TRUE energy inc.

THIRD QUARTER INTERIM REPORT

NINE MONTHS ENDED SEPTEMBER 30, 2001

Q3

Calgary, November 21, 2001 – True Energy Inc. ("True", "the Company") is pleased to announce its financial and operating results for the three months and nine months ended September 30, 2001. The Company's focus during the third quarter was to optimize production and integrate its second quarter property acquisitions in the Kerrobert/Dodsland area of Saskatchewan.

FINANCIAL HIGHLIGHTS

	Three Months Ended September 30			Nine Months Ended September 30		
($ except share amounts)	2001	2000	% Change	2001	2000	% Change
Revenue	**5,664,095**	746,005	659	**13,504,939**	1,765,719	665
Funds Flow from Operations*	**1,807,176**	173,568	941	**3,952,864**	586,898	574
per share – basic	**0.09**	0.02	350	**0.23**	0.07	229
per share – diluted	**0.09**	0.02	350	**0.22**	0.07	214
Cash Flow from Operations	**2,577,376**	173,568	1,385	**4,379,164**	298,098	1,369
per share – basic	**0.13**	0.02	550	**0.26**	0.03	767
per share – diluted	**0.13**	0.02	550	**0.25**	0.03	733
Net Earnings (loss)	**(1,072,963)**	(37,432)	(2,766)	**(1,741,757)**	(46,102)	(3,678)
per share – basic	**(0.05)**	(0.00)	–	**(0.10)**	(0.01)	–
per share – diluted	**(0.05)**	(0.00)	–	**(0.10)**	(0.01)	–
Working Capital Deficit (including prepaid gas)				**6,552,652**	2,828,535	132
Total Assets				**60,550,873**	11,002,806	450
Long-term Debt (including prepaid gas)				**13,801,997**	351,500	3827
Shareholders' Equity				**24,687,630**	5,449,277	353
Net Capital Expenditures	**(37,079)**	4,197,162	–	**37,349,397**	4,900,245	662
Shares Outstanding	**25,075,101**	10,649,934	135	**25,075,101**	10,649,934	135
Weighted Average Shares basic	**19,909,884**	9,275,474	115	**16,915,784**	8,833,718	91
diluted	**20,469,954**	9,546,474	114	**17,783,023**	9,003,709	98

*Funds flow from operations includes prepaid gas revenue and hedging gains or losses pertaining to the corresponding period.

OPERATING HIGHLIGHTS

	Three Months Ended September 30			Nine Months Ended September 30		
($ except share amounts)	2001	2000	% Change	2001	2000	% Change
Daily Volumes						
Oil and NGLs (bbls/d)	**768**	86	793	**525**	60	775
Gas (Mcf/d)	**10,340**	1,440	618	**7,440**	1,430	420
Equivalent Oil (BOE/d) @ 6:1	**2,491**	326	664	**1,765**	298	492
Prices						
Oil and NGLs ($/bbl)	**24.77**	38.13	(35)	**23.05**	37.02	(38)
Gas ($/Mcf)	**4.04**	3.33	21	**5.02**	2.96	70
Equivalent Oil ($/BOE) @ 6:1	**24.72**	24.79	0	**28.03**	21.60	30
$/BOE @ 6:1						
Operating Netback	**10.51**	11.81	(11)	**11.31**	11.82	(4)
Operating Expenses	**6.53**	7.14	(9)	**7.06**	4.49	57
General & Administrative	**2.13**	5.84	(64)	**2.30**	4.50	(49)

FINANCIAL RESULTS

For the nine months ended September 30, 2001 True recorded a net loss of $1.7 million ($0.10/share) on revenue of $13.5 million compared to a loss of $46,102 for the corresponding period of the previous year. Cash flow from operations for the nine months was $4.4 million ($0.26/share) compared to $298,098 ($0.03/share) for the corresponding nine months of 2000. Long-term debt, net of working capital increased to $20.4 million from $3.2 million in 2000. During the first nine months of 2001, the Company invested $10.1 million on exploration and development activities, $14.5 million on the acquisition of producing assets in its core area and $14.6 million on the acquisition of Marengo Exploration Ltd. for total capital expenditures of $39.2 million, compared to $1.4 million during the corresponding period of 2000. During the same period in 2001, True realized $1.9 million from property dispositions.

During the nine months ended September 30, 2001, True issued 5.1 million common shares for gross proceeds of $6.1 million, in part to finance the Marengo acquisition, and 7.2 million common shares for gross proceeds of $13.7 million to fund the Kerrobert/Dodsland property acquisition. At September 30, 2001, True had 25,075,101 common shares outstanding.

OPERATING RESULTS

Production (natural gas equated to BOE at 6:1), increased to 2,491 BOE/d from 326 BOE/d during the third quarter of 2000. For the nine months ended September 30, 2001 production averaged 1,765 BOE/d up from 298 BOE/d for the same period of 2000. Natural gas made up 69% of production averaging 10.34 MMcf/d during the third quarter of 2001. True increased its oil volumes for the period to 768 bbls/d up from 86 bbls/d for the same period in 2000. Current production is approximately 2,300 BOE/d. The Company continues to be successful at reducing operating costs, which averaged 6.53/BOE during the third quarter of 2001.

The main operational focus for the third quarter was to optimize production and fully integrate the Kerrobert/Dodsland property acquisitions.

The Company reactivated two wells in the Kerrobert area that more than doubled production from the field to over 80 bbls/d. True was also successful in drilling an additional well on the Driver Coleville property that tested at rates in excess of 2 MMcf/d (1.5 MMcf/d net). The well will be rate restricted when it comes on-stream in the fourth quarter. At Smiley, a successful gas zone re-completion will also add to the production base.

Dispositions during the quarter resulted in the reduction of production by 150 BOE/d. These dispositions were almost entirely offset by the above-mentioned tie-ins and re-completions. The disposition also resulted in a reduction of undeveloped land that results in the company having approximately 170,000 net acres.

Following the end of the quarter True completed its previously announced flow through share offering that resulted in gross proceeds of $3.5 million.

OUTLOOK

During the fourth quarter the Company will continue to steward its financial resources through property dispositions, operating cost reductions and limited capital spending. True will continue to develop a second core focus area that will further enhance the balanced commodity growth strategy that has been successful to date.

True Energy Inc. is a Calgary-based oil and natural gas exploration and development company. True Energy's first core operating area is in west-central Saskatchewan. The Company's shares trade on the Toronto Stock Exchange under the symbol TUI.

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 nine months ended September 30, 2001 and the audited consolidated financial statements and Management Discussion and Analysis for the year ended December 31, 2000. Where amounts are expressed on a barrel of oil equivalent basis (BOE), gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel.

Production

For the nine months ended September 30, 2001, the Company averaged 1,765 BOE/d, consisting of 525 bbls/d of oil and 7.4 MMcf/d of natural gas. This is a 492% increase over the 298 BOE/d, on a combined basis, averaged in the same period of 2000. Oil production increased 775% over 60 bbls/d and 429 % over 1.4 MMcf/d in the previous year. Compared to the second quarter of 2001, oil production in the three months ended September 30, 2001 increased 56% from 492 bbls/d to 768 bbls/d, natural gas production increased 39% from 7.4 MMcf/d to 10.3 MMcf/d and combined production was up by 44% from 1,732 BOE/d to 2,491 BOE/d.

Revenue

Oil and gas revenue for the third quarter of 2001 increased 21% to $5.7 million from $4.7 million received in the second quarter of 2001 as a result of increased production. The price received for third quarter oil production increased 17% to $24.77/bbl from $21.13/bbl in the second quarter of this year; however, the average natural gas price received dropped 26% from $5.47/mcf in the second quarter to $4.04/mcf during the third quarter. Included in revenue is a hedging gain of $932,000, compared to a gain of $224,000 in the second quarter of the year.

Royalties

Royalties paid during the third quarter of 2001 were $1.8 million compared to $2.1 million during the second quarter of this year. The third quarter includes $210,000 of prior period adjustments. Royalties as a percentage of revenue decreased from 45% in the second quarter to 31% in the third quarter.

Operating Expenses

Operating expenses, on a BOE basis, were marginally lower during the third quarter of 2001 at $6.53/BOE compared to $6.60/BOE in the second quarter. For the three months ended September 30, 2001 operating expenses were $1.5 million, compared to $1.0 million for the three months ended June 30, 2001 and for the nine month period ending September 30, 2001, expenses totalled $ 3.4 million, compared to $367,000 during the comparable period in 2000.

Operating Netbacks

Lower natural gas prices received during the three months ended September 30, 2001 were more than offset by the decrease in royalties for the quarter resulting in an increase in operating netbacks from $9.60/BOE during the second quarter of 2001 to $10.51/BOE in the third quarter of 2001. For the nine months ended September 30, 2001, the operating netback was $11.31/BOE compared to $11.82/BOE during the comparable period in 2000.

General and Administrative

General and administrative expenses decreased 96% to $2.30/BOE during the nine months ended September 30, 2001 from $4.50/BOE in the comparative period of 2000. Expenses increased to $488,000 in the third quarter of 2001 from $428,000 in the second quarter of 2001. On a BOE basis, expenses were $2.13/BOE for the three months ended September 30, 2001 compared to $2.71/BOE for the three months ended June 30, 2001. The quarter-over-quarter decrease on a BOE basis reflects the increase in production volumes.

Interest Expense

Interest expense during the third quarter of 2001 amounted to $230,000, up from the $216,000 incurred during the second quarter of 2001. For the nine months ended September 30, 2001 interest expense totalled $504,000 compared to the $11,000 incurred in the nine month period of 2000. Higher interest costs in 2001 reflects the increase in debt levels.

Capital Expenditures

True invested $37.3 million, net of dispositions, on oil and gas activities during the nine month period ended September 30, 2001 compared to $1.4 million incurred in the same period of 2000. The Company spent $10.1 million on exploration and development activities, $14.5 million on the acquisition of producing assets in its core area and $14.6 million on the acquisition of Marengo Exploration Ltd. During the same period in 2001, True realized $1.9 million from the disposition of non-core oil and gas properties.

Depletion, Depreciation and Site Restoration

Depletion, depreciation and site restoration expense for the three months ended September 30, 2001 was $2.9 million or $12.93/BOE compared to $1.8 million or $11.58/BOE in the second quarter of this year. For the nine months ending September 30, 2001, depletion, depreciation and site restoration expense was $6.1 million or $12.73/BOE compared to $591,000 or $7.23/BOE for the same period last year.

Liquidity and Capital Resources

At September 30, 2001, the Company had 25,075,101 common shares outstanding and 26,580,101 common shares outstanding on a diluted basis.

The Corporation ended the year 2000 with a $2.8 million line of credit, including a $1.0 million development facility, drawn to $1.3 million and had a working capital deficit of $1.9 million. True ended the third quarter of 2001 with it's bank line drawn to $13.8 million and had a working capital deficit of $6.6 million. The deficiency at September 30, 2001 included the balance of the prepaid gas contract of $352,000 and $945,000 in deferred revenue relating to hedging gains realized on the sale of a natural gas costless collar.

CONSOLIDATED BALANCE SHEETS

at September 30, 2001 and December 31, 2000
(unaudited)

	September 30 2001 (unaudited)	December 31 2000 (audited)
ASSETS		
Current Assets		
Accounts receivable	$ 3,891,317	$ 3,500,627
Assets held for sale	647,523	–
	4,538,840	3,500,627
Property, Plant and Equipment	56,012,033	12,171,304
	$ 60,550,873	$ 15,671,931
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 9,794,992	$ 4,742,773
Current portion of prepaid gas	351,500	693,500
Deferred revenue	945,000	–
	11,091,492	5,436,273
Prepaid Gas	–	176,700
Long-Term Debt	13,801,997	1,325,461
Future Income Taxes	10,646,761	1,455,631
Site Restoration Provision	322,993	82,947
Shareholders' Equity		
Common shares	26,671,047	7,436,579
Deficit	(1,983,417)	(241,660)
	24,687,630	7,194,919
	$ 60,550,873	$ 15,671,931

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

for the period ended September 30
(unaudited)

	Three months ended		Nine months ended	
	September 30, 2001	September 30, 2000	**September 30, 2001**	September 30, 2000
Revenues				
Oil	**$ 1,820,158**	$ 302,811	**$ 3,304,295**	$ 603,577
Natural gas	**3,843,937**	443,194	**10,200,644**	1,162,142
	5,664,095	746,005	**13,504,939**	1,765,719
Royalties				
Crown	**(841,923)**	(138,263)	**(2,865,125)**	(314,177)
Other	**(917,664)**	(37,361)	**(1,790,683)**	(118,471)
	(1,759,587)	(175,624)	**(4,655,808)**	(432,648)
	3,904,508	570,381	**8,849,131**	1,333,071
Expenses				
Operating	**1,496,103**	214,956	**3,400,436**	366,959
Depletion, Depreciation and Site Restoration	**2,963,139**	211,000	**6,130,621**	591,000
General and Administrative	**488,105**	175,833	**1,108,530**	367,996
Interest on Long-Term Debt	**229,512**	6,024	**503,689**	11,218
	5,176,859	607,813	**11,143,276**	1,337,173
Earnings (Loss) Before Taxes	**(1,272,351)**	(37,432)	**(2,294,145)**	(4,102)
Current Income Tax (Recovery)	**(116,388)**	–	**(116,388)**	–
Future Income Tax (Recovery)	**(83,000)**	–	**(436,000)**	42,000
Net Earnings (loss)	**(1,072,963)**	(37,432)	**(1,741,757)**	(46,102)
Deficit, Beginning of Period	**(910,454)**	(426,661)	**(241,660)**	(408,086)
Change in Accounting Policy Relating to Future Income Taxes	**–**	–	**–**	(9,905)
Deficit, End of Period	**$ (1,983,417)**	$ (464,093)	**$ (1,983,417)**	$ (464,093)
Weighted Average Common Shares	**19,909,884**	9,275,474	**16,915,784**	8,833,718
Net Earnings (Loss) Per Share				
– basic	**$ (0.05)**	$ (0.00)	**$ (0.10)**	$ (0.01)
– diluted	**$ (0.05)**	$ (0.00)	**$ (0.10)**	$ (0.01)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the period ended September 30
(unaudited)

	Three months ended September 30, 2001	Three months ended September 30, 2000	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Operations				
Net Earnings (Loss)	$ (1,072,963)	$ (37,432)	$ (1,741,757)	$ (46,102)
Items Not Affecting Cash:				
Depletion, depreciation and site restoration	2,963,139	211,000	6,130,621	591,000
Future income tax (recovery)	(83,000)	–	(436,000)	42,000
Prepaid contract revenue	(174,800)	–	(518,700)	(288,800)
Deferred revenue	945,000	–	945,000	–
Cash Flow from Operations	2,577,376	173,568	4,379,164	298,098
Change in Non-Cash Working Capital Items	(3,000,707)	2,138,576	2,944,329	2,718,765
	(423,331)	2,312,144	7,323,493	3,016,863
Financing				
Issuance of share capital	–	–	18,817,250	–
Repayment of debt acquired on acquisition of 887733 Alberta Ltd.	–	(700,000)	–	(700,000)
Share issue costs	(88,376)	(198,230)	(1,267,882)	(198,230)
Increase (decrease) in long-term debt	474,628	(123,064)	12,476,536	(124,700)
	386,252	(1,021,294)	30,025,904	(1,022,930)
Investing				
Acquisition of capital assets	(271,115)	–	(14,536,179)	–
Proceeds on sale of capital assets	1,902,808	–	1,902,808	–
Additions to capital assets	(1,594,614)	(4,197,162)	(10,088,707)	(4,900,245)
Cash acquired on acquisition of 851431 Alberta Ltd.	–	3,517,380	–	3,517,380
Cash paid on acquisition of Marengo Exploration Ltd.	–	–	(14,627,319)	–
	37,079	(679,782)	(37,349,397)	(1,382,865)
Increase (Decrease) in Cash	–	611,068	–	611,068
Cash, Beginning of Period	–	–	–	–
Cash, End of Period	$ 0	$ 611,068	$ 0	$ 611,068
Weighted Average Common Shares	19,909,884	9,275,474	16,915,784	8,833,718
Cash Flow from Operations Per Share				
– basic	$ 0.13	$ 0.02	$ 0.26	$ 0.03
– diluted	$ 0.13	$ 0.02	$ 0.25	$ 0.03

See accompanying notes to financial statements.

SELECTED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended September 30, 2001 and 2000
(unaudited)

1. **Basis of presentation:**
The interim consolidated financial statements of the Company have been prepared by management in accordance with the accounting policies generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2000. The disclosures provided below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company's annual report for the year ended December 31, 2000.

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

The net assets acquired and consideration given were:

Net assets acquired:		
Cash	$	708,085
Capital assets		27,795,228
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
Shares		1,136,700
Acquisition costs		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 $14,536,179 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 "Disposition"). This Disposition was effective September 1, 2001 and closed on September 28, 2001. The proceeds from this disposition amounted to $1,902,808 and was fully allocated to petroleum and natural gas properties, having an equivalent tax basis.

3. **Bank indebtedness and long-term debt:**
On July 16, 2001, the Corporation entered into a financing agreement with a Canadian chartered bank for a $14,000,000 revolving facility. Interest is payable at the bank's prime rate plus three quarters of one percent. Security is provided by a general assignment of book debts of the 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. An interim review of the facility is expected to be completed by November 30, 2001 and the annual review will be completed on or before May 31, 2002.

4. **Capital assets**
At September 30, 2001, the Corporation performed the ceiling test using average prices for the nine months being $23.03 per barrel for oil and $4.62 per thousand cubic feet for natural gas. In conducting the ceiling test calculation, True followed the Canadian Institute of Chartered Accountants (CICA) full cost accounting guidelines which provide for a two year exemption from write-down where the purchase price of reserves had been determined on a basis which provided a higher amount than the ceiling test value, and where the excess was not considered to represent a permanent impairment in the ultimate recoverable amount. The Corporation qualified for the exemption in connection with the February 2001 Marengo acquisition and the June 2001 Dodsland, Bayhurst and Kerrobert acquisition. Had the two year exemption not been used and if September 2001prices of $21.57 per barrel for oil and $2.17 per thousand cubic feet for natural gas were used, a write-down of $14.2 million, after income taxes would have been required. The ceiling test is a cost recovery calculation and is not intended to result in an estimate of the fair market value of the petroleum and natural gas properties.

5. **Capital stock:**

(a) Authorized:

Unlimited number of voting Common Shares

Unlimited number of non-voting First Preferred Shares

(b) Issued:

	Number of Shares		Amount
Common shares:			
Balance, December 31, 2000	12,574,934	$	7,436,579
Issued on exercise of Special Warrants	4,166,667		5,000,000
Issued on acquisition of Marengo Exploration Ltd.	947,250		1,136,700
Share issue costs (net of future income taxes of $178,239)	–		(221,400)
Balance, March 31, 2001	17,688,851	$	13,351,879
Issued for debt	11,250		11,250
Issued on exercise of stock options	175,000		126,000
Balance, June 30, 2001	17,875,101	$	13,489,129
Issued on exercise of special warrants	7,200,000		13,680,000
Issue costs (net of future income taxes of $370,161)			(498,082)
Total Share Capital, September 30, 2001	25,075,101	$	26,671,047

The Corporation has satisfied all flow through share expenditure commitments relating to agreements entered into December 2000.

6. **Supplemental cash flow information:**

		2001		2000
Cash paid:				
Interest	$	503,689	$	11,218
Taxes		1,205,489		–
Non-cash investing and financing activities:				
Issue of common shares on acquisition (note 2)	$	1,136,700		–

7. **Financial instruments:**

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.

8. **Subsequent events:**

(a) On October 16, 2001 the Corporation sold its assets in the North Smiley Area to an arm's length third party for $647,523. The proceeds from this disposition were fully allocated to petroleum and natural gas properties and have an equivalent tax basis.

(b) On November 13, 2001, the Corporation completed an equity financing whereby 3,700,000 common shares were issued on a flow through basis at a price of $0.95 per share, resulting in gross proceeds of $3,515,000.

CORPORATE INFORMATION

Board of Directors

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

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

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

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

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

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

Kim M. Ward
Businessman
Toronto, Ontario

Management

Paul R. Baay
President and CEO

Sadiq H. Lalani
Vice President, Finance and CFO

Clinton T. Broughton
Vice President

Gordon L. Reese
Vice President

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Auditors

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Bankers

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Registrar and Transfer Agent

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Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Symbol: TUI