

LONGFORD ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of financial results and related data of Longford Energy Inc. ("Longford" or the "Company") is reported in Canadian dollars and has been prepared in accordance with International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("GAAP"). To the extent which may be appropriate, this MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2011 and the three months ended March 31, 2011.

The commentary is as of August 26, 2011. The reader should be aware that historical results are not necessarily indicative of future performance.

In conformity with Canadian Securities Administrator's National Instrument ("NI") NI 51-101 "Standards of Disclosure for Oil and Gas Activities", natural gas volumes have been converted to equivalent barrels of oil ("boe") using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one boe. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe may be misleading, particularly if used in isolation.

Forward Looking Statements

This MD&A contains forward-looking statements. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on Longford, future operating costs, future transportation costs, expected change in royalty rates, interest rates and the timing of and impact of adoption of IFRS and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation to, statements with respect to the Company's development potential and program; the acquisition of an interest in a Production Sharing Contract ("PSC") in respect of a licence in Kurdistan; the Company's ability to raise required capital, the future price of oil and gas; the continuing impact of the change of management; the estimation of oil and gas reserves; conclusions of economic evaluation; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; currency exchange rates; potential and stability of foreign jurisdictions; government relations and regulation; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such statements are made. Estimates regarding the potential of the Company's properties (particularly the Chia Surkh Block in Kurdistan) are based on the Company's understanding of regional geology and neighbouring properties and the stability and continued development of Kurdistan. Capital and operating cost estimates are based on terms of the PSC agreement, extensive research of the Company, proposed budgets and programs of the consortium under the PSC, recent estimates of exploration costs and other factors that are set out herein. Production estimates are based on past experience and plans and production schedules that have been developed by the Company's personnel and independent consultants. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to: unexpected events and delays during exploration, development and construction; revocation of government approvals and contracts; timing and availability of external financing on acceptable terms; actual results of exploration activities; changes in project parameters as plans continue to be refined; future prices of oil and gas; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes; risks inherent in foreign operations and other risks of the oil and gas industry. Although management of Longford has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website

(www.sedar.com), or at the Company's website (www.Longfordenergyinc.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Non-IFRS Measurements

The MD&A contains the term "cash flow from operations" ("cash flow"), which should not be considered an alternative to, or more meaningful than, "cash flow from operating activities" as determined in accordance with IFRS and previously Canadian GAAP as an indicator of the Company's financial performance. Longford's determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the statements of cash flows in the financial statements. The Company evaluates its performance based on net income and cash flow from operations. The Company considers cash flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to repay debt and to fund future growth through capital investment. Cash flow from operations per share is calculated using the diluted weighted average number of shares for the period.

OPERATIONAL UPDATE

Along with the joint venture partners and approval from the Kurdistan Regional Government ("KRG"), the Company has identified and finalized a drilling location for the first exploration well, Chia Surkh 10, ("CS-K-10") on the Chia Surkh Block ("Block"). In preparation for the drilling of the CS-K-10 well the Company has ordered the long lease items, has constructed the drilling lease and is finalizing contracts required for drilling operations. The CS-K-10 well is anticipated to be drilled to a total depth of approximately 2,400 meters, confirming the shallow Jeribe discovery drilled in 1936 and reported to have tested at 4,800 barrels of oil per day. The upcoming well has been designed as a future oil producer, and upon successful testing, the Company intends to promptly build early production facilities and bring the well online.

The Block covers approximately 985 square kilometers, in the Sulaymaniyah Governorate of the Kurdistan Region of Iraq. The Block contains a historical discovery as well as multiple exploration prospects. As at December 31, 2010, the Company had independent resource estimates updated by DeGolyer and MacNaughton Canada Limited to incorporate the recently updated seismic data. The updated resource assessment resulted in best estimated contingent reserves of 121 million barrels of oil equivalent ("MMBOE") and prospective reserves of 218 MMBOE for a total of 339 MMBOE. This represented a 260% increase from the best estimate perspective reserves of 138 MMBOE reported for December 31, 2009

Longford was officially appointed as the Operator of the Chia Surkh Block, during the first quarter of 2010. The acquisition of 307 kilometres of 2D seismic data was completed in October 2010. The program was designed to complement and augment existing historical seismic data, delineate a previously discovered oil reservoir known as the Chia Surkh Field, and assist in the selection of the first well location. Interpretation of the seismic data is ongoing to better define the additional surface structures identified within the Block and identify a subsequent second drill location.

OVERVIEW

Longford Energy Inc. is an independent international oil and gas company focused on the exploration and development of its principal asset, the Chia Surkh Block, in the Kurdistan region of Iraq. The Block lies on trend with existing discoveries and is located in the prolific Zagros Fold Belt of Northern Iraq which contains several large fields including the super-giant Kirkuk field.

In June 2009, Longford had acquired a 50% interest in a subsidiary (Forbes & Manhattan (Kurdistan) Inc. ("Subsidiary"), jointly owned with the KRG. The Subsidiary held a 40% direct net working interest in the Block Production Sharing Contract ("PSC"). In addition, Longford had an option to acquire the remaining 50% interest in the subsidiary from the KRG on terms to be negotiated.

During the third quarter of 2010, the Company reached an agreement with the KRG to acquire the remaining interest in the Subsidiary resulting in Longford holding an aggregate 40% direct net working interest in the Block. As consideration for this transaction, the Company has agreed to pay the Government a 40% royalty, in the form of capacity building payments, on its profits from future production from the Block. The KRG will use payments to support and finance infrastructure and capacity building projects in the

Longford Energy Inc.
Management's Discussion and Analysis
June 30, 2011

Kurdistan Region. In addition, the agreement amended the payment schedule of the second tranche of capacity building payments under the PSC, which will be payable in installments during the third and fourth quarters of 2010. Longford and its partners ("the Consortium") has a total of 80% net participating interest and is responsible to exclusively carry the Government's 20% net participating interest. Any petroleum costs incurred by the Consortium on behalf of the Government shall be recovered once the project enters the production and development phase.

The Block comprises three blocks, which were previously designated by the Kurdistan Regional Government as K46, K47 and K48. The Block is 985 square kilometers in size and is located southeast of the city of Sulaymania between the Diyala (Sirwan) River and the Iranian border. Apart from some mountainous areas that delineate the Iranian border, the area is generally of low relief with accessibility that Longford has deemed excellent for oil related operations. The area is mostly within the Foothill Tectonic Zone and the boundary with the High Fold Zone trends NNW along the Block's eastern boundary. The Foothill Zone, which is 160 km wide and characterized by long narrow anticlinal structures, contains most of the major oil fields of northern Iraq.

The Block offers both a field development opportunity and multiple exploration prospects. The existing discovery, the Chia Surkh structure, trends NW-SE and is understood to cover a surface area of approximately 42 square kilometers with exposed Miocene Injana Formation Upper Fars surrounded by Pliocene Bakhtiari Formation (Bai Hassan and Mukdadiya). A well, which was drilled by the predecessor of Anglo-Persian Oil Company in 1902, discovered oil at a depth of approximately 700 meters in a fractured limestone unit of the Lower Fars Formation. After World War II, a deeper well recovered 41° API oil from the Jeribe formation with indications that the hydrocarbon column may exceed 220 meters. The Company believes that the Chia Surkh reservoir is correlative to the fractured reservoirs in the Kor Mor field that is approximately 70 kilometers to the north-west, as well as the Asmari reservoir present in many Iranian fields. It is also believed that deeper unevaluated horizons could be prospective for oil and gas.

The obligations under the PSC include a onetime signature bonus and capacity building bonuses, the first of which was due and paid to the Government within a period of 30 days from the execution date of the contract. The remainder, consisting of five equal monthly amounts of USD \$5.0 million each, became due beginning in August 2010 and are currently past due and outstanding. Annual contributions to personnel, training, environmental and technological funds established by the Government, as well as further community support contributions are to be paid over the coming months to assist with infrastructure projects in the region. The Consortium will also be responsible for paying its proportionate share of certain production bonuses in the case of commercial discovery. The remaining minimum work program obligation represents an exploration commitment, which includes the drilling of two exploration wells for a minimum of USD \$20.0 million (gross). Acquisition, processing and interpretation of the minimum seismic data have been completed.

RESULTS OF OPERATIONS

(\$)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Interest and other income	628	48	784	76
Gain on settlement of debt	-	-	-	-
General and administrative	(110,131)	(1,143,551)	(471,484)	(1,369,611)
Unrealized gain - marketable securities	-	-	-	-
Realized foreign exchange gain/(loss)	669,261	794,556	665,212	(218,252)
Finance costs	(4,341)	(22,674)	(7,356)	(22,858)
Settlement of decommissioning obligations	-	-	(48,806)	-
Cash flow (used in) from operations	555,417	(371,621)	138,350	(1,610,645)
Stock-based compensation	(15,101)	(1,039,531)	(34,898)	(1,056,212)
Depletion, depreciation and accretion	(14,574)	(14,052)	(28,330)	(20,735)
Unrealized foreign exchange (loss)/gain	(710,439)	(546,279)	(728,738)	346,119
Settlement of decommissioning obligations	-	-	48,806	-
Net loss	(184,697)	(1,971,483)	(604,810)	(2,341,473)
Other comprehensive loss	(212,288)	2,179,061	(1,343,868)	561,691

Longford Energy Inc.
Management's Discussion and Analysis
June 30, 2011

Interest and Other Income

Interest and other income totaled \$628 and \$784 for the three and six months ended June 30, 2011 compared to \$48 and \$76 for the corresponding periods in 2010. For 2011 and 2010, interest and other income consisted primarily of interest income from cash holdings.

General and Administrative

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
General and administrative expenses				
Salaries, wages, benefits and employee expenses	\$ 89,175	\$ 852,269	\$ 194,027	\$ 918,445
Office rent and supplies	157,485	91,803	251,317	142,150
Outside services/consulting	536,093	346,291	1,136,964	842,701
Website, advertising, investor relations	5,125	35,783	5,948	71,099
Stock exchange and transfer agent	40,845	64,017	70,916	81,912
Less: G&A capitalized with E&E costs	(718,592)	(246,612)	(1,187,688)	(686,696)
Total	\$ 110,131	\$ 1,143,551	\$ 471,484	\$ 1,369,611

During the three and six months ended June 30, 2011 respectively, the Company recorded \$110,131 and \$471,484 of general and administrative expenses compared to \$1,143,551 and \$1,369,611 for the corresponding 2010 periods. These costs include the administration costs related to general office costs, employee/consulting costs, legal and other administrative costs. For the three and six months ended June 30, 2011, the Company capitalized \$718,592 and \$1,187,688 of general and administrative costs directly attributed to the operations of its Kurdistan operations (June 30, 2010 - \$ 246,612 and \$686,696). The increase in capitalized general and administrative expenses relates to allowable overhead charges under the PSC for capital expenditures, which increased in second quarter of 2011.

Stock-Based Compensation

(\$)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Stock-based compensation	15,101	1,039,531	34,898	1,056,212

Stock-based compensation for the three and six months ended June 30, 2011 totaled \$15,101 (2010 - \$1,039,531) and \$34,898 (2010 - \$1,056,212). Stock-based compensation represents a non-cash charge resulting from applying the fair value method on stock options issued. Under this method, compensation expense related to these programs is recorded in the statement of operations over their respective vesting periods. There were no stock options issued during the six months ended June 30, 2011.

Finance Costs

Financing expenses for the three months and six months ended June 30, 2011 were \$4,341 and \$7,356 respectively compared to \$22,674 and \$22,858 for corresponding periods in 2010.

Longford Energy Inc.
Management's Discussion and Analysis
June 30, 2011

Depreciation

(\$)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Depreciation	14,574	14,052	28,330	20,735

Depreciation expense during the three and six months ended June 30, 2011 was \$14,574 and \$28,330 respectively as compared to \$14,052 and \$20,735 in the corresponding periods in 2010. Depreciation recorded in the periods relates to office capital, computer hardware and vehicles supporting the office and operations in Kurdistan.

Total costs included as exploration and evaluation assets of \$71,839,550 as at June 30, 2011 (December 31, 2010 - \$68,478,764), represents costs incurred in Kurdistan, which have been excluded from depletion.

Foreign Exchange Gains/Losses

The Company recorded net foreign exchange losses of \$41,178 and \$63,526 for the three and six months ended June 30, 2011 compared to net gains of \$248,277 and \$127,867 for the corresponding periods in 2010. The foreign exchange gains and losses arise mainly from the fluctuation of the US to Canadian dollar which impacts the translation of the Company's holdings in US dollars and working capital items denominated in US dollars.

Other Comprehensive Income/Loss

For the three and six months ended June 30, 2011, the Company recorded losses of \$212,288 and \$1,343,868 of other comprehensive loss as compared to gains of \$2,179,061 and \$561,691 for the corresponding periods in 2010. Amounts reported as other comprehensive loss relate to foreign currency translation gains and losses of US functional currency subsidiaries, which primarily relate to the conversion of all assets and liabilities to Canadian dollars at the balance sheet date.

Cash and Funds from Operations and Net Loss

The Company anticipates that it will continue to generate negative cash flow from operations and net losses as a result of its focus on exploration activities in the Kurdistan Region of Iraq.

Longford reported a loss of \$259,309 (\$0.00 loss per share) and \$679,422 (\$0.00 loss per share) for the three and six months ended June 30, 2011 as compared to losses of \$1,971,483 (\$0.02 loss per share) and \$2,341,473 (\$0.02 loss per share) in the same periods of 2010.

(\$, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Funds used in operating activities	(145,205)	(1,289,734)	(107,666)	(1,640,900)
Change in non-cash working capital	517,878	(174,445)	246,016	30,255
Cash flow used in continuing operations	372,673	(1,464,179)	138,350	(1,610,645)
Per share - basic and diluted	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.01)
Loss from continuing operations	(184,697)	(1,971,483)	(604,810)	(2,341,473)
Per share - basic and diluted	\$ (0.00)	\$ (0.02)	\$ (0.00)	\$ (0.02)

Capital Expenditures

Kurdistan

Capital expenditures relating to Longford's interests in Kurdistan totaled \$5,511,435 for the six months ended June 30, 2011 representing initial exploration drilling costs, payments due under the Production Sharing Contract, administrative costs directly attributed to operations and security costs.

Contract Obligations and Commitments

Production Sharing Contract ("PSC")

In June 2009, Longford had acquired a 50% interest in a subsidiary, jointly owned with the KRG. The Subsidiary held a 40% direct net working interest in the Chia Surkh Block PSC. In addition, Longford had an option to acquire the remaining 50% interest in the Subsidiary on terms to be negotiated with the KRG. During the third quarter of 2010, the Company reached an agreement with the KRG to acquire the remaining interest in the subsidiary resulting in Longford holding an aggregate 40% direct net working interest in the Block. As consideration for this transaction, the Company has agreed to pay the Government a 40% royalty, in the form of capacity building payments, on its profits from future production from the Block. In conjunction with the agreement, the Company amended the payment schedule of the second tranche of capacity building payments under the PSC, which became due during the third and fourth quarters of 2010 and remain payable and are past due at June 30, 2011.

Longford and its Joint Venture partners ("the Consortium"), Genel Energy International Limited and Petoil Petroleum and Petroleum Products International Exploration and Production Inc. ("Petoil"), have a total of 80% net participating interest and are responsible to exclusively carry the Government's 20% net participating interest. Any exploration and development expenditures made under the PSC, incurred by the Consortium on behalf of the Government, shall be recovered once the project enters the production and development phase. Longford has agreed to carry the 20% working interest held by Petoil for the first US \$25 million of gross costs. Petoil's carry bears interest at one month LIBOR plus 3% and Longford is to be reimbursed for Petoil's carry from Petoil's share of production.

The PSC Contract covers an exploration period and a development period. The exploration period is for an initial term of five years and can be extended to up to seven years, at the option of the Consortium. The PSC contemplates two exploration sub-periods of three years and two years, respectively, with two possible one-year extensions. The first exploration sub-period ends June 11, 2012. During the first sub-period of the exploration period, the Consortium shall: (a) carry out geological and geophysical studies; (b) field work comprising structural, stratigraphic and lithologic mapping and sampling; (c) acquire, process and interpret 250 line km of two dimensional seismic data for a minimum of USD \$5 million; and, (d) drill two exploration wells for a minimum of USD \$20 million (the commitments in (c) and (d) being the Minimum Financial Commitments). To date, the Company has completed the minimum obligations related to geological, geophysical and geological studies, mapping and seismic acquisitions and processing. Each member of the Consortium provided the Government with a corporate guarantee in respect of the Minimum Financial Commitments.

During the second sub-period of the exploration period, the Consortium shall: acquire, process and interpret further seismic data, if justified; and, drill two exploration wells for a minimum of USD \$20 million, subject to certain conditions. The minimum commitments for this second period shall not apply if the Consortium has notified the Government that it does not intend to proceed past the first sub-period. Any exploration work performed in excess of the commitments for the first sub-period shall be carried forward and applied to the commitments of the second sub-period.

At the end of the initial term of the exploration period, the Consortium must surrender to the Government 25% of the net area determined by subtracting any production areas from the initial contract area. At the end of the first extension period after the end of the initial term of the exploration period, the Consortium must surrender to the Government an additional 25% of the net area determined by subtracting any production areas from the initial contract area. If no Commercial Discovery has been made during the Exploration Period, then the PSC Contract shall terminate, provided that the Consortium may extend the term of the agreement if it has made a discovery but has not completed the appraisal required to deem the discovery to be a Commercial Discovery, subject to certain conditions. The Consortium must surrender to the Government all remaining areas that are not a production area at the end of the exploration period (including all extensions thereof).

The Development Period for a Commercial Discovery shall be 20 years commencing on the date of the announcement of Commercial Discovery, with an automatic five year extension period. Upon its request, the Consortium shall also be entitled to an additional five year extension period. A royalty would be payable to the Government on production from the contract area.

The PSC also includes funding for certain technological, logistical, recruitment and training during the first exploration sub-period, and any subsequent sub-periods. The total remaining financial commitment for these obligations during the exploration period ending on June 11, 2012, is approximately USD \$0.3 million (net). If the Company proceeds into the Development Period, additional commitments would be required.

With respect to the remaining minimum work commitments and financial obligations of the Company's acquired interest in the Block under the first exploratory period, which expires on June 11, 2012, the Company expects to spend approximately USD \$35 million (net) related to drilling two exploration wells and various payments under the agreements. The actual costs to fund the Company's share are estimates and could fluctuate significantly depending on final approval amongst the partners of the exploration work program. The actual funding costs may be higher or lower. The obligations are due in US dollars and therefore, the Company's projected funding obligation is subject to the actual costs incurred and fluctuations in exchange rates.

LIQUIDITY AND CAPITAL RESOURCES

Longford's policy is to maintain a capital base for the objectives of maintaining financial flexibility, joint venture partner and market confidence and to sustain the future development of the Company's business objectives. This capital structure is managed and adjusted in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas properties. In order to maintain or adjust the capital structure, the Company may from time to time issue shares from treasury and/or increase or decrease debt obligations.

Funding for the Company's capital expenditure program has come from equity raised in prior periods. The Company had negative cash flow from operations for the periods and this trend is expected to continue until such time as the Company is able to establish a production base. Longford currently does not have a credit facility with any lending institution. Longford will require additional financing in order to execute its business plan (see subsequent event above).

On June 8, 2011 the company closed a financing with syndicate of underwriters led by Canaccord Genuity Corp. and including GMP Securities L.P. and Fraser Mackenzie Ltd. (the "Underwriters"), pursuant to which the Underwriters have agreed to purchase 37,500,000 Units of the Company (the "Units") at a price of C\$0.20 per Unit for aggregate gross proceeds to Longford of C\$7,500,000 (the "Financing"). Each Unit will consist of one common share of the Company and one-half of a common share purchase warrant (each whole common share purchase warrant a "Warrant"). Each Warrant will entitle the holder thereof to acquire one Common Share of the Company at an exercise price of C\$0.30 per Warrant for a period of 24 months from the Closing Date.

The Company used the net proceeds of the Financing to fund the Corporation's 2011 exploration and development program on the Chia Surkh Block in the Kurdistan Region of Iraq and for general corporate purposes. The Underwriters received a cash commission equal to 6% of the gross proceeds raised from the Financing and were issued broker warrants that will entitle them to acquire that number of Common Shares equal to 6% of the Units sold under the Financing for a period of 24 months from the Closing Date.

Working Capital

As at June 30, 2011, the Company had negative working capital of \$23,216,100 compared to negative working capital of \$24,766,928 at December 31, 2010. As a development stage exploration company, Longford will continue its efforts to seek appropriate financing initiatives to meet its obligations that benefit the Company and its shareholders. Among the alternatives, the Company will assess the relative cost/benefit of additional issuance of shares from treasury or farm-out opportunities.

Share Capital

As at the date of this report and June 30, 2011, 181,704,992 common shares of Longford are outstanding. There are no off-balance sheet financing arrangements.

RELATED PARTY TRANSACTIONS AND MANAGEMENT AND BOARD COMPENSATION

The Company incurred consulting fees and bonuses totaling \$195,000 (2010 – \$772,500) during the six months ended June 30, 2011 to corporations owned or controlled by directors, \$275,000 of consulting fees and bonuses is payable as at June 30, 2011 (2010 - \$327,500).

In addition, compensation to other officers not included above was \$185,250 for the six months ended June 30, 2011 (2010 - \$344,197).

Longford shares its premises with other companies that have common directors and/or officers. Longford reimburses the related companies for its proportional share of the expenses and charges the related companies for expenses incurred on their behalf. During the six months ended June 30, 2011, the Company incurred \$360,461 (2010 - \$41,852) of expenses on those companies behalf while those companies incurred \$877,245 (2010 - \$233,757) on Longford's behalf. As at June 30, 2011 net accounts payable to these companies was \$80,750 (2010 - \$210,348).

On April 27, the Company entered into a bridge loan agreement with Aberdeen International Inc. ("Aberdeen") to lend Longford \$500,000. The loan bore interest at an annual rate of 5%. Longford and Aberdeen have common directors, being Stan Bharti and the Honourable Pierre Pettigrew, p.c. accordingly, the loan is considered a non-arm's length transaction for the purposes of the TSX Venture Exchange. In connection with the Financing (see liquidity and capital resources section above) the loan was converted into Units of the Company and is therefore no longer outstanding as at June 30, 2011.

All of the above transactions are in the normal course of operations and are measured at the exchange amount equaling the consideration established and agreed to by the related parties.

OUTLOOK

Along with the joint venture partners and approval from the KRG, the Company has identified and finalized a drilling location for the first exploration well. In preparation for the drilling of the CS-K-10 well the Company has ordered the long lease items, has constructed the drilling lease and is finalizing contracts required for drilling operations. The CS-K-10 well is anticipated to be drilled to a total depth of approximately 2,400 meters, confirming the shallow Jeribe discovery drilled in 1936 and reported to have tested at 4,800 barrels of oil per day. The upcoming well has been designed as a future oil producer, and upon successful testing, the Company intends to promptly build early production facilities and bring the well online.

Longford was officially appointed as the Operator of the Chia Surkh Block, during the first quarter of 2010. The acquisition of 307 kilometres of 2D seismic data was completed in October 2010. The program was designed to complement and augment existing historical seismic data, delineate a previously discovered oil reservoir known as the Chia Surkh Field, and assist in the selection of the first well location. Processing and interpretation of the seismic to better define the additional surface structures identified within the Block and identify a subsequent second drill location.

The Company is actively seeking additional sources of financing to fund its drilling and corporate operating commitments.

Quarterly Results

The quarterly results have been as follows:

(\$, except per share amounts)	IFRS						Canadian GAAP	
	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10	Mar-10	Dec-09	Sep-09
Cash flow from (used in) continuing operations	555,417	(417,067)	207,346	(314,242)	(1,464,179)	(146,466)	(198,500)	(1,090,207)
Funds from (used in) operating activities	37,539	(145,205)	400,481	(148,353)	(1,289,734)	(351,166)	602,303	(1,634,038)
Cash flow from discontinued operations	-	-	-	-	-	-	103,018	61,096
Net income/(loss) - Continuing Operations	(184,697)	(420,133)	(158,211)	(206,849)	(1,971,483)	(369,990)	(276,386)	(3,942,823)
Per share - basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.02)	(0.00)	(0.04)
Net income/(loss) - Discontinuing Operations	-	-	-	-	-	-	15,255	(615,979)
Per share - basic and diluted	-	-	-	-	-	-	0.00	(0.01)
Other comprehensive (loss)/income	(212,288)	(1,131,580)	(1,568,493)	(1,503,263)	2,179,061	(1,617,370)	-	-
Total assets	75,295,638	68,974,623	70,438,428	52,996,198	48,928,715	48,928,715	48,242,092	45,363,375

As Longford's primary focus is on the exploration and evaluation of its Chia Surkh Block, the Company has and will continue to report negative cash flow and earnings from operations, until the Company's exploration program finds and develops producing assets. The Company will continue to utilize proceeds from financing and equity issuance to fund its exploration program and general and administrative operating costs in an effort to explore and develop its holdings in Kurdistan.

SIGNIFICANT ACCOUNTING POLICIES

The Company has undergone significant accounting policy changes due to its transition from Canadian GAAP to IFRS. Please see discussion included in March 31, 2011 MD&A and interim condensed consolidated financial statements as well as Note 15 to the interim condensed consolidated financial statements as at June 30, 2011.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Longford's significant accounting policies are disclosed in Note 3 to the June 30, 2011 interim condensed consolidated financial statements.

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These accounting policies are discussed below and are included to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported. Longford's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates.

The following assessment of significant accounting policies and associated estimates is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Exploration and Evaluation and Impairment Evaluation

Fair value of exploration and evaluation assets is determined based on market value to an arm's length buyer as described in property and equipment above. As E&E assets are not proven assets, they have uncertainties that make it difficult to assess future cash flows; as such market conditions and assessment by management are used to determine fair value.

Exploration and evaluation assets are assessed for impairment if:

- (i) sufficient data exists to determine technical feasibility and commercial viability, and
- (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting an oil and gas resource is considered to be determinable when proven reserves are determined to exist. Upon determination of proven reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets referred to as oil and natural gas development and production assets.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Stock-based Compensation

Longford accounts for its stock based compensation program, which includes stock options using the fair value method. The determination of the fair value of options requires management to make assumptions about risk-free interest rates, expected volatility, dividend yield, forfeiture rate and expected life. Such assumptions may change from time to time and the estimated fair value of options calculated at the grant date may differ on subsequent dates. The fair value of stock options being amortized to compensation expense is not revised for any changes to the grant date.

New standards and interpretations not yet adopted

On November 12, 2009, the IASB issued IFRS 9 Financial Instruments to replace AS 39 Financial Instruments: Recognition and Measurement. As at January 1, 2013 Sagres will be required to adopt IFRS 9. IFRS 9 introduces a new classification and measurement regime for financial assets within its scope. Sagres does not expect the adoption of this standard to impact the Company significantly.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: amended Disclosures – transfers of Financial Assets (IFRS 7), Consolidated Financial Statements (IFRS 10), Joint Arrangements (IFRS 11), Disclosure of Interests in Other Entities (IFRS 12), amended IAS 12 Deferred Tax: Recovery of Underlying Assets, Separate Financial Statements (IAS 27), Fair Value Measurement (IFRS 13) and amended IAS 28 Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.