

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results should be read in conjunction with the unaudited interim consolidated financial statements and selected notes for the three months ended March 31, 2001 and the audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2000. Where amounts are expressed on a barrel of oil equivalent basis (BOE), gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel.

Production

For the three months ended March 31, 2001 the Company averaged 1,056 BOE/d, consisting of 311 bbls/d of oil and 4.5 MMcf/d of natural gas. This represents, on a combined basis, a 214% increase over the 336 BOE/d averaged in the first quarter of 2000, comprising a 452% increase over the 56 bbls/d of oil and a 166% increase over the 1.7 MMcf/d of natural gas. Compared to the fourth quarter of 2000, oil production increased 218% from 98 bbls/d, gas production increased 77% from 2.5 MMcf/d and combined production was up by 104% from 518 BOE/d.

Revenue

Oil and gas revenues for the first quarter of 2001 increased 71% to \$3.2 million from \$1.9 million received in the fourth quarter of 2000. The increase in volumes for the three months ended March 31, 2001 more than offset the decline in

average prices received compared to the three months ended December 31, 2000. Due to the widening of the differentials in the first quarter of 2001, the average oil price received by the Company decreased 35% to \$19.26/bbl from the \$29.82/bbl received the previous quarter. The dramatic rise in the Alberta spot natural gas prices in the first quarter of 2001 was partially offset by the resumption of the Company's prepaid gas contract payments on January 1, 2001 and the start of a new natural gas collar put in place by the Company which began on February 1, 2001. Under the collar, which guarantees a floor price of \$7.50 Cdn per gigajoule at AECO and a ceiling price of \$8.50 Cdn per gigajoule at AECO for 3,000 gigajoule per day until December 31, 2001, True incurred a loss of \$165,000 during the first quarter of 2001. As a result, the average gas price recorded by the Company during the three months ended March 31, 2001 decreased slightly to \$6.59/Mcf from the \$6.88/Mcf received the previous three month period. Oil and gas revenues and prices before royalties are not available for the three months ended March 31, 2000.

Operating Expenses

Operating expenses increased from \$86,000 in the first quarter of 2000 to \$863,000 in the first quarter of 2001. On a BOE basis, expenses increased to \$9.09/BOE during the three months ended March 31, 2001 from \$2.80/BOE during the comparable period in 2000 but dropped 23% from the \$11.86/BOE in the fourth quarter of 2000.

Operating Netbacks

The decrease in the oil prices received during the three months ended March 31, 2001 more than offset the decrease in operating expense compared to the fourth quarter of 2000, and resulted in the operating netback received dropping from \$22.15/BOE during the fourth quarter of 2000 to \$16.22/BOE in the first quarter of 2001. During the comparable period in 2000, the netback received was 88% lower at \$8.63/BOE.

General and Administrative

General and administrative expenses decreased to \$193,000 in the first quarter of 2001 from \$269,000 in the fourth quarter of 2000. On a BOE basis, expenses dropped 64% to \$2.03/BOE from \$5.65/BOE in the three months ended December 31, 2000, a direct result of the increased volumes during the first quarter of 2001. Year-over-year, general and administrative expenses increased 21% from \$1.67/BOE in the first quarter of 2000.

Interest Expense

Interest expense during the first three months of 2001 amounted to \$58,000 which was up from the \$10,526 incurred during the fourth quarter of 2000 and from the \$3,000 incurred during the first three months of 2000. The increase was due to the bank debt utilized to help fund the Marengo acquisition.

Capital Expenditures

True invested \$2.3 million in oil and gas activities during the first three months of 2001 compared to \$3.6 million incurred in the three months ended December 31, 2000 and \$204,000 spent during the first quarter of 2000.

Depletion, Depreciation and Site Restoration

Depletion, depreciation and site restoration expense for the three months ended March 31, 2001 rose to \$1.3 million or \$14.14/BOE from \$431,960 or \$9.05/BOE during the three months ended December 31, 2000 and from \$120,000 or \$3.92/BOE in the first quarter of 2000. The increase was mainly due to the tax value of the assets of Marengo being substantially less than the purchase price paid.

Liquidity and Capital Resources

The Company began the year with 12,574,934 common shares outstanding, 13,979,934 shares on a diluted basis. During the quarter, 4,166,667 special warrants were issued at a price of \$1.20 for gross proceeds of \$5.0 million to help finance the acquisition of Marengo. The special warrants were later exercised and an equal number of common shares were issued. An additional 947,250 common shares were issued to Marengo shareholders under the take-over bid at a price of \$1.20 per share. At March 31, 2001, the Company had 17,688,851 common shares outstanding, 19,093,850 shares on a diluted basis.

The Company ended the year 2000 with a \$2.8 million line of credit drawn to \$1.3 million and had a working capital deficit of \$1.9 million. Following the Marengo acquisition and after successfully negotiating a new \$11.3 million line of credit, True ended the first quarter of 2001 with the line drawn to \$10.9 million and had a working capital deficit of \$5.1 million. The deficiency at March 31, 2001 included \$1.5 million in current taxes payable inherited in the Marengo acquisition.