



# THIRD QUARTER REPORT

TKE

*For the nine months ended September 30, 2005*

**TKE** ENERGY  
TRUST

## CORPORATE PROFILE

TKE Energy Trust commenced business on November 2, 2004 upon the re-organization of TUSK Energy Inc. by way of Plan of Arrangement. The re-organization has been accounted for using the continuity of interest method. Accordingly, all financial and operating information has been reported as if TKE Energy Trust had always carried on the business of TUSK Energy Inc.

On November 2, 2005 the units of TKE Energy Trust were consolidated, the name was changed to True Energy Trust and the Trust acquired all of the outstanding common shares of True Energy Inc.

True is committed to delivering consistent distributions to the holders of its units. The distribution level of TKE Energy Trust was initially set at \$0.12 per unit and on November 15<sup>th</sup> the eleventh consecutive monthly distribution of \$0.12 (\$0.24 per post consolidation unit) will be made to holders of TKE Energy Trust units as of the end of October (prior to the closing of the Plan of Arrangement). The first monthly distribution by True Energy Trust will be made in mid-December to all holders of record as of the end of November.

True Energy Trust trades on the Toronto Stock Exchange ("TSX") under the symbol "TUI.UN".

## WEBSITE

Please visit the website of True Energy at: [www.trueenergy.ab.ca](http://www.trueenergy.ab.ca)

## MESSAGE TO UNITHOLDERS

True Energy Trust (formerly TKE Energy Trust) is pleased to present the financial and operating results for the third quarter and first nine months of the 2005 fiscal year.

On August 23, 2005 TKE Energy Trust and True Energy Inc. ("True") announced that they had entered into an agreement to combine and re-organize through a Plan of Arrangement (the "Arrangement") under which TKE would acquire all of the common shares of True in exchange for trust units of TKE. It was agreed that, coincident with the Arrangement, TKE would change its name and consolidate its units on the basis of 2 old units for 1 new unit of True Energy Trust.

On November 1, 2005 the unitholders of TKE Energy Trust approved the consolidation and name change.

On November 2, 2005, exactly one year after TKE Energy Trust was initially formed, the Arrangement was finalized. Units of TKE traded for the last time on Friday, November 4<sup>th</sup> and trading in the units of True Energy Trust began trading on the Toronto Stock Exchange under the symbol TUI.UN on Monday, November 7<sup>th</sup>.

We thank the retiring directors of TKE Energy Trust, (C. Alexander Squires, Brian W. Mainwaring, Michael A. McVea, Jeffrey W.C. Arsenych) for their guidance and counsel. Coincident with the closing of the Arrangement the board of directors and management was changed to those persons outlined in this quarterly report.

True Energy Trust combines the long life reserves and gas-weighted portfolio of TKE Energy Trust with the larger production base and abundant drilling locations of True Energy Inc. Together, as True Energy Trust, production exceeds 12,000 boepd with 339,000 net acres of undeveloped lands and a drilling inventory of more than 150 locations.

Production is 65% natural gas and the Trust is totally un-hedged as of the date of this report. The Trust has substantial financial flexibility with a line of credit is set at \$125 million and current net debt estimated at about \$70 million.

We look forward to continued strong financial results as a combined entity and intend to exploit our strong financial position to provide investment opportunity and sustainable distributions to all of our unit holders.

On behalf of the management and board of directors

"signed"

Paul R. Baay  
President & Chief Executive Officer

"signed"

Norman W. Holton  
Director

November 9, 2005

## MANAGEMENT'S FINANCIAL ANALYSIS & DISCUSSION

The following analysis and discussion is provided by the management of TKE Energy Trust ("TKE" or the "Trust") and should be read in conjunction with the unaudited consolidated interim financial statements for the nine and three months ended September 30, 2005 and 2004 and the audited consolidated financial statements for the year ended December 31, 2004. This commentary is based on information available, and is dated, November 9, 2005.

**Basis of Presentation** – The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles. The reporting and the measurement currency is the Canadian dollar.

**Non-GAAP Measurements** – The Management's Discussion and Analysis contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian generally accepted accounting principles as an indicator of the Trust's performance. The Trust's determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the unaudited interim consolidated financial statements and the audited consolidated financial statements. The Trust also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

*Barrels of Oil Equivalent* – BOE may be misleading, particularly if used in isolation. The BOE conversion ratio for natural gas used in this report is derived by converting natural gas to BOE in the ratio of six Mcf to one barrel of oil equivalent. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The conversion ratio is an industry accepted norm and is not based on either energy content or current prices.

**TKE Energy Trust commenced business on November 2, 2004 upon the reorganization of TUSK Energy Inc. pursuant to a Plan of Arrangement. For purposes of financial reporting, the conversion is accounted for as a continuity of interest. Accordingly, the "comparative" figures shown are the results of operations and cash flow applicable to TUSK Energy Inc. and its subsidiaries for the nine and three months ended September 30, 2004. The Plan of Arrangement allocated a portion of the production of TUSK Energy Inc. to an ExploreCo (TUSK Energy Corporation) and, as a consequence, certain of the information included for prior periods is not directly comparable.**

### SUMMARY INFORMATION PER BOE

	September 30, 2005		September 30, 2004	
	9 Months (\$)	3 Months (\$)	9 Months (\$)	3 Months (\$)
Gross Revenue	47.83	54.22	39.98	40.95
Royalties, Net of ARTC	9.57	9.89	9.19	10.96
Net Revenue	38.26	44.33	30.79	29.99
Operating Expense	12.06	13.30	6.72	8.07
Net Operating Revenue	26.20	31.03	24.07	21.92
General & Administrative	1.36	1.32	1.34	1.42
Interest Expense	1.08	1.06	1.05	0.98
Capital Taxes	0.10	0.12	0.11	(0.09)
Cash Flow Per BOE	23.66	28.53	21.57	19.61

## Oil and Gas Revenues

Oil and gas revenue, before royalties, for the nine month period ended September 30, 2005 was \$47,253,808 compared to \$59,965,036 for the nine month period ended September 30, 2004. This was due to a decrease in boe production, primarily due to the expected production declines at the Shane property, from 1,499,989 boe for the nine months ended September 30, 2004 to 987,902 boe for the nine months ended September 30, 2005, offset by an increase of \$11.67 per barrel in the average oil price and by a \$0.73 per mcf increase in the average price of natural gas.

For the three months ended September 30, 2005, oil and gas revenues, before royalties, were \$17,170,864 compared to \$20,239,674 for the three months ended September 30, 2004. Lower BOE production was offset by oil prices which were \$14.48 per barrel higher and gas prices of \$1.72 per MCF higher than the comparable period during the prior year.

	September 30, 2005		September 30, 2004	
	9 Months	3 Months	9 Months	3 Months
Oil and Gas Revenues, Before Royalties	\$ 47,253,808	\$ 17,170,864	\$ 59,965,036	\$ 20,239,674
Oil Production (bbls)	267,111	90,680	313,193	101,478
Oil Price (\$/bbl)	\$ 56.44	\$ 63.78	\$ 44.77	\$ 49.30
NGL Production (bbls)	51,848	15,978	130,555	40,983
NGL Price (\$/bbl)	\$ 47.91	\$ 51.88	\$ 35.08	\$ 39.74
Gas Production (MMcf)	4,014	1,260	6,337	2,111
Gas Price (\$/Mcf)	\$ 7.40	\$ 8.38	\$ 6.67	\$ 6.66
BOE Production	987,902	316,704	1,499,989	494,254
BOE per Day	3,619	3,442	5,494	5,372

## Royalties

Total royalties, net of ARTC, were \$9,453,535 (\$9.57 per BOE) for the nine month period ended September 30, 2005 compared to \$13,787,088 (\$9.19 per BOE) for the same period ended September 30, 2004. Net royalties represented 20% of gross revenues in 2005 compared to 23% in 2004. Royalties on gas revenues from the Shane property in 2004 were higher due to the high gas production rates. For the three months ended September 30, 2005 total royalties, net of ARTC, were \$3,132,810 (\$9.89 per BOE) compared to \$5,418,930 (\$10.96 per BOE) for the same period in 2004.

	September 30, 2005		September 30, 2004	
	9 Months	3 Months	9 Months	3 Months
Crown Royalties	3,962,140	999,048	8,055,838	2,859,219
Indian Oil & Gas Canada Royalties	3,717,480	1,495,923	3,549,215	1,210,994
Freehold Royalties	1,031,118	468,280	906,092	357,763
Saskatchewan Production Tax	361,651	79,273	466,282	157,517
Gross Overriding Royalties	881,146	90,286	1,383,556	917,738
	9,953,535	3,132,810	14,360,983	5,503,231
Alberta Royalty Tax Credit	(500,000)	—	(573,895)	(84,301)
Net Royalties	9,453,535	3,132,810	13,787,088	5,418,930
Net Royalties per BOE (6:1)	9.57	9.89	9.19	10.96

## Operating Expenses

Operating expenses for the nine months ended September 30, 2005 were \$11,913,178 (\$12.06 per BOE) compared to \$10,086,396 (\$6.72 per BOE) in the same period in 2004. For the three months ended September 30, 2005, operating costs were \$4,213,043 (\$13.30 per BOE) (2004 – \$3,990,855 – \$8.07 BOE). Operating costs increased on a BOE basis due to a general increase in the costs of services, remedial work to bring certain of the acquired properties up to current regulatory requirements, processing and transportation costs for the first half of 2004 which were not billed until 2005 and, the use of rental equipment and single well batteries at the Gage property.

## Depletion, Depreciation and Amortization (DD&A)

Depletion and depreciation was \$17,114,686 for the nine month period ended September 30, 2005, which represents a provision of \$17.32 per BOE of production. For the period ended September 30, 2004, the Trust recorded a DD&A provision of \$22,766,171 (\$15.18 per BOE). For the three month period ended September 30, 2005, the Trust recorded a DD&A provision of \$5,682,716 (\$17.94 per BOE) (2004 – \$7,873,346 – \$15.93 per BOE). The increase in DD&A is due to the very active drilling and development capital program in the fall of 2004 and 2005 to date.

## General and Administrative

Gross general and administrative costs for the nine months ended September 30, 2005 have increased from \$3,759,284 in 2004 to \$4,394,599 in 2005 mainly due to the hiring of additional personnel and increases in most G&A expense categories with increased activity. For the three months ended September 30, 2005 gross general and administrative costs were \$1,341,089 compared to \$1,262,871 for the same period in 2004. Overhead recoveries were higher mainly due to recoveries from TUSK Energy Corporation, as part of the Technical Services Agreement (\$1,456,000 for nine months ended September 30, 2005 and \$419,000 for three months ended September 30, 2005).

	September 30, 2005		September 30, 2004	
	9 Months	3 Months	9 Months	3 Months
Gross General and Administrative	4,394,599	1,341,089	3,759,284	1,262,871
Acquisition, Exploration & Development Costs Capitalized	(790,225)	(267,937)	(1,131,475)	(407,000)
Overhead Recoveries	(2,262,877)	(665,437)	(622,371)	(155,011)
Net General and Administrative	1,341,497	417,715	2,005,438	699,985
Per BOE	1.36	1.32	1.34	1.42

## Equity

In March, 2005, the Trust closed a financing of 2,900,000 trust units for gross proceeds of \$31,755,000. As of September 30, 2005 there were 19,794,076 trust units and 895,097 exchangeable shares issued and outstanding. At November 2, 2005 immediately prior to the effective time of the plan of arrangement with True Energy Inc., there were 20,708,128 trust units including 855,750 trust units issued on the exercise of unit incentive rights, and 843,304 exchangeable shares issued and outstanding which were convertible into 949,662 trust units.

## Capital Expenditures

Capital additions, excluding acquisitions and divestitures, for the period ended September 30, 2005 were \$25,735,248 compared to \$26,763,674 for the same period ended in 2004. For the three months ended September 30, 2005 capital additions, excluding acquisitions and divestitures were \$9,701,481 compared to \$8,443,190 in 2004.

	September 30, 2005		September 30, 2004	
	9 Months	3 Months	9 Months	3 Months
Land	1,454,905	461,172	3,765,885	1,583,713
Seismic & Exploration	1,166,485	549,910	2,427,405	587,944
Drilling & Completion	16,258,001	6,730,206	16,877,472	5,082,621
Facilities	6,790,330	1,957,737	3,646,200	1,182,824
Corporate	65,527	2,456	46,742	6,088
Total	25,735,248	9,701,481	26,763,674	8,443,190

## Cash Distributions

Management monitors the Trust's distribution payout policy with respect to forecasted net cash flow, debt levels and capital expenditures. Exchangeable shares are convertible into trust units of the Trust based on the exchange ratio, which is adjusted monthly to reflect that distributions are not paid on the exchangeable shares and cash flow related to the exchangeable shares is retained by the Trust for additional capital expenditures or debt repayment. The key drivers of TKE's cash flow, as is generally the case with other energy trusts, are commodity prices and production. Since the Trust's production is weighted to natural gas (68 percent in the nine months ended September 30, 2005), natural gas prices have a significant effect on its cash flow.

TKE's monthly cash distribution has been \$0.12 per trust unit for the months of December, 2004 to October, 2005.

## Liquidity and Capital Resources

TKE had a working capital deficiency, before bank indebtedness, of \$5,258,367 at September 30, 2005.

The Trust has a financing arrangement with two Canadian financial institutions whereby the Company was provided a \$43.0 million revolving production loan of which \$31.0 million was drawn as at September 30, 2005, leaving \$12 million undrawn at September 30, 2005.

On an ongoing basis TKE will typically utilize three sources of funding to finance its capital expenditure program and distributions: (i) internally generated cash flow from operations; (ii) debt where deemed appropriate; and (iii) new equity issues if available on favourable terms. When financing corporate acquisitions, TKE may also assume certain future liabilities. Commodity prices and production volumes have the largest impact on TKE's ability to generate adequate cash flow to meet all its obligations. A prolonged decrease in commodity prices would negatively affect TKE's cash flow from operations and would also likely result in a reduction in the amount of bank loan available. If TKE's capital expenditure program does not result in sufficient additional reserves and/or production it would likely have a negative impact on TKE's liquidity.

TKE may adjust its capital expenditure program depending on the commodity price outlook. TKE believes that internally generated cash flow and incremental bank debt should be sufficient to finance current operations and planned capital spending in the next year.

## Business Risks

The marketability and price of products owned or that may be acquired or discovered by TKE will be affected by numerous factors beyond the Trust's control. TKE must compete in all aspects of its operations with a number of other corporations that have equal or greater technical or financial resources. The ability of the Trust to market its natural gas may depend on its ability to acquire space in pipelines that deliver natural gas to commercial markets. The Trust is also subject to market fluctuations in the prices of products, exchange rates, uncertainties related to the proximity of its reserves to pipelines and processing facilities and extensive government regulation.

## Costless Collars & Puts

The Trust entered into several short term arrangements impacting the selling price of part of its oil and natural gas production applicable to the 2005 fiscal period. These agreements included both costless collars and floor price arrangements. The Trust realized a net loss of \$2,634,938 (compared to a net loss of \$668,944 in 2004) on its oil and natural gas risk management program for the nine months ended September 30, 2005. For the three months ended September 30, 2005 the Trust realized a net loss of \$1,974,518 (2004 – a loss of \$10,421). Additional information with respect to these arrangements is included in Note 6 to the September 30, 2005 Financial Statements.

## Subsequent Event

At a special meeting held November 1, 2005, shareholders of True Energy Inc. ("True") voted 93% in favour of a Plan of Arrangement ("the 2005 Arrangement") to effect a business combination of True Energy Inc. and TKE. Under the 2005 Arrangement, TKE acquired all of the common shares of True in exchange for, among other considerations, trust units of TKE, on the basis 0.50 of one pre-consolidated TKE trust unit (0.25 of one post-consolidated trust unit) for each True common share. At a special meeting held November 1, 2005, unit holders of TKE voted 98% in favour of changing the name of TKE to True Energy Trust and to consolidate the units on a 2 for 1 basis. The name change and consolidation became effective on November 2, 2005. The business combination will be accounted for using the purchase method whereby True will acquire TKE.

## Quarterly Data

The following tables set forth selected quarterly financial information for the last eight financial quarters.

	Third Quarter 2005	Second Quarter 2005	First Quarter 2005	Fourth Quarter 2004
Production per Day				
Oil and NGLs (bbls)	1,159	1,057	1,290	1,372
Natural Gas (Mcf)	13,699	14,901	15,528	18,929
Boe	3,442	3,541	3,878	4,527
Netback per boe (\$)	28.53	23.74	20.92	19.33
Petroleum and Natural Gas Sales, Net (\$)	14,038,054	11,532,157	12,230,062	11,834,805
Funds from Operations (\$)	9,031,666	7,053,474	7,303,069	7,125,221
Per Unit (basic) (\$)	0.46	0.36	0.44	0.39
Per Unit (diluted) (\$)	0.43	0.36	0.41	0.39
Net Income (loss)	3,703,171	1,120,663	2,669,027	(237,413)
Per Unit (basic) (\$)	0.19	0.06	0.16	(0.03)
Per Unit (diluted) (\$)	0.18	0.05	0.15	(0.03)

	Third Quarter 2004	Second Quarter 2004	First Quarter 2004	Fourth Quarter 2003
<b>Production per Day</b>				
Oil and NGLs (bbls)	1,548	1,560	1,770	1,872
Natural Gas (Mcf)	22,943	23,650	23,056	23,416
Boe	5,372	5,502	5,612	5,775
Netback per boe (\$)	19.61	22.76	22.30	16.68
Petroleum and Natural Gas Sales, Net (\$)	14,820,744	15,693,678	15,393,526	13,637,220
Funds from Operations (\$)	9,690,236	11,393,689	11,262,417	8,860,103
Per Unit (basic) (\$)	0.60	0.70	0.70	0.48
Per Unit (fully diluted) (\$)	0.58	0.68	0.68	0.46
Net Income	835,164	2,329,955	2,575,817	(1,086,997)
Per Unit (basic) (\$)	0.06	0.14	0.16	(0.24)
Per Unit (fully diluted) (\$)	0.06	0.14	0.16	(0.14)

### Forward Looking Statements

Certain information regarding TKE set forth in the document, including management's assessment of TKE's future plans and operations, contain forward looking statements that involve substantial known and unknown risks and uncertainties. These forward looking statements are subject to numerous risks and uncertainties, certain of which are beyond TKE's control, including the impact of general imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. TKE's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurance can be given that any of events anticipated by the forward looking statement will transpire or occur, or if any of them do so, what benefits that TKE will derive therefrom.

### Additional Information

Additional information regarding the Trust and its business and operations, including the annual information form, the 2004 annual report, news releases and all statutory filings are available at [www.sedar.com](http://www.sedar.com). Copies of these documents can also be obtained by contacting TKE by mail at Suite 2300, 530 – 8th Avenue S.W., Calgary, Alberta T2P 3S8 or by e-mail at [general.info@trueenergy.ca](mailto:general.info@trueenergy.ca). This information is also accessible on the Trust's website at [www.tketrust.com](http://www.tketrust.com).



# **FINANCIAL INFORMATION**

*Consolidated Balance Sheets*

(Unaudited)

	September 30 2005	December 31 2004
		(Restated – Note 2)
ASSETS	(\$)	(\$)
Current Assets		
Cash	25,976	33,226
Accounts Receivable	7,938,207	11,147,688
Prepaid Expenses	1,122,185	1,994,287
	9,086,368	13,175,201
Property, Plant and Equipment	160,724,951	143,844,993
Goodwill	11,160,724	11,160,724
	180,972,043	168,180,918
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	11,898,042	21,392,456
Bank Indebtedness	31,008,000	33,670,000
Distributions Payable	2,255,124	1,880,307
Current Portion of Obligations Under Capital Lease	191,569	210,487
	45,352,735	57,153,250
Obligations Under Capital Lease	167,529	310,212
Asset Retirement Obligations (Note 3)	4,698,058	4,272,103
Non-Controlling Interest Exchangeable Shares (Note 4)	3,403,100	6,156,712
Future Income Taxes	37,167,480	39,120,480
Unitholders' Equity		
Unitholders Capital (Note 5)	98,217,587	59,536,353
Contributed Surplus	3,506,166	233,204
Accumulated Earnings	10,809,152	3,316,291
Accumulated Cash Distributions	(22,349,764)	(1,917,687)
	90,183,141	61,168,161
	180,972,043	168,180,918

See Accompanying Notes

## Consolidated Statement of Earnings and Accumulated Earnings

For the Nine Months and Three Months Ended September 30, 2005 and 2004  
(Unaudited)

	September 30, 2005		September 30, 2004	
	9 Months (\$)	3 Months (\$)	9 Months (\$)	3 Months (\$)
<b>Revenue</b>				
Oil and Gas Revenues, Net	47,253,808	17,170,864	59,965,036	20,239,674
Royalties, Net of Alberta Royalty Tax Credit	9,453,535	3,132,810	13,787,088	5,418,930
	37,800,273	14,038,054	46,177,948	14,820,744
<b>Expenses</b>				
Oil and Gas Operating	11,913,178	4,213,043	10,086,396	3,990,855
Interest on Bank Indebtedness	1,062,337	336,666	1,579,928	482,220
General and Administrative	1,341,497	417,715	2,005,438	699,985
Unit-Based Compensation	3,272,962	497,752	749,318	251,659
Depreciation and Depletion	17,114,686	5,682,716	22,766,171	7,873,346
Accretion	367,700	123,027	311,917	140,067
	35,072,360	11,270,919	37,499,168	13,438,132
<b>Net Income for the Period Before Income Taxes And Non-Controlling Interest</b>				
	2,727,913	2,767,135	8,678,780	1,382,612
<b>Income Taxes</b>				
Capital	95,052	38,964	159,844	(42,552)
Future (Reduction)	(5,000,000)	(1,100,000)	2,778,000	590,000
	(4,904,948)	(1,061,036)	2,937,844	547,448
<b>Net Income For The Period before Non-Controlling Interest</b>				
	7,632,861	3,828,171	5,740,936	835,164
Non-Controlling Interest – Exchangeable Shares	140,000	125,000	–	–
<b>Net Income for the Period</b>	<b>7,492,861</b>	<b>3,703,171</b>	<b>5,740,936</b>	<b>835,164</b>
<b>Accumulated Earnings, Beginning of Period</b>				
as Previously Reported	3,293,291	7,105,981	14,506,038	19,176,785
Non-Controlling Interest – Retroactive Adoption (Note 2)	23,000	–	–	–
Unit-Based Compensation-Retroactive Adoption	–	–	(616,000)	–
Asset Retirement Obligations – Retroactive Adoption	–	–	419,475	–
<b>Accumulated Earnings, Beginning of Period, as Restated</b>	<b>3,316,291</b>	<b>7,105,981</b>	<b>14,309,513</b>	<b>19,176,785</b>
<b>Adjustment for Share Redemption</b>	<b>–</b>	<b>–</b>	<b>(38,500)</b>	<b>–</b>
<b>Accumulated Earnings, End of Period</b>	<b>10,809,152</b>	<b>10,809,152</b>	<b>20,011,949</b>	<b>20,011,949</b>
<b>Net Income per Unit</b>				
Basic	0.40	0.19	0.36	0.06
Diluted	0.38	0.18	0.34	0.06

See Accompanying Notes

## Consolidated Statements of Cash Flows

For the Nine Months and Three Months Ended September 30, 2005 and 2004

(Unaudited)

	September 30, 2005		September 30, 2004	
	9 Months (\$)	3 Months (\$)	9 Months (\$)	3 Months (\$)
Operating Activities				
Operating Activities:				
Net Income	7,492,861	3,703,171	5,740,936	835,164
Items not Requiring Cash:				
Non-Controlling Interest – Exchangeable Shares	140,000	125,000	–	–
Unit Based Compensation	3,272,962	497,752	749,318	251,659
Depreciation, Depletion and Accretion	17,482,386	5,805,743	23,078,088	8,013,413
Future Income Taxes (Reduction)	(5,000,000)	(1,100,000)	2,778,000	590,000
Funds from Operations	23,388,209	9,031,666	32,346,342	9,690,236
Change in Non-cash Working Capital	(316,184)	2,453,078	2,823,288	4,362,592
Cash Provided by Operating Activities	23,072,025	11,484,744	35,169,630	14,052,828
Financing Activities				
Payments of Distributions	(20,057,261)	(7,182,312)	–	–
Issue of Units	32,674,154	354,843	256,300	207,800
Unit Issue Costs	(1,938,531)	(152,498)	(40,882)	(10,003)
Repurchase of Common Shares	–	–	(107,160)	–
Bank Indebtedness	(2,662,000)	8,000,000	(5,300,000)	(4,800,000)
Obligations Under Capital Lease	(161,601)	(46,612)	(487,601)	(165,220)
Change in Non-cash Working Capital	–	( 861,228)	–	–
	7,854,761	112,193	(5,679,343)	(4,767,423)
Investing Activities				
Investment	–	–	31,907	262
Property, Plant and Equipment	(25,735,248)	(9,701,481)	(26,763,674)	(8,443,190)
Change in non-cash working capital	(5,198,788)	(1,895,480)	(2,770,209)	(800,572)
	(30,934,036)	(11,596,961)	(29,501,976)	(9,243,500)
Increase (Decrease) in Cash During the Period	(7,250)	(24)	(11,689)	41,905
Cash: Beginning of Period	33,226	26,000	84,249	32,655
Cash: End of Period	25,976	25,976	72,560	72,560
Interest Paid	1,037,544	225,736	1,567,457	477,820
Taxes Paid	72,052	93,964	450,648	100,029

See Accompanying Notes

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TKE Energy Trust (“TKE” or the “Trust”) is an open-ended, unincorporated investment trust governed by the laws of the province of Alberta. The Trust was established as part of a Plan of Arrangement (the “2004 Arrangement”) that became effective on November 2, 2004.

The reorganization resulted in the shareholders of TUSK Energy Inc. receiving trust units or exchangeable shares in the Trust, a new energy trust that owns approximately 95 percent of the assets formerly held by TUSK Energy Inc. In addition, the shareholders of TUSK Energy Inc. received shares in a separate, publicly-listed, exploration-focused company TUSK Energy Corporation (“TUSKEx”). The remaining 5 percent of the assets of TUSK Energy Inc. were transferred to TUSKEx.

Pursuant to the 2004 Arrangement, shareholders of TUSK Energy Inc. received shares of TUSKEx and at their election, either units of the Trust, which pay monthly cash distributions or exchangeable shares of a subsidiary of the Trust which may be exchanged into units of the Trust. The 2004 Arrangement resulted in TUSK Energy Inc. shareholders receiving one trust unit or exchangeable share of the Trust and one of a share in TUSKEx for every two shares of TUSK Energy Inc.

The conversion of TUSK Energy Inc. to a Trust has been accounted for as a continuity of interest. The comparative figures are the results of TUSK Energy Inc. and its subsidiaries. Due to the conversion into an energy trust, certain information included in the financial statements for prior periods may not be directly comparable.

The term “units” has been used to identify both the Trust units and exchangeable shares of the Trust issued on or after November 2, 2004 as well as the common shares of TUSK Energy Inc. outstanding prior to the conversion on November 2, 2004.

### Relationship with TUSK Energy Corporation

In conjunction with the 2004 Arrangement, TUSKEx and TKE entered into a Technical Services Agreement which provides for the shared services required to manage TUSKEx’s activities and govern the allocation of general and administrative expenses between the entities. Under the Technical Services Agreement, TUSKEx is charged a technical services fee by TKE, on a cost recovery basis, in respect of management, development, exploitation, operations and marketing activities on the basis of relative production and capital expenditures. For the nine month period ended September 30, 2005 the technical services fee was \$1,456,000 (\$419,000 for the three months ended September 30, 2005). The Technical Services Agreement has no set termination date and will continue until terminated by either party with six months prior written notice to the other party or at some other date as may be mutually agreed. As part of the plan of arrangement with True Energy Inc., the Technical Services Agreement was terminated November 2, 2005 (See Note 8).

As a result of the 2004 Arrangement, TUSKEx and TKE have joint interest in certain properties and undeveloped land. These joint interest properties are governed by standard industry agreements.

As at September 30, 2005, accounts receivable and accounts payable included \$2.2 million due to TUSKEx, which includes standard joint venture amounts, including revenue.

### 1. Significant Accounting Policies

The interim consolidated financial statements of the Trust have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Trust as at December 31, 2004 other than described in Note 2. The disclosures included below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Trust’s consolidated financial statements and notes thereto for the year ended December 31, 2004.

### 2. Change in Accounting Policy

#### Exchangeable Securities – Non-Controlling Interest

On March 8, 2005 the accounting abstract “Exchangeable Securities Issued by Subsidiaries of Income Trusts” was amended effective for financial statements issued on or after June 30, 2005. Under the amended abstract, exchangeable shares are presented as equity of the Trust only if the exchangeable shares are entitled to receive distributions of earnings economically equivalent to distributions received by units of the trust and the holders of exchangeable shares can only dispose of them by exchanging them for trust units. The exchangeable shares of the Trust’s subsidiary can be traded privately, thereby allowing holders of the exchangeable shares to dispose of them without having to exchange them for trust units and consequently, they must be classified as non-controlling interest outside of Unitholders’ Equity.

In accordance with the transitional provisions of the abstract, the Trust has retroactively restated prior periods dating back to the Arrangement dated November 2, 2004. As a result of this change in accounting policy, the Trust has reflected a non-controlling interest on the consolidated balance sheet of \$3,400,100 as at September 30, 2005 and \$6,156,712 as at December 31, 2004. Each redemption of exchangeable shares held by previous TUSK Energy Inc. shareholders are accounted for as a step-purchase, which for the nine months ended September 30, 2005 and the year ended December 31, 2004 resulted in an increase in property, plant and equipment of \$8,099,000 and \$1,146,000 respectively, and increase of unitholders' capital of \$5,052,000 and \$700,500 respectively and an increase in future income tax liability of \$3,047,000 and \$445,500 respectively. Cash flow was not impacted by this change. The change in accounting policy had no impact to the consolidated net exchangeable shares were issued subsequent to those periods.

### 3. Asset Retirement Obligations

A reconciliation of the asset retirement obligations is provided below:

	Nine Months Ended	
	September 30, 2005	September 30, 2004
<b>Asset retirement obligations</b>		
Balance, beginning of period	4,272,103	3,446,000
Liabilities, incurred in period	58,256	409,420
Accretion expense	367,699	311,917
Balance, end of period	4,698,058	4,167,337

### 4. Non-Controlling Interest – Exchangeable Shares

The Trust retroactively applied the amended accounting abstract "Exchangeable Securities issued by a Subsidiary of an Income Trust" whereby the exchangeable shares issued by the Trust's subsidiary must be reflected as non-controlling interest on the consolidated balance sheet and in turn, net earnings must be reduced by the amount of net earnings attributed to the non-controlling interest.

The non-controlling interest on the consolidated balance sheet consists of the book value of exchangeable shares issued to TUSK Energy Inc. shareholders at the time of the Plan of Arrangement, plus net earnings attributable to the exchangeable shares, less exchangeable shares (and related cumulative earnings) redeemed. The non-controlling interest charge on the consolidated statement of earnings represents the share of net earnings attributable to the exchangeable shares based on the trust units issuable for exchangeable shares in proportion to total trust units issued and issuable each period end.

The activity for non-controlling interest for the nine months ended September 30, 2005 is as follows:

	Nine Months Ended September 30			
	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of period	1,679,647	6,156,712	–	–
Exchanged for trust units	(784,550)	(2,893,612)	–	–
Non-controlling interest expense	–	140,000	–	–
Balance, end of period	895,097	3,403,100	–	–

### 5. Unitholders' Capital

#### a) Trust Units of TKE Energy Trust

	September 30, 2005		September 30, 2004	
	Number	Amount	Number	Amount
Trust Units				
Balance Beginning of Period	15,984,926	59,536,353	–	–
Issued for Cash	2,995,885	32,674,154	–	–
Exchangeable Shares Converted	813,265	7,945,612	–	–
Balance, end of Period	19,794,076	100,156,119	–	–
Less: Unit Issue Expenses	–	1,938,532	–	–
	19,794,076	98,217,587	–	–

#### b) Per Unit Amounts

Per unit amounts have been calculated on the weighted average number of units outstanding. The weighted average units outstanding for the nine months ended September 30, 2005 was 18,639,817 (2004 – 16,255,967) (three months ended September 30, 2005 – 19,749,359 & September 30, 2004 – 16,337,303). In computing diluted earnings per unit, nil units were added to the weighted average number of units outstanding during the nine months ended September 30, 2005 (2004 – 835,188) (three months ended September 30, 2005 – 83,884 units, 2004 – 614,769) for the diluted effect of Trust Unit Incentive Rights and 1,179,385 (three months ended September 30, 2005 – 1,009,405) units that would be issued on the conversion of the exchangeable shares outstanding at September 30, 2005.

**c) Unit-Based Compensation**

The fair values of all incentive rights granted are estimated on the date of grant using the Black-Scholes option-pricing model. The weighted fair market value of incentive rights granted during the period ended September 30, 2005 and the assumptions used in their determination are as noted below:

	Period Ended September 30, 2005
Weighted Fair Market Value per Right	1.97
Average Risk-Free Interest Rate (percent)	2.48
Average Volatility (percent)	21
Expected Life (years)	5

**d) Unit Incentive Rights**

A summary of the status of the Company's Unit Incentive Rights plan as of September 30, 2005 and changes during period than ended is presented below:

	2005	Weighted Average Exercise Price (\$)
	Unit Incentive Rights	
Outstanding at Beginning of Year	1,766,000	9.51
Granted	45,000	9.89
Exercised	–	–
Expired/Cancelled	(10,000)	9.17
Outstanding and Exercisable at End of Period	1,801,000	8.72

## 6. Financial Instruments

**a) Commodity Price Contracts**

The Trust has entered into several derivative financial instruments, including crude oil and natural gas costless collar and floor price contracts. The Trust enters into these contracts for the purpose of protecting its future earnings and cash flow from operations from the volatility of crude oil and natural gas commodity prices. The costless collar and floor price contracts reduce fluctuations in petroleum and natural gas revenues by locking in a floor price and, in the case of collars, also a maximum price.

The Trust has entered into several short-term arrangements for both oil and natural gas. For the nine month period ended September 30, 2005, the Trust realized a net loss of \$2,634,938 (2004 – a loss of \$668,944) on its oil and natural gas price risk management. For the three months ended September 30, 2005 the Trust realized a net loss of \$1,974,518 (2004 – a loss of \$10,421).

Contracts outstanding in respect to financial instruments at September 30, 2005 were as follows:

Contract	Volume	Point	Strike Price	Premium	Term
Crude Oil:					
Put Option	1,300	WTI	\$40.00	\$2.17/bbl	Jan 01 – Dec 31
Natural Gas:					
Put Option	8,000	AECO	\$6.00	\$0.145/GJ	Apr 01 – Oct 31
Collar	8,000	AECO	\$6.00-\$8.80	N/A	Apr 01 – Oct 31

(1) Oil volumes are in barrels per day. Gas volumes are in gigajoules per day.

(2) Strike price and any cost or premium paid is in US dollars for oil.

(3) All dates occur in 2005.

#### b) Fair Value of Financial Instruments

The Company's financial instruments recognized in the balance sheet consist of accounts receivable, accounts payable, bank indebtedness and obligations under capital leases. The fair value of these financial instruments approximate their carrying amounts due to their short terms to maturity or the indexed rate of interest on the bank indebtedness.

Transactions entered into after September 30, 2005 are not reflected in the estimated fair market values shown below. At September 30, 2005 the estimated fair value of the financial instrument transactions were as follows:

\$ thousands receivable (payable)	
Crude oil contracts	138
Natural gas contracts	\$(530,051)

The above estimated fair values are based on the market value of these instruments as at September 30, 2005 and represent the amounts the Company would receive or pay to terminate the contracts at that date.

### 7. Measurement Uncertainty

The amounts recorded for depletion and depreciation of property and equipment, the asset retirement obligations and the ceiling test calculation are based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

### 8. Subsequent Event

At a special meeting held November 1, 2005, shareholders of True Energy Inc. ("True") voted 93% in favour of a Plan of Arrangement ("the 2005 Arrangement") to effect a business combination of True Energy Inc. and TKE. Under the 2005 Arrangement, TKE acquired all of the common shares of True in exchange for, among other considerations, trust units of TKE, on the basis of 0.50 of one pre-consolidated TKE trust unit (0.25 of one post-consolidated trust unit) for each True common share. At a special meeting held November 1, 2005, unit holders of TKE voted 98% in favour of changing the name of TKE to True Energy Trust and to consolidate the units on a 2 for 1 basis. The name change and consolidation became effective on November 2, 2005. The business combination will be accounted for using the purchase method whereby True will acquire TKE.

## CORPORATE INFORMATION

### Board of Directors

Paul R. Baay  
Calgary, Alberta

John H. Cuthbertson <sup>(3)(4)</sup>  
Calgary, Alberta

W.C. (Mickey) Dunn, Chairman <sup>(1)(2)</sup>  
Kelowna, British Columbia

Norman W. Holton <sup>(1)(3)</sup>  
Calgary, Alberta

Raymond G. Smith <sup>(2)(4)</sup>  
Calgary, Alberta

Murray D. Todd <sup>(2)(4)</sup>  
Calgary, Alberta

H. Garth Wiggins <sup>(1)(3)</sup>  
Calgary, Alberta

### Committees:

*(1) Audit*

*(2) Reserves, Safety & Environment*

*(3) Compensation*

*(4) Corporate Governance*

### Officers

Paul R. Baay  
President & Chief Executive Officer

Clinton T. Broughton, P. Eng  
Executive Vice President

Wayne B. Jessee, P. Eng.  
Vice President & Chief Operating Officer

Joan E. Dunne, CA  
Vice President, Finance & Chief Financial Officer

Ian C. Ross, P. Land  
Vice President, Land

Case Caulfield, P. Geoph.  
Vice President, Exploration

### Auditors

KPMG LP

### Legal Counsel

Burnet, Duckworth & Palmer LLP.

### Third Party Engineering

Gilbert Laustsen Jung Associates Ltd.

### Bankers

National Bank of Canada

Canadian Imperial Bank of Commerce

### Transfer Agent & Registrar

Computershare Trust Company of Canada

### Head Office

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