

Q3 TRUE ENERGY INTERIM REPORT

THIRD QUARTER, NINE MONTHS ENDED SEPTEMBER 30

FINANCIAL AND OPERATING HIGHLIGHTS

True Energy Inc. ("True", "the Company") announces its financial and operating results for the three months and nine months ended September 30, 2002. Production for the third quarter averaged 2,253 barrels of oil equivalent per day, compared to 2,001 barrels of oil equivalent per day in the second quarter of 2002; True's current production is in excess of 2,700 barrels of oil equivalent per day. The information for the third quarter of 2002 includes two months of production and financial contribution from the Gresham Resources Inc. ("Gresham") acquisition which closed on July 31, 2002.

FINANCIAL

(\$000s, except per share amounts)

	Three months ended September 30			Nine months ended September 30		
	2002	2001	% Change	2002	2001	% Change
Revenue	5,030	5,664	(11)	13,167	13,505	(3)
Funds flow from operations*	1,505	1,807	(17)	3,456	3,953	(13)
per share - basic	0.04	0.09	(56)	0.10	0.23	(57)
Cash flow from operations	1,505	2,577	(42)	3,279	4,379	(25)
per share - basic	0.04	0.13	(69)	0.10	0.26	(62)
Net earnings (loss)	(32)	(1,073)	97	(477)	(1,742)	73
per share - basic	0.00	(0.05)	100	(0.01)	(0.10)	90
Debt, net of working capital				19,813	20,355	(3)
Capital expenditures, net				1,139	37,349	(97)
Shares outstanding				45,118	25,075	80
Weighted average shares				33,617	16,916	99

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

OPERATIONAL

	Three months ended September 30			Nine months ended September 30		
	2002	2001	% Change	2002	2001	% Change
Production						
Oil and NGLs (bbls/d)	728	768	(5)	727	525	38
Natural Gas (Mcf/d)	9,152	10,340	(11)	8,362	7,440	12
Combined (BOE/d)	2,253	2,491	(10)	2,121	1,765	20
Prices						
Oil and NGLs (\$/bbl)	30.86	24.77	25	27.39	23.05	19
Natural Gas (\$/Mcf), before hedging	3.22	3.06	5	3.30	4.53	(27)
Natural Gas (\$/Mcf), after hedging	3.52	4.04	(13)	3.41	5.02	(32)
Combined (\$/BOE)	24.26	24.72	(2)	22.74	28.03	(19)
\$/BOE						
Operating Netback	11.08	10.51	5	10.02	11.31	(11)
Operating Expenses	6.49	6.53	(1)	6.30	7.06	(11)
General & Administrative	2.96	2.13	39	2.80	2.30	22
Royalties as a % of sales	28%	31%	(10)	28%	34%	(18)

LETTER TO THE SHAREHOLDERS

During the third quarter, the Company had a very exciting and successful drilling program with a total of 18 out of 18 wells being successfully cased. This program will result in significant production increases during the fourth quarter of 2002 and early into 2003.

The development drilling program was on the Company's Saskatchewan properties and resulted in 16 additional oil wells at South Coleville, as well as, a new pool natural gas discovery on the Saskatchewan properties. In Alberta, the Company focused more on its exploratory program with the drilling of a 2,800-metre test at Brazeau, which is still being evaluated. The majority of the drilling was completed late in the quarter, and as a result, production increases will be evident in the fourth quarter and will establish a strong production base for the 2003 fiscal year.

Also during the third quarter, the Company successfully completed the acquisition of Gresham Resources Inc. (Gresham) which added two liquids-rich natural gas producing properties in Alberta. The Company sees significant development and exploration opportunities on this property, which will be drilled and evaluated during the next 18 months.

On the financial front, the Company continues to enhance the financial stewardship of its assets, which will result in further strengthening of the balance sheet by the end of the year. The Company now has in place an outstanding inventory of opportunities in both Saskatchewan and Alberta that, in establishing the budget for the upcoming year, will be prioritized based on their economic rate of return. As well, this prospect inventory will carry True well into 2004.

Outlook

During the final quarter of 2002, True will commence a development drilling program at its two natural gas properties in Alberta as well as evaluate further exploratory opportunities. On its west central Saskatchewan properties, the Company will look into tying in and optimizing the production from the successful second quarter drilling program. During the winter of 2002/2003, the Company will focus on optimizing and evaluating its operations while continuing its exploration and development drilling program.



Paul R. Baay
President and CEO

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, 2002 and the audited consolidated financial statements and Management Discussion and Analysis for the year ended December 31, 2001. Where amounts are expressed on a barrel of oil equivalent (BOE) basis, gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel.

Production

Compared to the second quarter of 2002, oil production in the third quarter decreased 7% to 728 barrels per day from 785, natural gas production increased to 9.2 million cubic feet per day from 7.3, and combined production was up 13% to 2,253 barrels of oil equivalent per day from 2,001 barrels.

Production during the three months ended September 30, 2002 decreased 10% to 2,253 barrels of oil equivalent per day from 2,491 during the corresponding period of 2001. Natural gas made up 68% of production volumes, averaging 9.2 million cubic feet per day during the third quarter of 2002.

For the nine months ended September 30, 2002, the Company averaged 2,121 barrels of oil equivalent per day, consisting of 727 barrels per day of oil and 8.4 million cubic feet per day of natural gas. This is a 20% increase over the 1,765 barrels of oil equivalent per day, on a combined basis, averaged in the same period of 2001. Oil production increased 38% more than 525 barrels per day and gas production increased 12% more than 7.4 million cubic feet per day in the previous year

Revenue

Oil and gas revenue for the third quarter of 2002 increased 16% to \$5.0 million from \$4.3 million received in the second quarter of 2002 as a result of higher oil prices and higher gas production. The price received for oil production in the third quarter increased 11% to \$30.86 per barrel from \$27.72 in the previous quarter, and the average natural gas price received decreased less than 1% to \$3.52 per thousand cubic feet (after hedging) during the third quarter of 2002 from \$3.53 in the prior quarter. Revenue for the three months ended September 30, 2002 was \$5.0 million, down from \$5.7 million in the same period of the previous year. Revenue for the nine months ended September 30, 2002 decreased 2% to \$13.2 million from \$13.5 million in the same period of the previous year.

Royalties

For the three months ended September 30, 2002, True Energy paid \$1.4 million in royalties compared to \$1.8 million in the corresponding period of the prior year and \$1.2 million during the second quarter of 2002. Royalties as a percentage of revenue remained constant at 28% in both the second and third quarters of 2002. For the nine months ended September 30, 2002, True Energy paid \$3.7 million compared to \$4.7 million in the corresponding period of the prior year. Royalties as a percentage of sales decreased from 34% in the first nine months of 2001 to 28% in the same period of 2002.

Operating Expenses

Compared to the second quarter of 2002, operating expenses increased to \$1.3 million in the third quarter from \$983,000. On a barrel of oil equivalent basis, operating expenses were 20% higher during the third quarter of 2002 at \$6.49 compared to \$5.40 in the second quarter of the year. For the three months ended September 30, 2002 operating expenses were \$1.3 million compared to \$1.5 million for the three months ended September 30, 2001. On a barrel of oil equivalent basis, operating expenses were 1% lower during the third quarter of 2002 at \$6.49 compared to \$6.53 in the corresponding period of the prior year. For the nine-month period ended September 30, 2002, expenses totalled \$3.6 million compared to \$3.4 million during the comparable period of 2001.

Operating Netbacks

Higher operating expenses during the three months ended September 30, 2002 resulted in a decrease in operating netbacks to \$11.08 per barrel of oil equivalent from \$11.76 during the second quarter of 2002. Lower operating expenses and higher oil prices contributed to a 5% increase in operating netbacks to \$11.08 per barrel of oil equivalent in the third quarter of 2002 from \$10.51 during the three months ended September 30, 2001. For the nine months ended September 30, 2002, the operating netback was \$10.02 per barrel of oil equivalent compared to \$11.31 for the comparable period in 2001.

General and Administrative

For the third quarter of 2002, general and administrative expenses increased to \$613,000 from \$485,000 in the second quarter of 2002. On a barrel of oil equivalent basis, expenses increased 11% to \$2.96 from \$2.66. For the three months ended September 30, 2002, general and administrative expenses increased 39% to \$2.96 per barrel of oil equivalent from \$2.13 for the corresponding period in 2001. For the nine months ended September 30, 2002, expenses were \$2.80 per barrel of oil equivalent compared to \$2.30 for the nine months ended September 30, 2001.

Interest Expense

During the third quarter of 2002 interest expense amounted to \$206,000, up from the \$186,000 incurred during the second quarter of 2002. On a year-over-year basis, interest expense for the three months ended September 30 decreased 10% to \$206,000 in 2002 from \$230,000 in 2001. For the nine months ended September 30, 2002 interest expense totalled \$534,000 up from the \$504,000 incurred during the first nine months of 2001. Higher interest costs in 2002 reflect the higher debt levels.

Capital Expenditures

True invested \$7.0 million in oil and gas activities during the first nine 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 nine month period ended September 30, 2002. The Company spent \$6.3 million on exploration and development activities and \$730,000 on the acquisition of producing assets. During the same period of the previous year, True invested \$24.6 million on oil and gas activities and received proceeds of \$1.9 million from the disposition of non-strategic oil and gas assets. The Company spent \$10.1 million on exploration and development activities and \$14.5 million on the acquisition of producing assets. Also, during the first nine months of 2001, True spent \$14.6 million on the acquisition of Marengo Exploration Ltd.

Depletion, Depreciation and Site Restoration

Compared to the second quarter of 2002, depletion, depreciation and site restoration expense increased to \$1.5 million or \$7.41 per barrel of oil equivalent from \$967,000 or \$5.31 per barrel of oil equivalent. For the three months ended September 30, 2002, depletion, depreciation, and site restoration expense was \$1.5 million or \$7.41 per barrel of oil equivalent compared to \$2.96 million or \$12.93 per barrel of oil equivalent in the corresponding period of 2001. For the nine months ended September 30, 2002, depletion, depreciation, and site restoration expense was \$3.9 million or \$6.79 per barrel of oil equivalent compared to \$6.1 million or \$12.72 per barrel of oil equivalent for the same period last year.

Liquidity and Capital Resources

The Corporation ended 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 Corporation ended the third quarter of 2002 with its bank line drawn to \$13.5 million and had a working capital deficit of \$6.3 million. At September 30, 2002, the Company had 45,117,756 common shares outstanding and 45,171,934 common shares outstanding on a diluted basis, based on 542,500 in-the-money stock options.

CONSOLIDATED BALANCE SHEETS

at September 30, 2002 and December 31, 2001

	September 30, 2002 (unaudited)	December 31, 2001 (audited)
ASSETS		
Current assets		
Accounts receivable	\$ 5,437,628	3,952,052
Property, plant and equipment	39,048,356	26,612,128
	\$ 44,485,984	\$ 30,564,180
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 11,766,572	7,876,472
Current portion of prepaid gas	-	176,700
Bank debt	13,483,729	13,141,933
	25,250,301	21,195,105
Future site restoration and abandonment costs	761,474	426,584
Shareholders' equity		
Share capital	38,493,519	28,484,577
Deficit	(20,019,310)	(19,542,086)
	18,474,209	8,942,491
	\$ 44,485,984	\$ 30,564,180

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
for the periods ended September 30, 2002 and September 30, 2001 (unaudited)

	Three Months Ended, September 30		Nine Months Ended, September 30	
	2002	2001	2002	2001
REVENUE				
Oil and NGLs	\$ 2,067,187	\$ 1,820,158	\$ 5,435,864	\$ 3,304,295
Natural gas	2,962,946	3,843,937	7,731,382	10,200,644
	5,030,133	5,664,095	13,167,246	13,504,939
ROYALTIES				
Crown	(837,691)	(841,923)	(2,146,551)	(2,865,125)
Other	(550,573)	(917,664)	(1,571,721)	(1,790,683)
	(1,388,264)	(1,759,587)	(3,718,272)	(4,655,808)
	3,641,869	3,904,508	9,448,974	8,849,131
EXPENSES				
Production	1,345,154	1,496,103	3,645,391	3,400,436
General and administrative	612,730	488,105	1,623,317	1,108,530
Interest on debt	205,700	229,512	533,532	503,689
Capital taxes	37,585	-	254,869	-
Depletion, depreciation and site restoration	1,536,955	2,963,139	3,932,965	6,130,621
	3,738,124	5,176,859	9,990,074	11,143,276
LOSS BEFORE TAXES	(96,255)	(1,272,351)	(541,100)	(2,294,145)
Current income tax (recovery)	(63,876)	(116,388)	(63,876)	(116,388)
Future income tax (recovery)	-	(83,000)	-	(436,000)
NET LOSS	(32,379)	(1,072,963)	(477,224)	(1,741,757)
Deficit, beginning of period	(19,986,931)	(910,454)	(19,542,086)	(241,660)
Deficit, end of period	\$ (20,019,310)	\$ (1,983,417)	\$ (20,019,310)	\$ (1,983,417)
Weighted average common shares	40,995,883	19,909,884	33,616,904	16,915,784
Net earnings (loss) per share				
basic	(\$0.00)	(\$0.05)	(\$0.01)	(\$0.10)
diluted	(\$0.00)	(\$0.05)	(\$0.01)	(\$0.10)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the periods ended September 30, 2002 and September 30, 2001 (unaudited)

	Three Months Ended, September 30		Nine Months Ended, September 30	
	2002	2001	2002	2001
OPERATIONS				
Net loss	\$ (32,379)	\$ (1,072,963)	\$ (477,224)	\$ (1,741,757)
Charges not involving cash:				
Depletion, depreciation and site restoration	1,536,955	2,963,139	3,932,965	6,130,621
Future income tax	-	(83,000)	-	(436,000)
Prepaid contract revenue	-	(174,800)	(176,700)	(518,700)
Deferred revenue	-	945,000	-	945,000
Cash flow from operations	1,504,576	2,577,376	3,279,041	4,379,164
Change in non-cash working capital	4,378,618	(3,000,707)	3,906,753	2,944,329
	5,883,194	(423,331)	7,185,794	7,323,493
FINANCING				
Issuance of common shares	-	-	3,040,300	18,817,250
Share issue costs	(204,662)	(88,376)	(350,671)	(1,267,882)
Increase (decrease) in debt	(2,396,861)	474,628	(8,735,940)	12,476,536
	(2,601,523)	386,252	(6,046,311)	30,025,904
INVESTING				
Proceeds on sale of property, plant and equipment	-	1,902,808	5,917,687	1,902,808
Acquisition of capital assets	(554,551)	(271,115)	(729,740)	(14,536,179)
Additions to property, plant and equipment	(2,727,120)	(1,594,614)	(6,327,430)	(10,088,707)
Cash paid on acquisition of Marengo Exploration Ltd.	-	-	-	(14,627,319)
	(3,281,671)	37,079	(1,139,483)	(37,349,397)
Increase (decrease) in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Weighted average common shares	40,995,883	19,909,884	33,616,904	16,915,784
Cash flow from operations per share				
basic	\$ 0.04	\$ 0.13	\$ 0.10	\$ 0.26
diluted	\$ 0.04	\$ 0.13	\$ 0.10	\$ 0.25

See accompanying notes to financial statements.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended September 30, 2002 and 2001 (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, 2001. 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, 2001.

2. ACQUISITIONS / DISPOSITIONS:

On April 26, 2002 the Corporation sold certain non-strategic assets in the Milton/Hoosier Areas to an arm's length third party for net proceeds of \$5.94 million. The proceeds from this disposition were fully allocated to petroleum and natural gas properties and have an equivalent tax basis.

On July 31, 2002, the Corporation acquired all of the issued and outstanding shares of Gresham Resources Inc. pursuant to a plan of arrangement on the basis of 1.4 common shares of the Corporation for each outstanding share of Gresham. After giving effect to this transaction, the Corporation has 45,117,756 common shares issued and outstanding. The acquisition has been accounted for using the purchase method and was effective July 31, 2002 being the date the majority of Gresham shares were taken up and exchanged for True shares.

The net assets acquired and consideration given were:

Net assets acquired:	
Property, plant and equipment	\$ 15,173,392
Working capital	1,349,495
Future site restoration and abandonment	(100,890)
Debt	(8,925,000)
	\$ 7,496,997
Consideration:	
Issued 12,232,654 shares of True Energy valued at \$0.60 per share	\$ 7,319,313
Acquisition costs, net of future income tax	177,684
	\$ 7,496,997

3. BANK DEBT:

The Corporation has a demand revolving credit facility with an authorized borrowing amount of \$19,000,000 with a Canadian chartered bank. Interest is payable at the bank's prime rate plus one and a quarter 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 first floating charge supplemental debentures of \$80,000,000.

Pursuant to the bank's review of this facility at September 30, 2002, the bank acknowledged 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 (see note 9) and anticipated cash flow increases that will result from successful drilling activity.

4. 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, 2001	28,775,102	\$ 28,484,577
Share issue costs		(8,998)
Balance March 31, 2002	28,775,102	\$ 28,475,579
Issued on exercise of stock options	10,000	6,300
Issued through private placement	4,100,000	3,034,000
Share issue costs		(137,011)
Balance June 30, 2002	32,885,102	\$ 31,378,868
Issued on acquisition of Gresham Resources Inc.	12,232,654	7,319,313
Share issue costs		(204,662)
Balance September 30, 2002	45,117,756	\$ 38,493,519

As at September 30, 2002 the Corporation has commitments to incur \$1.3 million of qualifying expenditures during the remainder of 2002 to satisfy flow-through share agreements.

The following table summarizes the changes in stock options outstanding for nine months ended September 30, 2002:

	Options	Weighted-Average Exercise Price
Outstanding at Dec. 31, 2001	2,022,500	\$ 0.91
Cancelled	(297,500)	1.48
Granted	377,500	0.62
Exercised	-	-
Outstanding at March 31, 2002	2,102,500	\$ 0.78
Cancelled	(20,000)	0.63
Granted	440,000	0.65
Exercised	(10,000)	0.63
Outstanding at June 30, 2002	2,512,500	\$ 0.76
Cancelled	(30,000)	0.63
Granted	140,000	0.69
Exercised	-	-
Outstanding at September 30, 2002	2,622,500	\$ 0.76

5. SUPPLEMENTAL CASH FLOW INFORMATION:

	2002	2001
Cash paid:		
Interest	\$ 533,532	\$ 503,689
Taxes (net of refunds)	135,997	1,205,489
Non-cash investing and financing activities:		
Issue of common shares on acquisition of Marengo	\$ -	\$ 1,136,700
Issue of common shares on acquisition of Gresham	\$ 7,319,313	-
Net assets acquired on acquisitions	\$ 7,419,705	\$ 16,322,777

6. STOCK BASED COMPENSATION:

Effective January 1, 2002 the Corporation prospectively adopted the new recommendations of the CICA with respect to the accounting for stock-based compensation and other stock-based payments. In accordance with the new standard, the Corporation elected to continue its policy that no compensation is recorded on the grant of employee stock options and consideration paid on the exercise of such options is recorded as share capital. In addition, the new standard requires a fair value based method of accounting for other stock-based payments. During the nine months ended September 30, 2002, the Corporation granted 927,500 stock options. Had compensation cost for the stock options granted during the period been determined on a fair value based method, the net loss, after taxes, for the nine months ended September 30, 2002 would have increased by \$58,439.

7. INCOME TAXES:

At September 30, the Corporation has an unrecorded future tax asset of \$2,025,000. A valuation allowance has been set up for the entire amount of the asset, resulting in a valuation allowance increase of \$1,126,000 from December 31, 2001.

8. FINANCIAL INSTRUMENTS:

During March 2002, the Corporation entered into a natural gas contract for 3,000 gigajoules per day for the period April 1, 2002 to October 31, 2002. The contract established a floor price of Cdn\$4.00 per gigajoule and a ceiling price of Cdn\$5.00 per gigajoule at the AECO-C Hub.

In addition, the Corporation had entered into fixed price sales contracts to deliver heavy oil Lloydblend (LLK) at a price of \$30.18 per barrel on 200 barrels per day for the period from May 1, 2002 to December 31, 2002 and at a price of \$26.74 per barrel on 100 barrels per day for the period from May 1, 2002 to April 30, 2003. Effective October 1, 2002, the fixed price sales contracts were modified in respect of the committed volumes to 100 barrels per day at \$30.18 per barrel from October 1, 2002 to December 31, 2002 and 50 barrels per day at \$26.74 per barrel from October 1, 2002 to April 30, 2003. The Corporation also entered into a third fixed price sales contract to deliver heavy oil Lloydblend (LLK) at a price of \$27.87 per barrel on 200 barrels per day for the period January 1, 2003 to June 30, 2003.

9. SUBSEQUENT EVENTS:

On October 17, 2002, the Corporation sold its assets in the North Doddsland Viking Voluntary Unit to an arm's length third party for \$439,832. The proceeds from this disposition will be fully allocated to petroleum and natural gas properties and have an equivalent tax basis.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Kenneth P. Acheson
President, Kennington Properties
Calgary, Alberta

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

John Cuthbertson
Partner, Burnet Duckworth
& Palmer
Calgary, Alberta

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

James R. Glass
Geologist,
Independent Businessman
Vancouver, British Columbia

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

Kim Ward
Independent Businessman
Toronto, Ontario

KEY MANAGEMENT

Paul R. Baay
President and CEO

Clinton T. Broughton
Vice President

Gordon L. Reese
Vice President

Bradley D. Maynes
Vice President, Exploration

Mary Kay Axford
Controller

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BANKERS

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ENGINEERING CONSULTANTS

Gilbert Laustsen Jung
Associates Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare International Inc.
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol: TUI