

2000 ANNUAL REPORT

TRUE energy inc.

C O N T E N T S

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TRUE ENERGY INC. was formed August 31, 2000 through the amalgamation of Sundance Resources Inc. and two private companies, 887733 Alberta Ltd. and 851431 Alberta Ltd.

The Corporation's initial project areas are:

- Smiley – gas and oil
- Coleville – gas and oil
- Ingoldsby – oil
- Brock – gas
- Reward/Ear Lake – oil (reactivation)

True Energy's exploration and development strategy is to expand its asset base in western Canada through both acquisitions of new properties and drilling on the Corporation's existing properties. Future acquisitions will include land and production that have both development and exploration upside in areas where there is multi-zone potential and where there are existing production facilities accessible to, or owned by, the Corporation.

True Energy Inc. trades on the Toronto Stock Exchange under the symbol TUI.

ANNUAL GENERAL MEETING

The Annual General Meeting of True Energy Inc. shareholders will be held at the Westin Hotel, Bonavista Room, Calgary, Alberta on June 13, 2001 at 10:00 a.m.

ABBREVIATIONS

/d	per day
bb1(s)	barrel(s)
Bcf	billion cubic feet
BOE	barrel(s) of oil equivalent
Mbbls	thousand barrels
MBOE	thousand barrels of oil equivalent
Mcf	thousand cubic feet
MMBOE	million barrels of oil equivalent
MMcf	million cubic feet
NGLs	natural gas liquids
AECO C/N.I.T.	a benchmark Canadian natural gas price
WTI	West Texas Intermediate, a benchmark crude for pricing

2000 HIGHLIGHTS

SEPTEMBER

- True Energy Inc. announces its formation pursuant to the amalgamation of Sundance Resources Inc., and two private Alberta companies.
- True Energy purchases a gas plant in the Coleville, Saskatchewan area.
- True Energy commences trading on the CDNX under the new symbol TUI.

DECEMBER

- True Energy issues 1,925,000 flow-through common shares at \$1.50 per common share in three separate offerings for gross proceeds of \$2,887,500.
- True Energy completes the final well of an eight-well farm-in in the Coleville and Smiley, Saskatchewan areas.
- True Energy exits the year with production at 600 BOE/D.

FINANCIAL HIGHLIGHTS

(\$000s, except per share amounts)

	2000	Twelve Months Ended December 31	
		1999	% Change
Revenue	3,633	2,189	66
Cash Flow from Operations	1,075	589	83
per share – basic	0.11	0.10	17
per share – fully diluted	0.11	0.10	17
Net Earnings (Loss)	176	(142)	
per share – basic	0.02	(0.02)	
per share – fully diluted	0.02	(0.02)	
Working Capital Deficiency	1,936	898	116
Total Assets	15,672	4,169	276
Long-term Debt	1,502	588	155
Shareholders' Equity	7,195	1,197	501
Net Capital Expenditures	8,525	425	1,908
Shares Outstanding	12,574,934	8,610,412	46
Weighted Average Shares			
basic	9,382,411	6,038,228	55
fully diluted	9,679,429	6,135,446	58

OPERATING HIGHLIGHTS

	2000	Twelve Months Ended December 31	
		1999	% Change
Daily Volumes			
Oil and NGLs (bbls/d)	69	83	(16)
Gas (Mcf/d)	1,710	1,970	(13)
Total (BOE/d) @ 6:1	354	411	(14)
Total (BOE/d) @ 10:1	240	280	(14)
Prices			
Oil and NGLs (\$/bbl)	34.46	18.67	85
Gas (\$/Mcf)	4.42	2.26	96
Total (\$/BOE) @ 6:1	28.06	14.58	92
Total (\$/BOE) @ 10:1	41.37	21.43	93
Per BOE Data @ 6:1			
Operating Netback	15.63	7.84	99
Operating Expenses	7.20	2.29	214
General and Administrative	4.85	2.79	74
Per BOE Data @ 10:1			
Operating Netback	23.04	11.52	100
Operating Expenses	10.62	3.37	215
General and Administrative	7.15	4.10	75
Established Reserves (MMBOE)@ 6:1	2.08	0.70	197
Undeveloped Land (net acres)	26,000		
Producing Wells (net)	24.61		

LETTER TO THE SHAREHOLDERS

INTRODUCTION

True Energy Inc. is pleased to present its first annual report on the financial and operational results of the Corporation for the twelve months ended December 31, 2000. In the short time since the Corporation's inception, we have made considerable progress in raising funds, improving operations, acquiring additional properties and putting in place the personnel required to move forward. Subsequent to year end, True Energy made a significant acquisition and listed on the Toronto Stock Exchange.

True Energy is the product of the August 31, 2000 amalgamation of Sundance Resources Inc. and two private companies, 887733 Alberta Ltd. and 851431 Alberta Ltd. Sundance was an exploration and development company incorporated in 1996 that owned properties at Reward and Smiley in Saskatchewan. Through Sundance, True Energy gained 16,081 net acres of undeveloped land, 6.5 net oil wells, 3.7 net gas wells, 160 net BOE/d of production and 519,000 net BOE of reserves.

887733 Alberta Ltd. was incorporated July 5, 2000 to acquire, from Clanrob Resources Inc., various interests in properties at Ingoldsby, Smiley and Brock, all in Saskatchewan. Through this company, True Energy gained 14,688 net acres of undeveloped land, 1.49 net oil wells, 1.83 net gas wells, 99 net BOE/d of production and 236,000 net BOE of reserves.

851431 Alberta Ltd. was incorporated October 6, 1999 and had not, to the date of True Energy's inception, conducted operations. At the time of the amalgamation, 851431 Alberta Ltd. had \$3.5 million and no other assets or liabilities.

The primary reason for the amalgamation was to create, in True Energy, an entity with a larger market capitalization than any of the predecessor companies. This larger entity would then benefit from enhanced liquidity and improved access to capital markets, which would in turn position True Energy to undertake more significant oil and gas exploration and acquisition programs.

PHILOSOPHY AND STRATEGY

True Energy's exploration and development strategy is to expand its asset base in western Canada through both

acquisitions of new properties and drilling on the Corporation's existing properties. In considering new project areas, True Energy will focus on multi-zone potential and access to facilities. Once these criteria are met, the Corporation will establish a land and production base in a given area through

- acquisitions
- farm-ins
- swaps
- crown land sales
- drilling
- developing infrastructure

In all its growth initiatives, True Energy will target high working interests and operatorship.

2000 IN REVIEW: INDUSTRY CONDITIONS

With commodity price cycles on the rise, 2000 proved to be an opportune time to launch an oil and gas company. The benchmark WTI crude oil ended 1999 near the US\$25.00/bbl level, and climbed to above US\$30.00 briefly in March 2000 before falling back to US\$25.00. In the late spring, it began another upsurge, breaking the US\$30.00 barrier again at the beginning of June. Except for a three-week period in late July/early August, it remained above US\$30.00 until December. For the year, WTI averaged US\$30.28/bbl, an increase of 56% from US\$19.30 in 1999. Canadian oil prices averaged \$44.29 for light sweet crude, an increase of 60% from \$27.61 in 1999.

Natural gas prices were similarly buoyant. January spot prices for Alberta gas were slightly below \$3.00/GJ, rising steadily throughout the year, then spiking in December to as high as \$12.02/GJ due to colder than average temperatures. For the year, natural gas prices averaged \$5.10/GJ at the AECO C/N.I.T., an 82.7% increase from \$2.79 in 1999.

2000 IN REVIEW: TRUE ENERGY

For the year ended December 31, 2000 True Energy recorded revenues of \$3.6 million compared to \$2.2 million for Sundance Resources in 1999, an increase of 66%. Net earnings in 2000 increased by \$318,000 to \$176,000, or \$0.02 per share, from a loss of \$142,000 or \$0.02 per share in 1999. Cash flow from operations amounted to \$1.1 million in 2000, an 83% increase over the \$589,000 reported in 1999.

Operating expenses in 2000 increased 171% to \$933,000 from \$344,000 in 1999 as a result of activities in the latter part of the year undertaken to eliminate a backlog of workovers, general maintenance, and well, facility and infrastructure upgrades. With this work completed, and the consequent production increases, operating costs are expected to decrease. General and administrative expenses increased 50% to \$628,000 from \$419,000 in 1999, reflecting staffing increases made in September, which are now being spread over a larger production base. The Corporation expects future general and administrative costs to decrease significantly on a per BOE basis. Total capital expenses amounted to \$8.5 million and included \$3.5 million for drilling and completions and \$2.4 million for well equipment and facilities.

At December 31, 2000 True Energy's debt-to-cash flow ratio was 0.5 on an annualized trailing quarter basis, compared to 1.5 at December 31, 1999.

For the year, oil production averaged 69 bbls/d, a 16% decrease from 83 bbls/d in 1999. Natural gas production averaged 1.7 MMcf/d in 2000, a 13% decrease from 1.97 MMcf/d in 1999. Using a 6:1 conversion ratio for natural gas, the Corporation's combined production averaged 354 BOE/d in 2000 compared to 411 BOE/d in 1999. At 10:1, combined production averaged 240 BOE/d in 2000 compared to 280 BOE/d in 1999. However, for the three months ended December 31, 2000 oil production increased 132% to 98 bbls/d from 42 bbls/d for the same three months in 1999, and natural gas production increased 138% to 2.5 MMcf/d from 1.1 MMcf/d in 1999. Combined production, at 6:1, increased 137% to 518 BOE/d from 219 BOE/d in the fourth quarter of 1999. At 10:1, combined production increased 136% to 350 BOE/d from 148 BOE/d. This fourth-quarter increase in production resulted from continued improvements which began in the third quarter and which included drilling and asset optimization work at Smiley and Coleville.

True Energy drilled a total of 17 gross wells in 2000 (13.79 net), resulting in four oil wells (3.38 net) and seven gas wells (6.10 net). Finding and development costs amounted to \$7.23/BOE on a 6:1 basis and \$9.31/BOE on a 10:1 basis.

The Corporation successfully raised a total of \$2,887,500 in December 2000 through the issuance of 1,925,000 flow-through shares at \$1.50 per share.

INDUSTRY OUTLOOK

Recent exploration and development activities in western Canada have not been able to keep pace with the increasing demand for natural gas throughout North America. This has led to shortfalls in deliverability and the consequent rise in natural gas prices, an environment that is expected to continue for the foreseeable future.

While there is still some uncertainty about oil prices, most forecasts anticipate WTI will average around US\$25.00 per barrel for the year. OPEC has targeted the US\$22.00 to US\$28.00 and its production trades at a slight discount to WTI. So far in 2001, OPEC has been able to maintain this range.

TRENDS

There are a number of trends that have been developing in the oil and gas industry during the past 18 months that appear to be shaping the near future of the business. The first of these is the consolidation phase the industry has been going through. This has affected companies of all sizes from small emerging companies to senior integrated organizations. This trend appears to be accelerating as a number of publicly traded companies are trading below asset or break-up value. As a result, it is less expensive for companies to grow by acquiring other companies than by focusing entirely on drilling and prospect generation. At a time of high commodity prices and relatively low stock valuations, there appears to be a valuation disconnect that has resulted in increased merger and acquisition activity.

The second trend is the scarce access to external capital that the industry is currently experiencing. This can be partly attributed to the outstanding returns that have been experienced in other sectors of the market; however, during the past two quarters this trend has been correcting and institutional investors appear to be refocusing on traditional sectors for investment opportunities. It will require some time to see if this results in additional investment in the oil and gas sector.

The third trend relates to the size of companies on which investors are focusing. The larger capitalization companies provide for greater liquidity and, as a result, appear to be more attractive; however, the smaller companies may present potentially larger returns as they have not yet appreciated in value in relation to the strong commodity prices that the

industry is currently experiencing. This may change in the near future as investors look for higher rates of returns, which may encourage them to consider investment in smaller oil and gas companies.

The fourth trend is the current influence of foreign exploration and production companies on the Canadian oil and gas industry. The main influence has been from American companies that are acquiring companies and assets in Canada in order to build on long-term natural gas supplies to the United States. This trend will continue to influence valuation parameters of Canadian assets and will result in global values for Canadian companies.

The final trend is that investors are becoming more confident with long-term commodity prices for the industry, causing market values for companies in the industry to improve.

OBJECTIVES AND STRATEGY

During the initial restructuring of the Corporation, True Energy put in place a strong management team that has both a proven track record and experience in its initial focus area. The Corporation will continue to add to this team with individuals who use a cooperative and innovative approach to problem solving in the creation of new ideas.

Currently, True Energy has a number of shallow gas projects and three conventional heavy oil development projects. Its strategy during 2001 will be to develop opportunities in west-central Saskatchewan, focusing on those projects that provide the highest per unit netback as well as those that have the most positive effect on earnings and cash flow per share. Activity will include acquiring seismic, drilling and constructing facilities on each of the opportunities.

Along with the existing projects, True Energy will also focus on new areas within the Western Canadian Sedimentary Basin that meet the Corporation's criteria for new areas of expansion. These include opportunities to build on an existing land base and to control or enhance production through additional capital or operational expertise.

With regard to external growth, True Energy will continue to evaluate opportunities that either complement its initial focus area or provide a production base to establish a second focus area. As in the past year, the Corporation will look at both corporate takeover opportunities and asset transactions to enhance its ongoing operational opportunities. True Energy uses a number of parameters to evaluate outside opportunities, including cost of production per BOE, effect of transaction on cash flow and earnings, and cost of reserves being purchased. Currently, assets seem to be trading at a premium to some corporate entities, but the Corporation's approach is to evaluate each transaction on a stand-alone opportunity basis, applying the various parameters to the evaluation. True Energy believes that external growth opportunities are an excellent avenue for developing new core areas, and provide the production foundation from which to build and justify being in a given area.

ACKNOWLEDGEMENTS

I would like to express my appreciation to our staff, management and Board of Directors for their hard work, energy, dedication, and insight. We have come a long way in a short time. I would also like to thank our shareholders for their support. We have in place a solid foundation for continued growth through 2001 and beyond.



Paul R. Baay,
President and CEO

OPERATIONS REVIEW

OVERVIEW

True Energy operates in several project areas in Saskatchewan.

The Corporation's current principal properties are:

- Smiley – gas and oil
- Coleville – gas and oil
- Ingoldsby – oil
- Brock – gas

In addition, True Energy has properties in the Reward/Ear Lake area in Saskatchewan.

PROPERTIES

Smiley

- **Description:** Located approximately 24 miles northeast of Kindersley, Saskatchewan, the Smiley property is currently the Corporation's primary focus. It consists of both shallow gas and heavy oil development projects. The natural gas project currently comprises nine producing wells and was recently enhanced by the installation of new compression facilities in January 2001. A three-phase plan has been implemented for heavy oil development. The Corporation holds average working interests in the Smiley area of 53%.

Smiley, Saskatchewan	
	Net
Land Holdings (acres)	9,659
Proved Reserves @ Dec. 31/00	
oil (Mbbbls)	216
gas (MMcf)	5,209
Producing Wells	
oil	10.43
gas	3.91
Shut-in Wells	
oil	2.50
gas	0.68
Average Dec/00 Production	
oil (bbls/d)	60
gas (Mcf/d)	1,137

- **Facilities:** One light oil treatment facility, one heavy oil tank treating facility and a gas compressor facility.

- **2000 Highlights:** The Corporation drilled two delineation wells at Smiley that further defined the Bakken sand trend and established initial production parameters. The Bakken sand in this area provides both oil and natural gas that can be incorporated into True Energy's existing facilities to lower operating costs and enhance operational efficiencies. This was the first year in a three-year development plan that will include initial drilling and facilities, followed by infill drilling and potential opportunities for water flood.

- **Future Activities:** Phase One of the heavy oil program commenced in October 2000 and consisted of drilling and evaluating two wells. Phase Two consists of delineating the field using 3-D seismic. Phase Three will consist of drilling additional development wells based on interpretation of the seismic program and constructing oil treatment facilities. A gas sweetening unit was also added to the facility in the first half of 2001.

Initially, 10 natural gas wells are being routed through the new compressor, resulting in increased production and extension of the project's reserve life.

Coleville

- **Description:** Located approximately 15 miles north of Kindersley, Saskatchewan, the Coleville property has both oil and gas reserves and production. Prior to the amalgamation, Sundance entered into a farm-in agreement with Imperial Oil Resources, pursuant to which True Energy drilled five wells to earn 100% of Imperial's undivided interest in the designated area applicable to each well, subject to an overriding royalty varying from 5% to 15%. The overriding royalty is convertible after payout to 50% of the undivided interest earned by the Corporation.

Coleville, Saskatchewan	
	Net
Land Holdings (acres)	3,430
Proved Reserves @ Dec. 31/00	
oil (Mbbls)	31
gas (MMcf)	1,541
Producing Wells	
oil	1.75
gas	5.42
Shut-in Wells	
oil	–
gas	1.0
Average Dec/00 Production	
oil (bbls/d)	8
gas (Mcf/d)	2,226

- **Facilities:** One natural gas compression and sweetening facility.
- **2000 Highlights:** True Energy drilled and completed two wells for oil production; drilled, completed and tied in three gas wells; acquired a 47% interest in an existing gas compressor station together with three producing gas wells (1.4 net) and one shut-in oil well (0.75 net) which is now on production; and installed one additional gas compressor. The Corporation also became operator of the acquired compressor station in October.
- **Future Activities:** True Energy plans to acquire lands and 3-D seismic over the new discoveries and, if results warrant, drill further development wells during the next year.

Ingoldsby, Saskatchewan

- **Description:** Ingoldsby is an oil property located 60 miles east of Estevan, Saskatchewan. The property is non-operated, and was acquired as part of the Clanrob acquisition. True Energy has an average 28% working interest in Ingoldsby.
- **Future Activities:** True Energy is evaluating the economics of constructing additional facilities at Ingoldsby which could lead to further drilling over the next 12 months.

Ingoldsby, Saskatchewan	
	Net
Land Holdings (acres)	321
Proved Reserves @ Dec. 31/00	
oil (Mbbls)	141
Producing Wells	
oil	0.85
Shut-in Wells	
oil	0.39
Average Dec/00 Production	
oil (bbls/d)	18

Brock

- **Description:** The Brock property is located 30 miles southeast of Kindersley, Saskatchewan and consists of both oil and gas production and reserves. The Corporation's initial 20% in the property was acquired as part of the Clanrob acquisition. In December, True Energy increased its interest in the property to 45% and gained operatorship.
- **Facilities:** True Energy holds a 45% interest in a compressor station located on this property.
- **2000 Highlights:** Four wells were brought on stream in September and October.
- **Future Activities:** Based on the success of the production optimization of the initial wells on the property, True Energy plans to acquire two additional seismic lines, and, if the results warrant, drill two additional wells (0.9 net) in 2001. Following this, the Corporation will evaluate down-spacing the existing field for further development.

Brock, Saskatchewan	
	Net
Land Holdings (acres)	19,868
Proved Reserves @ Dec. 31/00	
oil (Mbbbls)	–
gas (MMcf)	295
Producing Wells	
oil	0.45
gas	1.80
Average Dec/00 Production	
oil (bbls/d)	–
gas (Mcf/d)	27

LAND HOLDINGS

At December 31, 2000 True Energy's total land holdings amounted to 121,468 gross acres (50,991 net). The Corporation's average working interest was 42%.

	Gross Acres	Net Acres	Average WI
Smiley	18,102	9,659	53%
Coleville	6,382	3,430	54%
Ingoldsby	1,150	321	28%
Brock	44,151	19,868	45%
Other	51,683	17,713	34%
	121,468	50,991	42%

DRILLING ACTIVITY

During the twelve months ended December 31, 2000 True Energy drilled or participated in the drilling of 17 wells. The Corporation operated 15 of these wells, and its overall working interest averaged 81%. These activities resulted in four oil wells (3.38 net) and seven gas wells (6.10 net).

	Gross	Net
Oil Wells	4	3.38
Gas Wells	7	6.10
Dry Holes	6	4.31
Total Wells	17	13.79
Company Operated	15	

PRODUCTION

True Energy's production for the year ended December 31, 2000 averaged 354 BOE/d at 6:1 and 240 BOE/d at 10:1. Production comprised 69 bbls/d of oil and 1.7 MMcf/d of natural gas. The Corporation exited the year with production of 880 BOE/d at 6:1 and 600 BOE/d at 10:1.

RESERVE RECONCILIATION

True Energy's reserves were evaluated by the independent engineering firm of Gilbert Laustsen Jung Associates Ltd. (G.L.J.). As at December 31, 2000, True Energy had total proved reserves of 1.6 MMBOE with natural gas converted at 6:1, and 1.1 MMBOE with natural gas converted at 10:1. Proved reserves comprise 424 Mbbbls of oil and 7.06 Bcf of natural gas. Total established reserves amounted to 2.1 MMBOE with natural gas converted at 6:1, and 1.5 MMBOE with natural gas converted at 10:1. Total established reserves comprise 713 Mbbbls of oil and 8.18 Bcf of natural gas. Finding and development costs averaged \$7.23/BOE at 6:1 and \$9.31/BOE at 10:1.

Crude Oil (Mbbbls)

	Proved	*Probable Additional	Total Established
Total at December 31, 1999	65	152	217
Acquisitions	167	65	232
Dispositions	–	–	–
Discoveries	108	17	125
Production	(25)	–	(25)
Revisions	109	55	164
Total at December 31, 2000	424	289	713

* Probable Additional Reserves have been reduced by 50%.

Natural Gas (Bcf)

	Proved	*Probable Additional	Total Established
Total at December 31, 1999	4.54	0.32	4.86
Acquisitions	1.10	0.38	1.48
Dispositions	–	–	–
Discoveries	2.14	0.39	2.53
Production	(0.63)	–	(0.63)
Revisions	(0.09)	0.03	(0.06)
Total at December 31, 2000	7.06	1.12	8.18

* Probable Additional Reserves have been reduced by 50%.

Combined (MBOE @ 6:1)

	Proved	*Probable Additional	Total Established
Total at December 31, 1999	822	205	1,027
Acquisitions	350	128	478
Dispositions	—	—	—
Discoveries	465	82	547
Production	(129)	—	(129)
Revisions	93	61	154
Total at December 31, 2000	1,601	476	2,077

* Probable Additional Reserves have been reduced by 50%.

Combined (MBOE @ 10:1)

	Proved	*Probable Additional	Total Established
Total at December 31, 1999	519	184	703
Acquisitions	277	103	380
Dispositions	—	—	—
Discoveries	322	56	378
Production	(88)	—	(88)
Revisions	100	58	158
Total at December 31, 2000	1,130	401	1,531

* Probable Additional Reserves have been reduced by 50%.

NET ASSET VALUE

(\$000s, except per share values)

	10%	12%	15%
Reserves			
Proved	20,710	19,870	18,760
Probable	6,010	5,510	4,860
Established	23,715	22,625	21,190
Proven plus Probable	26,720	25,380	23,620
Undeveloped Land	650	650	650
Net Debt			
(including prepaid gas)	(3,438)	(3,438)	(3,438)
Exercise of Options	1,086	1,086	1,086

Proved

	10%	12%	15%
Net Assets			
basic	17,922	17,082	15,972
fully diluted	19,008	18,168	17,058
Shares Outstanding			
basic	12,575	12,575	12,575
fully diluted	13,980	13,980	13,980
Net Asset Value			
basic	\$ 1.43	\$ 1.36	\$ 1.27
fully diluted	\$ 1.36	\$ 1.30	\$ 1.22

Established

	10%	12%	15%
Net Assets			
basic	20,927	19,837	18,402
fully diluted	22,013	20,923	19,488
Shares Outstanding			
basic	12,575	12,575	12,575
fully diluted	13,980	13,980	13,980
Net Asset Value			
basic	\$ 1.66	\$ 1.58	\$ 1.46
fully diluted	\$ 1.57	\$ 1.50	\$ 1.39

Proved Plus Probable

	10%	12%	15%
Net Assets			
basic	23,932	22,592	20,832
fully diluted	25,018	23,678	21,918
Shares Outstanding			
basic	12,575	12,575	12,575
fully diluted	13,980	13,980	13,980
Net Asset Value			
basic	\$ 1.90	\$ 1.80	\$ 1.66
fully diluted	\$ 1.79	\$ 1.69	\$ 1.57

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of financial condition and operating results should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements.

OVERVIEW

The results of the Corporation's operations in 2000 reflect substantially higher commodity prices as well as the impact of the August 31, 2000 amalgamation of Sundance Resources, 887733 Alberta Ltd. and 851431 Alberta Ltd. Results for 2000 comprise the results of Sundance Resources up to August 31, 2000 and the results of the amalgamated entity, True Energy Inc., thereafter. Comparative results for 1999 are those of Sundance Resources.

PRODUCTION

For the year, oil production averaged 69 bbls/d, a 16% decrease from 83 bbls/d in 1999. Natural gas production averaged 1.7 MMcf/d in 2000, a 13% decrease from 1.97 MMcf/d in 1999. Using a 6:1 conversion ratio for natural gas, the Corporation's combined production averaged 354 BOE/d in 2000 compared to 411 BOE/d in 1999. At 10:1, combined production averaged 240 BOE/d in 2000 compared to 280 BOE/d in 1999. However, for the three months ended December 31, 2000 oil production increased 132% to 98 bbls/d from 42 bbls/d for the same three months in 1999, and natural gas production increased 138% to 2.5 MMcf/d from 1.1 MMcf/d in 1999. Combined production, at 6:1, increased 137% to 518 BOE/d from 219 BOE/d in the fourth quarter of 1999. At 10:1, combined production increased 136% to 350 BOE/d from 148 BOE/d. This fourth-quarter increase in production is a continuation of improvements which began in the third quarter and which resulted from drilling and asset optimization work at Smiley and Coleville.

2000 Oil and Gas Sales Volumes by Property

	Oil (bbls/d)	Gas (Mcf/d)	Combined 6:1 (BOE/d)	Combined 10:1 (BOE/d)
Smiley	55	1,249	263	181
Coleville	1	425	72	43
Ingoldsby	7	–	7	7
Ear Lake	6	–	6	6
Brock	–	21	4	2
Other	–	15	2	1
	69	1,710	354	240

REVENUE

For the year ended December 31, 2000 oil and gas sales rose to \$3.6 million from the \$2.2 million recorded in 1999. This increase is primarily due to the increases in commodity prices compared to the prior year. For the year 2000, WTI averaged US\$30.28 per barrel, an increase of 56% from US\$19.30 in 1999. Natural gas prices were similarly buoyant, averaging \$5.10 per gigajoule at the AECO C/N.I.T. for 2000, an 83% increase from \$2.79 in 1999.

Realized Prices

	2000	1999	% Change
Oil and NGLs (\$/bbl)	\$34.46	18.67	85
Gas (\$/Mcf)	4.42	2.26	96
Combined (\$/BOE) at 6:1	28.06	14.58	92
Combined (\$/BOE) at 10:1	41.37	21.43	93

ROYALTIES

Total royalties remained flat on a year-over-year basis at \$677,000 for 2000 compared to \$667,000 in 1999. On a percentage of revenue basis, however, total royalties dropped to 19% of revenue in 2000 compared to 30% in 1999. During the second half of 1999, several of Sundance's wells reached payout and the Corporation's working interest was reduced. Prior to the wells reaching payout, however, an overriding royalty was being paid by Sundance to the royalty owner, resulting in a much higher total royalty on a percentage of revenue basis for 1999 compared to 2000.

2000 Royalties

	\$000s	% of Sales
Crown	493	14
Freehold and GORR	184	5
Total	677	19

OPERATING EXPENSES

Operating expenses increased 171% to \$933,000 in 2000 from \$344,000 in 1999. On a per unit basis, operating expenses increased to \$7.20/BOE from \$2.29/BOE in 1999 converted at 6:1. Using the 10:1 conversion ratio, operating expenses rose to \$10.62/BOE in 2000 from \$3.37/BOE the prior year. This increase was mainly due to activities in the latter part of 2000 to eliminate a backlog of workovers, general maintenance, and well, facility and infrastructure upgrades. With this work completed and coincident production increases, operating costs are expected to decrease.

2000 Operating Expenses by Property			
	\$000s	\$/BOE (6:1)	\$/BOE (10:1)
Smiley	645	6.68	9.76
Coleville	134	5.12	8.48
Ingoldsby	10	4.22	4.22
Ear Lake	103	47.58	47.58
Brock	31	22.96	37.88
Other	10	13.13	21.63
Total	933	7.20	10.62

OPERATING NETBACKS

As a result of the increased commodity prices, the Corporation's operating netback improved 99% in 2000 to \$15.63/BOE from \$7.84/BOE in 1999 using a conversion ratio of 6:1 and 100% to \$23.04/BOE from \$11.52/BOE in 1999 using a 10:1 conversion ratio.

2000 Operating Netbacks				
	\$/BOE (6:1)	% of Sales	\$/BOE (10:1)	% of Sales
Oil & Gas Sales	28.06	100	41.37	100
Crown Royalties	(3.81)	(14)	(5.62)	(14)
Freehold and GORR	(1.42)	(5)	(2.09)	(5)
	22.83	81	33.66	81
Operating Expenses	(7.20)	(26)	(10.62)	(26)
	15.63	55	23.04	55

GENERAL AND ADMINISTRATION

General and administrative expenses increased 50% to \$628,000 in 2000 from \$419,000 in 1999. On a per unit basis, expenses increased 74% to \$4.85/BOE from \$2.79/BOE in 1999 at 6:1 and at 10:1, administrative expenses increased 75% to \$7.15/BOE from \$4.10/BOE in 1999. The change reflects staffing increases made in September and October, which are now being spread over a larger production base. The Corporation expects future general and administrative costs to decrease significantly on a per BOE basis.

2000 General and Administrative Expenses			
	\$000s	\$/BOE (6:1)	\$/BOE (10:1)
Gross G&A Expenses	731	5.64	8.32
Operator Overhead Recoveries	(58)	(0.45)	(0.66)
	673	5.19	7.66
Capitalized G&A	(45)	(0.34)	(0.51)
Net G&A	628	4.85	7.15
Number of Employees	5		

INTEREST EXPENSE

Interest expense for 2000 amounted to \$31,000 compared to \$57,000 for 1999. Although the Corporation's debt level at December 31, 2000 was significantly higher than the previous year, the debt was only incurred during the later part of the fourth quarter and therefore had little impact on the interest expense for the year.

CAPITAL EXPENDITURES

True invested \$8.5 million on acquisitions and conventional oil and gas drilling activities in 2000 compared to \$425,000 in 1999. The majority of the expenditures in 2000 were incurred following the amalgamation on August 31 and were financed using cash flow, cash acquired as a result of the amalgamation and bank debt.

2000 Capital Expenditures

	\$000s	%
Land Acquisitions	616	7
Seismic	233	3
Drilling and Completions	3,506	41
Well Equipment and Facilities	2,402	28
Other	159	2
Total Conventional Acquisitions	6,916	81
Total	8,525	100

DEPLETION, DEPRECIATION AND SITE RESTORATION

Depletion, depreciation and site restoration expense for the year amounted to \$7.90/BOE versus \$5.07/BOE in 1999 on a 6:1 basis. At 10:1, the expense increased to \$11.65/BOE from \$7.45 in 1999.

LIQUIDITY AND CAPITAL RESOURCES

On August 31, 2000 Sundance Resources Inc. amalgamated with two private companies to form True Energy Inc. Pursuant to the amalgamation, holders of common shares of Sundance received 0.444 common shares of True for each Sundance share and shareholders of the private companies received one True common share for each share held. After giving effect to the amalgamation, the Corporation had 10,649,934 common shares outstanding.

The amalgamation resulted in a public entity with a larger market capitalization and market "float", enhanced liquidity and improved access to capital markets.

In December 2000, the Corporation completed a public offering of 1,670,000 flow-through common shares at an issue price of \$1.50 per share for gross proceeds of \$2,505,000. Also in December, the Corporation issued 200,000 and 55,000 flow-through common shares through two separate private placements at \$1.50 per share for gross proceeds of \$300,000 and \$82,500, respectively.

The Corporation began the year with bank debt of \$125,000, a working capital deficit of \$898,000 and a bank line of credit of \$200,000. Capital expenditures of \$8.5 million for the year 2000 were financed from \$3.5 million cash acquired from one of the private companies through the amalgamation, cash flow, proceeds from the issue of flow-through shares and bank debt. In October, the Corporation negotiated a credit facility with a new lender for \$1.8 million with an additional \$1.0 million development facility. At December 31, 2000 the credit line was drawn to \$1.3 million and the working capital deficit stood at \$1.9 million.

INCOME TAXES

No current taxes were payable in 2000. The future income tax provision increased to \$165,000 in 2000 from \$82,000 in 1999. Tax pools at December 31, 2000 were estimated to be \$11.4 million. The Corporation issued 1,925,000 flow-through common shares in 2000 at \$1.50 per share and prior to year-end had incurred \$371,000 of eligible expenditures. The full \$2.9 million was renounced effective December 31, 2000 and the Corporation will incur the balance of the Canadian Exploration Expenses during 2001.

Tax Pools at December 31, 2000

	\$000s
Canadian Oil and Gas Property Expense	3,166
Canadian Development Expense	3,033
Canadian Exploration Expense	1,168
Undepreciated Capital Cost	3,630
Share Issue Expense	397
	11,394
Flow-through expenditures to be incurred	(2,517)
<u>Tax Pools Available</u>	8,877

MARKET AND SHARE CAPITALIZATION

The Corporation opened the year with 8,610,412 common shares outstanding as Sundance Resources Inc. Following the amalgamation on August 31, 2000, the Corporation had

10,649,934 shares outstanding, and commenced trading on the Canadian Venture Exchange as True Energy Inc. on September 13th, 2000.

Subsequent to the amalgamation, True Energy issued a total of 1,925,000 common shares on a flow-through basis. In December, the Company issued 1,670,000 flow-through common shares by way of a public offering, which was led by Peters & Co. Limited. Also in December, the Corporation issued 200,000 and 55,000 flow-through common shares via two separate private placements.

True Energy ended the year 2000 with 12,574,934 common shares outstanding and 13,979,934 shares on a fully diluted basis. Employees, directors and consultants have 1,405,000 stock options outstanding at prices ranging from \$0.72 to \$1.46 resulting in a weighted average exercise price of \$0.77 per share.

The shares of True Energy closed the year at \$1.30 per share, resulting in a market capitalization of \$16.3 million. Since the amalgamation, the shares have traded as high as \$1.90 and as low as \$0.90.

Subsequent to year-end, the Corporation was approved for trading on The Toronto Stock Exchange and began trading on the TSE under the symbol "TUI" on February 13th, 2001.

BUSINESS RISKS

The oil and gas industry is subject to uncertainties and risks including commodity prices, product market demand, exploration success, reservoir performance, transportation interruptions, foreign exchange and interest rates, government regulation and taxes, and environmental and safety concerns. True Energy strives to minimize these risks by employing highly qualified staff, maintaining a strong financial position, maintaining proactive environmental and safety operating procedures, and focusing on low-cost reserve additions together with cash flow optimization to sustain its growth. Extensive geological, geophysical, engineering, environmental and financial analyses are performed on drilling of new prospects and potential acquisitions. True Energy also maintains comprehensive insurance coverage on its assets and operations.

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.

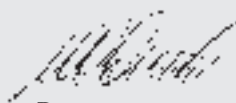
(Formerly Sundance Resources Inc.)

	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.

C O R P O R A T E I N F O R M A T I O N

BOARD OF DIRECTORS

Kenneth P. Acheson, C.A.
President, Kennington Properties Ltd.
Calgary, Alberta

Paul R. Baay
President and CEO, True Energy Inc.
Calgary, Alberta

John H. Cuthbertson
Partner, Burnet Duckworth & Palmer
Calgary, Alberta

W. C. Mickey Dunn
Corporate Secretary, True Energy Inc.
Edmonton, Alberta

Robert G. Rowley, Q.C.
Partner, Macleod Dixon
Calgary, Alberta

Michael S. Vandale
Chairman and President, Vandale Oil, Inc.
Calgary, Alberta

MANAGEMENT

Paul R. Baay
President and CEO

Clinton T. Broughton
Vice President

Gordon L. Reese
Vice President

Todd R. Klippenstein
Controller

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REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

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Symbol: TUI

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