

### Transeuro Energy Corp. (TSX.V: TSU) – Focusing on Ukraine; Disappointing results in Canada and Armenia - FINAL REPORT

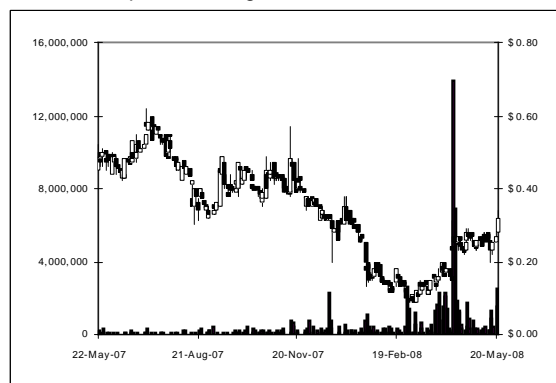
Sector/Industry: Oil & Gas

[www.transeuroenergy.com](http://www.transeuroenergy.com)

#### Market Data (as of May 22, 2008)

Current Price	C\$0.32
Fair Value	C\$0.45 (↓)
Rating*	HOLD (↓)
Risk*	4 (Speculative)
52 Week Range	C\$0.08 – C\$0.62
Shares O/S	207,898,242
Market Cap	C\$ 66.53 mm
Current Yield	N/A
P/E	N/A
P/B	6.28
YoY Return	-31.9%
YoY TSX	-18.4%

\*see back of report for rating and risk definitions



#### Investment Highlights

- Disappointing results at the Beaver River project (including the highly anticipated deep well in Nahanni) and Armenia was a huge setback for the company. The company has no plans for additional drilling on these projects in 2008.
- The company's primary focus now is the projects in Ukraine. In April 2008, TSU announced that they have entered into a Joint Venture Agreement with RAG Rohöl-Aufsuchungs Aktiengesellschaft ("RAG") to develop TSU's assets in Ukraine. RAG, established in 1935, is the oldest E&P company in Austria, operating 51 gas fields, and 40 oil fields, including substantial gas storage facilities. It is estimated that TSU will receive approximately US\$9.5 million on closing.
- In April 2008, the company announced that gas flowed to surface while conducting a test of the upper sections of the reservoir, indicating the presence of gas in the Karl 101 well. We believe this is a significant development for the company at this stage. TSU expects to complete the well in Q2-2008. If successful, the well is expected to be tied to production by the end of this year.
- The company is currently in a working capital deficit of \$27.63 million, primarily because its US\$15 million bonds payable were reclassified as current liabilities due to breach of certain covenants. Although the bond matures in November 2009, we believe TSU will face liquidity problems if it does not meet the required covenants, or have problems in raising additional capital from the market (either through equity or debt).
- We have downgraded our rating from BUY to HOLD, and lowered our fair value estimate from \$1.25 per share to \$0.45 per share.

#### Key Financial Data (FYE - December 31)

(C\$)	2006	2007	2008E	2009E
Revenue	2,461,489	3,526,902	5,629,513	8,201,328
Net Income	(27,685,520)	(99,762,019)	(12,562,625)	(3,238,471)
EPS	(0.23)	(0.53)	(0.06)	(0.02)
Cash	17,019,841	13,026,346	608,793	621,899
Working Capital	4,540,164	(16,032,253)	(12,930,431)	(3,803,714)
Total Assets	98,591,434	63,851,749	50,902,337	65,466,226

Transeuro Energy Corp. is a global exploration and production (E&P) company with a diverse portfolio of high potential projects in 4 different regions worldwide – Canada, Crimean Peninsula (Ukraine), Papua New Guinea and Armenia. The company's exposure to assets in PNG is through a major equity investment in Eaglewood Energy Inc. The Beaver River Project in B.C., Canada is currently producing and the fields in Ukraine are expected to start production in late 2008.

**Completed sale of Papua New Guinea (PNG) assets in October 2007**

TSU had announced in June 2007, that they entered into a letter of intent (LOI) with Eaglewood Energy Inc. (previously Surge Resources Inc.), to transfer to Eaglewood (TSXV: EWD) their 100% interest in four PPL (Petroleum Prospecting Licenses) in PNG, and all related geological, seismic, and technical data. Eaglewood issued 30 million common shares to TSU with a deemed price of \$0.85 per share, for total consideration of \$25.5 million. We believe it was a good deal for TSU considering that our valuation on the PNG assets was \$22.70 million. Eaglewood's shares are currently trading at \$0.65 per share, which implies the market value of TSU's equity investment in the company is approximately \$19.50 million, or \$0.09 per share.

We believe this transaction was very timely for TSU, as it allowed TSU to focus more on its other assets (in Canada, Ukraine and Armenia), lower the overall risk of the company, and simultaneously participate in the upside potential of these assets through its equity ownership in Eaglewood.

**Beaver River Project, Canada – Disappointing Results**

TSU and its partner, Questerre Energy Corporation (TSX: QEC), jointly operate the Beaver River project (50% ownership each). Two main areas of interest were identified in the Beaver River field – the Shallow Mattson formation, which is considered a shale gas (unconventional) play, and the Deeper Nahanni formation, which is a low porosity fractured dolomite gas reservoir. The field has produced 196 bcf of natural gas in the past; most of it came from the Nahanni formation.

The company has two producing wells at this time – wells A2 and A7. The two wells combined produce 3.9 mmcf/d.

**The A2 well** was put into production in March 2006. As the well was initially hydraulically fractured, the production rate increased, from an initial rate of 1.6 mmcf/d, to 4.0 mmcf/d. However, flow rates have gradually declined since then, and the well is currently flowing at about 2 mmcf/d (without compression) and 3.2 mmcf/d (with compression).

**First shallow well (A7)** – Production commenced from the first shallow well (A7), which was drilled, logged and cased at 1,781 m, at modest rates in March 2007. One of the two intervals that were stimulated with hydraulic fracture treatment, had initial flow rates of 1.5 mmcf/d, stabilizing at a rate of 0.5 mmcf/d. The well is currently producing at 0.7 mmcf/d.

The first phase of an independent report on the Mattson horizon yielded positive outcomes. The report confirmed the likelihood that the thick shale section in the field contains significant gas in place. According to the report, initial development of the play should focus on areas where there are sand intervals and open fracture systems present.

TSU and Questerre drilled two other wells (shallow well B3 and a deep well A8 in Nahanni) and re-entered another shallow well (A6) in the past 12 months. All three wells were suspended, as flow rates were less than anticipated. However, TSU believes there is significant potential in these wells, and therefore, expects to re-commence operations in the future.

With regard to the two shallow wells, our discussions with management indicated that plans are being developed to either perform a large slickwater frac (slickwater fracturing is the primary technique used for developing tight-gas reservoirs, such as the Barnett Shale in Texas) or sidetrack the wells.

The disappointing results of the highly anticipated deep well (A8) in Nahanni, we believe, was a huge setback for the company. Most of the historic production in the field has come from the Nahanni formation, and the A8 well was expected to test the undrilled Nahanni fault block (identified by 3D seismic), and three additional zones including the Mattson, Mississippian fractured carbonates and Devonian Shales. The A8 well, which was spudded in August 2007, was drilled to a total depth of 4,130m. Three intervals were perforated in the Nahanni reservoir and the top two intervals were stimulated with acid and tested. The well initially flowed at 5mmcf/d (with 1,000 bbls of water), but flow rates later declined to 1 mmcf/d (with 10,000 bbls of water), when the well was suspended. The well cost TSU and QEC \$15.4 million (TSU's share was \$7.7 million). TSU believes that only part of the Nahanni has been tested to date, and intends to re-enter the well in the future and stimulate the deeper zones expecting to produce the bypassed gas. The three additional zones have yet to be tested.

TSU and QEC currently have no immediate plans for additional drilling at Beaver River.

**Valuation:** The disappointing results at the Beaver River led the company to write down its assets on the balance sheet by \$73.80 million in FY2007. The company also wrote down its possible reserve estimate of 52.8 bcf associated with Nahanni. According to McDaniel and Associates Consultants Ltd., TSU's share of the Beaver River field currently holds 812 mmcf (0.14 mm boe) of proved reserves and 1,346 mmcf (0.22 mm boe) of probable reserves (2006 estimate was 1,277 mmcf proved, 1,904 mmcf probable and 52,800 mmcf possible). We have revised our valuation on the Beaver River project to account for the revised reserve estimates. We have lowered our valuation on the Beaver River project from \$60 million to \$6.81 million. Our revised valuation per share is \$0.03. A summary of our revised valuation is shown below.

Net Asset Value					
Discount Rate	0%	5%	10%	15%	20%
NPV	\$8,089,453	\$7,399,003	\$6,808,577	\$6,299,226	\$5,856,302
NAV (@ 10%)	\$6,808,577				
Shares (fully diluted)	207,898,242				
<b>NAV / Share</b>	<b>\$0.03</b>				

**Ukraine – positive results at the Karl field - expecting to commence production in 2008)**

In April 2008, TSU announced that they had entered into a Joint Venture Agreement with RAG Rohöl-Aufsuchungs Aktiengesellschaft ("RAG") to develop TSU's assets in Ukraine. RAG, established in 1935, is the oldest E&P company in Austria, and operates 51 gas fields and 40 oil fields including substantial gas storage facilities. RAG is owned by major Austrian and German energy and utility companies, principally EVN (a leading Austrian energy, water and infrastructure company) and E.ON Ruhrgas AG (a major European integrated gas company).

According to the agreement, Transeuro and RAG will have 50% interest each in the joint venture, which implies that each company will hold 36% interest in the Ukrainian projects.

TSU will get compensated as follows:

- RAG will pay 75% of all past drilling costs of the Karl 101 well, up to a maximum of US\$11 million. For drilling costs in excess of US\$11 million, RAG will pay their 50% share.
- Contingent on certain conditions (not disclosed), RAG will fund 75% of the costs to drill three wells and acquire 3D seismic.
- In addition, RAG will contribute to an agreed fund for the acquisition of new licenses in Crimea and for field development.

Also, according to management, RAG will pay 55% of the development costs (versus 45% for TSU), depending on the amount of discovered reserves, up to a maximum or around \$11 million.

The transaction is expected to be completed in June 2008. It is estimated that TSU will receive approximately US\$9.5 million on closing. Following the success of the Karl 101 and Pov 104 wells, both RAG and TSU intend to invest around US\$280 million into these two Crimea fields.

### **Update on properties**

TSU has four development opportunities in the Crimean Peninsula covering 50,162 acres. The key projects are two gas fields, the Karlavskoye (West Crimea) and the Povorotnoye (East Crimea) fields. The other two fields are Krasnapolianskoye and Vladislavovskoye, which are considered to be smaller plays. None of the projects are currently producing, although one well in the Vladislavovskoye field is expected to be put into production shortly.

**Positive results from the Karlavskoye Field:** The first well (Karl 101) in the Karlavskoye Field was initially logged and cased (at 1,080 m) just above the top gas-bearing reservoir. Drilling was suspended for a brief period to upgrade the rig. Drilling resumed in June 2007, and the well is currently being drilled in the reservoir at 3,400 m.

In April 2008, the company announced that gas flowed to the surface (shown below) while conducting a test of the upper sections of the reservoir, indicating the presence of gas in the well. According to TSU, nine old wells drilled in this field in the past had also encountered gas in the intermediate section, and all the wells went on to produce gas to surface from their main targets.



*Transeuro Flares First Gas From Karlavskoye 101  
Source: Transeuro Energy*

**We believe this is a significant development for the company at this stage. TSU expects to complete the well in Q2-2008. If successful, TSU aims to tie the well into production by the end of this year.**

In addition, TSU acquired 54km of 2D seismic over the Karlavskoye field, and intends to commence a 3D seismic survey in Q2-2008. The company plans to construct a gas treatment plant (GTP) and a connecting pipeline to tie in the Karlavskoye and Krasnapolienskoye gas fields to the existing gas mainline, if results at Karl 101 are favorable. The company has already obtained all approvals for the GTP.

**The Krasnapolienskoye field** currently has two shallow wells that are ready for production, and will be tied in once the GTP is constructed. Operations have been suspended pending the results from Karl 101.

In the **Povorotnoye field**, TSU is currently planning to drill a well, Pov 104 (4,000m), targeting the Maykop III and IV sands that were identified from six old wells drilled in the 1970's and 80's. The field is located within 3km of the main gas line in Eastern Crimea. Two adjacent old wells drilled on the Povorotnoye field (located about 500m on either side of Pov 104) reported gas test rates of 5 mmcf/d and 17 mmcf/d, respectively.

Management indicated to us that the original 5 year exploration license expired in May 2008, and the company has applied for an extension. TSU expects to commence Pov 104 once they receive the extension. Costs of drilling Pov 104 are about US\$12 million (RAG will contribute 75% of the costs if the proposed JV is finalized). Acquisition of 3D seismic over Povorotnoye is expected to start in Q2 - 2008.

In the **Vladislavoskoye field**, the Vlad 28 well (which was flowing at 10 bpd) has been shut in since November 2007, awaiting the renewal of the license. Management indicated to us that they have renewed the license, and expect to commence production shortly. TSU expects to collect 2D seismic information after the Povorotnoye program. If results are positive, TSU expects to continue development by drilling two additional wells (Vlad 29 and 30).

**Our discussions with management indicated that the company intends to spend about \$12.5 million in FY2008, to drill Karl 101 and Pov104, and on the production facilities.**

**Valuation:** We have revised our valuation on the properties in Ukraine to account for the revised reserve/resource estimates as at December 31, 2007. Although resource estimates at the Karl property increased (from 192 to 426 bcf), a drop in estimates on the Pov field (from 966 bcf to 96 bcf) led to a drop in our valuation on the projects from \$98.65 million to \$86.65 million. Our revised valuation per share is \$0.42 per share.

Net Asset Value					
Discount Rate	0%	5%	10%	15%	20%
NPV (before tax)	\$358,291,350	\$241,596,231	\$166,958,012	\$117,982,249	\$85,083,591
NPV	\$271,335,608	\$181,167,349	\$123,926,031	\$86,649,237	\$61,800,456
NAV (@ 15%)	\$86,649,237				
Shares (fully diluted)	207,898,242				
NAV / Share	<b>\$0.42</b>				

## Armenia – Suspended Operations

Although all its neighbors, including Iran, Georgia and Azerbaijan, are known to be rich in hydrocarbons, Armenia has had very little exploration or production of oil and gas in the past. TSU's areas of interest lie in the most favorable region for oil and gas resources in Armenia.

TSU has decided to put their initial focus on two areas in Block 2: the Oktemberian gas and Shorakhpur oil prospects. The company spudded its first exploration well in Karmir (Karmir –1) in August 2007, to assess the hydrocarbon potential in the Oktemberian region. The well, which is the first exploration well to be drilled in Armenia in 10 years, targeted the lower sand clay (LSC), and the lower multi-colored suite (LMS), with a total depth of 2,200m. Although good gas shows were observed in the top LSC target from 900 to 1,100m, logs indicated low gas saturations. As a result, TSU suspended operations on the Karmir 1 well. The company plans to conduct additional logging in late 2008, to reassess the gas saturations and decide if the well should be completed or abandoned.

We were disappointed with this development at Armenia. TSU has no plans for any future exploration activities in Armenia at this time. The company has written down all its Armenian assets (\$19.82 million) in Q4-2007.

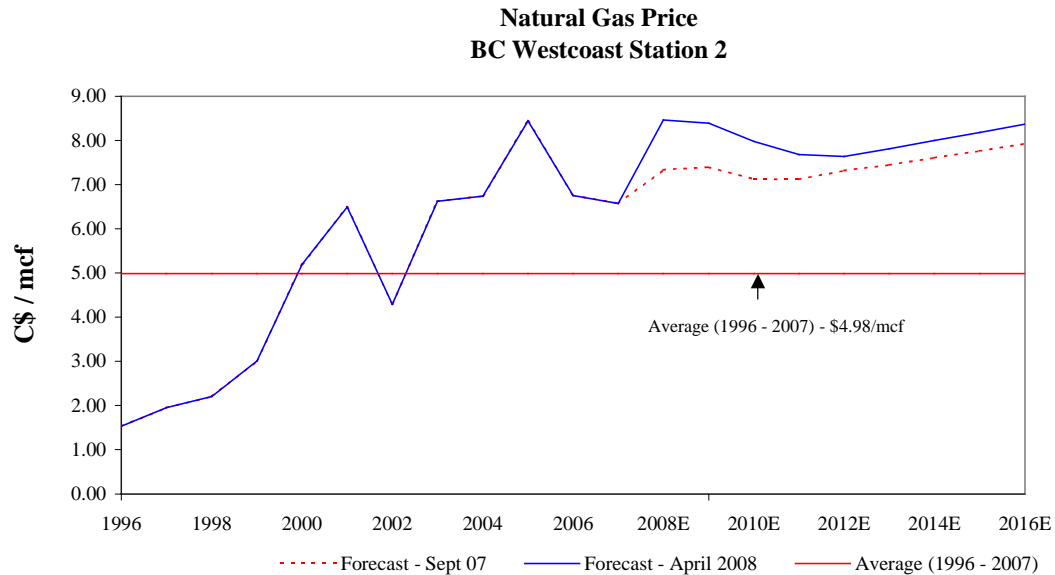
**Valuation:** Since there has been very little exploration work done in the past, we have continued to value the projects in Armenia based on its land value, for conservatism. The project is very speculative in nature, but note that a discovery in Armenia will bring considerable upside potential to our valuation on the company.

## Review of Financials

**Revenues increased 43% YOY in FY2007, but fell below expectations:** Revenues in FY2007 increased 43% YOY, from \$2.46 million to \$3.53 million (our estimate was \$5.22 million). Although production increased from 405 mmcf in FY2006, to 547 mmcf in FY2007, they were well below our estimate of 726 mmcf.

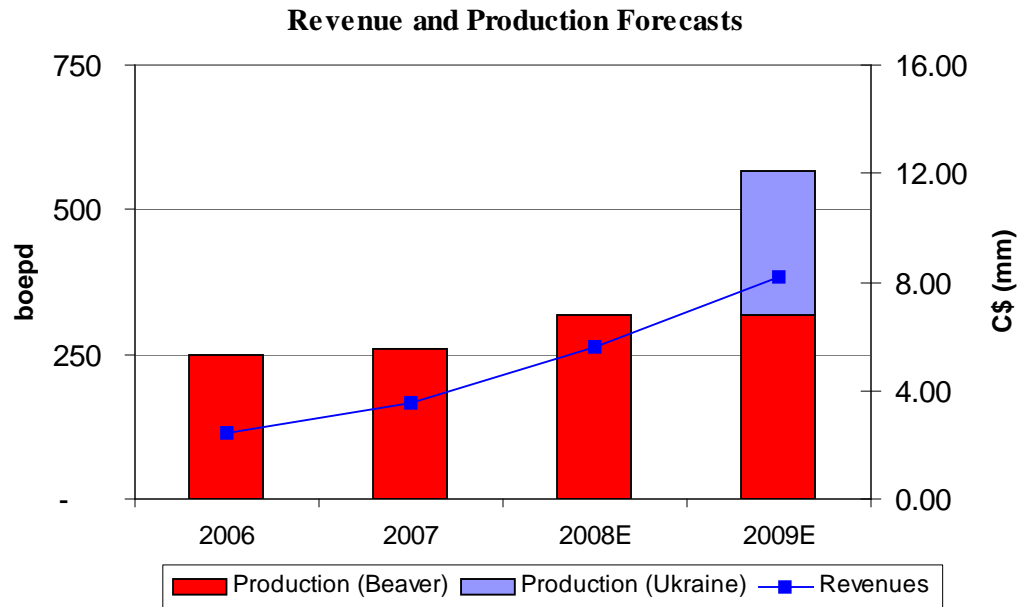
In Q1-2008, revenues dropped 16.6% YOY (from \$1.16 million to \$0.97 million) as production dropped from 162 mmcf to 122 mmcf. Production dropped due to well maintenance where production was shutdown for several days. Production levels, however, have increased in Q2-2008, due to compression.

**Natural Gas Price Forecasts:** The table below shows current natural gas price forecasts, compared to forecasts six months ago. As shown in the chart, current short-term and long-term price forecasts are higher than forecasts as of September 2007.



Natural gas prices are expected to stay above \$7.50/mcf (BC Westcoast Station 2) through 2017, which we believe is highly encouraging for natural gas players in the region.

**Production and Revenue Forecasts:** Previously, we were expecting production from the deep well in Nahanni to commence in 2008. The disappointing results at the Beaver River field has led us to significantly lower our production and revenue forecasts for FY2008 and FY2009. Our revised estimates are shown below.



We now estimate the Beaver River field will produce an average of 317 bpd in both FY2008 (previous estimate - 2,535 bpd), and 2009. Since the company does not have any plans to drill additional wells in Beaver River, we have conservatively assumed production levels will stay at 317 bpd for both FY2008 and FY2009. With regard to Ukraine, our models assume that production will commence at the end of FY2008. Although management estimates significantly higher production from Ukraine, our models have conservatively assumed an average production level of 250bpd in FY2009.

**Our revised revenue forecast for FY2008 is \$5.63 million (versus our previous estimate of \$48.44 million).**

**Operating netbacks** improved YOY from \$2.16/mcf in FY2006, to \$2.86/mcf in FY2007 primarily due to higher natural gas prices and lower processing fees.

Netbacks (\$/mcf)	2006	2007
Production (mcf)	405,500	547,000
Production per day (mcf)	1,502	1,563
Revenues	\$6.07	\$6.45
Royalties	\$0.67	\$0.61
Processing Fees	\$3.24	\$2.98
<b>Operating Netback</b>	<b>\$2.16</b>	<b>\$2.86</b>

**General and Administrative (G&A) expenses** increased YOY from \$4.26 million to \$7.59 million. The increase in costs was attributed to costs incurred relating to the company's listing on the Oslo Stock Exchange (TSU shares started trading on the Oslo Stock Exchange in August 1, 2007), consulting, legal and accounting, management fees and travel expenses.

**Net loss:** As mentioned earlier, the company wrote down a total of \$93.61 million worth of assets (Beaver River and Armenian Assets) in Q4-2007. Therefore, the company reported a net loss of \$99.76 million (EPS: -\$0.53) in FY2007, versus \$27.69 million (EPS: -\$0.23) in FY2006.

The company posted a net loss of \$9.42 million (EPS: -\$0.05) in Q1-2008. The company had posted net income of \$5.04 million (EPS: \$0.04) in Q1-2007, as they had recorded a future income tax recovery of \$6.82 million during that period. TSU expensed most of their exploration and development costs on the Armenian property, and the drilling of the Beaver River project's well A8, in the income statement instead of capitalizing in Q1-2008. In Q1-2008, TSU had exploration and development costs of \$6.57 million, which led the company to post a significantly higher net loss during the period.

Our revised forecasts are a net loss of \$12.56 million (EPS: -\$0.06) in FY2008, and a net loss of \$3.24 million (EPS: -\$0.02) in FY2009. Our previous forecast for FY2008 was a net loss of \$4.94 million (EPS: -\$0.02).

## Cash Flows

TSU spent \$4.62 million on operating activities, and \$66.99 million on investing activities (exploration, development and acquisition of property, plant and equipment) in FY2007. The company did an equity financing for \$44.31 million and a bond financing to raise \$13.14 million (net) in FY2007.

**Subsequent Financings:** In addition, in May 2008, the company announced that they completed a non-brokered private placement to raise \$4 million by issuing 4,000 units. Each unit consists of a secured 18-month convertible debenture with a principal amount of \$1,000 and 5,250 warrants. The debentures will carry an interest rate of 15% p.a. payable semi-annually in arrears (reducing to 10% p.a. if the debentures are repaid within six months, or to 12% p.a. if the debentures are repaid between 6 months and 12 months).

On May 21, 2008, the company announced their plans to pursue another private placement to raise \$4 million by issuing 4,000 units. Each unit will consist of a secured convertible debenture with a principal amount of \$1,000 (12% per annum payable semi-annually in arrears) and 4,000 warrants. The closing date is expected to be on or about May 31, 2008, with maturity of the debentures occurring on May 31, 2009.

We have revised our CAPEX estimate for FY2008, from \$32.50 million to \$15 million. If TSU completes the proposed private placement of \$4 million, we estimate the company will have to raise an additional \$11 million in FY2008 (assuming they have to pay off all debt categorized as current liabilities, including the US\$15 million bond and US\$2.25 million payable to High Arctic)

## Cash and Liquidity Position

At the end of Q1-2008, the company had cash and a working capital deficit of \$6.79 million and \$27.63 million, respectively. The table below shows the company's cash and liquidity position.

	2005	2006	2007	Q1-2008
Cash	32,132,079	17,019,841	13,026,346	6,793,147
Working Capital	23,026,537	4,540,164	(16,032,253)	(27,633,041)
Current Ratio	3.24	1.33	0.47	0.22
Debt	-	-	16,371,016	17,050,795
Debt / Capital	-	-	45.2%	61.7%

The company is in a working capital deficit primarily because its US\$15 million bonds payable were reclassified as current liabilities due to breach of certain covenants. The company's debt to capital at the end of Q1-2008 was 62%. Although the bond matures in November 2009, we believe TSU will face liquidity problems if it does not meet the required covenants, or have problems in raising additional capital from the market (either through equity or debt).

### **Stock Options and Warrants**

At the end of Q1-2008, the company had 14.75 million warrants outstanding, with a weighted average exercise price of \$1.22. TSU also had 9.56 million stock options outstanding, with a weighted average exercise price of \$1.25 per share. All the outstanding options and warrants are currently 'out-of-the-money'.

### **Valuation**

Based on the changes that we mentioned earlier, our revised Net Asset Value (including working capital) dropped from \$0.91 per share to \$0.45 per share.

<b>Valuation Summary</b>		
	<b>Value per share</b>	<b>% of Total</b>
Beaver River Field	\$0.03	7.2%
Ukraine	\$0.42	91.9%
PNG	\$0.09	20.7%
Armenia	\$0.04	9.5%
Working Capital	-\$0.13	-29.3%
<b>Net Fair Value</b>	<b>\$0.45</b>	<b>100.0%</b>

Disappointing developments at the company's Beaver River project, and the project in Armenia, have led us to discontinue adding a 20% premium to our NAV estimate. We have also discontinued using a comparables valuation because most of the comparables that we used in our previous analysis are not direct comparables to TSU anymore.

### **Rating**

**Based on our revised valuation models and review of the company's projects since our previous report, we have downgraded our rating from BUY to HOLD, and lowered our fair value estimate on the company from \$1.25 per share to \$0.45 share. Although the company has had very encouraging results in Ukraine, we recommend investors to take a 'wait and see' approach on TSU's shares until we receive more information on the progress in Ukraine.**

### **Risk**

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- The company is exposed to all risks associated with exploration and production.

- Success of the projects depends heavily on exploration and development.
- Access to capital is very crucial to be able to continue pursuing exploration and development programs.
- Volatility in commodity prices - As revenues are directly related to commodity prices, the growth and profitability of TSU will depend heavily on future natural gas and oil prices.
- Country Specific Risks – Since TSU has projects in 4 different countries (exposure to PNG is through an equity interest in Eaglewood), the company is exposed to country specific risks, including political, sovereign, legal and security risks.

## Appendix

### Transeuro Energy Corp. - Income Statement (in C\$)

	2006	2007	2008E	2009E
<b>Gas Revenue</b>	<b>2,461,489</b>	<b>3,526,902</b>	<b>5,629,513</b>	<b>8,201,328</b>
Royalties and Processing Fees	1,583,757	1,964,796	3,008,312	3,654,989
<b>Gross Profit</b>	<b>877,732</b>	<b>1,562,106</b>	<b>2,621,200</b>	<b>4,546,339</b>
<b>Expenses</b>				
General and Administrative	4,264,258	7,593,095	5,629,513	5,740,929
Depletion	8,159,972	4,851,939	695,453	752,975
Stock-based Compensation	3,794,711	2,515,081	844,427	1,230,199
Accretion of ARO	43,060	166,263	56,295	82,013
Exploration and Development			7,000,000	
Write-off of Oil and Gas Properties	12,276,717	93,609,247	-	-
Write-off of Deposit Paid	1,074,521	-	-	-
<b>Loss Before Other Items</b>	<b>(28,735,507)</b>	<b>(107,173,519)</b>	<b>(11,604,488)</b>	<b>(3,259,779)</b>
Taxes	(3,027)	6,200,122	-	-
Foreign Exchange	29,312	16,483	-	-
Gain on sale of PNG assets				
Non-controlling Interest				
Interest and Other Income	1,023,702	1,194,895	(958,137)	21,308
<b>Net Income for the Period</b>	<b>(27,685,520)</b>	<b>(99,762,019)</b>	<b>(12,562,625)</b>	<b>(3,238,471)</b>
Loss per Share	(0.23)	(0.53)	(0.06)	(0.02)

**Transeuro Energy Corp. - Balance Sheet**  
**(in C\$)**

	2006	2007	2008E	2009E
<b>Assets</b>				
<b>Current Assets</b>				
Cash + Short term Investments	17,019,841	13,026,346	608,793	621,899
GST and other Receivables	929,735	423,964	562,951	820,133
Prepaid Expenses and Advances	186,284	832,302	281,476	410,066
	<b>18,135,860</b>	<b>14,282,612</b>	<b>1,453,220</b>	<b>1,852,098</b>
Parts and Supplies Inventories				
Restricted Cash - Flow through	-	-	-	-
Work Commitments Advanced	256,346	250,527	250,527	250,527
Reclamation Deposits	1,289,804	1,600,000	731,729	731,729
Oil and Gas Properties	76,014,549	40,166,572	38,471,119	50,218,143
Property, Plant and Equipment	2,894,875	7,552,038	9,995,743	12,413,730
	<b>98,591,434</b>	<b>63,851,749</b>	<b>50,902,337</b>	<b>65,466,226</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts Payable and Accrued Liabilities	13,595,696	13,914,246	10,365,390	5,637,551
Bonds/Debentures		14,140,591	4,000,000	-
Demand Loan Payable	-	2,230,425	-	-
Due to Related Parties	-	29,603	18,261	18,261
	<b>13,595,696</b>	<b>30,314,865</b>	<b>14,383,651</b>	<b>5,655,812</b>
ARO	484,811	1,554,165	1,554,165	1,554,165
Future Income Tax Liability	5,648,865	3,601,174	3,601,174	3,601,174
Non-controlling Interest		8,572,967	8,572,967	8,572,967
Finders Fee Payable	-	-	-	-
	<b>19,729,372</b>	<b>44,043,171</b>	<b>28,111,957</b>	<b>19,384,118</b>
<b>Shareholders' Equity</b>				
Share Capital	100,856,407	134,278,380	148,978,380	174,278,380
Contributed Surplus	6,873,506	14,160,068	15,004,495	16,234,694
Deficit	(28,867,851)	(128,629,870)	(141,192,495)	(144,430,966)
	<b>78,862,062</b>	<b>19,808,578</b>	<b>22,790,380</b>	<b>46,082,108</b>
<b>Total Liabilities and S.E</b>	<b>98,591,434</b>	<b>63,851,749</b>	<b>50,902,337</b>	<b>65,466,226</b>

**Transeuro Energy Corp. - Cash Flow Statement  
(in C\$)**

	2006	2007	2008E	2009E
<b>Operating Activities</b>				
<b>Loss for the Period</b>	<b>(27,685,520)</b>	<b>(99,762,019)</b>	<b>(12,562,625)</b>	<b>(3,238,471)</b>
Non-Cash Items:				
Stock-based Compensation	3,794,711	2,515,081	844,427	1,230,199
Accretion and Amortization	43,060	166,263	56,295	82,013
Write-offs	13,351,238	93,609,247		
Gain on sale of PNG assets		-		
Reclamation Deposits and others		(419,283)		
Income Tax Expense	3,027	(6,200,122)		
Depletion	8,159,972	4,851,939	695,453	752,975
	<b>(2,333,512)</b>	<b>(5,238,894)</b>	<b>(10,966,449)</b>	<b>(1,173,283)</b>
<b>Change in Non-Cash Working Capital Items:</b>				
GST and Other Receivables	150,980	616,757	(138,987)	(257,181)
Prepaid Expenses and Advances	(81,637)	(322,442)	550,826	(128,591)
Inventories				
Reclamation Liability				
Due to Related Parties	(282,090)	29,603	(11,342)	-
Accounts Payable and Accrued Liabilities	(234,670)	290,490	(3,548,856)	(4,727,839)
	<b>(447,417)</b>	<b>614,408</b>	<b>(3,148,359)</b>	<b>(5,113,611)</b>
	<b>(2,780,929)</b>	<b>(4,624,486)</b>	<b>(14,114,808)</b>	<b>(6,286,894)</b>
<b>Investing Activities</b>				
Oil and Gas Properties	(39,169,497)	(61,436,850)	(10,000,000)	(12,500,000)
Purchase of Property, Plant and Equipment	(3,453,254)	(5,556,825)	(2,500,000)	(2,500,000)
Cash Received from Transactions		10,100,804	11,000,000	
Cash Received from Purchase of Subsidiary	50			
Short term Investments		(580,000)		
Restricted Cash				
Reclamation Deposit	(1,130,164)	(310,196)	868,271	
Parts and Supplies Inventories	(293,006)	-	-	-
Work Commitments Advanced	732,240	5,819		
	<b>(43,313,631)</b>	<b>(57,777,248)</b>	<b>(631,729)</b>	<b>(15,000,000)</b>
<b>Financing Activities</b>				
Shares Issued for Cash (net)	30,982,322	44,314,645	14,700,000	25,300,000
Loan Payables		13,142,835	(12,371,016)	(4,000,000)
Future Income Tax Liability			-	-
Reclamation Liability & Finders Fee				
	<b>30,982,322</b>	<b>57,457,480</b>	<b>2,328,984</b>	<b>21,300,000</b>
FOREX Gain/Loss		370,759		
<b>Increase(decrease) in Cash</b>	<b>(15,112,238)</b>	<b>(4,573,495)</b>	<b>(12,417,553)</b>	<b>13,106</b>
Cash (BOP)	32,132,079	17,019,841	12,446,346	28,793
<b>Cash (EOP)</b>	<b>17,019,841</b>	<b>12,446,346</b>	<b>28,793</b>	<b>41,899</b>

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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