SECOND QUARTER INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 2001

Q2

TRUE energy inc.

True Energy Inc. ("True") ("the Company") is pleased to announce its financial and operating results for the second quarter and the six months ended June 30, 2001. These results reflect the purchase of petroleum and natural gas assets located in the Kerrobert/Dodsland area of west-central Saskatchewan. The acquisition, which was for approximately $14,000,000, closed June 26, 2001, just prior to the end of the second quarter. During the quarter, the Company had its most successful drilling program to date, resulting in eight oil wells and five gas wells.

The Company focused on bringing on all of its new heavy oil production in order to take advantage of the traditional narrowing of the heavy oil differential during the third quarter of the year. This resulted in True having a large working capital deficit; however, as no drilling is contemplated during the third quarter, the working capital will return to lower levels. The Company is also evaluating the disposition of a number of properties that were included in the assets acquired on June 26. True is targeting $3,000,000 in asset sales during the final six months of 2001. These dispositions will not affect the Company's forecast for the year as most of the assets to be disposed of have minimal production and reserves associated with them.

FINANCIAL HIGHLIGHTS

($ except share amounts)	Six Months Ended June 30 2001	2000	% Change
Revenue	**7,840,844**	–	–
Cash Flow	**1,801,788**	124,530	1,347
per share – basic	**0.12**	0.01	709
per share – diluted	**0.11**	0.01	669
Net Earnings (loss)	**(668,794)**	(8,670)	7,614
per share – basic	**(0.04)**	0.00	–
per share – diluted	**(0.04)**	0.00	–
Working Capital Deficit			
(including prepaid gas)	**9,398,809**	841,227	1,017
Total Assets	**63,299,621**	3,611,228	1,653
Long-term Debt (including prepaid gas)	**13,327,369**	934,364	1,326
Shareholders' Equity	**25,811,321**	1,178,786	2,090
Net Capital Expenditures	**22,759,157**	703,083	3,137
Shares Outstanding	**17,875,101**	8,610,412	108
Weighted Average Shares			
basic	**15,393,920**	8,610,412	79
diluted	**16,414,748**	8,729,898	88

OPERATING HIGHLIGHTS

	Six Months Ended June 30 2001	2000	% Change
Daily Volumes			
Oil and NGLs (bbls/d)	**402**	46	774
Gas (Mcf/d)	**5,960**	1,430	317
Equivalent Oil (bbls/d) @ 6:1	**1,395**	284	391
Prices			
Oil and NGLs ($/bbl)	**20.41**	–	–
Gas ($/Mcf)	**5.89**	–	–
Combined ($/BOE) @ 6:1	**31.04**	–	–
$/BOE @ 6:1			
Operating Netback	**12.04**	11.82	2
Operating Expenses	**7.54**	2.94	156
General & Administrative	**2.46**	3.72	(34)

FINANCIAL RESULTS

For the six months ended June 30, 2001 True recorded a net loss of $669,000 ($0.04/share) on revenues of $7.8 million compared to a loss of $8,760 for the corresponding period of the previous year. Cash flow from operations for the six months was $1.8 million ($0.12/share) compared to $125,000 ($0.01/share) for the corresponding six months of 2000. Long-term debt increased to $13.3 million from $934,000 in 2000. During the six months ended June 30, 2001, the Company invested $8.5 million on conventional oil and gas activities, $14.3 million on the acquisition of producing assets in its core area and $14.6 million on the acquisition of Marengo for total capital expenditures of $37.4 million, compared to $703,000 during the corresponding period of 2000.

During the six months ended June 30, 2001, True issued 4,166,667 special warrants at $1.20 per special warrant to help finance the Marengo acquisition, and 7.2 million special warrants at $1.90 per special warrant to help fund the Kerrobert/Dodsland property acquisition. At June 30, 2001, True had 17,875,101 common shares and 7,200,000 special warrants outstanding.

OPERATING RESULTS

Production, with gas converted to BOE/d at a ratio of 6:1, increased to 1,732 BOE/d from 231 BOE/d during the second quarter of 2000. For the six months ended June 30, 2001 production averaged 1,395 BOE/d up from 284 BOE/d for the same period in 2000. Gas made up the bulk of the production averaging 7.4 MMcf/d during the second quarter of 2001. True increased the oil volumes for the period to 492 bbls/d up from 36 bbls/d for the same period in 2000. Current production is 2,500 BOE/d at 6:1. The Company continues to be successful at reducing operating costs, averaging $6.60/BOE during the second quarter of 2001.

True's South Coleville project has performed as anticipated, and all eight of the wells drilled in Phase One have been cased and are on production. The second and third phases, consisting of eight wells each, are scheduled to be completed prior to year end. At Eyre, the Company brought on the sixth well in the project and is now producing about 1.5 MMcf/d net to the Company. Additional seismic has been purchased in the area and further drilling will be evaluated.

During the second quarter, True substantially increased its undeveloped land position in the area as a result of the June 26, 2001 acquisition. The Company's undeveloped land base increased from 36,000 net undeveloped acres to more than 180,000 net undeveloped acres. This provides True with a large inventory of prospects to continue the growth of the Company.

The acquisition also added 500 BOE/d at 6:1 and provided the Company with two additional operated gas plants at Dodsland and Bayhurst. The production from the acquisition will be included from June 26, 2001 onward.

OUTLOOK

During the first six months of 2001, True has continued to grow production and reserves through both drilling and corporate and property acquisitions. Increases in production have more than offset declines in commodity prices, and the Company continues to steward its financial resources through property dispositions, operating cost reductions and redirection of operating cash flow.

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, 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 six months ended June 30, 2001, the Company averaged 1,395 BOE/d, consisting of 402 bbls/d of oil and 6.0 MMcf/d of natural gas. This is a 391% increase over the 284 BOE/d, on a combined basis, averaged in the first half of 2000 and a 774% increase over the 46 bbls/d of oil and a 317% increase over the 1.4 MMcf/d of natural gas. Compared to the first quarter of 2001, oil production in the three months ended June 30, 2001 increased 58% from 311 bbls/d to 492 bbls/d, gas production increased 66% from 4.5 MMcf/d to 7.4 MMcf/d and combined production was up by 64% from 1,056 BOE/d to 1,732 BOE/d.

Revenue
Oil and gas revenues for the second quarter of 2001 increased 46% to $4.7 million from $3.2 million received in the first quarter of 2001. The increase in volumes for the three months ended June 30, 2001 more than offset the decline in average prices received compared to the three months ended March 31, 2001. Although the price received for the second quarter's oil production increased 10% to $21.13/bbl from $19.26/bbl in the first quarter of this year, the average gas price received dropped 17% from $6.59/Mcf in the first quarter to $5.47/Mcf during the second. Under the natural gas collar that the Company put into place effective February 1 of this year, a gain was recorded during the three months ended June 30, 2001 of $224,000, compared to a loss incurred in the first quarter of the year of $165,000. Oil and gas revenues and prices before royalties are not available for the six months ended June 30, 2000.

Royalties
The royalties paid during the second quarter of 2001 were $2.9 million compared to $800,000 during the first quarter of this year. The second quarter includes $421,000 of prior period adjustments resulting in the royalties as a percentage of revenue increasing from 25% in the first quarter to 45% in the second quarter.

Operating Expenses
Operating expenses, on a BOE basis, dropped 27% during the second quarter of 2001 to $6.60/BOE from $9.09/BOE in the first quarter. For the three months ended June 30, 2001 operating expenses were $1.0 million, compared to $863,000 for the three months ended March 31, 2001 and for the six-month period ending June 30, 2001, expenses totalled $1.9 million, compared to $152,000 during the comparable period in 2000.

Operating Netbacks
The decrease in the gas prices received during the three months ended June 30, 2001 along with the increase in royalties more than offset the decrease in operating expenses and resulted in the operating netback received dropping from $16.22/BOE during the first quarter of 2001 to $9.60/BOE in the second quarter of 2001. For the six months ending June 30, 2001, the operating netback was $12.04/BOE compared to $11.82/BOE during the comparable period in 2000.

General and Administrative
General and administrative expenses decreased 34% to $2.46/BOE during the six months ending June 30, 2001 from $3.72/BOE in the first half of 2000. Expenses increased to $428,000 in the second quarter of 2001 from $193,000 in the first quarter of 2001. Expenses were $2.71/BOE for the three months ended June 30, 2001 compared to $2.03/BOE for the three months ended March 31, 2001. The quarter-over-quarter increase is mainly due to the addition of several employees during the second quarter.

Interest Expense
Interest expense during the second quarter of 2001 amounted to $216,000, up from the $58,000 incurred during the first quarter of 2001. For the six months ended June 30, 2001 interest expense totalled $274,000 compared to the $5,000 incurred in the first six months of 2000. The increase from the first quarter of this year is due to the increased debt utilized to fund the Marengo acquisition and the second quarter drilling program.

Capital Expenditures
True invested $37.4 million on oil and gas activities during the first six months of 2001, including the Marengo acquisition, compared to $703,000 incurred in the six months ended June 30, 2000. The Company spent $8.5 million on conventional oil and gas activities and $14.3 million on the acquisition of producing assets in its core area.

Depletion, Depreciation and Site Restoration
Depletion, depreciation and site restoration expense for the three months ended June 30, 2001 was $1.8 million or $11.58/BOE compared to $1.3 million or $14.14/BOE in the first quarter of this year. For the six months ended June 30, 2001, depletion, depreciation and site restoration expense was $3.2 million or $12.54/BOE compared to $380,000 or $7.36/BOE for the same period last year.

Liquidity and Capital Resources
During the second quarter, the Corporation issued 7,200,000 special warrants at a price of $1.90 for gross proceeds of $13.68 million to help fund the Kerrobert/Dodsland property acquisition. Also during the second quarter, 175,000 shares were issued on the exercise of stock options and 11,250 shares were issued on the payment of an outstanding debt. At June 30, 2001, the Company had 17,875,101 common shares and 7,200,000 special warrants outstanding, and 26,580,101 common shares on a diluted basis.

The Corporation ended the year 2000 with a $2.8 million line of credit, drawn to $1.3 million and had a working capital deficit of $1.9 million. True ended the second quarter of 2001 with its bank line drawn to $13.3 million and had a working capital deficit of $9.4 million. The deficiency at June 30, 2001 included the balance of the prepaid gas liability of $526,000 and $322,000 in current taxes payable inherited in the Marengo acquisition.

CONSOLIDATED BALANCE SHEETS

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

		June 30 2001 (unaudited)		December 31 2000 (audited)
ASSETS				
Current assets				
Accounts receivable	$	**3,753,504**	$	3,500,627
Property, plant and equipment		**59,546,117**		12,171,304
	$	**63,299,621**	$	15,671,931
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	$	**12,303,655**	$	4,742,773
Current portion of prepaid gas		**526,300**		693,500
Current taxes payable		**322,358**		–
		13,152,313		5,436,273
Prepaid gas		**–**		176,700
Long-term debt		**13,327,369**		1,325,461
Future income taxes		**10,781,625**		1,455,631
Site restoration provision		**226,993**		82,947
Shareholders' equity				
Common shares		**26,721,775**		7,436,579
Deficit		**(910,454)**		(241,660)
		25,811,321		7,194,919
	$	**63,299,621**	$	15,671,931

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

for the period ended June 30
(unaudited)

	Three months ended June 30, 2001	Three months ended June 30, 2000	Six months ended June 30, 2001	Six months ended June 30, 2000
Revenues				
Oil	$ 945,759	$ –	$ 1,484,137	$ –
Natural gas	3,707,286	–	6,356,512	–
	4,653,045	–	7,840,844	–
Royalties				
Crown	(1,381,607)	–	(2,023,202)	–
Other	(716,871)	–	(873,019)	–
	(2,098,478)	–	(2,896,221)	–
	2,554,567	412,622	4,944,623	762,690
Expenses				
Operating	1,041,068	66,109	1,904,333	152,003
Depletion, depreciation and site restoration	1,824,913	260,000	3,167,482	380,000
General and administrative	427,667	140,879	620,425	192,163
Interest on long-term debt	216,360	2,430	274,177	5,194
	3,510,008	469,418	5,966,417	729,360
Earnings (loss) before taxes	(955,441)	(56,796)	(1,021,794)	33,330
Future income tax (recovery)	(397,000)	(28,285)	(353,000)	42,000
Net earnings (loss)	(558,441)	(28,511)	(668,794)	(8,670)
Deficit, beginning of period	(352,013)	(398,149)	(241,660)	(408,086)
Change in accounting policy relating to future income taxes	–	(9,905)	–	(9,905)
Deficit, end of period	$ (910,454)	$ (436,565)	$ (910,454)	$ (426,661)
Weighted average common shares	17,813,453	8,610,412	15,393,920	8,610,412
Net earnings (loss) per share				
– basic	$ (0.03)	$ –	$ (0.04)	$ –
– diluted	$ (0.03)	$ –	$ (0.04)	$ –

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the period ended June 30
(unaudited)

	Three months ended June 30, 2001	Three months ended June 30, 2000	Six months ended June 30, 2001	Six months ended June 30, 2000
Operations				
Net earnings (loss)	$ (558,441)	$ (28,512)	$ (668,794)	$ (8,670)
Items not affecting cash:				
Depletion, depreciation and site restoration	1,824,913	260,000	3,167,482	380,000
Future income tax (recovery)	(397,000)	(28,285)	(353,000)	42,000
Prepaid contract revenue	(172,900)	(117,800)	(343,900)	(288,800)
Cash flow from operations	696,572	85,403	1,801,788	124,530
Change in non-cash working capital items	4,504,415	361,063	5,945,036	580,189
	5,200,987	448,466	7,746,824	704,719
Financing				
Issuance of share capital	13,817,250	–	18,817,250	–
Share issue costs	(779,867)	–	(1,179,506)	–
Increase in long-term debt	2,366,114	53,098	12,001,908	(1,636)
	15,403,497	53,098	29,639,652	(1,636)
Investing				
Acquisition of capital assets	(14,265,064)	–	(14,265,064)	–
Additions to capital assets	(6,206,556)	(499,564)	(8,494,093)	(703,083)
Cash paid on acquisition of Marengo Exploration Ltd.	(132,864)	–	(14,627,319)	–
	(20,604,484)	(499,564)	(37,386,476)	(703,083)
Increase (decrease) in cash	–	–	–	–
Cash, beginning of period	–	–	–	–
Cash, end of period	$ –	$ –	$ –	$ –
Weighted average common shares	17,813,453	8,610,412	15,393,920	8,610,412
Cash flow from operations per share				
– basic	$ 0.04	$ 0.01	$ 0.12	$ 0.01
– diluted	$ 0.04	$ 0.01	$ 0.11	$ 0.01

SELECTED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 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:**
a) On February 6, 2001 the Company made an offer to acquire substantially all of the outstanding shares of Marengo Exploration Ltd. ("Marengo"). Marengo is engaged in exploration for and development and production of crude oil and natural gas primarily in the Province of Saskatchewan. The acquisition has been

accounted for using the purchase method and was effective February 28, 2001 being the date the majority of Marengo shares were taken up and paid for by True.

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

b) On June 18, 2001 the Corporation entered into an agreement with an arms 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"). After adjustment for certain price adjustments from the effective date of April 1, 2001, the net purchase price for the Acquisition will approximate $14.0 million. Closing of the Acquisition occurred on June 26, 2001 after which the Corporation began recording the net revenues from the assets. On acquisition, the carrying value of the assets equals the tax base.

3. Bank indebtedness and long-term debt:

On January 22, 2001, the Corporation entered into a financing agreement with a Canadian chartered bank for an $11,300,000 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. (See note 7).

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, 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
Special Warrants:			
Balance, March 31, 2001	–	$	–
Issued	7,200,000		13,680,000
Issue costs (net of future income taxes of $332,513)	–		(447,354)
Balance, June 30, 2001	7,200,000	$	13,232,646
Total Share Capital		$	26,721,775

The Corporation has commitments to incur approximately $166,204 of qualifying expenditures to satisfy flow-through share agreements.

5. Supplemental cash flow information:

		2001		2000
Cash paid:				
Interest	$	274,177	$	5,194
Taxes		1,205,489		–
Non-cash investing and financing activities:				
Issue of common shares on acquisition (note 2)	$	1,136,700		–

6. **Financial instruments:**
During January 2001, the Corporation entered into transactions to effect a costless collar for 3,000 gigajoules per day for the period February 1, 2001 to December 31, 2001. These transactions establish a floor price of $7.50 Cdn per gigajoule at AECO and a ceiling price of $8.50 Cdn per gigajoule at AECO.

7. **Subsequent events:**
   (a) In July 2001 the Corporation obtained an increase in its demand bank facility to $14,000,000 to reflect the added lending value of the assets acquired on the Acquisition noted above. Interest is payable at the bank's prime rate plus three-quarters of one percent per annum (Bankers Acceptances at 1 3/4% per annum stamping fee). The facility is secured by a general assignment of book debts, a fixed and floating charge debenture and supplemental debenture with an undertaking to provide fixed charges over major petroleum and natural gas reserves, a hypothecation and pledge of acquired Marengo shares and a limited guarantee from Marengo, supported by certain security including a floating charge debenture from Marengo, an undertaking to provide fixed charges, a general assignment of book debts and assignment of material contracts. The facility is to be reviewed on an interim basis no later than September 30, 2001 and the annual review will be completed on or before May 31, 2002.
   (b) Effective August 1, 2001, the Corporation sold the costless collar of 3,000 gigajoules per day and received a lump sum payment of $1,575,000.

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 & 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

Clinton T. Broughton
Vice President

Gordon L. Reese
Vice President

Todd R. Klippenstein
Controller

Head Office

True Energy Inc.
300, 520 – 5th Avenue S.W.
Calgary, Alberta T2P 3R7
Phone: (403) 266-8670
Fax (403) 264-8163
Internet: www.trueenergy.ab.ca

Auditors

KPMG LLP
Calgary, Alberta

Bankers

National Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Symbol: TUI