

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**The following discussion and analysis of financial results should be read in conjunction with the unaudited interim consolidated financial statements and selected notes for the six months ended June 30, 2002 and the audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2001. Where amounts are expressed on a barrel of oil equivalent basis (BOE), gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel**

### **Production**

Compared to the first quarter of 2002, oil production in the second quarter increased 18% to 785 barrels per day from 668, natural gas production decreased 15% to 7.3 million cubic feet per day from 8.6 and combined production was down 5% to 2,001 barrels of oil equivalent per day from 2,107.

Production during the three months ended June 30, 2002 increased 16% to 2,001 barrels of oil equivalent per day from 1,730 during the corresponding period of 2001. Natural gas made up 61% of production volumes, averaging 7.3 million cubic feet per day during the second quarter of 2002. True increased its oil volumes 60% for the period to 785 barrels per day from 492 for the same period in 2001. Current production, following the recent business combination with Gresham Resources Inc., is approximately 2,600 barrels of oil equivalent per day.

For the six months ended June 30, 2002, the Company averaged 2,053 barrels of oil equivalent per day, consisting of 726 barrels per day of oil and 8.0 million cubic feet per day of natural gas. This is a 47% increase over the 1,395 barrels of oil equivalent per day, on a combined basis, averaged in the same period of 2001. Oil production increased 81% more than 402 barrels per day and 34% more than 6.0 million cubic feet per day in the previous year.

### **Revenue**

Oil and gas revenue for the second quarter of 2002 increased 13% to \$4.3 million from \$3.8 million in the first quarter of 2002 as a result of higher prices. The price received for oil production in the second quarter increased 20% to \$27.70 per barrel from \$23.14 in the previous quarter, and the average natural gas price received increased 13% to \$3.53 per thousand cubic feet (after hedging) during the second quarter of 2002 from \$3.12 in the prior quarter. Revenue for the three months ended June 30, 2002 was \$4.3 million, down from \$4.7 million in the same period of the previous year. Revenue for the six months ended June 30, 2002 increased 4% to \$8.1 million from \$7.8 million in the same period of the previous year.

### **Royalties**

For the three months ended June 30, 2002, True Energy paid \$1.2 million compared to \$2.1 million in the corresponding period of the prior year and \$1.1 million during the first quarter of 2002. Royalties as a percentage of revenue decreased from 30% in the first quarter of 2002 to 28% in the second quarter of 2002. For the six months ended June 30, 2002, True Energy paid \$2.3 million compared to \$2.9 million in the corresponding period of the prior year. Royalties as a percentage of sales decreased from 37% in the first six months of 2001 to 29% in the first half of 2002.

### **Operating Expenses**

Compared to the first quarter of 2002, operating expenses decreased to \$983,000 in the second quarter from \$1.32 million. On a barrel of oil equivalent basis, operating expenses were 22% lower during the second quarter of 2002 at \$5.40 compared to \$6.95 in the first quarter of the year. For the three months ended June 30, 2002 operating expenses were \$983,000, compared to \$1.04 million for the three months ended June 30, 2001. On a barrel of oil equivalent basis, operating expenses were 18% lower during the second quarter of 2002 at \$5.40 compared to \$6.61 in the corresponding period of the prior year. For the six-month period ended June 30, 2002, expenses totalled \$2.3 million compared to \$1.9 million during the comparable period of 2001.

---

### **Operating Netbacks**

Lower royalty rates, lower operating expenses and higher prices received during the three months ended June 30, 2002 resulted in an increase in operating netbacks to \$11.76 per barrel of oil equivalent from \$7.21 during the first quarter of 2002. These factors also contributed to a 24% increase in operating netbacks to \$11.76 per barrel of oil equivalent in the second quarter of 2002 from \$9.52 during the three months ended June 30, 2001. For the six months ended June 30, 2002, the operating netback was \$9.44 per barrel of oil equivalent compared to \$12.04 for the comparable period in 2001.

### **General and Administrative**

For the second quarter of 2002, general and administrative expenses decreased to \$485,000 from \$525,000 in the first quarter of 2002. On a barrel of oil equivalent basis, expenses decreased 4% to \$2.66 from \$2.77. For the three months ended June 30, 2002, general and administrative decreased 2% to \$2.66 from \$2.72 compared to the corresponding period in 2001. For the six months ended June 30, 2002, expenses were \$2.72 per barrel of oil equivalent compared to \$2.46 for the six months ended June 30, 2001.

### **Interest Expense**

During the second quarter of 2002, interest expense amounted to \$186,000, up from the \$142,000 incurred during the first quarter of 2002. On a year-over-year basis, interest expense for the three months ended June 30 decreased 14% to \$186,000 in 2002 from \$216,000 in 2001. For the six months ended June 30, 2002 interest expense totalled \$328,000 up from the \$274,000 incurred during the first half of 2001. Higher interest costs in 2002 reflect the higher debt levels in the first quarter of the year.

### **Capital Expenditures**

True invested \$3.8 million on oil and gas activities during the first six months of 2002. In addition, the Company received \$5.9 million in net proceeds from the disposition of non-strategic oil and gas assets during the six month period ended June 30, 2002. Capital expenditures during the same period of the previous year totaled \$22.8 million. The Company spent \$3.6 million on exploration and development activities and \$0.2 million on the acquisition of producing assets. During the same period in 2001, True spent \$14.6 million on the acquisition of Marengo Exploration Ltd, \$14.3 million on the acquisition of producing assets, and \$8.5 million on exploration and development activities.

### **Depletion, Depreciation and Site Restoration**

Compared to the first quarter of 2002, depletion, depreciation and site restoration expense decreased to \$967,000 or \$5.31 per barrel of oil equivalent from \$1.43 million or \$7.54 per barrel of oil equivalent. For the three months ended June 30, 2002, depletion, depreciation and site restoration expense was \$967,000 or \$5.31 per barrel of oil equivalent compared to \$1.82 million or \$11.59 per barrel of oil equivalent in the corresponding period of 2001. For the six months ended June 30, 2002, depletion, depreciation, and site restoration expense was \$2.4 million or \$6.45 per barrel of oil equivalent compared to \$3.2 million or \$12.54 per barrel of oil equivalent for the same period last year.

### **Liquidity and Capital Resources**

The Company ended the year 2001 with a \$14.0 million line of credit, drawn to \$13.1 million and had a working capital deficit of \$4.1 million. The Company ended the second quarter of 2002 with its bank line drawn to \$6.8 million and had a working capital deficit of \$3.5 million. At June 30, 2002, the Company had 32,885,102 common shares outstanding and 30,229,440 common shares outstanding on a diluted basis based on 572,500 in-the-money stock options.