

FIRST QUARTER INTERIM REPORT

THREE MONTHS ENDED MARCH 31, 2001

True Energy Inc. ("True", "the Company") is pleased to announce its financial and operational results for the first quarter ended March 31, 2001. The results reflect one month of production contributed by the Marengo Exploration Ltd. ("Marengo") acquisition which was completed February 28, 2001. The Company continues to focus on its initial core area in west-central Saskatchewan and has shown both financial and operational success in the area during the first quarter of 2001.

FINANCIAL HIGHLIGHTS

| (\$ except share amounts) | Three Months Ended March 31, | | % Change |
|--|------------------------------|-----------|----------|
| | 2001 | 2000 | |
| Revenue | 3,187,799 | – | – |
| Cash Flow | 1,105,216 | 39,127 | 2725% |
| per share – basic | 0.09 | 0.00 | 1778% |
| per share – diluted | 0.08 | 0.00 | 1653% |
| Net Earnings (loss) | (110,353) | 19,842 | – |
| per share – basic | (0.01) | 0.00 | – |
| per share – diluted | (0.01) | 0.00 | – |
| Working Capital Deficit (including prepaid gas) | 5,061,594 | 945,664 | 435% |
| Total Assets | 45,763,216 | 3,311,211 | 1282% |
| Long-term Debt (including prepaid gas) | 10,966,955 | 533,566 | 1955% |
| Shareholders' Equity | 12,999,866 | 1,207,298 | 977% |
| Net Capital Expenditures | 2,287,537 | 203,519 | 1024% |
| Shares Outstanding | 17,688,851 | 8,610,412 | 105% |
| Weighted Average Shares | | | |
| basic | 12,947,505 | 8,610,412 | 50% |
| diluted | 14,037,299 | 8,712,637 | 61% |

OPERATING HIGHLIGHTS

| | Three Months Ended March 31, | | % Change |
|-------------------------------|------------------------------|-------|----------|
| | 2001 | 2000 | |
| Daily Volumes | | | |
| Oil and NGLs (bbls/d) | 311 | 56 | 452% |
| Gas (Mcf/d) | 4,470 | 1,680 | 166% |
| Equivalent Oil (bbls/d) @ 6:1 | 1,056 | 336 | 214% |
| Prices | | | |
| Oil and NGLs (\$/bbl) | 19.26 | – | – |
| Gas (\$/Mcf) | 6.59 | – | – |
| Combined (\$/BOE) @ 6:1 | 33.57 | – | – |
| \$/BOE @ 6:1 | | | |
| Operating Netback | 16.22 | 8.63 | 88% |
| Operating Expenses | 9.09 | 2.80 | 224% |
| General & Administrative | 2.03 | 1.67 | 21% |

Q1

TRUE energy inc.

FINANCIAL RESULTS

Cash flow from operations for the three months ended March 31, 2001 was \$1,105,216 (\$0.09/share) compared to \$39,127 (\$0.00/share) for the previous period. For the three months ended March 31, 2001 True recorded a net loss of \$110,353 (\$0.01/share) on revenue of \$3,187,799 compared to \$19,842 of earnings for the same period during the previous year. The loss in the first quarter of this year was largely due to higher depletion rates as a result of the Marengo acquisition. The tax value of the assets was substantially less than the purchase price paid and as a result, depletion and depreciation expense for the quarter was \$1,342,569 or \$14.14/BOE (at 6:1).

Long-term debt increased as a result of funding the acquisition to \$10,966,955 from \$533,566 during the same period of the previous year. True continues to target a long-term debt to cash flow ratio of 1:1. During the first quarter, the Company spent \$2,287,537 on capital expenditures, compared to \$203,519 during the same period last year.

Also during the first quarter, True acquired Marengo for a total purchase price of \$16,249,150. To finance the acquisition, True raised \$5,000,000 through the issue of 4,166,667 Special Warrants, issued 947,250 common shares at a price of \$1.20 to Marengo shareholders and funded the balance with bank debt. The Company ended the quarter with 17,688,851 common shares outstanding.

OPERATING RESULTS

Production, with gas converted to barrels of oil equivalent at a ratio of 6:1, increased to 1,056 BOE/d from 336 BOE/d during the same period in 2000. Gas made up the majority of the increase, averaging 4,470 Mcf/d compared to 1,680 Mcf/d during the same period in 2000. Due to large price differentials on heavy crude, the Company shut in a number of high-operating-cost wells that included the Ear Lake Property. Despite this, True increased daily oil volumes significantly, averaging 311 bbls/d compared to 56 bbls/d for the same period in 2000. The Company will continue to monitor heavy oil differentials and evaluate further properties that may require shutting in. Current production is 1,800 BOE/d at 6:1. The Company will continue to focus on operating costs and has targeted \$7.00/BOE as a year-end target.

OUTLOOK

True has now commenced two drilling programs in west-central Saskatchewan. The first program consists of a shallow gas program in the Eyre Area of Saskatchewan. True currently has five wells producing from the Viking and Colony formations at a combined rate of 1,300 Mcf/d net to the Company. In addition to the producing wells, the Company has cased three gas wells in the area since March 31, 2001, the first of which will commence production during the second quarter. An additional four wells are planned for the area. The Company has also been accumulating lands in the area to allow for an ongoing shallow gas program.

The second program is a large farmin that will see the Company drill 24 wells prior to the end of the year, targeting conventional heavy oil in the Bakken formation. True has now drilled six of the wells, all of which have been cased. The first three wells have been completed and are currently being production tested.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Production

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

Revenue

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

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

Operating Expenses

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

Operating Netbacks

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

General and Administrative

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

Interest Expense

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

Capital Expenditures

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

Depletion, Depreciation and Site Restoration

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

Liquidity and Capital Resources

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

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

CONSOLIDATED BALANCE SHEETSat March 31, 2001 and December 31, 2000
(unaudited)

| | March 31, 2001 | December 31, 2000 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Accounts receivable | \$ 4,903,343 | \$ 3,500,627 |
| Property, plant and equipment | 40,859,873 | 12,171,304 |
| | <u>\$ 45,763,216</u> | <u>\$ 15,671,931</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 7,743,590 | \$ 4,742,773 |
| Current portion of prepaid gas | 693,500 | 693,500 |
| Current taxes payable | 1,527,847 | - |
| | <u>9,964,937</u> | <u>5,436,273</u> |
| Prepaid gas | 5,700 | 176,700 |
| Long-term debt | 10,961,255 | 1,325,461 |
| Future income taxes | 11,660,465 | 1,455,631 |
| Site restoration provision | 170,993 | 82,947 |
| Shareholders' equity | | |
| Common shares | 13,351,879 | 7,436,579 |
| Deficit | (352,013) | (241,660) |
| | <u>12,999,866</u> | <u>7,194,919</u> |
| | <u>\$ 45,763,216</u> | <u>\$ 15,671,931</u> |

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICITfor the periods ended March 31, 2001 and March 31, 2000
(unaudited)

| | March 31, 2001 | March 31, 2000 |
|--|-------------------|-------------------|
| Revenues | | |
| Oil | \$ 538,573 | \$ — |
| Natural gas | 2,649,226 | — |
| | 3,187,799 | — |
| Royalties | | |
| Crown | (641,595) | — |
| Other | (156,148) | — |
| | (797,743) | — |
| | 2,390,056 | 350,069 |
| Expenses | | |
| Operating | 863,265 | 85,894 |
| Depletion, depreciation and site restoration | 1,342,569 | 120,000 |
| General and administrative | 192,758 | 51,284 |
| Interest on long-term debt | 57,817 | 2,764 |
| | 2,456,409 | 259,942 |
| Earnings (loss) before taxes | (66,353) | 90,127 |
| Future income taxes | 44,000 | 70,285 |
| Net earnings (loss) | (110,353) | 19,842 |
| Deficit, beginning of period | (241,660) | (408,086) |
| Change in accounting policy relating to future income taxes | — | (9,905) |
| Deficit, end of period | \$ (352,013) | \$ (398,149) |
| Weighted average common shares | 12,947,505 | 8,610,412 |
| Net earnings (loss) per share | | |
| – basic | \$ (0.01) | \$ — |
| – diluted | \$ (0.01) | \$ — |

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the periods ended March 31, 2001 and March 31, 2000
(unaudited)

| | March 31, 2001 | March 31, 2000 |
|--|-------------------|-------------------|
| Operations: | | |
| Net earnings (loss) | \$ (110,353) | \$ 19,842 |
| Items not affecting cash: | | |
| Depletion, depreciation and site restoration | 1,342,569 | 120,000 |
| Future income taxes | 44,000 | 70,285 |
| Prepaid contract revenue | (171,000) | (171,000) |
| Cash flow from operations | 1,105,216 | 39,127 |
| Change in non-cash working capital items | 1,440,621 | 219,126 |
| | 2,545,837 | 258,253 |
| Financing: | | |
| Issuance of share capital | 5,000,000 | - |
| Share issue costs | (399,639) | - |
| Increase in long-term debt | 9,635,794 | (54,734) |
| | 14,236,155 | (54,734) |
| Investing: | | |
| Additions to capital assets | (2,287,537) | (203,519) |
| Cash paid on acquisition of Marengo Exploration Ltd. | (14,494,455) | - |
| | (16,781,992) | (203,519) |
| Increase (decrease) in cash | - | - |
| Cash, beginning of period | - | - |
| Cash, end of period | \$ - | \$ - |
| Weighted average common shares | 12,947,505 | 8,610,412 |
| Cash flow from operations per share | | |
| - basic | \$ 0.09 | \$ - |
| - diluted | \$ 0.08 | \$ - |

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2001 and 2000
(unaudited)

1. Basis of presentation:

The interim consolidated financial statements of the Company have been prepared by management in accordance with the accounting policies generally accepted in Canada. The 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, 2000. The disclosures provided below are incremental to those included with the annual consolidated financial statements. 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, 2000.

2. Acquisitions:

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.

The net assets acquired and consideration given were:

| | | |
|---|----|--------------|
| Net assets acquired: | | |
| Cash | \$ | 708,085 |
| Capital assets | | 27,721,601 |
| Working capital | | (1,685,327) |
| Future site restoration and abandonment | | (66,046) |
| Future income tax liability | | (10,429,163) |
| | \$ | 16,249,150 |
| Consideration: | | |
| Cash | \$ | 15,000,545 |
| Shares | | 1,136,700 |
| Acquisition costs | | 111,905 |
| | \$ | 16,249,150 |

3. Bank indebtedness and long-term debt:

On January 22, 2001, the Company entered into a financing agreement with a Canadian chartered bank for an \$11,300,000 revolving facility. Interest is payable at the bank's prime rate plus three quarters of one percent. Security is provided by a general assignment of book debts of the Company, a \$10,000,000 floating charge debenture over all assets of the Company, 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. The facility is subject to review on or before May 31, 2001.

4. Capital stock:

(a) Authorized:

Unlimited number of voting Common Shares
Unlimited number of non-voting First Preferred Shares

| (b) Issued: | Number of Shares | | Amount |
|---|---------------------|----|------------|
| Common shares: | | | |
| Balance, December 31, 2000 | 12,574,934 | \$ | 7,436,579 |
| Issued on exercise of Special Warrants | 4,166,667 | | 5,000,000 |
| Issued on acquisition of Marengo Exploration Ltd. | 947,250 | | 1,136,700 |
| Share issue costs (net of future income taxes of \$178,239) | - | | (221,400) |
| Balance, March 31, 2001 | 17,688,851 | \$ | 13,351,879 |

The Company has commitments to incur approximately \$2,016,000 of qualifying expenditures to satisfy flow-through share agreements.

5. Supplemental cash flow information:

| | 2001 | 2000 |
|--|--------------|----------|
| Cash paid: | | |
| Interest | \$ 57,817 | \$ 2,764 |
| Taxes | — | — |
| Non-cash investing and financing activities: | | |
| Issue of common shares on acquisition (note 2) | \$ 1,136,700 | — |

6. Financial instruments:

During January 2001, the Company entered into transactions to effect a costless collar for 3,000 gigajoules per day for the period February 1, 2001 to December 31, 2001. These transactions establish a floor price of \$7.50 Cdn per gigajoule at AECO and a ceiling price of \$8.50 Cdn per gigajoule at AECO.

CORPORATE INFORMATION

Board of Directors

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

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

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

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

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

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

Management

Paul R. Baay
President and CEO

Clinton T. Broughton
Vice President

Gordon L. Reese
Vice President

Todd R. Klippenstein
Controller

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Auditors

KPMG LLP
Calgary, Alberta

Bankers

National Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Symbol: TUI