MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of True Energy Inc. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in this annual report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include amounts that are based on management's informed judgements and estimates where necessary.

The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these financial statements. The Audit Committee meets periodically with the external auditors and management to review the work of each and the propriety of the discharge of their responsibilities.

Specifically, the Audit Committee reviews with management and the external auditors the financial statements and annual report of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The shareholders have appointed KPMG LLP as the external auditors of the Company and, in that capacity, they have examined the financial statements for the period ended December 31, 2001.

Signed by

Paul R. Baay
President and Chief Executive Officer

Signed by

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

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of True Energy Inc. as at December 31, 2001 and 2000 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed by

Chartered Accountants
Calgary, Canada
March 30, 2002

CONSOLIDATED BALANCE SHEETS

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

See accompanying notes to the consolidated financial statements.

On behalf of the Board,

Signed by
Kenneth Acheson

Director

Signed by
W.C. Dunn

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

years ended December 31, 2001 and 2000

GENERAL:

True Energy Inc. ("True" or the "Corporation") was formed on the amalgamation of Sundance Resources Inc. ("Sundance"), 851431 Alberta Ltd. ("851431") and 887733 Alberta Ltd. ("887733") effective August 31, 2000 (note 2).

Results of operations prior to August 31, 2000 are those of Sundance. Sundance was incorporated under the Business Corporation Act (Alberta) on February 9, 1996.

1. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Corporation have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The amounts recorded for depletion and depreciation, the provision for future site restoration, ceiling test factors such as proved reserves production rates, oil and natural gas prices and future costs are estimated. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant policies summarized below:

(a) Petroleum and natural gas properties:

The Corporation follows the full cost method of accounting for petroleum and natural gas operations whereby all costs related to the exploration and the development of petroleum and natural gas reserves are capitalized. These costs include land acquisition costs, geological and geophysical expenses, the costs of drilling both productive and non-productive wells and directly related overhead. Proceeds from the disposal of properties are deducted from the full cost pool without recognition of a gain or loss unless such a sale would significantly alter the rate of depletion and depreciation.

Depletion of petroleum and natural gas properties is provided using the unit-of-production method based on production volumes before royalties in relation to estimated proved reserves as determined by independent engineers. Natural gas reserves and production are converted at the energy equivalent rate of six thousand cubic feet to one barrel of oil.

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

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

(b) Joint interests:

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

(c) Future site restoration and abandonment costs:

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

(d) Prepaid contracts:

Advance payments received under prepaid contracts for oil and gas which is not delivered are deferred and are recognized as revenue when deliveries are made. Revenue is recognized on a straight line basis by dividing the advance payment by the total contracted volumes.

(e) Flow-through common shares:

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

(f) Financial instruments and hedging transactions:

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

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

(g) Stock-based compensation plan:

The Corporation has one stock-based compensation plan, which is described in note 6(c). No compensation expense is recognized for these plans when stock options are issued to employees. Any consideration paid by employees is credited to share capital.

(h) Income taxes:

Income taxes are recorded using the liability method of tax allocation. Future income tax assets and liabilities are determined based on "temporary differences" and are measured using the current, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(i) Cash and cash equivalents:

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

2. ACQUISITIONS:

On July 20, 2000, the Corporation negotiated the terms of an amalgamation with 851431 and 887733. Both 851431 and 887733 were private companies that had no operations and held certain assets. The result of the business combination was that the shareholders of the Corporation obtained control of more than 50 percent of the total issued and outstanding common shares of the amalgamated entity and, accordingly was deemed to have acquired 851431 and 887733. The acquisitions have been accounted for using the purchase method, and the results of operations are included from the effective date of August 31, 2000. The owner of 887733 was an existing director and shareholder of the Corporation, thus was considered to be a related party. As a result, this portion of the transaction has been accounted for at the carrying values of 887733.

The net assets acquired and consideration given were:

	851431	887733	Total
Net assets acquired:			
Cash	$ 3,517,380	$ –	$ 3,517,380
Property, plant and equipment	–	1,821,111	1,821,111
Bank debt	–	(700,000)	(700,000)
Future income tax liability	–	(132,339)	(132,339)
	$ 3,517,380	$ 988,772	$ 4,506,152
Consideration:			
Issued 3,876,904 shares of True Energy valued at $0.907 per share	$ 3,517,380	$ –	$ 3,517,380
Issued 2,950,001 shares of True Energy at an attributed value of $0.335 per share	–	988,772	988,772
	$ 3,517,380	$ 988,772	$ 4,506,152

On February 6, 2001 the Company made an offer to acquire substantially all of the outstanding shares of Marengo Exploration Ltd. ("Marengo"). Marengo is engaged in exploration for and development and production of crude oil and natural gas primarily in the province of Saskatchewan. The acquisition has been accounted for using the purchase method and was effective February 28, 2001 being the date the majority of Marengo shares were taken up and paid for by True Energy.

The net assets acquired and consideration given were:

Net assets acquired:	
Cash	$ 708,085
Property, plant and equipment	27,795,228
Working capital	(1,685,327)
Future site restoration and abandonment	(66,046)
Future income tax liability	(10,429,163)
	$ 16,322,777

Consideration:	
Cash	$ 15,000,545
Issued 947,250 shares of True Energy valued at $1.20 per share	1,136,700
Acquisition costs, net of future income tax	185,532
	$ 16,322,777

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

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT:

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

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

December 31, 2000			
Petroleum and natural gas properties	$ 13,886,533	$ 1,835,068	$12,051,465
Office furniture and equipment	230,631	110,792	119,839
	$ 14,117,164	$ 1,945,860	$ 12,171,304

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

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

4. BANK DEBT:

The Corporation has arranged a demand revolving credit facility with an authorized borrowing amount of $14,000,000 with a Canadian chartered bank. Interest is payable at the bank's prime rate plus one percent. Security is provided by a general assignment of book debts of the Corporation, a $10,000,000 floating charge debenture over all assets of the Corporation, a fixed charge over certain producing petroleum and natural gas reserves at Smiley and a first floating charge supplemental debenture of $35,000,000. In addition, the Marengo assets have been included as security for this facility (See Note 13).

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

5. PREPAID GAS CONTRACT:

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

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

Based on this amending agreement, the Corporation's scheduled delivery obligations of natural gas for the remaining period from January 1, 2002 to April 3, 2002 is 93,000 gigajoules and the corresponding amortization is $176,700.

6. SHARE CAPITAL:

(a) Authorized:

Unlimited number of voting Common Shares

Unlimited number of non-voting First Preferred Shares

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 1999	8,610,413	$ 1,605,447
Converted on amalgamation	(4,787,383)	–
Issued on acquisition of 851431 (Note 2)	3,876,904	3,517,380
Issued on acquisition of 887733 (Note 2)	2,950,001	988,772
Flow-through shares issued for cash on public offering	1,670,000	2,505,000
Flow-through shares issued for cash on private placement	255,000	382,500
Share issue costs, net of future income taxes of $221,144	–	(274,695)
Future income taxes relating to flow-through shares	–	(1,287,825)
Balance, December 31, 2000	12,574,935	7,436,579
Issued on acquisition of Marengo Exploration Ltd. (Note 2)	947,250	1,136,700
Conversion of Special Warrants	11,366,667	18,680,000
Issued for debt	11,250	11,250
Options excercised	175,000	126,000
Flow-through shares issued for cash on private placement	3,700,000	3,515,000
Share issue costs, net of future income taxes of $646,996	–	(853,262)
Future income taxes relating to flow-through shares	–	(1,567,690)
Balance, December 31, 2001	28,775,102	$ 28,484,577

The Company has commitments to incur $3,515,000 of qualifying expenditures during 2002 to satisfy flow-through share agreements.

(c) Stock options:

Following completion of the amalgamation on August 31, 2000, the 731,300 existing Sundance stock options were cancelled and the board of directors approved a new stock option plan (the "Plan") for directors, officers, employees and consultants of True Energy. The exercise price shall not be lower than the closing sale price for board lots of common shares on the trading day immediately prior to the day on which the options are granted. The vesting period is determined by the Board.

The following table summarizes the changes in stock options outstanding for the years ended December 31:

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

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

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

7. INCOME TAXES:

Effective January 1, 2000, the Corporation changed its accounting policy to account for income taxes using the liability method of tax allocation in accordance with new recommendations to Canadian Generally Accepted Accounting Principles. Prior thereto, the Company had followed the deferral method. The new method was applied retroactively without restatement of prior period financial statements. On adoption, the deficit and future income tax liability were increased by $9,905.

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

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

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

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

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

8. PER SHARE AMOUNTS:

The Corporation uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations in computing diluted earnings per share.

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

9. SUPPLEMENTAL CASH FLOW INFORMATION:

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

10. RELATED PARTY TRANSACTIONS:

The Corporation undertakes certain joint ventures with companies owned by directors and officers of the Corporation. These transactions are at similar terms to those with third parties and are recorded at the exchange amount. The amounts due from these related parties at December 31, 2001 total $208,988 (2000 – $25,409).

11. COMMITMENTS:

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

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

12. FINANCIAL INSTRUMENTS:

(a) Credit risk:

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

(b) Fair value of financial instruments:

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

(c) Commodity risk:

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

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

13. SUBSEQUENT EVENTS:

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

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

BOARD OF DIRECTORS

Kenneth P. Acheson
President, Kennington Properties
Calgary, Alberta

Paul R. Baay
President and C.E.O., True Energy Inc.
Calgary, Alberta

John Cuthbertson
Partner, Burnet Duckworth & Palmer
Calgary, Alberta

W. C. (Mickey) Dunn
Independent Businessman
Edmonton, Alberta

Robert G. Rowley, Q.C.
Independent Businessman
Calgary, Alberta

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

Kim Ward
Independent Businessman
Toronto, Ontario

KEY MANAGEMENT

Paul R. Baay
President and C.E.O.

Sadiq H. Lalani
Vice President, Finance and C.F.O.

Clinton T. Broughton
Vice President

Gordon L. Reese
Vice President

HEAD OFFICE

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AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

ENGINEERING CONSULTANTS

Gilbert Laustsen Jung

REGISTRAR AND TRANSFER AGENT

Computershare International Inc.
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol: TUI

GLOSSARY

AECO	a storage and pricing hub for Canadian natural gas markets
/d	per day
BOE	barrels of oil equivalent (6 Mcf of natural gas = 1 barrel of oil equivalent)
bbls	barrels
Established Reserves	proved reserves plus one half probable reserves
Mcf	thousand cubic feet
MMBOE	million barrels of oil equivalent
MMcf	million cubic feet
WTI	West Texas Intermediate, a benchmark crude oil used for pricing comparison