TRUE ENERGY INC.

Annual Information Form

Year Ended
December 31, 2001

May 13, 2002

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ABBREVIATIONS

Oil and Natural Gas Liquids

Bbls	barrels
Mbbls	thousand barrels
BOPD	barrels of oil per day
Bbls/d	barrels of oil per day
MMbbls	million barrels
API	American Petroleum Institute

Natural Gas

Mcf	thousand cubic feet
Mmcf	million cubic feet
Bcf	billion cubic feet
Mcf/d	thousand cubic feet per day
Mmcf/d	million cubic feet per day
m^3	cubic metres
MMBTU	million British Thermal Units
gigajoule	trillion joules

Other

BOE barrel of oil equivalent of natural gas and crude oil on the basis of 1 Bbl of crude oil for 6 Mcf of natural gas

ARTC Alberta Royalty Tax Credit

BACKGROUND

The Corporation

True Energy Inc. ("True" or the "Corporation") was formed on the amalgamation (the "Amalgamation") of Sundance Resources Inc. ("Sundance"), 887733 Alberta Ltd. ("Holdco") and 851431 Alberta Ltd. ("Newco") pursuant to the *Business Corporations Act* (Alberta) (the "ABCA") effective August 31, 2000.

The Corporation's principal office is located at Suite 300, 520 - 5th Avenue SW, Calgary, Alberta, T2P 3R7, and the Corporation's registered office is located at Suite 1600, 407 - 2nd Street SW, Calgary, Alberta, T2P 2Y3. At December 31, 2001, the Corporation had a total of 15 full time employees (17 currently). In addition, at December 31, 2001, the Corporation utilized the services of six persons on a contract or consulting basis (three currently).

The common shares of the Corporation trade on The Toronto Stock Exchange (the "TSX") under the symbol "TUI".

Subsidiaries

As at December 31, 2001, True had one wholly-owned subsidiary, Marengo Exploration Ltd. ("Marengo"), a company incorporated pursuant to the laws of Alberta.

True undertook a reorganization of the producing activities of the True group to reorganize them in a general partnership and, on April 1, 2001, a general partnership was created, the partners of which are True and Marengo. True serves as managing partner of the partnership.

Reference herein to "True" or the "Corporation" includes True and its subsidiary, Marengo and True Energy, a general partnership, unless the context otherwise requires.

GENERAL DEVELOPMENT OF THE BUSINESS

Sundance Resources Inc.

Sundance was incorporated as Sundance Resources Inc. under the ABCA on February 9, 1996. Sundance's principal oil and gas properties at the time of the Amalgamation were located in the Province of Saskatchewan.

Sundance completed its initial public offering as a junior capital pool company and commenced trading on the Alberta Stock Exchange on July 3, 1996.

Sundance's major transaction as a junior capital pool company was comprised of two acquisitions. Pursuant to the first acquisition, effective November 7, 1997, Sundance purchased various oil and gas interests held by four private companies, including interests in six producing oil wells, one shut-in gas well, 11 suspended wells and numerous development targets. Sundance paid $510,000 for these interests, based on a third party evaluation of the proved and probable reserves associated with these interests. Pursuant to the second acquisition, effective February 25, 1998, Sundance acquired certain oil and gas interests held by Vandale Oil Inc., including interests in light and heavy oil processing facilities, as well as interests in properties containing 27 producing wells, three non-producing wells and seven abandoned wells or suspended injectors. Sundance paid $1,528,000 for these interests, based on a third party evaluation of the proved and probable reserves associated with these interests. The acquisitions were approved by shareholders of Sundance at the annual and special meeting of shareholders held on April 24,

1998. The purchase price for the acquisitions was paid through the issuance of 1,680,865 common shares of Sundance and a debenture which was subsequently converted into 2,857,143 common shares of Sundance in July, 1999 at $0.21 per share and 997,404 common shares of Sundance in November, 1999 at $0.225 per share.

887733 Alberta Ltd.

Holdco was incorporated under the ABCA on July 5, 2000. Prior to the Amalgamation, Holdco had not conducted any operations other than negotiating and entering into a petroleum, natural gas and general rights conveyance agreement dated July 20, 2000 pursuant to which it acquired (the "Clanrob Acquisition") from Clanrob Resources Ltd. ("Clanrob"), effective August 31, 2000, certain petroleum and natural gas assets (the "Clanrob Assets") in consideration of the assumption by Holdco of indebtedness in the amount of $700,000 and the issuance by Holdco to Clanrob of 2,950,000 Holdco common shares. The transaction occurred immediately prior to the Amalgamation.

851431 Alberta Ltd.

Newco was incorporated under the ABCA on October 26, 1999. Prior to the Amalgamation, Newco had not conducted operations other than engaging in discussions and negotiations for the purpose of completing a private placement which occurred prior to the Amalgamation, of 3,876,904 Newco common shares for aggregate consideration of $3,517,380.

The Amalgamation

The Amalgamation of Sundance, Holdco and Newco was effective August 31, 2000 pursuant to the ABCA. Pursuant to the Amalgamation (i) holders of common shares of Sundance received 0.444 common shares of True ("Common Shares") for each Sundance common share held, (ii) holders of Newco common shares received one Common Share for each Newco common share held, and (iii) holders of Holdco common shares received one Common Share for each Holdco common share held. Immediately upon completion of the Amalgamation, a new management team and the current board of directors of the Corporation was put in place. After giving effect to the Amalgamation, the Corporation had 10,649,934 Common Shares outstanding. The Common Shares commenced trading on the Canadian Venture Exchange ("CDNX") on September 13, 2000.

Other Acquisitions and Financings

True 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 on December 12, 2000. On December 21, 2000 and December 31, 2000, the Corporation issued 200,000 and 55,000 flow-through Common Shares, respectively, pursuant to two separate private placements. The flow-through Common Shares were issued at a price of $1.50 for gross proceeds of $300,000 and $82,500.

Pursuant to an offer dated February 6, 2001, True acquired all of the outstanding Class A Shares and Class B Shares of Marengo in consideration for an aggregate of 947,251 Common Shares and $15,000,545 in cash.

On February 5, 2001, True closed a private placement of 4,166,667 special warrants issued at a price of $1.20 per special warrant for gross proceeds of $5,000,000. The net subscription proceeds from the special warrants were used to pay the cash portion of the consideration for the Class A Shares and Class B Shares of Marengo. True subsequently filed a prospectus dated March 22, 2001 qualifying the Common Shares issued on exercise of such special warrants.

On February 13, 2001, the Common Shares commenced trading on the TSX and, on March 6, 2001, the Common Shares were delisted from the CDNX.

On June 26, 2001, the Corporation completed a private placement of 7,200,000 special warrants at an issue price of $1.90 per special warrant for gross proceeds of $13,680,000. True subsequently filed a prospectus dated September 5, 2001 qualifying the Common Shares issued on exercise of such special warrants.

On June 26, 2001, the Corporation completed an acquisition of certain petroleum and natural gas assets located in Saskatchewan from an arm's length party, for a net purchase price of approximately $14 million funded from the net proceeds of the special warrant financing described in the preceding paragraph.

Recent Developments

On November 13, 2001, the Corporation completed a private placement of 3,700,000 Common Shares issued on a "flow-through" basis for gross proceeds of $3,515,000. The proceeds from the offering were used to fund the Corporation's ongoing exploration and development program.

Effective April 1, 2002, True sold certain non-strategic assets in west central Saskatchewan for proceeds of $6.25 million. Estimated proved producing reserves relating to the assets sold were 154,000 barrels of heavy oil and 2.1 cubic feet of natural gas. On a barrel of oil equivalent basis, this equates to 511,000 BOE, resulting in proceeds of $12.23/BOE.

Effective on April 19, 2002, True entered into an agency agreement with FirstEnergy Capital Corp. and Peters & Co. Limited (the "Agents"), whereby the Agents agreed to offer for sale, on a best efforts basis up to 4,100,000 Common Shares, resulting in gross proceeds of approximately $3,000,000.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

The Corporation is engaged in the exploration for and development and production of crude oil and natural gas in Western Canada. All of the Corporation's current operations are in the Province of Saskatchewan. The only subsidiary of the Corporation is Marengo, which is wholly-owned by the Corporation and is incorporated under the ABCA. True and Marengo are partners of True Energy, a general partnership.

Principal Properties

The following is a description of the Corporation’s principal oil and natural gas properties. The term "net", when used to describe the Corporation’s share of production, means the total of the Corporation’s working interest share before deducting royalties owned by others. Reserve amounts are stated, before deduction of royalties, at January 1, 2002 based on escalating cost and price assumptions as evaluated in the reports prepared by Gilbert Laustsen Jung Associates Ltd. ("GLJ") (see "Oil and Natural Gas Reserves"). Information in respect of gross and net acres are as at December 31, 2001 and well counts are as at December 31, 2001, except where indicated otherwise. Information in respect of production is average production, net to the Corporation, for the year ended December 31, 2001, except where indicated otherwise.

Smiley, Saskatchewan

The Smiley property is located approximately 35 kilometres northwest of Kindersley, Saskatchewan. The property consists of 19,500 gross (10,055 net) acres and continues to be a major activity area with shallow gas and heavy oil development. The Corporation has twelve producing crude oil wells (7.0 net), four shut-in crude oil wells (2.4 net), eight producing natural gas wells (4.4 net), one shut-in natural gas well (.5 net). Also there is one natural gas compression and sweetening facility, one light oil treating facility and one heavy oil tank treating facility. The Corporation operates the majority of the Smiley property. Proved reserves attributable to the interest of the Corporation at Smiley are 180 Mbbls. of crude oil and 3.7 Bcf. of natural gas. Average production for 2001 was 72 Bbls/d of crude oil and natural gas liquids and 1.202 Mcf/d of natural gas.

Following completion of the gas compression and dehydration facility a gas sweetening unit was added. This facility will now extend the project reserve life and provide capacity for future planned gas locations. As a result, a former suspended oil well was re-completed, tied in to the facility and is producing as a gas well. To provide further locations for drilling, a 3D seismic program was completed resulting in four gas targets for the 2002 drilling program. Future development of the Bakken oil pools could include up to 28 locations as delineated by the 3D seismic program. Additional seismic work is planned on lands acquired in 2001-02 to further define leads identified by the 2001 3D program.

Kerrobert, Saskatchewan

The Kerrobert property is located approximately 40 kilometres north of Kindersley, Saskatchewan and consists of 8,500 gross (8,500 net), acres. The Corporation has three producing crude oil wells (3.0 net), and two shut-in crude oil wells (2.0 net). Proved reserves attributable to the Corporation at Kerrobert are 141.7 Mbbls of crude oil and natural gas liquids and 42.9 MMCF of natural gas. Average production for 2001 was 68 bbls/d of crude oil and natural gas liquids and 113 Mcf/d of natural gas.

The Kerrobert property is a major activity area for the Corporation and is part of the Kerrobert/Dodsland property acquisition completed in 2001. The property consists of both light and heavy oil production from the Viking and McLaren formations respectively. By the end of 2001, the Corporation had significantly increased its production from this property through re-activation of shut-in wells and remedial work on producing wells. Future activity in 2002 for the McLaren formation includes the drilling of up to four horizontals, the first being drilled in the first quarter of 2002.

In the Viking, the Corporation has identified 60 locations with potentially 10 being in 2002. Drilling will be based on the pricing environment allowing an oil price hedging program that assures the Corporation internal rate of return hurdle rates.

Eyre, Saskatchewan

The Eyre property is located approximately 55 kilometres southwest of Kindersley, Saskatchewan and consists of 8,800 gross (5,130 net) acres. The Corporation has six producing gas wells (3.6 net) on the property. Proved reserves attributable to the interest of the Corporation are 1.2 Bcf of natural gas. Average production for 2001 was 1.6 Mmcf/d of natural gas.

The Eyre property produces from both the shallow Viking and Colony formations. Future activity in this area will be detailing analogous features on both adjacent working interest undeveloped and Crown/freehold lands of the Corporation. A significant block of undeveloped land was acquired in Eyre in 2001 through acquisition of other producing properties in the Corporation's core interest areas.

Dodsland

The Dodsland property is located approximately 30 kilometres north of Kindersley, Saskatchewan and consists of 29,160 gross (24,300 net) acres. The Corporation has thirteen producing gas and natural gas liquid wells (10.1 net), four shut-in gas and natural gas liquids wells (3.8 net), and one natural gas compression facility.

The Corporation, as of December 2001, owned and operated 69 percent of the Dodsland Viking Gas Unit. Subsequent acquisitions of minority partners in 2002 has raised the Companies working interest close to 80%. Proved reserves attributable to the interest of the Corporation at Dodsland are 1.93 Bcf of natural gas and 43 Mbbls of natural gas liquids. Average production for 2001 was 310 Mcf/d of natural gas and 3 Bbls/d of natural gas liquids.

The Dodsland property became a major activity area for the Corporation through its Kerrobert/Dodsland property acquisition. Optimization of unit and non-unit Viking and Bakken gas production has increased the Corporation's net production to 720 Mcf/d. Geological work conducted subsequent to the property acquisition has identified several prospects that are analogous to the Company's Coleville gas producing area. Seismic programs will be conducted in 2002 to further evaluate the targets identified on the Company's undeveloped land.

Coleville, Saskatchewan

The Coleville property is located approximately 25 kilometres northwest of Kindersley, Saskatchewan and consists of 11,000 gross (9,400 net) acres. The Corporation has eight producing natural gas wells (5.9 net), four shut-in natural gas wells (2.7 net), one producing crude oil well (.25 net), and three shut-in crude oil wells (2.27 net). Proved reserves attributable to the interest of the Corporation at Coleville are 4 Mbbls of crude oil and natural as liquids and 1.83 Bcf of natural gas. Average production for 2001 was 22 Bbls/d of crude oil and natural gas liquids and 2.59 Mcf/d of natural gas.

The Coleville property produces gas from the shallow Bakken and Mannville zones. The area has become a major activity for the Corporation through the addition of compression and sweetening at its operated facility. To-date, six producing gas wells are now tied into this facility. By early in the 1st quarter of 2002 throughput had increased to 4.4 Mcf/d. The Corporation through acquisitions and land sales has added a significant land base from which future reserves and production will be added. The Corporation is currently planning to drill three gas wells in 2002.

Coleville South, Saskatchewan

The Coleville South property is located 18 kilometres north of Kindersley, Saskatchewan and consists of 2,500 gross (2,500 net) acres. The Corporation has six producing crude oil wells (6.0 net) and three shut-in crude oil wells (3.0 net). The property is entirely operated by the Corporation and all wells are completed as single well batteries. Proved reserves attributable to the interest of the Corporation at Coleville South are 189 Mbbls of crude oil. Average production for 2001 was 162 BBls/d.

The Coleville South property consists of heavy oil production from the Bakken formation. The initial eight well farm-in, was completed in 2001. The next phase of development of up to 16 wells is planned for 2002. The ultimate full development of the project is forecast to be 50 to 60 wells as defined by 3D seismic. It is anticipated that central treating and water handling facilities would be installed upon full development and that a water flood would be implemented.

Oil and Natural Gas Reserves

GLJ prepared the GLJ Report evaluating all properties of True effective December 31, 2001. The GLJ Report is summarized in the tables below. **The GLJ Report contains an evaluation prior to provision for income taxes, Saskatchewan Capital Taxes and indirect costs. True's interest in Probable**

Reserves and the present worth value of Probable Reserves have been reduced by 50% to reflect the degree of risk associated with recovery of such reserves. It should not be assumed that the discounted future net production revenues estimated represent the fair market value of the reserves. There is no assurance that the price and cost assumptions in the constant price and cost and escalating price and cost assumption cases will be attained and variances could be material.

Petroleum Reserves and Net Pre-Tax Cash Flows
(Based on Escalating Price and Cost Assumptions)
December 31, 2001

	True's Interest in Reserves				Present Worth of Future Net Pre-Tax Cash Flows ($Thousands)			
	Crude oil and NGLs (MMbbls)		Natural gas (Bcf)			Discounted at		
	Gross	Net	Gross	Net	Undisc	10%	15%	20%
Proved:								
Developed Producing	0.88	0.78	9.82	7.70	29.0	20.9	18.7	17.0
Developed Non-Producing	0.14	0.11	2.89	2.29	7.0	4.9	4.2	3.6
Total Proved	1.02	0.89	12.71	9.99	36.0	25.8	22.9	20.6
(Risked) Probable @ 50%	0.48	0.82	2.71	2.01	9.4	5.7	4.7	4.1
TOTAL	1.50	1.30	15.42	12.00	45.4	31.5	27.6	24.7

Petroleum Reserves and Net Pre-Tax Cash Flows
(Based on Constant Price and Cost Assumptions)
December 31, 2001

	True's Interest in Reserves				Present Worth of Future Net Pre-Tax Cash Flows ($Thousands)			
	Crude oil and NGLs (MMbbls)		Natural gas (Bcf)			Discounted at		
	Gross	Net	Gross	Net	Undisc	10%	15%	20%
Proved:								
Developed Producing	0.74	0.66	9.70	7.68	17.8	13.1	11.8	10.8
Developed Non-Producing	0.11	0.09	2.56	2.05	4.7	3.4	2.9	2.5
Total Proved	0.85	0.75	12.26	9.73	22.5	16.5	14.7	13.3
(Risked) Probable @ 50%	0.39	0.33	2.68	2.02	4.9	2.9	2.5	2.1
TOTAL	1.24	1.08	14.94	11.75	27.4	19.4	17.2	15.4

(1) "Gross" means the total remaining recoverable reserves owned by True, before deduction of any royalties. "Net" means the total remaining recoverable reserves owned by True less all royalties.

"Proven Reserves" means those quantities of crude oil, which, upon analysis of geologic and engineering data, appear with a high degree of certainty to be recoverable at commercial rates in the future from known oil reservoirs under presently anticipated economic and operating conditions.

"Proven Developed Reserves" means proven reserves which can be expected to be recovered through existing wells with existing equipment and operating methods.

"Proven Developed Producing Reserves" means proven reserves which are presently being produced from completion intervals open for production in existing wells.

"Proven Developed Non-Producing Reserves" means proven reserves which are currently not being produced but do exist in completed intervals but do not produce in existing wells, behind casing in existing wells or at minor depths below the present bottom of existing wells. These proven reserves are expected to be produced through the existing wells in the predictable future. These reserves are classified as proven developed since the cost of making such reserves available for production is relatively small, compared to the cost of a new well.

"Proven Undeveloped Reserves" means proven reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where relatively major expenditures are required for the completion of these wells or for the installation of processing and gathering facilities prior to the production of these reserves. Reserves on undrilled acreage are limited to those drilling units offsetting productive wells that are reasonably certain of production when drilled.

"Probable Reserves" means those reserves which may be recoverable as a result of the beneficial effects which may be derived from the future institution of some form of pressure maintenance or other secondary recovery method, or as a result of a more favourable performance of the existing recovery mechanism than that which would be deemed proven at the present time, or those reserves which may reasonably be assumed to exist because of the geophysical or geological indications and drilling done in regions which contain proven reserves. Probable reserves and the present worth of future net cash flows therefrom, in this table, have been risked by 50%.

(2) The escalating price and cost assumptions assume the continuance of current laws and regulations and increased in wellhead selling prices, and take into account inflation with respect to future operating and capital costs. In the GLJ Report, operating and capital costs are assumed to escalate at 1.5% per annum to the dates when these costs would be incurred. Crude oil base case prices, as forecast in the GLJ Report, are as follows:

	Crude Oil			Natural Gas	
	WTI Cushing Oklahoma $US/Bbl	Edmonton Par Price 40 API $Cdn/Bbl	Hardisty Heavy (12° API) Cdn$/bbl	NYMEX Henry Hub US$/MMBtu	AECO C Spot CDN$/GJ
2002	20.00	30.75	16.75	3.20	4.30
2003	21.00	31.25	17.50	3.50	4.65
2004	21.00	30.50	19.50	3.60	4.70
2005	21.00	29.50	19.25	3.65	4.70
2006	21.25	29.50	19.25	3.70	4.70
2007	21.75	30.00	19.75	3.75	4.70
2008	22.00	30.50	20.25	3.80	4.70
2009	22.25	31.00	20.75	3.90	4.75
2010	22.50	31.50	21.25	3.95	4.80
2011	23.00	32.00	21.75	4.00	4.90
2012	23.25	32.50	22.25	4.05	4.95
2013	+1.5%/yr	+1.5%/yr	+1.5%/yr	+1.5%/yr	+1.5%/yr

(3) The product prices of $12.99 per barrel for heavy oil, $27.79 per barrel for light oil and condensate and $3.24 per mcf for natural gas ($Cdn) used in the constant price and cost evaluation was the average price realized by True for the month of December 31, 2001.

(4) The exchange rates assumed through the period in the GLJ Report are as follows:

Year	$Can/$US Exchange Rate
2002	0.635
2003	0.65
2004	0.67
2005	0.69
2006	0.70

(5) The GLJ Report estimates the future capital expenditures necessary to achieve the estimated present worth of future proved plus risked probable net cash flows based on both escalating and constant costs to be as follows (in thousands):

Year	Escalating	Constant
2002	$ 949,000	$ 689,000
2003	1,439,000	1,418,000
2004	831,000	802,000
2005+	121,000	104,000
Total	$ 3,340,000	$ 3,013,000

(6) 100% of the Proven Producing Reserves evaluated in the GLJ Report were on production as at December 31, 2001.

(7) As the GLJ Report is effective December 31, 2001, it includes the properties disposed by True as described under "Recent Developments".

(8) The crude oil calculations and any projections upon which the GLJ Report is based were determined in accordance with generally accepted evaluation practices. Salvage values for equipment and facilities have not been included in the evaluation.

(9) Well abandonment, site restoration costs and salvage values have not been included in the calculation of the present worth of future net production revenue in the GLJ Report.

Reserve Reconciliation

	Natural Gas (Bcf)		Crude Oil & NGLs (Mbbls)		Combined (MBOE)	
	Proved	Proved + Probable	Proved	Proved + Probable	Proved	Proved + Probable
Total, December 31, 2000	7.06	9.31	424	1,003	1,601	2,555
Acquisitions	8.77	11.77	625	1,082	2,107	3,044
Dispositions	(0.30)	(0.86)	-	-	(50)	(143)
Discoveries	0.91	1.21	255	346	407	548
Production	(2.88)	(2.88)	(207)	(207)	(686)	(686)
Revisions	(0.85)	(0.43)	(101)	(249)	(244)	(324)
Total, December 31, 2001	12.71	18.12	1,016	1,975	3,135	4,994

Notes:
(1) Probable reserves have not been reduced for risk.
(2) Assumes constant prices and costs with no escalation and continuance of current laws and regulations.

Undeveloped Lands

The following table sets out True's undeveloped land holdings as at December 31, 2001.

	Acres As at December 31, 2001	
	Gross(1)	Net(2)
Saskatchewan		
Smiley	13,296	6,574
Coleville	2,700	1,776
Coleville South	1,920	1,920
Eyre	7,000	2,470
Milton	5,791	3,440
Hoosier	7,525	5,328
	38,232	21,508

Notes:
(1) "Gross" refers to the total acres in which True has an interest.
(2) "Net" refers to the total acres in which True has an interest, multiplied by the percentage working interest therein owned by True.

Wells

Crude Oil Wells

The following table sets forth the number and status of crude oil wells in which, at December 31, 2001, True had an interest which are producing or which True considers to be capable of production.

	Producing		Shut-In (1)	
	Gross(2)	Net(3)	Gross(2)	Net(3)
Saskatchewan	314	179.69	35	18.46
Total	314	179.69	35	18.46

Natural Gas Wells

The following table sets forth the number and status of natural gas wells in which, at December 31, 2001, True had an interest which are producing or which True considers to be capable of production.

	Producing		Shut-In [(1)]	
	Gross[(2)]	Net[(3)]	Gross[(2)]	Net[(3)]
Saskatchewan	55	35.0	21	12.92
Total	55	35.0	21	12.92

Notes:
(1) "Shut-in" wells means wells which have encountered and are capable of producing crude oil but which are not producing due to lack of available transportation facilities, available markets or other reasons.
(2) "Gross" wells are defined as the total number of wells in which True has an interest.
(3) "Net" wells are defined as the aggregate of the numbers obtained by multiplying each gross well by True's percentage working interest therein.

Production History, Prices Received and Capital Expenditures

The following table sets forth certain information in respect of production, product prices received and expenditures made by the Corporation for each quarter in the most recently completed financial year of the Corporation, with comparative data for the same periods in the preceding financial year.

	Three Months Ended March 31,		Three Months Ended June 30,		Three Months Ended September 30,		Three Months Ended December 31,	
	2001	2000	2001	2000	2001	2000	2001	2000
Average Daily Production[(1)]								
Crude oil (Bbls/d) and NGLs	311	56	492	36	768	86	688	98
Natural gas (Mcf/d)	4,470	1,680	7,433	1,180	10,340	1,440	9,213	2,544
Combined (BOE) @ 6:1	1,056	336	1,730	233	2,491	326	2,221	518
Average Prices Received								
Crude oil ($/Bbl) and NGLs	19.26	N/A	21.12	N/A	24.77	38.13	15.03	29.77
Natural gas ($/Mcf) after hedging	6.59	N/A	5.48	N/A	4.04	3.33	4.30	6.83
Combined ($/BOE)	33.57	N/A	29.56	N/A	24.72	24.79	22.50	39.17
Royalties ($/Bbl)	8.39	N/A	13.33	N/A	7.68	5.86	5.69	5.12
Operating Expenses ($/BOE)[(2)]	9.09	2.80	6.61	3.13	6.53	7.14	7.41	11.87
Netback Received ($/BOE)	16.22	8.63	9.52	16.37	10.51	11.81	9.40	22.18
Capital Expenditures (thousands of $)[(2)]								
Acquisitions, net of dispositions	31,582	N/A	14,265	N/A	(1,627)	N/A	159	-
Exploration, including drilling	1,322	N/A	4,625	N/A	670	N/A	640	2,204
Development, including facilities	965	N/A	1,566	N/A	(290)	N/A	270	1,421
Total Capital Expenditures	33,869	N/A	20,456	N/A	(667)	N/A	1,069	3,625

Notes:
(1) before deduction of royalties.
(2) Includes all field operating expenses.

The mix of True's crude oil production for the year ended December 31, 2001, was approximately 14% light quality crude oil and 86% heavy quality crude oil.

For the twelve months ended December 31, 2001, approximately 24% of True's gross revenue was derived from crude oil production.

Drilling History

Crude Oil Wells

The following table sets forth the gross and net exploratory and development oil wells in which True participated during the periods indicated.

	Year Ended December 31, 2001		Year Ended December 31, 2000	
	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]
Crude Oil	12	9.0	4	3.4
Natural gas	8	6.1	7	6.1
Dry and Abandoned	5	4.1	6	4.3
Total	25	19.2	17	13.8

Notes:
(1) "Gross Wells" means the number of wells in which True has an interest.
(2) "Net Wells" means the aggregate of the numbers obtained by multiplying each gross well by True's percentage working interest therein.
(3) "Dry" refers to a well which is not productive. A productive well is a well which is capable of producing oil and gas in quantities considered by the operator to be efficient to justify the costs required to complete, equip and produce the well.

Marketing

The Corporation's natural gas marketing strategy is to sell natural gas production in the spot market, complemented by fixed price hedging contracts.

The Corporation has entered into a natural gas contract for 3,000 gigajoules per day for the period from April 1, 2002 to October 31, 2002. The contract provides a floor price of Cdn. $4.00 per GJ at AECO-C and a ceiling price of Cdn. $5.00 per GJ.

True has entered into short-term contracts to sell its crude oil production with third parties who have demonstrated their ability to market crude oil effectively. These contracts are complemented by fixed price purchase contracts, similar to the Corporation's natural gas marketing strategy.

The Corporation has entered into fixed price contracts to sell heavy oil (Lloydblend LLK) at Cdn. $30.18 per barrel on 200 barrels per day for the period from May 1, 2002 to December 31, 2002 and at Cdn. $26.74 per barrel on 100 barrels per day for the period from May 1, 2002 to April 30, 2003.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth selected consolidated financial information of the Corporation for the last three fiscal years.

(In $000's except per share amounts)	2001	2000	1999
	Year ended December 31,		
Gross revenues before royalties	18,103	3,633	2,189
Cash flow from operations	4,159	1,075	589
Per share – basic and diluted	0.21	0.11	0.10
Net earnings (loss)	(19,300)	176	(142)
Per share – basic and diluted	(0.99)	0.02	(0.02)
Total assets	30,564	15,672	4,169
Debt, net of working capital	17,243	3,438	1,485

The following table sets forth selected consolidated financial information of the Corporation for the eight most recently completed quarters ending at the end of the most recently completed financial year.

2001 – Quarter ended ($ thousands, except for share amounts)	March 31	June 30	Sep. 30	Dec. 31
Revenue	3,188	4,653	5,664	4,598
Cash flow from operations	1,105	697	2,577	(220)
Cash flow from operations per share				
basic	0.09	0.05	0.13	(0.01)
diluted	0.08	0.04	0.13	(0.01)
Net earnings (loss)	(110)	(558)	(1,073)	(17,559)
Net earnings (loss) per share				
basic	(0.01)	(0.04)	(0.05)	(0.65)
diluted	(0.01)	(0.03)	(0.05)	(0.65)
Capital Expenditures, net	16,782	20,604	(37)	455

2000 – Quarter ended ($ thousands, except for share amounts)	March 31	June 30	Sep. 30	Dec. 31
Revenue	468	552	746	1,867
Cash flow from operations	39	85	174	777
Cash flow from operations per share				
basic	0.00	0.01	0.02	0.07
diluted	0.00	0.01	0.02	0.07
Net earnings (loss)	20	(29)	(37)	222
Net earnings (loss) per share				
basic	0.00	(0.00)	(0.00)	0.02
diluted	0.00	0.00	0.00	0.02
Capital Expenditures, net	204	500	680	3,624

MANAGEMENT'S DISCUSSION OF OPERATING RESULTS

Reference is made to the "Management's Discussion and Analysis" for the year ended December 31, 2001 contained on pages 14 to 21 of True's 2001 Annual Report, which is incorporated herein by reference.

DIRECTORS AND OFFICERS

The names, municipalities of residence, positions with the Corporation, principal occupation of the directors and officers of the Corporation are set out below.

Name, Municipality of Residence and Position with the Corporation	Principal Occupation	Director Since
Paul R. Baay[)] Calgary, Alberta President, Chief Executive Officer and Director	President and Chief Executive Officer of True	2000
Kenneth P. Acheson, C.A.[(1)(2)] Calgary, Alberta Director	President, Kennington Properties Ltd. (commercial real estate company)	2000
W.C. (Mickey) Dunn[(1)(3)] Edmonton, Alberta Corporate Secretary and Director	Businessman	2000
John H. Cuthbertson[(2)] Calgary, Alberta director	Partner, Burnet, Duckworth & Palmer LLP (barristers and solicitors)	2000
Robert G. Rowley, Q.C.[(1)(3)] Calgary, Alberta Director	Partner, Macleod Dixon LLP (barristers and solicitors)	2000
Michael S. Vandale[(2)(3)] Calgary, Alberta Director	Chairman and President, Vandale Oil Inc. (a private oil and gas company)	2000
Kim M. Ward Toronto, Ontario Director	Businessman	2001
Gordon L. Reese Calgary, Alberta Vice-President	Vice-President of True	N/A
Clinton T. Broughton Calgary, Alberta Vice-President	Vice-President of True	N/A
Sadiq H. Lalani Calgary, Alberta Vice-President, Finance and Chief Financial Officer	Vice-President, Finance and Chief Financial Officer of True	N/A

Note:
(1) Member of the Audit Committee.
(2) Member of the Corporate Governance Committee.
(3) Member of the Compensation Committee

All of the directors have been engaged for more than five years in their present principal occupations or executive positions with the same or associated companies, except as disclosed below under "Management".

As at the date hereof, the directors and officers of True, as a group, beneficially owned, directly or indirectly, 6,835,345 Common Shares or approximately 23.8% of the issued and outstanding Common Shares.

MANAGEMENT

True's management team have a wide breadth of experience in general business and directly in the oil and gas industry.

Paul R. Baay, President and Chief Executive Officer

Mr. Paul Baay of Calgary, Alberta has been the President and Chief Executive Officer of the Corporation since completion of the Amalgamation on August 31, 2000. Between April 1999 and August 31, 2000, Mr. Baay was an independent businessman and prior thereto was President and Chief Executive Officer of Remington Energy Ltd. from January 1, 1992 to April 1, 1999. Mr. Baay is a University of Western Ontario graduate with a Bachelor of Arts Degree.

Gordon L. Reese, Vice-President

Mr. Gordon Reese of Calgary, Alberta has been the Vice-President of the Corporation since August 31, 2000. Prior thereto, from January 1995, Mr. Reese was a consultant providing geological consulting services to various private resource firms in exploration and development of heavy oil and gas reserves with a focus on midwestern Saskatchewan. Prior thereto, from May 1989 to December 1994, Mr. Reese was Senior Geologist at CS Resources Limited. Mr. Reese received a B.Sc. Honours Applied Earth Sciences from the University of Waterloo in 1981 and is a member of the Canadian Society of Petroleum Geologists and the American Association of Petroleum Geologists.

Clinton T. Broughton, Vice-President

Mr. Clint Broughton of Calgary, Alberta has been the Vice-President of the Corporation since August 31, 2000. Prior thereto, Mr. Broughton was an independent businessman from 1997 to September 2000, except for the period from October 1999 to May 2000 when he was Vice-President, Operations at Calahoo Petroleum Ltd. Prior thereto, Mr. Broughton was Vice-President, Operations from 1984 to 1997 at Seagull Energy Canada Ltd. and prior thereto was Division Drilling Superintendent at Amoco Canada Petroleum Company Limited. Mr. Broughton received his engineering degree from the University of Saskatchewan in 1965. Mr. Broughton is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (having served as Vice-President and President of the Northwest Branch), the Petroleum Joint Venture Association, the Canadian Association of Drilling Engineers (having served as Secretary, Vice-President and President) and the Petroleum Society of CIM.

Sadiq H. Lalani, Vice-President, Finance and Chief Financial Officer

Mr. Sadiq H. Lalani is Vice-President, Finance and Chief Financial Officer of True. Prior to joining True on November 1, 2001, Mr. Lalani was Senior Vice President and Chief Financial Officer of Triumph Energy Corporation ("Triumph"), a junior oil and gas exploration and production company, from April 1996 to May 2001. Triumph was acquired by Baytex Energy Ltd. in May 2001. Prior to joining Triumph, Mr. Lalani held several positions and most recently was Treasurer of Morgan Hydrocarbons Inc. from February 1986 to March 1996. Mr. Lalani is a graduate of the University of Calgary and has over sixteen years' experience in the financial aspects of the oil and gas industry.

DIVIDEND POLICY

It is not anticipated that True will pay any dividends on its outstanding Common Shares in the immediately foreseeable future. The board of directors of True will determine the actual timing, payment and amount of dividends, if any, that may be paid by True from time to time based upon, among other things, the cash flow, results of operations and financial condition of True, the need for funds to finance ongoing operations and other business considerations as the board of directors of True considers relevant.

INDUSTRY CONDITIONS

Introduction

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government. Outlined below are some of the more significant aspects of the legislation, regulations and agreements governing the oil and gas industry. Although it is not expected that these controls and regulations will affect the operations of the Corporation in a manner materially different than it would affect other oil and gas companies of a similar size, the controls and regulations should be considered carefully by investors. All current legislation is a matter of public record and True is unable to predict what additional legislation or amendments may be enacted.

Pricing and Marketing - Oil

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance. Oil exports may be made pursuant to export contracts with terms not exceeding one year in the case of oil other than heavy crude, and not exceeding two years in the case of heavy crude, provided that an order approving any such export has been obtained from the National Energy Board ("NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issue of such a licence requires the approval of the Governor in Council.

Pricing and Marketing - Natural Gas

In Canada, the price of natural gas sold is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain criteria prescribed by the NEB and the government of Canada. Natural gas exports for a term of two years or less or for a term of between 2 and 20 years (in quantities of not more than 30,000 m^3/d) may be made pursuant to an NEB order, or, in the case of exports for a longer duration (to a maximum of 25 years) or a larger quantity, pursuant to an NEB export licence and Governor in Council approval.

The governments of Alberta, British Columbia and Saskatchewan also regulate the removal of natural gas from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements and market considerations.

Pipeline Capacity

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market natural gas production. The pro rating of capacity on the interprovincial pipeline systems also continues to affect the ability to export oil.

The North American Free Trade Agreement

On January 1, 1994, the North American Free Trade Agreement ("NAFTA") among the governments of Canada, the U.S. and Mexico became effective. The NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the U.S. or Mexico will be allowed, provided that any export restrictions are justified under certain provisions of the General Agreement on Tariffs and Trade, and further provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of the energy resource (based upon the proportion prevailing in the most recent 36 month period or in such other representative period as the parties may agree), (ii) impose an export price higher than the domestic price subject to an exception with respect to certain measures which only restrict the volume of exports, and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export-price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import-price requirements, such requirements do not apply with respect to enforcement of countervailing and anti-dumping orders and undertakings.

The NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

Royalties and Incentives

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil, natural gas and natural gas liquids production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is also subject to certain provincial taxes and royalties. Operations of the Corporation which are not Crown lands and are subject to the provisions of specific agreements are also usually subject to royalties negotiated between the mineral owner and the lessee. These royalties are not eligible for incentive programs sponsored by various governments as discussed below. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced.

From time to time the governments of Canada, Alberta and Saskatchewan have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced recovery projects. The trend in recent years has been for provincial governments to allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

Oil royalty rates vary from province to province. In Alberta, oil royalty rates vary between 10% and 35% for oil and 10% and 30% for new oil. New oil is applicable to oil pools discovered after March 31, 1974 and prior to October 1, 1992. The Alberta government introduced the Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 30, 1992.

Effective January 1, 1994, the calculation and payment of natural gas royalties became subject to a simplified process. The royalty reserved to the Crown, subject to various incentives, is between 15% and

30%, in the case of new gas, and between 15% and 35%, in the case of old gas, depending upon a prescribed or corporate average reference price. Natural gas produced from qualifying exploratory natural gas wells spudded or deepened after July 31, 1985 and before June 1, 1988 continues to be eligible for a royalty exemption for a period of 12 months, or such later time that the value of the exempted royalty quantity equals a prescribed maximum amount. Natural gas produced from qualifying intervals in eligible natural gas wells spudded or deepened to a depth below 2,500 metres is also subject to a royalty exemption, the amount of which depends on the depth of the well.

Oil sands projects are subject to a specific regulation made effective July 1, 1997 and expiring June 30, 2007, which, among other things, determines the Crown's share of crude and processed oil sands products.

In Alberta, a producer of oil or natural gas from Crown lands is entitled to a credit against the royalties payable to the Crown by virtue of the ARTC program. The ARTC program is based on a price-sensitive formula, and the ARTC rate currently varies between 75% for prices for oil at or below $100 per cubic metre and 25% for prices above $210 per cubic metre. In general, the ARTC rate is currently applied to a maximum of $2,000,000 of Alberta Crown royalties payable for each producer or associated group of producers. Crown royalties on production from producing properties acquired from corporations claiming maximum entitlement to ARTC will generally not be eligible for ARTC. The rate is established quarterly based on the average "par price", as determined by the applicable government department for the previous quarterly period. On December 22, 1997, the Alberta government announced that it would conduct a review of the ARTC program with the objective of setting out better targeted objectives for a smaller program and to deal with administrative difficulties. On August 30, 1999, the Alberta government announced that it would not be reducing the size of the program, but that it would introduce new rules to reduce the number of persons who qualify for the program. The new rules will preclude companies that pay less than $10,000 in royalties per year and non-corporate entities from qualifying from the program.

Effective January 1, 1994, the Government of Saskatchewan revised its fiscal regime for the oil and gas industry. Some royalties on wells existing as of that date will remain unchanged and therefore subject to various periods of royalty/tax reduction. While a number of incentives were eliminated or reduced (such as incentives for vertical infill wells and lower cost horizontal wells), new incentive programs were initiated to encourage greater exploration and development activity in the province.

The new fiscal regime in Saskatchewan provides an incentive to encourage the drilling of new vertical oil wells through a revised royalty/tax structure for new vertical oil wells and incremental production from new or expanded water flood projects, but not horizontal wells. The "Third Tier" Crown royalty rate and freehold production tax structure, which does not apply to horizontal wells, is price sensitive and varies between heavy and non-heavy oil (from a minimum of 10% for heavy oil at a base price to a maximum of 35% for non-heavy oil at a price above the base price). Previous time-based royalty/tax holidays applicable to new vertically drilled oil wells have been replaced with volume-based royalty/tax reduction incentives in which a maximum royalty of 5% (before application of the 1% Saskatchewan Resource Credit) will apply to various volumes depending on the depth and nature of the well (up to 25,000 cubic metres of oil in the case of deep exploratory wells). The maximum royalty applicable to the first 12,000 cubic metres of oil has been increased from 5% to 10% for production from certain re-entry horizontal wells. In addition, royalty/tax holidays for deep horizontal oil wells have been replaced with a 25,000 cubic metres volume incentive (5% maximum royalty). Oil production from qualifying reactivated oil wells are subject to a maximum new royalty rate of 5% (before the application of the 1% Saskatchewan Resource Credit) for the first five years following re-activation in the case of wells reactivated after 1993 and shut-in or suspended prior to January 1, 1993. With respect to qualifying exploratory natural gas wells, the first 25 million cubic metres of natural gas produced will be subject to an incentive maximum royalty rate of 5% (0% freehold production tax).

Producers of oil and natural gas in British Columbia are required to pay annual rental payments in respect of Crown leases and royalties and freehold production taxes in respect of oil and gas produced from Crown and freehold lands, respectively. The amount payable as a royalty in respect of oil depends on the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), whether the oil is considered incremental or produced from a well shut-in for at least 36 months immediately preceding January 1, 1998 and which resumed production on or after such date, the quantity of oil produced in a month and the value of the oil. Oil produced from pools discovered after June 30, 1974 may be exempt from the payment of a royalty for the first 36 months of production. Subject to the minimum royalties described in the following sentence, the royalty payable on natural gas is determined by a sliding scale based on a reference price, which is the greater of the amount obtained by the producer and a prescribed minimum price. Gas produced in association with oil has a minimum royalty of 8% while the royalty in respect of other gas may not be less than 15%.

Oil and natural gas royalty holidays and reductions for specific wells reduce the amount of Crown royalties paid to the provincial governments. The ARTC program provides a rebate on Crown royalties paid in respect of eligible producing properties.

Environmental Regulation

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and gas industry operations and can affect the location and operation of wells and facilities and the extent to which exploration and development is permitted. In addition, legislation requires that well and facilities sites be abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean-up orders. Applicable environmental laws in Alberta are consolidated in the *Environmental Protection and Enhancement Act*. Under this Act, environmental standards and compliance for releases, clean-up and reporting are stricter and more onerous than the previous legislation. Also, the range of enforcement actions available and the severity of penalties have been significantly increased. These changes will have an incremental effect on the cost of conducting operations in Alberta.

British Columbia's *Environmental Assessment Act* became effective June 30, 1995. This legislation rolled the previous processes for the review of major energy projects into a single environmental assessment process with public participation in the environmental and review process.

True is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased, although not material, expenditures of both a capital and expense nature as a result of increasingly stringent laws relating to the protection of the environment.

Trends

There are a number of trends that have been developing in the oil and gas industry during the past two years that appear to be shaping the near future of the business. The first trend is the consolidation phase that the industry has been going through. This has affected companies of all sizes from the small emerging companies to the senior integrated organizations. This trend appears to be accelerating as a number of publicly traded companies are trading below asset or break-up value and as a result it is less expensive for companies to grow by acquiring 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 was experiencing. This can be partly attributed to the outstanding returns that have been experienced in other sectors of the market, however during the last year this trend has been correcting and institutional investors appear to be beginning to refocus 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 that investors are focusing on. The larger market capitalization companies provide for greater liquidity and as result appear to be more attractive, however the smaller companies may present potentially larger returns as they have not yet fully appreciated in value. 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. While there may be some short term disposition activity by this group, ultimately their participation will influence valuation parameters of Canadian assets and will result in global values for Canadian companies.

A fifth trend is the continuing tight supply demand balance for both natural gas and crude oil. Natural gas is a commodity influenced by factors in North America. Despite record drilling, a strong economy, weather and demand for electrical generation have kept supply tight and prices high. Crude oil is influenced by a world economy and OPEC's ability to adjust supply to world demand. Recent success by OPEC has kept crude oil prices high. High prices provide producers with sufficient cash flow to the extent that the lack of external capital has not been a significant restriction on growth.

The Canadian/U.S. exchange rate also influences commodity prices for Canadian producers as there is a high correlation between Canadian and U.S. oil and natural gas prices.

Competitive Conditions

The petroleum industry must manage many risks which are beyond the direct control of the industry. Among these are risks associated with exploration, environment, commodity prices, exchange and interest rates.

The oil and natural gas industry is intensely competitive and the Corporation must compete in all aspects of its operations with a substantial number of other corporations which may have greater technical or financial resources. With the maturing nature of southeast Saskatchewan, the access to new prospects is becoming more and more competitive and complex. The Corporation believes that it can continue to explore and develop oil production and reserves in southeast Saskatchewan with an objective of maintaining its cash flow from this area. The Corporation is seeking alternative prospects, including natural gas prospects in Alberta, in order to mitigate against this problem.

True will continue to focus on its strategic advantages in Saskatchewan to maintain a stable base. The Corporation intends to use its expertise to achieve maximum efficiencies in increasing and producing reserves efficiently in these new areas.

Environmental Considerations

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial/state and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and gas industry operations and can affect the location and operation of wells and facilities and the extent to which exploration and development is permitted. In addition, legislation requires that well and facilities sites be abandoned and reclaimed to the satisfaction of regulatory authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean-up orders.

The Corporation is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased, although not material, expenditures of both a capital and expense nature as a result of increasingly stringent laws relating to the protection of the environment.

The Corporation is proactive in its approach to environment concerns and has established a Health, Safety and Environmental Committee of the Board to review and approve the Corporation's environmental policies and activities. The Corporation believes in well abandonment and site restoration in a timely manner to ensure minimal damage to the environment and lower overall costs to the Corporation.

Conflicts of Interest

Certain directors of the Corporation may have interest in other oil and gas companies and oil and gas properties which may from time to time conflict with the interests of the Corporation. Any such conflicts will be resolved in accordance with the requirements of the *Business Corporations Act* (Alberta).

Human Resources

At December 31, 2001, True employed 15 full time employees and six consultants.

RISK FACTORS

Investment in the Common Shares should be considered speculative due to the nature of True's involvement in the exploration, development and production of oil and natural gas and its present stage of development. Exploration for oil and natural gas involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered by True. The investment involves a high degree of risk and should only be considered by those persons who can afford a total loss of their investment.

True's operations are subject to the risks normally incident to the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, blow-outs and fires, all of which could result in personal injuries, loss of life and damage to property of True and others. In accordance with customary industry practice, True is not fully insured against all of these risks, nor are all such risks insurable. As referred to under "Industry Conditions - Environmental Regulation", environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. True expects it will be able to fully comply with all regulatory requirements in this regard.

The marketability and price of oil and natural gas which may be acquired or discovered by True will be affected by numerous factors beyond the control of True. True will be affected by the differential between the price paid by refiners for light quality oil and the medium grades of oil produced by True. The ability of True to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets.

True is subject to market fluctuations in the prices of oil and natural gas, deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. True is also subject to a variety of waste disposal, pollution control and similar environmental laws.

The oil and natural gas industry is intensely competitive and True must compete in all aspects of its operations with a substantial number of other corporations which have greater technical or financial resources.

Depending on future exploration and development plans, True may require additional financing which may not be available or, if available, may not be available on favourable terms.

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. In accordance with industry practice, True conducts such title reviews in connection with its principal properties as it believes are commensurate with the value of such properties.

True does not anticipate paying any dividends on its outstanding Common Shares in the immediate or foreseeable future. See "Dividend Policy".

Holders of Common Shares must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of True. True 's continued success is dependent upon its ability to attract and retain experienced management.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities and interests of insiders in material transactions, if applicable, is contained in the Corporation's Information Circular - Proxy Statement dated April 18, 2002 which relates to the Annual and Special Meeting of Shareholders to be held on May 28, 2002. Additional financial information is contained in the Corporation's consolidated financial statements for the year ended December 31, 2001 contained in the Corporation's 2001 Annual Report and attached hereto.

The Corporation will provide to any person or corporation, upon request to the Corporation:

(a) when the securities of the Corporation are in the course of a distribution pursuant to a preliminary short form prospectus or a short form prospectus:

(i) one copy of True's annual information form, together with one copy of any document, or the pertinent pages of any document, incorporated therein by reference;

(ii) one copy of the comparative financial statements of True for its most recently completed financial year in respect of which such financial statements have been issued, together with the report of the auditor thereon, and one copy of any interim financial statements of True subsequent to the financial statements for its most recent financial year;

(iii) one copy of the management information circular of True in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that circular, as appropriate, and

(iv) one copy of any other document that is incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, a copy of the documents referred to in clauses (a)(i), (ii) or (iii) above, provided the Corporation may require a payment of a reasonable charge if the request is made by a person or Corporation who is not a security holder of True.

Additional copies of this Annual Information Form and the materials listed in the preceding paragraph are available on the foregoing basis and upon request by contacting the Corporation at its offices at 300, 520 - 5th Avenue S.W., Calgary, Alberta, T2P 3R7, or by phone at (403) 266-8670, fax at (403) 264-8163.

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, 2001.

Signed by

"Paul R. Baay"
President and Chief Executive Officer

Signed by

"Sadiq H. Lalani"
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of True Energy Inc. as at December 31, 2001 and 2000 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed by

"KPMG LLP", Chartered Accountants
Calgary, Canada
March 30, 2002

CONSOLIDATED BALANCE SHEETS

As at December 31	**2001**	2000
ASSETS		
Current assets		
Accounts receivable	**$ 3,952,052**	$ 3,500,627
Property, plant and equipment (Note 3)	**26,612,128**	12,171,304
	$ 30,564,180	$ 15,671,931
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 7,876,472**	$ 4,742,773
Current portion of prepaid gas contract (Note 5)	**176,700**	693,500
Bank debt (Note 4)	**13,141,933**	1,325,461
	21,195,105	6,761,734
Prepaid gas contract (Note 5)	**–**	176,700
Future income taxes (Note 7)	**–**	1,455,631
Future site restoration and abandonment costs	**426,584**	82,947
Shareholders' equity		
Share capital (Note 6)	**28,484,577**	7,436,579
Deficit	**(19,542,086)**	(241,660)
	8,942,491	7,194,919
Commitments (Note 11)		
Subsequent events (Note 13)		
	$ 30,564,180	$ 15,671,931

See accompanying notes to the consolidated financial statements.

On behalf of the Board,

Signed by
Kenneth Acheson

Director

Signed by
W.C. Dunn

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the year ended December 31	**2001**	2000
REVENUE		
Oil and NGLs	**$ 4,255,658**	$ 871,962
Natural gas	**13,847,212**	2,760,564
	18,102,870	3,632,526
ROYALTIES		
Crown	**(3,500,536)**	(493,062)
Other	**(2,318,461)**	(183,670)
	(5,818,997)	(676,732)
	12,283,873	2,955,794
EXPENSES		
Production	**4,915,433**	932,733
General and administrative	**1,615,026**	628,026
Interest on long-term debt	**736,654**	30,744
Bad debt expense	**250,782**	–
Capital taxes	**30,054**	–
Depletion, depreciation and site restoration	**9,704,593**	1,022,960
Writedown of oil and gas properties (Note 3)	**27,000,000**	–
	44,252,542	2,614,463
EARNINGS (LOSS) BEFORE INCOME TAXES	**(31,968,669)**	341,331
Current income tax (recovery) (Note 7)	**(116,388)**	–
Future income tax (recovery) (Note 7)	**(12,551,855)**	165,000
Net earnings (loss)	**(19,300,426)**	176,331
Deficit, beginning of year	**(241,660)**	(408,086)
Change in accounting policy relating to future income taxes (Note 7)	**–**	(9,905)
Deficit, end of year	**$ (19,542,086)**	$ (241,660)
Weighted average common shares	**19,458,954**	9,382,411
Net earnings (loss) per share		
basic	**$ (0.99)**	$ 0.02
diluted	**$ (0.99)**	$ 0.02

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (audited)	**2001**	2000
Cash provided by (used in):		
OPERATIONS		
Net earnings (loss)	**$ (19,300,426)**	$ 176,331
Charges not involving cash:		
Depletion, depreciation and site restoration	**9,704,593**	1,022,960
Writedown on oil and gas properties	**27,000,000**	–
Future income tax (recovery)	**(12,551,855)**	165,000
Prepaid gas revenue	**(693,500)**	(288,800)
Cash flow from operations	**4,158,812**	1,075,491
Change in non-cash working capital	**996,946**	1,040,008
	5,155,758	2,115,499
FINANCING		
Issuance of common shares	**22,332,250**	2,887,500
Share issue costs	**(1,500,258)**	(495,839)
Repayment of debt acquired on acquisition of 887733 Alberta Ltd.	**–**	(700,000)
Increase in bank debt	**11,816,472**	1,200,761
	32,648,464	2,892,422
INVESTING		
Additions to property, plant and equipment	**(10,954,212)**	(6,916,545)
Acquisition of property, plant and equipment	**(15,663,423)**	(1,608,756)
Proceeds on sale of property, plant and equipment	**3,472,604**	–
Cash acquired on acquisition of 851431 Alberta Ltd.	**–**	3,517,380
Cash paid on acquisition of Marengo Exploration Ltd.	**(14,659,191)**	–
	(37,804,222)	(5,007,921)
Increase (decrease) in cash	**–**	–
Cash, beginning of period	**–**	–
Cash, end of period	**–**	–
Weighted average common shares	**19,458,954**	9,382,411
Cash flow from operations per share		
– basic	**$ 0.21**	$ 0.11
– diluted	**$ 0.21**	$ 0.11

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

years ended December 31, 2001 and 2000

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 unless such a sale would significantly alter the rate of depletion and depreciation.

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 at the energy equivalent rate of six thousand cubic feet to one barrel of oil.

The costs of acquiring and evaluating unproved properties are excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Corporation 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, site restoration and income tax expenses.

(b) Joint interests:

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.

(c) Future site restoration and abandonment costs:

Future site restoration and abandonment 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 site restoration in the statement of operations.

(d) Prepaid contracts:

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.

(e) Flow-through common shares:

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share issues are renounced to investors in accordance with income tax legislation. The estimated tax benefits transferred to shareholders are recorded as future income taxes and reduce share capital.

(f) Financial instruments and hedging transactions:

The Company periodically enters into derivative instrument contracts to manage exposure related to petroleum and natural gas prices. Settlement amounts on commodity and foreign currency hedge contracts are recognized in earnings as the related production revenues are recorded.

The carrying value of current assets and current liabilities approximate their fair value due to the relatively short period to maturity of the instruments.

(g) Stock-based compensation plan:

The Corporation has one stock-based compensation plan, which is described in note 6(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.

(h) Income taxes:

Income taxes are recorded using the liability method of tax allocation. 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.

(i) Cash and cash equivalents:

Cash and cash equivalents include bank balances and highly liquid temporary money market instruments with original maturities of three months or less.

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 percent 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 using 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
Property, plant and equipment	–	1,821,111	1,821,111
Bank debt	–	(700,000)	(700,000)
Future income tax liability	–	(132,339)	(132,339)
	$ 3,517,380	$ 988,772	$ 4,506,152
Consideration:			
Issued 3,876,904 shares of True Energy valued at $0.907 per share	$ 3,517,380	$ –	$ 3,517,380
Issued 2,950,001 shares of True Energy at an attributed value of $0.335 per share	–	988,772	988,772
	$ 3,517,380	$ 988,772	$ 4,506,152

On February 6, 2001 the Company 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 has been accounted for using the purchase method and was effective February 28, 2001 being the date the majority of Marengo shares were taken up and paid for by True Energy.

The net assets acquired and consideration given were:

Net assets acquired:	
Cash	$ 708,085
Property, plant and equipment	27,795,228
Working capital	(1,685,327)
Future site restoration and abandonment	(66,046)
Future income tax liability	(10,429,163)
	$ 16,322,777
Consideration:	
Cash	$ 15,000,545
Issued 947,250 shares of True Energy valued at $1.20 per share	1,136,700
Acquisition costs, net of future income tax	185,532
	$ 16,322,777

On June 18, 2001 the Corporation entered into an agreement with an arm's length third party to purchase certain petroleum and natural gas assets located in west central Saskatchewan, specifically in the Dodsland, Bayhurst and Kerrobert areas (the "Acquisition"). Closing of the Acquisition occurred on June 26, 2001 and the Corporation has accounted for this acquisition as a purchase on this date. The purchase price of $15,473,901 was fully allocated to petroleum and natural gas properties and has an equivalent tax basis.

In September 2001 the Corporation entered into an agreement with an arm's length third party to dispose certain petroleum and natural gas assets located in the West Bayhurst area in west central Saskatchewan (the "Bayhurst Disposition"). The Bayhurst Disposition was effective September 1, 2001 and closed on September 28, 2001. The proceeds from this disposition amounted to $1,936,246 and was fully allocated to petroleum and natural gas properties, having an equivalent tax basis.

In October 2001 the Corporation entered into an agreement with an arm's length third party to acquire and dispose certain petroleum and natural gas assets located in the North Smiley area in west central Saskatchewan (the "Swap"). This Swap was effective September 1, 2001 and closed on October 16, 2001. The net proceeds from this swap amounted to $486,285 (acquisition of $143,155 and disposition of $629,440) and was fully allocated to petroleum and natural gas properties, having an equivalent tax basis.

In November 2001 the Corporation entered into an agreement with an arm's length third party to dispose certain petroleum and natural gas assets located in the Brock area in west central Saskatchewan (the "Brock Disposition"). The Brock Disposition was effective November 1, 2001 and closed on December 7, 2001. The proceeds from this disposition amounted to $905,556 and were fully allocated to petroleum and natural gas properties, having an equivalent tax basis.

3. PROPERTY, PLANT AND EQUIPMENT:

Under the Canadian Institute of Chartered Accountants (CICA) full cost accounting guidelines, the Corporation realized a write down of its oil and gas properties by $16.0 million, net of future income taxes of $11.0 million. This write-down was determined based on estimated future cash flows calculated using year-end commodity prices of $18.25 per barrel of oil and NGLs ($12.65 per barrel for heavy oil, $27.16 per barrel for light oil and $28.88 per barrel for NGLs) and $3.24 per thousand cubic feet for natural gas.

December 31, 2001	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 68,430,414	$ 42,051,729	$ 26,378,685
Office furniture and equipment	414,663	181,220	233,443
	$ 68,845,077	$ 42,232,949	$ 26,612,128

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
	$ 14,117,164	$ 1,945,860	$ 12,171,304

At December 31, 2001, the estimated future site restoration costs to be accrued over the remaining proved reserves are $1,743,000 (2000 – $355,000) of which $278,000 has been recorded as additional depletion and depreciation during 2001 (2000 – $37,000).

Unproved properties with a cost of approximately $6,450,000 included in property, plant and equipment have not been subject to depletion.

4. BANK DEBT:

The Corporation has arranged a demand revolving credit facility with an authorized borrowing amount of $14,000,000 with a Canadian chartered bank. Interest is payable at the bank's prime rate plus 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 have been included as security for this facility (See Note 13).

An annual review of this facility will be completed on or before May 31, 2002. At December 31, 2001, the bank acknowledges contravention and non-compliance with the working capital covenant (current ratio of not less than 1:1 as at the end of each fiscal quarter). The Corporation expects to remedy this negative financial covenant through dispositions of non-strategic assets in the first half of 2002 (See Note 13).

5. PREPAID GAS 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 natural 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 percent 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 pre-purchase gas delivery restarted 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 for the remaining period from January 1, 2002 to April 3, 2002 is 93,000 gigajoules and the corresponding amortization is $176,700.

6. SHARE CAPITAL:

(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, 1999	8,610,413	$ 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	12,574,935	7,436,579
Issued on acquisition of Marengo Exploration Ltd. (Note 2)	947,250	1,136,700
Conversion of Special Warrants	11,366,667	18,680,000
Issued for debt	11,250	11,250
Options excercised	175,000	126,000
Flow-through shares issued for cash on private placement	3,700,000	3,515,000
Share issue costs, net of future income taxes of $646,996	–	(853,262)
Future income taxes relating to flow-through shares	–	(1,567,690)
Balance, December 31, 2001	28,775,102	$ 28,484,577

The Company has commitments to incur $3,515,000 of qualifying expenditures during 2002 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 Energy. 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:

	2001		2000	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	1,405,000	$ 0.77	731,300	$ 0.20
Cancelled	(110,000)	1.59	(731,300)	0.20
Granted	902,500	1.18	1,405,000	0.77
Exercised	(175,000)	0.72	–	–
Outstanding at end of year	2,022,500	$ 0.91	1,405,000	$ 0.77

The following table summarizes information about stock options outstanding at December 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercisable Price
$0.72 to $1.00	1,715,000	3.8	$ 0.77	1,043,336	$ 0.73
$1.50 to $1.80	307,500	4.3	$ 1.71	–	–
$0.72 to $1.80	2,022,500	3.9	$ 0.91	1,043,336	$ 0.73

7. INCOME TAXES:

Effective January 1, 2000, the Corporation changed its accounting policy to account for income taxes using the liability method of tax allocation in accordance with new recommendations to Canadian Generally Accepted Accounting Principles. Prior thereto, the Company 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.

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:

	2001	2000
Expected income tax expense (recovery) @ 44.35%	$(14,178,105)	$ 152,000
Crown royalties and charges	1,552,284	220,000
Resource allowance	(809,591)	(215,000)
Change in valuation allowance	898,723	–
Other	(15,166)	8,000
	$ (12,551,855)	$ 165,000

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

	2001	2000
Future income tax liabilities:		
Petroleum and natural gas properties	$ 107,388	$ 1,660,011
Future income tax assets:		
Future site restoration	141,893	27,764
Share issue costs	864,218	176,616
	1,006,111	204,380
Valuation allowance	(898,723)	–
Net future income tax liability	$ –	$ 1,455,631

During 2001, current income tax recovery of $116,388 was recorded to reflect overestimated income taxes owing by Marengo.

8. PER SHARE AMOUNTS:

The Corporation uses the treasury stock 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 per share.

In computing diluted earnings and cash flow from operations per share, 650,429 (2000 – 297,018) shares were added to the 19,458,954 (2000 – 9,382,411) weighted average number of common shares outstanding during the year for the dilutive effect of stock options. A total of 1,372,071 options were excluded from the diluted calculation as they were not dilutive.

9. SUPPLEMENTAL CASH FLOW INFORMATION:

	2001	2000
Cash paid:		
Interest	$ 736,654	$ 30,744
Taxes	1,205,489	–
Non-cash investing and financing activities:		
Issue of common shares on acquisitions (Note 2)	$ 1,136,700	$ 4,506,152
Net assets acquired on acquisitions (Note 2)	16,322,777	(4,506,152)

10. 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, 2001 total $208,988 (2000 – $25,409).

11. COMMITMENTS:

The Corporation is committed to payments under an operating lease for office space as follows:

Year		Gross Amount		Expected Recoveries		Net amount
2002	$	231,238	$	(30,990)	$	200,248
2003		232,013		(41,320)		190,693
2004		219,875		(30,990)		188,885
2005		183,462		–		183,462
2006		45,866		–		45,866
	$	912,454	$	(103,300)	$	809,154

12. FINANCIAL INSTRUMENTS:

(a) Credit risk:

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. The Company sells substantially all of its production to three primary purchasers under normal industry sale and payment terms. Purchasers of the Company's natural gas, crude oil and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(b) Fair value of financial instruments:

The carrying amounts of financial instruments included in the balance sheet, other than long-term debt, approximate their fair value due to their short-term maturity. The carrying value of long-term debt approximates fair value due to the cost of borrowing being at a floating rate.

(c) Commodity risk:

The Company seeks to reduce its exposure to commodity price risk in its business through the use of physical product arrangements, futures, and options.

During January 2001, the Corporation entered into transactions to put into effect a costless collar for 3,000 gigajoules per day for the period February 1, 2001 to December 31, 2001. These transactions established a floor price of $7.50 per gigajoule and a ceiling price of $8.50 per gigajoule at the AECO-C Hub. Effective August 1, 2001, the Corporation sold the costless collar and received a lump sum payment of $1,575,000. The total gain included in natural gas revenue relating to this hedging transaction in 2001 is $1,935,973.

13. SUBSEQUENT EVENTS:

On April 10, 2002 the Company announced that it had entered into definitive agreements to sell certain non-strategic assets for proceeds of $6.25 million, effective April 1, 2002. Closing is expected to occur by the end of April 2002. At closing, the authorized borrowing amount of the Company's credit facility will be reduced by the lending value associated with these assets. The Company cannot be sure that the resulting authorized borrowing amount will be in excess of outstanding indebtedness (See Note 4).

Estimated proved producing reserves relating to the assets sold were 154,000 barrels of oil and 2.1 billion cubic feet of natural gas. Approximately 11,000 acres of net undeveloped land were also included in the disposition.