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TRUE energy inc.

First Quarter 2004 Report
For the Three Months Ended March 31, 2004



True's corporate **philosophy** is to **grow** through **exploration** and **development** drilling complemented by both **corporate** and **asset** acquisitions.

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KPMG LLP

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EVALUATION ENGINEERS

Gilbert Laustsen Jung Associates Ltd.

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

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TRUE **energy inc.**

Financial and Operating Highlights

	Three months ended March 31	
	2004	2003 ¹
FINANCIAL (\$, except shares)		
Revenue (before transportation)	13,341,836	10,107,561
Cash flow from operations ²	6,263,817	4,373,714
Per share - basic	0.11	0.10
Per share - diluted	0.11	0.10
Net earnings	957,626	1,500,263
Per share - basic	0.02	0.03
Per share - diluted	0.02	0.03
Capital expenditures, net	15,242,683	2,613,268
Debt, net of working capital	23,458,708	18,137,642
Total assets	77,038,585	52,136,889
Shareholders' equity	33,297,322	20,530,559
Shares outstanding		
Basic	54,676,086	45,241,087
Diluted	58,122,086	48,256,087
Weighted average shares		
Basic	54,571,269	45,227,162
Diluted	55,990,654	45,702,281
OPERATIONAL		
Daily volumes		
Oil and NGLs (bbls/d)	1,547	1,114
Natural gas (mcf/d)	15,648	8,732
Total (boe/d, 6:1)	4,155	2,569
Prices (before transportation)		
Oil and NGLs (\$/bbl)	28.45	34.34
Natural gas (\$/mcf)	6.56	8.48
Combined (\$/boe)	35.28	43.71
Statistics		
Operating netback (\$/boe)	19.34	24.09
Operating expenses (\$/boe)	6.53	8.20
General and administrative (\$/boe)	2.10	3.85
Royalties as a % of sales	25%	25%

¹ Various 2003 amounts have been restated to reflect changes in accounting policies.

² Management's Discussion and Analysis contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful than cash flow from operations as determined in accordance with Canadian generally accepted accounting principals ("GAAP") as an indicator of the Company's performance. The Company presents cash flow from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share.

Report to Shareholders

True is pleased to report that the strong progress made in 2003 has continued into the first quarter of 2004. An active and successful drilling program, supplemented by a synergistic acquisition in the Company's west central Saskatchewan core area, resulted in the Company surpassing a production milestone of 5,000 boe/d in early April.

Accomplishments to the end of March 2004 include:

- Drilled 23 (16.2 net) wells with a net 77% success rate.
- Increased average first quarter production to 4,155 boe/d, up from 2,569 boe/d for the same period in 2003, and exited the quarter at 4,965 boe/d.
- Reduced operating costs to \$6.53/boe, down 20% compared to the same period in 2003.
- Generated revenue of \$13.3 million (32% higher than the same period in 2003) and cash flow of \$6.3 million (43% higher than the same period in 2003) in spite of 19% lower commodity prices.
- Achieved debt to cash flow ratio of 0.9x, well below the Company's maximum target of 1.3x.
- Expanded the Company's undeveloped land base to over 281,700 net undeveloped acres.

During the first quarter of 2004, True drilled 23 (16.2 net) wells with a net 77% success rate, resulting in 12 (10.4 net) natural gas wells, 5 (2.0 net) heavy oil wells and 6 (3.8 net) wells that were dry and abandoned. Of the 12 natural gas wells, 10 100% wells are located at Dodsland, Saskatchewan, the other 2 (0.4 net) being in the Whitecourt and Doris (Roche) areas of Alberta. The heavy oil wells were in the Coleville South and Loverna areas of Saskatchewan. All of these wells are now tied-in and on production. The Company also farmed out three non-core opportunities that resulted in three potential natural gas wells.

True anticipates drilling or participating in approximately 19 to 23 wells in the second quarter of 2004. The program, which will commence in early May, will include 12 to 14 natural gas wells and four horizontal heavy oil wells in Saskatchewan and three to five natural gas wells in Alberta.

Although lower than the peaks experienced in the first quarter of 2003, commodity prices are very strong and are continuing to strengthen, allowing disciplined acceleration of activity on the high quality inventory of drilling prospects within the Company's substantial undeveloped land base. We look forward to the active drilling program the Company has planned for the remainder of 2004 and the potential growth these prospects can provide.



Paul R. Baay
President and CEO
May 10, 2004

Management's Discussion and Analysis

May 10, 2004 - The following Management's Discussion and Analysis of financial results as provided by the management of True Energy Inc. ("True" or "The Company") should be read in conjunction with the unaudited interim consolidated financial statements and selected notes for the three months ended March 31, 2004 and 2003 and the audited consolidated financial statements and Management Discussion and Analysis for the year ended December 31, 2003. This commentary is based on information available to May 10, 2004.

BOE's may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet per barrel (6 mcf/bbl) of natural gas to barrels of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Management's Discussion and Analysis contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful than cash flow from operations as determined in accordance with Canadian generally accepted accounting principals ("GAAP") as an indicator of the Company's performance. The Company presents cash flow from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share. The consolidated statements of cash flows in the unaudited interim financial statements present the reconciliation between net earnings and cash flow from operations.

NET EARNINGS AND CASH FLOW FROM OPERATIONS

True generated cash flow from operations of \$6.3 million for the three months ended March 31, 2004, up 43% from the \$4.4 million produced in the same period of 2003. The increase is attributed to a 62% production increase and 20% lower operating costs per boe, partially offset by lower commodity prices. In comparison to the fourth quarter of 2003, cash flow increased 45% from \$4.3 million. Increased production of 11%, higher commodity prices of \$5.36/boe on a combined product basis, and 4% lower per boe operating expenses all contributed to this improvement.

Cash Flow from Operations	Three months ended March 31,	
	2004	2003
Cash flow from operations	\$ 6,263,817	\$ 4,373,714
Basic	\$ 0.11	\$ 0.10
Diluted	\$ 0.11	\$ 0.10

For the three months ended March 31, 2004, net earnings were \$1.0 million, compared to \$1.5 million for the same period in 2003. Net earnings for the first quarter of 2003 were restated to reflect the adoption of CICA Handbook Section 3110 "Asset Retirement Obligations" (resulting in a net earnings decrease of \$3,906) and the fourth quarter 2003 adoption of CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments (resulting in net earnings decrease of \$33,548). The decrease in comparative net earnings is primarily due to an increase of \$1.0 million in capital and future income tax expenses, offset by an increase of \$0.5 million in earnings before taxes. Compared to the prior quarter net loss of \$0.8 million, net earnings were up by 222%. This increase results from a \$2.1 million increase in revenues, net of royalties and transportation, partially offset by higher depletion, depreciation, and accretion of \$0.4 million and higher operating costs of \$0.1 million.

Net Earnings	Three months ended March 31,	
	2004	2003 <i>(Restated)</i>
Net earnings	\$ 957,626	\$ 1,500,263
Basic	\$ 0.02	\$ 0.03
Diluted	\$ 0.02	\$ 0.03

SALES VOLUMES

Sales volumes for the first quarter of 2004 averaged 4,155 boe/d, up 1,586 boe/d from the 2,569 boe/d reported for the first quarter of 2003. During the fourth quarter of 2003, True produced at an average rate of 3,749 boe/d, with natural gas sales averaging 12.9 mmcf/d, heavy oil 1,329 bbls/d and light oil and NGLs making up the balance. True exited 2003 producing at 4,140 boe/d, which was stable throughout the quarter.

Management's Discussion and Analysis

Current production based on field estimates is approximately 5,000 boe/d, weighted 65% toward natural gas. Sales growth is from placing wells on stream, primarily from the first quarter drilling program; specifically 10 (9.4 net) natural gas wells at Dodsland / Druid, Saskatchewan, 3 (1.5 net) heavy oil wells at Coleville South, Saskatchewan, 2 (0.5 net) heavy oil wells at Loverna, Saskatchewan, and 1 (0.13 net) gas well at Goodwin, Alberta. In addition, the Company has added production from 2 (1.2 net) natural gas wells acquired in 2002 at Roche, Alberta, 2 (1.7 net) natural gas wells drilled late in 2003 at Dodsland, Saskatchewan, and minor volumes purchased during the first quarter of 2004.

Sales Volumes

	<i>Three months ended March 31,</i>	
	2004	2003
Natural gas (mcf/d)	15,648	8,732
Heavy oil (bbls/d)	1,323	870
Light oil and NGLs (bbls/d)	224	244
Total crude oil and NGLs (bbls/d)	1,547	1,114
Total (boe/d, 6:1)	4,155	2,569

During the first quarter of 2004, natural gas and heavy oil contributed 63% and 32% respectively of total sales volumes. In comparison, for the same period of 2003, natural gas and heavy oil made up 57% and 34% respectively. For the fourth quarter of 2003, natural gas accounted for 57% of production; heavy oil contributed 35%, and light oil and NGL's made up the balance. The increased weighting toward natural gas is consistent with the Company's emphasis on natural gas, supported by heavy oil sales.

Commodity Prices, Before Transportation

	<i>Three months ended March 31,</i>	
	2004	2003 <i>(Restated)</i>
Exchange rate (US\$/Cdn\$)	0.7591	0.6624
NYMEX (US\$/mmbtu)	5.74	5.89
Alberta spot (\$/mcf)	6.28	7.96
Natural gas (\$/mcf)	6.56	8.48
WTI (US\$/bbl)	35.23	33.98
Edmonton par - light oil (\$/bbl)	45.90	51.09
Bow River - heavy oil (\$/bbl)	34.38	39.60
Heavy crude oil (\$/bbl)	25.94	30.67
Light crude oil and NGLs (\$/bbl)	43.33	47.42
Crude oil and NGLs (\$/bbl)	28.45	34.34
Total (\$/boe)	35.28	43.71

True received an average of \$6.56/mcf for natural gas during the first quarter of 2004, 23% less than the \$8.48/mcf received in the first quarter of 2003. An average of \$5.76/mcf before hedging and \$5.83/mcf after hedging was received in the fourth quarter of 2003. First quarter to first quarter NYMEX prices were 3% lower for 2004, which added to the exchange rate deterioration of 15%, resulted in a net decrease in the Alberta spot price of 21%. Compared to the fourth quarter of 2003, there has been a 6% further deterioration in the exchange rate, more than offsetting a 6% increase in NYMEX prices and resulting in a net decrease in the Alberta spot price of 3%. True's natural gas is primarily sold at daily spot related prices.

For the three months ending March 31, 2004, True received an average price for crude oil and liquids of \$28.45/bbl, 17% less than the \$34.34/bbl received during the same period in 2003 and 23% more than the \$23.08/bbl received in the fourth quarter of 2003. Prices for light oil and NGLs declined by only 9%, while prices for heavy oil declined 15% compared to the first quarter of 2003, and increased 13% and 30% respectively compared to the fourth quarter of 2003. The heavy oil differential widened from C\$11.49/bbl in the first quarter of 2003 to C\$11.52/bbl in the first quarter of 2004, which in combination with the exchange rate deterioration, partly offset by an increase in the WTI price of 4%, resulted in a net Bow River price that was 13% lower. The heavy oil differential widened only 1% compared to the fourth quarter of 2003, which in combination with a WTI price increase of 13% and the further exchange rate deterioration resulted in a net Bow River price that was 22% higher.

Management's Discussion and Analysis

Revenue

Revenue before transportation costs for the three months ended March 31, 2004 was \$13.3 million, 32% higher than the same period in 2003. The growth in gross sales was produced from considerably higher production rates for both natural gas and crude oil, offset by lower commodity prices. Revenues after transportation costs grew by 31% to \$13.0 million. The Company did not have any hedges in place during the first quarters of 2004 and 2003. Compared to the fourth quarter of 2003, revenues after transportation costs grew by 26% from \$10.3 million due to higher production rates and higher commodity prices for all products.

<i>Revenue (\$000s)</i>	<i>Three months ended March 31,</i>	
	<i>2004</i>	<i>2003</i> <i>(Restated)</i>
Crude oil and NGLs	4,006	3,443
Natural gas	9,336	6,665
Natural gas hedge	-	-
Total, before transportation	13,342	10,108
Transportation	314	192
Total, after transportation	13,028	9,916

Transportation costs during the first quarters of 2004 and 2003 were approximately 2% of gross revenues.

Royalties

For the three months ending March 31, 2004, total royalties were \$3.2 million, 32% more than the \$2.5 million incurred in the same period in 2003 and 24% higher than the \$2.6 million incurred in the fourth quarter of 2003, consistent with the increases in gross revenues after transportation costs. Royalties were 25% of gross sales after transportation costs for both first quarter periods and 26% for the fourth quarter of 2003.

<i>Royalties, by Commodity Type (\$000s)</i>	<i>Three months ended March 31,</i>	
	<i>2004</i>	<i>2003</i>
Crude oil and NGLs	764	725
Natural gas	2,482	1,725
Total	3,246	2,450

<i>Royalties, as a % of Commodity Sales, After Transportation Costs</i>	<i>Three months ended March 31,</i>	
	<i>2004</i>	<i>2003</i>
Crude oil and NGLs	20	21
Natural gas	27	26
Total	25	25

<i>Royalties, by Type (\$000s)</i>	<i>Three months ended March 31,</i>	
	<i>2004</i>	<i>2003</i>
Crown royalties	1,984	1,664
Freehold and GORR	1,334	867
Alberta Royalty Tax Credit	(72)	(81)
Total	3,246	2,450

Management's Discussion and Analysis

Operating Expenses

For the three months ended March 31, 2004, operating costs totaled \$2.5 million, compared to \$1.9 million in the same quarter of 2003 and \$2.3 million for the fourth quarter of 2003. Operating expenses averaged \$6.53/boe for the first quarter of 2004, down \$1.67/boe, compared to the same period in 2003 and down \$0.28/boe compared to the fourth quarter of 2003. More severe winter conditions, followed by a lengthy break up, did result in incremental operating costs for the first half of 2003. The majority of the reduction in operating costs as compared to the first quarter of 2003, however, is attributed to an increased focus on operating cost details and to the more efficient utilization of facilities resulting from the increased production volumes from successful drilling activity.

Production Costs, by Commodity Type (\$000s)

	<i>Three months ended March 31,</i>	
	2004	2003
Crude oil and NGLs	811	1,010
Natural gas	1,656	885
Total	2,467	1,895

Production Costs per Unit, by Commodity Type

	<i>Three months ended March 31,</i>	
	2004	2003
Crude oil and NGLs (\$/bbl)	5.76	10.07
Natural gas (\$/mcf)	1.16	1.13
Total (\$/boe)	6.53	8.20

Operating Netbacks

Operating netbacks for True in the first quarter of 2004 were \$19.34/boe, 20% less than the first quarter of 2003. Declines in commodity prices paralleled by royalty savings were partially offset by improved operating costs. Compared to the fourth quarter 2003 operating netback of \$15.53/boe, the first quarter 2004 operating netback was 25% higher driven by a 15% increase in commodity prices and a 4% decline in production expenses on a boe basis.

Operating netbacks for natural gas were \$3.51/mcf, 30% lower than the first quarter 2003 netback of \$4.99/mcf and 15% higher than the fourth quarter 2003 netback of \$3.05/mcf, following closely the comparative changes in commodity prices.

Operating netbacks for crude oil and NGLs averaged \$16.53/bbl during the first quarter of 2004, \$4.70/bbl more than the \$11.83/bbl received for the fourth quarter of 2003, the net effect of higher commodity prices and lower per boe production expense. Crude oil and NGL operating netbacks were very similar to those realized in the first quarter of 2003, representing less than a 1% change.

	<i>Natural Gas</i>		<i>Crude Oil and NGLs</i>		<i>Total</i>	
	(\$/mcf)		(\$/bbl)		(\$/boe)	
	2004	2003	2004	2003	2004	2003
		<i>(Restated)</i>		<i>(Restated)</i>		<i>(Restated)</i>
Sales	6.56	8.48	28.45	34.34	35.28	43.71
Transportation	(0.15)	(0.14)	(0.72)	(0.59)	(0.83)	(0.82)
Royalties	(1.74)	(2.22)	(5.44)	(7.23)	(8.58)	(10.60)
Production expense	(1.16)	(1.13)	(5.76)	(10.07)	(6.53)	(8.20)
Field operating netback	3.51	4.99	16.53	16.45	19.34	24.09

Management's Discussion and Analysis

General and Administrative

Gross general and administrative costs during the first quarter of 2004 were \$1.5 million compared to \$1.2 million in 2003. General and administrative expenses for the first quarter of 2003 were restated to reflect the fourth quarter 2003 adoption of CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments (resulting in an expense increase of \$33,548). In the first quarter of 2004, stock compensation costs were \$156,285. True capitalized \$0.5 million during the first quarter of 2004 for costs incurred for capital projects and acquisitions. This increase in the amount of capitalized general and administrative costs represents a substantial increase in the administrative focus on exploration projects and acquisition opportunities in comparison to the first quarter of 2003. Capitalized general and administrative costs for the fourth quarter of 2003 were very similar at \$0.5 million.

The Company recovered \$0.3 million of administrative costs during the first quarter of 2004 compared to \$0.2 million in the same period of 2003 and \$0.3 million in the fourth quarter of 2003.

General and administrative expenses for the three months ended March 31, 2004 were \$2.10/boe compared to \$3.85/boe incurred in the same 2003 period and \$2.32/boe for the fourth quarter of 2003.

General and Administrative Costs (\$000s)	Three months ended March 31,	
	2004	2003 <i>(Restated)</i>
Gross costs	1,500	1,217
Capitalized	(456)	(120)
Recoveries	(251)	(206)
Net costs	793	891
Net costs, per unit (\$/boe)	2.10	3.85

Interest Expense

True recorded \$146 thousand of interest expense for the three months ended March 31, 2004 compared to \$237 thousand charged in the same period of 2003. The reduction of interest expense reflects True's reduced cost of borrowing as set out in the Company's credit facility over the applicable periods, more than offsetting higher debt levels. Interest expense for the fourth quarter of 2003 was \$119 thousand, 23% lower than during the first quarter of 2004, reflecting the lower debt level during the last quarter of 2003.

On April 21, 2004, True closed a private placement of common and flow-through common shares for gross proceeds of approximately \$13.3 million. The Company targets maintaining the annualized net debt to historical cash flow ratio below 1.3 times.

Interest Costs (\$000s, except where noted)	Three months ended March 31,	
	2004	2003
Interest expense	146	237
Interest (\$/boe)	0.39	1.03
Net debt at quarter end	23,459	18,138
Debt to cash flow ratio, annualized	0.9x	1.0x

Management's Discussion and Analysis

Capital Expenditures

Capital expenditures during the first quarter of 2004 were \$15.2 million, compared to \$2.6 million in 2003. True drilled 23 (16.2 net) wells in the first three months of 2004 compared to 5 (2.6 net) in the prior year. In addition, the Company spent \$8.1 million on acquisitions within its core west central Saskatchewan area. During the fourth quarter of 2003, the Company invested \$7.5 million in oil and gas activities, with \$0.5 million spent on acquisitions in the Company's core west central Alberta area.

Capital Expenditures (\$000s)

	Three months ended March 31,	
	2004	2003
Lease acquisitions and retention	572	393
Geological and geophysical	283	158
Drilling and completion costs	5,927	1,669
Facilities and equipment	604	342
Exploration and development	7,386	2,562
Acquisitions	8,104	30
Head office expenditures	35	21
Total expenditures	15,525	2,613
Dispositions	(282)	-
Net capital expenditures	15,243	2,613

True anticipates beginning its second quarter drilling program by the end of the first week in May. During 2004, the Company expects to drill approximately 50 wells, spending approximately \$43 million, including acquisitions.

At March 31, 2004, the Company had approximately 281,700 net undeveloped acres of land, of which 127,700 net acres are in Alberta and 154,000 net acres are in Saskatchewan. During the first quarter of 2004, the Company completed the first phase of a large area farm-in arrangement in the Whitecourt, Alberta area with the drilling of four wells. Subsequently, the Company has committed to participate in phase two of the earning provisions, whereby it is committed to drill an additional three wells prior to the end of 2004.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion (site restoration) expense for the three months ended March 31, 2004 totaled \$3.3 million compared to \$1.8 million expensed in the first quarter of 2003 and \$2.9 million expensed in the fourth quarter of 2003. The depletion and depreciation rate for the first quarter of 2004 averaged \$8.64/boe, compared to \$7.87/boe in the first quarter of 2003 and \$8.35/boe in the fourth quarter of 2003. Depletion, depreciation and accretion (site restoration) for the first quarter of 2003 was restated to reflect the adoption of CICA Handbook Section 3110 "Asset Retirement Obligations" (resulting in a net expense increase of \$6,896).

Depletion, Depreciation and Accretion Costs (\$000s, except where noted)

	Three months ended March 31,	
	2004	2003
		<i>(Restated)</i>
Depletion	2,187	1,020
Depreciation	1,034	772
Accretion	46	28
Total	3,267	1,820
Per unit (\$/boe)	8.64	7.87

Management's Discussion and Analysis

Income Taxes

For the first quarter of 2004, True has recorded capital taxes of \$338 thousand, compared to \$26 thousand in 2003, reflecting both the growth in the balance sheet of the Company and increased gross sales revenues from Saskatchewan based properties. The capital tax provision for the fourth quarter of 2003 was very similar at \$326 thousand. Future income taxes for the quarter are \$1.9 million, compared to \$1.1 million in the first quarter of 2003 and \$2.0 million in the fourth quarter of 2003. Future income tax expense for the first quarter of 2003 was restated to reflect the adoption of CICA Handbook Section 3110 "Asset Retirement Obligations" (resulting in a net expense decrease of \$2,990).

Liquidity and Capital Resources

True's net debt as at March 31, 2004 was \$23.5 million, an increase of \$9.0 million during the quarter. During the first quarter of 2004, True's revolving credit facility was revised to an authorized amount of \$27.5 million, subject to an interim review by July 1, 2004 and an annual review by May 31, 2005. On April 21, 2004, True closed a bought-deal private placement of 4,457,153 common shares issued at \$1.75 per share and 2,558,140 flow-through common shares issued at \$2.15 per share for aggregate proceeds of \$13.3 million, before expenses. In conjunction with this private placement, True has committed to incur \$5.5 million of Canadian exploration expenses ("CEE") by December 31, 2005.

True committed to incur \$4.0 million of CEE pursuant to a flow-through common share financing in July 2003. By March 31, 2004 the Company had incurred \$3.4 million of qualifying expenditures, with \$0.6 million to be incurred by December 31, 2004. Based on the current forecasts of operations for 2004, the Company is confident this obligation will be met.

The Company expects to be able to fund its capital expenditure program for the balance of 2004 using cash flow from operations and forecasted credit facilities. If cash flows are other than projected, capital expenditure levels will be adjusted to ensure a debt to cash flow ratio of 1.3 times is not exceeded. The Company's practices of continually monitoring spending opportunities in comparison to expected cash flow levels allows for adjustments to the capital program as required. True anticipates year end 2004 net debt to be approximately \$19 million.

At May 1, 2004 the Company has 61,711,379 common shares outstanding, and 3,399,166 options outstanding at an average exercise price of \$1.00 per share.

Business Prospects and 2004 Outlook

True Energy is optimistic about its future prospects. The Company has been successful in growing its production and land base since its formation in September 2000 and is expected to continue with future growth through development of its core assets and new exploration on the Company's inventory of geological prospects. Currently, the Company's producing properties are located in west central Saskatchewan and west central Alberta. During the remainder of 2004, the Company will continue to focus its exploration efforts in areas of multi-zone potential for natural gas and economically viable crude oil.

The Company anticipates that 2004 average production will be around 4,800 boe/d, approximately 65% weighted toward natural gas. True believes world and domestic market supply and demand factors, combined with political instability in the Middle East countries will result in continued strong prices for crude oil and natural gas during 2004. True further anticipates the US \$ / Cdn \$ exchange rate to average 0.76 during 2004.

In 2004, operating costs are expected to reflect continued focus on operational efficiencies coupled with effective facility utilization for increasing production volumes. Operating costs for 2004 are expected to be in the \$7.00 to \$7.50/boe range.

Currently, the Company anticipates spending \$43 million during 2004 on oil and gas exploration and development activities within the core west central Saskatchewan and west central Alberta areas, including asset acquisitions.

Management's Discussion and Analysis

Changes in Accounting Policy

Effective January 1, 2004, True adopted Accounting Guideline 16, "Oil and Gas Accounting Full Cost". In September 2002, the Canadian Institute of Chartered Accountants ("CICA") approved Section 3063, "Impairment of Long-Lived Assets" (S. 3063), establishing standards for the recognition, measurement and disclosure of the impairment of long-lived assets, and applies to long-lived assets held for use. An impairment loss is recognized when the carrying value exceeds its fair value and is not recoverable. This standard is effective for fiscal years beginning on or after April 1, 2003. AcG-16, issued in September 2003 includes this section in the application of the impairment test for oil and gas companies using the full cost method of accounting. The carrying value for oil and gas properties is limited to their fair value, which is equal to estimated future cash flows from proved and probable reserves, calculated using future price forecasts and costs discounted at a risk-free rate. The former ceiling test used undiscounted cash flows determined using constant prices, reduced for general and administrative and financing costs. The adoption of this standard does not have a material adverse impact on the Company's financial position or results of operations.

Also effective January 1, 2004 True adopted the CICA's new accounting pronouncement Accounting Guideline 13 "Hedging Relationships" (AcG-13) which is in effect for fiscal years commencing on or after July 1, 2003. This Guideline sets out certain conditions when hedge accounting may be applied; otherwise the fair values of derivative financial instruments are recorded as an asset or liability on the balance sheet. True does not currently have any hedges; hence the guideline has no current applicability.

For the fiscal year beginning January 1, 2004, True adopted the CICA's new section "Asset Retirement Obligations" (Section 3110). This new accounting pronouncement requires accrued reclamation and abandonment obligations be recognized on the balance sheet by increasing oil and gas properties offset by a corresponding liability. The asset and liability are initially measured at fair value, being the discounted future value of the liability, and then capitalized as part of the cost of the asset and subsequently amortized over the life of the asset. The liability accretes until the retirement obligation is settled. Comparative numbers for 2003 and prior periods have been restated and the impact is disclosed in Note 2 of the financial statements. The adoption of this standard does not have a material adverse impact on the Company's financial position or results of operations.

For the fiscal year beginning January 1, 2004, True revised its presentation of transportation costs in accordance with CICA Handbook Section 1100 "Generally Accepted Accounting Principles". As a result, revenue has been presented prior to transportation costs and a separate expense for transportation costs has been presented in the statements of operations and deficit. The Company has reclassified previously reported amounts to be consistent with the presentation under this new policy. Revenue and transportation costs both increased by \$0.3 million and \$0.2 million in the first quarters of 2004 and 2003, respectively, as a result of this new policy. There was no impact on net income or cash flow in the first quarter of 2004, nor did it impact restated net income or cash flow for the first quarter of 2003.

Effective March 31, 2004, True is subject to new disclosure requirements as set out in National Instrument 51-102 ("NI51-102"), requiring shorter reporting periods and enhanced disclosure for annual and interim financial statements, management's discussion and analysis, and the annual information form.

Reader Advisory

Statements in this document may contain forward-looking information. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted, a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. The reader is cautioned not to place undue reliance on this forward looking information.

Consolidated Balance Sheets

As at March 31, 2004 and December 31, 2003

	March 31, 2004 <i>(unaudited)</i>	December 31, 2003 <i>Restated-Note 2</i>
ASSETS		
Current assets		
Accounts receivable	\$ 9,984,619	\$ 9,754,654
Deposits and prepaids	621,342	704,380
	10,605,961	10,459,034
Property, plant and equipment	66,432,624	54,153,130
	\$ 77,038,585	\$ 64,612,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 14,254,109	\$ 13,336,706
Bank debt	19,810,560	11,582,860
	34,064,669	24,919,566
Capital taxes	321,682	835,878
Asset retirement obligations	3,004,912	2,701,573
Future income taxes	6,350,000	4,480,568
Shareholders' equity		
Share capital	47,028,204	46,519,371
Contributed surplus	360,814	204,530
Deficit	(14,091,696)	(15,049,322)
	33,297,322	31,674,579
	\$ 77,038,585	\$ 64,612,164

See accompanying selected notes to the consolidated financial statements.

Consolidated Statements of Operations and Deficit

For the three months ended March 31, 2004 and 2003 (unaudited)

	2004	2003 <i>Restated-Note 2</i>
REVENUE		
Petroleum and natural gas sales	\$ 13,341,836	\$ 10,107,561
Royalties, net of Alberta royalty tax credit	3,246,250	2,449,856
	10,095,586	7,657,705
EXPENSES		
Production	2,467,402	1,895,469
Transportation <i>Notes 1(c) & 2(c)</i>	314,089	191,518
General and administrative <i>Note 2(b)</i>	793,184	890,723
Interest on debt	146,451	237,029
Depletion, depreciation and accretion <i>Notes 1(a) & 2(a)</i>	3,266,527	1,820,193
	6,987,653	5,034,932
EARNINGS BEFORE TAXES	3,107,933	2,622,773
TAXES		
Current income tax recoveries	(56,692)	-
Capital taxes	337,567	25,500
Future income tax <i>Notes 1(a) & 2(a)</i>	1,869,432	1,097,010
	2,150,307	1,122,510
NET EARNINGS	957,626	1,500,263
Deficit, beginning of period as previously stated	(14,991,672)	(19,320,423)
Change in accounting policy <i>Notes 1(a) & 2(a)</i>	(57,650)	(91,862)
Deficit, beginning of period as restated	(15,049,322)	(19,412,285)
Deficit, end of period	\$ (14,091,696)	\$ (17,912,022)
Net earnings per share		
Basic	\$ 0.02	\$ 0.03
Diluted	\$ 0.02	\$ 0.03

See accompanying selected notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2004 and 2003 (unaudited)

	2004	2003 <i>Restated-Note 2</i>
Cash provided by (used in):		
OPERATIONS		
Net earnings	\$ 957,626	\$ 1,500,263
Charges not involving cash:		
Depletion, depreciation and accretion	Notes 1(a) & 2(a) 3,266,527	1,820,193
Stock option costs	Note 2(b) 156,285	33,548
Future income tax	Notes 1(a) & 2(a) 1,869,432	1,097,010
Capital tax (recovery)	13,947	(77,300)
Cash flow from operations	6,263,817	4,373,714
Change in non-cash working capital	1,808,618	(1,979)
	8,072,435	4,371,735
FINANCING		
Issuance of common shares	508,832	79,066
Share issue costs	-	(84,609)
Increase / (decrease) in bank debt	8,227,700	(345,350)
	8,736,532	(350,893)
INVESTING		
Additions to capital assets	(7,420,898)	(2,613,268)
Acquisition of capital assets	(8,103,968)	-
Proceeds on sale of capital assets	282,183	-
	(15,242,683)	(2,613,268)
Change in non-cash working capital	(1,566,284)	(1,407,574)
	(16,808,967)	(4,020,842)
Change in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	\$ -	\$ -

See accompanying selected notes to the consolidated financial statements.

Selected Notes to the Consolidated Financial Statements

Three months ended March 31, 2004 and 2003 (unaudited)

1. SUMMARY OF ACCOUNTING POLICIES:

The interim consolidated financial statements of the Company have been prepared by management in accordance with the accounting policies generally accepted in Canada. The unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2003. The interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles ("GAAP") applicable for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company's annual report for the year ended December 31, 2003.

a. Asset Retirement Obligations ("ARO")

Effective for fiscal years beginning on or after January 1, 2004, the CICA issued Handbook Section 3110 "Asset Retirement Obligations". Under the new standard, a liability is recognized for the future retirement obligations associated with the Company's property, plant and equipment. The fair value of the ARO is recorded on a discounted basis. This amount is capitalized as part of the cost of the related assets and amortized to expense over its useful life. The liability accretes until the Company settles the obligation.

b. Full Cost Accounting

In January 2004, the Company adopted AcG-16 "Oil and Gas Accounting - Full Cost", the new guideline issued by the Canadian Institute of Chartered Accountants ("CICA") which replaces AcG-5 "Full Cost Accounting in the Oil and Gas Industry".

The adoption of AcG-16 modifies how the ceiling test is performed resulting in a two stage process. The first stage requires the carrying amounts of the cost centres to be tested for recoverability using undiscounted future cash flows from proved reserves using management's best estimate of forward indexed prices. When the carrying amount of a cost centre is not recoverable, the second stage of the process will determine the impairment whereby the cost centre would be written down to its fair value. The second stage requires the calculation of discounted future cash flows from proved plus probable reserves. The fair value is estimated using accepted present value techniques, which incorporate risks and other uncertainties when determining expected cash flows.

Under AcG-5, future net revenues for ceiling test purposes were based on proved reserves and undiscounted end of period prices. Estimated future general and administrative costs and financing charges associated with the future net revenues were deducted in arriving at the "ceiling".

The Company has performed the ceiling test under AcG-16 as of January 1, 2004 and there were no changes to net income, property, plant and equipment, or any other reported amounts in the financial statements as a result of adopting this guideline.

The impairment test was calculated using the average price forecasts outlined in the table below.

Year	Heavy Oil <i>(\$/bbl)</i>	Medium / Light Oil <i>(\$/bbl)</i>	Natural Gas <i>(\$/mcf)</i>	NGL's <i>(\$/bbl)</i>
2004	19.52	36.40	5.88	32.10
2005	19.56	32.59	5.17	27.95
2006	20.39	31.29	5.05	26.75
2007	20.36	31.25	5.06	27.02
2008	20.40	31.28	5.07	27.37
2009	20.46	31.19	5.09	27.43
2010	20.53	31.10	5.13	27.50
2011	20.59	31.04	5.14	27.58
2012	20.56	31.00	5.12	28.32
2013	20.39	30.96	5.11	28.85
2014	20.44	30.69	5.11	28.91
2015	21.15	31.20	5.21	29.80
Remaining	21.88	32.58	5.63	32.90

Selected Notes to the Consolidated Financial Statements

Three months ended March 31, 2004 and 2003 (unaudited)

c. Transportation Costs

Effective for fiscal years beginning on or after October 1, 2003, the CICA issued Handbook Section 1100 "Generally Accepted Accounting Principles", which defines the sources of GAAP that companies must use and effectively eliminates industry practice as a source of GAAP. In prior years, it had been industry practice for companies to net transportation charges against revenue rather than showing transportation as a separate expense on the income statement. Beginning January 1, 2004, the Company has recorded revenue gross of transportation charges and a transportation expense on the income statement.

2. RESTATEMENT OF PRIOR PERIODS DUE TO CHANGES IN ACCOUNTING POLICIES:

The Company adopted two new accounting policies at January 1, 2004 and one new accounting policy at December 31, 2003 that required restatement of prior quarters in 2003. The following explains the impact of these restatements on the Company's previously reported first quarter 2003 results.

a. Asset Retirement Obligation

On January 1, 2004, the company adopted CICA Handbook Section 3110 "Asset Retirement Obligations". This change in accounting policy has been applied retroactively with restatement of prior periods presented for comparative purposes. The 2003 and estimated 2004 impact of adopting this standard compared to the previous standard is:

Change in Consolidated Balance Sheets (\$000s)	As at March 31,	
	2004	2003
Increase in property, plant and equipment	1,714	1,427
Total assets	1,714	1,427
Future site restoration and abandonment costs	(1,222)	(921)
Asset retirement obligations	3,004	2,246
Future income tax liabilities	91	182
Retained earnings	(159)	(80)
Total liabilities and shareholders' equity	1,714	1,427

Change in Consolidated Statements of Earnings (\$000s)	Three months ended March 31,	
	2004	2003
Depletion, depreciation and site restoration	(4)	(21)
Accretion of asset retirement obligations	36	28
Future income taxes	(14)	(3)
Net earnings	18	4
Per common share - basic	-	-
Per common share - diluted	-	-

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligations associated with the retirement of property, plant and equipment.

(\$000s)	As at March 31,	
	2004	2003
Asset retirement obligations, beginning of period	2,702	2,211
Liabilities incurred	267	7
Liabilities settled	-	-
Accretion of asset retirement obligations	36	28
Asset retirement obligations, end of period	3,005	2,246

Selected Notes to the Consolidated Financial Statements

Three months ended March 31, 2004 and 2003 (unaudited)

b. Stock-Based Compensation Plan

At December 31, 2003, the Company adopted CICA Handbook Section 3870 "Stock based compensation and other stock based payments". Under the transitional provisions of the standard, the Company is required to record compensation expense in the statement of operations and deficit for options issued on or after January 1, 2003. As a result of the implementation of this amended standard at year end 2003, previously reported 2003 amounts have been restated to give effect to the standard as at January 1, 2003. As a result of the restatement requirements, previously reported net income for the first quarter of 2003 decreased by \$33,548. There was no impact on cash flow as a result of adopting this standard and there was no change in previously reported per share amounts.

c. Transportation Costs

At January 1, 2004, the Company adopted CICA Handbook Section 1100 "Generally Accepted Accounting Principles". As a result, revenue has been presented prior to transportation costs and a separate expense for transportation costs has been presented in the statements of operations and deficit. The Company has reclassified previously reported amounts to be consistent with the presentation under this new policy. Revenue and transportation costs both increased by \$0.2 million in the first quarter of 2003 from previously reported amounts, as a result of this new policy. There was no impact on net income or cash flow for the first quarter of 2003.

3. ACQUISITIONS/DISPOSITIONS:

On February 2, 2004, the Company entered into an agreement with an arm's length third party to purchase certain petroleum and natural gas assets located in the Company's west central Saskatchewan core area. Closing of the acquisition occurred on March 1, 2004 and the Company has accounted for this acquisition as a purchase on this date. The purchase price of \$7,816,415 was fully allocated to petroleum and natural gas properties and has an equivalent tax basis.

On December 31, 2003, the Company entered into a Letter of Intent with an arm's length third party, to exchange certain petroleum and natural gas assets located in the Company's non-core east central Saskatchewan area for certain petroleum and natural gas assets located in the Company's core west central Saskatchewan area. This swap was effective November 1, 2003 and closed on March 26, 2004. The net cost of this swap amounted to \$5,370 (acquisition of \$287,553 and disposition of \$282,183) and was fully allocated to petroleum and natural gas properties having an equivalent tax basis as of the closing date.

4. BANK DEBT:

On March 16, 2004, the terms of the demand revolving credit facility were revised to increase the authorized borrowing amount to \$27,500,000. Interest is payable at the lenders' prime rate plus an applicable margin, as outlined in the lending agreement, based on the debt to cash flow ratio. The availability under the facility is subject to an interim review on or before July 1, 2004 and an annual review by May 31, 2005. The standby fee was changed to 1/8 of 1% (0.125%) on the undrawn portion of the credit facility. No other terms or conditions were modified.

5. CAPITAL STOCK:

Authorized:

Unlimited number of voting common shares

Unlimited number of non-voting first preferred shares

Selected Notes to the Consolidated Financial Statements

Three months ended March 31, 2004 and 2003 (unaudited)

Issued:

Common Shares:	Number of Shares	Amount
Balance December 31, 2002	45,134,421	\$ 38,448,124
Options exercised	106,666	79,066
Share issue costs		(84,609)
Balance March 31, 2003	45,241,087	\$ 38,442,581
Balance December 31, 2003, before contributed surplus	54,044,420	\$ 46,519,371
Options exercised	631,666	508,833
Balance March 31, 2004	54,676,086	\$ 47,028,204

As at March 31, 2004, the Company has commitments to incur \$0.6 million of qualifying Canadian Exploration Expense expenditures during the remainder of 2004 to satisfy 2003 flow-through share agreements.

The following table summarizes the changes in stock options outstanding for the three months ended March 31, 2004:

	Options	Weighted Average Exercise Price
Outstanding at December 31, 2003	3,686,000	\$0.91
Cancelled	(8,334)	\$1.70
Granted	400,000	\$1.59
Exercised	(631,666)	\$0.81
Outstanding at March 31, 2004	3,446,000	\$1.00

6. SUPPLEMENTAL CASH FLOW INFORMATION:

	For the three months ended March 31,	
	2004	2003
Cash paid:		
Interest	\$ 146,451	\$ 237,029
Taxes (net of refunds)	232,106	(165,952)
Investing and financing activities:		
Net assets acquired on acquisitions	7,821,785	422

7. STOCK BASED COMPENSATION:

In 2003, the Company prospectively adopted the amendments to CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-Based Payments" pursuant to the transitional provisions contained therein. In accordance with the transition rules, the expense recognized applies to stock options granted in 2003 and thereafter. During the three months ended March 31, 2004, the Company granted 400,000 (2003: 592,500) stock options to employees, consultants and directors. The Company recorded stock option expense of \$156,285 during the first quarter of 2004, and \$33,548 in the restated first quarter of 2003.

For stock options granted in 2002 and prior years, the Company elected to continue accounting for the related compensation expense on the intrinsic value at the grant date. Accordingly, net income for 2002 and subsequent years remains unchanged with respect to stock options granted in 2002.

Selected Notes to the Consolidated Financial Statements

Three months ended March 31, 2004 and 2003 (unaudited)

The Company continues to disclose the pro forma earnings impact of stock options granted in 2002. If the fair value method had been used for options granted in 2002, the Company's net earnings and net earnings per share for the periods ended March 31, 2004 and 2003 would approximate the following pro forma amounts:

	Three months ended March 31,	
	2004	2003
Net earnings:		
As reported	\$ 957,626	\$ 1,500,263
Pro forma	\$ 938,303	\$ 1,449,674
Net earnings per share:		
As reported	\$ 0.02	\$ 0.03
Pro forma	\$ 0.02	\$ 0.03
Diluted:		
As reported	\$ 0.02	\$ 0.03
Pro forma	\$ 0.02	\$ 0.03

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	Three months ended March 31,	
	2004	2003
Assumptions:		
Risk free interest rate (%)	5.55	5.63
Expected life (years)	5.0	5.0
Expected volatility (%)	58	76
Results:		
Weighted average fair value of options granted (\$)	0.88	0.52

8. SUBSEQUENT EVENTS:

On April 21, 2004, True closed a private placement of 4,457,153 common shares at an issue price of \$1.75 per share and 2,558,140 flow-through common shares at an issue price of \$2.15 per share, for aggregate gross proceeds of approximately \$13.3 million. In conjunction with this private placement, True has committed to incur \$5.5 million of Canadian exploration expenses ("CEE") by December 31, 2005.