

FREEHOLD ROYALTY TRUST (THE "TRUST") IS A CLOSED-END INVESTMENT TRUST WHICH RECEIVES AND DISTRIBUTES ROYALTY INCOME FROM A DIVERSIFIED ASSET BASE OF HIGH QUALITY OIL AND GAS PROPERTIES. FREEHOLD IS UNIQUE AMONG OIL AND GAS ROYALTY TRUSTS AS GREATER THAN TWO-THIRDS OF ITS CASH FLOW IS DERIVED FROM "PURE" ROYALTIES IT RECEIVES ON ITS ROYALTY LANDS IN BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN AND MANITOBA. THESE ASSETS PROVIDE THE POTENTIAL FOR GROWTH AT NO COST TO THE TRUST. THE REMAINDER OF CASH FLOW IS DERIVED FROM WORKING INTEREST PROPERTIES PRIMARILY IN ALBERTA. THE TRUST HAS HEADQUARTERS IN CALGARY, ALBERTA AND ITS TRUST UNITS TRADE ON THE TORONTO AND MONTREAL STOCK EXCHANGES UNDER THE SYMBOL "FRU.UN".



## Highlights

*A strong indicator of the Trust's secure asset base is its ability to replace the reserves it produces.*

	1997 ACTUAL	1997 FORECAST	% CHANGE
<i>Financial (\$OOOs, except per Trust Unit)</i>			
<b>Revenue</b>			
Royalty income	23,183	18,768	+24
Working interest sales (net of royalties)	15,106	12,008	+26
Total revenue	38,289	30,776	+24
Distributable income	29,081	24,700	+18
Per Trust Unit	1.10	0.94	+17
Capital expenditures	2,613	1,302	+101
Long-term debt	38,175	—	—
Unitholders' equity	223,301	—	—
Trust Units outstanding at year-end	26,488,000	—	—
<i>Operating</i>			
<b>Production</b>			
Crude oil (Bbls/d)	3,760	2,795	+35
NGLs (Bbls/d)	348	296	+18
Natural gas (Mmcf/d)	15.9	14.8	+7
Barrels of oil equivalent (Boe/d)	5,695	4,575	+24
Potash (Tons/d)	12.5	9.0	+39
<b>Cash flow netbacks (\$/Boe)</b>			
Royalty lands	17.81	17.64	+1
Working interest properties	10.43	11.09	-6
Total netbacks	14.71	15.57	-6
Established reserves (Mboe) (proven plus half probable)	26,693	—	—

<i>Highlights</i>	— 01
<i>Corporate Overview</i>	— 03
<i>President's Message</i>	— 04
<i>Operations Review</i>	— 07
<i>Management's Discussion and Analysis</i>	— 14
<i>Combined Financial Statements</i>	— 23
<i>Two-Year Review</i>	— 28
<i>Management of the Trust</i>	— 29
<i>Unitholder Information</i>	— 30
<i>Corporate Information</i>	— 32



## Corporate Overview

### Our Royalty Assets

Our name, “Freehold Royalty Trust”, is derived from the main source of our revenue – royalties received from properties to which we own the mineral rights. We hold “freehold title” to the minerals these properties produce (e.g.: oil, gas, liquids, potash).

The royalties we receive are an “off-the-top” share of a well’s production which is paid to the title owner (“lessor”) of the mineral rights before capital and operating costs are deducted. A lessor can be the Crown, an individual, or an entity like Freehold Royalty Trust.

### Royalty Trusts

Royalty trusts represent an alternative way to invest in oil and gas assets. Investors (called Unitholders) purchase Trust Units representing an interest in a large pool of oil and gas properties. The trust receives the cash flow from those properties as oil and gas reserves are produced, and pays it out on a regular basis to Unitholders (in the form of cash distributions) over the economic life of the properties.

The Trust Units can be traded in a liquid market (Freehold trades on both the Toronto and Montreal stock exchanges), with the value of the Trust Units dependent on the trust manager’s ability to maintain cash flow and effect long-term growth in the value of the trust. Royalty trusts conduct their activities to minimize the corporate level of taxation and pass on the tax benefits associated with ownership of oil and gas properties directly to the Unitholders.

Royalty trusts reduce exposure to one of the riskiest aspects of the oil and gas business – exploring for new reserves. The focus of a royalty trust manager is on acquiring and exploiting existing reserves, rather than on exploring for new ones.

The level of cash distributions of a royalty trust is subject to virtually the same industry risks and conditions faced by conventional oil and gas companies, with commodity price risk being the major factor. As cash flow is paid out to the Unitholders as distributions, the distributions will vary as oil and gas prices change and as actual production volumes vary.

### Advantages of Freehold Royalty Trust

#### *True “off-the-top” royalties*

The majority, greater than two-thirds, of the Trust’s cash flow comes from the royalties associated with mineral title properties owned by the Trust, which are held in perpetuity. The remainder of cash flow comes from traditional working interests. The income associated with the royalty lands comes from two sources – royalties on leased producing mineral title properties and gross overriding royalty interests on other producing mineral title properties and Crown leases.

#### *High netbacks*

Freehold does not pay any capital expenditures, operating costs, or environmental costs on its royalty lands. The high percentage of true royalty income results in superior netbacks per unit of production, which maximizes the distributable income of the Trust.

#### *Strong prospects for internal growth*

The Trust receives a royalty percentage of all production generated by third parties operating on its royalty lands. Drilling and development activity carried out on these lands at no cost to the Trust continues to result in reserves and production growth.

#### *Diversified sources of revenue*

Revenue from crude oil, natural gas, natural gas liquids and potash operations is based on production from over 1,000 individual properties, including more than 230 production units. The Trust receives royalty and working interest revenue from over 10,000 producing wells in western Canada.

#### *Long-life reserves*

Reserves associated with the Trust are capable of generating oil and gas production for many years. Therefore, a high level of cash distributions to Unitholders will continue for an extended period of time.

#### *Tax treatment*

Cash distributions are currently 100 percent tax deferred as they are considered a “return of capital,” and thus reduce the adjusted cost base of Trust Units.



*Freehold's distinct advantage is the 648,000 gross acres of royalty interest lands held in western Canada that generate production at no cost to the Trust.*

*+ 1997 +  
President's Message*

Nineteen ninety-seven marked the first full year of operations for Freehold Royalty Trust. During the year, Freehold's performance exceeded all of our initial operating forecasts. Excellent progress was made in the following categories – financial results, production growth, reserve replacement and the addition of new properties to our portfolio.

In particular, production levels were 24 percent above forecast, revenues of \$38.3 million were significantly ahead of the forecast \$30.8 million, and reserve additions replaced 178 percent of the annual production. These results translated into total distributable income to Unitholders of \$1.10 per Trust Unit in 1997, 17 percent higher than the initial prospectus forecast of \$0.94 per Trust Unit, representing a cash-on-cash return for original Unitholders of 11 percent.

Perhaps most important in 1997, we achieved growth in existing assets as well as secured attractive acquisitions for future growth. Management remains committed to the long-term business strategy of the Trust – to maximize distributable income to Unitholders while striving to achieve significant growth in unit value.

**An Active Oil and Gas Industry**

The Canadian oil and gas industry was very active in 1997, with a record 16,466 wells drilled in western Canada. This activity was reflected in the number of wells drilled by lessees on our royalty interest lands and working interest properties, contributing to the reserves and production growth we experienced. The other major components of our growth were the acquisitions successfully completed in 1997 which were made within a highly competitive market. Competition in the industry also drove up drilling, completion and operating costs. Since the Trust has a significant cost-free component of growth due to the nature of its royalty interests, the impact of rising costs was minimized.

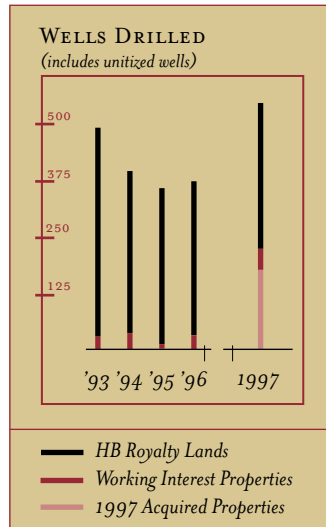
Commodity pricing was strong during the first quarter of 1997, which positively impacted the distributable income to our Unitholders. The oil and gas sector within North American public stock markets was also strong for the majority of 1997. However, at year-end and entering 1998, a weakening in world oil prices led to share price volatility in the petroleum sector.

### 1997 Results

Production for the year averaged 5,695 barrels of oil equivalent per day, 21 percent higher than production in 1996 of 4,704 barrels of oil equivalent per day. This amount also represents a 523-barrel, or 11.4 percent, increase above our initial prospectus forecast of 4,575 barrels of oil equivalent per day, before accounting for acquisitions made during the year.

Our success in exceeding production levels is primarily due to drilling activity by lessees on specific mineral title holdings in Western Canada. A unique feature of Freehold is our “pure” royalty structure derived from these holdings, referred to as our Hudson’s Bay (“HB”) Royalty Lands. These properties were originally granted to the Hudson’s Bay Company during the settlement of Canada.

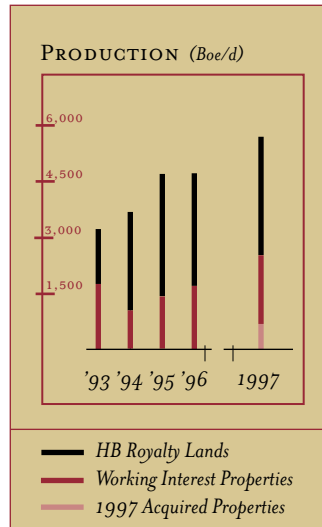
During 1997, 154 wells were drilled on these lands at no cost to Freehold, an increase over the 143 wells drilled in 1996. Over the last five years, a total of 758 wells (excluding unitized wells) have been drilled on our HB Royalty Lands. During 1997, the Trust acquired additional royalty interest lands. Going forward, the combination of our HB Royalty Lands, and other acquired royalty interests will be called our “royalty lands”. Drilling activity was also strong on newly acquired royalty lands and on our working interest properties during 1997. This high level of drilling activity on all of the Trust’s properties resulted in increased production and provides a strong foundation for next year’s production and revenue.



### 1997 Acquisitions

A cornerstone of our strategy for sustaining and growing the Trust is the acquisition of attractive producing oil and gas prospects. During our first full year of operations, the Trust completed acquisitions totalling \$27.5 million. In the second quarter of 1997, the Trust acquired working interests in a diverse number of properties in Alberta and Saskatchewan. Included in the purchases were a 25.56 percent working interest in the Pouce Coupe South Boundary “B” Pool Unit #2 in Alberta, and royalty interests in the Swift Current area of Saskatchewan for a

combined total cost of \$22.4 million. In the last quarter of 1997, the Trust completed an acquisition of royalties in the Wildmere area of Alberta for \$5.1 million. Together, these acquisitions enhanced our production by nearly 600 barrels of oil equivalent per day.



### Commodity Pricing

Natural gas prices, which affect the value of almost

30 percent of the Trust’s total production, remained strong throughout 1997. The Trust received an average gas price of \$1.78 per thousand cubic feet for the year. In 1998, we expect gas prices will maintain their strength.

The standard North American benchmark price for crude oil, the West Texas Intermediate (WTI) price, is based on a light gravity oil. Almost 40 percent of Freehold’s total production is of light and medium gravity that enjoyed strong WTI prices. However, “differential” pricing (i.e. the difference from the WTI price paid for lower gravity, heavier crude oil) also has a meaningful impact on Freehold as 33 percent of our total production is comprised of heavy oil.

During 1997, differential prices between heavy and light crude oils widened substantially, increasing by \$2.40 per barrel to \$6.75 per barrel. In December 1997, when world prices stood at U.S. \$17 per barrel, the differential price reached Cdn. \$8.88 per barrel. The level of distributions is affected by \$0.05 per Trust Unit annually with each \$1.00 change in the price differential. None of the Trust's heavy oil production was shut-in during 1997 as a result of the increasing differential prices, however, this possibility exists should the differential continue to widen.

#### **Outlook**

In general, the oil and gas industry is prepared for a high level of drilling activity in western Canada to continue in 1998. However, the uncertainty in crude oil pricing and the large discounts for heavy oil during the first part of 1998 will result in a reassessment of drilling plans by many oil and gas companies. If oil prices remain low beyond the first quarter of the year, we anticipate a slowdown in industry activity. Fortunately, decreased drilling levels will not have an immediate impact on the Trust as a number of the wells drilled on Freehold's lands in 1997 only commenced production in early 1998. Periods of business adjustment that accompany such price and activity reductions provide growth opportunities through acquisitions for well prepared, strongly financed companies such as Freehold.

In 1998, production is anticipated to average 5,400 barrels of oil equivalent per day before production that may be added through acquisitions.

Going forward, we will continue to look for acquisition opportunities – focusing on high quality assets, long life reserves, and properties with low operating costs and high netbacks. Your Trust is in a strong financial position, supported by a bank line of credit that increased to \$65 million from \$50 million in 1997. This position will allow us to weather softer commodity prices, maintain strong cash distributions, and capitalize on acquisition opportunities.

#### **Acknowledgements**

We express sincere thanks to Unitholders, the Board of Directors and employees of Rife Resources Ltd. for their continued support and efforts throughout our first full year of operations. During early 1998, Mr. Peter Harrison, Director and Vice-President, Canadian Equities, Montrusco Associates Inc., who previously represented the Manager, became an Independent Director. We are also pleased to announce the appointment of Mr. Tullio Cedraschi, President and Chief Executive Officer of the CN Investment Division, as a Director on behalf of the Manager. Mr. Cedraschi brings a wealth of business and investment expertise to the Board.

The achievements of the past year demonstrate an ability to successfully manage the investments placed under our responsibility. We will continue to employ a consistent corporate strategy enhanced by the expertise and dedication of your management group.

On behalf of the Board of Directors of Freehold Resources Ltd.

David J. Sandmeyer (signed)  
President and Chief Executive Officer  
March 12, 1998

## Operations Review

### Overview of Combined Operations

Freehold's 1997 performance exceeded forecast expectations, emphasizing the strong, dependable history of its asset base. The Trust uniquely combines the royalty-generating royalty lands, which are responsible for the majority of income, with working interest properties. Together, these assets generate revenue from a combined land base of 835,930 gross acres. As a result, Unitholders are provided with a stable, diverse source of income enhanced by the opportunity for growth.

An indicator of the Trust's secure asset base is its ability to replace the reserves it produced during the year. In 1997, the Trust replaced 178 percent of its annual production. At year-end, Freehold's established reserves were estimated to be 26.7 million barrels of oil equivalent, an increase of 6.5 percent over the previous year. The low average cost of reserve additions during 1997, including acquisitions, of \$6.03 per barrel of oil equivalent is complemented by the high proportion of royalty production at no operating cost. Combined operating costs on the Trust's working interest production stream and the royalty properties resulted in overall operating costs of \$1.74 per barrel of oil equivalent for 1997. These factors translate into high netbacks which directly benefit Unitholders.

### Drilling Activity

The level of drilling activity provides confirmation of the quality of the asset base and the opportunity to grow reserves and production. During 1997, a total of 549 wells were drilled on Freehold's properties. Of this amount, the Trust participated in and paid its share of expenses to drill 50 gross (5.3 net) working interest wells. More significantly,

including unitized wells, and at no cost to the Trust, a total of 323 wells were drilled by other parties on the Trust's HB Royalty Lands, with an additional 176 wells drilled on new royalty lands acquired during 1997.

### Wells Drilled

YEAR ENDED DECEMBER 31	1997	1996	1995
HB Royalty Lands	154	143	132
1997 acquired royalty lands	63	—	—
Working interest properties	50	33	10
Unitized wells (royalty lands)	282	199	219
<b>Total</b>	<b>549</b>	<b>375</b>	<b>361</b>

### Production

The Trust receives revenue from the production of crude oil, natural gas, natural gas liquids and potash. The Trust's production base is widespread with over 1,000 individual properties, including more than 230 production units, generating income for the Trust. Production in 1997 averaged 3,760 barrels per day of crude oil, 348 barrels per day of natural gas liquids and 15.9 million cubic feet per day of natural gas. Total production amounted to 5,695 barrels of oil equivalent per day, 24 percent above forecast.

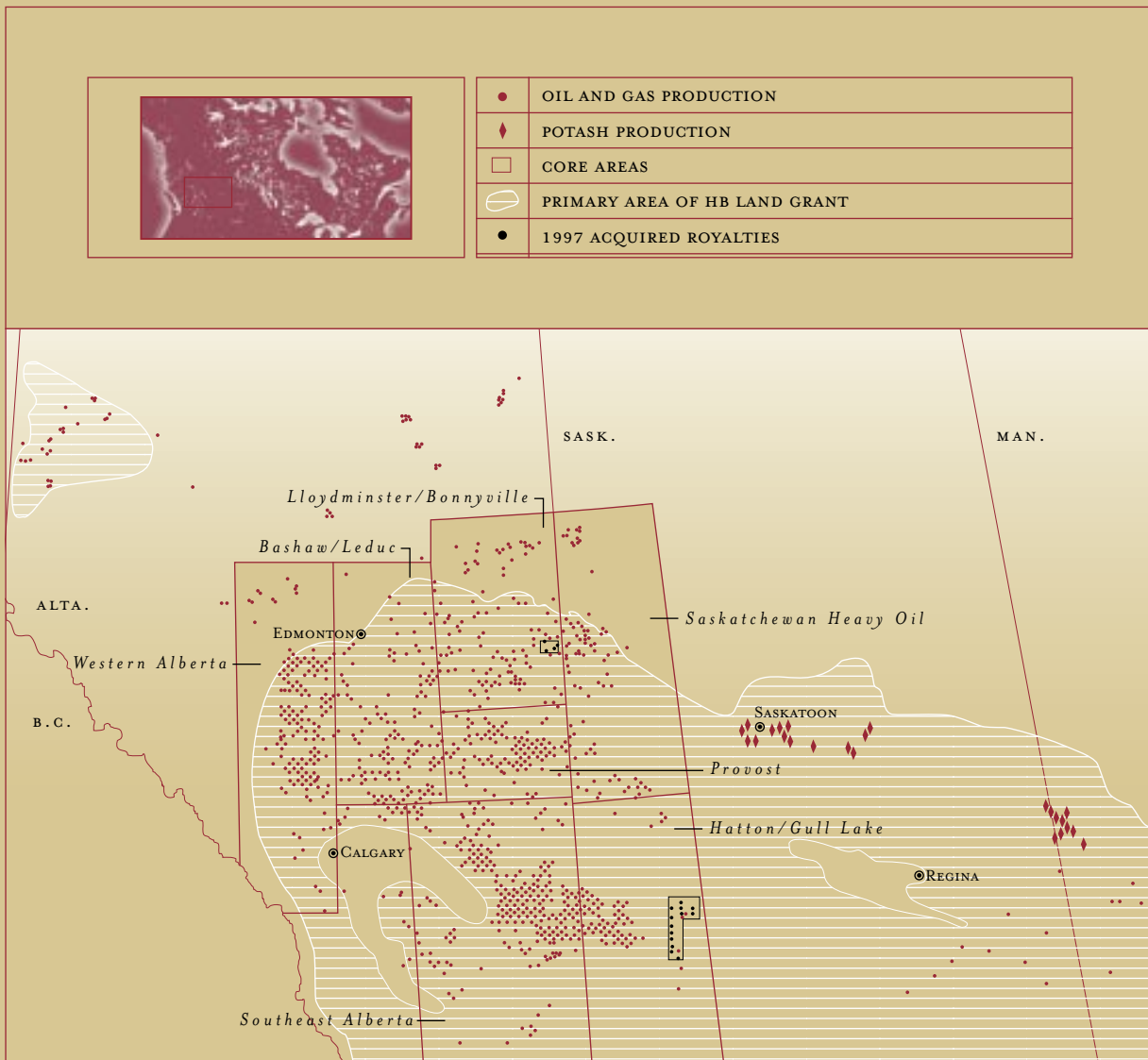
The Province of Alberta continued to be the Trust's most important area of production, contributing 4,700 barrels of oil equivalent per day, or 82 percent, of total production.

Freehold's production is comprised of 72 percent crude oil and natural gas liquids and 28 percent natural gas. The Trust's oil production is balanced between heavy, medium and light gravity oil product with a mix of approximately 33 percent heavy gravity oil (less than 21 degree API), 39 percent medium and light gravity oil and NGLs (greater than 21 degree API) and 28 percent natural gas.

### Production Volumes

YEAR ENDED DECEMBER 31	1997	1996	1995	1994	1993
Crude oil and NGLs (Bbls/d)	4,107	3,356	3,150	2,401	1,888
Gas (Mcf/d)	15,880	13,477	15,373	13,065	13,467
<b>Total (Boe/d)</b>	<b>5,695</b>	<b>4,704</b>	<b>4,688</b>	<b>3,708</b>	<b>3,235</b>

# Royalty Holdings



## Royalty Lands

*The Trust's royalty lands contain many opportunities for continued growth through drilling and the application of advanced technology.*

Freehold is unique among energy trusts. Its “pure” royalty structure is derived from royalties provided by over 10,000 producing wells in British Columbia, Alberta, Saskatchewan and Manitoba. These holdings are called the “royalty lands”. In 1997, Freehold acquired new royalty interests in 97,218 gross acres, bringing the Trust’s total royalty acreage to 651,342 gross acres.

Freehold’s royalty lands are categorized as “leased mineral title lands” and “gross overriding royalty lands”, according to their methods of generating royalty revenue. The area of “leased mineral title lands” covers about 400,000 gross acres. The royalties received from all oil, gas and potash produced and sold from the leased lands are determined by the individual lease agreements. However, the majority are a 20 percent royalty on Freehold’s portion of the title interests.

The “gross overriding royalty lands” consist of producing mineral title properties owned by a number of third-party oil and gas companies. Freehold owns various royalty interests on these lands, typically between 4.704 percent and 6.5 percent. These lands total approximately 92,000 acres. Also included in the inventory of gross overriding royalty lands are 159,218 acres of Crown lands leased to various third-party oil and gas companies where Freehold has varying royalty interests, up from 62,000 acres last year.

Freehold’s royalty lands provide the prospect for growth at very low cost. The Trust receives royalty income from all producing wells on these lands; however, it is not responsible for any drilling, development or other associated expenditures. For example, an estimated \$140 million was spent by 130 lessees in drilling expenditures on the Trust’s royalty lands in 1997.

Many exploitation and development opportunities lie within the royalty lands. Drilling activity on the lands has historically been strong, with 1997 no exception. While these

properties are classified as “producing”, the continued high level of drilling activity illustrates the ongoing development potential of the properties. Through a variety of innovative techniques, including horizontal drilling, the application of new technologies, and the targeting of new drilling zones, Freehold continues to benefit from the long-term development horizon of the royalty properties. Continued drilling on all royalty lands will remain a key component of the Trust’s growth. Since the Trust’s inception in 1996, drilling activity on these lands has added production of approximately 520 barrels of oil equivalent per day above the forecast incorporated in Freehold’s initial prospectus.

### *Royalty Lands Production by Core Area (Boe/d)*

YEAR ENDED DECEMBER 31	1997	1996
Western Alberta	776	883
Saskatchewan Heavy Oil	563	435
Lloydminster/Bonnyville	481	399
Southeast Alberta	395	350
Bashaw/Leduc	382	315
Provost	288	289
Hatton/Gull Lake	129	69
Other	291	286
<b>Total</b>	<b>3,305</b>	<b>3,026</b>

### **Royalty Property Profiles**

#### *Suffield, Alberta*

Significant activity occurred during 1997 on the Suffield, Alberta property in which the Trust has a 4.704 percent royalty interest (20 percent royalty on our 23.52 percent title interest). At the time this property was evaluated for inclusion in Freehold’s portfolio, the lessee had drilled four shallow gas wells, two deeper producing horizontal oil wells, and three deeper shut-in wells, providing approximately 20 barrels of oil per day of royalty production for Freehold. During 1996, eight deeper horizontal wells were drilled,

and in 1997, an additional six horizontal oil wells were drilled. The increased royalty production of 80 barrels of oil per day was at no cost to the Trust.

*Plover Lake, Saskatchewan*

The Trust's royalty interest in the Plover Lake property is 7.826 percent. At the time the Trust was established, this property contained five producing oil wells grossing 170 barrels of 15-degree API crude oil per day, with an additional three wells licensed. All of these wells were drilled on 40-acre spacing. By year-end 1997, an additional eight wells had been drilled by the operator and gross production had grown to 720 barrels of oil per day, adding approximately 40 barrels of oil per day of royalty production to Freehold. At year-end the operator had licensed three additional wells for drilling. The Trust's lands in this area may have further drilling opportunities by reducing spacing.

**New Royalty Property Profiles**

During 1997, the Trust acquired additional royalty properties at Swift Current, Saskatchewan and at Wildmere, Alberta. Both of these areas experienced high levels of drilling activity in 1997.

*Swift Current, Saskatchewan*

During 1997, the Trust acquired varied royalty interests (0.1 to 1.0 percent) in 34 units and various producing lands that total approximately 82,000 gross acres in the Swift Current region. On these properties, which produce medium gravity oil (25 degree API), 176 wells (including unitized wells) were drilled during 1997. These wells were drilled at no cost to the Trust and will add to production and reserves during 1998. At the end of 1997, 20 well locations were licensed to be drilled on the lands. The number of wells drilled and the licensed locations have exceeded expectations.

*Wildmere, Alberta*

The Trust was successful in acquiring royalty and minor working interests in oil producing and undeveloped properties located at Wildmere and Giltedge in Alberta.

These lands have the potential to be drilled to 20-acre spacing. An operator on adjacent acreage in the same pool has drilled 16 successful wells on 20-acre spacing. The estimated reserve life index associated with this property has enhanced that of the Trust. The crude oil produced from these regions is 20 degree API. Wildmere and Giltedge are expected to provide production growth at no cost to the Trust.



*Potash Royalties*

In addition to royalties and interests derived from petroleum substances, Freehold also receives income from leased potash rights covering seven potash mines all located within the Province of Saskatchewan. Canada is the world's leading producer of potash with a 40 percent share of the world market, with 87 percent of Canada's potash production derived from Saskatchewan. World demand for potash during 1997 was strong with some producers enjoying record third-quarter sales. During 1997, the Trust recorded \$522,000 in potash royalty income, up slightly over the \$511,000 forecast. Overall demand for potash is expected to rise slightly over the next two years. The Trust projects its potash royalties will continue to be stable, providing a modest, but reliable source of income.

*Drilling Activity on Royalty Lands (includes unitized wells)*

YEAR ENDED DECEMBER 31	1997	1996	1995	1994	1993
Oil	339	159	147	122	234
Gas	97	158	169	214	200
Service/other	34	2	11	8	16
Dry and abandoned	29	23	24	17	17
<b>Total</b>	<b>499</b>	<b>342</b>	<b>351</b>	<b>361</b>	<b>467</b>
Success rate (%)	94	93	93	95	96

FREEHOLD ROYALTY TRUST  
*Working Interest Properties*

*The Trust's high quality working interest properties contain significant reserves for long-term success.*

The Trust owns interests in 71 working interest properties which represent a more traditional revenue source for a producing company. These low risk producing properties include both unitized and non-unitized oil and gas production. The working interest properties represent about one-quarter of the total cash flow of the Trust, with production comprised of approximately 76 percent crude oil and 24 percent natural gas.

Nearly 65 percent of the value of the working interest properties is represented by three major properties – Hayter, Pouce Coupe, and Pembina Cardium Unit No. 9, all of which are located in Alberta. These properties provide a solid reserve and production base, and continued growth potential. Operating costs for the working interest properties are competitive at \$4.15 per barrel of oil equivalent.



**Working Interest Property Profiles**

*Hayter, Alberta*

The Trust holds participating and mineral title interests of 23.52 percent in 640 acres in the Hayter Dina “B” oil pool in east central Alberta. The pool extends over approximately 3,500 acres, producing 15-degree API oil. Production rates and oil recovery are enhanced by an active aquifer underlying the pool.

Hayter provides ongoing potential to sustain production. Horizontal drilling has increased both productivity and recoverable reserves. From 1993 to 1997, gross production from the property increased dramatically from 340 to over 4,500 barrels of oil per day. There are opportunities to drill additional development wells, and facilities are in place to continue efficient, low cost production at Hayter.

During the year, a total of 14 wells were drilled on the Hayter property.

*Pouce Coupe, Alberta*

This light oil property produces from the Boundary Lake reservoir. A 25.56 percent interest was acquired by Freehold in the spring of 1997 as part of a \$22.4 million acquisition of working interest and royalty properties in Alberta. The Pouce Coupe property has remaining reserves of approximately 0.9 million barrels of oil equivalent with a reserve life index greater than 19 years.

The operator of the property has drilling plans for 1998.

*Pembina Cardium Unit No. 9*

The Trust has a 9.9 percent interest in the Pembina Cardium Unit No. 9 located in central Alberta. The Unit encompasses approximately 25,280 acres, and has been on an 80-acre, five-spot waterflood pattern for more than 40 years. The Pembina Cardium Pool is characterized by high-quality crude oil of 37 degrees API.

The operator of the property has plans to drill three wells during 1998.

*Working Interest Production (Boe/d)*

YEAR ENDED DECEMBER 31	1997	1996
Hayter	1,053	995
Pembina Cardium Unit #9	217	242
Pouce Coupe	116	–
Other	1,004	441
<b>Total</b>	<b>2,390</b>	<b>1,678</b>

*Drilling Activity on Working Interest Properties*

YEAR ENDED DECEMBER 31	1997		1996	
	GROSS	NET	GROSS	NET
Oil	27	5.1	16	3.3
Gas	22	0.1	16	0.1
Service/other	–	–	–	–
Dry and abandoned	1	0.1	1	–
<b>Total</b>	<b>50</b>	<b>5.3</b>	<b>33</b>	<b>3.4</b>
Success rate (%)	98		97	

### Reserves

The active drilling by lessees on the royalty lands and the working interest properties, combined with property acquisitions, have replaced the reserves of oil and gas produced from the Trust's properties during 1997. Established oil and gas reserves (proven plus half probable) were 26.7 million barrels of oil equivalent at year end 1997, up 6.5 percent from year end 1996.

The Trust's proven plus half probable reserve life index at year end 1997 was 13.5 years, compared to 14.6 years at year end 1996. This reduction is a result of the increased production from the properties over the year. The 13.5-year reserve life index remains one of the longest of the conventional oil and gas trusts. This does not include the estimated 130-year life of the potash reserves.

#### Summary of Reserves

AS AT DECEMBER 31

	1997		1996	
	Proven	Proven & Probable*	Proven	Proven & Probable*
Crude oil and NGLs (Mbbls)	15,986	20,517	15,172	18,493
Natural gas (Mmcf)	50,654	61,752	56,352	65,657
Total (Mboe)	21,052	26,693	20,807	25,060
Potash (Tons)	81,220	81,220	81,223	81,223

\* Probable reserves are risked at 50%.

#### Reserves Reconciliation Total Trust

	CRUDE OIL & NGLS (MBBLS)		NATURAL GAS (MMCF)		ESTABLISHED RESERVES (MBOE)		
	PROVEN	PROBABLE*	PROVEN	PROBABLE*	PROVEN	PROBABLE*	TOTAL
Balance January 1, 1997	15,173	3,321	56,352	9,305	20,808	4,252	25,060
Reserves additions	743	848	412	222	785	870	1,655
Acquisitions	2,128	551	6,156	267	2,743	578	3,321
Revisions/divestitures	(558)	(189)	(6,473)	1,305	(1,206)	(59)	(1,265)
Production	(1,499)		(5,794)		(2,078)		(2,078)
Balance January 1, 1998	15,987	4,531	50,654	11,099	21,052	5,641	26,693
Change over prior year	814	1,209	(5,698)	1,794	244	1,389	1,633

\* Probable reserves are risked at 50%.

*Present Worth of Estimated Future Cash Flow (\$'000s)*

DISCOUNTED AT	0%	10%	12%	15%
Proven producing	519,833	162,713	146,036	127,540
Proven non-producing	30,859	15,677	14,235	12,471
Total proven	550,692	178,391	160,271	140,011
Probable*	213,637	33,098	28,071	22,943
Total reserves	764,328	211,488	188,342	162,954
Potash	21,496	4,950	4,277	3,585
ARTC	2,562	1,384	1,280	1,155
Total	788,386	217,823	193,899	167,694

\* Probable reserves are risked at 50%.

*Price Forecast of Sproule Associates Limited*

*Effective October 15, 1997*

YEAR	WTI	OIL	GAS	NATURAL GAS LIQUIDS		
	CUSHING OKLAHOMA <sup>†</sup> (Bbbls) \$U.S.	EDMONTON PAR PRICE 40° API (Bbbls) \$CDN.	TRANSCANADA GAS SERVICES LIMITED (MMBTU) \$CDN.	PROPANE (Bbbls) \$CDN.	BUTANE (Bbbls) \$CDN.	PENTANE (Bbbls) \$CDN.
1998	20.52	27.23	1.79	16.15	16.03	27.23
1999	21.06	27.69	1.92	15.51	16.51	27.69
2000	21.61	28.43	2.02	15.92	16.95	28.43
2001	22.17	29.19	2.09	16.35	17.41	29.19
2002	22.75	29.97	2.18	16.79	17.87	29.97

<sup>†</sup> 40° API, 0.4% sulphur.

Oil prices escalated at 2.6% to the year 2017, 2.0% thereafter.

Gas prices escalated at 2.0%.

The U.S./Cdn. dollar exchange rate is forecast to be \$0.73 throughout the period.

*Potash Price Forecast of LAS Energy Associates Ltd.*

*Effective January 1, 1998*

YEAR	1998	1999	2000	2001	2002
\$U.S. (Ston)	79	81	83	85	86.7
\$Cdn. (Ton)	108.22	110.96	113.70	116.44	118.77

+2% thereafter.

The U.S./Cdn. dollar exchange rate is forecast to be \$0.73 throughout the period.

FREEHOLD ROYALTY TRUST  
*Management's Discussion and Analysis*

*Freehold exceeded expectations in its 1997 financial results,  
 ensuring a financially secure base for future growth.*

The MD&A should be read in conjunction with the Combined Financial Statements.

**Significant Financial Transactions**

During the year, Freehold completed two property acquisitions which impacted 1997 financial results and will impact future years' financial results. Material financial transactions were as follows:

Effective January 1, 1997, Freehold acquired various royalty and working interest properties located in Alberta and Saskatchewan for \$22.4 million, plus interest to the date of closing. This acquisition contributed production of 580 barrels of oil equivalent per day and cash flow of \$2.8 million for 1997. Lessees conducted a very active drilling program on the acquired royalty lands during 1997.

On September 1, 1997, Freehold received and accepted a revised financing commitment from the Canadian Imperial Bank of Commerce. Under this commitment, the line of credit available to the Trust was increased to \$65 million from \$50 million.

On October 28, 1997, Freehold closed an acquisition of high netback royalty interests in two areas of east central Alberta for \$5.1 million. This acquisition contributed production of approximately 90 barrels of oil equivalent per day during the last quarter of 1997. Upside potential exists through development drilling which could add to the significance of the royalty income derived from these properties.

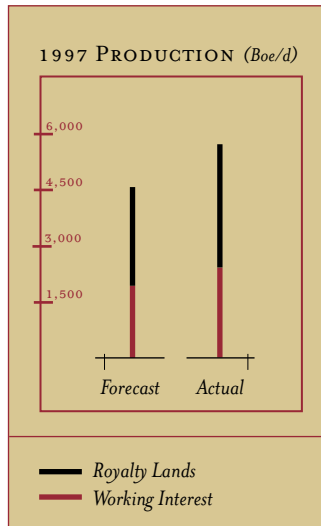
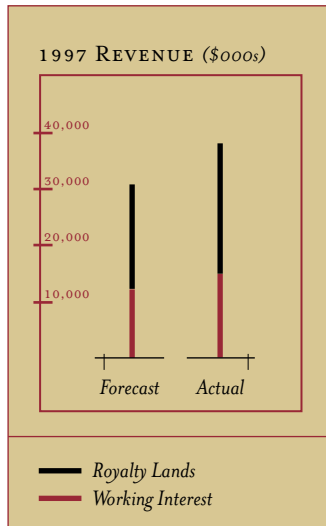
**Analysis of Financial Results**

*Revenues*

Oil and gas revenues were \$38.3 million in 1997, up 24 percent from the forecast of \$30.8 million, primarily resulting from the increase in production volumes achieved during the year.

Production volumes of 5,695 barrels of oil equivalent per day for 1997 were 24 percent higher than the forecast of 4,575 barrels of oil

equivalent per day. Of this increase of 1,120 barrels of oil equivalent per day, 600 barrels of oil equivalent per day were attributed to two acquisitions, and the remaining 520 barrels of oil equivalent per day resulted primarily from drilling on the HB Royalty Lands at no cost to Freehold.



*Revenue by Type (\$000s)*

YEAR ENDED DECEMBER 31	ROYALTY INCOME	WORKING INTEREST	TOTAL	PERCENT
Crude oil	14,051	11,556	25,607	67
NGLs	1,788	450	2,238	6
Natural gas	6,629	2,929	9,558	25
Potash	522	–	522	1
Lease rentals, processing fees and other	193	171	364	1
Total	23,183	15,106	38,289	100

*Royalties Paid*

Because the Trust is a true royalty owner, no royalties are paid on Freehold's share of production from the royalty lands. During 1997, total royalties paid, which include Crown, freehold and overrides paid on oil, NGLs and gas production from our ownership in the working interest properties, were \$2,140,000, or 5.3 percent (before ARTC) of total revenue. Royalties paid on the production related to the acquisitions made during the year constitute the majority of the increase from the 1.8 percent reflected in 1996. This low royalty rate contributes significantly to the higher netbacks enjoyed by Freehold's Unitholders.

*Alberta Royalty Tax Credit (ARTC)*

The original Trust properties (HB Royalty Lands and working interest properties) were not eligible for ARTC because they were considered "restricted resource properties" within the meaning of the *Alberta Corporate Tax Act*. During 1997, the Trust acquired various working interest properties which are eligible for and recorded ARTC in the amount of \$445,000.

*Expenses*

*Operating Expenses*

The Trust's total operating expenses for the working interest properties for the period were \$3.6 million, or \$4.15 per barrel of oil equivalent. Included in the total was \$1.2 million of operating expenses attributable to the working interest properties acquired during 1997. The operating costs of \$2.4 million, for the original working interest properties of the Trust, matched the 1997 operating expense forecast.

For the total operations of the Trust, including the royalty lands, expenses averaged \$1.74 per barrel of oil equivalent, a very low level by industry standards. This exemplifies the advantage of the royalty lands for which the Trust does not pay operating expenses. Total Trust operating expenses are expected to remain low in comparison to conventional oil and gas companies.

*Operating Expenses (\$ millions)*

YEAR ENDED DECEMBER 31	1997 ACTUAL	1997 FORECAST
Working interest properties	\$ 2.4	\$ 2.4
1997 acquired properties	\$ 1.2	\$ –
Per Boe (\$)	\$ 4.15	\$ 3.47

#### *General and Administrative Expenses*

General and administrative expenses for 1997 at \$2.3 million were higher than forecast. This was attributable to some one-time only expenses related to the initial year of operations, and to increased costs of land administration to set up Trust land record files and to integrate files for properties acquired during 1997. On a per barrel of oil equivalent basis, general and administrative expenses were \$1.10 for the year. A modest reduction is anticipated from this level in 1998. No general and administrative expenditures were capitalized.

#### *General and Administrative Expenses (\$ millions)*

YEAR ENDED DECEMBER 31	1997	1997
	ACTUAL	FORECAST
G&A	\$ 2.3	\$ 1.8
Per Boe (\$)	\$ 1.10	\$ 1.06

#### *Management Fee*

The Manager is a wholly-owned subsidiary of Rife Resources Ltd. which is owned 100 percent by the CN Investment Division (the pension fund for the employees of the Canadian National Railway). The Trust engages the Manager to handle all management and administrative matters relating to the Trust. The Trust has no employees.

Pursuant to the Management Agreement, the Manager receives a Management Fee paid in Trust Units on a quarterly basis in order to align its economic interests with the interests of the Unitholders. Consistent with the agreement, the Manager received 20,000 Trust Units per quarter for 1997, along with 8,000 Trust Units received for the start-up period of 1996, bringing the total Trust Units received by the Manager to 88,000 (from inception to year end 1997).

#### *Interest Expense and Financing*

The Trust borrowed \$10.7 million as a portion of the cost to acquire the original working interest properties in 1996. During 1997 the Trust incurred debt of \$27.5 million to acquire additional properties, bringing the total bank debt to \$38.2 million. Interest expense on the original debt at

\$427,000 was 17 percent lower than forecast. Interest expense for the new acquisitions made during 1997 was \$1.1 million.

#### *Future Site Restoration and Reclamation Fund*

The Trust and Freehold Resources Ltd. are liable for their share of ongoing environmental obligations and for the ultimate reclamation of the working interest properties upon abandonment. No similar responsibilities arise from the royalty lands. Current environmental obligations are expected to be funded out of cash flow. The estimated future environmental and reclamation obligations in respect of the working interest properties are approximately \$2.6 million. A reclamation fund, consisting of cash invested in an interest bearing account, has been established and is funded by quarterly cash payments. A total of \$224,000 was paid into the reclamation account in 1997 (1996 – \$12,000). During the period, \$8,000 (1996 – \$nil) in site restoration was incurred and paid from the reclamation fund.

#### *Depletion*

Oil and gas properties and royalty interest, including the costs of production equipment and future capital costs associated with proven reserves, are depleted on the unit-of-production methods based on estimated proven oil and gas reserves before royalties payable. Reserves are converted to equivalent units on the basis of relative energy content. During 1997, the provision for depletion was \$26.7 million (1996 – \$2.4 million). On a barrel of oil equivalent basis the 1997 depletion provision was \$12.83 compared to \$13.73 in the forecast.

#### *Taxes*

— *Unitholder Taxation* The Trust is able to claim certain tax deductions for the benefit of Unitholders which are available to all owners of oil and gas properties. By utilizing two principal deductions – the Canadian oil and gas property expense (COGPE) and the Resource Allowance deduction – cash distributions in the initial years are sheltered from income tax. Over time, an increasing percentage of the annual distributions will be taxable.

Distributable income is currently 100 percent tax deferred as it is considered a return of capital, and thus reduces the adjusted cost base of the Trust Units.

It is anticipated that the Trust will have sufficient deductions to offset income until the taxation year 2000, based upon the production and cash flow estimates in the Trimble Oil and Gas Report, the LAS Energy Potash Report and current income tax legislation.

— *Capital Taxes* The Trust paid taxes of \$41,000 in 1997. These taxes consist of federal Large Corporations Tax, which is incurred on taxable capital employed in Canada, and the provincial Saskatchewan Capital Tax and Surcharge applied to both taxable capital and gross revenues earned in that province.

#### *Cash Flow and Net Earnings*

##### *Cash Flow*

Cash flow from operations before management fees was \$30.6 million. While the royalty lands provided 57 percent of gross revenue, they provided 70 percent of cash flow before general and administrative and interest expenses, as they are not subject to third-party royalty payments or operating expenses.

##### *Net Earnings*

The Trust's net earnings from operations for the period were \$3.1 million, which represents \$0.12 per Trust Unit. These net earnings were the same as the forecast amount.

##### *Distributable Income*

Distributable income for 1997 was \$29.1 million (\$1.10 per Trust Unit).

#### *Calculation of Distributable Income*

(\$000s, EXCEPT PER TRUST UNIT)	ROYALTY LANDS	WORKING INTEREST PROPERTIES	TOTAL
<b>Revenues:</b>			
Oil and gas sales	22,468	16,634	39,102
ARTC	–	445	445
Other income (potash and lease rentals)	715	172	887
	23,183	17,251	40,434
<b>Less Expenses:</b>			
Royalties	–	2,145	2,145
Operating costs	–	3,617	3,617
Capital expenditures	–	1,500	1,500
Site restoration and reclamation fund	–	224	224
Sub-Total	23,183	9,765	32,948
Share of operating income (after deductions)	70%	30%	
<b>Less:</b>			
General and administrative			2,277
Capital Tax			41
Interest on long-term debt			1,549
Distributable income			29,081
Trust Units outstanding at year-end			26,488,000
<b>Distributable income per Trust Unit</b>			<b>1.10</b>

*Netback Analysis Per Boe*

	ROYALTY LANDS	WORKING INTEREST PROPERTIES	TOTAL
Gross revenue	\$ 19.22	\$ 19.27	\$ 19.24
Royalties and mineral taxes	–	(2.46)	(1.03)
ARTC	–	0.51	0.21
Operating expenses	–	(4.15)	(1.74)
<b>Operating netback</b>	<b>\$ 19.22</b>	<b>\$ 13.17</b>	<b>\$ 16.68</b>
Administration	(1.10)	(1.10)	(1.10)
Capital taxes	(0.02)	(0.02)	(0.02)
Interest	(0.30)	(1.37)	(0.75)
Site restoration fund	–	(0.26)	(0.11)
Income before capital expenditures	\$ 17.81	\$ 10.43	\$ 14.71
Capital expenditures	–	(1.72)	(0.72)
<b>Investor netback</b>	<b>\$ 17.81</b>	<b>\$ 8.71</b>	<b>\$ 13.99</b>

*Sensitivities Analysis*

Oil and gas price fluctuations, interest rate changes, the Canadian/U.S. dollar exchange rates, levels of production and light/heavy oil differentials all can affect distributable income. The following table provides analysis of the key factors which may influence distributable income.

*Variables*

	DISTRIBUTABLE INCOME (\$000s)	DISTRIBUTABLE INCOME PER TRUST UNIT (\$)
Change of U.S. \$1.00/Bbl in the price of crude oil	1,973	\$ 0.074
Change of \$0.10/Mcf in the price of natural gas	369	\$ 0.014
Change of \$0.01 in the U.S./Cdn. dollar exchange rate	408	\$ 0.015
Change of 1% in interest rates	363	\$ 0.014
Change of 100 Bbls/d of oil and NGLs	448	\$ 0.017
Change of 1,000 Mcf/d of gas	418	\$ 0.016
Change of Cdn \$1.00 in light/heavy oil differential	1,332	\$ 0.050

### *Net Asset Value*

A very important test of performance is whether there is an increase or decrease in the oil and gas reserves of a Trust. During 1997 the Trust more than replaced its reserves at costs below expected industry average replacement costs. By increasing reserves year over year, the Trust ensures it can sustain production, income and distributions at the highest possible levels. The majority of the Trust's assets are comprised of royalty interests in a widely diverse group of oil and gas properties. It is not practical for the Trust's independent evaluator to determine and include in its forecast the future development plans of the lessees in determining their projection of future revenues. As a result, Freehold's asset values may be conservative when compared to conventional oil and gas companies which are able to incorporate the operator's future plans in the forecast of future reserves and in the asset value estimate.

Based on the independent evaluation of the Trust's established reserves at December 31, 1997, discounted at 12 percent, the Trust's net asset value was \$5.93 per Trust Unit, down from \$6.95 at year-end 1996. The decline in asset value per Trust Unit is primarily attributable to lower forecasts of future oil and gas prices being used at year-end 1997 compared to those used in 1996, despite a 6.5 percent increase in oil and gas reserves.

### *Capital Expenditures*

Under the terms of the Trust Indenture on working interest properties, capital expenditures may be made to maintain or improve production. Exploratory drilling may not be initiated by the Trust. The Trust Indenture limits the amount of capital which can be funded from cash flow to ensure distributions are not significantly impacted. This limit is presently set at five percent of annual cash flow from operations. Additional capital expenditures above this limit are financed with borrowings, additional issuances of Trust Units, or proceeds from the disposition of assets. During 1997 the Trust incurred \$2.6 million in capital expenditures, up from the forecast of \$1.9 million, funded by \$1.5 million in cash flow and \$1.1 million from bank debt. During the year the Trust participated in drilling 50 (5.3 net) wells. The increase in capital was primarily as a result of participating in the drilling of 14 (3.29 net) horizontal wells at Hayter, Alberta, six more than forecast.

### *Liquidity and Capital Resources*

Acquisitions made by the Trust were financed with bank debt. During 1997, the Trust increased its credit facility from \$50 million to \$65 million in order to provide flexibility for acquisition opportunities. The credit facility is comprised of two components:

— A \$40 million committed operating facility for general corporate and royalty trust purposes to assist the Trust with acquisitions.

### *Net Asset Value*

DECEMBER 31, 1997 (\$000S, EXCEPT PER TRUST UNIT AMOUNTS)

DISCOUNTED AT	10%	12%	15%
Present value of crude oil and natural gas reserves	\$ 212,872	\$ 189,622	\$ 164,109
Present value of potash reserves	4,950	4,277	3,585
Undeveloped land	334	334	334
Reclamation fund	228	228	228
Working capital	883	883	883
Long-term debt	(38,175)	(38,175)	(38,175)
Net asset value	\$ 181,092	\$ 157,169	\$ 130,964
Trust Units outstanding	26,488,000	26,488,000	26,488,000
Net asset value per Trust Unit	\$ 6.84	\$ 5.93	\$ 4.94

At the end of 1996 the Trust had debt of \$10.7 million. During 1997 the Trust completed two acquisitions, increasing the bank debt by \$27.5 million, bringing the total debt to \$38.2 million at year end 1997. In February 1998, the Trust drew down \$1.1 million to finance capital development expenditures in excess of the five percent of cash flow limit which is in place to protect the Unitholders. This facility bears interest at prime and has no fixed repayment terms.

— A \$25 million demand production facility for normal operating requirements of the Trust. There was a nil balance in this facility at year end. This facility can also be used to fund acquisitions.

The Trust's present debt level of \$39.3 million represents 1.3 times 1997 cash flow.

For the protection of the Unitholders, the Trust has established guidelines which provide that amounts borrowed to finance acquisitions will not exceed 30 percent of the asset value and debt service charges will not exceed 10 percent of estimated annual income. The Trust is well within these guidelines and will ensure strict compliance with these guidelines.

#### *Business Risks*

The risks faced by the Trust while pursuing its business activities and achieving its objectives can be categorized as to operational, financial and regulatory.

#### *Operational Risks*

Operational risks include acquisition, development, production and marketing of oil and natural gas reserves. Failure to acquire additional oil and gas properties, delays in development of current properties, well operating or production problems, and marketing difficulties resulting from pipeline capacity availability or market demands can all result in failure to achieve objectives in levels of distributions and asset values. To mitigate these risks, the Manager employs a staff of experienced professionals in the areas of geology, geophysics, engineering, land management, accounting and marketing. Sophisticated business systems ensure the timely, effective operation and monitoring of the

Trust's properties. These systems ensure the highest level of income flows to the Trust and the effective implementation of operational plans and acquisition strategies.

#### *Financial Risks*

Factors such as oil and gas commodity prices, interest rates and currency exchange levels, which are outside the control of the Trust or the Manager, may have a significant impact on the financial results of the Trust. World market forces establish oil prices in the Canadian market, while the North American supply-demand situation determines Canadian natural gas prices. Crude oil is priced based on the WTI price which is U.S.-dollar denominated. The Canadian/U.S. exchange rates can impact the Trust's revenue from oil sales.

The Trust did not enter into any forward product sales, hedging, or any currency hedging transactions in 1997. In the future, these mechanisms may be utilized if such action would be appropriate to minimize downside risks or capture upside potential.

Entering 1998, interest rates appear to be at risk of rising. The Trust has modest levels of debt, thus possible interest rate increases currently have a modest impact on the amounts available for distribution by the Trust.

Trust Units will have no value when reserves from the properties can no longer be economically produced. As a result, cash distributions do not represent a "yield" in the traditional sense as they represent both return of capital and return on investment.

#### *Regulatory Risks*

The Canadian oil and gas industry is subject to a comprehensive set of acts and regulations governing all aspects of its operations. At the same time, the industry is subject to tax laws and regulations applied to all businesses in Canada. There can be no assurance that those operating, business, and tax laws and regulations will not be changed in a manner which would adversely affect Unitholders.

The oil and gas industry is subject to environmental regulation at the local, provincial and federal levels. Any breach of such legislation may result in the imposition of fines or

issuance of clean up orders. The Manager has established policies and procedures designed to ensure its operations meet regulatory requirements and which are consistent with good environmental practice. The Trust has established a reclamation fund for the purpose of funding abandonment and environmental reclamation obligations in the future.

#### *Business Strategy*

The Manager's objectives for the Trust are to achieve the highest level of distributable income and to increase the assets of the Trust to provide attractive returns to Unitholders.

With the widely distributed property base and active drilling programs of the lessees on the royalty lands, the Manager has developed and maintains a program of continuous auditing of lessees and royalty payments to ensure timely receipt of all royalties. This program has proven to be very successful at identifying errors in royalty calculations and delays in initiating payments from wells recently commencing production.

To ensure growth for the Trust, the Manager has established a dedicated acquisition group. This team of senior oil and gas professionals is pursuing a number of oil and gas acquisition opportunities identified as being appropriate to achieving the Trust's objectives.

To maintain the advantages the Trust realizes from receiving a high percentage of income from off-the-top royalties, the acquisition program is focusing on royalty properties.

#### **Marketing**

##### *Crude Oil*

The Trust markets its working interest production using 30-day contracts to ensure the highest competitive pricing. Due to the large number of royalty properties, the Trust relies upon the marketing capabilities of the individual lessees. The average wellhead price received by the Trust for the year was \$19.21 per barrel for crude oil and natural gas liquids. The average WTI price as quoted on the NYMEX for 1997 was U.S. \$20.62 per barrel, compared to the 1996 average of U.S. \$22.03 per barrel.

##### *Natural Gas*

The Trust does not market its natural gas production. The diverse number and modest size of the working interest properties, and a provision of the leases which calls for the Trust's royalty gas to be marketed with the lessees' production, restricts the ability to do so. As the opportunity arises, the Trust will market its working interest production to ensure the highest possible price. The average natural gas price received for the year was \$1.78 per thousand cubic feet.

#### **1998 Outlook**

Industry drilling activity established record levels in 1997. However, weakness in oil prices has resulted in some operators re-examining their plans for the first quarter of 1998. The Trust does not expect activity to continue at record levels until oil prices recover some of the value lost in December 1997 and early 1998. Reductions in drilling activity will not affect Freehold in the near term as operators continue to place wells drilled in 1997 on production. Continued drilling activity on Freehold's assets is expected to add to both reserves and production levels, at no cost to the Trust.

#### **Year 2000 Planning**

The Trust is aware of the "Year 2000" issue resulting from computer programs using two digits rather than four to define the applicable year. Any of the Trust's programs with time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in a major systems failure or miscalculations. The Trust believes that, with modifications to existing software and converting to new software, the Year 2000 issue will not pose significant operational problems. The Trust is presently conducting a comprehensive review to identify all vulnerable areas of its computer systems, and it is anticipated that by December 31, 1998, all areas requiring reprogramming will be addressed. The Trust does not expect the amounts required to be expensed over the next two years to have a material effect on cash distributions.

## *Management's Responsibility for Financial Statements*

The accompanying combined financial statements of Freehold Royalty Trust have been prepared by management in accordance with generally accepted accounting principles.

Management is responsible for the preparation of the combined financial statements for Freehold Royalty Trust and for the consistency therewith of all other financial and operating data presented in the annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors, KPMG, have examined the combined financial statements of Freehold Royalty Trust. The Audit Committee, consisting of independent directors of Resources, has reviewed these statements with Management and the auditors, and has recommended their approval to the Board of Directors. The Board has approved the combined financial statements contained in this annual report.

David J. Sandmeyer (signed)  
President & Chief Executive Officer

Joseph N. Holowisky (signed)  
Vice-President, Finance & Administration  
& Chief Financial Officer and Secretary

## *Auditors' Report*

TO THE UNITHOLDERS OF  
FREEHOLD ROYALTY TRUST

We have audited the combined balance sheets of Freehold Royalty Trust as at December 31, 1997 and 1996 and the combined statements of income, distributable income, unitholders' equity and changes in financial position for the year ended December 31, 1997 and for the period from commencement of operations on November 25, 1996 to December 31, 1996. These combined financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the year ended December 31, 1997 and for the period from commencement of operations on November 25, 1996 to December 31, 1996 in accordance with generally accepted accounting principles.

KPMG Chartered Accountants (signed)  
Calgary, Canada  
January 20, 1998

FREEHOLD ROYALTY TRUST

Combined Balance Sheets

DECEMBER 31, 1997 AND 1996 (STATED IN THOUSANDS OF DOLLARS)	1997	1996
<i>Assets</i>		
<b>Current assets:</b>		
Cash	\$ 1,127	\$ 299
Accounts receivable	8,723	4,604
	9,850	4,903
Reclamation fund (note 6)	228	12
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$29,061 (1996 - \$2,398)	261,706	258,349
	\$ 271,784	\$ 263,264
<i>Liabilities and Unitholders' Equity</i>		
<b>Current liabilities:</b>		
Distributions payable to unitholders	\$ 6,598	\$ 3,532
Accounts payable and accrued liabilities	3,482	537
	10,080	4,069
Provision for future site restoration (note 6)	228	12
Long-term debt (note 2)	38,175	10,719
Unitholders' equity (note 3)	223,301	248,464
	\$ 271,784	\$ 263,264

SEE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS.

APPROVED ON BEHALF OF FREEHOLD ROYALTY TRUST BY FREEHOLD RESOURCES LTD., AS ADMINISTRATOR:

WILLIAM W. SIEBENS (signed)  
DIRECTOR

D. NOLAN BLADES (signed)  
DIRECTOR

┌ FREEHOLD ROYALTY TRUST ┐  
*Combined Statements of Income*

YEAR ENDED DECEMBER 31, 1997, AND PERIOD FROM COMMENCEMENT  
OF OPERATIONS ON NOVEMBER 25, 1996 TO DECEMBER 31, 1996  
(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)

	1997	1996
<b>Revenues:</b>		
Royalty income	\$ 23,183	\$ 2,640
Working interest sales (net of royalties)	15,052	1,343
Interest income	54	-
	38,289	3,983
<b>Expenses:</b>		
Operating	3,617	173
Administrative	2,277	199
Interest on long-term debt	1,549	54
Capital taxes	41	-
	7,484	426
Income before depletion, depreciation, site restoration and management fee	30,805	3,557
Depletion and depreciation	26,663	2,398
Site restoration	224	12
Management fee	833	90
Net income	\$ 3,085	\$ 1,057
Net income per Trust Unit	\$ 0.12	\$ 0.04

*Combined Statements of Distributable Income*

YEAR ENDED DECEMBER 31, 1997, AND PERIOD FROM COMMENCEMENT  
OF OPERATIONS ON NOVEMBER 25, 1996 TO DECEMBER 31, 1996  
(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)

	1997	1996
Income before depletion, depreciation, site restoration and management fee	\$ 30,805	\$ 3,557
<b>Less:</b>		
Site restoration fund contributions	224	12
Capital expenditures (note 7)	1,500	13
Distributable income	\$ 29,081	\$ 3,532
Distributable income per Trust Unit	\$ 1.10	\$ 0.13

SEE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS.

FREEHOLD ROYALTY TRUST

*Combined Statements of Unitholders' Equity*

YEAR ENDED DECEMBER 31, 1997, AND PERIOD FROM COMMENCEMENT  
OF OPERATIONS ON NOVEMBER 25, 1996 TO DECEMBER 31, 1996  
(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)

	UNITS	DOLLARS
Proceeds on issue of trust units	26,400,000	\$ 264,000
Trust Unit issue costs	-	(13,151)
Net income	-	1,057
Distribution to unitholders	-	(3,532)
Trust Units issued in lieu of management fee	8,000	90
Unitholders' equity at December 31, 1996	26,408,000	248,464
Net income	-	3,085
Distributions to unitholders	-	(29,081)
Trust Units issued in lieu of management fee	80,000	833
Unitholders' equity at December 31, 1997	26,488,000	\$ 223,301

*Combined Statements of Changes in Financial Position*

YEAR ENDED DECEMBER 31, 1997, AND PERIOD FROM COMMENCEMENT  
OF OPERATIONS ON NOVEMBER 25, 1996 TO DECEMBER 31, 1996  
(STATED IN THOUSANDS OF DOLLARS)

	1997	1996
Cash provided by (used in):		
Operating:		
Net income	\$ 3,085	\$ 1,057
Item not involving cash:		
Depletion and depreciation	26,663	2,398
Funds generated from operations	29,748	3,455
Changes in non-cash operating working capital	(1,174)	(4,067)
	28,574	(612)
Financing:		
Trust Units issued in lieu of management fee	833	90
Issue of Trust Units	-	264,000
Trust Unit issue costs	-	(13,151)
Long-term debt	27,456	10,719
Distributions paid	(26,015)	-
	2,274	261,658
Investing:		
Property and royalty acquisitions	(27,407)	(260,734)
Development expenditures (note 7)	(2,613)	(13)
	(30,020)	(260,747)
Increase in cash	828	299
Cash, beginning of period	299	-
Cash, end of period	\$ 1,127	\$ 299

SEE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS.

— FREEHOLD ROYALTY TRUST —  
*Notes to Combined Financial Statements*

YEAR ENDED DECEMBER 31, 1997, AND PERIOD FROM COMMENCEMENT OF OPERATIONS ON NOVEMBER 25, 1996 TO DECEMBER 31, 1996

**Basis of presentation:**

Freehold Royalty Trust ("the Trust") is a closed-end investment trust formed under the laws of the Province of Alberta pursuant to a trust indenture dated September 30, 1996 and amended on November 25, 1996. The Trust holds a 99 percent royalty interest in Freehold Resources Ltd. ("Resources").

Resources was incorporated on June 3, 1996 and derives its income from certain oil and gas working interest properties.

These combined financial statements included the accounts of the Trust and Resources. All inter-entity transactions have been eliminated.

On November 25, 1996, (i) the Trust acquired interests in certain oil and gas royalties for \$186,371,000; and (ii) Resources acquired working interest properties for \$74,363,000.

**1. Significant accounting policies:**

*(a) Property, plant and equipment:*

The Trust follows the full cost method of accounting. All costs of acquiring, exploring for and developing oil and gas and related reserves are capitalized. Such costs include land acquisition, geological and geophysical, carrying charges of unproved properties, costs of drilling both productive and non-productive wells and directly related general and administrative costs. Costs are reduced by proceeds from the sale of oil and gas properties and by government grants. Gains and losses are not recognized upon disposition of oil and gas properties unless such a disposition would alter the rate of depletion by 20 percent or more.

*(b) Ceiling test:*

The Trust applies a ceiling test to the carrying value of oil and gas assets, net of the provision for site restoration, plus future development costs to ensure that such costs do not exceed future estimated net revenues from production of proven reserves at year end prices and costs. Future revenues are calculated after deducting future general and administrative costs, site restoration costs and Resource's income taxes.

*(c) Depletion:*

Oil and gas properties and royalty interests, including the costs of production equipment and future capital costs associated with proven reserves, are depleted on the unit-of-production method based on estimated proven oil and gas reserves before royalties. Reserves are converted to equivalent units on the basis of relative energy content.

*(d) Provision for site restoration:*

Estimated future site restoration costs are provided for using the unit-of-production method. Costs are estimated by the Trust based on current regulations, costs, technology and industry standards. Actual site restoration costs will be charged to the accumulated provision account as incurred.

*(e) Income and other taxes:*

*Taxation of the Trust*

The Trust is an inter vivos trust for income tax purposes. As such, the Trust is subject to tax on any taxable income which is not distributed to the unitholders. No provision has been made for income taxes in these financial statements as the Trust allocates all of its income to its unitholders. Therefore, income taxes are the responsibility of the individual unitholders.

*Taxation of Resources*

The Resources Royalty payment by Resources to the Trust is deductible in computing Resources taxable income and consequently it will generally be liable for income taxes only on its one percent interest.

*(f) Comparative figures:*

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

**2. Long-term debt:**

The Trust has a \$40,000,000 committed operating facility on which \$38,175,000 is drawn at December 31, 1997. The facility is secured by a General Security Agreement from the Trust and Resources providing a first priority security interest in both Resource's and the Trust's assets and specific assignment of royalties. A demand debenture is pledged from

both Resources and the Trust in the amount of \$75,000,000 conveying a first floating charge over all property. The facility is subject to an annual review by the lender. The facility bears interest at prime and has no fixed repayment terms.

In addition, the Trust has available a \$25,000,000 demand production facility at December 31, 1997.

### **3. Unitholders' equity:**

The Trust has authorized an unlimited number of Trust Units of which 26,488,000 (1996 – 26,408,000) were issued at December 31, 1997. Resources has authorized share capital of an unlimited number of common shares. One hundred shares are issued and outstanding as at December 31, 1997 and 1996.

The Trust has reserved 1,980,000 trust units pursuant to a Trust Unit Option Plan. Options to purchase trust units may be issued to the directors of Resources or to Rife Resources Management Ltd. (the manager of the Trust).

As at December 31, 1997 and 1996, options to purchase 1,130,000 Trust Units were outstanding. These options were held by directors and Rife Resources Management Ltd. and are exercisable at a price of \$10.00 per unit to November 14, 2001. The effect on net income per trust unit of these options being exercised is anti-dilutive.

The Trust initially reserved 420,000 trust units pursuant to its management agreement with Rife Resources Management Ltd., of which 88,000 have been issued to date (see note 5).

### **4. Distributions:**

Distributable income is paid on a quarterly basis on the 15th day of February, May, August, and November. Beginning in April, 1998, the Trust will move from quarterly to monthly distributions, with payments to be made on the 15th day following the month end.

### **5. Related party transactions:**

Rife Resources Management Ltd. (the "Manager") provides certain services pursuant to a management agreement for an initial term of five years for a fee equal to 20,000 Trust Units per quarter. During the period, the management fee charged was 80,000 (1996 – 8,000) Trust Units with an ascribed value of \$833,000 (1996 – \$90,000).

During the period, the Manager charged the Trust \$1,274,000 (1996 – \$90,000) in operating costs. At December 31, 1997, there was \$571,000 (1996 – \$90,000) included in accounts payable relating to these costs.

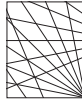
### **6. Future site restoration and reclamation cost:**

The Trust and Resources are liable for their share of ongoing environmental obligations and for the ultimate reclamation of the working interest properties upon abandonment. Ongoing environmental obligations are expected to be funded out of cash flow. The estimated future environmental and reclamation obligations in respect of the working interest properties are approximately \$2,601,000. A reclamation fund, consisting of cash invested in an interest bearing account, has been established and is funded by quarterly cash payments.

During the period \$8,000 (1996 – \$nil) in site restoration was incurred and paid from the reclamation fund.

### **7. Capital expenditures:**

The amount of capital expenditures to be deducted from Distributable Income is limited to five percent of annual net cash flow from operations. Additional capital expenditures are financed with borrowings, additional issuances of Trust Units or proceeds from the disposition of assets.



## Two-Year Review

	1997	1996*
<i>Financial (\$000s, except per Trust Unit amounts)</i>		
Revenues	38,289	3,983
Operating expenses	3,617	173
General and administrative expenses	2,277	199
Interest expense	1,549	54
Capital taxes	41	-
Depletion	26,663	2,398
Site restoration fund contributions	224	12
Capital expenditures	2,613	13
Distributable income	29,081	3,532
Distributable income per Trust Unit	1.10	0.13
Long-term debt	38,175	10,719
Unitholders' equity	223,301	248,464
Trust Units outstanding at year-end	26,488,000	26,408,000
Cash flow netbacks (\$/Boe)		
Royalty lands	17.81	22.44
Working interest properties	10.43	16.63
Total netbacks	14.71	20.37
<i>Operating</i>		
Production		
Crude oil (Bbls/d)	3,760	3,016
NGLs (Bbls/d)	348	340
Natural gas (Mmcf/d)	15.9	13.5
Barrel of oil equivalent (Boe/d)	5,695	4,704
Potash (Tons/d)	12.5	14.0
Average field price		
Crude oil (\$/Bbl)	19.21	25.55
NGLs (\$/Bbl)	19.02	19.88
Gas (\$/Mcf)	1.78	1.72
Barrels of oil equivalent (\$/Boe)	18.81	22.75
Potash (\$/Ton)	114.29	105.00
Undeveloped land	77,906	49,000
Property acquisitions (\$000s)	27.5	-
Established reserves (proven plus half probable)		
Reserves acquired during the year (Mboe)	3,321	-
Reserves at year-end (Mboe)	26,693	25,060
Acquisition cost (\$/Boe)	6.03	-

\* Initial 37 days of operation from November 25, 1996 to December 31, 1996.

## Management of the Trust

### Board of Directors

**William W. Siebens, Chairman of the Board,** — brings special expertise to Freehold with his knowledge of the Trust's HB Royalty Lands as these lands were previously owned by Siebens Oil & Gas Ltd. He is President and C.E.O. of Candor Investments Ltd. (Calgary), a private energy and investment corporation, and currently serves on the boards of several corporations.

**D. Nolan Blades,** — a Professional Engineer, has extensive experience in the oil and gas industry. Mr. Blades is currently President & C.E.O. of Pursuit Resources Corp. (Calgary), an oil and gas exploration and development company. Prior to establishing Pursuit he held senior positions with Kaiser Oil Ltd., Oakwood Petroleum Ltd., and Chauvco Resources Ltd. He is a director of several organizations including The United Way of Calgary.

**Harry S. Campbell,** — is a Partner with the law firm Burnet Duckworth & Palmer (Calgary). He was admitted to the Alberta Bar in 1974. Mr. Campbell is currently a director of Renata Resources Inc. and Cathay Investment Fund Limited and has been a director of numerous private and public corporations.

**Tullio Cedraschi,** — joined the Board early in 1998. Mr. Cedraschi is President and C.E.O. of the CN Investment Division (Montreal). He is currently a director of several corporations, and is a Governor and Past President of the National Theatre School of Canada. He is also a Governor of McGill University where he received his MBA.

**Dr. P. Michael Maher,** — is Dean, Faculty of Management with the University of Calgary. He is a distinguished manager, educator and a well-known visionary builder of business schools. He has served on the boards of numerous corporations and public sector organizations. Dr. Maher received a Bachelor of Engineering degree, University of Saskatchewan; an MBA, University of Western Ontario; a Ph.D. from Northwestern University; a Doctor of Commerce (honoris causa) degree from St. Mary's; and is a Professional Engineer.

**Peter T. Harrison,** — recently joined Montrusco Associates Inc. as a Director and Vice-President, Canadian Equities (Montreal). Mr. Harrison has over 18 years of investment experience, and most recently managed Canadian Equities for the CN Investment Division. He holds a Bachelor of Commerce degree from McGill University, an MBA from the University of Western Ontario, and is a Chartered Financial Analyst.

**David J. Sandmeyer, President and C.E.O.,** — is President of Rife Resources Ltd. (Calgary). He joined Canpar Holdings Ltd. in July 1982. Prior to that he was employed with Amoco Canada Petroleum Company Limited for 18 years. Mr. Sandmeyer is actively involved with the Canadian Association of Petroleum Producers (CAPP). A graduate of the University of Saskatchewan, he holds a B.Sc. degree in Mechanical Engineering and is a Professional Engineer.

### The Manager

Rife Resources Management Ltd. (the "Manager") was established in 1996 to provide comprehensive oil and gas company management and operational services to Freehold Royalty Trust and Freehold Resources Ltd. The Manager is a wholly-owned subsidiary of Rife Resources Ltd. ("Rife"), a company established in 1983 to explore for, develop, acquire and operate oil and gas properties. Rife has over 50 employees and consultants who provide administrative and support services to the Manager. Rife, and its affiliated company Canpar Holdings Ltd., are wholly owned by the CN Investment Division, the pension fund for employees of the Canadian National Railway. The CN Investment Division manages one of the largest pension funds in Canada and holds 20 percent of Freehold's Trust Units.

### Officers

**J. Frank George, Vice-President, Exploitation,** — a Professional Geologist, joined Rife Resources Ltd. in 1983. Prior to that he was employed for 12 years with Amoco Canada Petroleum Company Limited in a variety of technical and management positions in both Canada and the United States. He is a graduate of the University of Calgary.

**Joseph N. Holowisky, Vice-President, Finance & Administration and Secretary,** — joined Canpar Holdings Ltd. in 1982. Before joining Canpar he was employed with Hudson's Bay Oil and Gas Company Limited for 12 years.

**William O. Ingram, Vice-President, Production,** — joined Rife Resources Ltd. in 1984, prior to which he was employed by Amoco Canada Petroleum Company Limited as Manager, New Energy Resources. He is a Professional Engineer and holds a B.Sc. degree from the University of Alberta.

**Michael J. Okrusko, Vice-President, Land,** — joined Canpar Holdings Ltd. in 1982. Mr. Okrusko was previously employed in land management positions with Amoco Canada Petroleum Company Limited, Novalta Resources Ltd. and Blake Resources Ltd. He holds a B.Comm. degree from the University of Calgary and is a Professional Landman.

## Unitholder Information

### Annual Meeting

The Annual Meeting of Freehold Resources Ltd. and Freehold Royalty Trust, at which the Unitholders of Freehold Royalty Trust are entitled to vote, will be held on Wednesday, May 13th, 1998 at 3:30 p.m. in the Lecture Theatre, Sunlife Plaza Conference Centre, Plus 15, 140 - 4th Avenue S.W., Calgary, Alberta.

### Distribution Tax Treatment

Distributions received for 1996 and 1997 are 100 percent tax deferred as they are considered a "return of capital" and thus reduce the adjusted cost base of the Trust Units.

### Distribution Policy

Decisions to pay distributions on the Trust Units of the Trust will be made by the Board of Directors on the basis of the Trust's earnings, financial requirements and other conditions existing at the time.

### Distribution Direct Deposit Plan

A Direct Deposit Plan is in place for the Trust to provide Unitholders who have Canadian bank accounts with a method of receiving cash distributions as a direct deposit into their bank account.

### Distribution Reinvestment Plan (DRIP)

A DRIP is in place for the Trust to provide Unitholders who are residents of Canada with a method of reinvesting cash distributions into new Trust Units.

### Share Capital

The Trust's authorized share capital consists of an unlimited number of Trust Units. As at December 31, 1997 the Trust had 26,488,000 Trust Units outstanding.

### Trust Unit Trading Information

YEAR ENDED DECEMBER 31	1997	1996
November 25, 1996 Issue Price \$10.00		
High	\$ 11.85	\$ 12.70
Low	\$ 8.40	\$ 11.15
Close	\$ 9.10	\$ 11.20
Volume (TSE/ME)	11,392,164	12,942,929
Trust Units outstanding	26,488,000	26,408,000
Market capitalization	\$ 241,040,800	\$ 295,769,600

### Historical Quarterly Distributions

	RECORD DATE	EX-DISTRIBUTION DATE	PAYMENT DATE	PER TRUST UNIT
December 31, 1996 (37 day period)	Jan. 31, 1997	Feb. 5, 1997	Feb. 28, 1997	\$0.13
March 31, 1997	Apr. 30, 1997	Apr. 28, 1997	May 15, 1997	\$0.32
June 30, 1997	July 31, 1997	July 29, 1997	Aug. 15, 1997	\$0.28
September 30, 1997	Oct. 31, 1997	Oct. 29, 1997	Nov. 15, 1997	\$0.25
December 31, 1997	Jan. 31, 1998	Jan. 29, 1998	Feb. 15, 1998	\$0.25
<b>Total distributions to date</b>				<b>\$1.23</b>

### Trustee and Transfer Agent

Unitholders' change of address, lost Trust Unit certificates or distribution cheques, or general inquiries regarding the direct deposit or distribution reinvestment plans should be directed to:

Montreal Trust Company of Canada  
 600, 530 - 8th Avenue S.W., Calgary, Alberta T2P 3S8  
 Telephone: (403) 267-6555  
 Fax: (403) 267-6592  
 Toll Free: 1-800-558-0046

### 1998 Cash Distribution Dates

RECORD DATE	PAYMENT DATE
January 31, 1998	February 15, 1998
April 30, 1998	May 15, 1998

Effective April, 1998, the Trust will move from quarterly to monthly distributions. Payments will be made the 15th day following the month end. The first monthly payment will be made on May 15, 1998.

### Corporate Governance

Information concerning the Trust's Corporate Governance is contained in the Information Circular and is available by contacting the Trust.

### French Information

French versions of our Financial Statements, Annual Information Form, and Notice of Meeting and Information Circular can be obtained by contacting the Trust.

*Pour obtenir la version française de la notice annuelle, des états financiers, de l'avis de convocation et de la circulaire d'information, veuillez communiquer avec la Société.*



## Corporate Information

### Directors

**D. Nolan Blades** <sup>1,2</sup>

*President & C.E.O.  
Pursuit Resources Corp.*

**Harry S. Campbell**

*Partner  
Burnet, Duckworth & Palmer*

**Tullio Cedraschi**

*President & C.E.O.  
CN Investment Division*

**Peter T. Harrison** <sup>1</sup>

*Director and Vice-President,  
Canadian Equities  
Montrusco Associates Inc.*

**P. Michael Maher** <sup>1,2</sup>

*Dean, Faculty of Management  
University of Calgary*

**David J. Sandmeyer**

*President  
Rife Resources Ltd.*

**William W. Siebens** <sup>2</sup>

*President & C.E.O.  
Candor Investments Ltd.*

*<sup>1</sup> Audit Committee*

*<sup>2</sup> Corporate Governance  
and Nominating Committee*

### Head Office

**Freehold Resources Ltd.  
Freehold Royalty Trust**

*400, 144 - 4th Avenue S.W.  
Calgary, Alberta T2P 3N4  
Telephone: (403) 221-0802  
Fax: (403) 221-0888*

### Investor Relations Contact

**Karen Taylor, Manager,  
Corporate Communications**  
Direct: (403) 221-0891  
Toll Free: 1-888-257-1873  
Email: [kctaylor@freeholdtrust.com](mailto:kctaylor@freeholdtrust.com)

### Internet Home Page

The Trust will be establishing  
a website in 1998.

### Officers

**William W. Siebens**

*Chairman of the Board*

**David J. Sandmeyer**

*President & C.E.O.*

**J. Frank George**

*Vice-President, Exploitation*

**Joseph N. Holowisky**

*Vice-President, Finance/Administration  
& C.F.O. and Secretary*

**William O. Ingram**

*Vice-President, Production*

**Michael J. Okrusko**

*Vice-President, Land*

### Stock Exchange Listings

The Toronto Stock Exchange  
Montreal Exchange  
Trading Symbol: "FRU.UN"

### Trustee and Transfer Agent

Montreal Trust Company of Canada  
Calgary, Alberta

### Transfer Points

Calgary, Toronto, Montreal

### Legal Counsel

Burnet, Duckworth & Palmer  
Calgary, Alberta

### Auditors

KPMG  
Calgary, Alberta

### Banker

Canadian Imperial Bank of Commerce  
Calgary, Alberta

### Evaluation Engineers

Grant Trimble Engineering Ltd.  
Calgary, Alberta

LAS Energy Associates Ltd.  
Calgary, Alberta

### Abbreviations

API	— American Petroleum Institute
ARTC	— Alberta Royalty Tax Credit
Bbl	— barrel
Bbls/d	— barrels per day
Bcf	— billion cubic feet
Boe	— barrels of oil equivalent (10 Mcf = 1 Bbl)
Boe/d	— barrels of oil equivalent per day
Mbbls	— thousand barrels
Mboe	— thousands of barrels of oil equivalent
Mcf	— thousand cubic feet
Mmcf	— million cubic feet
NGLs	— natural gas liquids
NYMEX	— New York Mercantile Exchange
Ston	— short ton
WTI	— West Texas Intermediate



— MINERAL TITLE LANDS —

— On mineral title lands, the owner of the mineral title may grant a leasehold interest to a third party (Lessee) and reserve a royalty interest for himself (Lessor). Typically the mineral title owner owns the petroleum, natural gas and all other minerals associated with the lands forever.

— LEASE ISSUED BY MINERAL TITLE OWNER —

— LESSOR — LESSEE —

**Lessor's Royalty** — The share of produced minerals reserved by a mineral title owner when granting a lease of the property to the Lessee. The royalty received by the Lessor is free of any cost to the Lessor.

**Royalty Lands** — Lands on which a royalty interest is owned by the Lessor.

**Lessee's Interest** — The Lessee's interest in leased mineral titles (often called "working interest") is the right to "work" the lands (explore, drill, produce). The working interest owner is responsible for all exploration, development, capital costs and operating expenses associated with the lease. The working interest owner has the right to produce and sell the petroleum, natural gas and all other minerals, but must pay the Lessor's royalty.

**Leasehold Lands** — Lands on which a Lessee has acquired, by lease, the right to explore for and produce oil, gas, and/or other minerals.



THIS REPORT CONTAINS A MINIMUM OF 20% POST-CONSUMER RECYCLED FIBRE

— PRINTED IN CANADA —