

*This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.*

## New Issue

March 22, 2001

### **TRUE ENERGY INC. 4,166,667 Common Shares Issuable upon the Exercise of Special Warrants**

True Energy Inc. ("True" or the "Corporation") is hereby qualifying for distribution 4,166,667 common shares (the "Common Shares" or "True Shares") of the Corporation issuable upon the exercise of 4,166,667 outstanding special warrants (the "Special Warrants"). The Special Warrants were previously issued, at a price of \$1.20 per Special Warrant, pursuant to a special warrant indenture dated as of February 5, 2001 (the "Special Warrant Indenture") between the Corporation and Montreal Trust Company of Canada (the "Trustee"). See "Details of the Offering". Each Special Warrant entitles the holder thereof to acquire one Common Share, at no additional cost, at any time commencing: (i) in the case of certain Special Warrants that are not repurchaseable by the Corporation and are immediately exercisable (the "Non-Repurchase Special Warrants"), on the date of issuance thereof; and (ii) in the case of Special Warrants other than the Non-Repurchase Special Warrants, February 28, 2001, being the date that a notice from the Corporation and acknowledged by the Underwriters (the "Closing Notice") was provided to the Trustee confirming that the Corporation was in a position to take-up and pay for Class A Shares and Class B Shares of Marengo Exploration Ltd. ("Marengo") pursuant to the offer dated February 6, 2001 (as amended, varied or extended, the "Offer"), until 4:30 p.m. (Calgary time) (the "Expiry Time") on the earlier of: (i) 5 business days following the date of issuance of a final receipt for this prospectus by the securities commission in each of Alberta and Ontario (the "Filing Provinces"); and (ii) February 5, 2002. If a final receipt for this prospectus dated on or before June 5, 2001 is not obtained from the securities commission in each of the Filing Provinces, each holder of Special Warrants (other than certain purchasers of Non-Repurchase Special Warrants) will be entitled, upon exercise or deemed exercise of any Special Warrants at any time after June 5, 2001, to acquire 1.1 Common Shares for each of such holder's Special Warrants (in lieu of the one Common Share that each Special Warrant was previously exchangeable for), subject to adjustment in certain events, without the payment of any additional consideration. Any Special Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised at the Expiry Time without any further action on the part of the holder.

The Special Warrants were sold to investors pursuant to prospectus exemptions under applicable securities legislation through FirstEnergy Capital Corp. and Peters & Co. Limited (the "Underwriters"). The net proceeds to the Corporation from the sale of the Special Warrants will be approximately \$4,650,000, after deducting the fee of \$300,000 paid by the Corporation to the Underwriters in connection with the sale of the Special Warrants, and the expenses of the issuance of the Special Warrants and the Common Shares issuable upon the exercise thereof, estimated at \$50,000. No commission or fee will be payable to the Underwriters by the Corporation in connection with the distribution of the Common Shares upon the exercise of Special Warrants. See "Details of the Offering". The issue price of \$1.20 per Special Warrant was determined by negotiation between the Corporation and the Underwriters.

The currently outstanding Common Shares are listed on The Toronto Stock Exchange (the "TSE") under the symbol "TUI". On January 17, 2001, the last trading day prior to the date on which the issue price of the Special Warrants was announced, the closing price of the Common Shares was \$1.40. On March 22, 2001, the closing price of the Common Shares was \$1.65. See "Price Range and Trading Volume of Common Shares".

**An investment in the Common Shares should be considered highly speculative due to the nature of the Corporation'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. Subscribers must rely on the ability, expertise, judgment, discretion, integrity and good faith of management of the Corporation. There is no assurance that further commercial quantities of oil and natural gas will be discovered by the Corporation. See "Risk Factors". The effective offering price of \$1.20 per Common Share exceeds the net tangible book value per share as at September 30, 2000, after giving effect to the issue of Common Shares upon exercise of the Special Warrants and the issuance of 1,000,000 Common Shares pursuant to the offer (the "Offer") to acquire all of the outstanding Class A Shares and Class B Shares of Marengo Exploration Ltd., by \$0.40 per share or 33.33%. See "Dilution".**

Certificates for the Common Shares will be available for delivery upon the exercise of the Special Warrants. Certain legal matters relating to the offering of the Special Warrants and the Common Shares issuable upon exercise thereof will be passed upon on behalf of the Corporation by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by Stikeman Elliott.

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### ABBREVIATIONS

#### Crude Oil and Natural Gas Liquids

Bbls	barrels of oil inclusive of NGLs
Mbbls	thousand barrels
Mmbbls	million barrels
Mstb	1,000 stock tank barrels
Bbls/d	barrels per day
BOPD	barrels of oil per day
NGLs	natural gas liquids
API	American Petroleum Institute
GJ	gigajoule

#### Natural Gas

Mcf	thousand cubic feet
Mmcf	million cubic feet
Mcf/d	thousand cubic feet per day
Mmcf/d	million cubic feet per day
MMBTU	million British Thermal Units
Bcf	billion cubic feet

#### Other

ARTC	Alberta Royalty Tax Credit
BOE	barrel of oil equivalent of natural gas and crude oil on the basis of 1 Bbl of crude oil for 10 Mcf of natural gas (this conversion factor is not based on either energy content or current prices)
BOE/d	barrel of oil equivalent per day
Cdn.	Canadian
\$M	thousands of dollars
\$MM	millions of dollars
WTI	West Texas Intermediate

### CONVERSION

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units):

To Convert From	To	Multiply By
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Bbls	Cubic metres	0.159
Cubic metres	Bbls oil	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.*

### THE CORPORATION

True is a corporation engaged in the exploration, development and production of primarily crude oil and natural gas. The Corporation was formed on the amalgamation (the "Amalgamation"), effective August 31, 2000, of Sundance Resources Inc. ("Sundance"), 887733 Alberta Ltd. ("Holdco") and 851431 Alberta Ltd. ("Newco"). The Corporation's principal producing properties are located in the Province of Saskatchewan. See "Business and Properties of the Corporation".

### THE OFFERING

- Issue:** 4,166,667 Common Shares issuable upon the exercise of Special Warrants.
- Exercise:** One Common Share will be issued, at no additional cost, to the holders of Special Warrants, upon the exercise of each Special Warrant.
- Special Warrants:** A total of 4,166,667 Special Warrants have been issued pursuant to prospectus exemptions under applicable securities legislation at a price of \$1.20 per Special Warrant, for aggregate consideration of \$5,000,000. The Special Warrants were issued pursuant to the Special Warrant Indenture dated as of February 5, 2001 between the Corporation and the Trustee. See "Details of the Offering". Since the date of issuance, no Special Warrants have been exercised.
- Exercise Details:** Each Special Warrant entitles the holder thereof to acquire, at no additional cost to the holder, one Common Share at any time commencing: (i) in the case of the Non-Repurchase Special Warrants, on the date of issuance thereof; and (ii) in the case of Special Warrants other than the Non-Repurchase Special Warrants, February 28, 2001, being the date the Closing Notice was provided, until 4:30 p.m. (Calgary time) (the "Expiry Time") on the earlier of: (i) 5 business days following the date of issuance of a final receipt for this prospectus by the securities commission in each of the Filing Provinces; and (ii) February 5, 2002. If a final receipt for this prospectus dated on or before June 5, 2001 is not obtained from the securities commission in each of the Filing Provinces, each holder of Special Warrants (other than certain purchasers of Non-Repurchase Special Warrants) will be entitled, upon exercise or deemed exercise of any Special Warrants at any time after June 5, 2001, to acquire 1.1 Common Shares for each of such holder's Special Warrants (in lieu of the one Common Share that each Special Warrant was previously exchangeable for), subject to adjustment in certain events, without the payment of any additional consideration. Any Special Warrants not exercised prior to the Expiry Time shall be deemed to have been exercised at the Expiry Time without any further action on the part of the holder. See "Details of the Offering".
- Offer to Purchase Marengo Exploration Ltd.:** On February 6, 2001, the Corporation made the Offer to purchase all of the outstanding Class A Shares and all of the outstanding Class B Shares of Marengo (the Class A Shares and Class B Shares, collectively, referred to as the "Marengo Shares") on the basis of, at the election of the Marengo shareholder: (a) in the case of Class A Shares: \$2.05 in cash or 1.71 Common Shares (subject to a maximum of 774,000 Common Shares) or a combination thereof, for each Class A Share deposited under the Offer; and (b) in the case of Class B Shares: \$9.00 in cash or 7.5 Common Shares (subject to a maximum of 226,000 Common Shares) or a combination thereof, for each Class B Share deposited under the Offer. The Offer expired on February 28, 2001 and in connection therewith True took up and paid for approximately 99% of the outstanding Class A Shares and 95% of the outstanding Class B Shares and intends to take steps to acquire the balance of each class of shares pursuant to the compulsory acquisition provisions of the *Business Corporations Act* (Alberta). See "The Acquisition - Marengo Exploration Ltd.".

**Use of Proceeds:**

Upon closing of the issuance of the Special Warrants, all proceeds from the sale of the Special Warrants (other than in respect of the Non-Repurchase Special Warrants) (the "Escrowed Funds") were deposited and held by the Trustee pursuant to the terms of the Special Warrant Indenture. The Escrowed Funds were released to the Corporation upon receipt by the Trustee of the Closing Notice releasing the Escrowed Funds to the Corporation in connection with the Corporation taking up and paying for not less than 66⅔% of the outstanding Class A Shares (on a fully diluted basis) and 66⅔% of the outstanding Class B Shares pursuant to the Offer. Subscription proceeds in respect of the Non-Repurchased Special Warrants were released to the Corporation on closing of the offering of the Special Warrants.

The net proceeds from the issuance of the Special Warrants of approximately \$4,650,000 after deducting the fees payable to the Underwriters and estimated expenses of the issue, were used by the Corporation to pay a portion of the cash consideration pursuant to the Offer. See "The Acquisition" and "Use of Proceeds".

**Risk Factors:**

An investment in the Common Shares should be considered to be highly speculative due to the nature of the Corporation'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. Subscribers must rely on the ability, expertise, judgment, discretion, integrity and good faith of management of the Corporation. There is no assurance that further commercial quantities of oil and natural gas will be discovered. The Corporation's business is subject to the risks normally encountered in the oil and natural gas industry including lack of exploration success, blowouts and fires, some of which may not be insurable. Regulation of the oil and natural gas industry by various levels of government, the marketing of oil and natural gas and the effect of fluctuations in the market price and demand for oil and natural gas may affect the success of the Corporation's business endeavours. The Corporation competes with other corporations which have greater technical and financial resources. See "Risk Factors".

### SELECTED COMBINED HISTORICAL OPERATIONAL INFORMATION

The following table sets out certain operating information, as at and for the nine months ended September 30, 2000 and for the year ended December 31, 1999, for True, for Marengo and for True on a combined basis after giving effect to the acquisition by True of all outstanding Marengo Shares pursuant to the Offer.

	<b>True</b>		<b>Marengo<sup>(1)</sup></b>		<b>Combined<sup>(2)</sup></b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
Undeveloped land holdings (acres) <sup>(3)</sup>						
Alberta .....	1,265	1,265	2,954	1,920	4,219	3,185
Saskatchewan .....	93,542	26,001	13,845	9,000	107,387	35,001
Proved Reserves <sup>(4)(6)</sup>						
Crude oil (Mbbbls) .....	263	226	319	269	582	495
Natural gas (Bcf) .....	5.07	4.19	6.98	4.53	12.05	8.72
Proved and Probable Reserves <sup>(4)(6)</sup>						
Crude oil (Mbbbls) .....	481	407	4.98	419	979	826
Natural gas (Bcf) .....	5.87	4.83	7.32	4.77	13.19	9.60
<b>For the nine months ended September 30, 2000</b>						
Average daily production <sup>(5)</sup>						
Crude oil and liquids (Bbls/d) .....		60		220		280
Natural gas (Mmcf/d) .....		1.43		4.09		5.52
Barrels of oil equivalent (BOE/d) .....		203		629		832
<b>For the year ended December 31, 1999</b>						
Average daily production <sup>(5)</sup>						
Crude oil and liquids (Bbls/d) .....		69		100		169
Natural gas (Mmcf/d) .....		2.13		2.02		4.15
Barrels of oil equivalent (BOE/d) .....		282		302		584

Notes:

- (1) The information for Marengo has been based upon or taken from public sources or are estimated by Marengo's management. See "The Acquisition".
- (2) The combined information is not necessarily indicative of the results of operations that would have occurred for the nine months ended September 30, 2000 or for the year ended December 31, 1999.
- (3) As at December 31, 2000.
- (4) Reserve information for True is as at September 1, 2000. Reserve information for Marengo is as at January 1, 2001. Probable reserves have been reduced by 50% to account for the risk of recovery thereof.
- (5) In addition, average daily net production from the properties acquired pursuant to the Clanrob Acquisition was 27 Bbls/d and 37 Bbls/d of crude oil and 369 Mcf/d and 705 Mcf/d of natural gas for the eight months ended August 31, 2000 and the 12 months ended December 31, 1999, respectively.
- (6) Based on escalating cost and price assumptions.

### SELECTED PRO FORMA HISTORICAL FINANCIAL INFORMATION

The following table sets out selected financial information, as at and for the nine months ended September 30, 2000 and for the year ended December 31, 1999 for True, for Marengo and for True on a pro forma basis after giving effect to the acquisition by True of all of the Marengo Shares pursuant to the Offer and certain other adjustments. The following financial information should be read in conjunction with the Pro Forma Financial Statements of True and the Financial Statements of True, and the notes thereto, included elsewhere herein.

	<u>True<sup>(1)</sup></u>	<u>Marengo<sup>(2)</sup></u>	<u>Pro forma</u> (unaudited)
		(in dollars)	
<b>For the nine months ended September 30, 2000<sup>(4)</sup></b>			
Oil and gas sales (net of royalties)	1,770,908	5,365,368	7,136,276
Funds from operations	587,715	2,823,195	3,493,964
Funds from operations per share <sup>(3)</sup>			
Basic	0.04	0.50	0.23
Net earnings (loss)	18,536	1,393,479	(726,254)
Net earnings (loss) per share <sup>(3)</sup>			
Basic	-	0.23	(0.05)
<b>For the year ended December 31, 1999<sup>(4)</sup></b>			
Oil and gas sales (net of royalties)	2,160,489	1,931,413	4,091,902
Funds from operations	1,010,944	885,724	891,497
Funds from operations per share			
Basic	0.08	N/A	0.07
Net earnings (loss)	(137,572)	50,642	(1,628,993)
Net earnings (loss) per share <sup>(3)</sup>			
Basic	(0.01)	0.01	(0.13)
<b>As at September 30, 2000</b>			
Working capital (deficiency)	(2,828,535)	(706,088)	(1,057,423)
Capital assets	8,967,209	6,362,793	36,916,373
Total assets	11,002,806	9,012,011	44,263,388
Long term debt (including prepaid contract) <sup>(5)</sup>	870,200	-	11,963,180
Shareholders' equity	5,449,277	3,863,114	13,400,194

Notes:

- (1) Based on True, on a pro forma basis, after giving effect to the Amalgamation. See the Pro Forma Financial Statements of True contained elsewhere herein.
- (2) The information for Marengo has been based upon the financial statements of Marengo enclosed herein. See "The Acquisition".
- (3) Fully diluted numbers are not disclosed as they are considered anti-dilutive.
- (4) The Pro Forma Financial Statements are not necessarily indicative of the financial position or results of operations that would have occurred if the events reflected therein had been in effect on the dates indicated or of the results that may be obtained in the future.
- (5) Includes current portion of prepaid contract being \$518,700.

## TRUE ENERGY INC.

### History

True was formed on the Amalgamation of Sundance, Holdco and 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 S.W., Calgary, Alberta, T2P 3R7, and the Corporation's registered office is located at Suite 1600, 407 - 2nd Street S.W., Calgary, Alberta, T2P 2Y3. The Corporation currently has a total of five full time employees. In addition, the Corporation utilizes the services of five persons on a contract or consulting basis.

### *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. See "Business and Properties of the Corporation" and "Schedule of Revenues, Operating Costs and Capital Expenditures relating to certain oil and gas interests in the Smiley, Ingoldsby and Brock areas in Saskatchewan" for a description of the Clanrob Assets and related revenues, operating costs and capital expenditures.

### *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 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, the new management team and 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 CDNX on September 13, 2000.

## Recent Developments

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.

On January 8, 2001, True and Marengo jointly announced that they entered into an agreement pursuant to which True agreed to make the Offer to acquire all of the outstanding Class A Shares and Class B Shares of Marengo. On February 6, 2001, True made the Offer on the basis of, at the election of the Marengo shareholders: (a) in the case of Class A Shares: \$2.05 in cash or 1.71 Common Shares (subject to a maximum of 774,000 Common Shares) or a combination thereof, for each Class A Share deposited under the Offer; and (b) in the case of Class B Shares: \$9.00 in cash or 7.5 Common Shares (subject to a maximum of 226,000 Common Shares) or a combination thereof, for each Class B Share deposited under the Offer. The Offer expired on February 28, 2001 and in connection therewith True took up and paid for approximately 99% of the outstanding Class A Shares and 95% of the outstanding Class B Shares and intends to take steps to acquire the balance of each class of shares pursuant to the compulsory acquisition provisions of the *Business Corporations Act* (Alberta). See "The Acquisition - Marengo Exploration Ltd." for a description of the business and properties of Marengo. The Financial Statements of Marengo for the three years ended December 31, 1999 and for the nine months ended September 30, 2000 and 1999 (unaudited) are included elsewhere herein.

On February 5, 2001, True closed the 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 subscription proceeds from the Special Warrants (other than in respect of the Non-Repurchase Special Warrants, which proceeds were released to the Corporation at closing), were placed in escrow to be released in connection with True taking up and paying for Marengo Shares pursuant to the Offer. See "Details of the Offering".

On February 13, 2001, the Common Shares commenced trading on the TSE and, on March 6, 2001, the Common Shares were delisted from the Canadian Venture Exchange ("CDNX").

## DETAILS OF THE OFFERING

On February 5, 2001, True completed the private placement of an aggregate of 4,166,667 Special Warrants at a price of \$1.20 per Special Warrant, pursuant to prospectus exemptions under applicable securities legislation, under an agreement dated as of January 17, 2001 (the "Underwriting Agreement") between the Underwriters and the Corporation. Pursuant to the Underwriting Agreement, the Underwriters agreed to act as, and the Corporation appointed the Underwriters as, sole and exclusive agents of the Corporation to offer the Special Warrants for sale on a private placement basis, at a price of \$1.20 per Special Warrant and to purchase, as principal, any of the 4,166,667 Special Warrants offered but not subscribed for. Pursuant to the Underwriting Agreement, the Corporation paid the Underwriters a fee of \$0.072 per Special Warrant or an aggregate fee of \$300,000. The Underwriters will receive no additional fees in connection with the distribution of Common Shares on exercise of the Special Warrants.

The Special Warrants were issued pursuant to the Special Warrant Indenture dated as of February 5, 2001, between the Corporation and the Trustee. Each Special Warrant entitles the holder thereof to acquire, at no additional cost to the holder, one Common Share commencing: (i) in the case of the Non-Repurchase Warrants, on the date of issuance thereof; and (ii) in the case of Special Warrants other than the Non-Repurchase Special Warrants, on the date that the Closing Notice is provided, and ending at 4:30 p.m. (Calgary time) on the earlier of: (i) 5 business days following the date of issuance of a receipt for this prospectus by the securities commission in each of the Filing Provinces; and (ii) February 5, 2002. At the closing of the issuance of the Special Warrants, an aggregate of 825,553 of Non-Repurchasable Special Warrants were issued. The balance of the Special Warrants were Special Warrants that are not Non-Repurchasable Special Warrants. All Special Warrants were issued at the same price of \$1.20 per Special Warrant.

Upon closing of the sale of the Special Warrants, all proceeds from the sale of the Special Warrants other than in respect of the Non-Repurchase Special Warrants (the "Escrowed Funds") were deposited and held by the Trustee pursuant to the terms of the Special Warrant Indenture. The Escrowed Funds were released to the Corporation on February 28, 2001 upon receipt by the Trustee of the Closing Notice releasing the Escrowed Funds to the Corporation in connection with the Corporation taking up and paying for not less than 66⅔% of the outstanding Class A Shares (on a fully-diluted basis) and 66⅔% of the outstanding Class B Shares pursuant to the Offer. Subscription proceeds in respect of the Non-Repurchase Special Warrants were released to the Corporation at closing of the offering of Special Warrants.

If a final receipt for this prospectus dated on or before June 5, 2001 is not obtained from the securities commission or similar regulatory authority in each of the Filing Provinces, each holder of Special Warrants (other than certain purchasers of Non-Repurchase Special Warrants) will be entitled, upon exercise or deemed exercise of any Special Warrants at any time after June 5, 2001, to acquire

1.1 Common Shares for each of such holder's Special Warrants (in lieu of the one Common Share that each Special Warrant was previously exchangeable for), subject to adjustment in certain events, without the payment of any additional consideration.

Any Special Warrants not exercised prior to the Expiry Time shall, by their terms, be deemed to have been exercised at the Expiry Time without any further action on the part of the holder.

Holders of Special Warrants who wish to exercise the Special Warrants held by them and acquire Common Shares thereunder should complete the exercise forms on the Special Warrant certificates and deliver the certificates and the executed exercise forms to the Trustee at its principal office in Calgary, Alberta.

Common Shares obtained on the exercise of Special Warrants prior to the issuance of a final receipt for this prospectus will be subject to applicable hold periods under applicable securities legislation.

## **BUSINESS AND PROPERTIES OF THE CORPORATION**

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.

### **Exploration and Development Strategy**

The Corporation's current exploration and development strategy involves the expansion of the Corporation's asset base in Western Canada through both acquisitions of new properties and drilling on the Corporation's existing properties. The Corporation intends to acquire additional land and production through acquisitions that have both development and exploration drilling potential in areas that have multi-zone productive capability and which are within an area with existing production facilities accessible to or owned by the Corporation.

### **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 September 1, 2000 based on escalating cost and price assumptions as evaluated in the report prepared by Gilbert Laustsen Jung Associates Ltd. (see "Oil and Natural Gas Reserves"). Information in respect of gross and net acres are as at December 31, 2000 and well counts are as at September 30, 2000, except where indicated otherwise. Information in respect of production is average production, net to the Corporation, for the month of October, 2000, except where indicated otherwise.

#### ***Smiley, Saskatchewan***

The Smiley property is located approximately 24 miles northwest of the Town of Kindersley, Saskatchewan and consists of 18,102 gross (9,659 net) acres. The Corporation has eighteen producing crude oil wells (10.43 net), four shut-in crude oil wells (2.5 net), nine producing natural gas wells (3.91 net), one light oil treating facility and one heavy oil tank treating facility on the Smiley property. The majority of the Smiley property is operated by the Corporation. Proved reserves attributable to the interests of the Corporation at Smiley are 92 Mbbls of crude oil and 4,084 Mmcf of natural gas. Average production for the month of October, 2000 was 61 Bbls/d of crude oil and natural gas liquids and 1 Mmcf/d of natural gas.

The Smiley property has been the main focus for the Corporation during the past year and will continue to be a major activity area. The property consists of both shallow gas opportunities and a heavy oil development project. The Corporation placed a new compressor station into service in mid-January. Initially, ten natural gas wells (4.65 net) are being routed through this facility, resulting in increased production from the area and allowing the economic life of the existing reserves to be extended. In addition, two natural gas wells (1.1 net) and one crude oil well (1.0 net) have been tied-in to other facilities. The heavy oil project consists of a three-phase plan that commenced with two wells (2.0 net) that were drilled in early October. Following analysis of the production testing conducted on these wells, the second phase of the project will be to complete a 3D seismic program to delineate the field. The final phase will be to drill additional development locations based on the interpretation of this 3D seismic and to construct an oil treatment facility in conjunction with the new compressor station.

A portion of the Corporation's interest at Smiley was acquired pursuant to the Clanrob Acquisition.

INDEX MAP  
SHOWING

PROPERTY LOCATIONS

TRUE ENERGY INC.



### *Coleville, Saskatchewan*

The Coleville property is located approximately 15 miles northwest of Kindersley, Saskatchewan and consists of 47,263 gross (15,510 net) acres. The Corporation has two producing crude oil wells (1.75 net), six producing natural gas wells (4.4 net) and one shut-in natural gas well (1.0 net) on the Coleville property. Coleville is operated by the Corporation. Proved reserves attributable to the interest of the Corporation at Coleville are 13 Mbbls of crude oil and natural gas liquids and 824 Mmcf of natural gas. Average production for the month of October, 2000 was 3 Bbls/d of crude oil and natural gas liquids and 774 Mcf/d of natural gas.

Effective July 1, 2000, Sundance entered into a farm-in agreement (the "Imperial Farm-in") with Imperial Oil Resources ("Imperial"). Pursuant to the Imperial Farm-in, the Corporation drilled five wells in the Coleville area to earn 100% of Imperial's undivided interest in the designated area applicable to each well, subject to an overriding royalty reserved to Imperial varying between 5 and 15%. The overriding royalty is convertible after payout to 50% of the undivided interest earned by the Corporation. All five of the wells have been cased. Two of the wells (2.0 net) are equipped for oil production and three (3.0 net) are natural gas wells that are now tied-in and producing. In order to facilitate the Corporation's gas processing requirements, the Corporation acquired from Addison Energy Inc. a 47% interest in an existing gas compressor station together with three producing natural gas wells (1.4 net) and one shut-in oil well (0.75 net) for aggregate consideration of \$1.3 million. The Corporation became operator of the facility on October 1, 2000. Increased capacity was provided by the installation of an additional compressor in December, 2000. The shut-in oil well (0.75 net) included in the acquisition has now been placed on production. The Corporation plans to acquire lands and acquire 3D seismic over the new discoveries and, if results warrant, drill further development wells during the next year. An additional two crude oil wells (2.0 net) and one natural gas well (0.10 net) were drilled elsewhere under the Imperial Farm-in and are now on production.

### *Ingoldsby, Saskatchewan*

The Ingoldsby property is located approximately 60 miles east of the City of Estevan, Saskatchewan and consists of 1,150 gross (321 net) acres. The Corporation has three producing crude oil wells (0.85 net) and one shut-in crude oil well (0.39 net) on the Ingoldsby property. Ingoldsby is operated by Richland Petroleum Corporation. Proved reserves attributable to the interests of the Corporation at Ingoldsby are 158 Mbbls of crude oil. Average production for the month of October, 2000 was 20 Bbls/d of crude oil. The Corporation is evaluating the economics of constructing additional facilities at Ingoldsby which could also lead to further drilling during the next twelve months.

The Corporation's interest in Ingoldsby was acquired pursuant to the Clanrob Acquisition.

### *Brock, Saskatchewan*

The Brock property is located approximately 30 miles southeast of the Town of Kindersley, Saskatchewan and consists of 44,151 gross (19,868 net) acres. The Corporation recently increased its interest in the property from 20% to 45% through an acquisition of the interest of another owner. The transaction, which also conveyed operatorship, was effective September 1, 2000. The Corporation has one producing crude oil well (0.45 net) and four producing natural gas wells (1.8 net) on the Brock property. Proved reserves attributable to the interests of the Corporation at Brock were 127 Mmcf of natural gas (pre-acquisition). The initial producing wells from Brock were brought onto production in May and June, 2000, with the remainder being brought on through September and October, 2000. Average production for the month of October, 2000 was 67 Mcf/d of natural gas (pre-acquisition). Based on production optimization success of initial wells, the Corporation plans to drill two additional wells (0.9 net) in the next twelve months. Following the initial drilling, the Corporation will look at downspacing the existing field for further development. The Corporation also currently holds a 45% interest in an existing compressor facility located on this property.

The Corporation's initial interest in Brock was acquired pursuant to the Clanrob Acquisition.

### **Oil and Natural Gas Reserves**

Gilbert Laustsen Jung Associates Ltd. ("GLJ"), independent petroleum consultants of Calgary, Alberta, prepared reports dated October 23, 2000 (the "GLJ Report") evaluating, effective September 1, 2000, the crude oil and natural gas reserves attributable to substantially all of the properties of the Corporation. The following table summarizes GLJ's evaluation of the Corporation's interest in reserves and future net production revenue from these reserves. **All evaluations of future net production revenues set forth in the table are stated prior to any provision for income tax and indirect costs. It should not be assumed that the present worth of future net cash flow represents fair market value of the reserves.**

**Petroleum and Natural Gas Reserves and Net Pre-Tax Cash Flows**  
(Based on Escalating Cost and Price Assumptions)

	Corporation's Interest in Reserves				Present worth of future net pre-tax cash flows			
	Crude Oil (Mbbls)		Natural Gas (Bcf)		Undiscounted	Discounted at		
	Gross	Net	Gross	Net		10%	15%	20%
Proved						(millions)		
Producing	152	135	2.88	2.31	9.74	7.65	7.00	6.48
Non-Producing	111	91	2.19	1.88	7.12	5.00	4.33	3.82
Total Proved	263	226	5.07	4.19	16.86	12.65	11.33	10.30
Probable Additional	218	181	0.80	0.64	4.15	2.68	2.27	1.96
Total	481	407	5.87	4.83	21.01	15.33	13.60	12.26

**Petroleum and Natural Gas Reserves and Net Pre-Tax Cash Flows**  
(Based on Constant Cost and Price Assumptions)

	Corporation's Interest in Reserves				Present worth of future net pre-tax cash flows			
	Crude Oil (Mbbls)		Natural Gas (Bcf)		Undiscounted	Discounted at		
	Gross	Net	Gross	Net		10%	15%	20%
Proved						(millions)		
Producing	179	160	2.94	2.33	15.15	11.19	9.99	9.06
Non-Producing	110	90	2.16	1.85	11.34	7.78	6.67	5.82
Total Proved	289	250	5.10	4.18	26.49	18.97	16.66	14.88
Probable Additional	222	182	0.80	0.63	7.49	4.72	3.96	3.40
Total	511	432	5.90	4.81	33.98	23.69	20.62	18.28

## Notes:

(1) Columns may not add due to rounding.

(2) "Gross" means the total of True's working interest and/or royalty interest share before royalties owned by others.

"Net" means the total of True's working interest and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

"Royalties" refers to royalties paid to others. The royalties deducted from the reserves are based on the percentage royalty calculated by applying the applicable royalty rate or formula. In the case of Crown sliding scale royalties which are dependent on selling prices, the price forecasts for the individual properties in question have been employed.

"Proved Reserves" means those reserves estimated as recoverable with a high degree of certainty under current technology and existing economic conditions in the case of constant price and cost analyses and anticipated economic conditions in the case of escalated price and cost analyses, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

"Probable Additional Reserves" means those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved, but where such analysis suggests the likelihood of their existence and future recovery under current technology and existing or anticipated economic conditions. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future. **The Probable Additional Reserves and the estimated present worth thereof set forth above have been risk-weighted by 50% to take into account the risk factors associated with the recovery thereof.**

"Proved Producing Reserves" means those Proved Reserves that are actually on production and could be recovered from existing wells or facilities or, if facilities have not been installed, that would involve a small investment of relative to cash flow. In multi-well pools involving a competitive situation, reserves may be subdivided into producing and non-producing reserves in order to reflect allocation of reserves to specific wells and their respective development status.

"Proved Non-Producing Reserves" means those Proved Reserves that are not classified as producing.

- (3) The escalating cost and price assumptions assume the continuance of current laws and regulations and increases in wellhead selling prices, and take into account inflation with respect to future operating capital costs. In the GLJ Report operating costs are assumed to escalate at 1.5% per annum. Crude oil and natural gas base case prices as forecast by GLJ effective October 1, 2000 are as follows:

Year	Inflation %	Exchange Rate \$US/\$ Cdn.	Crude Oil				Natural Gas
			WTI Cushing Oklahoma <sup>(d)</sup> \$ US/Bbl	Light Sweet at Edmonton <sup>(b)</sup> \$ Cdn/Bbl	Medium at Hardisty <sup>(c)</sup> \$ Cdn/Bbl	Heavy at Hardisty <sup>(d)</sup> \$ Cdn/Bbl	Saskatchewan Plant Gate Spot \$/mmbtu
2000 (Q4)	0.0	0.675	33.00	47.75	40.75	33.75	6.10
2001	1.5	0.690	28.00	39.50	35.00	29.50	5.30
2002	1.5	0.710	24.00	32.75	28.25	24.75	4.45
2003	1.5	0.720	21.00	28.25	23.75	20.75	3.90
2004	1.5	0.730	21.25	28.25	23.75	20.75	3.70
2005	1.5	0.730	21.75	28.50	24.00	21.00	3.70
2006	1.5	0.730	22.00	29.00	24.50	21.50	3.70
2007	1.5	0.730	22.25	29.50	25.00	22.00	3.75
2008	1.5	0.730	22.50	30.00	25.50	22.50	3.80
2009	1.5	0.730	23.00	30.50	26.00	23.00	3.90
2010	1.5	0.730	23.25	31.00	26.50	23.50	3.95
2011+	1.5	0.730	+1.5%/yr	+1.5%/yr	+1.5%/yr	+1.5%/yr	+1.5%/yr

Notes:

- (a) WTI prices estimated above represent NYMEX 30 day futures prices.  
 (b) 40° API, 0.3% S.  
 (c) 25.6°API, 2.1% S.  
 (d) 12°API.  
 (e) All references to "\$" are \$CDN unless indicated otherwise.

- (4) Product prices used in the constant price evaluation were those prices estimated to be in effect at October 1, 2000, being \$39.26/BBL for oil and \$6.02/MCF for gas. The constant price assumptions assume the continuance of current laws, regulations and operating costs in effect on the date of the GLJ Report. Product prices were not escalated beyond 2000. In addition, operating and capital costs have not been increased on an inflationary basis.
- (5) Royalty credits under the ARTC do not apply as all of the Corporation's properties are in the province of Saskatchewan.
- (6) The GLJ Report estimates the future capital expenditures necessary to achieve the estimated present worth of future net cash flows based on escalating costs from Proved and Probable Additional Reserves to be an aggregate of \$2,956,000, of which \$327,000 was expended in the last four months of 2000, \$1,762,000 is to be expended in 2001, \$802,000 is to be expended in 2002 and \$65,000 thereafter (or based on constant costs: an aggregate of \$2,898,000, of which \$327,000 was to be expended in the last four months of 2000, \$1,736,000 is to be expended in 2001, \$779,000 is to be expended in 2002 and \$56,000 thereafter).
- (7) Substantially all of the Proved Producing Reserves evaluated in the GLJ Report were on production at October 1, 2000.
- (8) The GLJ Report and the reserves and the net present value thereof reflected in the GLJ Report and the above tables do not reflect the impact of the prepaid gas contract of the Corporation as described under "Business and Properties of the Corporation - Marketing" and note (6) of the Corporation's Financial Statements included elsewhere herein.
- (9) The extent and character and all factual data supplied to GLJ were accepted by GLJ as represented. The crude oil and natural gas reserve calculations and any projections upon which the GLJ Report is based were determined in accordance with generally accepted evaluation practices. No field inspection was conducted. Salvage values for facilities, well abandonment and lease clean-up costs have not been included in the GLJ Report.

Copies of the GLJ Report are available for inspection at the head office of the Corporation and the offices of Stikeman Elliott, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario, M5L 1B9, during normal business hours during the period of distribution and for thirty days thereafter and at the offices of the Alberta Securities Commission, Suite 410, 300 - 5th Avenue S.W., Calgary,

Alberta, T2P 3C4 and at the offices of the Alberta Securities Commission at 19th Floor, 10025 Jasper Avenue, Edmonton, Alberta, T5J 3Z5.

### Reserves Reconciliation

The following table summarizes the changes in the Corporation's gross share of crude oil and natural gas reserves, before deduction of royalties owned by others, from December 31, 1999 to September 1, 2000.

	Crude oil (Mbbls)			Natural gas (Bcf)		
	Proved	Probable Additional <sup>(1)</sup>	Total	Proved	Probable Additional <sup>(1)</sup>	Total
<b>Total at December 31, 1999</b>	65	152	217	4.54	0.32	4.86
Acquisitions <sup>(2)</sup>	165	59	224	1.13	0.33	1.46
Dispositions	-	-	-	-	-	-
Discoveries	34	25	59	1.31	0.18	1.49
Production	(16)	-	(16)	(0.39)	-	(0.39)
Revisions	15	(18)	(3)	(1.52)	(0.03)	(1.55)
<b>Total at September 31, 2000</b>	<u>263</u>	<u>218</u>	<u>481</u>	<u>5.07</u>	<u>0.80</u>	<u>5.87</u>

Notes:

- (1) Probable Additional Reserves have been reduced by 50%.
- (2) Includes the acquisition of the Clanrob Assets.

### Undeveloped Lands

The following table sets out the Corporation's undeveloped land holdings as at December 31, 2000.

	<u>Gross<sup>(1)</sup></u>	<u>Net<sup>(2)</sup></u>
	(acres)	
Saskatchewan	93,542	26,001

Notes:

- (1) "Gross" refers to the total acres in which the Corporation has an interest.
- (2) "Net" refers to the total acres in which the Corporation has an interest, multiplied by the percentage working interest therein owned by the Corporation.
- (3) Of these undeveloped lands, 74,305 gross acres (14,688 net) were acquired in connection with the Clanrob Acquisition.

### Oil and Gas Wells

The following table sets forth the number and status of wells in which the Corporation had a working interest as at September 30, 2000, which are producing or which the Corporation considers to be capable of production.

	Producing				Shut-in <sup>(1)</sup>			
	Crude Oil		Natural Gas		Crude Oil		Natural Gas	
	<u>Gross<sup>(2)</sup></u>	<u>Net<sup>(3)</sup></u>	<u>Gross<sup>(2)</sup></u>	<u>Net<sup>(3)</sup></u>	<u>Gross<sup>(2)</sup></u>	<u>Net<sup>(3)</sup></u>	<u>Gross<sup>(2)</sup></u>	<u>Net<sup>(3)</sup></u>
<b>Saskatchewan</b>								
Smiley	18	10.43	9	3.91	4	2.50	3	0.68
Ingoldsby	3	0.85	-	-	1	0.39	-	-
Brock	1	0.45	4	1.80	-	-	-	-
Coleville	1	1.00	5	3.42	1	1.00	1	1.00
<b>Total Saskatchewan</b>	<u>23</u>	<u>12.73</u>	<u>18</u>	<u>9.13</u>	<u>6</u>	<u>3.89</u>	<u>4</u>	<u>1.68</u>

Notes:

- (1) "Shut-in" wells means wells which have encountered and are capable of producing crude oil or natural gas but which are not producing due to lack of available transportation facilities, available markets or other reasons. Shut-in natural gas wells in which True has an interest are located no further than four kilometers from gathering systems, pipelines or other means of transportation. See "Business and Properties of the Corporation - Principal Properties".
- (2) "Gross" wells are defined as the total number of wells in which the Corporation has an interest.
- (3) "Net" wells are defined as the aggregate of the numbers obtained by multiplying each gross well by the Corporation'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,	
	2000	1999	2000	1999	2000	1999	2000	1999
Average Daily Production								
Crude oil (Bbls/d)	56	33	49	48	86	153	(3)	43
Natural gas (Mcf/d)	1,681	2,776	1,217	2,321	1,440	1,633	(3)	1,770
Combined (BOE)	224	310	170	280	230	316	(3)	220
Average Prices Received								
Crude oil (\$/Bbl)	36.25	15.56	35.31	15.99	38.13	19.04	(3)	30.49
Natural gas (\$/Mmcf)	2.68	1.92	2.80	2.09	3.33	2.33	(3)	2.51
Combined (\$/BOE)	29.15	18.81	30.10	20.04	35.13	21.22	(3)	26.14
Royalties (\$/BOE)	5.94	6.11	7.51	6.57	8.27	6.52	(3)	7.98
Operating Expenses (\$/BOE) <sup>(1)</sup>	5.53	3.57	8.15	2.96	11.49	4.00	(3)	5.29
Netback Received (\$/BOE)	17.68	9.13	14.44	10.51	15.37	10.70	(3)	12.87
Capital Expenditures (thousands of \$) <sup>(2)</sup>	204	191	500	173	4,197	179	(3)	(118)

Notes:

- (1) Includes all field operating expenses.
- (2) The capital expenditures incurred by the Corporation do not include expenditures incurred prior to August 31, 2000 in connection with the Clanrob Assets acquired in connection with the Amalgamation. Capital expenditures incurred in respect of the Clanrob Assets were \$462,916 for the eight months ended August 31, 2000 and \$505,674 for the twelve months ended December 31, 1999, which amounts are not included in the above table.
- (3) Not available as True's financial statements for the year ended December 31, 2000 have not been completed.

The mix of crude oil production for the nine months ended September 30, 2000 was approximately 30% light quality crude oil (32° API or greater) and 70% heavy quality crude oil (10° API to 13° API).

### Drilling History

The following table sets forth the gross and net wells in which the Corporation participated during the periods indicated.

	Nine Months Ended September 30,				Twelve Months Ended December 31,			
	2000		1999		1999		1998	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Crude Oil	3	3.0	-	-	-	-	-	-
Natural Gas	4	4.0	1	1.0	6	2.0	8	3.4
Dry and Abandoned	1	1.0	-	-	-	-	2	0.8
<b>Total</b>	<b>8</b>	<b>8.0</b>	<b>1</b>	<b>1.0</b>	<b>6</b>	<b>2.0</b>	<b>10</b>	<b>4.2</b>

Notes:

- (1) "Gross Wells" means the number of wells in which the Corporation had an interest.
- (2) "Net Wells" means the aggregate of the numbers obtained by multiplying each gross well by the Corporation's percentage working interest therein.
- (3) In addition, Clanrob, in respect of the Clanrob Assets, participated in two gross (0.74 net) natural gas wells in the twelve months ended December 31, 1999 and one gross (0.25 net) crude oil well in the eight months ended August 31, 2000, which are not included in the above table.

## Marketing

The Corporation's natural gas marketing strategy for 2001 is to sell the majority of the Corporation's existing and future gas production on a spot basis. The strategy includes the fixing of differentials in pricing from the AECO gas price based on Saskatchewan deliveries and possibly entering into fixed price or collared price transactions. The Corporation currently plans to utilize this strategy to the end of 2001, coinciding with existing fixed price contracts that have obligations that will be filled during the same period.

The Corporation has in place a prepaid contract for future delivery of natural gas that commenced 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 two year period. On March 17, 1999 and December 2, 1999, amending agreements were entered into which suspended delivery of any gas for the ten months from March 1 to December 31, 1999. Volumes were delivered from January 1, 2000 until May 31, 2000 at which time the purchaser agreed to suspend payments until December 31, 2000, when gas deliveries recommenced at 1,000 gigajoules per day. The Corporation's scheduled delivery obligations and the corresponding annual amortization is described in note (6) to the Corporation's Financial Statements included elsewhere herein. If the Corporation does not make delivery of 1,000 gigajoules per day determined on a monthly basis, interest at 2% above the prime rate will be charged for any deliveries not made and will accrue from the date delivery was due until made.

The Corporation entered into a prepaid gas contract for 3,000 gigajoules per day for the period February 1, 2001 to December 31, 2001. The contract provides a floor price of Cdn. \$7.50 per gigajoule at AECO and a ceiling price of Cdn. \$8.50 per gigajoule at AECO. This transaction was required to satisfy a condition imposed by True's lender in connection with True's bank credit facility to be used for the acquisition of Marengo.

The Corporation's strategy for crude oil production is to hedge up to 30% of existing production at the discretion of management. Currently, none of the Corporation's crude oil production is hedged.

## Capital Expenditures

The following table summarizes the capital expenditures incurred by the Corporation during the periods indicated. The expenditures do not include expenditures incurred prior to August 31, 2000 in connection with the Clanrob Assets acquired in connection with the Amalgamation (see Note (1) to the table).

	Nine Months Ended September 30,		Twelve Months Ended December 31,		
	2000	1999	1999	1998	1997
			(in dollars)		
Acquisition of petroleum and natural gas rights	1,209,305	106,790	(85,327)	1,136,493	-
Geological and geophysical	121,495	31,346	51,798	125,507	-
Exploration and development drilling	1,998,730	314,045	279,528	1,082,838	-
Production facilities	1,570,716	91,283	78,467	996,981	-
<b>Total</b>	4,900,246	543,464	324,466	3,341,819	-
Net proceeds on disposition	-	-	30,001	-	-

Note:

- (1) Capital expenditures incurred by Clanrob in respect of the Clanrob Assets were \$462,916 for the eight months ended August 31, 2000 and \$505,674 for the twelve months ended December 31, 1999, which amounts are not included in the above table.

## Acquisitions and Dispositions

There were no material acquisitions or dispositions by the Corporation or its predecessors within the last two years except as described under "True Energy Inc. - History" and "Business and Properties of the Corporation".

### THE ACQUISITION - MARENGO EXPLORATION LTD.

#### The Offer

On January 8, 2001, True and Marengo jointly announced that they had entered into an agreement pursuant to which True agreed to make the Offer to acquire all of the outstanding Class A Shares and Class B Shares of Marengo. On February 5, 2001, True closed the private placement of the Special Warrants, the proceeds of which will be used by True to pay a portion of the cash consideration pursuant to the Offer (see "Use of Proceeds").

On February 6, 2001, the Corporation made the Offer to purchase all of the outstanding Class A Shares and all of the outstanding Class B Shares of Marengo on the basis of, at the election of the Marengo shareholder: (a) in the case of Class A Shares: \$2.05 in cash or 1.71 Common Shares (subject to a maximum of 774,000 Common Shares) or a combination thereof, for each Class A Share deposited under the Offer; and (b) in the case of Class B Shares: \$9.00 in cash or 7.5 Common Shares (subject to a maximum of 226,000 Common Shares) or a combination thereof, for each Class B Share deposited under the Offer. The Offer expired on February 28, 2001 and in connection therewith True took up and paid for approximately 99% of the outstanding Class A Shares and 95% of the outstanding Class B Shares and intends to take steps to acquire the balance of each class of shares pursuant to the compulsory acquisition provisions of the *Business Corporations Act* (Alberta).

Included elsewhere herein are the Financial Statements of Marengo for the three years ended December 31, 1999 and for the nine months ended September 30, 2000 and 1999 (unaudited), as well as Pro Forma Financial Statements of True after giving effect to the acquisition of Marengo.

#### Business and Properties of Marengo

The following is a description of business and properties of Marengo. Information concerning Marengo contained herein has been taken from or is based primarily upon publicly available documents and records of Marengo on file with Canadian securities regulatory authorities and other public sources or is based upon information which has been provided to the Corporation by Marengo.

Marengo is engaged in the exploration for and development and production of petroleum and natural gas in primarily Saskatchewan.

#### Principal Properties

The following is a description of Marengo's principal oil and natural gas properties. The term "net", when used to describe Marengo's share of production, means the total of Marengo's working interest share before deducting royalties owned by others. Reserve amounts are stated, before deduction of royalties, at January 1, 2001 based on escalating cost and price assumptions as evaluated in the reports prepared by Paddock Lindstrom and Associates Ltd. (see "Oil and Natural Gas Reserves"). Information in respect of gross and net acres are as at December 31, 2000 and well counts are as at December 31, 2000, except where indicated otherwise. Information in respect of production is average production, net to Marengo, for the month of October, 2000, except where indicated otherwise.

#### *Milton/Hoosier, Saskatchewan*

The Milton/Hoosier property is located approximately 30 miles west of Kindersley, Saskatchewan and consists of 12,920 gross (6,076 net) acres. Marengo has 16 producing oil wells (7.24 net) and six producing natural gas wells (3.49 net) on the property. Average production for the month of October was 236 Bbls/d of crude oil and 3.7 Mmcf/d of natural gas.

The Milton/Hoosier property includes Marengo's main producing assets and produces both heavy oil and natural gas. Production is mainly from the Bakken and Detrital formations. All of the oil is tank treated at the wellhead and the water and sales oil is then trucked for final sales. Marengo owns two 3D seismic programs on the lands and has identified six drilling locations in the area.

*Eyre, Saskatchewan*

The Eyre property is located approximately 45 miles southwest of Kindersley, Saskatchewan and consists of 7,040 gross (4,339 net) acres. Marengo has one producing natural gas well (0.75 net) and four shut-in natural gas wells (2.81 net) on the property.

Production from the property commenced in late December with the first well being tied-in and placed on production at a rate of 500 Mcf/d. The additional four wells that were drilled during 2000 will be placed on production prior to spring break-up and gas produced from the wells is committed to a contract with AltaGas Services Ltd. ("AltaGas") that is outlined under "Marketing".

This property produces from both the Viking and Colony formations and was earned through a farm-in to an oil and gas producer. The farm-in is a rolling option that is subject to a convertible royalty. The gas wells are convertible, at the option of the farmor, from a 15% overriding royalty to a 25% working interest following a production test. At this time, none of the wells have been converted. Marengo anticipates drilling up to four additional wells on these lands during the coming year.

*Smiley, Saskatchewan*

The Smiley property is located approximately 35 miles northwest of Kindersley, Saskatchewan and consists of 5,520 gross (2,275 net) acres. Marengo has 16 producing oil wells (4.12 net) and one producing natural gas well (0.38 net) on the property. Average production for the month of October was 87 Bbls/d of crude oil and 190 Mcf/d of natural gas.

The area consists of non-operated properties with the majority of the properties producing from the Bakken formation. The operators have identified a number of development locations that Marengo anticipates will be proposed during the coming year as well as a water flood for the North Smiley pool.

*Marengo, Saskatchewan*

The Marengo property is located approximately 36 miles west of Kindersley, Saskatchewan and consist of 9,920 gross (7,975 net) acres. Marengo has three producing natural gas wells (2.13 net) on the property. Average production for the month of October was 8 Bbls/d of crude oil and 300 Mmcf/d of natural gas.

The Marengo property includes three shut-in natural gas wells (2.27 net) that will be evaluated for future tie-ins to new facilities in the area. Marengo has also identified a number of exploration prospects in the area that it currently intends to drill during the next 24 months.

**Oil and Natural Gas Reserves**

Paddock, Lindstrom and Associates Ltd. ("Paddock"), independent petroleum consultants of Calgary, Alberta, prepared reports dated March 21, 2001 (the "Paddock Report"), evaluating effective January 1, 2001, the petroleum and natural gas reserves attributable to substantially all of the properties of Marengo. The following table summarizes Paddock's evaluation of Marengo's interest in reserves and future net production revenue from these reserves. All evaluations of future net production **revenues set forth in the table are stated prior to any provision for income tax and indirect costs. It should not be assumed that the present worth of future net cash flow represents fair market value of the reserves.**

**Petroleum and Natural Gas Reserves and Net Pre-Tax Cash Flows**  
(Based on Escalating Cost and Price Assumptions)

	Marengo's Interest in Reserves				Present worth of future net pre-tax cash flows			
	Crude Oil (Mbbls)		Natural Gas (Bcf)		Undiscounted	Discounted at		
	Gross	Net	Gross	Net		(millions)		
					10%	15%	20%	
Proved								
Producing	319.2	268.8	2.47	1.70	9.13	7.74	7.24	6.82
Non-Producing	--	--	4.52	2.83	6.10	4.64	4.16	3.78
Total Proved	319.2	268.8	6.98	4.53	15.23	12.38	11.40	10.60
Probable Additional	178.5	150.2	0.34	0.24	1.89	0.99	0.79	0.66
Total	497.7	419.0	7.32	4.77	17.12	13.37	12.19	11.26

**Petroleum and Natural Gas Reserves and Net Pre-Tax Cash Flows**  
(Based on Constant Cost and Price Assumptions)

	Marengo's Interest in Reserves				Present worth of future net pre-tax cash flows			
	Crude Oil (Mbbbls)		Natural Gas (Bcf)		Undiscounted	Discounted at		
	Gross	Net	Gross	Net		10%	15%	20%
	(millions)							
Proved								
Producing	237.8	196.3	2.47	1.65	17.05	13.89	12.80	11.91
Non-Producing	--	--	4.52	2.70	25.71	18.37	16.10	14.35
Total Proved	237.8	196.3	6.99	4.35	42.76	32.26	28.90	26.26
Probable Additional	149.5	124.4	0.33	0.24	2.12	1.12	0.92	0.77
Total	387.3	320.7	7.32	4.59	44.88	33.38	29.82	27.03

## Notes:

- (1) Columns may not add due to rounding.
- (2) "Gross" means the total of Marengo's working interest and/or royalty interest share before royalties owned by others.

"Net" means the total of Marengo's working interest and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

"Royalties" refers to royalties paid to others. The royalties deducted from the reserves are based on the percentage royalty calculated by applying the applicable royalty rate or formula. In the case of Crown sliding scale royalties which are dependent on selling prices, the price forecasts for the individual properties in question have been employed.

"Proved Reserves" means those reserves estimated as recoverable under current technology and anticipated economic conditions (or existing economic conditions for the constant dollar case), from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

"Probable Additional Reserves" means those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and anticipated economic conditions (or existing economic conditions for the constant dollar case), but where such analysis suggests the likelihood of their existence and future recovery under current technology and existing or anticipated economic conditions. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future. **The Probable Additional Reserves and the estimated present worth thereof set forth above have been risk-weighted by 50% to take into account the risk factors associated with the recovery thereof.**

"Proved Producing Reserves" means those Proved Reserves that are actually on production or, if not producing, that could be recovered from existing wells or facilities and where the reasons for the current non-producing status is the choice of the owner rather than the lack of markets or some other reasons.

"Proved Non-Producing Reserves" means those Proved Reserves that are not currently producing either due to lack of facilities and/or markets.

- (3) The escalating cost and price assumptions assume the continuance of current laws and regulations and increases in wellhead selling prices, and take into account inflation with respect to future operating capital costs. In the Paddock Report operating costs are assumed to escalate at 2.0% per annum. Crude oil and natural gas base case prices as forecast by Paddock effective January 1, 2001 are as follows:

Year	Exchange Rate \$US/\$ Cdn.	Crude Oil			Natural Gas	
		WTI Cushing Oklahoma <sup>(a)</sup> \$Cdn/Bbl	Light Sweet at Edmonton <sup>(b)</sup> \$ Cdn/Bbl	Medium at Hardisty <sup>(c)</sup> \$ Cdn/Bbl	AECO C \$/mmbtu	Saskatchewan Plant Gate Spot \$/mmbtu
2001	1.52	40.91	39.91	30.41	7.35	6.90
2002	1.49	35.82	34.80	27.30	5.36	5.10
2003	1.47	33.82	32.78	26.78	4.89	4.73
2004	1.45	33.33	32.27	26.15	4.44	4.38

Year	Exchange Rate	Crude Oil			Natural Gas	
		WTI Cushing Oklahoma <sup>(a)</sup>	Light Sweet at Edmonton <sup>(b)</sup>	Medium at Hardisty <sup>(c)</sup>	AECO C	Saskatchewan Plant Gate Spot
2005	1.43	33.51	32.43	26.19	4.45	4.39
2006	1.43	34.18	33.03	26.71	4.54	4.47
2007	1.43	34.87	33.74	27.25	4.63	4.56
2008	1.43	35.57	34.42	27.79	4.72	4.65
2009	1.43	36.28	35.11	28.35	4.82	4.74
2010	1.43	37.00	35.81	28.92	4.91	4.83
2011	1.43	37.74	36.52	29.49	5.01	4.93
2012	1.43	38.50	37.25	30.08	5.11	5.03
2013	1.43	39.27	38.00	30.69	5.21	5.12
2014	1.43	40.05	38.76	31.30	5.32	5.22
2015	1.43	40.85	39.53	31.92	5.43	5.33

Notes:

- a. WTI prices estimated above represent NYMEX 30 day futures prices.
- b. 40° API, 0.3% S.
- c. 25.6° API, 2.1% S.
- d. All references to "\$" are \$CDN unless indicated otherwise.

- (4) Product prices used in the constant price evaluation were based on the corporate average prices received in December, 2000, being \$13.53/BBL for oil and \$12.37/MCF for gas. The constant price assumptions assume the continuance of current laws, regulations and operating costs in effect on the date of the Paddock Report. Product prices were not escalated beyond 2001. In addition, operating and capital costs have not been increased on an inflationary basis.
- (5) Royalty credits under the ARTC are included, as applicable.
- (6) The Paddock Report estimates the future capital expenditures necessary to achieve the estimated present worth of future net cash flows based on escalating costs from Proved and Probable Additional Reserves to be an aggregate of \$1,053,000, of which \$625,000 is to be expended in 2001, \$140,000 is to be expended in 2002 and \$288,000 thereafter (or based on constant costs: an aggregate of \$986,000, of which \$611,000 is to be expended in 2001, \$137,000 is to be expended in 2002 and \$238,000 thereafter).
- (7) Substantially all of the Proved Producing Reserves evaluated in the Paddock Report were on production at January 1, 2001.
- (8) The extent and character and all factual data supplied to Paddock were accepted by Paddock as represented. The crude oil and natural gas reserve calculations and any projections upon which the Paddock Report is based were determined in accordance with generally accepted evaluation practices. No field inspection was conducted. Salvage values for facilities, well abandonment and lease clean-up costs have not been included in the Paddock Report.

Copies of the Paddock Report are available for inspection at the head office of the Corporation and the offices of Stikeman Elliott, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario, M5L 1B9, during normal business hours during the period of distribution and for thirty days thereafter and at the offices of the Alberta Securities Commission, Suite 410, 300 - 5th Avenue S.W., Calgary, Alberta, T2P 3C4 and at the offices of the Alberta Securities Commission at 19th Floor, 10025 Jasper Avenue, Edmonton, Alberta, T5J 3Z5.

### ***Undeveloped Lands***

The following table sets out Marengo's estimated undeveloped land holdings as at December 31, 2000.

	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
	(acres)	
Saskatchewan	13,850	9,000
Alberta	2,954	1,920
<b>Total</b>	<b>16,804</b>	<b>10,920</b>

Notes:

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

### Oil and Gas Wells

The following table sets forth the number and status of wells in which Marengo had a working interest as at December 31, 2000, which are producing or which Marengo considers to be capable of production.

	Producing				Shut-in <sup>(1)</sup>			
	Crude Oil		Natural Gas		Crude Oil		Natural Gas	
	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>
Marengo	-	-	3	2.13	1	0.56	3	2.27
Smiley	16	4.12	1	0.38	2	0.97	-	-
Milton/Hoosier	16	7.24	6	3.49	3	0.89	1	0.25
Eyre	-	-	1	0.75	-	-	4	2.81
Total Saskatchewan	32	11.36	11	6.75	6	2.42	8	5.33

Notes:

- (1) "Shut-in" wells means wells which have encountered and are capable of producing crude oil or natural gas but which are not producing due to lack of available transportation facilities, available markets or other reasons. Shut-in natural gas wells in which Marengo has an interest are located no further than four kilometers from gathering systems, pipelines or other means of transportation. See "Business and Properties of Marengo - Principal Properties".  
 (2) "Gross" wells are defined as the total number of wells in which Marengo has an interest.  
 (3) "Net" wells are defined as the aggregate of the numbers obtained by multiplying each gross well by Marengo'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 Marengo for each quarter in the most recently completed financial year, 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,	
	2000	1999	2000	1999	2000	1999	2000	1999
Average Daily Production								
Crude oil (Bbls/d)	153	64	258	55	254	116	(2)	94
Natural gas (Mcf/d)	3,434	2,118	3,604	1,954	5,279	1,803	(2)	1,993
Combined (BOE/d)	496	276	618	251	782	296	(2)	293
Average Prices Received (\$/BOE)								
Crude oil (\$/Bbl)	30.24	13.42	30.68	37.20	33.36	23.59	(2)	26.97
Natural gas (\$/Mmcf)	2.63	2.96	4.70	3.16	5.51	1.71	(2)	3.03
Combined (\$/BOE)	27.52	25.84	40.19	32.87	48.02	19.66	(2)	29.25
Royalties (\$/BOE)	7.21	7.24	8.04	9.32	11.30	5.50	(2)	8.97
Operating Expenses (\$/BOE) <sup>(1)</sup>	6.66	7.04	6.93	7.75	6.39	4.40	(2)	10.06
Netback Received (\$/BOE)	13.65	11.56	25.22	15.80	30.33	9.76	(2)	10.22
Capital Expenditures (thousands of \$)	895	134	1,003	373	634	239	(2)	2,288

Notes:

- (1) Includes all field operating expenses.  
 (2) Not available as Marengo's financial statements for the year ended December 31, 2000 have not been completed.

All of Marengo's crude oil production for the nine months ended September 30, 2000 was heavy crude oil (10° API to 13° API).

### *Drilling History*

The following table sets forth the gross and net wells in which Marengo participated during the periods indicated.

	Nine Months Ended September 30,				Twelve Months Ended December 31,			
	2000		1999		1999		1998	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Crude Oil	2	0.96	1	0.50	9	3.83	2	1.60
Natural Gas	3	1.98	-	-	3	2.06	5	3.10
Dry and Abandoned	1	0.75	-	-	2	1.25	9	6.05
<b>Total</b>	<b>6</b>	<b>3.69</b>	<b>1</b>	<b>0.50</b>	<b>14</b>	<b>7.14</b>	<b>16</b>	<b>10.75</b>

Notes:

- (1) "Gross Wells" means the number of wells in which Marengo had an interest.
- (2) "Net Wells" means the aggregate of the numbers obtained by multiplying each gross well by Marengo's percentage working interest therein.

### *Marketing*

Currently, all of Marengo's natural gas sales are on a spot basis which results in the price received by Marengo being the posted AECO gas price less an adjustment for the Saskatchewan delivery point. None of Marengo's natural gas is currently hedged. New production from the Eyre area will be committed to an AltaGas purchase agreement pursuant to which the first Bcf of gas produced from the property will be subject to a \$1.20 per Mcf charge for gathering, transportation and marketing and 1/2% of net gas sales proceeds. In consideration for the charge AltaGas will provide all facilities to tie-in and deliver the gas from the property. After the one Bcf of gas has been delivered, AltaGas will charge a normal gathering and processing fee which is anticipated to be approximately \$0.50 per Mcf.

Currently, none of Marengo's crude oil production is hedged.

### *Capital Expenditures*

The following table summarizes the capital expenditures incurred by Marengo during the periods indicated.

	Nine Months Ended September 30,		Twelve Months Ended December 31,		
	2000	1999	1999	1998	1997
	(in dollars)				
Acquisition of petroleum and natural gas rights	594,000	233,000	482,000	300,000	83,000
Geological and geophysical	197,000	128,000	138,000	590,000	236,000
Exploration and development drilling	1,067,000	207,000	2,110,000	2,408,000	374,000
Production facilities and other	677,000	178,000	304,000	623,000	115,000
<b>Total</b>	<b>2,532,000</b>	<b>746,000</b>	<b>3,034,000</b>	<b>3,921,000</b>	<b>808,000</b>
Net proceeds on disposition	-	-	-	-	-

### *Acquisitions and Dispositions*

There were no material acquisitions or dispositions by Marengo or its predecessors within the last two years except as described under "Business and Properties of Marengo".

## USE OF PROCEEDS

Upon closing of the issuance of the Special Warrants, all proceeds from the sale of the Special Warrants, other than in respect of the Non-Repurchase Special Warrants (the "Escrowed Funds") were deposited and held by the Trustee pursuant to the terms of the Special Warrant Indenture. The Escrowed Funds were released to the Corporation on February 28, 2001 upon receipt by the Trustee of the Closing Notice from the Corporation and acknowledged by the Underwriters releasing the Escrowed Funds to the Corporation in connection with the Corporation taking up and paying for not less than 66⅔% of the outstanding Class A Shares (on a fully diluted basis) and 66⅔% of the outstanding Class B Shares pursuant to the Offer. Subscription proceeds in respect of the Non-Repurchased Special Warrants were released to the Corporation on closing of the offering of the Special Warrants.

The net proceeds from the issuance of the Special Warrants of approximately \$4,650,000 after deducting the fees payable to the Underwriters and estimated expenses of the issue, were used by the Corporation to pay a portion of the cash consideration pursuant to the Offer to acquire the outstanding Class A Shares and Class B Shares of Marengo. See "The Acquisition" and "Use of Proceeds".

## DESCRIPTION OF SHARE CAPITAL

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As at February 28, 2001 (prior to giving effect to the issuance of any Common Shares pursuant to the Offer), there were 12,574,934 Common Shares issued and outstanding and 1,405,000 Common Shares were reserved for issuance pursuant to outstanding stock options. No preferred shares are issued or outstanding.

The following is a summary of the rights, privileges, restrictions and conditions attaching to each class of shares of the Corporation.

### Common Shares

Subject to the provisions of the ABCA, the holders of the Common Shares are entitled to receive notice of, to attend and vote at all meetings of the shareholders of the Corporation and are entitled to one vote on a ballot for each Common Share held.

Subject to the payment of preferential dividends, if any, on the preferred shares, the holders of the Common Shares are entitled to receive any dividend declared by the Corporation on the Common Shares, except that the Corporation is entitled to declare dividends on the preferred shares or on any of such classes of shares without being obliged to declare any dividends on the Shares.

Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, holders of the Common Shares are entitled to receive the remaining property of the Corporation upon dissolution.

### Preferred Shares

The Corporation is authorized to issue an unlimited number of preferred shares issuable in series, each series consisting of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the board of directors of the Corporation prior to the issuance thereof. With respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the preferred shares are entitled to preferences over the Common Shares and any other shares ranking junior to the preferred shares and may also be given such other preferences over the Common Shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of each series. At the date hereof, no series of preferred shares have been created.

## CAPITALIZATION

The following table sets forth the capitalization of the Corporation as at September 30, 2000 and as at February 28, 2001, both before and after giving effect to the Offer and the issuance and exercise of the Special Warrants.

	As at September 30, 2000 (unaudited)	As at February 28, 2001 prior to giving effect to the Offer and the issuance of the Special Warrants (unaudited)	As at February 28, 2001 after giving effect to the Offer and the exercise of the Special Warrants <sup>(1)</sup> (unaudited)
<u>Authorized</u>			
Bank Debt <sup>(2)</sup>	nil	nil	\$ 10,275,666
Prepaid Contract <sup>(3)</sup>	\$ 870,200	\$ 758,100	\$ 758,100
Shareholders' Equity			
Preferred Shares (unlimited)	nil	nil	nil
Common Shares (unlimited)	\$ 5,913,370 (10,649,934 shs.)	\$ 8,575,570 (12,574,934 shs.)	\$ 14,682,154 (17,741,601 shs.)

Notes:

- (1) Assumes 1,000,000 Common Shares are issued pursuant to the Offer and cash consideration of an aggregate of \$14,925,666 is paid to holders of Marengo Shares pursuant to the Offer. Also assumes that all Special Warrants are exercised into one Common Share per Special Warrant. If it is assumed only the certain shareholders of Marengo that entered into Lockup Agreements with True exchange the minimum 5% of their Marengo Shares for Common Shares, the bank debt would be \$11,092,980, shareholders' equity in Common Shares would be \$13,864,287 and the number of outstanding Common Shares would be 17,060,045 at January 31, 2001.
- (2) The Corporation has a revolving reducing demand loan with a Canadian chartered bank in the amount of \$11,300,000, with availability reducing at \$750,000 per month commencing February 28, 2001. The monthly reduction has been waived pending review of the facility. Interest is payable at the bank's prime rate plus three-quarters of one percent per annum (BA's at 1¾% per annum stamping fee). The facility is secured by a general assignment of book debts, a fixed and floating charge debenture and supplemental debenture with an undertaking to provide fixed charges over major petroleum and natural gas reserves, a hypothecation and pledge of acquired Marengo Shares and a limited guarantee from Marengo, supported by certain security including a floating charge debenture from Marengo, an undertaking to provide fixed charges, a general assignment of book debts and assignment of material contracts. The facility is to be reviewed no later than March 31, 2001, however, the Corporation has been advised by its bank that, subject to credit committee approval, the review date may be deferred to May 31, 2001.
- (3) See "Business and Properties of the Corporation - Marketing" for a description of the prepaid gas contract.
- (4) As at February 28, 2001, 1,405,000 Common Shares have been reserved for issuance on exercise of outstanding stock options (see "Stock Options").
- (5) As at September 30, 2000, the Corporation had a deficit of \$464,093, future tax liability of \$265,950 and a provision for future site restoration and abandonment in the amount of \$71,947.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

The Corporation was formed effective August 31, 2000 pursuant to the Amalgamation of Sundance, Holdco and Newco. The transaction was accounted for as an acquisition by Sundance of each of Holdco and Newco and therefore the historical financial statements of the Corporation are the financial statements of its predecessor, Sundance. Included elsewhere herein are Financial Statements for the Corporation for the three years ended December 31, 1999 and the nine months ended September 30, 2000 and 1999 (unaudited). Also included elsewhere herein are schedules of revenues, operating costs and capital expenditures relating to the Clanrob Assets for the year ended December 31, 1999 and the eight months ended August 31, 2000 (unaudited) and Pro Forma Financial Statements for the Corporation after giving effect to the Amalgamation and the acquisition of Marengo and other transactions and adjustments as described therein for the year ended December 31, 1999 and for the nine months ended September 30, 2000. The following is a summary of the variations in the Corporation's operating results for the periods indicated. In 1997, revenue of the Corporation was limited to interest and its expenses were limited to general and administrative expenses, as it had not yet commenced oil and gas operations in such year.

**Selected Annual and Nine Month Information**

	<b>Nine Months Ended</b>	<b>Year Ended December 31,</b>	
	<b>September 30, 2000</b>	<b>1999</b>	<b>1998</b>
	(unaudited)		
	(thousands of \$, except per share amounts which are \$)		
Oil and gas sales (net of royalties)	1,333	1,521	580
Net earnings (loss)	(46)	(142)	(203)
Net earnings (loss) per share <sup>(1)</sup>			
Basic	(0.01)	(0.02)	(0.06)
Funds from operations	298	589	42
Funds from operations per share <sup>(1)</sup>			
Basic	0.03	0.10	0.01
Total assets	11,003	4,169	3,714
Long term debt (includes prepaid contract) <sup>(2)</sup>	870	1,284	2,141
Shareholders' equity	5,449	1,197	515

Notes:

- (1) Fully diluted numbers are not disclosed as they are considered anti-dilutive.  
(2) Includes current portion of prepaid contract and bank debt.

**Selected Quarterly Information**

	<b>2000</b>			<b>1999</b>			<b>1998</b>	
	<u>Sept 30</u>	<u>June 30</u>	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sept 30</u>	<u>June 30</u>	<u>Mar 31</u>	<u>Dec 31</u>
	(thousands of \$, except per share amounts which are \$)							
Oil and gas sales	570	413	350	331	399	415	376	358
(net of royalties)								
Net earnings (loss)	(37)	(28)	19	(347)	59	95	51	18
Net earnings (loss) per share <sup>(1)</sup>								
Basic	(0.01)	-	-	(0.06)	-	0.03	0.01	-
Funds from operations	173	86	39	97	218	217	57	115
Funds from operations per share <sup>(1)</sup>								
Basic	0.02	0.01	-	0.01	0.04	0.04	0.01	0.03

Note:

- (1) Fully diluted numbers are not disclosed as they are considered anti-dilutive.

**Nine Months Ended September 30, 2000 Compared to Nine Months Ended September 30, 1999**

Oil and gas revenue (including interest) increased slightly for the nine month period ended September 30, 2000 to \$1,411,358 compared to \$1,233,454 for the same period in 1999. This increase was primarily a result of higher commodity prices as the overall production volumes in the first nine months of 2000 decreased to an average of 203 BOE/d from 324 BOE/d for the same period in 1999. The average gas and oil price for the period was \$2.96/Mcf and \$37.02/Bbl, respectively, compared to \$2.09/Mcf and \$16.76/Bbl for the same period in 1999.

Operating expenses for the nine month period ended September 30, 2000 increased to \$436,183 compared to \$266,535 for the same period in 1999. This increase was primarily due to increased workovers of existing wellbores and a reduction in production volumes spread over the same amount of fixed costs. The Corporation anticipates that fixed costs will be reduced on a per unit basis as increased volumes are brought on production. General and administrative expenses increased to \$367,996 for the first nine months ended September 30, 2000 compared to \$320,642 for the same period in 1999. This increase was mainly due to the addition of employees subsequent to the Amalgamation that was effective August 31, 2000.

The Corporation had a working capital deficiency of \$2,828,535 at September 30, 2000 compared to a deficiency of \$1,022,238 at December 31, 1999. The deficiency increased as a result of the capital program in August and September 2000. Capital assets was also affected by the Amalgamation as well as field activities occurring during the months of August and September 2000, rising to

\$8,967,209 at September 30, 2000 from \$2,810,852 at December 31, 1999. Depletion and depreciation expense rose accordingly from \$400,000 for the first nine months in 1999 to \$591,000 for the nine months ended September 30, 2000. A net loss of \$46,102 was incurred in the first nine months of 2000 compared to net income of \$204,510 for the same period in 1999.

Bank debt was nil at September 30, 2000 compared to \$124,700 at December 31, 1999. At the end of the nine month period ended September 30, 2000, the Corporation had in place a \$1,800,000 revolving operating facility and a \$1,000,000 non-revolving acquisition/development facility with a Canadian chartered bank. The prepaid gas commitment was reduced from \$1,159,000 at December 31, 1999 to \$870,200 at September 30, 2000 as a result of gas deliveries from January 1, 2000 to May 31, 2000. The gas repayment commitments were suspended from June 1, 2000 to December 31, 2000 when the Corporation became obligated to repay 1,000 gigajoules per day of natural gas. See note (6) to the Corporation's Financial Statements included elsewhere herein.

### **Twelve Months Ended December 31, 1999 Compared to Twelve Months Ended December 31, 1998**

Oil and gas revenue (including interest) doubled in the year ended December 31, 1999 to \$1,556,276 compared to \$728,362 during 1998. This increase in revenue was primarily a result of a full year of production in 1999 compared to 1998 when Sundance completed its major transactions as a junior capital pool company in mid-year. Average natural gas production declined from 4.3 Mmcf/d in 1999 to 2.5 Mmcf/d in 1998 while average crude oil production remained constant at 50 Bbls/d.

Operating expenses for the year ended December 31, 1999 were \$378,729 compared to \$346,906 in 1998 as most of the field costs were fixed and the slight decline in production volumes during 1999 did not have a significant impact on costs. General and administrative expenses for 1999 increased from 1998 as a result of costs associated with attempting to raise additional capital during the year. Depreciation and depletion increased in 1999 to \$6.95/BOE from \$1.78/BOE in 1998. This resulted in a loss of \$141,672 in 1999 taking into account the deferred tax provision of \$81,706, which compares to a loss of \$203,144 for 1998.

At December 31, 1999, the Corporation had a working capital deficiency of \$1,022,238 compared to \$463,255 at the end of 1998. The largest component of this difference can be attributed to the inclusion of the prepaid gas contract at December 31, 1999. See note (6) to the Financial Statements of the Corporation included elsewhere herein.

### **Liquidity and Capital Resources**

The Corporation recently arranged for an increased bank facility of \$11,300,000 to help fund the Acquisition (see Note (2) under "Capitalization").

After successfully acquiring Marengo, the Corporation has increased its capital budget to approximately \$10.0 million, utilizing the increased cash flow and its bank facility.

Crude oil and natural gas prices and exchange rates may change significantly due to factors not controllable by True. The table below provides a summary of estimated sensitivities to price and exchange rate fluctuations for the balance of 2000 based on production levels and costs at December 31, 2000.

	<u>Net Income</u>	<u>Cash Flow From Operations</u>
Increase in crude oil price by \$1.00 per Bbl	\$ 47,000	\$ 90,000
Increase in natural gas price by \$0.10 per Mcf	\$ 72,000	\$ 127,000
Increase in value of Canadian dollar compared to U.S. dollar by \$0.01	\$ 12,000	\$ 24,000

All of True's expenditures are subject to the effects of inflation and prices received for the product sold are not readily adjustable to cover any increase in expenses resulting from inflation. True has no control over government intervention or taxation levels in the oil and gas industry.

The provision for abandonment and site restoration costs relating to True's properties was \$71,947 as at September 30, 2000 (\$45,947 as at December 31, 1999). In accordance with the accounting policy adopted by True, the annual provision for abandonment and site restoration is based on a unit of production allocation method.

True estimates that abandonment and site restoration costs for all properties held by True as at December 31, 2000 will total \$411,463. True reviews future abandonment and site restoration costs annually. Provision is made for such costs on a unit-of-production basis and the charge is recorded as part of depletion and depreciation.

True maintains an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts, pollution and other business interruptions. True believes it is in substantial compliance, in all material respects, with current environmental legislation and regularly works with governmental environmental agencies to maintain this level of compliance.

## Trends

There are a number of trends that have been developing in the oil and gas industry during the past 18 months that appear to be shaping the near future of the business. The first 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 currently is experiencing. This can be partly attributed to the outstanding returns that have been experienced in other sectors of the market, however during the last two quarters 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 appreciated in value in relation to the strong commodity prices that the industry is currently experiencing. This may change in the near future as investors look for higher rates of returns, which may encourage them to consider investment in smaller oil and gas companies.

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

The final trend is that when investors become more confident with long term commodity prices for the industry, market values for companies in the industry may also improve.

## DIRECTORS AND OFFICERS

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

Name and Municipality of Residence	Office Held	Period as Director	Principal Occupation
Paul R. Baay Calgary, Alberta	President, Chief Executive Officer and Director	August 31, 2000 - present	President and Chief Executive Officer of the Corporation
Ken P. Acheson, C.A. <sup>(1)(3)</sup> Calgary, Alberta	Director	August 31, 2000 - present	President, Kennington Properties Ltd. (commercial real estate company)
W.C. (Mickey) Dunn <sup>(1)(2)</sup> Edmonton, Alberta	Corporate Secretary and Director	August 31, 2000 - present	Businessman

Name and Municipality of Residence	Office Held	Period as Director	Principal Occupation
John H. Cuthbertson <sup>(3)</sup> Calgary, Alberta	Director	August 31, 2000 - present	Partner, Burnet, Duckworth & Palmer LLP (barristers and solicitors)
Robert G. Rowley, Q.C. <sup>(1)(2)</sup> Calgary, Alberta	Director	August 31, 2000 - present <sup>(4)</sup>	Partner, Macleod Dixon (barristers and solicitors)
Michael S. Vandale Calgary, Alberta	Director	August 31, 2000 - present <sup>(4)</sup>	Chairman and President, Vandale Oil Inc. (a private oil and gas company)
Gordon L. Reese Calgary, Alberta	Vice-President	N/A	Vice-President of the Corporation
C.T. (Clint) Broughton Calgary, Alberta	Vice-President	N/A	Vice-President of the Corporation
Todd R. Klippenstein Calgary, Alberta	Controller	N/A	Controller of the Corporation

## Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance Committee.
- (4) Each of Messrs. Rowley and Vandale were also directors of Sundance prior to the Amalgamation since February 9, 1996.

All of the above directors and officers have held their present principal occupations or other positions with the same organizations listed above for at least the last five years except as described under "Management" and except for Michael S. Vandale, who was the President and Chief Executive Officer of Sundance since its inception until August 31, 2000 and W.C. (Mickey) Dunn, who has been an independent businessman since 1999 and prior thereto, was President and Chief Executive Officer of Cardium Service and Supply Ltd. ("Cardium") from 1981 to 1999. Cardium, through its subsidiaries, was a private international company involved in the engineering, manufacturing and servicing of oilfield equipment as well as the extraction and processing of high grade silica materials.

As at the date hereof, the directors and officers of True, as a group, beneficially own, directly or indirectly, 6,376,848 Common Shares and 297,757 Special Warrants or approximately 38% of the issued and outstanding Common Shares (after giving effect to the exercise of the Special Warrants). See also "Principal Shareholders".

## MANAGEMENT

### *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.

**C.T. (Clint) 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.

**Todd R. Klippenstein, Controller**

Mr. Todd Klippenstein of Calgary, Alberta has been the Controller of the Corporation since October, 2000. Prior thereto, from July 1999, Mr. Klippenstein was Controller of PanAtlas Energy Inc. and prior thereto was Accounting Manager at New Cache Petroleums Ltd. from August 1996 to July 1999. From April 1995 to July 1996 Mr. Klippenstein was accounting supervisor at Ballistic Energy Corporation. Mr. Klippenstein obtained his Bachelor of Commerce Degree from the University of Alberta in 1984.

**EXECUTIVE COMPENSATION**

The Corporation was formed pursuant to the Amalgamation on August 31, 2000. The Corporation has entered into employment agreements effective as of September 1, 2000 (the "Employment Agreements") with each of its executive officers, being Paul R. Baay, the President and Chief Executive Officer of the Corporation, C.T. (Clint) Broughton, Vice-President of the Corporation and Gordon L. Reese, Vice-President of the Corporation (see "Employment Agreements"). Following completion of the Amalgamation, Mr. Baay was granted options to purchase 300,000 Common Shares at an exercise price of \$0.72 per share exercisable for a period of five years. Each of Messrs. Broughton and Reese were granted options to purchase 100,000 Common Shares exercisable at \$0.90 per share exercisable for a period of five years. See "Stock Options".

The following table sets forth certain information regarding the compensation of the Corporation's Chief Executive Officer, its Vice-Presidents and the Chief Executive Officer of Sundance, prior to the Amalgamation (the "Named Executive Officers").

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation <sup>(4)</sup> (\$)	Awards		Payouts	
					Securities Under Options/SARs Granted (#)	Restricted Shares or Restricted Share Units (\$)	LTIP Payouts (\$)	
Paul R. Baay, <sup>(1)</sup> President and Chief Executive Officer	2000	40,000	-	-	300,000	-	-	-
	1999	-	-	-	n/a	-	-	-
	1998	-	-	-	n/a	-	-	-
C.T. (Clint) <sup>(2)</sup> Broughton, Vice-President	2000	40,000	-	-	100,000	-	-	-
	1999	-	-	-	-	-	-	-
	1998	-	-	-	-	-	-	-
Gordon L. Reese <sup>(2)</sup> Vice-President	2000	40,000	-	-	100,000	-	-	-
	1999	-	-	-	-	-	-	-
	1998	-	-	-	-	-	-	-
Michael S. Vandale, <sup>(1)</sup> President, Chief Executive Officer and Chief Financial Officer	2000	-	-	-	200,000 <sup>(3)</sup>	-	-	-
	1999	-	-	-	121,300 <sup>(3)</sup>	-	-	-
	1998	-	-	-	-	-	-	-

Notes:

- (1) Mr. Baay was appointed President and Chief Executive Officer effective August 31, 2000 and Mr. Vandale ceased to be an officer of the Corporation at that date but continued as a director..
- (2) Mr. Broughton and Mr. Reese were appointed as Vice-Presidents effective August 31, 2000.
- (3) The options to purchase 121,300 common shares of Sundance were terminated concurrently with the completion of the Amalgamation and Mr. Vandale was granted options to purchase 200,000 Common Shares exercisable at a price of \$0.72, which options vested immediately.
- (4) The value of perquisites and other personal benefits received was not greater than 10% of the total annual salary and bonus of the Named Executive Officer for the financial year.

### ***Stock Options***

The following table sets forth the options granted to the Named Executive Officers during the most recently completed financial year:

<b>Name</b>	<b>Securities Under Options/SARs Granted #</b>	<b>% of Total Options/SARs Granted to Employees in Financial Year</b>	<b>Exercise or Base Price (\$/Security)</b>	<b>Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)</b>	<b>Expiration Date</b>
Paul R. Baay	300,000	21.3%	\$0.72	(1)	September 1, 2005
C.T. (Clint) Broughton	100,000	7.1%	\$0.90	(1)	October 11, 2005
Gordon L. Reese	100,000	7.1%	\$0.90	(1)	October 11, 2005
Michael S. Vandale	200,000	14.2%	\$0.72	(1)	August 26, 2004

Notes:

- (1) Granted, or agreed to be granted, prior to the trading of the Common Shares following the Amalgamation.

The following table sets forth, with respect to the Named Executive Officers, the number of unexercised stock options and the value of in-the-money stock options at December 31, 2000:

<b>Name</b>	<b>Securities Acquired or Exercised (#)</b>	<b>Aggregated Value Realized (\$)</b>	<b>Unexercised Stock Options/SARs at FY-End (#) Exercisable/Unexercisable</b>	<b>Value of Unexercised in-the-Money Stock Options/SARs at FY-End<sup>(1)</sup> (\$) Exercisable/Unexercisable</b>
Paul R. Baay	nil	nil	300,000/nil	\$174,000/nil
C.T. (Clint) Broughton	nil	nil	nil/100,000	nil/\$40,000
Gordon L. Reese	nil	nil	nil/100,000	nil/\$40,000
Michael S. Vandale	nil	nil	200,000/nil	\$116,000/nil

Notes:

- (1) Based on closing price on December 29, 2000, the last date Common Shares traded before December 31, 2000, less the exercise price.

### ***Employment Agreements***

The Corporation has entered into the Employment Agreements with each of its executive officers, Paul R. Baay, the President and Chief Executive Officer of the Corporation, C. T. (Clint) Broughton, Vice-President of the Corporation and Gordon L. Reese, Vice-President of the Corporation. Pursuant to the Employment Agreements, the Corporation has agreed to pay a salary of \$120,000 per annum to each executive or such greater amount as may be determined at the annual salary review. Each executive is entitled to participate in and receive rights and benefits under the Corporation's stock option plan and the executive is also entitled to participate

in the executive bonus plan to be established by the Corporation. The Employment Agreements with each executive may be terminated by the Corporation upon payment of a severance amount, in lieu of notice, in an amount equal to the executive's then current annual salary if the termination date is on or prior to September 1, 2001, and an amount equal to two times the executive's then current annual salary if the termination date occurs after September 1, 2001. If within three months following the change of control (as defined in the Employment Agreements), the executive's employment is terminated by the Corporation other than for cause, or by the executive following a material adverse change by the Corporation in the duties, powers, rights, salaries, title or location of employment, the executive is entitled to receive a severance amount equal to two times the executive's current annual salary at the time of termination.

### *Directors*

Directors of the Corporation are not paid any cash compensation for acting as directors of the Corporation, but are reimbursed for out-of-pocket expenses incurred in carrying out their duties as directors. The directors of the Corporation may also be granted stock options pursuant to the Corporation's stock option plan (see "Stock Options").

## STOCK OPTIONS

The Corporation has adopted a stock option plan (the "Plan") for officers, directors, employees and consultants of the Corporation and its subsidiary and affiliated companies which permits the granting of options to purchase up to a maximum of 1,500,000 Common Shares (of which, subject to the consent of CDNX, the exercise of options to purchase 147,507 Common Shares is subject to shareholder approval, which number will be reduced on a one-for-ten basis as additional Common Shares are issued). The number of options and the exercise price thereof is set by the board of directors of the Corporation at the time of grant provided that the exercise price shall not be less than the closing sale price for board lots of Common Shares on the trading day immediately prior to the day on which the price is to be determined (or on the last trading day on which there was a closing sale price for board lots of Common Shares). Options granted under the Plan may be exercisable for a period not to exceed five years and may vest at such times as the board of directors of the Corporation may determine at the time of grant, subject to the rules of any stock exchange or other regulatory body having jurisdiction. The Plan also provides that the number of options granted under the Plan shall also not exceed 10% of the outstanding Common Shares in respect of Common Shares issuable pursuant to stock options granted to insiders within a one year period and shall not exceed 5% of the outstanding Common Shares in respect of shares issuable pursuant to stock options granted to any one insider within a one year period. As at February 28, 2001, options to purchase 1,405,000 Common Shares were granted under the Plan and remain outstanding.

The following table sets forth options granted by True which are outstanding as at February 28, 2001:

<u>Group</u> <u>(Number of Persons)</u>	<u>Number of Shares</u> <u>Under Option</u>	<u>Date of Grant</u>	<u>Date of Expiry</u>	<u>Exercise</u> <u>Price</u> <u>per Share</u>	<u>Trading Price</u> <u>at</u> <u>Date of Grant</u>
Executive Officers (3)	300,000 <sup>(1)(2)</sup>	September 1, 2000	September 1, 2005	\$0.72	N/A <sup>(4)</sup>
	200,000 <sup>(3)</sup>	October 11, 2000	October 11, 2005	\$0.90	N/A <sup>(4)</sup>
Directors (5)	700,000 <sup>(1)</sup>	September 1, 2000	September 1, 2005	\$0.72	N/A <sup>(4)</sup>
Employees (2)	5,000 <sup>(3)</sup>	September 1, 2000	September 1, 2005	\$0.90	N/A <sup>(4)</sup>
	50,000	October 19, 2000	October 19, 2005	\$1.46	\$1.46
Consultants (1)	<u>150,000</u> <sup>(1)</sup>	September 1, 2000	September 1, 2005	\$0.72	N/A <sup>(4)</sup>
Total	1,405,000				

Notes:

- (1) All options vested immediately on grant.
- (2) Of these, subject to the consent of CDNX, the exercise of options to purchase 147,507 Common Shares are currently subject to shareholder approval, which number will be reduced on a one-for-ten basis as additional Common Shares are issued.
- (3) The options vest as to one-third on September 1, 2001; one-third on September 1, 2002 and one-third on September 1, 2003.
- (4) Granted, or agreed to be granted, prior to or concurrently with completion of the Amalgamation and prior to commencement of trading of the Common Shares after completion of the Amalgamation.

## INDEBTEDNESS OF DIRECTORS AND OFFICERS

No director, executive officer or other senior officer of the Corporation, or any associate of any such director or officer is, or has been at any time since the beginning of the most recently completed financial year of the Corporation, indebted to the Corporation or any of its subsidiaries nor at any time since the beginning of the most recently completed financial year of the Corporation has, any indebtedness of any such person been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

## PRINCIPAL SHAREHOLDERS

No person beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of the outstanding Common Shares as at February 28, 2001 other than the following:

Name and Municipality of Residence	Prior to Giving Effect to the Offer <sup>(1)</sup>		After Giving Effect to the Offer <sup>(2)</sup>	
	Number of Common Shares	% of Class	Number of Common Shares	% of Class <sup>(2)</sup>
Michael S. Vandale Calgary, Alberta	1,900,915	11.4 <sup>(3)</sup>	1,900,915	10.7 <sup>(4)</sup>
Robert G. Rowley, Q.C. Calgary, Alberta	3,138,610	18.7 <sup>(3)</sup>	3,138,610	17.7 <sup>(4)</sup>

Notes:

- (1) After giving effect to the exercise of the Special Warrants.
- (2) Also after giving effect to the Special Warrants and assuming 1,000,000 Common Shares are issued pursuant to the Offer.
- (3) 11.6 % and 18.4% fully diluted in the case of Mr. Vandale and Mr. Rowley, respectively.
- (4) 11.0 % and 17.4% fully diluted in the case of Mr. Vandale and Mr. Rowley, respectively.

## DIVIDEND POLICY

To date, the Corporation has not paid any dividends on the outstanding Common Shares. The Corporation does not intend to pay dividends on the Common Shares in the foreseeable future. The future payment of dividends will be dependent upon the financial requirements of True to fund future growth, the financial condition of the Corporation and other factors the board of directors of the Corporation may consider appropriate in the circumstances.

## PRIOR SALES

In the 12 months prior to the date hereof, the only securities issued by Sundance (prior to the Amalgamation) and the Corporation are described below.

Date of Issuance	Number of Common Shares Issued	Aggregate Consideration
August 31, 2000 <sup>(1)</sup>	10,649,934	(1)
December 12, 2000	1,670,000 <sup>(2)</sup>	\$ 2,505,000.00
December 21, 2000	200,000 <sup>(2)</sup>	\$ 300,000.00
December 31, 2000	55,000 <sup>(2)</sup>	\$ 82,500.00
February 28, 2001	836,277 <sup>(3)</sup>	\$ 1,003,532.40

Notes:

- (1) Issued pursuant to the Amalgamation.
- (2) Issued on a "flow-through" basis.
- (3) Issued pursuant to the Offer. Additional Common Shares may be issued upon a compulsory acquisition of the balance of the Marengo Shares.

### ESCROWED SECURITIES

As at February 28, 2001, pursuant to various escrow agreements among the Corporation, Montreal Trust Company of Canada and various shareholders of the Corporation, the following Common Shares are held in escrow and may not be sold, assigned, transferred, hypothecated, pledged or otherwise dealt with except as provided in the applicable escrow agreement:

Designation of Class	Number of securities held in escrow	Percentage of Class <sup>(1)</sup>
Common Shares	3,284,035 <sup>(2)</sup>	19.6%

Notes:

- (1) After giving effect to the exercise of the Special Warrants.
- (2) Of these escrowed shares, 459,032 Common Shares will be released automatically on September 21, 2001 and the balance of the escrowed shares (2,825,003 Common Shares) will be released as to one-third on each of March 12, 2001; September 12, 2001 and March 12, 2002.

### PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

Prior to completion of the Amalgamation, the common shares of Sundance were listed on CDNX. The Common Shares commenced trading on the TSE on February 13, 2001 and were delisted from CDNX on March 6, 2001. The following table sets forth the high and low price for trades and volume of trading of the common shares of Sundance prior to September 13, 2000 and for the Common Shares after September 13, 2000.

	Price Range		Trading Volume
	High	Low	
<u>1999</u>			
1st Quarter .....	\$ 0.30	\$ 0.25	50,300
2nd Quarter .....	0.30	0.20	83,900
3rd Quarter .....	0.30	0.20	117,500
4th Quarter .....	0.35	0.20	88,000
<u>2000</u>			
1st Quarter .....	0.26	0.20	134,667
2nd Quarter .....	0.35	0.20	108,500
July .....	0.50	0.30	27,500
August .....	0.50	0.30	22,500
September (1 - 12) .....	0.50	0.40	42,500
September (13 - 30) <sup>(1)</sup> .....	1.65	0.90	248,091
October .....	1.90	1.30	104,058
November .....	1.60	1.33	31,947
December .....	1.50	1.25	19,210
<u>2001</u>			
January .....	1.40	1.10	911,163
February .....	1.65	1.25	281,722
March (1 - 21) .....	2.00	1.35	426,534

Note:

- (1) After giving effect to the Amalgamation.

The closing price of the Common Shares on March 21, 2001 was \$1.65 per share.

## **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<sup>3</sup>/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.

## **RISK FACTORS**

Investment in the Common Shares should be considered highly speculative due to the nature of the Corporation'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 the Corporation. 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.

The Corporation'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 the Corporation and others. In accordance with customary industry practice, the Corporation 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. The Corporation 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 the Corporation will be affected by numerous factors beyond the control of the Corporation. The Corporation will be affected by the differential between the price paid by refiners for light quality oil and the medium grades of oil produced by the Corporation. The ability of the Corporation to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets.

The Corporation 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. The Corporation 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 the Corporation 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, the Corporation 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, the Corporation conducts such title reviews in connection with its principal properties as it believes are commensurate with the value of such properties.

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

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

Certain directors of the Corporation may have interests 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 requirements of the ABCA.

## **DILUTION**

The issue price of \$1.20 for each Special Warrant exceeds the net tangible book value per Common Share as at September 30, 2000, after giving effect to the exercise of the Special Warrants and the issuance of 1,000,000 Common Shares pursuant to the Offer, by \$0.40 or 33.33% of the issue price of the Special Warrants.

The following table sets forth the dilution per Special Warrant:

Offering Price		\$ 1.20
Net tangible book value per Common Share before distribution	\$ 0.51	
Increase in net tangible book value per Common Share attributable to this Offering	<u>0.29</u>	
Net tangible book value per Common Share after the distribution		<u>0.80</u>
Dilution to subscribers		<u>0.40</u>
Percentage of dilution in relation to the offering price		33.33%

#### INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or officer of the Corporation, insider of the Corporation, or any associate or affiliate of any of the foregoing persons, has or had any material interest in any transaction within the last three years or any proposed transaction that has materially affected, or will materially affect, the Corporation or any of its affiliates except as disclosed elsewhere in this document and as follows:

- (1) Pursuant to the Amalgamation, Sundance, Holdco and Newco amalgamated effective August 31, 2000 and: (i) former shareholders of Sundance received 0.444 Common Shares for each common share of Sundance previously held, (ii) former shareholders of Holdco received one Common Share for every common share of Holdco previously held, and (iii) former shareholders of Newco received one Common Share for every common share of Newco previously held pursuant to Amalgamation and pursuant to which:
  - a. Paul R. Baay, the President, Chief Executive Officer and a director of the Corporation, acquired, directly or indirectly, 555,558 Common Shares in exchange for 555,558 common shares of Newco;
  - b. W.C. (Mickey) Dunn, a director of the Corporation, acquired 222,223 Common Shares in exchange for 222,223 common shares of Newco;
  - c. Robert G. Rowley, a director of the Corporation, acquired 3,251,610 Common Shares in exchange for 679,300 common shares of Sundance and 2,950,001 common shares of Holdco;
  - d. John H. Cuthbertson, a director of the Corporation, acquired 38,889 Common Shares in exchange for 38,889 common shares of Newco; and
  - e. Michael S. Vandale, a director of the Corporation, acquired 2,258,915 Common Shares in exchange for 5,087,646 common shares of Sundance.
- (2) Holdco purchased the Clanrob Assets in consideration for the assumption by Holdco of indebtedness in the amount of \$700,000 and the issuance to Clanrob by Holdco of 2,950,001 common shares of Holdco (which were subsequently exchanged pursuant to the Amalgamation for Common Shares on a one-for-one basis). Robert G. Rowley, a director of the Corporation, was an officer and director of Holdco, a director and officer of Sundance and an officer, director and sole shareholder of Clanrob.
- (3) The Corporation's major transaction consisted of two acquisitions. Pursuant to the first acquisition, effective November 7, 1997, Sundance purchased various oil and gas interests held by four private companies for an aggregate of \$510,000. The private companies were owned by Michael S. Vandale and Robert G. Rowley. Pursuant to the second acquisition, effective February 25, 1998, Sundance acquired certain oil and gas interests held by Vandale Oil Inc. for an aggregate of \$1,528,000. Vandale Oil Inc. is a corporation wholly-owned by Michael S. Vandale who was the President, Chief Executive Officer and a director of Sundance. In both cases the purchase price was paid through the issuance of a debenture (which was subsequently converted) and common shares of Sundance. See "True Energy Inc. - History - Sundance Resources Inc."
- (4) John H. Cuthbertson, C.T. (Clint) Broughton and Todd R. Klippenstein acquired 15,000 Common Shares, 70,000 Common Shares and 33,000 Common Shares, respectively, issued on a flow-through basis at \$1.50 per share pursuant to the Corporation's public offering of such shares. Mr. Robert G. Rowley and Ken P. Acheson acquired 22,000 Common Shares

and 10,000 Common Shares, respectively, on a flow-through basis at a price of \$1.50 in December, 2000 pursuant to a private placement.

- (5) Paul R. Baay (directly and through a company owned by him) acquired 131,090 Special Warrants at a price of \$1.20 per share. The Special Warrants acquired by him were acquired to replace Common Shares sold by him in the market at the price of \$1.20 per share. In addition, W. G. (Mickey) Dunn acquired 166,667 Special Warrants.

### **PROMOTERS**

Paul R. Baay and W.C. (Mickey) Dunn may be considered promoters of the Corporation pursuant to applicable securities laws in that they took the initiative in reorganizing the Corporation pursuant to the Amalgamation. As at the date hereof and prior to giving effect to this Offer, Paul R. Baay beneficially (directly and through a company) owns 424,468 Common Shares and 131,090 Special Warrants, or 3.3% of the issued and outstanding Common Shares (after giving effect to the exercise of the Special Warrants) and W.C. (Mickey) Dunn owns 427,023 Common Shares and 166,667 Special Warrants, or 3.5% of the issued and outstanding Common Shares (after giving effect to the exercise of the Special Warrants). See "Interest of Management and Others in Material Transactions" and "Executive Compensation".

### **LEGAL MATTERS**

Certain legal matters in connection with the offering of the Special Warrants will be passed upon on behalf of the Corporation by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by Stikeman Elliott. As of the date hereof, partners and associates of Burnet, Duckworth & Palmer LLP and Stikeman Elliott each hold less than 2% of the outstanding Common Shares. John H. Cuthbertson, a director of the Corporation, is a partner of Burnet, Duckworth & Palmer LLP.

### **LEGAL PROCEEDINGS**

There are no outstanding legal proceedings material to the Corporation to which the Corporation is a party or any of its properties are subject, nor are there any such proceedings known to be contemplated.

### **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business, the only contracts entered into by the Corporation within the two years immediately prior to the date hereof which can reasonably be regarded as presently material to the Corporation are the following:

- (1) the pre-acquisition agreement dated January 8, 2001 between the Corporation and Marengo pursuant to which the Corporation agreed to make the Offer, as described under "The Acquisition";
- (2) the Special Warrant Indenture referred to under "Details of the Offering";
- (3) the Underwriting Agreement referred to under "Details of the Offering"; and
- (4) the escrow agreement dated August 31, 2000, as amended September 13, 2000 among True, Montreal Trust Company of Canada and various shareholders of the Corporation referred to under "True Energy Inc. - Escrowed Securities".

Copies of the foregoing agreements are available for inspection at the head office of the Corporation and the offices of Stikeman Elliott, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario, M5L 1B9, during normal business hours during the period of distribution and for thirty days thereafter and at the offices of the Alberta Securities Commission, Suite 410, 300 - 5th Avenue S.W., Calgary, Alberta, T2P 3C4 and at the offices of the Alberta Securities Commission at 19th Floor, 10025 Jasper Avenue, Edmonton, Alberta, T5J 3Z5.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Corporation are KPMG LLP, Chartered Accountants, 1200, 205 - 5th Avenue S.W., Calgary, Alberta, T2P 4B9.

Montreal Trust Company of Canada, at its principal offices in Calgary, Alberta and Toronto, Ontario, is the transfer agent and registrar for the Common Shares.

## **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in several of the provinces provide purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the applicable province. The purchaser should refer to the securities legislation of the province in which the purchaser resides for the particulars of these rights or consult with a legal advisor.

### **CONTRACTUAL RIGHT OF ACTION FOR RESCISSION**

In the event that a holder of a Special Warrant, who acquires a Common Share upon the exercise of a Special Warrant as provided for in this prospectus, is or becomes entitled under applicable legislation to the remedy of rescission by reason of this prospectus or any amendment thereto containing a misrepresentation, the holder shall be entitled to rescission not only of the holder's exercise of its Special Warrant but also of the private placement transaction pursuant to which the Special Warrant was initially acquired and shall be entitled, in connection with such rescission, to a full refund of all consideration paid on the acquisition of the Special Warrant. In the event the holder is a permitted assignee of the interest of the original Special Warrant subscriber, that permitted assignee shall be entitled to exercise the rights of rescission and refund described herein as if the permitted assignee was the original subscriber. The foregoing is in addition to any other right or remedy available to a holder of the Special Warrant under Section 168 of the *Securities Act* (Alberta), Section 130 of the *Securities Act* (Ontario), similar sections of other applicable securities legislation or otherwise at law.

## **AUDITORS' REPORT TO THE DIRECTORS**

We have audited the balance sheets of True Energy Inc. as at December 31, 1999 and 1998 and the statements of operations and deficit and cash flows for each of the years in the three year period ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1999 in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP

Chartered Accountants

Calgary, Canada

May 5, 2000

(except as to notes 2(a) and 12 which are as of March 22, 2001)

**TRUE ENERGY INC.**

(Formerly Sundance Resources Inc.)

## Balance Sheets

	September 30, 2000	December 31,	
		1999	1998
	(unaudited)		
<b>Assets</b>			
Current assets:			
Cash	\$ 611,068	\$ –	\$ –
Accounts receivable	1,424,529	1,358,646	604,942
	<u>2,035,597</u>	<u>1,358,646</u>	<u>604,942</u>
Capital assets (note 3)	8,967,209	2,810,852	3,109,020
	<u>\$ 11,002,806</u>	<u>\$ 4,169,498</u>	<u>\$ 3,713,962</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable	\$ 4,345,432	\$ 1,560,784	\$ 1,050,612
Bank indebtedness (note 4)	–	124,700	17,585
Current portion of prepaid contract (note 6)	518,700	695,400	–
	<u>4,864,132</u>	<u>2,380,884</u>	<u>1,068,197</u>
Debentures payable (note 5)	–	–	852,448
Prepaid contract (note 6)	351,500	463,600	1,271,100
Provision for site restoration	71,947	45,947	7,600
Future tax liability (note 8)	265,950	81,706	–
Shareholders' equity:			
Capital stock (note 7)	5,913,370	1,605,447	781,031
Retained earnings (deficit)	(464,093)	(408,086)	(266,414)
	<u>5,449,277</u>	<u>1,197,361</u>	<u>514,617</u>
Subsequent events (note 12)			
	<u>\$ 11,002,806</u>	<u>\$ 4,169,498</u>	<u>\$ 3,713,962</u>

See accompanying notes to financial statements.

Approved by the Board:

(signed) Paul R. Baay \_\_\_\_\_ Director

(signed) W.C. (Mickey) Dunn \_\_\_\_\_ Director

**TRUE ENERGY INC.**

(Formerly Sundance Resources Inc.)

## Statements of Operations and Deficit

	Nine months ended		Years ended		
	September 30,		December 31,		
	2000	1999	1999	1998	1997
	(unaudited)				
Revenue:					
Oil and gas sales (net of royalties)	\$1,333,071	\$1,189,762	\$1,521,444	\$ 580,232	\$ —
Other oil and gas revenue	69,224	43,199	34,339	144,269	—
Interest	9,063	493	493	3,861	6,819
	1,411,358	1,233,454	1,556,276	728,362	6,819
Expenses:					
Field operating	436,183	266,535	378,729	346,906	—
General and administrative	367,996	320,642	418,594	300,588	56,816
Interest on long-term debt	—	30,931	43,275	30,930	—
Bank charges and interest	20,281	10,836	14,499	8,380	—
Depletion and depreciation	591,000	400,000	761,145	244,702	—
	1,415,460	1,028,944	1,616,242	931,506	56,816
Earnings (loss) before provision for income taxes	(4,102)	204,510	(59,966)	(203,144)	(49,997)
Provision for income taxes (note 8)	42,000	—	81,706	—	—
Net earnings (loss)	(46,102)	204,510	(141,672)	(203,144)	(49,997)
Deficit, beginning of period	(408,086)	(266,414)	(266,414)	(63,270)	(13,273)
Adoption of tax liability method (note 8)	(9,905)	—	—	—	—
Deficit, end of period	\$(464,093)	\$ (61,904)	\$(408,086)	\$(266,414)	\$ (63,270)
Earnings (loss) per share					
Basic	\$ (0.01)	\$ 0.04	\$ (0.02)	\$ (0.06)	\$ (0.02)
Fully diluted	—	0.02	—	—	—

See accompanying notes to financial statements.

**TRUE ENERGY INC.**

(Formerly Sundance Resources Inc.)

## Statements of Cash Flows

	Nine months ended		Years ended		
	September 30,		December 31,		
	2000	1999	1999	1998	1997
	(unaudited)				
Cash provided by (used in):					
Operations:					
Net earnings (loss)	\$ (46,102)	\$ 204,510	\$(141,672)	\$(203,144)	\$ (49,997)
Items not affecting cash:					
Depletion and depreciation	591,000	400,000	761,145	244,702	—
Future income taxes	42,000	—	81,706	—	—
Prepaid contract revenue	(288,800)	(112,100)	(112,100)	—	—
Funds from operations	298,098	492,410	589,079	41,558	(49,997)
Change in non-cash working capital	2,718,765	51,054	(243,532)	450,908	(4,021)
	3,016,863	543,464	345,547	492,466	(54,018)
Financing:					
Bank indebtedness	(124,700)	—	107,115	17,585	15,000
Repayment of debt acquired on acquisition of 887733 (note 2)	(700,000)	—	—	—	—
Share issue costs	(198,229)	—	—	—	—
Repayment of debentures	—	—	(28,032)	—	—
Prepaid contract (net of deliveries)	—	—	—	1,271,100	—
	(1,022,929)	—	79,083	1,288,685	15,000
Investing:					
Additions to capital assets	(4,900,246)	(543,464)	(424,630)	(2,119,573)	—
Cash acquired on acquisition of 851431 (note 2)	3,517,380	—	—	—	—
	(1,382,866)	(543,464)	(424,630)	(2,119,573)	—
Increase (decrease) in cash	611,068	—	—	(338,422)	(39,018)
Cash, beginning of period	—	—	—	338,422	377,440
Cash, end of period	\$ 611,068	\$ —	\$ —	\$ —	\$ 338,422
Funds from operations per share					
Basic	\$ 0.03	\$ 0.09	\$ 0.10	\$ 0.01	\$ (0.02)
Fully diluted	0.03	0.05	0.07	0.01	—

See accompanying notes to financial statements.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997  
(Information as at September 30, 2000 and the nine months ended September 30, 2000  
and 1999 is unaudited)

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### **General:**

Sundance Resources Inc. (the "Sundance") was incorporated under the Business Corporations Act (Alberta) on February 9, 1996. Sundance was principally involved in the exploration for, and development and production of, petroleum and natural gas in Western Canada.

On July 20, 2000, Sundance negotiated the terms of an amalgamation with 851431 Alberta Ltd. ("851431") and 887733 Alberta Ltd. ("887733") whereby the three companies entered into a business combination ("Amalgamation") effective and approved by Sundance shareholders on August 31, 2000. The result of the business combination was that Sundance, 851431 and 887733 combined their operations into a new corporation, True Energy Inc. ("True" or the "Corporation"). The shareholders of Sundance received 0.444, shareholders of 851431 received 1 (one) and the shareholder of 887733 1 (one) common share of True, respectively, in exchange for each common share of the respective companies. This transaction resulted in the shareholders of Sundance obtaining control of more than 50% of the total issued and outstanding common shares of True and, accordingly, Sundance was deemed to have acquired 851431 and 887733. The owner of 887733 is an existing director and shareholder of Sundance and 887733 is considered to be a related party. As a result, this portion of the transaction was accounted for at carrying values of 887733.

### **1. Significant accounting policies:**

#### (a) Petroleum and natural gas properties:

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

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

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

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### 1. Significant accounting policies (continued):

(a) Petroleum and natural gas properties (continued):

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

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

(b) Future site restoration costs:

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

(c) 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.

(d) Per share amounts:

Per share amounts are calculated using the weighted average number of Common Shares outstanding during the year. For the nine months ended September 30, 2000 there were 8,833,718 (nine months ended September 30, 1999 – 5,394,274; years ended December 31, 1999 – 5,860,507; December 31, 1998 – 3,653,825; December 31, 1997 – 3,075,000) weighted average shares outstanding.

(e) Use of estimates:

The amounts recorded for depletion and depreciation of capital assets and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on such factors as estimates of proved reserves, production rates, oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

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## 1. Significant accounting policies (continued):

### (f) Income taxes:

Effective January 1, 2000, the Canadian Institute of Chartered Accountants ("CICA") changed the accounting standard relating to the accounting for income taxes. The CICA's new standard on accounting for income taxes adopts the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, 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. Income tax expense or benefit is the sum of the Corporation's provision for current income taxes and difference between the opening and ending balances of the future income tax assets and liabilities.

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

The Corporation has adopted the new income tax accounting standard retroactively without restatement of prior periods.

### (g) Stock-based compensation plan:

The Corporation has one stock-based compensation plan, which is described in note 7(c). No compensation expense is recognized for these plans when stock options are issued to employees. Any consideration paid by employees is credited to share capital.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

## 2. Acquisitions:

- (a) On July 20, 2000, the Corporation negotiated the terms of an amalgamation with 851431 Alberta Ltd. ("851431") and 887733 Alberta Ltd. ("887733") whereby the three companies entered into a business combination. Both 851431 and 887733 are private companies that have no operations and hold certain assets. The result of the business combination is that the shareholders of the Corporation obtained control of more than 50% of the total issued and outstanding common shares of the amalgamated entity and, accordingly, will be deemed to have acquired 851431 and 887733. The acquisitions will be accounted for by the purchase method, and the results of operations included from the effective date of August 31, 2000. The owner of 887733 is an existing director and shareholder of the Corporation, and is considered to be a related party. As a result, this portion of the transaction will be accounted for at carrying values of 887733.

The net assets acquired and consideration given are as follows:

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

- (b) On November 7, 1997, the Corporation entered into agreements with four private companies to acquire interests in three oil and gas properties located in Southwestern Saskatchewan. On February 25, 1998 the Corporation also entered into an agreement to purchase certain other oil and gas assets from a company controlled by a director and shareholder of the Corporation.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

## 2. Acquisitions (continued):

(b) (continued):

These transactions, which are at non-arm's length with three of the four private companies and the director and shareholder, qualified as the Corporation's major transaction. The non-arm's length vendors' cost base for accounting purposes was approximately \$1,057,000 and the Corporation has recorded this portion of the transaction utilizing this cost base. The fair value of the arm's-length vendor's sale of properties was \$170,100 and the Company recorded this portion of the purchase based on this value.

Oil and gas properties purchased:		
Non-arm's length vendors' carrying values		\$ 1,057,000
Arm's-length vendors' purchase price at fair value		170,100
		<hr/>
		\$ 1,227,100
Consideration for purchase:		
Debentures payable		\$ 852,999
1,680,865 Common Shares		374,101
		<hr/>
		\$ 1,227,100

## 3. Capital assets:

September 30, 2000 (unaudited)	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 10,278,867	\$ 1,424,261	\$ 8,854,606
Office furniture and equipment	213,242	100,639	112,603
	<hr/>	<hr/>	<hr/>
	\$ 10,492,109	\$ 1,524,900	\$ 8,967,209

December 31, 1999	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 3,636,283	\$ 879,068	\$ 2,757,215
Office furniture and equipment	134,469	80,832	53,637
	<hr/>	<hr/>	<hr/>
	\$ 3,770,752	\$ 959,900	\$ 2,810,852

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

### 3. Capital assets (continued):

December 31, 1998	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	\$ 3,341,819	\$ 234,950	\$ 3,106,869
Office furniture and equipment	4,303	2,152	2,151
	\$ 3,346,122	\$ 237,102	\$ 3,109,020

At September 30, 2000, the estimated future site restoration costs to be accrued over the remaining proved reserves are \$275,000 (December 31, 1999 - \$209,000; 1998 - \$247,000) of which \$26,000 has been recorded as additional depletion and depreciation during 2000 (year ended December 31, 1999 - \$38,347; 1998 - \$7,600).

### 4. Bank indebtedness:

During 1999, the Corporation had a financing agreement with a Canadian chartered bank for a \$260,000 direct revolving reducing loan with interest payable monthly at the bank's prime lending rate plus ¾% per annum. The loan was secured by a \$500,000 floating charge debenture over the assets of the Corporation and a general security agreement. At December 31, 1999 the Corporation was not in compliance with the working capital covenant under the agreement and as a result, the bank indebtedness at that time had been classified as a current liability.

In September, 2000 the Corporation entered into a financing agreement with a Canadian chartered bank for a \$1,800,000 revolving operating facility and a \$1,000,000 non-revolving acquisition/development facility. Interest is payable at the bank's prime rate plus ¾ of 1% in the case of the revolving operating facility and the bank's prime rate plus 1 ¼% in the case of the non-revolving acquisition/development facility. Security is provided by a general assignment of book debts, a \$10,000,000 floating charge debenture over all assets of the Corporation and a fixed charge over certain producing petroleum and natural gas reserves at Smiley. The facilities are subject to review on or before April 30, 2001 (note 12).

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

### 5. Debentures payable:

The debenture was issued as partial consideration for the acquisition of the petroleum and natural gas properties (note 2(b)) and bears interest at bank prime plus 1%. The debenture was to be paid September 30, 1998, however an agreement was reached September 9, 1998 that delayed repayment if the Corporation's working capital position was not capable of making this payment.

In 1999, the Corporation converted the debenture payable into common shares. In July, 2,857,143 common shares were issued on conversion at \$0.21 per share, and in November, 997,404 shares were issued on conversion at \$0.225 per share.

### 6. Prepaid contract:

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

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

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

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

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

## 7. Capital stock:

### (a) Authorized:

Unlimited number of voting Common Shares

Unlimited number of non-voting First Preferred Shares

### (b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 1997	3,075,000	\$ 406,930
Issued on acquisition of properties (note 2)	1,680,865	374,101
Balance, December 31, 1998	4,755,865	781,031
Issued on conversion of debenture payable (note 5)	3,854,547	824,416
Balance, December 31, 1999	8,610,412	1,605,447
Converted on amalgamation	(4,787,383)	-
Issued on acquisition of 851431 Alberta Ltd. (note 2)	3,876,904	3,517,380
Issued on acquisition of 887733 Alberta Ltd. (note 2)	2,950,001	988,772
Share issue costs	-	(198,229)
Balance, September 30, 2000	10,649,934	\$ 5,913,370

### (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 for directors, officers, employees and consultants of True. The Plan allows the number of shares issuable pursuant to options under the Plan to be the greater of 10% of the outstanding common shares and 1,500,000 common shares. The exercise price shall not be lower than the closing sale price for board lots of Common Shares on the trading day immediately prior to the day on which the options are granted. The vesting period is determined by the Board.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

## 7. Capital stock (continued):

### (c) Stock options (continued):

A summary of the status of the Corporation's stock option plan as of September 30, 2000 and December 31, 1999 and changes during the period ending on those dates is presented below:

	September 30, 2000		December 31, 1999	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	731,300	\$ 0.20	300,000	\$ 0.20
Cancelled	(731,300)	0.20	—	—
Granted	1,155,000	0.72	431,300	0.20
Exercised	—	—	—	—
Outstanding at end of period	1,155,000	\$ 0.72	731,300	\$ 0.20
Exercisable at end of period	1,150,000	\$ 0.72	731,300	\$ 0.20

The following table summarizes information about stock options outstanding at September 30, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercisable Price
\$ 0.72 to \$ 0.90	1,155,000	4.9	\$ 0.72	1,150,000	\$ 0.72

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

## 8. Income taxes:

The provision for income taxes differs from the expected amount calculated by applying the combined Federal and Provincial corporate income tax rate of 44.6% to loss before income taxes. This difference results from the following items:

	Nine months ended September 30,		Years ended December 31,		
	2000	1999	1999	1998	1997
Computed expected income					
tax expense (recovery)	\$ (1,829)	\$ 91,211	\$ (26,756)	\$ (90,600)	\$ (22,300)
Crown royalties and charges	140,123	162,514	297,787	46,600	—
Resource allowance	(96,294)	(133,427)	(108,325)	(8,900)	—
Unrecognized (utilized) losses	—	(120,298)	(81,000)	52,900	22,300
	\$ 42,000	\$ —	\$ 81,706	\$ —	\$ —

At September 30, 2000, the Corporation has available for deduction against future taxable income various tax pools aggregating approximately \$8,500,000.

In the first quarter of 2000, the Company changed its policy on accounting for income taxes in accordance with revisions to Canadian Generally Accepted Accounting Principles. Effective January 1, 2000 the liability method was adopted; prior thereto, the Company had followed the deferral method. The new method was applied retroactively without restatement of prior period financial statements. The following table reflects the adoption of this method and the impact on the current period's operations:

Deferred income taxes at December 31, 1999	\$ 81,706
Adoption of liability method at January 1, 2000:	
Increase in deficit to January 1, 2000	9,905
	91,611
Future tax liability on acquisition of 887733 (note 2)	132,339
Future income taxes for nine months ended September 30, 2000	42,000
Future tax liability balance, September 30, 2000	\$ 265,950

The principal temporary difference underlying the future tax liability relates to capital assets.

**TRUE ENERGY INC.**

(Formerly Sundance Resources Inc.)

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

**9. Supplemental cash flow information:**

	Nine months ended September 30,		Years ended December 31,		
	2000	1999	1999	1998	1997
Cash paid:					
Interest	\$ 13,752	\$ 10,836	\$ 85,807	\$ 8,380	\$ -
Taxes	-	-	-	-	-
Non-cash investing and financing activities:					
Conversion of debenture into common shares	\$ -	\$ (600,000)	\$ (824,416)	\$ -	\$ -
Issue of common shares on debenture conversion	-	600,000	824,416	-	-
Issue of common shares on acquisitions	4,506,152	-	-	374,101	-
Issue of debenture on major transaction	-	-	-	852,999	-
Additions to assets	(4,506,152)	-	-	(1,227,100)	-
	\$ -	\$ -	\$ -	\$ -	\$ -

**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 September 30, 2000 total \$154,050.

**11. Financial instruments:**

At September 30, 2000 and December 31, 1999, there were no significant differences between the carrying value reported on the balance sheet and the estimated market values of financial instruments of the Corporation which consist of cash, accounts receivable, accounts payable and bank indebtedness due to their short-term maturities or floating interest rate terms.

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

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

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## 12. Subsequent events:

- (a) On December 12, 2000, the Corporation closed an offering of 1,670,000 flow-through common shares, pursuant to a prospectus dated November 24, 2000. The flow-through common shares were issued at a price of \$1.50 per share for gross proceeds of \$2,505,000.
- (b) 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 \$382,500.
- (c) On February 6, 2001, the Corporation made an offer (the "Offer") to acquire all of the outstanding Class A Shares and Class B Shares of Marengo Exploration Ltd. ("Marengo") on the basis of, at the option of the Marengo shareholders: (i) \$2.05 for each Class A Share or 1.71 common shares of the Corporation (to a maximum of 774,000 common shares); and (ii) \$9.00 for each Class B Share or 7.5 common shares of the Corporation (to a maximum of 226,000 common shares). The Offer expired on February 28, 2001 at which time True took up and paid for approximately 99% of the outstanding Class A Shares and 95% of the outstanding Class B Shares and intends to acquire the balance of each class of share pursuant to the compulsory acquisition provisions of the Business Corporations Act (Alberta).
- (d) On January 17, 2001, the Corporation announced that it entered into an agreement for an underwritten private placement of 4,166,667 Special Warrants issuable at a price of \$1.20 per Special Warrant for gross proceeds of \$5.0 million, which subsequently closed on February 5, 2001. Terms of each Special Warrant entitle the holder to acquire one common share without the payment of any additional consideration, subject to adjustment in certain events. The subscription proceeds from the Special Warrants, other than in respect of certain purchasers of Non-Repurchase Special Warrants, the proceeds of which were paid to the Corporation, were released to the Corporation.

If a final receipt for a prospectus dated on or before June 5, 2001 is not obtained from the securities commission in each of the Filing Provinces, each holder of Special Warrants (other than certain purchasers of Non-Repurchase Special Warrants) will be entitled, upon exercise or deemed exercise of any Special Warrants at any time after June 5, 2001, to acquire 1.1 common shares for each of such holder's Special Warrants (in lieu of the one common share that each Special Warrant was previously exchangeable for), subject to adjustment in certain events, without the payment of any additional consideration.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and the nine months ended September 30, 2000 and 1999 is unaudited)

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## 12. Subsequent events (continued):

- (e) On January 22, 2001, the Corporation entered into a financing agreement with a Canadian chartered bank for a \$11,300,000 revolving reducing demand loan. Interest is payable at the bank's prime rate plus  $\frac{3}{4}$  of 1%. Security is provided by a general assignment of book debts of the Corporation, a \$10,000,000 floating charge debenture over all assets of the Corporation, a fixed charge over certain producing petroleum and natural gas reserves at Smiley and a first floating charge supplemental debenture of \$35,000,000. In addition, the Marengo assets will be included as security for this facility. The facility is subject to review on or before March 31, 2001.
- (f) During January 2001, the Corporation entered into a costless collar transaction for 3,000 gigajoules per day for the period February 1, 2001 to December 31, 2001. The collar establishes a floor price of \$7.50 Cdn per gigajoule at AECO and a ceiling price of \$8.50 Cdn per gigajoule at AECO.
- (g) In October 2000, options to purchase 250,000 Common Shares of the Corporation were issued to employees at prices ranging from \$0.90 to \$1.46 per share, expiring in October 2005.

## **AUDITORS' REPORT**

To the Directors of True Energy Inc. (formerly Sundance Resources Inc.)

At the request of True Energy Inc. (formerly Sundance Resources Inc.), we have audited the schedule of revenues, operating costs and capital expenditures relating to certain oil and gas interests in the Smiley, Ingoldsby and Brock areas in Saskatchewan of 887733 Alberta Ltd. for the year ended December 31, 1999. This financial information is the responsibility of True Energy Inc. Our responsibility is to express an opinion on this financial information based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, this schedule presents fairly, in all material respects, the revenue, operating costs and capital expenditures relating to certain oil and gas interests in the Smiley, Ingoldsby and Brock areas in Saskatchewan of 887733 Alberta Ltd. for the year ended December 31, 1999.

(Signed) KPMG LLP

Chartered Accountants

Calgary, Canada

November 24, 2000

**887733 ALBERTA LTD.**

Schedule of Revenues, Operating Costs and Capital Expenditures relating to certain oil and gas interests in the Smiley, Ingoldsby and Brock areas in Saskatchewan

	Eight months ended August 31, 2000 (unaudited)	Year ended December 31, 1999
Revenues:		
Petroleum and natural gas sales, net of royalties	\$ 437,837	\$ 639,045
Operating costs	148,220	217,180
<b>Excess of revenues over operating costs</b>	<b>\$ 289,617</b>	<b>\$ 421,865</b>
Capital expenditures	\$ 462,916	\$ 505,674

## **887733 ALBERTA LTD.**

Notes to Schedule of Revenues, Operating Costs and Capital Expenditures relating to certain oil and gas interests in the Smiley, Ingoldsby and Brock areas in Saskatchewan

Year ended December 31, 1999

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### **1. Basis of presentation:**

The schedule of revenues, operating costs and capital expenditures ("Schedule") includes those revenues, operating costs and capital expenditures related to the Smiley, Ingoldsby and Brock petroleum and natural gas properties that were acquired from 887733 Alberta Ltd. ("887733"), with an effective date of August 31, 2000.

The schedule has been prepared by True Energy Inc. (the "Corporation") and has been derived from financial information obtained from 887733.

The schedule includes only those revenues, operating costs and capital expenditures directly related to the Smiley, Ingoldsby and Brock Properties and does not include any expenses related to general and administrative costs, income and capital taxes or any provisions related to depreciation, depletion or site restoration and abandonments.

The schedule may not be indicative of the future revenues, operating costs and capital expenditures from the Smiley, Ingoldsby and Brock Properties.

### **2. Significant accounting policies:**

(a) Revenue:

Petroleum and natural gas sales are recorded at the time the related petroleum and natural gas substances are produced.

(b) Operating costs:

Operating costs include all costs related to the lifting, gathering, transporting and processing of petroleum and natural gas substances.

(c) Capital expenditures:

The Corporation follows the full cost method of accounting whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisitions, drilling, geological and geophysical and overhead expenses related to exploration and development activities and production equipment.

## **AUDITORS' REPORT TO THE DIRECTORS**

We have audited the balance sheets of Marengo Exploration Ltd. as at December 31, 1999 and 1998 and the statements of earnings (loss) and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP

Chartered Accountants

Calgary, Canada

April 26, 2000

(except as to notes 7 and 9 which are as of March 22, 2001)

**MARENGO EXPLORATION LTD.**

## Balance Sheets

	September 30, 2000 (unaudited)	December 31,	
		1999	1998
<b>Assets</b>			
Current assets:			
Cash and term deposits	\$ 198,015	\$ 804,723	\$ 1,478,163
Accounts receivable	2,451,203	856,724	911,863
	<u>2,649,218</u>	<u>1,661,447</u>	<u>2,390,026</u>
Capital assets (note 3)	6,362,793	3,793,049	2,128,373
	<u>\$ 9,012,011</u>	<u>\$ 5,454,496</u>	<u>\$ 4,518,399</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 2,215,306	\$ 2,685,693	\$ 1,628,157
Income tax	1,140,000	-	-
	<u>3,355,306</u>	<u>2,685,693</u>	<u>1,628,157</u>
Provision for site restoration	60,211	31,282	17,134
Future income taxes	1,733,380	229,380	-
Shareholders' equity:			
Share capital (note 5)	3,362,619	3,553,125	3,968,734
Retained earnings (deficit)	500,495	(1,044,984)	(1,095,626)
	<u>3,863,114</u>	<u>2,508,141</u>	<u>2,873,108</u>
Commitments (note 7)			
	<u>\$ 9,012,011</u>	<u>\$ 5,454,496</u>	<u>\$ 4,518,399</u>

See accompanying notes to financial statements.

On behalf of the Board:

(signed) Paul R. Baay \_\_\_\_\_ Director

(signed) W.C. (Mickey) Dunn \_\_\_\_\_ Director

**MARENGO EXPLORATION LTD.**

## Statements of Earnings (loss) and Retained Earnings (Deficit)

	Nine months ended		Years ended December 31,		
	September 30,		1999	1998	1997
	2000	1999	1999	1998	1997
	(unaudited)				
Revenue:					
Petroleum and natural gas	\$ 6,955,672	\$ 1,940,856	\$ 2,715,168	\$ 1,409,321	\$ 72,381
Interest	13,914	17,799	47,242	59,353	—
Royalties	(1,590,304)	(541,951)	(783,755)	(358,950)	(5,176)
	5,379,282	1,416,704	1,978,655	1,109,724	67,205
Expenses:					
Operating	1,149,760	471,365	742,680	441,329	82,001
General and administrative	219,589	266,418	331,016	163,580	53,555
Financing costs	46,738	—	19,235	78,422	—
Depletion, depreciation and amortization	1,429,716	459,600	605,702	1,430,581	9,479
	2,845,803	1,197,383	1,698,633	2,113,912	145,035
Net income (loss) before taxes	2,533,479	219,321	280,022	(1,004,188)	(77,830)
Income tax expense (note 6):					
Current	(1,140,000)	—	—	—	—
Future	—	—	(229,380)	—	—
Net earnings (loss)	1,393,479	219,321	50,642	(1,004,188)	(77,830)
Deficit, beginning of period	(1,044,984)	(1,095,626)	(1,095,626)	(91,438)	(13,608)
Adjustment to reflect adoption of liability method of accounting for future income taxes (note 6)					
	152,000	—	—	—	—
Retained earnings (deficit), end of period	\$ 500,495	\$ (876,305)	\$ (1,044,984)	\$ (1,095,626)	\$ (91,438)
Earnings (loss) per share	\$ 0.23	\$ 0.04	\$ 0.01	\$ (0.13)	\$ (0.04)

See accompanying notes to financial statements.

# MARENGO EXPLORATION LTD.

## Statements of Cash Flows

	Nine months ended		Years ended December 31,		
	September 30,				
	2000	1999	1999	1998	1997
	(unaudited)				
Cash provided by (used in):					
Operations:					
Net income (loss)	\$ 1,393,479	\$ 219,321	\$ 50,642	\$ (1,004,188)	\$ (77,830)
Items not involving cash:					
Deferred income taxes	-	-	229,380	-	-
Depletion, depreciation and amortization	1,429,716	459,600	605,702	1,430,581	9,479
Cash flow from operations	2,823,195	678,921	885,724	426,393	(68,351)
Changes in non-cash operating working capital	(924,866)	(484,802)	1,112,675	(36,673)	615,460
	1,898,329	194,119	1,998,399	389,720	547,109
Financing:					
Issue of share capital, net of expenses	26,494	53,600	362,500	1,108,750	3,917,831
Investing:					
Additions to capital assets	(2,531,531)	(746,408)	(3,034,339)	(3,920,775)	(807,593)
Decrease (increase) in cash position	(606,708)	(498,689)	(673,440)	(2,422,305)	3,657,347
Cash position, beginning of period	804,723	1,478,163	1,478,163	3,900,468	243,121
Cash position, end of period	\$ 198,015	\$ 979,474	\$ 804,723	\$ 1,478,163	\$ 3,900,468

See accompanying notes to financial statements.

# MARENGO EXPLORATION LTD.

Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997  
(Information as at September 30, 2000 and for the nine months ended September 30, 2000 and 1999 is unaudited)

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## General

Marengo Exploration Ltd., (the "Corporation") was incorporated under the laws of Alberta on July 3, 1996.

### 1. Significant accounting policies:

#### (a) Petroleum and natural gas operations:

The Corporation follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, and overhead charges directly relating to acquisition, exploration and development activities.

Costs of acquiring and evaluating unproved properties are initially excluded from costs subject to depletion. Unproved properties are assessed regularly to ascertain whether impairment should be added to costs subject to depletion.

Capitalized costs including the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated net proved reserves before royalties as determined by independent petroleum engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content. Proceeds received from disposal of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion by more than 20%, in which case a gain or loss on disposals is recorded.

Total capitalized costs less accumulated depletion and depreciation, cumulative provisions for site restoration costs and deferred income taxes are limited to an amount equal to the estimated future net revenue from proved reserves plus the cost, net of impairments, of unproved properties, less estimated future general and administrative expenses, financing costs, site restoration costs and income taxes.

Any capitalized costs in excess of future net revenue are included in the depletion, depreciation and amortization charge for the period.

#### (b) Future site restoration and abandonment costs:

Future site restoration and abandonment costs are based on management's estimates and amortized on the unit-of-production method. The provision will be included in depletion and depreciation in the statement of loss and deficit. Actual site restoration and abandonment costs are charged to the provision as incurred.

# MARENGO EXPLORATION LTD.

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and for the nine months ended September 30, 2000 and 1999 is unaudited)

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### 1. Significant accounting policies (continued):

(c) Joint interest operations:

A significant portion of the Corporation's exploration and production activities are conducted jointly with other entities and, accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

(d) Per share amounts:

Per share amounts are calculated using the weighted average number of Class A and B shares outstanding during the year. Class B shares are converted at the rate of 10:1. Fully diluted earnings per share is not disclosed as the effect of conversion of share options and purchase warrants is anti-dilutive.

(e) Flow-through shares:

Resource expenditure deductions for income tax purposes funded by flow-through share arrangements have been renounced by the Corporation to the investors who provided the funds. The Corporation's share capital has been reduced by the estimated future tax liability attributable to the tax deductions renounced to the investor.

(f) Measurement uncertainty:

The amounts recorded for depletion, depreciation and amortization of capital assets are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(g) Income taxes:

The Corporation adopted the liability method of tax allocation accounting, without restatement of prior years, as recommended by the Canadian Institute of Chartered Accountants, effective January 1, 2000. Under the liability method, the difference between tax assets and liabilities and their financial reporting basis is computed and measured using the current tax rates. Prior to the adoption of the new recommendations, the Corporation followed the deferral method of tax allocation accounting under which the provision for corporate income taxes was based on the reported earnings taking into consideration the tax effects of timing differences between financial statement income and taxable income.

# MARENGO EXPLORATION LTD.

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and for the nine months ended September 30, 2000 and 1999 is unaudited)

### 2. Business acquisitions:

Effective November 5, 1999, under a plan of arrangement, the Corporation acquired all of the issued and outstanding shares of 851494 Alberta Ltd. and 850054 Alberta Ltd. Both companies were in the business of exploration, development and production of petroleum products. The acquisition was accounted for using the purchase method with the results of operations being included from the date of acquisition.

Allocated:			
Capital assets of 851494 Alberta Ltd.		\$	55,000
Capital assets of 850054 Alberta Ltd.			55,000
		\$	110,000
Cost of acquisition:			
Cash paid to shareholder of 851494 Alberta Ltd.		\$	55,000
Cash paid to shareholder of 850054 Alberta Ltd.			55,000
		\$	110,000

### 3. Capital assets:

	Cost	Accumulated depletion and depreciation	Net book value
<b>September 30, 2000</b>			
Petroleum and natural gas properties	\$ 9,894,703	\$ 3,531,910	\$ 6,362,793
<b>December 31, 1999</b>			
Petroleum and natural gas properties	\$ 5,895,243	\$ 2,102,194	\$ 3,793,049
<b>December 31, 1998</b>			
Petroleum and natural gas properties	\$ 3,561,472	\$ 1,433,099	\$ 2,128,373

# MARENGO EXPLORATION LTD.

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and for the nine months ended September 30, 2000 and 1999 is unaudited)

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### 3. Capital assets (continued):

The net recoverable amount calculated under the full-cost accounting guideline exceeds the net book value of the Corporation's petroleum and natural gas properties.

As at September 30, 2000, the estimated future site restoration and abandonment costs to be accrued over the remaining life of the reserves is \$60,211 (December 31, 1999 - \$53,000; December 31, 1998 - \$67,000), of which \$28,929 (December 31, 1999 - \$14,148; December 31, 1998 - \$nil) is included in depletion and depreciation in the current period .

As at September 30, 2000, the Corporation capitalized \$195,224 (September 30, 1999 - \$25,588; December 31, 1999 - \$171,000; December 31, 1998 - \$183,000) of general and administrative expense related to exploration and development activities.

As at September 30, 2000, petroleum and natural gas properties of \$313,000 (December 31, 1999 - \$75,000; December 31, 1998 - \$75,000) were excluded from costs subject to depletion and depreciation.

### 4. Bank loan:

At September 30, 2000, the Corporation had a revolving demand credit facility with a Canadian bank for a maximum of \$1,500,000 and a non-revolving acquisition/development demand facility for a maximum of \$1,000,000. Interest is payable monthly at the Prime Rate plus 1% and Prime Rate plus 1.5%, respectively.

These facilities are secured by a general assignment of book debts and revenues under material contracts and a \$2,500,000 debenture with a floating charge over all assets of the Corporation and a fixed charge over certain of the Corporation's petroleum and natural gas properties.

Cash interest paid in the period ended September 30, 2000 was \$37,942 (September 30, 1999 - \$nil; December 31, 1999 - \$876; December 31, 1998 - \$nil and December 31, 1997 - \$nil).

# MARENGO EXPLORATION LTD.

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and for the nine months ended September 30, 2000 and 1999 is unaudited)

### 5. Share capital:

#### (a) Authorized:

Unlimited number of voting Class A shares.

Unlimited number of voting Class B shares, convertible at the option of the Corporation at any time after December 31, 2000 and before December 31, 2002, into Class A shares. The fraction is calculated by dividing \$10 by the greater of \$1 and the then current market price of Class A shares. If conversion has not occurred by the close of business on December 31, 2002, the Class B shares become convertible at the option of the shareholder into Class A shares on the same basis. Effective on February 28, 2003, all remaining Class B shares will be deemed to be converted to Class A shares as per the aforementioned conversion formula.

#### (b) Issued and outstanding:

	Nine months ended September 30, 2000		Years ended December 31, 1999			
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Class A shares:						
Balance, beginning of period	5,559,850	1,756,119	4,584,850	\$ 1,268,619	3,894,100	\$ 597,369
Conversion of warrants	–	–	–	–	40,750	40,750
Exercise of options	5,000	6,494	–	–	–	–
Flow-through issue	–	–	975,000	487,500	650,000	650,000
Share costs	–	–	–	–	–	(19,500)
Balance, end of period	5,564,850	1,762,613	5,559,850	1,756,119	4,584,850	1,268,619
Class B shares:						
Balance, beginning of period	408,936	1,975,606	408,936	2,753,715	365,186	3,651,860
Issued for cash	–	–	–	–	43,750	437,500
Re-classification on adoption of Section 3465	–	(217,000)	–	–	–	–
Flow-through share renoucement	–	–	–	(778,109)	–	(1,335,645)
Balance, end of period	408,936	1,758,606	408,936	1,975,606	408,936	2,753,715
Share purchase loans	–	(158,600)	–	(178,600)	–	(53,600)
Total share capital		\$ 3,362,619		\$ 3,553,125		\$ 3,968,734

# MARENGO EXPLORATION LTD.

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and for the nine months ended September 30, 2000 and 1999 is unaudited)

### 5. Share capital (continued):

#### (c) Share options (continued):

Shares of the Corporation are reserved for directors, officers and employees under the Corporation's stock option plan. As at September 30, 2000, Class A common share options were outstanding at a weighted average exercise price of \$0.44 per share which expire between 2002 and 2004 (December 31, 1999 – \$0.42; December 31, 1998 - \$0.40).

Changes in the number of options, with their weighted average exercise price are summarized below:

	September 30, 2000		December 31, 1999		December 31, 1998	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	458,485	\$ 0.42	389,400	\$ 0.40	389,400	\$ 0.40
Granted	97,500	0.60	179,085	0.44	–	–
Cancelled	–	–	(110,000)	0.40	–	–
Exercised	(5,000)	0.40	–	–	–	–
Stock options outstanding, end of period	550,985	\$ 0.44	458,485	\$ 0.42	389,400	\$ 0.40
Exercisable at period end	520,457	\$ 0.44	428,990	\$ 0.41	249,800	\$ 0.40

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2000:

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 0.40	384,400	1 year	\$ 0.40	389,400	\$ 0.40
0.50	69,085	1 year	0.50	69,085	0.50
0.60	97,500	2 years	0.60	–	–
\$ 0.44	550,985	1.19 years	\$ 0.44	458,485	\$ 0.42

# MARENGO EXPLORATION LTD.

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and for the nine months ended September 30, 2000 and 1999 is unaudited)

### 5. Share capital (continued):

#### (d) Share purchase loans:

Share purchase loans of \$158,600 (December 31, 1999 - \$178,600; December 31, 1998 - \$53,600) held by officers and directors of the Corporation are a reduction of share capital. A loan for \$33,600 (December 31, 1999 - \$53,600; December 31, 1998 - \$53,600) bears no interest.

### 6. Income taxes:

During the period ended September 30, 2000, the Corporation changed its method of accounting for income taxes from the deferral method to the liability method as described in note 1, and has applied this change retroactively without restating prior periods. At January 1, 2000, the future income tax liability was increased by \$1,504,000, oil and natural gas properties were increased by \$1,439,000, share capital was decreased by \$217,000 and retained earnings were increased by \$152,000. These adjustments resulted from recognizing the future tax costs of acquisitions where the tax basis was less than their cost and the future tax costs of renouncing deductions to flow-through share subscribers. The effect in 2000 was to decrease net earnings for the period by \$158,000.

The provision for income tax differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate to net income (loss) before taxes. This difference results from the following:

	Nine months ended September 30,		Years ended December 31,		
	2000	1999	1999	1998	1997
	(unaudited)				
Net income (loss) before taxes	\$ 2,533,479	\$ 219,321	\$ 280,022	\$ (1,004,188)	\$ (77,830)
Effective tax rate	44.6%	44.6%	44.6%	44.6%	44.6%
Expected income tax expense (recovery)	\$ 1,129,932	\$ 97,817	\$ 124,890	\$ (447,868)	\$ (34,712)
Effect on income tax of:					
Non-deductible crown royalties, net	490,767	139,267	203,918	82,217	875
Resource allowance	(598,652)	(136,222)	(114,517)	(16,066)	7,207
Non-deductible depletion	637,653	204,982	126,285	336,642	902
Recognized (unrecognized) income tax benefits	(489,397)	(307,574)	(70,803)	45,075	25,728
Share issuance costs	(32,112)	-	(42,816)	-	-
Other	1,809	1,730	2,423	-	-
Income tax expense	\$ 1,140,000	\$ -	\$ 229,380	\$ -	\$ -

# MARENGO EXPLORATION LTD.

## Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and for the nine months ended September 30, 2000 and 1999 is unaudited)

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### 6. Income taxes (continued):

Cash taxes paid in the period ended September 30, 2000 were \$nil (September 30, 1999 - \$nil; December 31, 1999 - \$nil; December 31, 1998 - \$nil and December 31, 1997 - \$nil).

### 7. Commitment:

New production from the Eyre area is committed to an AltaGas purchase agreement pursuant to which the first Bcf of gas produced from the property will be subject to a \$1.20 per MCF charge for gathering, transportation and marketing and ½% of net gas sales proceeds. In consideration for the charge, AltaGas will provide all facilities to tie-in and deliver the gas from the property. After the one Bcf of gas has been delivered, AltaGas will charge a normal gathering and processing fee which is anticipated to be approximately \$0.50 per MCF.

The Corporation is committed to spend \$nil (December 31, 1999 - \$487,500; December 31, 1998 - \$1,744,640) of eligible exploration expenses in the year ended December 31, 2000 under the terms of the flow-through share agreements for renouncements made in 1999.

The Corporation had previously entered into Participation Agreements and Reciprocal Agreements with various companies. At September 30, 2000, these agreements had expired.

### 8. Financial instruments:

Financial instruments of the Corporation consist of cash, accounts receivable, and accounts payable and accrued liabilities. At September 30, 2000, there are no significant differences between the carrying value reported on the balance sheet and their estimated market values.

### 9. Subsequent events:

On January 8, 2001, the Corporation and True Energy Inc. ("True") jointly announced that they entered into an agreement under which True made an offer dated February 6, 2001 to acquire all of the outstanding Class A Shares and Class B Shares of the Corporation (the "Offer") on the basis of: (i) \$2.05 for each Class A Share or 1.71 common shares of True and (ii) \$9.00 for each Class B Share or 7.5 common shares of True, subject to a maximum of 1,000,000 common shares being issued and to be allocated between the Class A Shares and Class B Shares. The Offer expired on February 28, 2001 at which time True took up and paid for approximately 99% of the outstanding Class A Shares and 95% of the outstanding Class B Shares and intends to acquire the balance of each class of share pursuant to the compulsory acquisition provisions of the Business Corporations Act (Alberta).

# MARENGO EXPLORATION LTD.

Notes to Financial Statements

Years ended December 31, 1999, 1998 and 1997

(Information as at September 30, 2000 and for the nine months ended September 30, 2000 and 1999 is unaudited)

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## 10. Comparative figures:

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

## **COMPILATION REPORT**

To the Board of Directors of True Energy Inc. (formerly Sundance Resources Inc.).

We have reviewed, as to compilation only, the accompanying unaudited pro forma balance sheet of True Energy Inc. ("True") as at September 30, 2000 and the unaudited pro forma statements of operations of True and Marengo Exploration Ltd. ("Marengo") for the nine months ended September 30, 2000 and the year ended December 31, 1999, which have been prepared for inclusion in True's Prospectus dated March 22, 2001. In our opinion, the unaudited pro forma balance sheet as at September 30, 2000 and the pro forma statements of operations for the nine months ended September 30, 2000 and the year ended December 31, 1999 have been properly compiled to give effect to the proposed transactions and assumptions described in notes thereto.

(Signed) KPMG LLP

Chartered Accountants

Calgary, Canada

March 22, 2001

**TRUE ENERGY INC.**

(Formerly Sundance Resources Inc.)

## Pro Forma Balance Sheet

September 30, 2000  
(Unaudited)

	True Energy Inc.	Marengo Exploration Ltd.	Pro Forma Adjustments	Note	Total
<b>Assets</b>					
<b>Current assets:</b>					
Cash	\$ 611,068	\$ 198,015	(15,742,980)	2(b)(i)	\$ 3,471,283
			2,279,700	2(c)	
			382,500	2(d)	
			4,650,000	2(b)(iii)	
			11,092,980	2(b)(iv)	
Accounts receivable	<u>1,424,529</u>	<u>2,451,203</u>			<u>3,875,732</u>
	2,035,597	2,649,218			7,347,015
Capital assets	8,967,209	6,362,793	21,586,371	2(b)(i)	36,916,373
	<u>\$11,002,806</u>	<u>\$ 9,012,011</u>			<u>\$44,263,388</u>
<b>Liabilities and Shareholders' Equity</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued liabilities	\$ 4,345,432	\$ 2,215,306	185,000	2(b)(i)	\$ 6,745,738
Income tax payable	–	1,140,000			1,140,000
Current portion of prepaid contract	<u>518,700</u>	<u>–</u>			<u>518,700</u>
	4,864,132	3,355,306			8,404,438
Prepaid contract	351,500	–			351,500
Future site restoration and abandonment	71,947	60,211			132,158
Long-term debt	–	–	11,092,980	2(b)(iv)	11,092,980
Future income taxes	265,950	1,733,380	9,139,372	2(b)(i)	10,882,118
			(256,584)	2(b)(v)	
Shareholders' equity:					
Share capital	5,913,370	3,362,619	382,133	2(b)(i)	13,864,287
			(3,362,619)	2(b)(i)	
			2,279,700	2(c)	
			382,500	2(d)	
			4,650,000	2(b)(iii)	
			256,584	2(b)(v)	
Retained earnings (deficit)	(464,093)	500,495	(500,495)	2(b)(i)	(464,093)
	<u>5,449,277</u>	<u>3,863,114</u>			<u>13,400,194</u>
	<u>\$11,002,806</u>	<u>\$ 9,012,011</u>			<u>\$44,263,388</u>

See accompanying notes to pro forma financial statements.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

## Pro Forma Statement of Operations

Nine months ended September 30, 2000  
(Unaudited)

	True Energy Inc.	887733 Alberta Ltd.	851431 Alberta Ltd.	Pro Forma Adjust- ments	Note	Total	Marengo Exploration Ltd.	Pro Forma Adjust- ments	Note	Total
<b>Revenues:</b>										
Oil and gas sales, net of royalties	\$ 1,333,071	\$437,837	\$ -			\$ 1,770,908	\$ 5,365,368			\$ 7,136,276
Other	78,287	-	-			78,287	13,914			92,201
	1,411,358	437,837	-			1,849,195	5,379,282			7,228,477
<b>Expenses:</b>										
Production	436,183	148,220	-			584,403	1,149,760			1,734,163
General and administrative	367,996	-	-			367,996	219,589			587,585
Interest on long- term debt	20,281	-	-			20,281	-	686,378	2(b)(iv)	706,659
Bank charges and interest	-	-	-			-	46,738			46,738
Depletion and depreciation	591,000	-	-	110,542	2(a)(ii)	701,542	1,429,716	2,700,000	2(b)(ii)	4,831,258
	1,415,460	148,220	-			1,674,222	2,845,803			7,906,403
<b>Earnings (loss) before provision for income taxes</b>										
	(4,102)	-	-			174,973	2,533,479			(677,926)
<b>Provision for income tax:</b>										
Future	42,000	-	-	114,437	2(a)(ii)	156,437	-	(488,677)	2(b)(v)	(332,240)
Current	-	-	-			-	1,140,000	(759,432)	2(b)(v)	380,568
<b>Net earnings (loss)</b>	<b>\$ (46,102)</b>	<b>\$ -</b>	<b>\$ -</b>			<b>\$ 18,536</b>	<b>\$ 1,393,479</b>			<b>\$ (726,254)</b>
<b>Earnings (loss) per share (note 3)</b>						<b>\$ -</b>				<b>\$ (0.05)</b>

See accompanying notes to pro forma financial statements.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

## Pro Forma Statement of Operations

Year ended December 31, 1999  
(Unaudited)

	True Energy Inc.	887733 Alberta Ltd.	851431 Alberta Ltd.	Pro Forma Adjust- ments	Note	Total	Marengo Exploration Ltd.	Pro Forma Adjust- ments	Note	Total
Revenues:										
Oil and gas sales, net of royalties	\$ 1,521,444	\$639,045	\$ -			\$ 2,160,489	\$ 1,931,413	\$		\$ 4,091,902
Other	34,832	-	-			34,832	47,242			82,074
	1,556,276	639,045	-			2,195,321	1,978,655			4,173,976
Expenses:										
Production	378,729	217,180	-			595,909	742,680			1,338,589
General and administrative	418,594	-	-			418,594	331,016			749,610
Interest on long- term debt	43,275	-	-			43,275	-	915,171	2(b)(iv)	958,446
Bank charges and interest	14,499	-	-			14,499	19,235			33,734
Depletion and depreciation	761,145	-	-	135,743	2(a)(ii)	896,888	605,702	1,950,000	2(b)(ii)	3,452,590
	1,616,242	217,180	-			1,969,165	1,698,633			6,532,969
Earnings (loss) before provision for income taxes										
	(59,966)	-	-			226,156	280,022			(2,358,993)
Provision for income tax:										
Future	81,706	-	-	282,022	2(a)(ii)	363,728	229,380	(1,413,108)	2(b)(v)	(820,000)
Current	-	-	-	-		-	-	90,000	2(b)(v)	90,000
Net earnings (loss)	\$ (141,672)	\$ -	\$ -			\$ (137,572)	\$ 50,642			\$ (1,628,993)
Earnings (loss) per share (note 3)										
						\$ (0.01)				\$ (0.13)

See accompanying notes to pro forma financial statements.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Pro Forma Financial Statements

Nine months ended September 30, 2000  
(Unaudited)

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## 1. Basis of presentation:

### (a) Sundance amalgamation:

On July 20, 2000, Sundance Resources Inc. ("Sundance") negotiated the terms of an amalgamation with 851431 Alberta Ltd. ("851431") and 887733 Alberta Ltd. ("887733") whereby the three companies entered into a business combination ("Amalgamation") effective and approved by Sundance shareholders on August 31, 2000. The result of the business combination was that Sundance, 851431 and 887733 combined their operations into a new corporation, True Energy Inc. ("True"). The shareholders of Sundance received .444, shareholders of 851431 1 (one) and the shareholder of 887733 1 (one) common share of True, respectively, in exchange for each common share of the respective companies. This transaction resulted in the shareholders of Sundance obtaining control of more than 50% of the total issued and outstanding common shares of True and, accordingly, Sundance was deemed to have acquired 851431 and 887733. The owner of 887733 is an existing director and shareholder of Sundance and 887733 is considered to be a related party. As a result, this portion of the transaction will be accounted for at carrying values of 887733.

851431 is a private company which, prior to the Amalgamation, had \$3,517,380 in cash and no liabilities as a result of a private placement into 851431 at \$0.907 per common share by a group of investors. 887733 is a private company which, prior to the Amalgamation, acquired certain oil and gas interests in the Hoosier, Ingoldsby and Brock areas in Saskatchewan, most of which are areas in which Sundance also had interests.

### (b) Marengo acquisition:

On January 8, 2001, True and Marengo Exploration Ltd. ("Marengo") jointly announced that they entered into an agreement under which True will make an offer to acquire all of the outstanding Class A and Class B shares of Marengo (the "Offer") on the basis of: (i) \$2.05 for each Class A share or 1.71 common shares of True; and (ii) \$9.00 for each Class B share or 7.5 common shares of True, subject to a maximum of 1,000,000 common shares being issued and to be allocated between the Class A and Class B shares. The Offer will be subject to certain conditions, including the deposit of not less than 66-2/3% of the outstanding Class A shares (on a fully diluted basis) and 66-2/3% of the outstanding Class B shares pursuant to the Offer.

Marengo is a public company engaged in the business of exploration, development and production of petroleum and natural gas reserves.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Pro Forma Financial Statements  
Nine months ended September 30, 2000  
(Unaudited)

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## 1. Basis of presentation (continued):

The unaudited pro forma financial statements have been prepared by management in accordance with generally accepted accounting principles. The unaudited pro forma financial statements have been prepared from the audited financial statements of Sundance as at and for the year ended December 31, 1999, from the unaudited financial statements of True as at and for the nine months ended September 30, 2000, from unaudited information provided by the management of 851431 and 887733, from the audited financial statements of Marengo as at and for the year ended December 31, 1999 and from the unaudited financial statements of Marengo as at and for the nine months ended September 30, 2000.

The pro forma financial statements may not be indicative either of results that actually would have occurred if the events reflected herein had been in effect on the dates indicated or of the results which may be obtained in the future.

The pro forma financial statements should be read in conjunction with the audited financial statements and notes thereto included in True's Prospectus dated March 22, 2001.

## 2. Pro forma transaction and assumptions:

The pro forma balance sheet gives effect to the proposed transactions as if they occurred on September 30, 2000. The pro forma statements of operations give effect to the proposed transactions as if they occurred at the beginning of the period being January 1, 2000 for the nine months ended September 30, 2000 and January 1, 1999 for the year ended December 31, 1999.

Accounting policies used in the preparation of the pro forma statements are in accordance with those disclosed in Sundance's audited financial statements for the year ended December 31, 1999.

These pro forma statements give effect to the following transactions, assumptions and adjustments:

**TRUE ENERGY INC.**

(Formerly Sundance Resources Inc.)

Notes to Pro Forma Financial Statements  
 Nine months ended September 30, 2000  
 (Unaudited)

**2. Pro forma transaction and assumptions (continued):**

## (a) Sundance amalgamation:

- (i) The business combination whereby Sundance acquires 851431 and 887733 on August 31, 2000 and the operations of these companies have been combined in True since the acquisition date. The purchase has been allocated based on fair values of 851431 and carrying values of 887733 as follows:

	851431	887733	Total
Cash	\$ 3,517,380	\$ –	\$ 3,517,380
Capital assets	–	1,821,111	1,821,111
Bank debt	–	(700,000)	(700,000)
Future income taxes	–	(132,339)	(132,339)
	\$ 3,517,380	\$ 988,772	\$ 4,506,152

	851431	887733	Total
Consideration:			
Issue of 3,876,904 shares of True valued at \$0.907 per share	\$ 3,517,380	\$ –	\$ 3,517,380
Issue of 2,950,001 shares of True at an attributed value of \$0.335 per share	–	988,772	988,772
	\$ 3,517,380	\$ 988,772	\$ 4,506,152

The net operating results of certain oil and gas interests acquired by 887733 for the eight months ended August 31, 2000 have been included in the pro forma statement of operations, the net operating results for the period September 1, 2000 to September 30, 2000 are included in the operations of True.

- (ii) Depletion and depreciation and the provision for income tax has been adjusted to reflect the consolidation of 887733's petroleum and natural gas reserves and fair value adjustments on acquisition.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Pro Forma Financial Statements  
 Nine months ended September 30, 2000  
 (Unaudited)

## 2. Pro forma transaction and assumptions:

### (b) Marengo acquisition:

- (i) The business combination whereby True acquires all of the Class A and Class B shares of Marengo, assuming all shares are acquired for cash and the minimum number of shares to be exchanged according to the lock-up agreements. The purchase method has been used effective January 1, 2000 for the pro forma statement of operations for the nine months ended September 30, 2000 and January 1, 1999 for the year ended December 31, 1999. An effective date of September 30, 2000 has been used for the pro forma balance sheet. The purchase price has been allocated based on the fair values of the Marengo assets and liabilities acquired at September 30, 2000 as follows:

Cash	\$ 198,015
Working capital deficiency	(904,103)
Capital assets	27,949,164
Future site restoration and abandonment	(60,211)
Future income taxes	(10,872,752)
	\$ 16,310,113

Consideration:	
Cash	\$ 15,742,980
318,444 common shares of True	382,133
Acquisition costs	185,000
	\$ 16,310,113

- (ii) Depletion and depreciation has been adjusted to reflect the consolidation of Marengo's petroleum and natural gas reserves and fair value adjustments on acquisition.

# TRUE ENERGY INC.

(Formerly Sundance Resources Inc.)

Notes to Pro Forma Financial Statements  
Nine months ended September 30, 2000  
(Unaudited)

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## 2. Pro forma transaction and assumptions (continued):

### (b) Marengo acquisition (continued):

- (iii) Share capital and cash have been adjusted to reflect the True private placement of 4,166,667 Special Warrants issuable at \$1.20 per Special Warrant announced on January 17, 2001. Each Special Warrant is convertible into one common share of True. Net proceeds are anticipated to be approximately \$4,650,000.
  - (iv) Long-term debt, interest expense and cash has been adjusted to reflect the financing agreement True entered into with a Canadian chartered bank for an \$11,300,000 facility to finance the Marengo acquisition. Interest has been recognized at the bank's prime rate plus  $\frac{3}{4}$  of 1% for the nine month period ended September 30, 2000 and the year ended December 31, 1999.
  - (v) Marengo has a current income tax liability at September 30, 2000 of \$1,140,000. The pro forma current and future income tax liability and provision for income taxes has been adjusted to incorporate the tax deductibility of pro forma adjustments and the ability of True to utilize additional tax pools available under the assumptions that the acquisition occurred effective January 1, 1999 and 2000.
- (c) Share capital and cash have been adjusted to reflect the sale of 1,670,000 flow-through common shares of True, pursuant to a prospectus dated November 24, 2000. Each flow-through common share was issued at a price of \$1.50 resulting in net proceeds of \$2,279,700.
  - (d) Share capital and cash have been adjusted to reflect two private placements for 200,000 and 55,000 flow-through common shares, respectively. Each flow-through common share was issued at a price of \$1.50 for total proceeds of \$382,500.

## 3. Per common share information:

Pro forma earnings (loss) per common share has been calculated using the weighted average common shares of True outstanding plus all shares anticipated to be issued in relation to the pro-forma transactions. The weighted average shares outstanding (plus adjustments) for the nine month period ended September 30, 2000 is 15,243,829 and for the year ended December 31, 1999 is 12,270,618. Fully diluted per share numbers are not included as they are either anti-dilutive or not materially different.

**CERTIFICATE OF THE CORPORATION**

March 22, 2001

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 8 of the *Securities Act* (Alberta), by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

(signed) Paul R. Baay  
President and Chief Executive Officer

(signed) Todd R. Klippenstein  
as Chief Financial Officer

**On behalf of the Board of Directors**

(signed) John H. Cuthbertson  
Director

(signed) W.C. (Mickey) Dunn  
Director

**CERTIFICATE OF THE PROMOTERS**

March 22, 2001

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 8 of the *Securities Act* (Alberta), by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

(signed) Paul R. Baay

(signed) W.C. (Mickey) Dunn

**CERTIFICATE OF THE UNDERWRITERS**

March 22, 2001

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 8 of the *Securities Act* (Alberta), by Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

FIRSTENERGY CAPITAL CORP.

PETERS & CO. LIMITED

By: (signed) Warren G. Holmes

By: (signed) Christopher S. Potter