# Surge Resources Inc.

## ANNUAL REPORT 2007

# PRESIDENT'S MESSAGE
## SEPTEMBER 12, 2007

Dear Shareholders:

During the year ended June 30, 2007, the Company continued to pursue and evaluate a number of oil and gas projects. The Company expended significant costs and efforts evaluating potential opportunities. In June, the Company raised $10,200,000 through the issuance of 12,000,000 subscription receipts at a price of $0.85 per subscription receipt. The gross proceeds were deposited in escrow to be released when the Company completes an acquisition transaction with Transeuro Energy Corp. ("Transeuro"). Subsequent to the year end, the Company entered into an asset purchase agreement with Transeuro and its wholly owned subsidiary to acquire a 100% interest in four exploration prospecting licenses granted by the Government of Papua New Guinea. Upon closing of the transaction, the Company will issue 30,000,000 common shares with a deemed value of $25,500,000 in exchange for the prospecting licenses and all related geological, seismic and technical data. Closing of the transaction is expected to occur in September 2007 at which time the funds held in escrow raised through the June private placement will be released. After payment of the agent's commission, the Company will receive net funds of $9,588,000. The Company plans to use the net proceeds to finance the Phase 1 work commitments related to the prospecting licenses and for general corporate purposes.

R. P. Antony
President

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") of Surge Resources Inc.'s (the "Company" or "Surge") financial condition and results of operations should be read in conjunction with the audited consolidated financial statements for the years ended June 30, 2007 and 2006 and related notes therein prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is September 12, 2007. Additional information relating to the Company is available on SEDAR at **www.sedar.com** .

## SELECTED ANNUAL INFORMATION

The following sets forth the selected financial information for the years indicated:

| | Year ended June 30 | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Revenues | $28,623 | $23,697 | $5,524 |
| Loss before discontinued operations | $157,521 | $74,043 | $353,383 |
| Gain from discontinued operations | Nil | Nil | $257,254 |
| Net loss | $157,521 | $74,043 | $96,129 |
| Loss per share | $0.01 | $0.01 | $0.01 |
| Total assets | $819,364 | $940,214 | $686,156 |
| Total long-term liabilities | Nil | Nil | Nil |
| Dividends | Nil | Nil | Nil |

## RESULTS OF OPERATIONS

The Company had a net loss of $157,521 for the year ended June 30, 2007 as compared to $74,043 for the year ended June 30, 2006. The higher loss was mainly a result of an increase of $75,904 in general and administrative expenses from $110,240 to $186,144. Subsequent to year end, the Company entered into an asset purchase agreement with Transeuro Energy Corp. ("Transeuro") to acquire a 100% interest in four exploration prospecting licenses granted by the Government of Papua New Guinea and related technical data. The majority of the increase in general and administrative expenses relates to professional and consulting fees incurred for the evaluation and due diligence of the Transeuro assets in advance of the Company entering into the purchase agreement.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected financial information for the Company for the periods indicated:

| | Quarters Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2007 | Mar 31, 2007 | Dec 31, 2006 | Sept 30, 2006 | June 30, 2006 | Mar 31, 2006 | Dec 31, 2005 | Sept 30, 2005 |
| Revenue | $6,242 | $7,072 | $7,374 | $7,935 | $7,771 | $6,622 | $5,292 | $4,012 |
| Income (loss) before discontinued operations | ($51,900) | ($31,956) | $1,990 | ($75,655) | ($40,771) | ($13,825) | ($8,963) | ($10,484) |
| Net income (loss) | ($51,900) | ($31,956) | $1,990 | ($75,655) | ($40,771) | ($13,825) | ($8,963) | ($10,484) |
| Income (loss) per share before discontinued operations | ($0.01) | ($0.01) | $0.01 | ($0.01) | ($0.01) | ($0.01) | ($0.01) | ($0.01) |
| Total income (loss) per share | ($0.01) | ($0.01) | $0.01 | ($0.01) | ($0.01) | ($0.01) | ($0.01) | ($0.01) |

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2007, the Company had working capital of $528,167.

## LONG-TERM DEBT

The Company has no long-term debt.

## FINANCIAL CONDITION

As at June 30, 2007, the Company had total assets of $819,364 compared to $940,214 at June 30, 2006.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

During the year ended June 30, 2007, the Company incurred legal expenses of $65,537 paid to a firm of which a current director is a partner. The Company paid $24,000 in management fees to a company controlled by a director.

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

## STOCK OPTIONS

At June 30, 2007, the Company had outstanding stock options, enabling the holders to acquire common shares as follows:

| Number of Options | Exercise Price | Expiry Date |
|---|---|---|
| 600,000 | $0.45 | December 22, 2009 |

## SUPPLEMENTARY INFORMATION

Outstanding Share Data

| | Number of Shares | Capital Stock | Contributed Surplus |
|---|---|---|---|
| Authorized | | | |
| Unlimited number of common shares without par value | | | |
| Issued | | | |
| Balance as at June 30, 2006 | 15,744,942 | $5,807,409 | $294,667 |
| **Balance as at June 30, 2007** | **15,744,942** | **$5,807,409.00** | **$294,667** |

At September 12, 2007, the Company had 15,744,942 common shares outstanding and 900,000 stock options outstanding under its stock option plan.

## SUBSEQUENT EVENTS

On August 13, 2007 the Company entered into an asset purchase agreement with Transeuro to acquire a 100% interest in four exploration prospecting licenses granted by the Government of Papua New Guinea and all related geological, seismic and technical data owned by Transeuro relating to the lands and licenses. As consideration for the asset purchase, the Company will issue to Transeuro 30,000,000 common shares of the Company with a deemed price of $0.85 per share for total consideration of $25,500,000.

Completion of the transaction is subject to a number of conditions including shareholder and regulatory approval.

In connection with the Transeuro asset purchase agreement, the Company completed a private placement on June 28, 2007 which raised $10,200,000 through the issuance of 12,000,000 subscription receipts at a price of $0.85 per subscription receipt. The gross proceeds were deposited in escrow and will be released to the Company upon completion of the purchase transaction with Transeuro. If the purchase transaction is not completed by October 22, 2007, the escrowed funds plus interest will be returned to the holders of the subscription receipts. If the purchase transaction is completed within the allotted time frame, the agent will receive a cash commission of 6% of the gross proceeds and will be granted an agent's warrant to purchase 600,000 common shares at an exercise price of $0.85 per common share for a period of 12 months following the closing of the purchase transaction. The Company expects the Transeuro asset purchase agreement to close prior to October 22, 2007.

## ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Additional disclosure concerning the Company's general and administrative expenses for the last two fiscal years is provided in the Company's Statement of Loss and Deficit contained in its Financial Statements for June 30, 2007 and 2006 that is available on its SEDAR Page Site accessed through **www.sedar.com**

## DISCLOSURE AND INTERNAL CONTROL PROCEDURES

Management has ensured that there are disclosure and internal controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated the effectiveness of these controls and procedures and has concluded that they are adequate and effective in all material respects for the period ended June 30, 2007.

Management recognizes that all internal control systems, no matter how well designed, have inherent limitations. Therefore, management has concluded that these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete in all material respects. Any control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the control system are met.

There have been no significant changes to the Company's internal controls over financial reporting that occurred during the most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## OTHER INFORMATION

Additional information related to the Company is available on SEDAR at www.sedar.com

## FORWARD-LOOKING STATEMENTS

Certain information regarding the Company contained herein may constitute forward-looking statements. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections or other statements that are not statements of fact. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward-looking statements and information. The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

# SURGE RESOURCES INC.

FINANCIAL STATEMENTS

June 30, 2007 and 2006

## AUDITORS' REPORT

To the Shareholders of
**Surge Resources Inc.:**

We have audited the balance sheets of **Surge Resources Inc.** as at June 30, 2007 and 2006 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*"Deloitte & Touche LLP"*

Chartered Accountants
Calgary, Alberta

August 24, 2007

# SURGE RESOURCES INC.
## BALANCE SHEETS
## JUNE 30

### ASSETS

| | | 2007 | | 2006 |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash | $ | 583,276 | $ | 938,073 |
| Goods and services tax receivable | | 3,891 | | 2,141 |
| | | 587,167 | | 940,214 |
| Deferred costs (Note 3) | | 128,249 | | -- |
| Deferred financing costs (Note 9) | | 103,948 | | -- |
| | $ | 819,364 | $ | 940,214 |

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | | | | |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ | 59,109 | $ | 22,438 |
| Shareholders' equity: | | | | |
| Share capital (Note 4) | $ | 5,807,409 | $ | 5,807,409 |
| Contributed surplus (Note 5) | | 294,667 | | 294,667 |
| Deficit | | (5,341,821) | | (5,184,300) |
| | | 760,255 | | 917,776 |
| | $ | 819,364 | $ | 940,214 |

Approved on behalf of the Board

(signed) "*Ray Antony*" Director
Ray Antony

(signed) "*Roy Hudson*" Director
Roy Hudson

# SURGE RESOURCES INC.
## STATEMENTS OF LOSS AND DEFICIT
## YEAR ENDED JUNE 30

| | | 2007 | | 2006 |
|---|---|---|---|---|
| Revenue: | | | | |
| Interest income | $ | 28,623 | $ | 23,697 |
| Gain on sale of other assets | | -- | | 12,500 |
| | | 28,623 | | 36,197 |
| Expenses: | | | | |
| Bank charges and interest | | 255 | | 104 |
| Management fees (Note 8) | | 24,000 | | 24,000 |
| Office | | 26,001 | | 19,542 |
| Professional fees | | 81,037 | | 37,839 |
| Public company | | 10,927 | | 14,313 |
| Consulting | | 32,753 | | 10,150 |
| Other | | 9,179 | | -- |
| Travel | | 1,992 | | 4,292 |
| | | 186,144 | | 110,240 |
| Net loss for the year | | (157,521) | | (74,043) |
| Deficit, beginning of year | | (5,184,300) | | (5,110,257) |
| Deficit, end of year | $ | (5,341,821) | $ | (5,184,300) |
| **BASIC AND DILUTED NET LOSS PER SHARE** | | | | |
| Net loss per share (Note 4) | $ | (0.01) | $ | (0.01) |

# SURGE RESOURCES INC.
## STATEMENTS OF CASH FLOWS
## YEAR ENDED JUNE 30

| | 2007 | 2006 |
|---|---|---|
| Operating activities: | | |
| Net loss | $ (157,521) | $ (74,043) |
| Adjustment for items not affecting cash: | | |
| Gain on sale of other assets | -- | (12,500) |
| | (157,521) | (86,543) |
| Changes in non-cash working capital | 34,921 | 1,768 |
| | (166,548) | (84,775) |
| Investing activities: | | |
| Deferred costs | (128,249) | -- |
| Financing activities: | | |
| Sale of other assets | -- | 12,500 |
| Issuance of share capital, net of share issuance costs | -- | 335,675 |
| Promissory note payable | -- | (10,000) |
| Deferred financing costs | (103,948) | -- |
| | (103,948) | 338,175 |
| Net cash increase (decrease) during the year | (354,797) | 253,400 |
| Cash, beginning of year | 938,073 | 684,673 |
| Cash, end of year | $ 583,276 | $ 938,073 |

## 1. NATURE OF OPERATIONS

The Company has no operations or business activities. The Company has identified and evaluated a business acquisition see Note 9 but there is no assurance that the Company will complete this acquisition. Additional funds will be required to pursue this business and there is no assurance that the Company will be able to acquire such financing or that the assets acquired will be profitable.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles ("GAAP") in Canada. The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### FUTURE INCOME TAXES

Income taxes are accounted for using the liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. No future income tax benefit has been recorded in these financial statements. Future income tax assets and liabilities are determined based on substantively enacted tax laws and rates that are anticipated to apply in the year of realization.

### STOCK-BASED COMPENSATION

The Company has a stock option plan as described in Note 5. Under the Company's stock option plan, options to purchase common shares are granted to directors, officers, employees and consultants of the Company at current market prices. Options issued by the Company are accounted for in accordance with the fair value method of accounting for stock-based compensation, and the resulting cost of the option is charged to earnings with a corresponding increase in contributed surplus. The estimated fair values of stock options granted are determined using the Black-Scholes option-pricing model. Consideration received upon the exercise of stock options, together with the related amount of non-cash compensation expense recognized in contributed surplus, is recorded as an increase in share capital.

### PER SHARE AMOUNTS

Basic earnings per share are computed by dividing earnings by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if stock options were exercised and converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options are assumed to be used to purchase common shares of the Company at the average price during the year.

DEFERRED FINANCING COSTS

Financing costs relating to equity offerings underway are deferred on the balance sheet and will be recorded as a reduction of share capital when the issuance of equity is complete or expensed if the issuance of equity is not completed.

MEASUREMENT UNCERTAINTY

The Company incurs costs in the pursuit of various projects. For projects that have not yet reached commercial development, deferred costs are assessed annually for recoverability. The Company assesses whether the project feasibility and related costs incurred have potential future value or are probable of leading to a definitive agreement for the exploitation in determining whether or not the costs should be written down. Deferred costs that are considered unlikely to be recovered are written off. The recovery of these capitalized costs is uncertain and dependent upon executing certain agreements, finding economic reserves, achieving commercial production and obtaining additional financing.

ACCOUNTING PRONOUNCEMENTS

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Company:

Beginning in fiscal year 2008, the Company will be required to adopt new CICA Handbook section 1530 “Comprehensive Income”, section 3855 “Financial Instruments – Recognition and Measurement” and section 3865 “Hedges” as issued by the Canadian Institute of Chartered Accountants. Under these sections a new financial statement, “Statement of Other Comprehensive Income”, has been introduced that provides for among other things, that foreign currency translation adjustments and other amounts relating to changes in value be temporarily recorded outside the income statement. In addition, these new standards emphasize the use of fair value as the basis of accounting and disclosure. The Company is evaluating the impact of these new standards, but management does not anticipate that this will have a material impact on the Company’s financial position or results of operations.

Beginning in fiscal year 2008, the Company will be required to adopt CICA Handbook Section 1506 “Accounting Changes”. This section requires disclosure of new sources of primary GAAP that have been issued but are not yet effective and have not been applied by the Company.

As of July 1, 2007, the Company will be required to adopt two new CICA standards, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation,” which will replace Section 3861 “Financial Instruments – Disclosure and Presentation.” The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

ACCOUNTING PRONOUNCEMENTS (continued)

As of July 1, 2008, the Company will be required to adopt two new CICA standards, Section 1535 "Capital Disclosures," which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

## 3. DEFERRED COSTS

During the year ended June 30, 2007, the Company incurred costs of $128,249 (2006 – $nil) related to the potential acquisition of four exploration licenses and related technical data as described in Note 9. These costs have been capitalized and will be added to the acquisition costs of the properties provided such acquisition is completed.

## 4. SHARE CAPITAL

Authorized
Unlimited common shares
Unlimited preferred shares, issuable in series

| | Number of shares | | 2007 Amount | Number of shares | | 2006 Amount |
|---|---|---|---|---|---|---|
| Beginning balance | 15,744,942 | $ | 5,807,409 | 15,141,442 | $ | 5,471,734 |
| Exercise of warrants | -- | | -- | 603,500 | | 335,675 |
| Ending balance | 15,744,942 | $ | 5,807,409 | 15,744,942 | $ | 5,807,409 |

During fiscal 2006, warrant holders exercised a total of 483,500 warrants resulting in the issuance of 483,500 common shares. Of the warrants exercised, 408,500 were exercised at a price of $0.55 per common share and 75,000 were exercised at a price of $0.60 per common share for total proceeds of $269,675. During fiscal 2006, 120,000 agent warrants were exercised resulting in the issuance of 120,000 common shares for proceeds of $66,000. At June 30, 2007, there are no warrants outstanding.

The computation of basic and diluted net loss per share is based on the weighted average number of common shares outstanding during the year of 15,744,942 (2006 - 15,684,990). Stock options have been excluded from the computation of diluted shares as the Company was in a loss position in both periods and thus the stock options are anti-dilutive.

## 5. STOCK OPTION PLAN

Under the Company's stock option plan, the Company may grant options, to directors, officers, employees and consultants of the Company, of up to 10% of the issued and outstanding common shares. The number of shares subject to an option granted to any one participant shall be determined by the Board of Directors, but no one participant shall be granted an option which exceeds the maximum number permitted by the TSX Venture Exchange. The plan also provides that the price at which options may be granted shall be determined by the Board of Directors, subject to applicable TSX Venture Exchange approval. In no event shall the exercise price be lower than the exercise price permitted by the TSX Venture Exchange. Options granted under the plan will have a term not exceeding five years.

A summary of the status of the Company's stock option plan, as of June 30, 2007 and 2006, and changes during the years then ended are as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding and exercisable, beginning and end of year | 600,000 | $ 0.45 | 600,000 | $ 0.45 |

All these options expire on December 22, 2009.

## 6. CASH FLOW INFORMATION

| | 2007 | 2006 |
|---|---|---|
| Interest paid | $ -- | $ -- |
| Income taxes paid | $ -- | $ -- |

## 7. INCOME TAXES

(a) Reconciliation of income tax provision

The Company's income tax provision has been determined as follows:

| | 2007 | 2006 |
|---|---|---|
| Loss from operations | $ (157,521) | $ (74,043) |
| Combined basic federal and provincial income tax rates | 32.0% | 33.6% |
| Expected income tax recovery | $ (50,407) | $ (24,878) |
| Valuation allowance | 50,407 | 24,878 |
| | $ -- | $ -- |

(b) Losses carried forward

For income tax purposes, the Company has losses available to be carried forward which can be used to reduce future years' taxable income. These losses expire as follows:

| | |
|---|---|
| 2009 | $ 149,000 |
| 2010 | 53,000 |
| 2011 | 48,000 |
| 2015 | 128,000 |
| 2016 | 75,000 |
| 2027 | 158,000 |
| | $ 611,000 |

The potential benefits relating to these losses have not been recognized in these financial statements, as they are not expected to be realized.

## 8. RELATED PARTY TRANSACTIONS

During the year, management fees of $24,000 (2006 - $24,000) were incurred by the Company to DCR Investments Inc., a company in which a director of Surge Resources Inc. has a controlling interest. At June 30, 2007, $nil (2006 - $nil) was included in accounts payable and accrued liabilities.

During the year the Company incurred $65,537 (2006 - $23,500) for legal services to a law firm of which a director is a partner. At June 30, 2007, $33,000 (2006 - $nil) was included in accounts payable and accrued liabilities.

These fees were paid in the normal course of business for services rendered and were measured at the exchange amount.

## 9. SUBSEQUENT EVENTS

On August 13, 2007 the Company entered into an asset purchase agreement with Transeuro Energy Corp. (“Transeuro”) and its wholly owned subsidiary, whereby the parties have agreed to a purchase by the Company of certain assets from Transeuro and its subsidiary. The Company will acquire a 100% interest in four exploration prospecting licenses granted by the Government of Papua New Guinea and all related geological, seismic and technical data owned by Transeuro relating to the lands and licenses. As consideration for the asset purchase, the Company will issue to Transeuro 30,000,000 common shares of the Company with a deemed price of $0.85 per share for total consideration of $25,500,000. The shares will be subject to an escrow agreement for a period of 18 months with one third being released every six months following the closing of the transaction. Completion of the transaction is subject to a number of conditions including shareholder and regulatory approval.

In connection with the Transeuro asset purchase agreement, the Company completed a private placement on June 28, 2007 which raised $10,200,000 through the issuance of 12,000,000 subscription receipts at a price of $0.85 per subscription receipt. Each subscription receipt will be deemed to be exchanged, without any additional consideration, for one common share upon the escrow release date. The gross proceeds have been deposited in escrow and will only be released on the completion of the Transeuro transaction described above. If the completion of the transaction does not occur before October 22, 2007, such escrowed funds plus interest will be returned to the holders of the subscription receipts. Provided the transaction is completed by October 22, 2007, the agent will be paid a cash commission of 6% of the gross proceeds and will be granted an agent’s warrant to purchase 600,000 common shares at an exercise price of $0.85 per common share for a period of 12 months following the closing of the transaction.