

**EAGLEWOOD ENERGY INC.**  
**(formerly Surge Resources Inc.)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED DECEMBER 31, 2007**

# EAGLEWOOD ENERGY INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Three and six months ended December 31, 2007**

*(Amounts expressed in Canadian Dollars unless otherwise indicated)*

Management's discussion and analysis ("MD&A") of Eaglewood Energy Inc.'s (the "Company" or "Eaglewood") financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements for the three and six months ended December 31, 2007 and 2006 and related notes therein prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is February 26, 2008. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://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.

### RESULTS OF OPERATIONS

The Company had net losses of \$1,531,591 and \$1,667,502 for the three and six month periods ended December 31, 2007. In the prior year three and six month periods, the Company reported net income of \$1,990 and a net loss of \$73,665.

The higher losses in the current year periods were mainly the result of an increase in general and administrative expenses. In the prior year, the Company was in the process of reviewing potential oil and gas projects and had minimal activity. In the current year, the Company completed an asset purchase agreement with Transeuro Energy Corp. ("Transeuro") for a 100% interest in four exploration prospecting licenses granted by the government of Papua New Guinea and related technical data.

Compared to the prior year six month period, professional fees increased approximately \$183,000, general and administrative expenses increased approximately \$338,000 and travel increased approximately \$125,000 predominantly as a result of this asset acquisition. Within general and administrative expenses, the largest increase was in salaries and wages. For the three and six month periods ended December 31, 2007, salaries and wages were approximately \$254,000 compared to \$nil for the prior year periods. The Company had no staff in the prior year periods.

In addition, during the three months ended December 31, 2007, the Company granted stock options which increased the expenses for this period by approximately \$918,000. For the six months ended December 31, 2007, the expenses relating to stock options was approximately \$943,000. There were no expenses relating to stock options in the prior year periods.

## SELECTED QUARTERLY INFORMATION

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

|  | Dec 31,<br><u>2007</u> | Sept 30,<br><u>2007</u> | June 30,<br><u>2007</u> | Mar 31,<br><u>2007</u> | Dec 31,<br><u>2006</u> | Sept 30,<br><u>2006</u> | June 30,<br><u>2006</u> | Mar 31,<br><u>2006</u> |
|--|------------------------|-------------------------|-------------------------|------------------------|------------------------|-------------------------|-------------------------|------------------------|
| Revenue  | \$93,567               | \$5,180                 | \$6,242                 | \$7,072                | \$7,374                | \$7,935                 | \$7,771                 | \$6,622                |
| Income<br>(loss) before<br>discontinued<br>operations              | (\$1,531,591)          | (\$135,911)             | (\$51,900)              | (\$31,956)             | \$1,990                | (\$75,655)              | (\$40,771)              | (\$13,825)             |
| Net income<br>(loss)   | (\$1,531,591)          | (\$135,911)             | (\$51,900)              | (\$31,956)             | \$1,990                | (\$75,655)              | (\$40,771)              | (\$13,825)             |
| Income<br>(loss) per<br>share before<br>discontinued<br>operations | (\$0.03)               | (\$0.01)                | (\$0.01)                | (\$0.01)               | \$0.01                 | (\$0.01)                | (\$0.01)                | (\$0.01)               |
| Total<br>income<br>(loss) per<br>share                             | (\$0.03)               | (\$0.01)                | (\$0.01)                | (\$0.01)               | \$0.01                 | (\$0.01)                | (\$0.01)                | (\$0.01)               |

## FINANCIAL CONDITION

At December 31, 2007, the Company had total assets of \$35,857,965 compared to \$819,364 at June 30, 2007. The increase of approximately \$35,039,000 is mainly due to the increases in petroleum and natural gas properties and cash. During the current quarter, the Company acquired a 100% interest in four exploration prospecting licenses granted by the government of Papua New Guinea and related technical data from Transeuro for \$25,500,000. Additional costs were incurred on the licenses during the second quarter for the construction of a drilling pad and 2-D seismic reprocessing. The Company closed a private placement for 12,000,000 common shares at \$0.85 per share for gross proceeds of \$10,200,000 (net \$9,679,825).

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, the Company had net working capital of \$6,177,918 compared to net working capital of \$528,058 at June 30, 2007. The increase in working capital is due to the cash proceeds from the private placement that was completed during the current quarter.

Funds used in operations were \$469,078 for the three months ended December 31, 2007 compared to funds from operations of \$10,433 for the same period in 2006. Funds used in operations were \$625,495 for the six months ended December 31, 2007 compared to \$85,448 for the same period in 2006. The increase in the funds used in operations for the current year periods is mainly due to the increased expenses compared to the prior year periods.

Net cash used in investing activities for the three and six month periods ended December 31, 2007 was \$2,840,306 and \$2,846,186 compared to \$nil for the prior year periods. Investing

activities consisted mainly of the construction of a drilling pad on one of the Papua New Guinea license blocks and reprocessing of 2-D seismic.

Net cash from financing activities for the three and six months ended December 31, 2007 was \$9,679,825 compared to \$nil for the prior year periods. During the current quarter, the Company issued 12,000,000 common shares at a price of \$0.85 per share pursuant to a private placement.

Contributed surplus at December 31, 2007 increased \$1,055,090 over June 30, 2007. The increase is due to the stock-based compensation for the six month period and the fair value of agent's warrants issued in relation to the private placement equity financing.

The Company does not currently generate sufficient cash flow from operating activities to fund its activities and has relied upon the issuance of common shares to provide additional funding. During the quarter ended December 31, 2007, the Company completed an asset purchase and transitioned into an oil and gas exploration company. The Company may consider additional issuances of common shares to assist with its exploration activities going forward and may consider joint venture or farm-out arrangements in its licenses to finance its exploration activities. Accordingly, the Company's financial statements are presented on a going-concern basis.

#### **OUTSTANDING SHARE DATA**

As at February 26, 2008, the Company had 57,744,942 common shares outstanding and 3,275,000 stock options outstanding under its stock option plan.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

#### **RELATED PARTY TRANSACTIONS**

For the six months ended December 31, 2007, the Company incurred legal expenses of \$62,198 paid to a firm of which a current director is a partner. The Company paid \$36,000 in management fees to a company controlled by a director. The Company paid \$2,741,875 for reimbursement of costs relating to the four exploration prospecting licenses in PNG to a company with common directors and a common officer.

#### **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, accounts receivable and accounts payable. 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 values of these financial instruments approximate their carrying values, unless otherwise noted.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The discussion and conclusion with respect to the Company's internal controls over financial reporting included in the June 30, 2007 MD&A disclosed in the Company's Annual Report remain unchanged at December 31, 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 SEDAR at [www.sedar.com](http://www.sedar.com).