MANAGEMENT'S DISCUSSION AND ANALYSIS

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True Energy

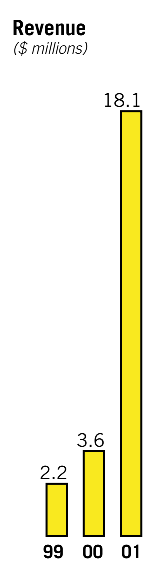
recorded a 403 percent increase in revenue and a 282 percent increase in cash flow from operations in 2001.

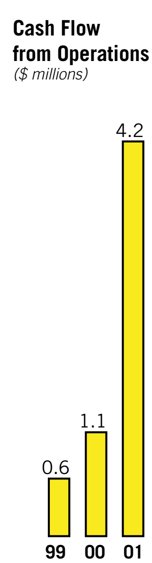
2001 HIGHLIGHTS

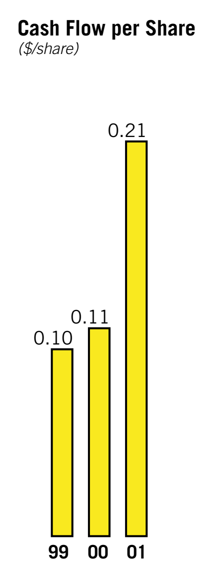
- Revenue increased 403 percent to $18.1 million.
- Cash flow from operations was $4.2 million, up 282 percent from 2000.
- Cash flow per share increased to $0.21 ($0.21 diluted), up 91 percent from $0.11 ($0.11 diluted) in 2000.
- The Company reported a loss of $19.3 million in 2001, primarily as a result of a ceiling test writedown in the carrying value of its assets.
- Debt, net of working capital, at December 31, 2001 was $17.2 million.
- Capital expenditures for 2001 amounted to $41.3 million, before proceeds of $3.5 million resulting from disposition of assets during the year.
- Oil and gas production increased significantly in 2001 averaging 1,880 barrels of oil equivalent, up 431 percent from 354 barrels of oil equivalent in 2000.
- Proved plus probable reserves increased by 95 percent to 5.0 million barrels of oil equivalent.

The following discussion is intended to present the reader with a detailed analysis of the Company's financial and operating results for 2001 and the prior year, and should be read in conjunction with the Company's consolidated financial statements included in this annual report.

Information provided herein for 2002 is based on assumptions regarding future events and is subject to risks and uncertainties that may cause actual results to vary materially from these estimates.







Where amounts are expressed on a barrel of oil equivalent basis, natural gas volumes have been converted to barrels of oil at six thousand cubic feet per barrel, unless otherwise stated. References to oil in this discussion include crude oil and natural gas liquids (NGLs). NGLs include condensate, butane and propane.

RESULTS OF OPERATIONS

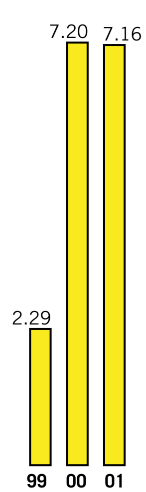
The year 2001 proved to be a significant growth year for True Energy, after commencing operations in September 2000. The oil and gas industry participated in an unprecedented amount of consolidation during the year, triggered by historically high natural gas and high crude oil prices during the first half of 2001. Oil and gas industry activity slowed down significantly in the fourth quarter after commodity prices declined steeply, reacting to the slowdown in the global economy. True Energy was active in the first half of 2001, completing the corporate acquisition of Marengo Exploration Ltd. effective February 28, 2001 and the purchase of oil and gas assets located in the Kerrobert/Dodsland area of west central Saskatchewan on June 26, 2001 along with the successful drilling at Coleville South and Coleville.

Revenue

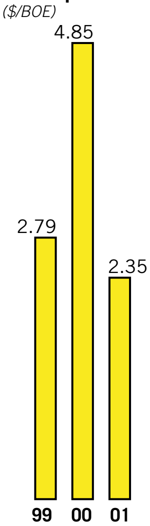
Revenue, after royalties, for 2001 was $12.3 million, an increase of 310 percent from $3.0 million in the previous year. The breakdown of revenue is summarized in the following table:

Revenue Years ended December 31 ($ thousands)	2001	2000	Change
Oil revenue	4,256	872	388%
Natural gas revenue	13,847	2,761	402%
Royalties	(5,819)	(677)	760%
Revenue	12,284	2,956	315%

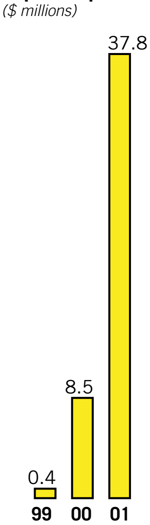
Operating Expenses
($/BOE)



G&A Expenses
($/BOE)



Capital Expenditures, net
($ millions)



Cash Flow from Operations and Net Earnings

Cash flow from operations was $4.2 million, an increase of 287 percent from $1.1 million in 2000. On a per share basis, cash flow from operations was $0.21 basic ($0.21 diluted), up 91 percent from $0.11 basic ($0.11 diluted) in 2000. True Energy reported a loss of $19.3 million ($0.99 per share) in 2001. In the previous year, the Company reported net earnings of $0.2 million ($0.02 per share).

Oil Operations

Oil revenue was $4.3 million, up 378 percent from $0.9 million in 2000. Significant increases in oil production more than offset lower oil prices. Oil production averaged 566 barrels per day, up 720 percent from 69 barrels per day in 2000. The average WTI index price was US$25.90 per barrel, down 14.2 percent from US$30.20 per barrel in the previous year. As a result, True Energy received an average price of $20.61 per barrel for oil sales, a decrease of 40 percent from $34.46 per barrel selling price in 2000.

Oil Netbacks

Years ended December 31 ($ per bbl)	2001	2000	% Change
Sales price	20.61	34.46	(40)
Royalties, as a % of sales	(15.0%)	(13.3%)	12
Production expense	(13.23)	(12.12)	9
Netback	4.27	17.82	(76)
Production (bbls/d)	566	69	720

Natural Gas Operations

Natural gas revenue increased 393 percent to reach $13.8 million in 2001, up from $2.8 million in the previous year. The Company benefited from increased production volumes in 2001. True Energy's average natural gas selling price was $4.81 per thousand cubic feet ($4.14 before hedging), up 9 percent from $4.41 in 2000.

Natural gas production in 2001 averaged 7.89 million cubic feet per day, up 361 percent from 1.71 million cubic feet per day in the previous year. Higher natural gas production volumes in 2001 were partly due to the acquisitions during the year, but more so as a result of the Company's successful drilling program in the Coleville/Driver area of west central Saskatchewan.

Natural Gas Netbacks

Years ended December 31 ($ per Mcf)	2001	2000	% Change
Sales price	4.14	4.41	(6)
Hedging gain (loss)	0.67	–	–
Royalties, as a % of sales	(43.5%)	(20.3%)	114
Production expense	(0.76)	(1.00)	(24)
Netback	2.25	2.51	(10)
Production (MMcf/d)	7.89	1.71	361

Hedging

In 2001, True Energy entered into transactions to put into effect a costless collar for natural gas sales of 3,000 gigajoules per day for the period February 1, 2001 to December 31, 2001. These transactions established a floor price of $7.50 per gigajoule and a ceiling price of $8.50 per gigajoule at the AECO-C Hub. Effective August 1, 2001, the Company sold the collar and received a lump sum payment of $1.6 million. Total hedging gain resulting from this transaction was $1.9 million and is included in natural gas revenue.

General and Administrative Expense

General and administrative expense, before recoveries, increased by 200 percent to $2.1 million in 2001, from $0.7 million in the previous year. General and administrative expenses are reduced by overhead recovered on Company operated properties. Accordingly, net expenses were $1.6 million in 2001, up 167 percent from $0.6 million in 2000. On a barrel of oil equivalent basis, general and administrative expense improved in 2001 by 52 percent, at $2.35 compared to $4.85 in 2000.

General and Administrative Expense

Years ended December 31 ($ thousands except per BOE amounts)	2001	2000	% Change
General and administrative expense, gross	2,143	686	212
Operator recoveries			
Capital	(298)	–	–
Operating	(230)	(58)	297
General and administrative expense, net	1,615	628	157
General and administrative expense per BOE			
Gross	3.12	5.29	(41)
Net	2.35	4.85	(52)
Staff at year-end			
Employees	15	5	200
Consultants	6	2	200

Interest Expense

The following table is a summary of interest expense and relevant statistics for the past two years:

Interest Expense

Years ended December 31 ($ thousands except per BOE amounts)	2001	2000	% Change
Interest expense	737	31	2,277
Interest expense per BOE	1.07	0.24	346

Higher interest charges in 2001 reflect higher debt levels incurred to finance a portion of the year's capital expenditures.

Capital Tax

Capital taxes paid by the Company are in respect of the Federal Large Corporations Tax and are based on year-end equity, debt and future income tax levels. Capital taxes were $30,054 in 2001.

Depletion and Depreciation

In 2001, depletion and depreciation increased by 870 percent from $1.0 million in 2000 to $9.7 million. On a barrel of oil equivalent basis depletion and depreciation was $14.14 in 2001, up from $7.90 in the previous year. Higher depletion charges in 2001 reflect the higher net book value recorded as a result of the “spiral-up” effect relating to the Marengo acquisition.

Under the Canadian Institute of Chartered Accountants (CICA) full cost accounting guidelines, the Company calculates a ceiling test whereby the carrying value of petroleum and natural gas properties is compared to estimated future cash flow from the production of proven reserves.

At December 31, 2001, the Company calculated the ceiling test using prices of $18.25 per barrel for oil and $3.24 per thousand cubic feet for natural gas. As a result, the Company realized a write-down of its oil and gas properties by $16.0 million, net of future income taxes of $11.0 million. For comparative purposes, commodity prices used in the ceiling test calculation at December 31, 2000 were $22.28 per barrel for oil and $9.15 per thousand cubic feet for natural gas.

Income Taxes

True Energy utilizes the asset and liability method of tax allocation for income taxes. In 2001, future income tax recovery was $12.6 million compared to an expense of $165,000 in 2000. The effective tax rate in 2001 was 39.6 percent, down from 48.3 percent in the previous year. The effective tax rate differs from the Company’s statutory income tax rate of 44.35 percent due to differences between the resource allowance deduction compared to non-deductible Crown charges. An analysis of the income tax provision is included in the notes to the financial statements.

At December 31, 2001, True Energy had unused income tax deductions available totalling $30.8 million compared to $11.4 million in the previous year. A summary of these deductions with corresponding rate of deductibility is shown in the table below:

Income Tax Deductions

As at December 31 ($ thousands)	2001	2000	Deduction Rate
Canadian Exploration Expense (CEE)	2,642	1,168	100%
Canadian Development Expense (CDE)	4,573	3,033	30%
Canadian Oil and Gas Property Expense (COGPE)	13,068	3,166	10%
Undepreciated Capital Cost (UCC)	8,606	3,630	25%
Share Issue Costs	1,897	397	20%
Total	30,786	11,394	

LIQUIDITY AND CAPITAL RESOURCES

Funding for capital expenditures in 2001 was provided by cash flow from operations in conjunction with new equity issues and additional bank debt. Net capital expenditures for 2001 were $37.8 million, after $3.5 million in proceeds from property dispositions. Cash flow from operations was $4.2 million; proceeds, after costs, from new equity issues were $20.8 million and bank debt increased by $11.8 million during the year. At December 31, 2001, the Company’s working capital deficiency, before bank debt, was $4.1 million, up $2.2 million from the previous year-end. True Energy expects to eliminate its working capital deficiency in 2002 through the disposition of certain non-strategic assets.

True Energy has a $14.0 million revolving demand loan facility with its bank, of which $13.1 million was drawn at December 31, 2001. The credit facility revolves until May 31, 2002, however, due to the revolving nature of the credit facility, it will continue to be replaced by new debt provided that the Company continues to be in compliance with the lending agreement. At December 31, 2001, the bank acknowledges contravention and non-compliance with the working capital covenant (current ratio of not less than 1:1 as at the end of each fiscal quarter).

Effective for fiscal periods commencing on January 1, 2002, the Canadian Institute of Chartered Accountants has amended Canadian Generally Accepted Accounting Principles to require all borrowings where the lender has a right to demand repayment within 12 months (other than in the event of a default or breach of covenants) or where the lender has the right to refuse to rollover the borrowing for a further lending period longer than 12 months to be classified as current liabilities.

The Company has already adopted this requirement effective for the reporting period ended December 31, 2001. The impact of the change in Canadian GAAP was that current liabilities, at December 31, 2001, were increased by $13.1 million and long-term debt was reduced by a similar amount. For comparative purposes, the classification change is also reflected as at December 31, 2000.

CAPITAL EXPENDITURES

True Energy is committed to future growth through its strategy of acquisition, exploitation, exploration and rationalization of assets. The Company's capital expenditure program in 2001 was concentrated on acquisitions and follow-up development in its core producing area of west central Saskatchewan. True Energy spent $41.3 million in 2001, an increase of 386 percent from the $8.5 million spent in 2000. During the year, the Company sold non-core assets for proceeds of $3.5 million.

True Energy's capital expenditure program over the past two years is summarized below:

Capital Expenditures Years ended December 31 ($ thousands)	2001	2000	% Change
Exploration and development costs			
Lease acquisitions and retention	549	616	(11)
Geological and geophysical activity	1,035	233	344
Drilling and completion of wells	6,244	3,506	78
Facilities and equipment	2,992	2,402	25
Total exploration and development costs	10,820	6,757	60
Corporate acquisitions	14,659	–	–
Asset acquisitions	15,663	1,609	873
Head office expenditures	135	159	(15)
Total capital expenditures	41,277	8,525	384
Proceeds from sale of assets	3,473	–	–
Net capital expenditures	37,804	8,525	343

The Company's capital expenditures in 2001 resulted in a replacement cost of $17.03 per barrel of oil equivalent for net proven reserves added. Cash flow per barrel of oil equivalent was $6.06, resulting in a recycle ratio of 0.4 times.

Recycle Ratio Years ended December 31 ($ thousands except per BOE amounts)	2001	2000	% Change
Cash flow from operations	4,159	1,075	287
Production (MBOE)	686	129	432
Cash flow per BOE	6.06	8.34	(27)
Net capital expenditures	37,804	8,525	343
Net proven reserve additions (MBOE)	2,220	908	144
Replacement cost per BOE	17.03	9.39	81
Recycle ratio	0.4	0.9	

BUSINESS RISKS

True Energy's production and exploration activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies ranging from smaller junior producers to the much larger integrated petroleum companies. True Energy is subject to the following types of business risks:

- Finding and developing oil and natural gas reserves at economic costs;
- Production of oil and natural gas in commercial quantities; and
- Marketability of oil and natural gas produced.

In order to reduce exploration risk, the Company employs highly qualified and motivated professional employees who have demonstrated the ability to generate quality proprietary geological and geophysical prospects. To maximize drilling success, True Energy explores in areas that afford multi-zone prospect potential, targeting a range of low to moderate risk prospects with some exposure to select high risk with high reward opportunities.

The Company mitigates its risk related to producing hydrocarbons through the utilization of the most advanced technology and information systems. In addition, True Energy seeks to maintain operational control of the majority of its prospects.

External factors beyond the Company's control may affect the marketability of oil and natural gas produced. These factors include commodity prices and variations in the Canadian Dollar/United States Dollar exchange rate, which in turn respond to economic and political circumstances throughout the world. True Energy may periodically use futures and options contracts to hedge its exposure against the potential adverse impact of commodity price volatility.

ENVIRONMENTAL AND SAFETY RISKS

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. In order to mitigate such risks, True Energy conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to employees, contractors and the public at large. The Company maintains current insurance coverage for general and comprehensive liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect changing corporate requirements, as well as industry standards and government regulations.

BUSINESS PROSPECTS AND 2002 OUTLOOK

True Energy is optimistic about its future prospects. The Company has been successful in growing its production and land base since its formation in September 2000 and is expected to continue with future growth through development of its core assets and new exploration on the Company's inventory of geological prospects. Currently, the majority of the Company's producing properties are located in west central Saskatchewan. True Energy will endeavour to establish a second core area, likely in Alberta. In doing so, the Company will continue to focus its exploration efforts in areas of multi-zone potential for natural gas.

The outlook for 2002 is promising with incremental production from drilling activities in the first quarter commencing in March. Further production gains are anticipated in the second half of the year resulting from continued exploration efforts in west central Saskatchewan. The Company expects to spend $7.0 million in capital for 2002 and to sell non-strategic assets for approximately $6.0 million. As a result, the Company expects to produce an average of 2,000 barrels of oil equivalent per day (762 barrels per day of oil and NGLs and 7.43 million cubic feet per day of natural gas). At this production level, the Company anticipates generating cash flow from operations of $5.0 million ($0.17 per share).

QUARTERLY INFORMATION

The following table provides a summary by quarter for 2001 and the previous year:

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

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