



Management's Discussion & Analysis

**FOR THE THREE MONTHS AND YEARS ENDED
DECEMBER 31, 2013 AND 2012**

(Expressed in Canadian Dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of financial results and related data of Transeuro Energy Corp. ("Transeuro" or the "Company") is reported in Canadian dollars and has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. To the extent which may be appropriate, this MD&A should be read in conjunction with the interim condensed consolidated financial statements as at and for the period ended December 31, 2013 and the audited consolidated financial statements as at and for the year ended December 31, 2012.

The commentary is as of February 28, 2014. 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 Transeuro, future operating costs, future transportation costs, expected change in royalty rates, interest rates and the timing of and impact of 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 interests in a licenses in Ukraine or other areas; 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 are based on the Company's understanding of regional geology and neighboring properties and the stability and continued development in areas of operation. Capital and operating cost estimates are based on terms of the various license agreements, extensive research of the Company, proposed budgets and programs, recent estimates of exploration/development 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 Transeuro 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.transeuroenergy.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

Transeuro evaluates performance based on some measurements that are not defined by IFRS. The non-IFRS measurement included is operating netback.

Operating netback is used by the Company as an indicator of performance. Operating netback has no standardized meaning defined by IFRS and therefore may not be comparable with the calculation of similar measures by other companies. Operating netback is determined by deducting royalties, transportation, gathering and processing fees as well as operating expenses from sales revenue. The Company uses this as a key measure relating to its Beaver River operations in Canada.

DESCRIPTION OF BUSINESS

Transeuro Energy Corp is a publicly traded company and is listed on the TSX Venture Exchange and Oslo Axess under the symbol "TSU". The company was incorporated in British Columbia and is extra provincially registered in Alberta. Transeuro's head office is located at Suite 2800 – 350 7th Ave SW, Calgary, AB, Canada, T2P 3N9. Transeuro is involved in the acquisition of petroleum and natural gas rights, the exploration for, and development and production of crude oil, condensate and natural gas.

OPERATIONAL UPDATE

Jordan

In Jordan the Company has begun the process of registering the local operating entity to support the Natural Resource Authority in progressing the Enhancement Program Agreement ("EPA"), through the various government procedural steps and Parliamentary approval. The Company has received interest from third parties to farm in to the project and provide funds to cover the first phase of testing and the installation of artificial lift that is expected to achieve continuous production at flow rates significantly higher than the present intermittent flow from the Hamza field.

Transeuro received the final award of the Hamza Field Enhancement project by the Jordanian Natural Resource Authority on 25th June 2013. The Parties initialized the EPA on October 3rd 2013 and the full agreement is now passing through the Parliament for ratification, leading to the Effective Date for the EPA. Commencement of the Pre-development work programme involving testing of the field equipment and 4 producing wells is anticipated to commence in early 2014 for a period of 6 months, leading then in to the Main development period.

Ukraine

Povorotnoye

Preparations by Aleator Energy Ltd ("Aleator") to commence drilling on the Povorotnoye field are well advanced with the well site completed, all long lead items delivered to the warehouse in Crimea and a Letter of Intent signed with a new drilling contractor. Aleator continues to explore financing alternatives and their funding initiatives have experienced a number of delays. Drilling is not now expected to start until 2014.

Karlavskoye and Krasnapolienskoye

Given the recent political events and the unsuccessful operational results in Ukraine the Company has ceased all operations in the country related to the previously held Karlavskoye and Krasnapolienskoye licenses and any further progress on the Joint Activity Agreement will only be to support the exit process. Progress on the Povorotnoye field is dependent on the ability of Aleator to secure funding for the Povorotnoye-105 well.

Canada

In Canada, gas prices at the Spectra pipeline sales point have increased during the past few months, however production from the Beaver River field remains shut in and will only resume when the company has secured a merger or acquisition. With the recovery in gas prices the preferred strategy is now to continue development of the asset without farming out an interest in the field.

OVERVIEW

Transeuro is involved in the acquisition of petroleum and natural gas rights, the exploration for, and development and production of, crude oil, condensate and natural gas. Transeuro's principal assets and operations are located in Northern British Columbia, Canada and the Crimea Peninsula of Ukraine and an oilfield enhancement project in Jordan awaiting Parliamentary approval. The Company is listed on the TSX Venture Exchange as well as on the Oslo Axess under the trading symbol "TSU".

Strategic Update

Further to the Company's previous strategic updates, Transeuro has signed a non-binding Heads of Agreement to acquire an oil and gas company with stable existing production revenue, development activities plus a solid appraisal and exploration portfolio. The transaction is subject to inter alia completion of an equity financing for the combined entity, detailed due diligence by both parties, third party approvals, regulatory and stock exchange approvals and restructuring of the Company's bond. The Company is working with its advisors to secure the required investor interest and support from the bond holders and will provide updates as appropriate.

Ukraine

For the period ended December 31, 2013, the Company assessed the fair value of its assets and determined that due to the uncertainty of regaining valid Joint Activity Agreements in Ukraine, that an impairment of the remaining carry value be recorded (related to the net carrying value of exploration and evaluation assets and asset retirement obligations). For the year ended December 31, 2013, the Company recorded an impairment of \$563,038 and a related reclassification related to previously recorded foreign exchange gains from accumulated other comprehensive income to the statement of profit and loss. For the year ended December 31, 2012, as a result of the operational updates on Karl-101 released in November, 2012, the uncertainty of future operations and the ongoing negotiations for the various licenses and Joint Activity Agreements in Ukraine, the Company has recorded an impairment charge of \$29,168,044 through profit and loss.

During the first quarter of 2012, the Company completed the transaction to sell an 85% interest in East Crimea BV, the holding company that holds the title to the 'Joint Activity Agreement' to develop the Povorotnoye gas field in East Crimea. Aleator (formerly Honoratus Investments Ltd.), a subsidiary of Golden State Resources Ltd (ASX:GDN) (www.goldenstate.com.au), will drill well one to a depth of around 4000m, intended to commence before the end of June 2012 and if a commercial discovery is declared, to put the well into production. Aleator will then drill a second development well, commencing before May 15th 2016. Transeuro has received from Aleator the non-refundable first staged payment of \$500,000. The next payment of \$500,000 is due on spudding of well one and the last payment of \$500,000 on the commencement of testing operations on well one. In the event that the second well is not drilled then Transeuro retain a 50% interest in East Crimea BV.

Canada

The Company completed an updated independent third party reserve report for the field dated December 31, 2012. The following table summarizes certain information contained in the independent reserves report prepared by Fekete Associates Inc. The reported resource numbers have been carried over from the previous 2011 report.

Gas Reserves

Reserve Category	2012 Company Interest Reserves before Royalty	
	Gas (BCF)	BOE (MSTB)
Proved Developed Producing	-	-
Total Proved (P1)	8.387	1.398
Proved Plus Probable Developed Producing	-	0.42
Total Proved Plus Probable (P2)	11.525	1.921

Contingent Gas Reserves

	2012 Company Interest Resource		
	Low Estimate (BCF)	Best Estimate (BCF)	High Estimate (BCF)
Upper Besa River	9	16	24
Lower Besa River	47	68	95
Nahanni (A-8 Well)	6	10	14
Total Contingent Resource	62	94	133

Discovered Gas Resources

	2012 Company Interest Resource		
	Low Estimate (BCF)	Best Estimate (BCF)	High Estimate (BCF)
Upper Besa River	3,094	4,291	5,921
Lower Besa River	3,339	4,095	5,006
Nahanni (A-8 Well)	1,500	2,000	2,500
Total Contingent Resource	7,933	10,386	13,427

In October, 2013 the Company announced the shut in of the natural gas field at Beaver River, due to equipment failure. The equipment required to bring production back on stream was not in the field and could not be mobilized due to weather conditions (ice roads and bridge repairs commissioned). As the Company was unable to establish production before year-end, and as of the date of this report no year-end independent reserve report has been completed. Due to the future uncertainty of the Beaver River production and related economic reserves, the Company has recorded an impairment of \$2,839,406. Subsequent changes to the operations, reserves and production in the field will allow the Company to reverse all or a portion of the impairment. The Company continues to carry the value of the Beaver River exploration and evaluation assets, as the carry value is supported by activity in the area, recent transaction metrics in the region and other factors.

Jordan

In Jordan the Company has begun the process of registering the local operating entity to support the Natural Resource Authority in progressing the EPA, through the various government procedural steps and Parliamentary approval. The Company has received interest from third parties to farm in to the project and provide funds to cover the first phase of testing and the installation of artificial lift that is expected to achieve continuous production at flow rates significantly higher than the present intermittent flow from the Hamza field.

Transeuro received the final award of the Hamza Field Enhancement project by the Jordanian Natural Resource Authority on 25th June 2013. The Parties initialized the Enhancement Program Agreement (EPA) on October 3rd 2013 and the full agreement is now passing through the Parliament for ratification, leading to the Effective Date for the EPA. Commencement of the Pre-development work programme involving testing of the field equipment and 4 producing wells is anticipated to commence in early 2014 for a period of 6 months, leading then in to the Main development period.

Armenia

During the second quarter, the Company signed an offer to purchase for the rig and has completed the sale of the related equipment. During 2013, USD\$675,000 was received as proceeds on sale. Any additional costs to be incurred in connection with the sale will be charged through profit and loss as incurred.

INVESTMENT IN ASSOCIATE

During the first quarter of 2012, the Company completed a transaction to sell 85% of its interest in East Crimea BV. East Crimea BV is the holding company that holds title to the Joint Activity Agreement to develop the Povorotnoye gas field in East Crimea.

Under the terms of the sale, the purchaser will drill well one to a depth of approximately 4,000 meters, and if a commercial discovery is declared, to put the well into production. The purchaser will then drill a second development well, commencing before May 15th 2016. The purchaser is solely responsible for the costs associated with the drilling of the two wells noted and the acquisition seismic on the licenses, subsequent to which the costs will revert to the ownership interest.

The Company evaluated the fair value of this investment as at December 31, 2013 and determined that there was no adjustment in fair value. The change in the value the investment is carried at is due to fluctuations in the foreign exchange rates. The investment will be evaluated at each interim period for change in fair value, any changes in the value will recorded to the statement of comprehensive income/loss.

During the first quarter of 2012 the purchaser made the first staged payment of USD \$500,000 on completion of the transaction. A second payment of USD \$500,000 is due on spudding of well one and a final payment of USD \$500,000 on the commencement of testing operations on well one. Should these contingent payments be received they will be offset against the loss recorded on disposition.

RESULTS OF OPERATIONS

The following discussion and analysis of the Company's financial results of its operations should be read in conjunction with the Company's consolidated financial statements and related notes for the same period.

	Three months ended December 31,		Twelve months ended December 31	
	2013	2012	2013	2012
Natural gas sales	\$ 78,747	\$ 376,184	\$ 1,103,713	\$ 1,571,197
Other income	-	-	94	177,000
Royalties	(3,234)	(5,960)	(48,203)	(37,378)
Transportation, gathering and processing	(36,538)	(126,241)	(277,795)	(776,140)
Operating expense	(247,485)	(626,327)	(1,589,108)	(2,077,170)
General and administrative	(430,728)	(610,913)	(2,258,305)	(2,975,864)
Finance costs	(6,080)	(371,853)	(19,549)	(461,309)
Foreign exchange gain- realized	(387,836)	633,763	(869,185)	475,418
Cash from operations before changes in non-cash working capital	(1,033,154)	(731,347)	(3,958,338)	(4,104,246)
Non-cash items				
Depreciation	(45,906)	(205,095)	(804,682)	(1,109,598)
Stock-based compensation	-	(117,362)	(105,969)	(1,100,784)
Finance costs	(502,656)	(280,854)	(2,655,920)	(1,433,774)
Impairment of assets held for sale	-	(740,109)	-	(740,109)
Foreign exchange gain - unrealized	513,405	(2,906,470)	1,345,168	(828,829)
Impairment of property plant and equipment assets	(2,839,406)	-	(2,839,406)	-
Impairment of exploration and evaluation assets	(563,038)	(8,224,977)	(563,038)	(29,168,044)
Gain on bond conversion	-	-	1,646,476	-
Gain on share issuance	-	-	123,849	-
Gain on derivative instruments	2,131	539,692	4,008	2,529,823
Loss on sale of subsidiary	-	-	-	(477,312)
Cash received from investing activities				
Proceeds on sale	-	-	-	802,167
Net loss	\$ (4,468,624)	\$ (12,666,522)	\$ (7,807,852)	\$ (35,630,707)
Other comprehensive (loss)/income	(250,015)	2,526,029	(398,607)	(1,081,311)
Comprehensive income/(loss)	\$ (4,718,639)	\$ (10,140,493)	\$ (8,206,459)	\$ (36,712,018)

Natural gas revenue

All natural gas revenue recorded by the Company for the three and twelve months ended December 31, 2013 and 2012 relates to production from the Company's Beaver River operations in Canada.

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Gas production (mcf)	21,295	141,993	363,995	720,118
Average Realized Price (\$/mcf)	3.70	2.65	3.03	2.18
Revenue (\$)	78,747	376,184	1,103,713	1,571,197

Total natural gas production revenue for the three and twelve months ended December 31, 2013 totalled \$78,747 and \$1,103,713 (2012 - \$376,184 and \$1,571,197). In October, 2013, the Beaver River field was shut in due to equipment failure, as of the year end and the date of this report, production has not been restarted.

Royalties

The Company pays Crown Royalties and Gross Overriding Royalties in relation to its Beaver River assets in Canada. Royalties payable are based on calculation using both sales price and volumes produced during each production month. During the three and twelve months ended December 31, 2013 the Company incurred royalties of \$3,234 and \$48,203 (2012- \$5,960 and \$37,378), the increase in the current year is a result of increased realized gas prices, partially offset by the decrease in production noted above.

Transportation, gathering and processing

Transportation, gathering and processing costs all relate to the Beaver River property in Canada. The Company incurred fees of \$36,538 and \$277,795 for the three and twelve months ended December, 2013 (2012 - \$126,241 and \$776,140). The decrease in transportation, gathering and processing costs in the current year compared to the prior year is due to the decrease in production volume and the amended gas sales terms, which has decreased transportation, gathering and processing charges on gas production by approximately 35% per unit.

Operating Expenses

Operating expenses incurred all relate to the Beaver River property in Canada. Operating expenses for the three and twelve months ended December 31, 2013 totalled \$247,485 and \$1,589,108 (2012 - \$626,327 and \$2,077,170). Operating costs remained relatively consistent with prior periods, as the majority of operating costs are fixed in nature and will not vary significantly based on production levels. However, after the shut in of the field in October, 2013, many recurring operating expenses were curtailed where available.

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Salaries, consulting fees and employee expenses	\$ 146,766	\$ 187,664	\$ 770,236	\$ 903,493
Equipment repairs, maintenance and rentals	7,319	57,130	215,354	270,422
Travel, camp groceries and supplies	19,744	61,486	124,809	190,747
Fluids, chemicals and fuel	22,393	173,961	224,649	393,316
Taxes, levies, licenses and permits	6,812	135,025	145,037	265,201
Insurance	29,746	8,484	66,200	35,256
Miscellaneous	14,705	2,577	42,823	18,735
	\$ 247,485	\$ 626,327	\$ 1,589,108	\$ 2,077,170

Operating Netback

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Natural Gas Revenue	\$ 78,747	\$ 376,184	\$ 1,103,713	\$ 1,571,197
Less:				
Royalties	(3,234)	(5,960)	(48,203)	(37,378)
Transportation, gathering and processing	(36,538)	(126,241)	(277,795)	(776,140)
Operating expenses	(247,485)	(626,327)	(1,589,108)	(2,077,170)
Operating Netback	\$ (208,510)	\$ (382,344)	\$ (811,393)	\$ (1,319,491)
Gas production (mcf)	21,295	141,993	363,995	720,118
Operating Netback per mcf (\$/mcf)	\$ (9.79)	\$ (2.69)	\$ (2.23)	\$ (1.83)

Based on netback results the Company has calculated its break-even realized gas price to be approximately \$13.49/mcf for the three months ended December 31, 2013 (2012- \$5.72/mcf) and \$5.52/mcf for the twelve months ended December 31, 2013 (2012 - \$5.06/mcf). The increase in break-even realized prices is attributed to declining production from the field in 2013.

General and administrative

The Company's general and administrative expenses for the three and twelve months ended December, 2013 totalled \$430,728 and \$2,258,305 (2012 - \$610,913 and \$2,975,864). A breakdown of general and administrative expenses for the three and twelve months ended December 31, 2013 and 2012 are as follows.

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Salaries, consulting fees and employee expenses	\$ 80,116	\$ 106,249	\$ 418,843	\$ 723,559
Officer and director fees	132,710	153,504	607,976	519,575
Ukraine office, general and administrative expenses	72,291	-	367,658	-
Travel, accommodation and conferences	22,432	93,104	104,636	229,654
Office, rent, computer and supplies	38,445	50,120	187,715	237,010
Audit, tax and legal	43,323	129,236	314,403	649,594
Insurance	28,400	41,700	114,964	134,540
Filing, transfer agent and stock exchange fees	7,980	24,777	103,175	327,320
Website, advertising and investor relations	3,255	12,223	16,932	65,434
Taxes	-	-	-	89,178
Other	1,776	-	22,003	-
	\$ 430,728	\$ 610,913	\$ 2,258,305	\$ 2,975,864

The expenses are lower for the periods ended December 31, 2013 compared to the same periods in the prior year largely due to higher legal and audit fees due to the Company's financing activities incurred in 2012. In addition, the Company made extensive efforts to curtail expenditures as a result of working capital pressures.

Impairment of exploration and evaluation assets

As at December 31, 2013 the Company assessed the fair value of its exploration and evaluation assets in Ukraine and determined that due to the uncertainty regarding future negotiations for previously held licenses in the region, that impairment of the remaining carry value related to those assets (and related asset retirement obligations) should be taken. As a result, the Company recorded a net impairment loss of \$563,038 and a related reclassification related to previously recorded foreign exchange gains from accumulated other comprehensive income

to the statement of income and loss. Upon future changes or developments, the Company may reverse some or all of the impairment and write the asset back up.

For the year ended December 31, 2012, the Company recorded an impairment charge of \$29,168,044 through profit and loss.

The Company assessed the fair value of its exploration and evaluation assets in Canada and determined that no impairments were indicated.

Impairment of property, plant and equipment

In October, 2013 the Company announced the shut in of the natural gas field at Beaver River, due to equipment failure. The equipment required to bring production back on stream was not in the field and could not be mobilized due to weather conditions (ice roads and bridge repairs commissioned). As the Company was unable to establish production before year-end, and as of the date of this report no year-end independent reserve report has been completed. Due to the future uncertainty of the Beaver River production and related economic reserves, the Company has recorded an impairment of \$2,839,406. Subsequent changes to the operations, reserves and production in the field will allow the Company to reverse all or a portion of the impairment. The Company continues to carry the value of the Beaver River exploration and evaluation assets, as the carry value is supported by activity in the area, recent transaction metrics in the region and other factors.

Finance costs

	Three months ended December 31,		Twelve months ended December 31,	
	2013	2012	2013	2012
Accretion on asset retirement obligation	\$ 7,422	\$ 33,537	\$ 30,383	\$ 99,985
Share purchase agreement	-	-	352,001	-
Interest on loan payable	21,393	17,466	68,701	57,235
Accretion of long term debt	188,332	237,251	893,550	549,660
Interest expense on convertible bond	248,494	323,686	1,158,987	766,613
Recognition of transaction costs relating to bond	37,015	(58,761)	152,298	272,375
Transaction costs relating to loan payable	-	101,696	-	101,696
Penalties and interest	-	-	-	35,477
Bank charges and other interest costs	6,080	(2,168)	19,549	12,042
	\$ 508,736	\$ 652,707	\$ 2,675,469	\$ 1,895,083

The increase in finance costs for the periods ended December 31, 2013 is due to costs incurred relating to the issuance of debt facilities in May 2012, see Capital Resources section for further information on the Company's debt and financing facilities.

Foreign exchange

For the three and twelve months ended December 31, 2013 the Company recorded a foreign exchange gain of \$125,569 and \$475,983 (2012 – losses of \$2,272,707 and \$353,412) recognized through profit and loss. The foreign exchange gain/loss are primarily the result of movement between the Ukrainian Hryvnia and US Dollar exchange to the Canadian dollar during the year. Foreign currency gains and losses arise from the translation of intercompany loans denominated in a currency other than the presentation currency, transactions and period end balances in entities in a currency other than their functional currency and from recognition of exchange differences into net loss/income from foreign currency translation previously included in other comprehensive income.

Net loss

The Company's net income for the three months ended December 31, 2013 was \$4,468,624 (2012 – loss of \$12,666,522) or \$0.01 (2012 – \$0.04) per share - basic and diluted and a loss of \$7,807,852 for the twelve months ended December 31, 2013 (2012 – loss \$35,630,707) or \$0.02 (2012 - \$0.11) per share – basic and diluted.

The number of shares used to calculate the basic and diluted net income per share for the three and twelve months ended December 31, 2013 includes the weighted average number of Transeuro's common shares outstanding of 345,228,857 and 328,821,696, respectively (December 31, 2012 – 316,702,258). The average market value of Transeuro's common shares for purposes of calculating the dilutive effect

of stock options and warrants was based on quoted market prices for the period that the options and warrants were outstanding. For the periods ended December 31, 2013, 18,158,853 options and 6,058,800 warrants were excluded from calculating dilutive loss per share as they were anti-dilutive (December 31, 2012 – 6,058,800 warrants and 17,858,853 options).

Capital expenditures

The Company incurred no Capital expenditures on exploration and evaluation assets for the twelve months ended December 31, 2013 (2012 – \$6,098,515). The Company in 2012 capitalized in country general and administration costs incurred in the period as well as the costs relating to the frack operations of the Karlavskoye 101 well, including rig operations, packers plus system and frack mobilization. The remaining additions relate to items capitalized in association with the Beaver River property in Canada.

As of January 1, 2013 all cost associated with Ukraine operations (general and administrative and office) are no longer capitalized with exploration and evaluation assets but are expensed as a part of general and administrative expenses

Commitments and Contingencies

Ukraine - Povorotnoye

The Povorotnoye license expires, subject to any extensions, on May 14, 2016. Under the terms of the license extension, the license requires commencing in 2012 the drilling and testing of one well for minimum investment of \$12.5 million and commencing a seismic programme of \$5 million and other exploration and development procedures. The Company completed a sale of 85% of the holding Company related to this license (Note 4), and as such, the purchaser has assumed all funding and operating commitments subject to the terms of the sale agreement in 2012 and beyond. The drilling is expected to commence in 2014.

Office Rent

The Company has a lease in the Ukraine for a warehouse, which expires in July, 2014. The total minimum lease payments remaining for this facility is approximately \$13,000.

SUMMARY OF QUARTERLY RESULTS

The following information is derived from the Company's unaudited quarterly consolidated financial statements for the past eight quarters.

(\$, except per share amounts)	Dec-13	Sep-13	Jun-13	Mar-13	Dec-12	Sep-12	Jun-12	Mar-12
Natural Gas sales	78,747	382,505	264,608	377,853	376,184	332,927	360,609	501,477
Cash from operations before changes in non-cash working capital	(1,033,154)	(1,065,760)	(889,504)	(969,920)	235,134	(2,432,818)	(940,081)	(966,491)
Cash flows (used in)/ from operations	(419,023)	1,806,120	(2,170,100)	(561,269)	1,008,368	(2,383,044)	(3,294,251)	(1,089,600)
Net Income/(loss)	(4,468,624)	304,213	(1,552,981)	(2,112,566)	(12,666,523)	(19,811,208)	(1,752,940)	(1,400,036)
Per share - basic and diluted	(0.01)	0.00	(0.00)	(0.01)	(0.04)	(0.06)	(0.02)	(0.02)
Total assets	6,999,349	10,752,864	11,422,331	13,846,597	14,685,779	23,747,593	47,665,015	41,158,567

There were material variations in the results of several of the quarters presented above:

- In the fourth quarter of 2013, the production at Beaver River was shut, creating a reduction in natural gas revenue. In addition, the Company recorded an impairment on its Ukraine Exploration and Evaluation assets of \$563,038 and its Canadian producing assets classified as Property, Plant and Equipment of \$2,839,406.
- During the three months ended September 30, 2013, the Company recorded a gain related to NOK13 million of convertible bond being converted.

- c) During the three months ended March 31, 2013 the Company issued 7,040,023 to Yorkville at a deemed price of \$0.05, valued at NOK 2,000,000 (\$352,001 Canadian). The cost of the initial implementation has been expensed and classified with finance costs.
- d) During the three months ended December 31, 2012, the Company recorded additional impairment to its exploration and evaluation assets in the Ukraine of \$8,224,977 (see Impairment section for additional information).
- e) During the three months ended September 30, 2012 the Company recorded an impairment to its exploration and evaluation assets in the Ukraine of \$20,943,067 (see Impairment section for additional information).
- f) During the three months ended September 30, 2012 the Company recorded a gain on the derivative instruments of \$1,430,896 through profit and loss.
- g) During the three months ended June 30, 2012 the Company issued a convertible debenture for NOK 60 million. In association with the convertible the Company recorded a gain on the derivative instruments \$559,235 through profit and loss. The Company also received a loan for \$1,000,000 bearing interest of 10% annually to be repaid in full by the first anniversary in predetermined installments.
- h) In the quarter ended March 31, 2012 the Company closed a transaction with Eaglewood to release the Company's back-in option for 10% of Eaglewood's licenses in Papua New Guinea, in exchange for a cash settlement from Eaglewood of USD \$800,000. The Company also sold 85% of its interest in East Crimea BV and recorded a loss of \$477,312. The Company also recorded additional expenses for the quarter including depletion of its oil and gas assets of \$269,478, stock based compensation for new options issued in the period of \$562,622 and an operating net back loss of \$375,860.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at December 31, 2013, the Company had negative working capital of \$4,190,798 (December 31, 2012 - \$561,482 deficit).

Cash

As at December 31, 2013 the Company had cash of \$12,990 (December 31, 2012 – \$647,642). The Company is proceeding with its plans to farm out an interest in its Canadian asset and to bring in a finance partner for its new Jordan field enhancement project. A cash payment is also anticipated from Aleator coincident with their spudding of the Povorotnoye well in 2014. The Company is looking at the possibility of raising additional debt funding coincident with the progress of its new ventures and mergers and acquisition strategy.

Management of cash balances is conducted in-house based on investment guidelines approved by the Board, which generally specify that investments, if any, of surplus cash be made in conservative money market instruments that bear and carry a low degree of risk. Some examples of instruments approved by the Company are treasury bills, money market funds, bank guaranteed investment certificates and bankers' acceptance notes. The objective of these investments is to preserve funds for the advancement of the Company's properties. The Company's cash and cash equivalents are invested in business accounts with major financial institutions, are available on demand for the Company's programs, and are not held in any asset backed commercial paper investments.

Requirement of additional equity financing

As at December 31, 2013, the Company had negative working capital of \$4,190,798.

The Jordan EPA requires payment of a US\$2 million performance bond within 30 days of the EPA Effective Date, which is anticipated in early 2014. And a further US\$2 million work programme to commence within 90 days. The performance bond will be returned at the end of the Pre-development period, which is expected to be 6 months.

Investment is required in the Beaver River field in Canada to increase production and revenue above the fixed operating costs so that the field delivers a consistent operating profit. If farm out activities are unsuccessful then the minimum investment requirement is approximately CDN\$ 6 million.

Furthermore, the investment commitments required and under negotiation on the properties in Ukraine are significant once the licenses are re-issued and revised with the government.

The ability of the Company to continue as a going concern and ultimately to recover its investment in its oil and gas properties and to attain profitable operations is dependent on its ability to raise additional debt or equity, secure new or additional partners and farm-outs for its projects, dispose of redundant fixed assets, keep its licenses in good-standing and resume profitable production from the Beaver River property. The Board and management are attempting to address each of these issues and to limit the Company's spending in order to minimize costs. Management has negotiated changes to the Ukraine oil and gas licenses in the past, including extensions and amendments to their expenditure commitments, in order to keep the licenses in good standing. However, the successful outcome of management's activities cannot be assured because they are contingent on future matters. See overview section above for further discussion.

Capital Resources

As at December 31, 2013, Transeuro had 345,228,857 common shares outstanding, 18,158,853 stock options and nil common share purchase warrants outstanding. The outstanding stock options have a weighted average exercise price of \$0.16 per. Accordingly, the Company would receive approximately \$2,916,250 if these options were exercised in full. The exercise of these options is at the discretion of the holders. There is no assurance that any of these options will be exercised.

As at the date of this report the company had 345,228,857 common shares outstanding, 18,158,853 stock options outstanding.

2013 Activity

On March 26, 2013 the Company has executed the revised SPA with Yorkville. The Company has issued 7,040,023 shares (the "Initial Implementation Shares") to Yorkville at a deemed price of CAD 0.05, valued at NOK 2,000,000. The Initial Implementation Fee Shares are calculated as 2% of the maximum aggregate funding from the SPA of NOK 100,000,000, that is available to the Company from the SPA over the 3 year term. Under the terms of the SPA, a further 1% (NOK 1,000,000) in shares will be issued as the balance of the implementation fee to Yorkville coincident with subsequent draw downs from the SPA (see below for further details of the SPA).

In connection with the execution of the SPA, the Company and Yorkville have amended the Loan Agreement entered into in May 2012. Under the revised terms the Loan Agreement, the remaining principal and interest will be repaid in three installments in August 2013, December 2013 and April 2014 (see Subsequent Event disclosure below).

On August 22, 2013, the Company executed the first drawdown of the SPA with Yorkville. The Company issued 6,192,460 shares to Yorkville at a deemed price of \$0.05/share, valued at \$309,623. The shares were be issued to Yorkville pursuant to Canadian prospectus exemptions and are subject to a four month hold period, which expires December 22, 2013, before the shares can be sold into the market. The market value of the shares on the date of issue was \$185,773 (\$0.035/share) resulting in a gain on the settlement of \$123,849.

The proceeds received from Yorkville were used for the first agreed loan repayment under the revised Loan Agreement with Yorkville. Following this payment the Company anticipates further repayments of the principal and interest in December 2013 and April 2014.

During the period ended September 30, 2013, NOK 13,000,000 (approximately \$2,164,826) were converted under the bond holders conversion rights. In conjunction with the conversions 15,294,116 of free trading shares were issued. As a result of the conversions, the Company recorded a gain to profit and loss for the period equal to \$1,646,476 related to the difference in the in stated conversion rate of NOK 0.85/share and the average market price of NOK 0.20/share.

2012 Activity

During the fourth quarter of 2012, the Company had its application to the TSX Venture Exchange approved to extend the expiry date of 5,058,800 warrants issued to holders pursuant to a financing of the Company which closed on January 13, 2011. The expiry date of the warrants was originally April 13, 2012 and previously extended to October 13, 2012. The Company had extended the expiry date to April 13, 2013.

The exercise price of the warrants remained at \$0.20, except for 104,720 warrants issued to insiders of the Company which remained at \$0.50. Each warrant, when exercised, was exchangeable for one common share of the Company.

On May 22, 2012 the Company closed a Norwegian Krone ("NOK") 60 million (approximately CAD \$10.4 million) secured convertible bond. The final terms of the secured convertible bond are annual interest at 12% and a conversion price at NOK 0.85 (approximately CAD \$0.146). The bond is secured against the shares of Transeuro Beaver River Inc, the Company subsidiary holding title to 50% of the Beaver River field in British Columbia, Canada.

The Company has finalized a further facility with Yorkville Advisors LLP ("Yorkville") including a Loan Agreement for up to CAD \$5.0 million, and a Share Purchase Agreement (SPA) for up to NOK 100 million (approximately CAD \$17.2 million). Under the terms of the Loan Agreement, Transeuro can receive up to CAD \$5.0 million over a period of 24 months, which shall be advanced in tranches of CAD \$1.0 million with repayment over 12 months. The loan will be unsecured and pay annual interest at 10%. On May 16, 2012 the Company has drawn the first installment of the Loan Agreement in the amount of CAD \$1.0 million and has issued 1 million, one year share purchase warrants with the exercise price of CAD \$0.168 to Yorkville. Repayment of the first draw down installment commenced in August 2012 and was scheduled to end in May 2013, however, repayments were placed on hold in November under mutual agreement of the Company and Yorkville as a result of ongoing regulatory and exchange discussions.

Pursuant to the proposed terms of the SPA, the Company has the discretion to withdraw funds in tranches up to a total of NOK 100 million over a period of 36 months. At the request of the Company Yorkville will, subject to a number of conditions as set out in the SPA, be obligated to purchase ordinary shares at a discount of 5% to the average of the lowest volume weighted average share price of the Company during four consecutive 10 day forward pricing period. Alternatively the Company may elect a backward pricing period whereby Yorkville will purchase shares at a 10% discount to the lowest volume weighted average share price of the Company during a 5 day backward pricing period.. The Company has prepared and filed a Shelf Prospectus in Canada to facilitate the issuance of new shares under the SPA and will announce each individual drawdown.

Completion of these financing agreements (SPA and the Loan Agreement) was a condition precedent of the previously announced Senior Secured Convertible Bond that is scheduled for settlement on May 22nd.

In October 2012 the Company revised the SPA with Yorkville that was previously announced in May 2012 to reflect changes requested by the Alberta Securities Commission ("ASC") following discussions from their review of the terms of the SPA and the preliminary Shelf Prospectus.

Pursuant to the terms of the revised SPA, the Company still has the discretion to withdraw funds in tranches up to a total of NOK 100 million over a period of 36 months. At the request of the Company Yorkville will still, subject to a number of conditions as set out in the SPA, be obligated to purchase ordinary shares at a discount of 5% to the average of the lowest volume weighted average share price of the Company. However the revised agreement specifies a forward pricing period of 5 days compared to the previous period of 40 days. The facility for a backward pricing period has been removed.

In November 2012, the Company announced that it would no longer proceed with its shelf prospectus and exemptive relief application in connection with the SPA. The Company has received conditional approval from the TSX Venture Exchange to the SPA, but may require further amendments to the SPA before finalizing with Yorkville. As a result of not having a receipted prospectus, any shares issued pursuant to the SPA will be issued pursuant to prospectus exemptions and will be subject to a four month hold period. The Company is currently working with Yorkville to finalize the terms of the revised SPA.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements during the period.

OUTLOOK

The Company has signed a non-binding Heads of Agreement to acquire an oil and gas company with stable existing production revenue, development activities plus a solid appraisal and exploration portfolio. The transaction is subject to inter alia completion of an equity financing for the combined entity, detailed due diligence by both parties, third party approvals, regulatory and stock exchange approvals and restructuring of the Company's bond. The Company is working with its advisors to secure the required investor interest and support from the bond holders and will provide updates as appropriate.

In Canada, gas prices at the Spectra pipeline sales point have increased during the past few months, however production from the Beaver River field remains shut in and will only resume when the company has secured a merger or acquisition. With the recovery in gas prices the preferred strategy is now to continue development of the asset without farming out an interest in the field.

Given the recent political events and the unsuccessful operational results in Ukraine the Company has ceased all operations in the country related to the previously held Karlavskoye and Krasnapolienskoye licenses and any further progress on the Joint Activity Agreement will only be to support the exit process. Progress on the Povorotnoye field is dependent on the ability of Aleator to secure funding for the Povorotnoye-105 well.

In Jordan the Company has begun the process of registering the local operating entity to support the Natural Resource Authority in progressing the Enhancement Program Agreement, through the various government procedural steps and Parliamentary approval. The Company has received interest from third parties to farm in to the project and provide funds to cover the first phase of testing and the installation of artificial lift that is expected to achieve continuous production at flow rates significantly higher than the present intermittent flow from the Hamza field.

The Company continues to review and negotiate a variety of new ventures, mergers and acquisitions, focusing on opportunities for production and short term oil revenues as well as low cost and relatively low risk exploration opportunities. The Company will report as appropriate but the Company emphasizes that the completion of these activities contain numerous and various risks and successful outcomes are not assured.

Other MD&A Requirements

Additional information relating to the Company, including the most recent Company filings, can be located on the Company's website at www.transeuroenergy.com or on the SEDAR website at www.sedar.com.

Additional Disclosure for Venture Issuers Without Significant Revenue

For additional disclosures concerning the Company's general and administrative expenses and a breakdown of the oil and gas property costs, please refer to the Company's Consolidated Statements of Operations and Comprehensive Income and note disclosures contained in its interim condensed consolidated financial statements for the period ended March 31, 2013 which are available on the Company's website at www.transeuroenergy.com. The Company does not have any capitalized or expensed research and development costs or any deferred development costs for the period ended March 31, 2013.

Risk Factors

The Company faces numerous risks associated with participating in the oil and gas industry domestically and internationally. Some of the risks that the Company is exposed to are considered to be specific to Transeuro while other are faced by all that are in the industry. The risks below are risks identified by management and may not describe all potential risks associated with the Company's business.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility in commodity prices. These conditions caused a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Commodity prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Exploration and Reserve Risk

Exploration, appraisal and development of oil and gas reserves are speculative and involve a significant degree of risk. There is no guarantee that exploration or appraisal of the properties in which Transeuro holds rights will lead to a commercial discovery or, if there is a commercial discovery, that Transeuro will be able to realize such reserves as intended. Few properties that are explored are ultimately developed into new reserves. If at any stage Transeuro is precluded from pursuing its exploration or development programs, or such programs are otherwise not continued, Transeuro's business, financial condition and/or results of operations and, accordingly, the trading price of its common shares, is likely to be materially adversely affected.

Title to Properties/Licences

No legal opinion as to the title of the properties in which Transeuro holds an interest has been obtained. As a result, no assurance can be given that title defects do not exist. If a title defect does exist it is possible that Transeuro may lose all or a portion of its interest in properties to which the title defects relates. The Company's three licences in the Ukraine may not be retained should the financial commitments required under the licence agreements not be made.

Economic, Political and Legal Risk

Transeuro's operations are in foreign jurisdictions where there may be a number of risks over which it will have no control. These risks may include risks relating to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing and petroleum export licensing and export duties as well as government control over domestic oil and gas pricing. Some of the jurisdictions in which Transeuro operates may have less developed legal systems than jurisdictions with more established economies which may result in risk such as (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions, including the adoption of new legislation, of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

Results to Date and Additional Requirement for Capital

Transeuro will need to raise additional capital in the future to fund the work commitments on the properties. The future of Transeuro is dependent upon its ability to raise the required funding in the form of equity, debt, joint ventures, farm outs or a combination thereof. Transeuro has limited debt capacity and therefore its exploration activities are expected to be financed through equity or third party joint ventures. There is no assurance that additional financing will be available on terms acceptable to Transeuro. Failure to obtain additional financing on a timely basis could cause Transeuro to forfeit its interest in some or all of the properties and reduce or terminate its operations. Any additional equity financing may be dilutive to shareholders and debt financing, if available, may involve restrictions on financing and operating activities.

Drilling and Operating Risks

Exploration and development activities may be delayed or adversely affected by factors outside the control of Transeuro. These include adverse climatic and geographic conditions, labour disputes, the performance of joint venture or farm-in partners on whom Transeuro may be or may become reliant, compliance with governmental requirements, shortage or delays in installing and commissioning plant and equipment or import or customs delays. Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells, which, though yielding some oil or gas, are not sufficiently productive to justify commercial development or cover operating and other costs.

Market Risk

In the event of successful development of oil and gas reserves, the marketing of Transeuro's prospective production of oil and gas from such reserves will be dependent on market fluctuations and the availability of processing and refining facilities and transportation infrastructure, including access to ports, shipping facilities, pipelines and pipeline capacity at economic tariff rates over which Transeuro may have limited or no control. The right to export oil and gas may depend on obtaining licences and quotas, the granting of which may be at the discretion

of the relevant regulatory authorities. There may be delays in obtaining such licences and quotas leading to the income receivable by Transeuro being adversely affected, and it is possible that from time to time export licences may be refused.

Reliance on Strategic Relationships

In conducting its business, Transeuro will rely on continuing existing strategic relationships and forming new ones with other entities in the oil and gas industry, such as joint venture parties and farm-in partners, and also certain regulatory and governmental departments. While Transeuro has no reason to believe otherwise, there can be no assurance that its existing relationships will continue to be maintained or that new ones will be successfully formed and Transeuro could be materially adversely affected by changes to such relationships or difficulties in forming new ones.

Competition

A number of other oil and gas companies operate, and are allowed to bid for exploration and production licences and other services, in the countries in which Transeuro operates, thereby providing competition to Transeuro. Larger, foreign-owned companies, in particular, may have access to greater resources than Transeuro, may be more successful in the recruitment and retention of qualified employees, and may conduct their own refining and petroleum marketing operations, which may give them a competitive advantage.

Environmental Regulation

As Transeuro is involved in oil and gas exploration, it is subject to extensive environmental and safety legislation and this legislation may change in a manner that may require stricter or additional standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. There may also be unforeseen environmental liabilities resulting from oil and gas activities which may be costly to remedy. The extent of potential liability, if any, for the costs of abatement of environmental hazards cannot be accurately determined and, consequently, no assurances can be given that the costs of implementing environmental measures or meeting any liabilities in the future will not be material to Transeuro or affect its business or operations.

Volatility of Prices of Oil and Gas

The demand for, and price of, oil and gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. Geographic location and a lack of infrastructure may also result in any oil and gas produced being sold at a discount to world market prices for oil and gas. International oil prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. A material decline in the price of oil and gas may have a material adverse effect on Transeuro's business, financial condition, ability to pay dividends and results of operations. The performance of an oil and gas exploration and production company's share price may, but will not necessarily, exhibit a correlation with the price of oil and gas.

Dependence on Key Personnel

Transeuro has a small management team and the loss of a key individual or its inability to attract suitably qualified personnel in the future could materially and adversely affect Transeuro's business. Difficulties may also be experienced in certain jurisdictions in employing and retaining qualified personnel who are willing to work in such jurisdictions.

Additional risks

Please refer to Section 2-Risk Factors of the prospectus dated November 4, 2011 as well as additional risk factors listed in the preliminary short form prospectus dated July 3, 2012 for additional detail of other risk factors faced by the Company.

CORPORATE GOVERNANCE DISCLOSURE

National Instrument 58-101, Disclosure of Corporate Governance Practices, requires all reporting issuers to provide certain annual disclosure of their corporate governance practices with respect to the corporate governance guidelines (the "Guidelines") adopted in National Policy 58-201. These Guidelines are not prescriptive, but have been used by the Company in adopting its corporate governance practices. The Board and senior management of the Company consider good corporate governance to be an integral part of the effective and efficient operation of Canadian corporations. The Company's approach to corporate governance can be reviewed in the Company's most recent Information Circular filed on August 29, 2012 (accessed through the SEDAR website (www.sedar.com), or at the Company's website (www.transeuroenergy.com). No change to the corporate governance has occurred since the last filing.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Transeuro's accounting policies are disclosed on Note 3 of the December 31, 2011 audited consolidated financial statements. Selected accounting policies require that management make 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.

Transeuro's management reviews its estimates regularly. The following assessment of significant accounting policies and associated estimates is not meant to be exhaustive.

Impairment

Property, plant and equipment

The carrying value of PP&E assets is reviewed at each reporting date for indicators that the carrying value of an asset or cash-generating unit may not be recoverable. PP&E assets CGU are based on the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If indicators of impairment exist, the recoverable amount of the asset or cash generating unit is estimated. If the carrying value of the asset or cash-generating unit exceeds the recoverable amount, the asset or cash-generating unit is written down with an impairment recognized in net earnings.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Exploration and evaluation

For purposes of impairment testing, exploration and evaluation assets are allocated and assessed for impairment at the level of a concession or area 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.

The technical feasibility and commercial viability of extracting oil and gas resources 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.

Financial assets

A financial asset is assessed at each reporting date by reviewing estimated future cash flows of the assets to determine whether there is any evidence of impairment. Where there is evidence for financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Company has designated cash, restricted cash, deposits, and receivables as loans and receivables.

Held-to-maturity investments

Held to maturity investments are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method, less any impairment losses.

The Company does not currently have any held-to-maturity investments.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized or impairment is viewed as other than temporary, at which time they will be recorded in profit or loss.

The Company does not currently have any available-for sale financial assets.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") when the financial asset is held-for-trading or it is designated as a financial asset at FVTPL. Financial assets at FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss.

The Company has designated investment in associate as a financial assets classified as financial assets at FVTPL.

Financial Liabilities

Financial liabilities are classified as i) financial liabilities at fair value through profit or loss ("FVTPL") or ii) as other financial liabilities measured at amortized cost. The Company determines the classification of its financial liabilities upon initial recognition. The measurement of financial liabilities depends on their classification.

- i. **Financial Liabilities at Fair Value Through Profit or Loss**
Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including bifurcated embedded derivatives, are also classified as FVTPL. Changes in the fair value of financial liabilities classified as FVTPL are recognized through earnings. The Company's derivative instruments are classified as financial liabilities at FVTPL.
- ii. **Other Financial Liabilities**
Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The Company's accounts payable and accrued liabilities, loan payable, and long term debt are classified as other financial liabilities.

Asset retirement obligations

The Company records a liability for the fair value of legal obligations associated with the decommissioning of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time using the risk-free

rate, with the interest charged to earnings, and for revisions to the estimated future cash flows or changes in discount rate. Actual costs incurred upon settlement of the obligations are charged against the liability.

Stock based compensation

The Company has issued options to acquire common shares to directors, officers, employees and consultants of the Company. These options are accounted for using the fair-value method which estimates the value of the options at the date of the grant using the Black-Scholes option pricing model. The fair value thus established is recognized as compensation expense over the vesting period of the options with an equivalent increase to contributed surplus. Awards which have vested and exercised are equity settled. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under the liability method of tax allocation, deferred income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantively enacted tax rates in which the income tax assets or liabilities are expected to be settled or realized. Tax on income/loss in interim periods is accrued using an annual expected effective tax rate. Deferred tax assets are recognized only to the extent that it is possible that those deferred income tax assets will be realized.

New accounting standards and amendments issued but not yet adopted:

The following is a brief summary of the new and amended standards effective January 1, 2013:

IFRS 10, Consolidation, requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11, Joint Arrangements, requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Ventures.

IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of and risks associated with an entity's interests in other entities.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements.

IAS 27, Separate Financial Statements, addresses accounting for subsidiaries, jointly controlled entities and associates in nonconsolidated financial statements. IAS 28, Investments in Associates and Joint Ventures, has been amended to include joint ventures in its scope and to address changes in IFRS 10-13.

IAS 28 Investments in Associates and Joint Ventures – establishes the accounting for investments in associates and defines how the equity method is applied when accounting for associates and joint ventures. Transeuro does not expect an impact from this standard.

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements of the new requirements.

Corporate Information**Directors**

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Pedro Paulo
David Worrall
Nils Trulsvik

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Darren Moulds
Chief Financial Officer

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