valued its investment in San Leon to £211,322 being the disposition proceeds received in early January 2011 from the disposition of the shares which is equivalent to the market price of the shares on December 31, 2010.

5. Share Purchase Loan

In 2009, the Company had a share purchase loan with a shareholder and director for £21,000 related to the acquisition of Class A common shares in 2008. The share purchase loan was recorded as a reduction of shareholders' equity. The amount was non-interest bearing, unsecured and repayable on demand.

6. Restricted Cash

(a) Longreach entered into an agreement in 2009 whereby the Company agreed to hold funds in trust for a third party company in the amount of £384,096 ($599,544 USD) and has included this amount in restricted cash.

(b) In 2009 the exploration permit for the Zag Basin was signed and a bank guarantee was required. The Company also entered into an agreement with a joint venture partner whereby Longreach will fund $150,000 (USD) for the Zag license and $208,335 (USD) for the Sidi Moussa and Foum Draa licenses, on behalf of its joint venture partner for their interest and proportion of the bank guarantee in the gross license agreement. The joint venture partner will pay interest from the date of agreement at 10% and will finance its share of the guarantee by March 31, 2010. In the event that this amount is not funded by the joint venture partner either out of a sale of assets or fundraising within six months, or a change of control, Longreach may elect to have the funds advanced exchanged into ordinary shares of the joint venture partner at a conversion price calculated as the volume weighted average of the closing price of the joint venturer's ordinary shares on the AIM market of the London Stock Exchange. During the year, the Company received 1,324,964 common shares of San Leon (Note 4).

(c) Other items included within restricted cash include the total cash security deposit of $700,000 USD (£448,453) for the Tarfaya license and a cash security deposit of $225,000 USD (£144,145) for the Zag exploration license.

(d) The remainder of the restricted cash is for other guarantees or bank deposits.

7. Property and Equipment

	2010			2009		
	Cost	**Accumulated depletion and depreciation**	**Net Book Value**	Cost	Accumulated depletion and depreciation	Net Book Value
Petroleum and natural gas properties	**£ 448,549**	**£ -**	**£ 448,549**	£ 207,332	£ -	£ 207,332
Office equipment and furniture	**3,802**	**413**	**3,389**	-	-	-
	£ 452,351	**£ 413**	**£ 451,938**	£ 207,332	£ 207,332	£ 207,332

All of the Company's petroleum and natural gas properties are located in Morocco. The office equipment and furniture is located in the United Kingdom. During the year ended December 31, 2010, the Company did not capitalize any general and administrative expenditures (2009 – £Nil). The Company has not commenced depleting its petroleum and natural gas properties as the costs of £448,549 (2009 - £207,332) remain unproved as at December 31, 2010 and 2009.

8. Loans payable

The Company has a loan payable for £788,970 of which £159,000 (2009 - £300,000) is due to a shareholder and director which is non-interest bearing, unsecured and due on demand. The remaining £629,970 ($983,335 USD) is being held in trust for a third party companies (Note 6).

9. Share Capital

(a) Authorized

Unlimited number of Common Shares without nominal or par value

(b) Issued

	December 31, 2010		December 31, 2009 Ventures	
Common shares	**Shares**	**Amounts**	Shares	Amounts
Opening balance	**9,672,000**	**£30,000**	9,591,400	£29,750
Issued *(i)*	**-**	**-**	80,600	250
RTO transaction (Note 3)	**200,000**	**-**	-	-
Private placement *(ii)*	**3,761,625**	**1,809,996**	-	-

Sponsor shares *(iii)*	**50,000**	**23,275**	-	-
Share issue costs	**-**	**(188,646)**	-	-
Balance end of year	**13,683,625**	**£1,674,625**	9,672,000	£30,000
To be issued on debt settlement (iv)	**131,331**	**104,412**	-	-
	13,814,956	**£1,779,037**	9,672,000	£30,000

Warrants

Opening balance	**-**	**£ -**	-	£ -
Private placement *(ii)*	**1,880,805**	**346,000**	-	-
Agent warrants *(v)*	**181,389**	**47,000**	-	-
Sponsor warrants *(iii)*	**50,000**	**13,000**	-	-
Advisor warrants *(vi)*	**136,836**	**42,000**	-	-
Balance end of year	**2,249,030**	**£448,000**	-	£ -
		£2,227,037		£30,000

(i) Of this amount, £7,550 was paid for in cash and £21,000 was included as a share purchase loan (Note 5).

(ii) On September 24, 2010 the Company closed a private placement of 3,761,625 Units for gross proceeds of 2,155,996 (CAD - $3,500,277). Each unit consisted of one common share and one half share purchase warrant. Each whole warrant is exercisable for one common share at an exercise price of CAD $1.50 per share for the period that is longer of: (i) 12 months from the date the Company is listed on the TSX-V; and (ii) 24 months from the Offering closing date. The fair value of the warrants is estimated at £346,000 and was determined using the Black-Scholes option pricing model with the following assumptions dividend yield – Nil, expected volatility 75%, risk free rate of return 1.8%, weighted average life – 2 years.

(iii) A requirement of the TSX Venture Exchange was for the Company to obtain a Sponsor in conjunction with the RTO transaction. The sponsor was paid £23,275 and issued 50,000 Common Shares valued at $1.00 per share (£23,275) and issued 50,000 warrants. The costs have been included in general and administrative costs with the fair value of the warrants estimated at £13,000, determined using the Black-Scholes option pricing model with the following assumptions dividend yield – Nil, expected volatility 75%, risk free rate of return 1.8%, weighted average life – 2 years.

(iv) In December 2010, the Company settled certain debts with an arm's length via the issuance of 131,331 common shares valued at $1.26 CAD per common share. The shares were issued from Treasury on February 10, 2011.

(v) The Agents in the aforementioned financing received 181,389 warrants as a portion of their fee. Included in share issue costs is the fair value of the warrants estimated at £47,000, determined using the Black-Scholes option pricing model with the following assumptions dividend yield – Nil, expected volatility 75%, risk free rate of return 1.8%, weighted average life – 2 years.

(vi) The Company also paid an advisory fee via the issuance of 136,836 warrants. The fair value of the warrants has been included in general and administrative costs. The estimated fair value of the warrants estimated at £42,000, determined using the Black-Scholes option pricing model with the following assumptions dividend yield – Nil, expected volatility 75%, risk free rate of return 1.8%, weighted average life – 3 years.

(c) Warrants

The following table summarizes the warrants outstanding and exercisable at December 31, 2010:

Number of warrants	Exercise price (CAD $)	Expiry date
1,880,805	$1.50	September 24, 2012
181,389	$1.00	September 24, 2012
50,000	$1.00	September 24, 2012
136,836	$1.00	September 24, 2013
2,249,030		

d) Stock options

The Company had a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase from treasury a number of common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. Options granted under the plan vested immediately. The options are non-transferable if not exercised. The exercise price is based on the Company's common shares prior to the day of the grant, which may be different from the closing price of such shares on the day of grant for options granted to date, to date the exercise price has not been materially different from the trading price of the shares on the grant date. A summary of the status of the Company's stock option plan as at December 31, 2010 and 2009 and changes during the respective periods ended on those dates is presented below.

	December 31, 2010		December 31, 2009	
Stock Options	**Number of options**	**Weighted average Exercise Price (CAD $)**	Number of options	Weighted average Exercise Price (CAD $)
Beginning of year	**33,333**	**$1.50**	33,333	$1.50
Granted	**-**	**-**	-	-
Exercised	**-**	**-**	-	-
Forfeited	**(33,333)**	**$1.50**	-	-
End of period	**-**	**$ -**	33,333	$1.50
Exercisable, end of year	**-**	**$ -**	33,333	$1.50

The Company currently does not have a shareholder approved stock option plan. On December 10, 2010 Longreach obtained regulatory approval for the issuance of 625,000 common shares, exercisable at $1.20 per share subject to the shareholders approving a stock option plan. Shareholder approval is anticipated in late May 2011.

(e) Contributed surplus

The following table presents the changes in contributed surplus.

	2010	2009
Balance, beginning of year	**£ 891,000**	£ 866,250
Capital contribution	**-**	-
Share premium	**141,000**	24,750
Balance, end of year	**£ 1,032,000**	£ 891,00

(f) Escrowed securities

Pursuant to an Escrow Agreement, all of the 7,711,808 common shares and 390,104 share purchase warrants held by "principals" prior to the RTO transaction, were deposited in trust and held in escrow. 10% of these shares were released on October 4, 2010 upon completion of the RTO transaction and 15% will be released on each six month anniversary of that date. The Company has 6,940,627 common shares and 351,093 share purchase warrants remaining in escrow on December 31, 2010. Subsequent to the year end, the 1,041,094 common shares and 58,515 share purchase warrants were released from escrow.

10. Accumulated Other Comprehensive Income

		2010		2009
Balance, beginning of year	**£**	**-**	£	-
Unrealized gain of marketable securities		**75,355**		-
Balance, end of year	**£**	**75,355**	£	-

11. Related Party Transactions

Except as disclosed elsewhere in these financial statements the Company had the following related party transactions:

(a) In 2010, the Company paid certain Directors and Officers a total of £138,665 for consulting fees and services rendered (2009 - £12,000). £24,387 is included in accounts payable and accrued liabilities as at December 31, 2010 (2009 - $Nil).

(b) A Director and Officer of the Company subscribed for 725,400 units in the private placements (Note 9(b)(ii)).

Except as disclosed all related party transactions 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.

12. Commitments and Contingencies

(a) Tarfaya Exploration Permit

In January 2008, Longreach entered into a Memorandum of Understanding ("MOU") whereby the Company agreed to carry the joint venture partner's share of a bank guarantee of $400,000 USD which was required to be put in place at the time of execution of the Tarfaya LicenseIn addition to the above, the Company deposited as cash security for required bank guarantees, $300,000 USD for a 30% interest in the license agreement. The total of $700,000 USD (£448,453) is included in restricted cash (Note 6).

(b) Sidi Moussa and Foum Draa Exploration Permits

In 2009, the Company entered into a Farm-In Agreement whereby Longreach agreed to fund 16.67% of the bank guarantee amounting to $208,334 USD (£133,469). In return, the Company received a 10% gross interest in the Sidi Moussa and Foum Draa exploration licenses in Morocco.

(c) Zag Permit

In 2006, Longreach agreed to fund $100,000 USD which was 100% of the bank guarantee commitment for the Zag Reconnaissance Permit. In return Longreach received a 30% gross interest in the Zag permit. This amount was carried over in 2009 as a contribution by Longreach towards the total $225,000 USD (£144,145) commitment required by the Zag Exploration Permit for a 30% interest in the gross license agreement and has included this amount in restricted cash.

In addition, in 2009, Longreach agreed to deposit a further $150,000 USD on behalf of one of its joint venture partners as payment for their bank guarantee contribution relating to their 20% gross interest in the Zag Exploration license. The advance was repaid via the issuance of San Leon shares (Note 4).

13. Financial Instruments

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

(a) Commodity Price Risk

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

(b) Market Risk

Market risk is comprised of two components: currency risk and interest rate risk.

(c) Credit Risk

Credit risk is the risk that arises when a party to a financial instrument will be unable to discharge its obligations as they become due. The Company's financial assets exposed to credit risk are cash, restricted cash, and accounts receivable. Cash is placed with major financial institutions. The maximum credit risk is approximate to the carrying value of such financial instruments.

(d) Interest Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk as it borrows funds at a non-interest bearing rate as disclosed in Note 8. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

Assuming all other variables remain constant, a 1% increase or decrease in interest rates would have impacted the cash flows of the Company during the year ended December 31, 2010 by approximately £Nil (2009 - £5,800).

(e) Foreign Currency Exchange Risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currency other than British pound. 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 Pound sterling, Euros, United States dollars and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place as at or during the years ended December 31, 2010 or 2009, 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, 2010 would have impacted the cash flows of the Company during the year ended December 31, 2010 by approximately £28,800 (2009 - £12,200).

(f) Fair Value of Financial Instruments

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

Cash, restricted cash and marketable securities have been classified as Level 1.

All financial assets (except for cash and cash equivalents which are classified as held for trading), are classified as either loans or receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. The marketable securities have been designated as available-for-sale. There have been no changes to the aforementioned classifications during the year ended December 31, 2010.

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

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

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure programme are continuously monitored and adjusted as input variables change. These variables include but are not limited to, oil production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

14. Capital Risk Management

The Company defines capital as total cash and restricted cash, accounts payable and accrued liabilities, loan payable and shareholders' equity. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and sustain future development of the business.

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

The Company manages the capital structure and makes adjustments to it in light of the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire, or dispose of assets.

In order to facilitate the management of its capital requirements the Company prepares annual expenditure budgets that are updated as necessary, depending on various factors including successful capital deployment and general industry conditions. The Company has not changed its approach to capital management during the current period. The Company is not subject to any external capital restrictions. As Longreach raised £2.155 million ($3.5 million (CAD)) in 2010 as previously noted, the Company expects that these funds will be sufficient to meet its current budgeted exploration and development plans.

	2010 £	2009 £
Current assets	3,297,523	1,225,986
Accounts payable and accrued liabilities	(341,098)	(32,775)
Loans payable	(788,970)	(582,403)
Net working capital	2,167,455	610,808

Longreach Oil & Gas Ltd
Registered in Jersey

London Office address
International House
1-6 Yarmouth Place
London W1J 7BU
United Kingdom

Jersey Office address
Queensway House
Hilgrove Street
St Helier
Jersey
Channel Islands
JE1 1ES

T: +44 20 3137 7756
F: +44 20 7629 1317
www.longreachoilandgas.com