

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of True Energy Inc. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in this annual report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include amounts that are based on management's informed judgements and estimates where necessary.

The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these financial statements. The Audit Committee meets periodically with the external auditors and management to review the work of each and the propriety of the discharge of their responsibilities.

Specifically, the Audit Committee reviews with management and the external auditors the financial statements and annual report of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The shareholders have appointed KPMG LLP as the external auditors of the Company and, in that capacity, they have examined the financial statements for the period ended December 31, 2000.



Paul R. Baay,
President and Chief Executive Officer



Todd R. Klippenstein,
Controller

AUDITORS' REPORT

We have audited the balance sheets of True Energy Inc. as at December 31, 2000 and 1999 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants,
Calgary, Canada
March 30, 2001

CONSOLIDATED BALANCE SHEETS

TRUE ENERGY INC.

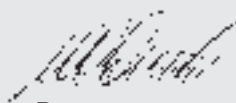
(Formerly Sundance Resources Inc.)

	December 31, 2000	December 31, 1999
ASSETS		
Current assets:		
Accounts receivable	\$ 3,500,627	\$ 1,358,646
Capital assets (note 3)	12,171,304	2,810,852
	\$ 15,671,931	\$ 4,169,498
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,742,773	\$ 1,560,784
Bank indebtedness (note 4)	-	124,700
Current portion of prepaid contract (note 6)	693,500	695,400
	5,436,273	2,380,884
Prepaid contract (note 6)	176,700	463,600
Long-term debt (note 4)	1,325,461	-
Provision for future site restoration	82,947	45,947
Future income taxes (note 8)	1,455,631	81,706
Shareholders' equity:		
Capital stock (note 7)	7,436,579	1,605,447
Deficit	(241,660)	(408,086)
	7,194,919	1,197,361
Subsequent events (note 13)		
	\$ 15,671,931	\$ 4,169,498

See accompanying notes to financial statements.



Director



Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

	Year ended December 31, 2000	Year ended December 31, 1999
Revenue:		
Oil	\$ 871,962	\$ 562,425
Natural Gas	2,760,564	1,626,404
	<u>3,632,526</u>	<u>2,188,829</u>
Royalties:		
Crown	493,062	431,304
Other	183,670	236,081
	<u>2,955,794</u>	<u>1,521,444</u>
Expenses:		
Operating	932,733	344,390
Depletion, depreciation and amortization	1,022,960	761,145
General and administrative	628,026	418,594
Interest on long-term debt	30,744	57,281
	<u>2,614,463</u>	<u>1,581,410</u>
Earnings (loss) before income taxes	341,331	(59,966)
Future income taxes (note 8)	165,000	81,706
Net earnings (loss)	<u>176,331</u>	<u>(141,672)</u>
Deficit, beginning of year	(408,086)	(266,414)
Change in accounting policy for income taxes	(9,905)	-
Deficit, end of year	<u>\$ (241,660)</u>	<u>\$ (408,086)</u>
Weighted average common shares outstanding	9,382,411	6,038,228
Net earnings per share (note 9):		
Basic	\$ 0.02	\$ (0.02)
Diluted	\$ 0.02	\$ (0.02)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

	Year ended December 31, 2000	Year ended December 31, 1999
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ 176,331	\$ (141,672)
Items not affecting cash:		
Depletion, depreciation and amortization	1,022,960	761,145
Future income taxes	165,000	81,706
Prepaid contract revenue	(288,800)	(112,100)
Funds from operations	1,075,491	589,079
Change in non-cash working capital	1,040,008	(243,532)
	2,115,499	345,547
Financing:		
Issuance of share capital	2,887,500	-
Bank debt	1,200,761	107,115
Repayment of debt acquired on acquisition of 887733 (note 2)	(700,000)	-
Share issue costs	(495,839)	-
Repayment of debentures (note 5)	-	(28,032)
	2,892,422	79,083
Investing:		
Additions to capital assets	(6,916,545)	(424,630)
Acquisition of capital assets	(1,608,756)	-
Cash acquired on acquisition of 851431 (note 2)	3,517,380	-
	(5,007,921)	(424,630)
Increase (decrease) in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Funds from operations per share (note 9):		
Basic	\$ 0.11	\$ 0.10
Diluted	\$ 0.11	\$ 0.10

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended
December 31, 2000 and 1999

GENERAL:

True Energy Inc. ("True" or the "Corporation") was formed on the amalgamation of Sundance Resources Inc. ("Sundance"), 851431 Alberta Ltd. ("851431") and 887733 Alberta Ltd. ("887733") effective August 31, 2000 (note 2).

Results of operations prior to August 31, 2000 are those of Sundance. Sundance was incorporated under the Business Corporation Act (Alberta) on February 9, 1996.

1. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Corporation have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The amounts recorded for depletion and depreciation, the provision for future site restoration, ceiling test factors such as proved reserves production rates, oil and natural gas prices and future costs are estimated. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant policies summarized below:

(a) Petroleum and natural gas properties:

The Corporation follows the full cost method of accounting for petroleum and natural gas operations whereby all costs related to the exploration and the development of petroleum and natural gas reserves are capitalized. These costs include land acquisition costs, geological and geophysical expenses, the costs of drilling both productive and non-productive wells and directly related overhead. Proceeds from the disposal of properties are deducted from the full cost pool without recognition of a gain or loss. When a significant portion of properties is sold, a gain or loss is recorded and reflected in the statement of operations.

Depletion of petroleum and natural gas properties is provided using the unit-of-production method based on production volumes before royalties in relation to estimated proved reserves as determined by independent engineers. Natural gas reserves and production are converted to equivalent units based on relative energy content.

The Corporation annually applies a ceiling test to capitalized costs to ensure that such costs do not exceed the aggregate of the costs of unproved properties plus future net revenues from production of proved reserves at year end product prices less future administrative, financing and site restoration and income tax expenses.

Substantially all of the Corporation's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

(b) Future site restoration:

Future site restoration costs are based on management's estimates and amortized using the unit-of-production method over the remaining proved reserves. The provision is included in depletion, depreciation and amortization in the statement of operations.

(c) Prepaid contract:

Advance payments received under prepaid contracts for oil and gas which is not delivered are deferred and are recognized as revenue when deliveries are made. Revenue is recognized on a straight line basis by dividing the advance payment by the total contracted volumes.

(d) Income taxes:

Effective January 1, 2000, the Corporation adopted the liability method of accounting for income taxes, under which future income tax assets and liabilities are determined based on "temporary differences" and are measured using the current, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

Prior to adoption of this new standard, income tax expense was determined using the deferral method. Under this method, deferred income tax expense was determined based on "timing differences" and was measured using the tax rates in effect in the year the differences originated. Certain deferred tax assets, such as the benefit of tax losses carried forward, were not recognized unless there was virtual certainty that they would be realized.

(e) Stock-based compensation plan:

The Corporation has one stock-based compensation plan, which is described in note 7(c). No compensation expense is

recognized for these plans when stock options are issued to employees. Any consideration paid by employees is credited to share capital.

2. ACQUISITIONS:

On July 20, 2000, the Corporation negotiated the terms of an amalgamation with 851431 and 887733. Both 851431 and 887733 were private companies that had no operations and held certain assets. The result of the business combination was that the shareholders of the Corporation obtained control of more than 50% of the total issued and outstanding common shares of the amalgamated entity and, accordingly was deemed to have acquired 851431 and 887733. The acquisitions have been accounted for by the purchase method, and the results of operations are included from the effective date of August 31, 2000. The owner of 887733 was an existing director and shareholder of the Corporation, thus was considered to be a related party. As a result, this portion of the transaction has been accounted for at the carrying values of 887733.

The net assets acquired and consideration given were:

	851431	887733	Total
Net assets acquired:			
Cash	\$ 3,517,380	\$ –	\$ 3,517,380
Capital assets	–	1,821,111	1,821,111
Bank debt	–	(700,000)	(700,000)
Future income tax liability	–	(132,339)	(132,339)
	<u>\$ 3,517,380</u>	<u>\$ 988,772</u>	<u>\$ 4,506,152</u>
Consideration:			
Issued 3,876,904 shares of True valued at \$0.907 per share	\$ 3,517,380	\$ –	\$ 3,517,380
Issued 2,950,001 shares of True at an attributed value of \$0.335 per share	–	988,772	988,772
	<u>\$ 3,517,380</u>	<u>\$ 988,772</u>	<u>\$ 4,506,152</u>

3. CAPITAL ASSETS:

	Cost	Accumulated depletion and depreciation	Net book value
December 31, 2000			
Petroleum and natural gas properties	\$ 13,886,533	\$ 1,835,068	\$ 12,051,465
Office furniture and equipment	230,631	110,792	119,839
	<u>\$ 14,117,164</u>	<u>\$ 1,945,860</u>	<u>\$ 12,171,304</u>
December 31, 1999			
Petroleum and natural gas properties	\$ 3,636,283	\$ 879,068	\$ 2,757,215
Office furniture and equipment	134,469	80,832	53,637
	<u>\$ 3,770,752</u>	<u>\$ 959,900</u>	<u>\$ 2,810,852</u>

At December 31, 2000, the estimated future site restoration costs to be accrued over the remaining proved reserves are \$355,000 (1999 – \$209,000) of which \$37,000 has been recorded as additional depletion, depreciation and amortization during 2000 (1999 – \$38,347).

4. BANK INDEBTEDNESS AND LONG-TERM DEBT:

At December 31, 2000 the Corporation had a financing agreement with a Canadian chartered bank for a \$1,800,000 revolving operating facility and a \$1,000,000 non-revolving acquisition/development facility. Interest is payable at the bank's prime rate plus three quarters of one percent in the case of the revolving operating facility and the bank's prime rate plus one and one quarter percent in the case of the non-revolving acquisition/development facility. Security is provided by a general assignment of book debts, a \$10,000,000 floating charge debenture over all assets of the Corporation and a fixed charge over certain producing petroleum and natural gas reserves at Smiley.

Subsequent to December 31, 2000 the Corporation entered into a new financing arrangement (note 13).

5. DEBENTURES PAYABLE:

As part of the consideration paid in 1998 for the Corporation's major transaction, debentures of \$852,448 were issued. In 1999, the Corporation converted the debentures payable into common shares. In July 1999, 2,857,143 common shares were issued on conversion at \$0.21 per share, and in November, 997,404 shares were issued on conversion at \$0.225 per share. The remaining \$28,032 was paid in cash.

6. PREPAID CONTRACT:

The Corporation entered into a prepaid contract for future delivery of natural gas commencing November 1, 1998. The Corporation received \$1,387,000 on November 1, 1998 for 1,000 gigajoules of gas per day at \$1.90 per gigajoule at the wellhead for a period of two years. If the Corporation does not make delivery of 1,000 gigajoules per day determined on a monthly basis, interest at 2% above the prime rate will be charged for any deliveries not made and will accrue from the date the delivery was due until made.

On July 18, 2000, an amending agreement was signed with the consumer which stated that the Corporation did not have to deliver any gas for the seven months from June 1 to December 31, 2000. The completion of the 458,000 gigajoules of prepurchase gas delivery shall restart at the 1,000 gigajoules per day rate on January 1, 2001.

Based on this amending agreement, the Corporation's scheduled delivery obligations of natural gas and the corresponding annual amortization is as follows:

	Natural Gas (gigajoules)	Annual Amortization
2001	365,000	\$ 693,500
2002	93,000	176,700
	458,000	\$ 870,200

7. CAPITAL STOCK:

- (a) Authorized:
 - Unlimited number of voting Common Shares
 - Unlimited number of non-voting First Preferred Shares
- (b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 1998	4,755,865	\$ 781,031
Issued on conversion of debentures payable (note 5)	3,854,547	824,416
Balance, December 31, 1999	8,610,412	1,605,447
Converted on amalgamation	(4,787,383)	—
Issued on acquisition of 851431 (note 2)	3,876,904	3,517,380
Issued on acquisition of 887733 (note 2)	2,950,001	988,772
Flow-through shares issued for cash on public offering	1,670,000	2,505,000
Flow-through shares issued for cash on private placement	255,000	382,500
Share issue costs (net of future income taxes of \$221,144)	—	(274,695)
Future income taxes relating to flow-through shares	—	(1,287,825)
Balance, December 31, 2000	12,574,934	\$ 7,436,579

The Corporation has commitments to incur approximately \$2,516,000 of qualifying expenditures to satisfy flow-through share agreements.

- (c) Stock options:

Following completion of the amalgamation on August 31, 2000, the 731,300 existing Sundance stock options were cancelled and the board of directors approved a new stock option plan (the "Plan") for directors, officers, employees and consultants of True. The Plan allows the number of shares issuable pursuant to options under the Plan to be the greater of 10% of the outstanding common shares and 1,500,000 common shares. The exercise price shall not be lower than the closing sale price for board lots of common shares on the trading day immediately prior to the day on which the options are granted. The vesting period is determined by the Board.

The following table summarizes the changes in stock options outstanding for the years ended December 31:

	2000		1999	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	731,300	\$ 0.20	300,000	\$ 0.20
Cancelled	(731,300)	0.20	—	—
Granted	1,405,000	0.77	431,300	0.20
Exercised	—	—	—	—
Outstanding at end of year	1,405,000	\$ 0.77	731,300	\$ 0.20

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercisable Price	Number Exercisable	Weighted Average Exercisable Price
\$0.72 to \$1.46	1,405,000	4.7	\$ 0.77	1,150,000	\$ 0.72

8. INCOME TAXES:

Effective January 1, 2000, the Corporation changed its accounting policy accounting for income taxes in accordance with new recommendations to Canadian Generally Accepted Accounting Principles. Prior thereto, the Corporation had followed the deferral method. The new method was applied retroactively without restatement of prior period financial statements. On adoption, the deficit and future income tax liability were increased by \$9,905. There was no effect on current year's earnings as a result of this change.

The provision for income taxes differs from the expected amount calculated by applying the combined Federal and Provincial corporate income tax rate to loss before income taxes. This difference results from the following items:

	2000	1999
Computed expected income tax expense (recovery)	\$ 152,000	\$ (26,756)
Crown royalties and charges	220,000	297,787
Resource allowance	(215,000)	(108,325)
Unrecognized (utilized) losses	—	(81,000)
Other	8,000	—
	\$ 165,000	\$ 81,706

The components of the net future income tax liability at December 31, 2000 are as follows:

Future income tax liabilities:	
Petroleum and natural gas properties	\$ 1,660,011
Future income tax assets:	
Future site restoration	27,764
Share issue costs	176,616
	204,380
Net future income tax liability	\$ 1,455,631

9. PER SHARE AMOUNT:

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of earnings per share. Under the new standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations.

In computing diluted earnings and cash flow from operations per share, 297,018 (1999 – 97,218) shares were added to the 9,382,411 (1999 – 6,038,228) weighted average number of common shares outstanding during the year for the dilutive effect of stock options, and all stock options were dilutive. No adjustments were required to reported earnings and cash flow from operations in computing diluted per share amounts.

Prior period diluted net earnings and cash flow from operations per share have been restated for this change. As a result of this change in accounting policy, diluted earnings per share were increased by \$nil (1999 – \$nil) and diluted cash flow from operations per share was increased by \$nil (1999 – \$0.03).

10. SUPPLEMENTAL CASH FLOW INFORMATION:

	2000	1999
Cash paid:		
Interest	\$ 30,744	\$ 85,807
Taxes	-	-
Non-cash investing and financing activities:		
Conversion of debenture into common shares	\$ -	\$ (824,416)
Issue of common shares on debenture conversion (note 5)	-	824,416
Issue of common shares on acquisitions (note 2)	4,506,152	-
Net assets acquired on acquisitions (note 2)	(4,506,152)	-

11. RELATED PARTY TRANSACTIONS:

The Corporation undertakes certain joint ventures with companies owned by directors and officers of the Corporation. These transactions are at similar terms to those with third parties and are recorded at the exchange amount. The amounts due from these related parties at December 31, 2000 total \$25,409.

For the year ended December 31, 2000 the Corporation purchased a petroleum and natural gas property for \$299,000 from a company owned by a director of the Corporation. This transaction was in the normal course of operations and measured at the exchange amount.

12. FINANCIAL INSTRUMENTS:

At December 31, 2000, there were no significant differences between the carrying value reported on the balance sheet and the estimated market values of financial instruments of the Corporation which consist of accounts receivable, accounts payable and bank debt due to their short-term maturities or floating interest rate terms.

In addition, the Corporation had an index price contract for physical delivery of 2,500 gigajoules of natural gas per day from January 1, 2000 to January 1, 2001. The index price was the average daily Alberta short-term spot price utilizing AECO "C" and Nova inventory transfer published prices less \$0.05 per gigajoule transportation differential. The index price minimum was \$2.50 per gigajoule and the maximum was \$3.50 per gigajoule less related gathering and compression costs.

13. SUBSEQUENT EVENTS:

- (a) On February 6, 2001 the Corporation made an offer to acquire substantially all of the outstanding shares of Marengo Exploration Ltd. ("Marengo"). Marengo is engaged in exploration for and development and production of crude oil and natural gas primarily in the province of Saskatchewan. The acquisition will be accounted for using the purchase method and be effective February 28, 2001 being the date the majority of Marengo shares were taken up and paid for by True.
- (b) On February 5, 2001, the Corporation closed an underwritten private placement of 4,166,667 Special Warrants at a price of \$1.20 per Special Warrant for gross proceeds of \$5.0 million. Each Special Warrant entitles the holder to acquire one common share. The net proceeds of approximately \$4.6 million were used to pay for the acquisition of Marengo.
- (c) On January 22, 2001, the Corporation entered into a financing agreement with a Canadian chartered bank for a \$11,300,000 revolving facility. Interest is payable at the bank's prime rate plus three quarters of one percent. Security is provided by a general assignment of book debts of the Corporation, a \$10,000,000 floating charge debenture over all assets of the Corporation, a fixed charge over certain producing petroleum and natural gas reserves at Smiley and a first floating charge supplemental debenture of \$35,000,000. In addition, the Marengo assets will be included as security for this facility. The facility is subject to review on or before May 31, 2001.
- (d) During January 2001, the Corporation entered into transactions to effect a costless collar for 3,000 gigajoules per day for the period February 1, 2001 to December 31, 2001. These transactions establish a floor price of \$7.50 Cdn per gigajoule at AECO C/N.I.T. and a ceiling price of \$8.50 Cdn per gigajoule at AECO C/N.I.T.