

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.