

# **FREEHOLD ROYALTY TRUST**

**Annual Information Form**

March 3, 2000

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## Abbreviations

<b>bbl and bbls</b>	barrel and barrels, respectively, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons	<b>mcf</b>	one thousand cubic feet
<b>bbls/d and bopd</b>	barrels per day and barrels of oil per day, respectively	<b>mcf/d</b>	one thousand cubic feet per day
<b>mbbls</b>	one thousand barrels	<b>mmcf</b>	one million cubic feet
<b>mmbbls</b>	one million barrels	<b>mmbtu</b>	one million British Thermal Units
<b>boe</b>	barrels of oil equivalent converting 10 mcf of gas to one barrel of oil equivalent and one barrel of natural gas liquids to one barrel of oil equivalent. The factor used to convert gas and natural gas liquids to oil equivalent is not based on either energy content or prices but on a commonly used industry benchmark.	<b>mtonne</b>	one thousand tonne
<b>boe/d</b>	barrels of oil equivalent per day	<b>mtonne/d</b>	one thousand tonnes per day
<b>mboe</b>	one thousand barrels of oil equivalent	<b>Lton</b>	one long ton
<b>mmbboe</b>	one million barrels of oil equivalent	<b>Lton/d</b>	one long ton per day
		<b>mLton</b>	one thousand long tons
		<b>API</b>	American Petroleum Institute
		<b>WTI</b>	Western Texas Intermediate

## Conversions

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
Bbls	cubic metres	0.159
cubic metres	bbls	6.290
Feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.4047
hectares	acres	2.471

*All dollar amounts set forth in this Annual Information Form are in Canadian dollars, except where otherwise indicated.*

## GLOSSARY OF TERMS

In this Annual Information Form, the following terms shall have the meanings set forth below, unless otherwise indicated:

“**Acquireco**” means the one or more corporations which may be formed by the Trust as wholly owned subsidiaries to acquire corporate facilities and other types of oil and gas related acquisitions in addition to Canadian resource properties.

“**Acquireco Distributions**” means cash distributions made to the Trust from Acquireco, which distributions will be distributed to Unitholders, after deduction of all required deductions.

“**Acquisition Fee**” means the acquisition fees payable to the Manager pursuant to the Management Agreement.

“**Additional Properties**” means working interests in oil and gas rights which may be acquired by Freehold Resources from time to time.

“**Additional Royalties**” means royalty interests in oil and gas rights which may be acquired by the Trust from time to time, including the royalties acquired by the Trust in 1997.

“**ARC**” means credits and rebates in respect of Crown royalties which are paid or credited by the Crown, including those paid or credited under the *Alberta Corporate Tax Act* which are commonly known as “Alberta Royalty Credits”.

“**Asset Value**” means, for any property at any time, the present worth of all of the estimated pre-tax net cash flow from the Proved Reserves and 50% of the estimated pre-tax net cash flow from the Probable Reserves shown in the most recent engineering report relating to such property, discounted at 12% and using escalating price and cost assumptions (a common benchmark in the oil and gas industry).

“**CN Pension Trust Fund**” means the Canadian National Railway System Pension Trust Fund.

“**Canpar**” means Canpar Holdings Ltd.

“**Cash Distribution Date**” means the date Distributable Income is paid to Unitholders, being the 15th day following any Record Date.

“**Debt Service Charges**” means all interest and principal repayments and other costs, expenses and disbursements relating to the borrowing of funds by the Trust and Freehold Resources.

“**Deferred Purchase Price Obligation**” means the ongoing obligation of the Trust to pay to Freehold Resources, to the extent of the Trust’s available funds, an amount equal up to 99% of the cost of, or any amount outstanding in respect of money borrowed by Freehold Resources to acquire, any additional “Canadian resource property” (as defined in the Tax Act) acquired by Freehold Resources and of the cost of, or any amount borrowed by Freehold Resources to fund, certain designated capital expenditures as partial consideration for the Freehold Resources Royalty. See “Other Information Respecting Freehold Resources – Deferred Purchase Price Obligation”.

“**Distributable Income**” means, for any particular period, the HB Lands Royalties, Additional Royalties, the Freehold Resources Royalty and Acquireco Distributions received by the Trust plus the interest income from Permitted

Investments and ARC, if any, received by the Trust less the Trust's share of Crown royalties (other than Crown royalties which are deducted in the computation of the Royalty) and direct expenses of the Trust.

**“Established Reserves”** means proven reserves plus one-half (1/2) probable reserves.

**“Freehold Resources”** means Freehold Resources Ltd., which acquired the Working Interest Properties and granted the Freehold Resources Royalty to the Trust.

**“Freehold Resources Notes”** means promissory notes issued by Resources in series pursuant to a note indenture in the principal amount of the Market Redemption Price or Appraised Redemption Price of the Trust Units to be redeemed in consideration for a portion of the royalty having a fair market value equal to such principal amount on the following terms and conditions: (a) unsecured and bearing interest at the lessor of: (a) the interest paid on 2 year Government of Canada bonds minus 2 percent, or (b) 6 percent per annum payable monthly in arrears on the 20<sup>th</sup> day of the next following month; (b) subordinate to all senior indebtedness which includes all indebtedness for borrowed money or owing in respect of property purchases on any default in payment of any such senior indebtedness, and to all trade debt of Resources or any subsidiary of Resources or the Trust on any creditor proceedings such as bankruptcy, liquidation or insolvency; (c) subject to earlier prepayment, being due and payable on the 15<sup>th</sup> anniversary of the date of issuance and (d) in an aggregate principal amount not exceeding \$500 million.

**“Freehold Resources Properties”** means the working, royalty or other interest of Freehold Resources from time to time in any oil and gas right, tangibles and miscellaneous interest, including the Working Interest Properties and Additional Properties.

**“Freehold Resources Royalty”** means the royalty payable by Freehold Resources to the Trust pursuant to the Freehold Resources Royalty Agreement which equals 99% of Freehold Resources Royalty Income.

**“Freehold Resources Royalty Agreement”** means the agreement regarding the creation and sale of the Freehold Resources Royalty dated November 25, 1996 between Freehold Resources and the Trustee as trustee for and on behalf of the Trust, as amended from time to time.

**“Freehold Resources Royalty Income”** in respect of any period for which Freehold Resources Royalty Income is calculated means: (a) the amount received in such period in respect of the sale of Petroleum Substances collected from the Freehold Resources Properties (including the share reserved to the Crown) and any other revenue received in such period other than the proceeds from the sale of the Freehold Resources Properties; less (b) the aggregate of the following costs and expenses paid in such period: (i) all costs and expenses (including both operating costs and capital costs) in respect of the Freehold Resources Properties, except to the extent that such costs or expenses are funded by borrowing and in the case of capital costs, except to the extent designated as Deferred Purchase Price Obligations, including, without limitation, the costs of gathering, compressing, processing, transporting and marketing all Petroleum Substances produced from the Freehold Resources Properties and all other amounts paid to third parties which are calculated with reference to production from the Freehold Resources Properties including, without limitation, gross overriding royalties and lessor's royalties, but excepting Crown royalties and other Crown charges; (ii) income, capital and other direct taxes in respect of the Freehold Resources Properties; (iii) Debt Service Charges; (iv) General and Administrative Costs to the extent not paid from the residual income of Freehold Resources; (v) net contributions to Freehold Resources' reclamation fund; (vi) the amount paid to the Trust to purchase Trust Units to satisfy its obligations under the Management Agreement and (vii) all other costs and expenses relating to the Freehold Resources Properties. Any income derived from Freehold Resources Properties which are not working interests in “Canadian resource properties” (as defined in the Tax Act), will not be included as Freehold Resources Royalty Income and will be used to defray capital expenditures and other expenses of Freehold Resources.

**“General and Administrative Costs”** means the amount in aggregate representing all expenditures and costs incurred under the Management Agreement in respect of Freehold Resources, the Trust or the HB Lands Royalties, Additional Royalties or the Freehold Resources Royalty or in the management and administration of Freehold Resources, the Trust or the HB Lands Royalties, Additional Royalties or the Freehold Resources Royalty including, without limitation: (a) all reasonable costs and expenses relating to Freehold Resources, the Trust and the HB Lands Royalties, Additional Royalties or the Freehold Resources Royalty paid to third parties by or on behalf of Freehold Resources, the Trust or their affiliates, including, without limitation, Trustee’s fees; and (b) all reasonable costs and expenses incurred specifically for Freehold Resources or the Trust relating to Freehold Resources, the Trust or the HB Lands Royalties, Additional Royalties or the Freehold Resources Royalty including, without limitation, auditing, accounting, bookkeeping, rent and other leasehold expenses, legal, land administration, engineering, travel, telephone, data processing, reporting, executive and management time, salaries and all of those costs and expenses incurred by the Manager in discharging its obligations under the Management Agreement in respect of Freehold Resources, the Trust or the HB Lands Royalties, Additional Royalties or the Freehold Resources Royalty (other than the Acquisition Fee).

**“HB Lands”** means the lands from which the HB Lands Royalties are derived.

**“HB Lands Royalties”** means the royalties representing the right to receive revenue from the HB Lands from all formations to the base of the deepest formation which was producing Petroleum Substances or potash at January 1, 1996 with respect to each mineral title or gross overriding royalty acquired by the Trust from Canpar pursuant to the Royalty Sale Agreement.

**“Royalty Lands Royalty Income”** means the income derived from the HB Lands Royalties and the Additional Royalties.

**“LAS Energy”** means LAS Energy Associates Ltd., independent consultants.

**“LAS Energy Potash Report”** means the report dated January 5, 1998 prepared by LAS Energy, evaluating the potash reserves attributable to the HB Lands Royalties as at January 1, 1998 and updated by the Manager to an effective date of January 1, 2000.

**“Management Agreement”** means the agreement dated November 25, 1996 between the Manager, Freehold Resources and the Trustee for and on behalf of the Trust pursuant to which the Manager agreed to provide management services to Freehold Resources and the Trust. See “The Manager – Management Agreement”.

**“Management Fees”** means the fees payable to the Manager pursuant to the Management Agreement.

**“Manager”** means Rife Resources Management Ltd.

**“Permitted Investments”** means: (i) loan advances to Freehold Resources; (ii) interest-bearing accounts of a Canadian chartered bank or the Trustee; (iii) guaranteed investment certificates issued by a Canadian chartered bank or the Trustee; (iv) investment grade money market instruments or funds; (v) Government of Canada Treasury Bills; and (vi) Additional Royalties which are direct royalty interests in petroleum and natural gas rights; provided that an investment will not be a Permitted Investment if it would result in the Trust holding more than 8% of its assets at any particular time in the securities of any person other than the Government of Canada, any province or any municipality.

**“Petroleum Substances”** means petroleum, natural gas and related hydrocarbons (except coal) including, without limitation, all liquid hydrocarbons, and all other substances, including sulphur, whether gaseous, liquid or solid and whether hydrocarbon or not, produced in association with such petroleum, natural gas or related hydrocarbons.

“**Proved Reserves**” and “**Probable Reserves**” have the meanings given to those terms under “Oil and Gas Reserves”.

“**Record Date**” means the last day of each calendar month.

“**Replacement Properties**” means properties, whether Additional Royalties or Additional Properties, which were acquired by the Trust and/or Freehold Resources by means of an exchange of properties owned by the Trust or Freehold Resources or using funds obtained through the prior sale of HB Lands Royalties and/or Freehold Resources Properties.

“**Reserve Life Index**” is an index reflecting the theoretical production life of a property if the remaining reserves were to be produced out at current production rates. The index is calculated by dividing the reserves in the selected reserve category at a certain date by the estimated production for the preceding 12 month period.

“**Rife**” means Rife Resources Ltd.

“**Royalty Income**” means income to the Trust from the HB Lands Royalties, Additional Royalties and the Freehold Resources Royalty.

“**Royalty Interest**” means the percentage of the gross proceeds from the sale of the produced substances, or that same percentage of the produced substances delivered in-kind to the royalty owner as may be provided for by the lease agreement between the royalty owner(s) and the lessees.

“**Royalty Lands**” means the lands from which the HB Lands Royalties and the Additional Royalties are derived.

“**Royalty Sale Agreement**” means the purchase and sale agreement between Canpar and the Trust which provided for the purchase by the Trust from Canpar of the HB Lands Royalties.

“**Share Trust**” means the trust established by agreement dated September 30, 1996 which holds the 100 issued and outstanding common shares in the capital of Freehold Resources, the beneficiaries of which trust are the Manager as to 20 shares, and the independent directors of Freehold Resources from time to time, as to 80 shares.

“**Special Resolution**” means a resolution passed by a majority of not less than 66 2/3% of the votes cast, either in person or by proxy, at a meeting of Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 2/3% of the Trust Units entitled to be voted on such resolution.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder.

“**Trimble**” means Grant Trimble Engineering Ltd., independent petroleum consultants.

“**Trimble Oil and Gas Report**” means the report dated January 31, 2000 prepared by Trimble, evaluating the oil, gas, natural gas liquids and sulphur reserves attributable to the HB Lands Royalties, the Additional Royalties and the Freehold Resources Properties as at January 1, 2000.

“**Trust Indenture**” means the amended and restated trust indenture dated May 4, 1999 between the Trustee and the Manager as may be amended by supplemental indentures from time to time.

“**Trust Interest Gross Reserves**” are defined as the remaining reserves of the Trust and/or Freehold Resources, before deduction of any royalties.

“**Trust Interest Net Reserves**” are defined as the gross remaining reserves of the properties in which the Trust and/or Freehold Resources have acquired an interest, less all royalties and interest owned by others.

“**Trust Interest Reserves**” means the reserves associated with the HB Lands Royalties, the Freehold Resources Royalty and the Additional Royalties.

“**Trust Units**” means the units of the Trust, each unit representing an equal undivided beneficial interest therein.

“**Unanimous Shareholder Agreement**” means the agreement dated November 25, 1996 among Freehold Resources, the trustee of the Share Trust and the Trustee for and on behalf of Unitholders.

“**Unitholders**” means holders of Trust Units of the Trust.

“**Working Interest Properties**” means the properties and assets acquired by Freehold Resources from each of Canpar and Rife pursuant to the Working Interest Sale Agreements, and additional working interests acquired.

“**Working Interest Sale Agreements**” means the purchase and sale agreement between Freehold Resources and Rife and the purchase and sale agreement between Freehold Resources and Canpar which provided for the purchase by Resources from Rife and Canpar of the Working Interest Properties.

## FREEHOLD ROYALTY TRUST

### General

Freehold Royalty Trust (the “Trust”) was a closed-end investment trust created under the laws of the Province of Alberta pursuant to the Trust Indenture dated September 30, 1996 as amended and restated November 25, 1996 until its conversion to an open-end trust pursuant to an amended and restated Trust Indenture dated effective May 4, 1999. Montreal Trust Company of Canada (the “Trustee”) has been appointed as trustee under the Trust Indenture. The Trust was created for the purposes of purchasing the HB Lands Royalties from Canpar and the Freehold Resources Royalty from Freehold Resources Ltd. (“Freehold Resources”) and issuing Trust Units to the public. The beneficiaries of the Trust are holders of the Trust Units. The principal and head office of the Trustee is located at Suite 400, 144 - 4th Avenue S.W., Calgary, Alberta, T2P 3N4.

Freehold Resources was incorporated under the *Business Corporations Act* (Alberta) on June 3, 1996 as 698108 Alberta Ltd., then changed its name to “Freehold Resources Ltd.” on July 24, 1996. All of the issued and outstanding shares of Freehold Resources are held by the Share Trust, the beneficiaries of which are the Manager, as to 20 shares, and the independent directors of Freehold Resources from time to time, as to 80 shares. The business of Freehold Resources is restricted to the acquisition, development, exploitation and disposition of oil and natural gas properties, including the Working Interest Properties, and the granting of the Freehold Resources Royalty to the Trust. The head, principal and registered office of Freehold Resources is located at Suite 400, 144 - 4th Avenue S.W., Calgary, Alberta, T2P 3N4.

Rife Resources Management Ltd. (the “Manager”) was incorporated under the *Corporations Act* (Ontario) on March 5, 1968 under the name “75-89 Gosford Limited” and continued under the *Canada Business Corporations Act* on April 20, 1979. The Manager changed its name to “Rife Resources Management Ltd.” on October 1, 1996. Pursuant to the Management Agreement the Trust has retained the Manager to administer the Trust on behalf of the Trustee and Freehold Resources has retained the Manager for the purposes of identifying, evaluating and assisting in the acquisition, disposition and ongoing management and administering of the HB Lands Royalties, Additional Royalties, the Freehold Resources Royalty and the Freehold Resources Properties. The head, principal and registered office of the Manager is located at Suite 400, 144 - 4th Avenue S.W., Calgary, Alberta, T2P 3N4.

### General Development of the Business

Freehold Resources and the Trust were created by the Manager for purposes of purchasing and managing the HB Lands Royalties, the Freehold Resources Royalty and the Working Interest Properties.

#### *Acquisition of the HB Lands Royalties*

Pursuant to the Royalty Sale Agreement, the Trust acquired from Canpar the HB Lands Royalties for an aggregate consideration of \$186,512,000. Concurrently, Freehold Resources acquired from Canpar all of Canpar’s right to the HB Lands other than the HB Lands Royalties. The acquisition of the HB Lands Royalties by the Trust closed immediately after the closing of the initial public offering of Trust Units, which closed on November 25, 1996.

#### *Acquisition of Freehold Resources Royalty*

Freehold Resources granted the Freehold Resources Royalty to the Trust pursuant to the Freehold Royalty Agreement consisting of 99% of Royalty Income generated by the original properties and any additional properties to be acquired by Freehold Resources. The residual 1% of Royalty Income accrues to the benefit of Unitholders as it is used by Freehold Resources to defray General and Administrative Costs and Management Fees. The purchase price for the

Freehold Resources Royalty was \$64,344,000 plus the Deferred Purchase Price Obligation. The acquisition of the Freehold Resources Royalty by the Trust closed immediately after the closing of the Trust's initial public offering of Trust Units, which closed on November 25, 1996.

***Acquisition of Working Interest Properties***

Pursuant to the Working Interest Sale Agreements, Freehold Resources acquired the Working Interest Properties on November 25, 1996 for an aggregate consideration of \$74,344,000 with the proceeds of the sale of the Freehold Resources Royalty and \$10,000,000 which was borrowed by Freehold Resources from a chartered bank. The acquisition of the Working Interest Properties by Freehold Resources occurred immediately following the closing of the Trust's initial public offering of Trust Units on November 25, 1996.

***Additional Properties Acquired During 1997***

In the spring of 1997, Freehold Resources acquired a 25.56% working interest in the Pouce Coupe South Boundary "B" Pool Unit #2, which produces light oil from the Boundary Lake formation, 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 0.6 million barrels of oil equivalent with a reserve life index greater than 16 years.

***Additional Royalties Acquired During 1997***

During 1997, the Trust acquired Additional Royalties from properties located in the Swift Current area of Saskatchewan and at Giltedge and Wildmere, Alberta for \$5.1 million.

## **BUSINESS OF THE TRUST**

### **Overview**

The Trust was created for the purposes of purchasing the HB Lands Royalties from Canpar, purchasing the Freehold Resources Royalty from Freehold Resources and issuing Trust Units to the public. The Trust permits investors to participate in the HB Lands Royalties, the Additional Royalties and the Freehold Resources Royalty derived from the Working Interest Properties. Pursuant to the Deferred Purchase Price Obligation, Unitholders also participate in a royalty of 99% of Royalty Income derived from any Additional Properties and Replacement Properties which Freehold Resources acquires. As a result of the conversion to an open-end trust, Unitholders may also participate in distributions received by the Trust from Acquireco, if any.

The Trust's current assets consist of Permitted Investments, the HB Lands Royalties, Additional Royalties and the Freehold Resources Royalty. The Freehold Resources Royalty consists of 99% of the Freehold Resources Royalty Income. To date no additional assets have been acquired by the Trust through Acquireco.

### **New Acquisitions Through Acquireco**

As a result of the conversion to an open-ended trust on May 4, 1999, the business of the Trust was expanded to include the ability to acquire and hold all forms of petroleum and natural gas related assets that can be reasonably expected to provide long-term returns and Unitholder distributions. As a result, the Trust is now able to form one or more corporations, which would initially be wholly-owned subsidiaries of the Trust (each such company referred to as "Acquireco"), through which future acquisitions of all forms of petroleum and natural gas related assets (for example, the shares of an oil and gas company or petroleum and natural gas related facilities without associated properties) could be effected. To date no such corporation has been organized. Any such corporation would be organized substantially along the lines of Freehold Resources in terms of its relationship with management, the Trust and the Unitholders with the same directors as the board of directors of Freehold Resources.

Upon Acquireco closing any acquisition, Acquireco (or, if merged with Freehold Resources, the merged corporation) will receive cash flow from the operation and ownership of its assets. With the approval of its board of directors and subject to applicable law, Acquireco will distribute to the Trust all of its available cash flow, less certain deductions, including, without limitation, ongoing capital expenditures to the extent not funded by debt and subject to retaining such reasonable reserves or funds for the acquisition of replacement assets as may be considered appropriate by its board of directors ("Acquireco Distributions").

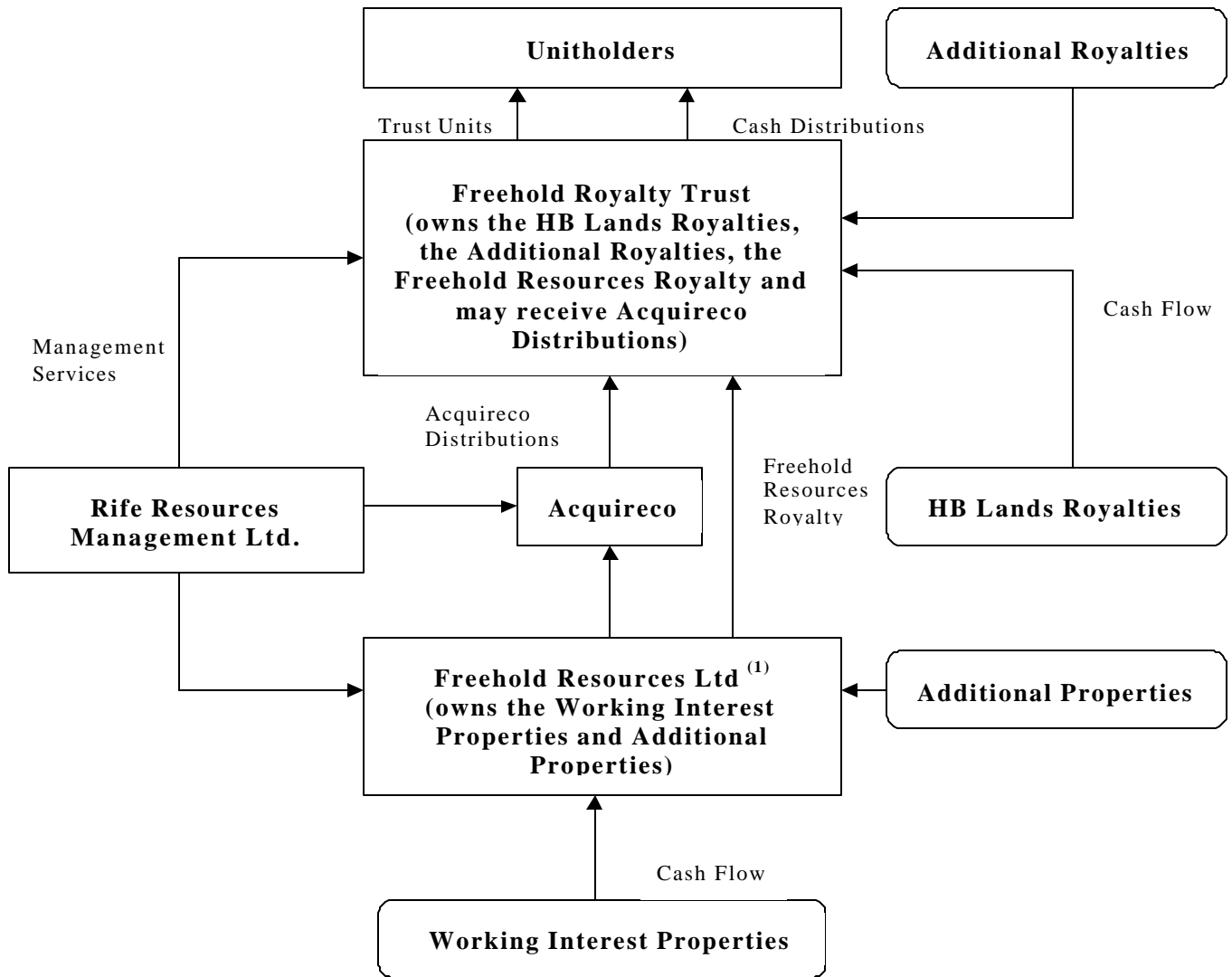
The Trust will make cash distributions of such funds, subject only to required deductions and other deductions similar in nature to those made in respect of the Trust's cash distributions of funds paid to it by Freehold Resources. Such cash distributions may be wholly or in part taxable. In approving any future acquisitions, the board of directors will be required to consider the impact that such acquisition would have on anticipated after-tax distributions to Unitholders.

### **Structure of the Trust**

The structure of the Trust is such that income taxation occurs only in the hands of the Unitholder. Distributable Income received by Unitholders consists essentially of the HB Lands Royalties, the Additional Royalties and the Freehold Resources Royalty received by the Trust together with any interest or other income earned by the Trust from Permitted Investments and any ARC received by the Trust less the direct expenses of the Trust. Freehold Resources determines the Freehold Resources Royalty for each calendar month and arranges for payment of all direct expenses of the Trust from the HB Lands Royalties, the Additional Royalties and the Freehold Resources Royalty. To the

extent that the Trust receives Acquireco Distributions, the Trust will make cash distributions of such funds, subject to required deductions, to Unitholders.

The structure of the Trust and the flows of cash from the HB Lands Royalties, the Additional Royalties, the Working Interest Properties, the Freehold Resources Royalty and Acquireco Distributions to Unitholders is set forth below:



Note:  
 (1) Owned By the Share Trust

## Management Policies and Acquisition Strategy

The Manager manages the Trust and Freehold Resources in accordance with the Management Agreement. All activities undertaken by the Manager are directed towards maximizing Distributable Income to the Unitholders while at the same time striving to acquire appropriate assets to provide for long-term growth in the value of the Trust. These two objectives are fundamental to the operation of the Trust and are pursued to maximize value to the Unitholders. The Manager utilizes its contract staff's extensive experience and employs prudent oil and gas business practices to increase the assets of the Trust through the acquisition of both royalty and working interest producing oil and gas properties.

The Trust may acquire Additional Royalties and may acquire all forms of petroleum and natural gas related assets through Acquireco. Freehold Resources may acquire Additional Properties or participate in development activities on Working Interest Properties that are of a low risk nature and that have long-term value enhancement potential. Properties to be acquired may be operated by competent third parties or may require the Manager to assume operatorship on behalf of Freehold Resources.

The Manager's acquisition strategy will target individual properties, or groups of properties, that generally comply with the following criteria and procedures:

- (i) quality producing properties with an established production history and low reserve risk;
- (ii) on the basis of a technical and economic engineering evaluation, a property, or group of properties, acquired in a single transaction which is forecast to provide an internal rate of return that is greater than 400 basis points above long-term (10 year) Government of Canada bonds after deducting General and Administrative Costs and incorporating the impact of debt financing, but before income taxes;
- (iii) commodity price and exchange rate assumptions used in acquisition evaluations will be from an independent engineering firm acceptable to the Board of Directors of Freehold Resources as recommended by the Manager;
- (iv) each acquisition of a property, or group of properties, for a purchase price of \$5 million or more, will be based on a technical and economic valuation in a report prepared by an independent engineering firm, which, with the acceptance of the Board of Directors of Freehold Resources, may be modified to incorporate the technical views of the Manager;
- (v) properties which have high netbacks;
- (vi) properties having strong third party operators or properties where the Manager can assume operatorship;
- (vii) the expected economic life of a property, or group of properties, acquired in a single transaction will not be less than 10 years;
- (viii) no acquired property which is comprised of an interest in a single oil or gas pool shall represent more than 30% of the Asset Value of the Trust and Freehold Resources; and
- (ix) the Trust may acquire Additional Royalties, of the nature of the HB Lands Royalties, from Canpar or others. The criteria for acquisition of such royalties may be varied from the criteria set out herein, with the approval of

a majority of the independent members of the Board of Directors of Freehold Resources, in recognition of the unique economic characteristics of such royalties.

These criteria will serve as guidelines for the Manager on presenting acquisitions for approval by the board of directors of Freehold Resources. The board of directors of Freehold Resources may vary these criteria for any particular acquisition based on the Manager's recommendations and consideration of the qualitative aspects of the subject properties including risk profile, technical upside, reserve life index and asset quality.

### **Cash Distributions of Distributable Income**

Cash distributions are made on the 15th day of the month following each Record Date to Unitholders of record on the Record Date. Royalty Income and consequently Distributable Income are determined on a cash received basis.

### **Alberta Royalty Credits**

Neither the HB Lands Royalties nor the Working Interest Properties are eligible for the ARC. Therefore, Unitholders will not receive any payments in respect of ARC until such time as Freehold Resources acquires or develops properties which are eligible for ARC.

ARC entitlements are realized pursuant to the Freehold Resources Royalty Agreement with respect to Additional Properties which are eligible for ARC in respect of amounts reimbursed by the Trust to Freehold Resources for Alberta Crown royalties, provided that the Freehold Resources Royalty (or any portion thereof) is not considered a "restricted resource property" within the meaning of the *Alberta Corporate Tax Act*. The Working Interest Properties from which the Freehold Resources Royalty is derived are considered "restricted resource properties" for these purposes and accordingly, there is no ARC entitlement in respect of amounts reimbursed by the Trust to Freehold Resources for Alberta Crown royalties in respect of such Working Interest Properties.

During 1997 certain properties acquired by Freehold Resources were eligible for ARC. These credits were accrued during 1997 and became part of the quarterly distributable income determined during the year.

ARC claims have been made by Freehold Resources, as the producer and eligible claimant for this credit. This is the procedure which will be followed in the future in respect of ARC.

## DESCRIPTION OF PROPERTIES

### **HB Lands Royalties**

The HB Lands Royalties are derived from the leased mineral title lands and gross overriding royalty lands acquired by the Trust from Canpar which generated production revenue in 1995. Canpar has retained all non-producing deeper rights associated with the HB Lands. The Trust's interest in leased mineral titles lands and gross overriding royalty lands, in addition to oil and gas, also includes most other minerals excluding coal. The Trust also derives income from the mining of potash. See "Potash Interests and Reserves".

#### *Leased Mineral Title Lands*

This category of land provided approximately 74% of the Royalty Income received by the Trust in 1999. This royalty income is derived from the royalties payable to the Trust through the lease documents issued to the companies which have producing wells located thereon. The Trust has ownership interests in mineral titles ranging from 23.52% to 100% and recovers a similar percentage of the applicable royalty, ranging from 7.5% to 35% of all oil and gas products and potash produced and sold from the leased lands. For example if the Trust's interest in a mineral title property is 50% and the royalty rate applicable to the lease is 20% then the Trust would be entitled to receive the proceeds from the sale of 10% (50% x 20%) of the oil or gas produced for the period. The area of leased mineral title lands totals approximately 362,000 gross acres. Certain of the leased mineral title lands have over time been included within 163 oil and gas units which ensure royalty payments to the Trust over the entire producing life of the unit. The leased mineral title lands also include approximately 41,000 gross undeveloped acres, representing potential for further development of the leased mineral title lands. The HB Lands Royalties arise from direct ownership of mineral title lands similar to Crown royalties arising from provincially owned mineral title lands. See "Description of Properties - HB Lands Royalties - Undeveloped Lands".

#### *Gross Overriding Royalty Lands*

These lands consist of producing mineral title properties owned by a number of third party oil and gas companies in respect of which gross overriding royalties varying from 3.92% to 6.5% have been reserved to the Trust. This category of land provided approximately 20% of the Royalty Income received by the Trust in 1999. Certain of the gross overriding royalty interests have been included within 24 oil and gas units. The Trust acquired Canpar's right to revenue from gross overriding royalty interests in a total of 98,166 acres, of which 18,404 acres have been classified as undeveloped. The Trust is also entitled to varying royalty interest in 98,987 acres of Crown lands leased by other parties, of which approximately 5,300 acres are undeveloped. See "Description of Properties - HB Lands Royalties - Undeveloped Lands".

#### *Royalty Areas of HB Lands*

The HB Lands are comprised of a large and widely diversified portfolio of properties extending from northeast British Columbia to southwest Manitoba which have been divided into eight areas. The single largest royalty from an individual lease acquired by the Trust on the HB Lands accounted for less than 4% of the total revenue attributable to the HB Lands Royalties in 1999. The majority of HB Lands are in the central area of southern Alberta and southwest Saskatchewan.

## Additional Royalties

During 1997, the Trust acquired Additional Royalties from properties located near Swift Current, Saskatchewan and at Wildmere and Giltedge, Alberta. This category provided approximately 6% of the Royalty Income received by the Trust in 1999.

Pursuant to the Swift Current acquisition, the Trust acquired varied royalty interests (0.1 to 1.25%) in 35 units and various producing lands that total approximately 96,700 gross acres in the Swift Current region. Twenty-seven (27) non-unit wells and three unit wells were drilled during 1999 on these properties, which produce medium gravity oil (25° API). These wells were drilled at no cost to the Trust and will add to production and reserves during 2000.

The Trust was also successful in acquiring royalty and minor working interests in oil producing properties located at Wildmere and Giltedge in Alberta. The properties located 110 miles southeast of Edmonton are an example of the many opportunities associated with royalty lands, having exceptional growth potential and no capital requirement by Freehold. The 3,640 acre Wildmere Lloydminster A Unit No. 1, in which Freehold has a 2.45 percent net effective royalty interest, currently produces 75 barrels of oil equivalent for the Trust. The operator plans to drill an additional 21 wells (seven water injections) in 2000. Depending upon the success of these wells, 17 wells (three water injections) will be drilled in the future.

## Royalty Lands

The following is a summary of information pertaining to the Royalty Lands, including the HB Lands Royalties and Additional Royalties on a combined basis.

The following table summarizes by area the Trust's average royalty interest, 1999 wells drilled, 1999 oil and gas production, gross revenues, reserve life index, 1999 net pre-tax cash flow and asset value of the HB Lands Royalties and the Additional Royalties:

	Average			Trust		1999	Asset Value <sup>(3)</sup>	
Royalty Lands	Royalty Interest (%)	1999 Wells Drilled	1999 Production (boe/d)	Gross Reserves (mboe) <sup>(1)</sup>	Reserve Life Index (years) <sup>(1)(2)</sup>	Cash Flow (\$000's)	(\$000's)	(%)
Western Alberta	0.5	<u>20</u>	655	4,826.6	20.2	5,494	32,705	26.2
Saskatchewan Heavy Oil	4.9	<u>30</u>	483	2,953.1	16.7	3,522	21,035	16.9
Lloydminster/Bonnyville	2.8	<u>15</u>	449	3,343.0	20.4	3,248	22,419	18.0
Southeast Alberta	1.0	<u>115</u>	309	1,170.2	10.4	2,500	12,454	10.0
Bashaw/Leduc	0.4	<u>23</u>	284	1,123.8	10.8	2,435	13,084	10.5
Hatton/Gull Lake	0.9	<u>59</u>	166	1,179.9	19.4	1,420	11,620	9.3
Provost	2.0	<u>10</u>	158	653.4	11.4	1,338	5,877	4.7
Other	0.7	<u>15</u>	131	400.4	8.4	2,100	5,446	4.4
<b>Total<sup>(4)</sup></b>	<b>0.9</b>	<b><u>287</u></b>	<b>2,634</b>	<b>15,650.4</b>	<b>16.3</b>	<b>22,055</b>	<b>124,640</b>	<b>100.0</b>

### Notes:

- (1) Based on Established Reserves as outlined in the Trimble Oil and Gas Report utilizing escalating price and cost assumptions before income tax and undiscounted.
- (2) Reserve Life Index is calculated by dividing the gross reserves by the 1999 annual production.

- (3) Discounted at 12% before income taxes and other indirect costs and based on the escalated price and cost forecast contained in the Trimble Oil and Gas Report.
- (4) Columns may not add due to rounding.

The following table summarizes the acreage, wells and unit interests owned by the Trust in the core areas of the Royalty Lands:

Area	Total Acres	Undeveloped Acres <sup>(1)</sup>	Non-Unitized		Unitized		
			Gas Wells	Oil Wells	Production Units	Gas Wells	Oil Wells
Western Alberta	87,959	13,418	74	132	65	380	1,959
Saskatchewan Heavy Oil	61,495	13,578	56	385	6	34	405
Lloydminster/Bonnyville	69,428	10,318	137	201	18	93	657
Southeast Alberta	124,055	7,578	540	109	35	2,874	272
Bashaw/Leduc	65,301	8,870	93	102	36	439	641
Hatton/Gull Lake	127,950	28,236	253	180	36	8	847
Provost	52,941	8,206	37	225	13	348	147
Other	78,800	13,863	75	33	13	266	98
<b>Total</b>	<b>667,929</b>	<b>104,067</b>	<b>1,265</b>	<b>1,367</b>	<b>222</b>	<b>4,442</b>	<b>5,026</b>

Note:

- (1) Undeveloped lands are non-producing spacing units on the Royalty Lands.

In the following discussion all references to reserves are Trust Interest Gross Reserves based on Established Reserves as outlined in the Trimble Oil and Gas Report utilizing escalated price and cost assumptions. All references to the Trust's interest in lands, wells and units are with respect to the HB Lands Royalties and the Additional Royalties attributable thereto.

### Western Alberta

In the Western Alberta area, the Trust has interests in the revenue from 87,959 gross acres which currently includes an interest in 74 non-unitized gas wells and 132 non-unitized oil wells and approximately 13,400 gross acres of undeveloped lands. The Trust also owns interests in 65 units currently containing 380 gas wells and 1,959 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 2,932.9 mbbbls of oil and 18,936.8 mmcf of gas to this royalty interest.

Geologically, the Western Alberta area represents a wide distribution of producing fields from the foothills structurally distributed belt at Turner Valley, Jumping Pound West and Wildcat Hills to the northern plains at Whitecourt. Stratigraphically, the properties range from the Devonian Beaver Hill Lake formation in the Caroline Swan Hills Gas Unit at a depth of 13,000 feet to the shallower Upper Cretaceous Belly River zone in the Pembina and Keystone areas at a depth of 3,400 feet. The single largest revenue property is the Caroline Swan Hills Gas Unit #1, which produces most of the Trust's natural gas liquids. The Cardium formation is the most common producing formation in which the Trust acquired interests, including interests in 24 unitized pools in the Ricinus, Ferrier, Willesden Green and Pembina fields.

The oil production from this area is typically of higher degree API quality and the natural gas production may often contain natural gas liquids.

Production in 1999 of 370 barrels of oil and natural gas liquids per day and 2.8 million cubic feet of natural gas per day declined nine percent compared to 1998 rates. This resulted from the reduced drilling by lessees as only 20 wells were drilled compared to 29 in 1998.

#### Lloydminster/Bonnyville

Within the Lloydminster/Bonnyville area, the Trust owns an interest in the revenue from 69,428 gross acres which currently includes an interest in 137 non-unitized gas wells, 201 non-unitized oil wells and approximately 10,300 acres of undeveloped land. The Trust also has interests in 18 units currently containing 93 gas wells and 657 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 2,923.0 mbbls of oil and 4,200.3 mmcf of gas to this royalty interest.

This area is characterized by the production of heavier oil and/or gas from the shallow (less than 3,300 feet) Mannville sands. The lands acquired by the Trust are evenly distributed to the south of the North Saskatchewan River and are represented to the north by an interest in gas production in the Sugden and Ashmont areas. Significant production units are the Wildmere Lloydminster "A" Unit No. 1, three Chauvin South units and the five Wainwright units. The largest single revenue property in this area is the non-unitized Lloydminster Sparky Pool.

The Trust's production of 353 barrels of oil per day and 1.0 million cubic feet per day of natural gas is unchanged from the previous year. Drilling activity in this area of 15 (1.6 net) wells was reduced from the 33 wells drilled in 1998. Talisman Energy Inc. drilled nine (1.1 net) oil wells at Chauvin in late 1999. Renaissance Energy Ltd. drilled three (0.4 net) wells at Fort Kent, with one well being classified as oil, and Husky Oil Operations Ltd. has licenced 13 (0.3 net) wells to be drilled in early 2000 at the Wildmere Lloydminster A Unit No. 1.

#### Saskatchewan Heavy Oil

In the Saskatchewan Heavy Oil area, the Trust has an interest in the revenue from 61,495 gross acres which currently includes interests in 56 non-unitized gas wells and 385 non-unitized oil wells and approximately 13,600 acres of undeveloped land. The Trust also has interests in six units currently containing 34 gas wells and 405 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 2,835.2 mbbls of oil and 1,178.7 mmcf of gas to this royalty interest.

The major productive zones are the Mississippian Bakken, the Cretaceous Mannville and the Cretaceous Viking formations. Significant Bakken revenue properties are the Luseland and Plover Lake Bakken pools and the Baldwinton Sparky pool. Production of light gravity oil and gas from the Viking formation is concentrated in the southern part of the area near Dodsland. Depths of the productive zones range from 2,800 feet in the south to less than 1,000 feet in the north. The Mannville formation is comprised of multiple sands which have the potential to produce heavy oil or gas. The Trust's lands in this area may have reduced spacing drilling opportunities.

Production increased during 1999, resulting from lessees' drilling of 30 (3.3 net) wells and returning shut-in wells to production, both in response to the more favourable oil pricing. Production increased three percent to 483 barrels of oil equivalent per day from 469 barrels of oil equivalent per day during 1998.

Drilling activity at Baldwinton, Luseland, Freemont and Tangleflags by lessees such as Beau Canada Exploration Ltd., Wascana Energy Inc., Opal Energy Inc. and Canadian Natural Resources Limited added reserves and replaced 300 percent of production.

### Bashaw/Leduc

In the Bashaw/Leduc area, the Trust owns an interest in the revenue from 65,301 gross acres which currently includes interests in 93 non-unitized gas wells and 102 non-unitized oil wells and approximately 8,900 acres of undeveloped land. The Trust also has interests in 36 units currently containing 439 gas wells and 641 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 600.5 mmbbls of oil and 5,233.0 mmcf of gas to this royalty interest.

This area encompasses a wide diversity of productive zones from the Devonian Leduc Reef at a depth of 7,500 feet to the Upper Cretaceous Belly River at less than 2,500 feet.

The highest revenue properties in 1999 in this area were the Halkirk Glauconitic oil pool, the Gilby Upper Manville J Unit and the Bonnie Glen D-3A Gas Cap Unit.

Twenty three (0.6 net) wells were drilled in this area during 1999. Due to the low level of drilling, only 14 percent of reserves were replaced. As a result, production declined to 284 barrels of oil equivalent per day in 1999 from 307 barrels of oil equivalent per day in 1998.

Avalanche Energy Limited recently drilled seven oil wells at Redwater. These results are not yet reflected in Freehold's reserves or production reporting.

### Provost

The Trust has an interest in the revenue from 52,941 gross acres which currently includes interests in 37 non-unitized gas wells and 225 non-unitized oil wells and approximately 8,200 acres of undeveloped lands. The Trust also owns interests in 13 units currently containing 348 gas wells and 147 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 577.2 mmbbls of oil and 762.1 mmcf of gas to this royalty interest.

The main producing horizons in the Provost area are the Viking and Mannville formations. The Trust is represented in eight Viking gas units and three Viking oil units while the Mannville formation produces low to medium gravity oil from multiple sands at depths of less than 3,500 feet.

The oil prone area of Provost experienced limited activity on Freehold's lands during 1999. Ten (0.1 net) wells were drilled in 1999, approximately the same as in 1998, but considerably lower than the 40 wells drilled during 1997. As a result, production declined to 158 barrels of oil equivalent per day in 1999 from 197 barrels of oil equivalent per day in 1998.

### Southeast Alberta

The Southeast Alberta area contains the second largest acreage base and represents the largest number of gas wells in which the Trust owns an interest. The Trust has an interest in the revenue from 124,055 gross acres which currently includes an interest in 540 non-unitized gas wells and 109 non-unitized oil wells and approximately 7,600 acres of undeveloped lands in this area. The Trust also owns interests in 35 units currently containing 2,874 gas wells and 272 oil wells in this area. These units are predominantly productive from the shallow Upper Cretaceous Milk River, Medicine Hat and Second White Specks zones at depths of less than 2,000 feet. The Trimble Oil and Gas Report has assigned gross reserves of 407.8 mmbbls of oil and 7,624.2 mmcf of gas to this royalty interest.

Although the shallow gas is the dominant play, oil production from the underlying Mannville Sands contributes significantly to revenue. Horizontal well technology continues to be utilized to develop the Glauconite heavy oil trends in the area.

Approximately 40 percent of the wells drilled on Freehold's royalty properties during 1999 were drilled in this region. The majority of this drilling was for natural gas development, with 95 reported gas wells drilled. This drilling was instrumental in maintaining Freehold's gas production from the area at 1.3 million cubic feet per day in 1999.

In Southeastern Alberta, seven oil wells were drilled in 1999, compared to 16 wells in 1998. However, this level of drilling did not alleviate the decline in oil production to 182 barrels of oil per day from 191 barrels of oil per day in 1998.

Approximately 144 percent of Freehold's production in this area was replaced by the lessees drilling efforts during 1999. Wells were drilled on Freehold's properties at Suffield, Princess, Cessford, Alderson and Medicine Hat. Active lessees include Alberta Energy Company Ltd., PanCanadian Petroleum Limited, Canadian Natural Resources Limited, Crestar Energy Inc. and Cypress Energy Inc.

#### Hatton/Gull Lake

The Hatton/Gull Lake area of Southwestern Saskatchewan has historically provided revenue to Freehold Resources from shallow gas production. Following the 1997 acquisition of royalty interests near Swift Current, the Trust now has revenue from oil production.

The Trust has an interest in 127,950 gross acres which includes an interest in 261 gas wells and 180 non-unit and 847 unit oil wells and approximately 28,000 acres of undeveloped land. The Trimble Oil and Gas Report has assigned gross reserves of 4,661.0 mmcf of gas and 713.8 mbbls to this royalty interest.

This was an active area for Freehold during 1999 as 29 (2.6 net) gas wells were drilled on these lands in the last half of 1999 out of a total 59 wells for the year.

During the year, Fletcher Challenge Energy Canada Inc. drilled 15 (1.6 net) gas wells. Renaissance Energy Ltd. drilled 26 (0.2 net) wells at Gull Lake, Suffield, North Premier, Verlo and Fosterton. Reserves added from this drilling activity replaced production by approximately 207 percent.

The drilling activity was not able to arrest production from declining to 166 barrels of oil equivalent per day in 1999 from 209 barrels of oil equivalent per day during 1998. Most of this drilling occurred late in the year, therefore, the full impact is not yet reflected in Freehold's reported production rates.

#### ***Undeveloped Lands***

The undeveloped lands which are included in the Royalty Lands are non-producing spacing units totaling 104,067 acres. Potential exists on these lands for drilling non-unitized up hole zones within producing units, drilling or completing additional up hole zones, infill drilling by downsizing the spacing (e.g. 160 acre to 80 acre spacing in the case of an oil well), optimizing drilling locations within spacing units and horizontal drilling. If a well is drilled on lands adjacent to Royalty Lands and that well is producing from a formation in which the Trust has an interest but which is not producing on the Royalty Lands, the Trust has the right to require the lessee of the mineral title to either: (a) drill a well on an undrilled spacing unit on the Royalty Lands; (b) pay a compensatory royalty; or (c) surrender the lease.

***Drilling Activity***

The Trust will not be responsible for any drilling or development activity or expenditures with respect to the Royalty Lands, but will receive appropriate royalty income from successful wells. Drilling activity on the Royalty Lands is anticipated to provide continued new sources of oil and gas royalty income in future years, with new wells and production thereon reducing the rate at which production and royalty income would otherwise decline. The extent of drilling and development activity in future years by lessees cannot be predicted.

The following table summarizes the drilling activity conducted by lessees on the Royalty Lands for 1999 and the previous four years. During this period 1,784 unitized and non-unitized wells have been drilled on the Royalty Lands.

	Years Ended December 31,										Total	
	1999		1998		1997		1996		1995			
	<u>unit</u>	<u>non-unit</u>	<u>Unit</u>	<u>non-unit</u>	<u>unit</u>	<u>non-unit</u>	<u>unit</u>	<u>non-unit</u>	<u>unit</u>	<u>non-unit</u>	<u>unit</u>	<u>non-unit</u>
Oil Wells	23	75	72	57	202	137	60	99	65	82	422	450
Gas Wells	93	56	100	43	68	29	135	23	145	24	541	175
Service/Other Wells	3	30	5	18	8	26	2	--	4	7	22	81
Dry and Abandoned	0	7	4	6	4	25	2	21	5	19	15	78
<b>Total</b>	<b>119</b>	<b>168</b>	<b>181</b>	<b>124</b>	<b>282</b>	<b>217</b>	<b>199</b>	<b>143</b>	<b>219</b>	<b>132</b>	<b>1,000</b>	<b>784</b>
Success Rate	100%	96%	98%	95%	99%	88%	99%	85%	98%	86%	98%	90%

The historic drilling activity on the Royalty Lands may not be indicative of future growth due to the fact that only the portion of Canpar's land base producing during 1995 was purchased by the Trust and that Canpar retained all deeper rights associated with the HB Lands.

#### ***Reconciliation of Royalty Lands Reserves***

The following table provides a summary of the changes in the Trust's interest in the oil, natural gas and natural gas liquids Established Reserves on its Royalty Lands which occurred in the period commencing January 1, 1999 and ending January 1, 2000:

	Crude Oil & NGL's (mdbl)		Natural Gas (mmcf)		Total (mboe)		Total (mboe)
	Proven	Probable <sup>(1)</sup>	Proven	Probable <sup>(1)</sup>	Proven	Probable <sup>(1)</sup>	Established Reserves <sup>(1)</sup>
Balance Jan 1/99	9,632	1,926	33,688	6,854	13,001	2,611	15,612
Reserves Additions	457	301	2,448	76	701	308	1,010
Acquisitions	0	0	0	0	0	0	0
Revisions/divestments	(225)	(151)	3,255	401	101	(111)	(10)
Production	(677)		(2,846)		(962)		(962)
Balance Jan 1/00	9,187	2,076	36,545	7,331	12,841	2,809	15,650
Change over prior year	(445)	150	2,857	477	(159)	197	38

Note:

- (1) Probable reserves are risked at 50%.

## **Freehold Resources Royalty**

The Resources Royalty granted to the Trust pursuant to the Freehold Resources Royalty Agreement consists of a 99% share of the Freehold Resources Royalty Income.

Freehold Resources is required to pay the Trust, on each Cash Distribution Date, 99% of Freehold Resources Royalty Income received by Freehold Resources from the Freehold Resources Properties for the period ending on the last day of the second month immediately preceding that Cash Distribution Date.

The Trust reimburses Freehold Resources for 99% of the Crown royalties and other Crown charges payable by Freehold Resources in respect of production from or ownership of the Freehold Resources Properties. Freehold Resources will at all times be entitled to set off its right to be so reimbursed against its obligations to pay the Freehold Resources Royalty.

### ***Deferred Purchase Price Obligation***

Under the terms of the Freehold Resources Royalty Agreement, the purchase price of the Freehold Resources Royalty acquired by the Trust was an amount equal to 99% of the portion of Freehold Resource's acquisition cost of the Working Interest Properties attributable to "Canadian resource properties" (as defined in the Tax Act) (estimated to be 87% of Resource's total acquisition cost) plus a Deferred Purchase Price Obligation which recognizes that cash flows from Additional Properties and certain capital expenditures will be subject to the Freehold Resources Royalty for the benefit of Unitholders. The Deferred Purchase Price Obligation consists of 99% of the cost of, or any amount borrowed to acquire, a "Canadian resource property", as defined under the Tax Act, subsequently acquired by Freehold Resources and up to 99% of the amount of, or any amount borrowed to incur, certain capital expenditures on the Freehold Resource Properties to the extent so designated by Freehold Resources. Freehold Resources will only designate an amount under the Deferred Purchase Price Obligation in excess of a nominal amount to the extent that the Trust has funds on hand from the issuance of Trust Units or the disposition of HB Lands Royalties or the Freehold Resources Royalty in respect of Freehold Resources Properties which are disposed of. The Trust intends to finance the Deferred Purchase Price Obligations through additional issues of Trust Units or the application of the proceeds of disposition of HB Lands Royalties or Freehold Resources Properties.

### ***Working Interest Properties***

Freehold owns interests in 71 Working Interest Properties. Production from these properties is comprised of approximately 80 percent oil and 20 percent natural gas. The majority (57 percent) of the Trust's working interest production comes from three properties - Hayter, Pembina Cardium Unit No. 9, and Pouce Coupe - all located in Alberta.

Working interest production accounted for 1,704 barrels of oil equivalent in 1999, down 12 percent from 1,934 barrels of oil equivalent in 1998. A decrease in oil production of 207 barrels per day was largely the result of production declines at Hayter not being offset by new development drilling as originally planned. Beginning in the fourth quarter of 1999, drilling resumed at Hayter.

In 1999, 32 (1.1 net) wells were drilled on the working interest properties, up from 27 (0.9 net) wells during 1998. Three (0.7 net) of these wells were drilled at Hayter, adding to the Dina pool production rates. Twenty-five (0.1 net) wells were drilled on the Ring Border gas pool. One dual leg horizontal oil well was drilled at North Virden Scallion Unit No. 2 (7.5 percent working interest) that commenced production in December 1999 at 175 (13 net) barrels of oil per day. The remaining four (0.2 net) wells were drilled on four different properties. Including recompletions, this activity is estimated to add approximately 55 barrels of oil equivalent per day for 2000.

Freehold will spend approximately \$5.0 million on development projects during 2000. Of this amount, \$2.5 million will be spent at Hayter drilling wells and for related facilities, and \$1.7 million will be incurred developing Freehold's Chauvin property. The remaining capital will be spent on miscellaneous properties.

Approximately 65% of the present worth of the estimated future net cash flow from the Working Interest Properties on which the Freehold Resources Royalty was granted are represented by the Hayter, Pembina Cardium Unit No. 9 and Pouce Coupe properties as outlined in the table below:

Property	%	1999 Production (boe/d)	Trust Interest Gross Reserves (mboe) <sup>(2)</sup>	Reserve Life Index (years) <sup>(2)(3)</sup>	1999 Net Pre-Tax Cash Flow (\$000)	Asset Value <sup>(4)</sup>	
						(\$000)	(%)
Hayter	23.5	677	2,552.8	10.3	3,776	17,213	35.0
Pembina Cardium Unit No. 9	9.9	194	3,608.5	50.9	1,216	11,734	23.9
Pouce Coupe	25.56	99	590.9	16.4	542	2,776	5.6
Other	2.3	734	2,660.4	9.9	3,778	17,449	35.5
<b>Total<sup>(5)</sup></b>		<b>1,704</b>	<b>9,412.6</b>	<b>15.1</b>	<b>9,312</b>	<b>49,172</b>	<b>100.0</b>

Notes:

- (1) The percentage working and royalty interest share of reserves and production owned by Freehold Resources, before the deduction of royalties payable to others.
- (2) Based on Established Reserves as outlined in the Trimble Oil and Gas Report utilizing escalated price and cost assumptions before income taxes and undiscounted.
- (3) Reserve Life Index is calculated by dividing the gross reserves by annual production for 1999.
- (4) Discounted at 12% before income taxes and other indirect costs and based on the escalated price and cost forecast contained in the Trimble Oil and Gas Report.
- (5) Columns may not add due to rounding.

### ***Hayter, Alberta***

Freehold owns 23.52 percent of the title and a 23.52 percent working interest in this 640-acre property in the Hayter area of east central Alberta. The pool was originally developed with vertical wells. Beginning in 1993, the owners expanded the property from 250 (58 net) barrels of oil per day by investing approximately \$30.0 million to install upgraded facilities and drill approximately 55 horizontal wells. As a result, during 1996 and 1997, production averaged approximately 4,300 (1,000 net) barrels of oil per day.

The working interest owners had planned additional development drilling locations, however, the drilling program was postponed until late in 1999 due to low oil prices. With drilling deferred, the pool declined to approximately 2,600 (610 net) barrels of oil per day. Two of the three wells drilled in late 1999 added approximately 400 (100 net) barrels of oil per day for 20 days in December, or 260 (63 net) barrels of oil per day for the month. The remaining well did not commence production during the month.

Eleven additional wells have been approved by the working interest owners to be drilled commencing February 2000. It is expected that Freehold's production will reflect the full impact of this drilling by the third quarter of 2000.

### ***Pembina Cardium Unit No. 9, Alberta***

Freehold has a 9.9 percent working interest and a 0.6 percent royalty interest in the Pembina Cardium Unit No. 9 located 85 miles southwest of Edmonton. Light oil production is from part of the Pembina oilfield, the largest conventional oilfield discovered in Canada. The Unit encompasses approximately 25,280 acres, and has been on an 80-acre, five-spot waterflood pattern for more than 40 years.

Operatorship of the Unit changed during 1999, and the new operator is investigating development opportunities. Results from two wells drilled during 1998 have encouraged the operator to drill five additional wells in early 2000.

### ***Pouce Coupe***

Freehold owns a 26 percent interest in the Pouce Coupe South Boundary “B” Unit No. 2 in west central Alberta. This property is under waterflood and produces light oil from the Boundary Lake formation.

Freehold’s share of production from this Unit has declined to approximately 99 barrels of oil equivalent per day during 1999 compared to 111 barrels of oil equivalent per day during 1998.

### ***Other Working Interest Properties***

Sixty-eight other properties accounted for 43 percent of the working interest production volumes during 1999. Development activities did not offset normal decline, and, as a result, production volumes of 734 barrels per day for this “other” category decreased from the 776 barrels per day reported in 1998.

Active areas during 1999 included the North Virden Scallion Unit in Manitoba, and the Hays and Chauvin properties in Alberta. At Chauvin, the operator is proposing a multi-well drilling program and waterflood implementation during 2000.

### ***Working Interest Wells***

The following table sets forth the number and status of wells as at January 1, 2000 in which Freehold Resources has a working interest which are producing or which are considered capable of production:

Property	Producing <sup>(1)(5)</sup>				Shut-in <sup>(1)(2)(5)</sup>			
	Oil		Gas		Oil		Gas	
	Gross <sup>(3)</sup>	Net <sup>(4)</sup>	Gross <sup>(3)</sup>	Net <sup>(4)</sup>	Gross <sup>(3)</sup>	Net <sup>(4)</sup>	Gross <sup>(3)</sup>	Net <sup>(4)</sup>
Hayter	71	16.7	-	-	4	0.9	-	-
Pembina Cardium Unit No. 9	109	10.8	-	-	13	1.3	-	-
Pouce Coupe	9	2.3	-	-	1	0.3	-	-
Other	532	34.8	329	9.5	174	10.1	78	5.8
<b>Total</b>	<b>721</b>	<b>64.6</b>	<b>329</b>	<b>9.5</b>	<b>192</b>	<b>12.6</b>	<b>78</b>	<b>5.8</b>

Notes:

- (1) Based on the Trimble Oil and Gas Report with adjustments from public records.
- (2) “Shut-in” wells means wells which are not producing but which are considered capable of production. Shut-in wells in which Freehold Resources has an interest are located no further than ten kilometres from gathering systems, pipeline or other means of transportation.

- (3) “Gross” wells are defined as the total number of wells in which Freehold Resources has a working interest.
- (4) “Net” wells are defined as the aggregate of the numbers obtained by multiplying each gross well by the percentage working interest acquired by Freehold Resources therein.
- (5) Not all wells acquired by Freehold Resources have been assigned reserves in the Trimble Oil and Gas Report.

### *Drilling History*

The following table sets forth the gross and net exploration and development wells in respect of the Working Interest Properties in which Canpar and Rife, and from November 1996, Freehold Resources, participated during the periods indicated:

	Years Ending December 31,									
	<u>1999</u>		<u>1998</u>		<u>1997</u>		<u>1996</u>		<u>1995</u>	
	<u>Gross<sup>(1)</sup></u>	<u>Net<sup>(2)</sup></u>	<u>Gross<sup>(1)</sup></u>	<u>Net<sup>(2)</sup></u>	<u>Gross<sup>(1)</sup></u>	<u>Net<sup>(2)</sup></u>	<u>Gross<sup>(1)</sup></u>	<u>Net<sup>(2)</sup></u>	<u>Gross<sup>(1)</sup></u>	<u>Net<sup>(2)</sup></u>
Exploratory										
Oil	0	0	0	0	0	0	0	0	0	0.0
Gas	0	0	0	0	0	0	0	0	1	0.0
Dry	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0</u>
Total Exploratory	0	0	0	0	0	0	0	0	1	0.0
Development										
Oil	6	1.0	10	0.8	27	5.2	16	3.3	7	1.3
Gas	26	0.1	16	0.1	22	0.1	16	0.1	2	0.1
Dry	0	0	1	0	1	0	1	0	0	0.0
Total Development	<u>32</u>	<u>1.1</u>	<u>27</u>	<u>0.9</u>	<u>50</u>	<u>5.3</u>	<u>33</u>	<u>3.4</u>	<u>9</u>	<u>1.4</u>
<b>Total</b>	<u>32</u>	<u>1.1</u>	<u>27</u>	<u>0.9</u>	<u>50</u>	<u>5.3</u>	<u>33</u>	<u>3.4</u>	<u>10</u>	<u>1.4</u>

Notes:

- (1) “Gross Wells” means the number of wells in which Freehold Resources has a working interest.
- (2) “Net Wells” means the aggregate of the numbers obtained by multiplying each gross well by the percentage working interest.

### *Disposition of Resources Properties*

To the extent that the Freehold Resources Properties are disposed of, the Trust is entitled to 99% of the net proceeds of disposition of the “Canadian resource property”, as defined in the Tax Act, less the amount of any debt which is retired from the sale and relates to such Canadian resources property component in consideration for the resale of the Freehold Resources Royalty from such Freehold Resources Properties and such proceeds may be distributed to the Trust or Freehold Resources may reinvest such proceeds on behalf of the Trust pursuant to the Deferred Purchase Price Obligation. The balance of the proceeds shall be used either to retire other debt of Freehold Resources, defer cost and expenses of Freehold Resources or to finance that portion of the acquisition cost of any Additional Properties which are not financed through the Deferred Purchase Price Obligation.

### ***Reconciliation of Working Interest Property Reserves***

The following table provides a summary of the changes in working interest share of crude oil, natural gas and natural gas liquids. Established Reserves before royalties which occurred in the period commencing January 1, 1999 and ending January 1, 2000:

	Crude Oil & NGL's (mdbl)		Natural Gas (mmcf)		Total (mboe)		Total (mboe)
	Proven	Probable <sup>(1)</sup>	Proven	Probable <sup>(1)</sup>	Proven	Probable <sup>(1)</sup>	Established Reserves <sup>(1)</sup>
Balance Jan 1/99	7,152	1,427	17,240	1,110	8,876	1,538	10,414
Reserves Additions	9	0	39	0	13	0	13
Acquisitions	0	0	0	0	0	0	0
Revisions/divestments	(616)	330	(973)	(89)	(713)	321	(392)
Production	(500)		(1,224)		(622)		(622)
Balance Jan 1/00	6,046	1,757	15,082	1,021	7,554	1,859	9,413
Change over prior year	(1,107)	330	(2,158)	(89)	(1,322)	321	(1,001)

Note:

(1) Probable Reserves are risked at 50%

### **OIL AND GAS RESERVES**

Trimble has prepared the Trimble Oil and Gas Report, evaluating as at January 1, 2000, the oil, gas and natural gas liquids reserves attributable to the Royalty Lands, Additional Properties and the Working Interest Properties acquired by the Trust and Freehold Resources, respectively. The Trimble Oil and Gas Report evaluates the oil, gas and natural gas liquids reserves attributable to the Royalty Lands, Additional Properties and the Working Interest Properties prior to provision for income taxes, Debt Service Charges and General and Administrative Costs. The probable additional reserves and the present worth value of such reserves as set forth in the tables below have been reduced by 50% to reflect the degree of risk associated with recovery of such reserves. It should not be assumed that the discounted future net production revenues estimated by Trimble represent the fair market value of the reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized in the notes following the tables.

**Petroleum and Natural Gas Reserves and Net Pre-Tax Cash Flows  
Escalating Cost and Price Case**

	Trust Interest Reserves						Present Worth of Future Net Pre-Tax Cash Flow (\$000)			
	Crude Oil and Natural Gas Liquids (mbbl)		Natural Gas (mmcf)		Sulphur (mLton)		Undiscounted	Discounted at		
	Gross	Net	Gross	Net	Gross	Net		10%	12%	15%
Proved										
Producing	14,400	13,332	44,225	40,736	42	16	443,871	162,563	146,741	128,795
Non-Producing	<u>832</u>	<u>803</u>	<u>7,402</u>	<u>5,976</u>	<u>0</u>	<u>0</u>	<u>22,097</u>	<u>11,785</u>	<u>10,754</u>	<u>9,492</u>
Total Proved	15,233	14,135	51,627	46,712	42	16	465,968	174,348	157,495	138,287
Risked Probable Additional	<u>3,833</u>	<u>3,617</u>	<u>8,352</u>	<u>8,087</u>	<u>4</u>	<u>2</u>	<u>137,430</u>	<u>19,717</u>	<u>16,317</u>	<u>12,850</u>
Established Reserves	<u>19,065</u>	<u>17,752</u>	<u>59,979</u>	<u>54,799</u>	<u>46</u>	<u>18</u>	<u>603,398</u>	<u>194,065</u>	<u>173,812</u>	<u>151,137</u>

**Petroleum and Natural Gas Reserves and Net Pre-Tax Cash Flows  
Constant Cost and Price Case**

	Trust Interest Reserves						Present Worth of Future Net Pre-Tax Cash Flow (\$000)			
	Crude Oil and Natural Gas Liquids (mbbl)		Natural Gas (mmcf)		Sulphur (mLton)		Undiscounted	Discounted at		
	Gross	Net	Gross	Net	Gross	Net		10%	12%	15%
Proved										
Producing	14,416	13,328	44,237	40,530	49	16	336,174	153,697	140,251	124,511
Non-Producing	<u>832</u>	<u>802</u>	<u>7,406</u>	<u>5,893</u>	<u>0</u>	<u>0</u>	<u>19,725</u>	<u>11,252</u>	<u>10,342</u>	<u>9,210</u>
Total Proved	15,248	14,130	51,642	46,423	49	16	355,899	164,949	150,593	133,721
Risked Probable Additional	<u>3,841</u>	<u>3,630</u>	<u>8,360</u>	<u>8,036</u>	<u>4</u>	<u>2</u>	<u>76,010</u>	<u>17,547</u>	<u>14,900</u>	<u>12,034</u>
Established Reserves	<u>19,089</u>	<u>17,760</u>	<u>60,003</u>	<u>54,459</u>	<u>53</u>	<u>18</u>	<u>431,909</u>	<u>182,496</u>	<u>165,493</u>	<u>145,755</u>

**Notes:**

- (1) Columns may not add due to rounding.
- (2) The following definitions have been used in the Trimble Oil and Gas Report:
  - (a) "Proved" reserves are those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of the reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.
  - (b) "Proved producing" reserves are those proved reserves that are actually on production or, if not producing, that could be recovered from existing wells or facilities and where the reasons for the current non producing status

are the choice of the owner rather than the lack of markets or some other reasons. An illustration of such a situation is where a well or zone is capable but is shut-in because its deliverability is not required to meet contract commitments.

- (c) “Proved non-producing” reserves are those proved reserves that are not currently producing either due to lack of facilities and/or markets.
- (d) “Probable” reserves are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.
- (3) The Trimble Oil and Gas Report forecasts of unrisks probable reserves and values have been reduced by 50% to reflect the degree of risk associated with the recovery of such reserves.
- (4) The Trimble Oil and Gas Report used the average yearly product prices, as provided by Sproule & Associates Limited, Petroleum Consultants as at October 1, 1999 for natural gas, oil and condensate, as outlined in the following table:

Year	WTI Cushing Oklahoma* \$U.S./bbl	Edmonton Par Price 40 API \$/bbl	Alberta Royalty Par Price ** \$/bbl	Propane \$/bbl	Butane \$/bbl	Pentane Plus \$/bbl	Ethane \$/bbl	Sulphur \$/Lton
2000	20.00	27.51	26.51	14.86	15.99	28.17	8.13	9.80
2001	20.30	27.13	26.13	14.66	15.77	27.78	7.84	12.68
2002	20.60	27.15	26.15	14.67	15.78	27.81	7.78	15.45
2003	20.91	27.56	26.56	14.89	16.02	28.23	7.89	18.30
2004	21.23	27.98	26.98	15.12	16.27	28.66	8.01	21.23
2005	21.55	28.41	27.41	15.35	16.51	29.09	8.13	21.55
2006	21.87	28.84	27.84	15.58	16.77	29.53	8.26	21.87
2007	22.20	29.28	28.28	15.82	17.02	29.98	8.38	22.20
2008	22.53	29.72	28.72	16.06	17.28	30.44	8.51	22.53
2009	22.87	30.17	29.17	16.30	17.54	30.90	8.63	22.87
2010	23.21	30.63	29.63	16.55	17.81	31.37	8.76	23.21
2011	23.56	31.09	30.09	16.80	18.08	31.84	8.89	23.56
2012	23.91	31.56	30.54	17.05	18.35	32.32	9.02	23.91

\* 40 API, 0.4% sulphur

\*\* Edmonton Par Price less \$1.00

Oil prices escalate at 1.5% after the year 2012.

Year	Alberta Gas Reference Price Cdn\$/mmbtu	Alberta Plantgate Cdn\$/mmbtu	Henry Hub US\$/mmbtu	BC Plantgate Cdn\$/mmbtu	BC Wellhead Cdn\$/mmbtu
2000	2.63	2.79	2.55	2.79	2.39
2001	2.58	2.68	2.55	2.68	2.27
2002	2.59	2.65	2.58	2.65	2.24
2003	2.66	2.69	2.61	2.69	2.27
2004	2.71	2.73	2.65	2.73	2.31
2005	2.77	2.77	2.69	2.77	2.34
2006	2.82	2.82	2.73	2.82	2.38
2007	2.86	2.86	2.77	2.86	2.41
2008	2.90	2.90	2.82	2.90	2.45
2009	2.94	2.94	2.86	2.94	2.49

2010	2.99	2.99	2.90	2.99	2.52
2011	3.03	3.03	2.94	3.03	2.56
2012	3.08	3.08	2.98	3.08	2.60

Gas prices escalate at 1.5% after the year 2012.

Operating and capital costs have been escalated at 1.5% annually.

(5) The constant cost and price evaluation was based upon general product prices as set forth below:

Crude Oil, Edmonton Par Price 40° API	\$ 27.51 per bbl
Ethane	\$ 8.13 per bbl
Propane	\$ 14.86 per bbl
Butane	\$ 15.99 per bbl
Pentanes Plus	\$ 28.17 per bbl
Natural Gas, Alberta Plant Gate	\$ 2.79 per mmbtu
Sulphur	\$ 9.80 per Lton

- (6) In the Trimble Oil & Gas Report the \$US/\$Cdn exchange rate is assumed to be \$0.70 for 2000, \$0.72 for 2001 and \$0.73 thereafter.
- (7) The Trimble Oil and Gas Report estimates total capital expenditures (net to the Trust and Freehold Resources) to achieve the estimated future net revenues from the Proved Reserves based upon escalating cost and price assumptions to be \$9,705,000 with \$3,410,000, \$659,000 and \$134,000 of such costs estimated for the calendar years 2000, 2001 and 2002, respectively. The corresponding costs to achieve the estimated future net revenues from the Proved Reserves plus 50% risked Probable Reserves are \$14,114,000 with \$3,635,000, \$1,309,000 and \$655,000, respectively.
- (8) The Trimble Oil and Gas Report estimates total capital expenditures (net to the Trust and Freehold Resources) to achieve the estimated future net revenues from the Proved Reserves based upon constant cost and price assumptions to be \$7,790,000 with \$3,410,000, \$657,000 and \$131,000 of such costs estimated for the calendar years 2000, 2001 and 2002, respectively. The corresponding costs to achieve the estimated future net revenues from the Proved plus 50% risked Probable Reserves are \$11,499,000 with \$3,635,000, \$1,301,000 and \$639,000, respectively.
- (9) The extent and character of the Trust and Freehold Resources interest evaluated in the Trimble Oil and Gas Report and all factual data supplied by the Trust and Freehold Resources to Trimble were accepted by Trimble as represented. The oil and gas reserve calculations and any predictions upon which the Trimble Oil and Gas Report is based were determined in accordance with generally accepted petroleum engineering evaluation practices.
- (10) For the Escalating Cost and Price Case, operating and capital costs have been escalated at 1.5% annually. For the Constant Cost and Price Case, operating and capital costs have not been escalated.

**Estimated Future Net Pre-Tax Cash Flows Based on Established Reserves<sup>(1)</sup>**  
**Escalating Cost and Price Case**  
**From the Trimble Oil and Gas Report**  
**(\$000's, except production)**

				Net					Net
				Revenue					Cash Flow
	Estimated	Company		After			Net	Net	Before
Year	Productio	Interest	Royalty	Royalty	Operating	ARC	Production	Capital	Income
	(boe/d)	Revenue	Burdens	Burdens	Expenses		Revenue <sup>(4)</sup>	Investment	Taxes <sup>(5)(6)</sup>
2000	5,074	38,481	1,518	36,963	3,473	394	33,884	3,635	30,248
2001	4,890	36,470	1,653	34,817	3,667	333	31,483	1,309	30,174
2002	4,326	32,425	1,341	31,084	3,497	284	27,871	655	27,216
2003	3,868	29,743	1,130	28,613	3,304	242	25,551	675	24,876
2004	3,505	27,540	951	26,589	3,123	205	23,671	755	22,916
2005	3,198	25,709	839	24,870	2,949	179	22,100	621	21,479
2006	2,942	24,130	728	23,402	2,818	150	20,734	663	20,070
2007	2,696	22,563	643	21,920	2,654	129	19,395	122	19,273
2008	2,368	20,285	579	19,706	2,485	113	17,334	82	17,252
2009	2,116	18,536	518	18,018	2,355	98	15,761	128	15,633
2010	1,918	17,183	475	16,708	2,211	87	14,584	92	14,492
2011	1,754	16,030	428	15,602	2,071	75	13,606	68	13,538
2012	1,620	15,125	388	14,737	1,951	67	12,853	60	12,793
2013	1,493	14,187	348	13,839	1,816	52	12,075	79	11,996
2014	1,384	13,409	317	13,092	1,714	42	11,420	49	11,371
Remainder		356,399	9,032	347,367	29,726	353	317,994	5,120	312,874
TOTAL <sup>(8)</sup>		<u>708,215</u>	<u>20,886</u>	<u>687,326</u>	<u>69,814</u>	<u>2,803</u>	<u>620,316</u>	<u>14,113</u>	<u>606,201</u>

Total Future Cash Flow Before Income Taxes Discounted to January 1, 2000 at:

10%:	\$ 195,750
12%:	\$ 175,381
15%:	\$ 152,561
20%:	\$ 126,489

**Notes:**

- (1) Proved Reserves plus 50% Probable Reserves.
- (2) Includes working interest revenue and royalty interest revenue.
- (3) Includes Alberta and Saskatchewan freehold mineral taxes.
- (4) Trust interest revenue less royalty burdens and operating expenses.
- (5) Undiscounted.
- (6) Cash flow before income taxes is stated prior to interest, general and administrative expenses and management fees.
- (7) Net Capital Investment includes abandonment liabilities as forecast by Trimble.
- (8) Columns may not add due to rounding.

**Estimated Future Net Pre-Tax Cash Flows Based on Established Reserves<sup>(1)</sup>**  
**Constant Cost and Price Case**  
**From the Trimble Oil and Gas Report**  
**(\$000's, except production)**

				Net					Net
				Revenue					Cash Flow
	Estimated	Company		After			Net	Net	Before
Year	Productio (boe/d)	Interest Revenue	Royalty Burdens	Royalty Burdens	Operating Expenses	ARC	Production Revenue <sup>(4)</sup>	Capital Investment	Income Taxes <sup>(5)(6)</sup>
2000	5,074	38,480	1,531	36,949	3,473	397	33,873	3,635	30,238
2001	4,895	37,381	1,764	35,617	3,656	342	32,303	1,301	31,003
2002	4,328	33,089	1,460	31,629	3,428	298	28,499	639	27,859
2003	3,868	29,613	1,209	28,404	3,185	258	25,477	648	24,828
2004	3,506	26,875	1,007	25,868	2,971	224	23,121	708	22,413
2005	3,202	24,594	880	23,714	2,784	200	21,130	587	20,543
2006	2,941	22,636	746	21,890	2,594	171	19,467	610	18,856
2007	2,697	20,809	651	20,158	2,412	151	17,897	115	17,782
2008	2,368	18,377	579	17,798	2,228	137	15,707	69	15,637
2009	2,116	16,499	512	15,987	2,077	121	14,031	112	13,919
2010	1,918	15,019	463	14,556	1,921	112	12,747	80	12,667
2011	1,754	13,785	413	13,372	1,777	101	11,696	59	11,637
2012	1,622	12,792	374	12,418	1,645	93	10,866	50	10,816
2013	1,493	11,805	333	11,472	1,509	77	10,040	66	9,975
2014	1,384	10,981	303	10,678	1,403	65	9,340	40	9,301
Remainder		184,433	5,139	179,294	19,331	730	160,693	2,781	157,913
TOTAL <sup>(8)</sup>		517,168	17,364	499,804	56,394	3,477	446,887	11,499	435,386

Total Future Cash Flow Before Income Taxes Discounted to January 1, 2000 at:

10%:	\$ 184,365
12%:	\$ 167,215
15%:	\$ 147,301
20%:	\$ 123,730

**Notes:**

- (1) Proved Reserves plus 50% Probable Reserves.
- (2) Includes working interest revenue and royalty interest revenue.
- (3) Includes Alberta and Saskatchewan freehold mineral taxes.
- (4) Trust interest revenue less royalty burdens and operating expenses.
- (5) Undiscounted.
- (6) Cash flow before income taxes is stated prior to interest, general and administrative expenses and management fees.
- (7) Net Capital Investment includes abandonment liabilities as forecast by Trimble.
- (8) Columns may not add due to rounding.

## POTASH INTERESTS AND RESERVES

### Description of Potash Interests

In addition to royalties received on Petroleum Substances, the Trust also generates royalty income from leased potash rights. Potash is used to manufacture agricultural fertilizers.

The Trust has acquired the right to the revenue derived from Canpar's lessor royalty interest in over 9,750 gross acres of leases issued to various operators of seven producing potash mines, all located within the Province of Saskatchewan. These leases are included within larger potash units, which cover the total mine areas. Canpar originally acquired a 23.52% freehold mineral title interest in those potash properties leased to third parties as of

January 1, 1979. The royalties derived from the potash leases are calculated in the same manner as royalties payable to the Province of Saskatchewan from provincially owned potash rights. Canpar subsequently entered into an agreement with its partners in 1993 with respect to the six mines producing at that time. It was agreed that Canpar would receive 100% of its partners' share of all potash royalties from leased and producing properties from an effective date of December 1, 1993, until the sum of \$3 million has been received. As of December 31, 1999, approximately \$0.20 million has yet to be received. After the \$3 million is received, title to the leased properties will revert as to 50% to the Trust and 50% to its partner. This is currently expected to occur in the first half of 2000.

The Trust has also acquired a royalty interest in a seventh mine within a new unit formed by Central Canada Potash in the Colonsay area of Saskatchewan. The Trust's unitized royalty interest is 7.52% and the mine, currently in production, is expected to be operational until at least the year 2011.

## Potash Reserves

LAS Energy has prepared the LAS Energy Potash Report evaluating, as at January 1, 1998, the potash reserves attributable to the HB Lands Royalties acquired by the Trust. The Manager has internally updated this report by subtracting 1998 and 1999 production, and adjusting the discounting to an effective date of January 1, 2000. All other assumptions inherent in the January 1, 1998 report were maintained. The LAS Energy Potash Report evaluates the potash reserves attributable to the HB Lands Royalties prior to provision for income taxes, Debt Service Charges and General and Administrative Costs. It should not be assumed that the discounted future net production revenues estimated by LAS Energy represent the fair market value of the reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized in the notes following the table.

### Potash Reserves and Net Pre-Tax Cash Flows Constant and Escalated Price and Cost Case

	Trust Interest Reserves		Present Net Worth Of Future Net Pre-Tax Cash Flows			
	Potash (mtonnes)		Undiscounted	Discounted at		
	Gross <sup>(1)</sup>	Net <sup>(1)</sup>		10%	12%	15%
Proved						
Constant Price and Cost <sup>(2)</sup>	72,844	72,844	16,941	5,158	4,515	3,815
Escalated Price and Cost <sup>(3)</sup>	72,844	72,844	25,691	6,110	5,232	4,316

#### Notes:

- (1) The following definitions have been used in the LAS Energy Potash Report:
  - (a) "Proved Reserves" are those reserves estimated as recoverable under current technology and existing economic conditions from that portion of the ore body which can be reasonably evaluated as economically recoverable using mining processes demonstrated to be economic and technically successful.
  - (b) "Net Production Revenue" is income derived from the sale of potash, less any capital and operating costs.
- (2) The constant cost evaluation was based upon a potash price of U.S. \$124.66 per tonne.
- (3) Average yearly potash prices, which were deemed appropriate as at January 1, 2000 for potash are outlined in the following table:

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Thereafter
Price/tonne												
(\$Cdn.)	124.66	128.77	130.82	133.53	136.21	138.33	141.10	143.92	146.80	149.73	152.73	+2%/year

There are no operating and capital costs associated with these reserves.

- (4) The extent and character of the Trust's interests evaluated in the LAS Energy Potash Report and all factual data supplied by the Trust to LAS Energy were accepted by LAS Energy as represented. The potash reserve calculations and any projections upon which the LAS Energy Potash Report is based were determined in accordance with generally accepted engineering evaluation practices.
- (5) The net production of potash in 1999 was 14.2 tonnes per day in both the constant and escalated price cases. The estimated undiscounted net pre-tax cash flow in 2000 is \$511,052 in both the constant and escalated price cases.

## **OTHER INFORMATION RESPECTING FREEHOLD RESOURCES**

### **Additional and Replacement Properties**

Freehold Resources may acquire Additional Properties and related tangible equipment and fund such acquisitions from Freehold Resources Royalty Income, additional issuances of Trust Units, borrowings, farmouts or with working capital of Freehold Resources. Under the terms of the Freehold Resources Royalty Agreement, annual capital expenditures (including acquisitions of Additional Properties) will not exceed 5% of the annual net cash flow from the HB Lands Royalties and the Freehold Resources Properties unless financed with borrowings or additional issuances of Trust Units. See "Other Information Respecting Freehold Resources - Capital Expenditures".

Freehold Resources may sell any of its interests in Freehold Resources Properties and release the Freehold Resources Royalty therefrom if it determines that such sale would be in the best interest of Unitholders. The Freehold Resources Royalty Agreement permits Freehold Resources to effect such sale provided that the sale is approved by a Special Resolution of the Unitholders in the event the interests in the Freehold Resources Properties being sold constitute greater than 50% of the Asset Value of all Freehold Resources Properties and provided such sale is approved by the board of directors of Freehold Resources for sales of Freehold Resources Properties for proceeds in excess of \$5,000,000. The proceeds of a disposition of an interest in the Freehold Resources Properties to the extent related to Canadian resource properties, as defined in the Tax Act, will be allocated 99% to the Trust, after retiring any borrowing which relates to the Canadian resource property component of such interest, in consideration for the release of the Freehold Resources Royalty from such Freehold Resources Properties.

In connection with the sale of any interests in the Freehold Resources Properties, Freehold Resources will determine whether the net proceeds of the sale should be distributed to Unitholders or reinvested and Freehold Resources may consider Replacement Properties for purchase.

### **Capital Expenditures**

Freehold Resources may approve future capital expenditures or farmouts on Freehold Resources Properties under the terms of the Freehold Resources Royalty Agreement. Future capital expenditures are anticipated to be of the type which are intended to maintain or improve production from the Freehold Resources Properties. Freehold Resources may finance capital expenditures from Freehold Resources Royalty Income, additional issuances of Trust Units, borrowings, farmouts or with working capital of Freehold Resources. Freehold Resources will not initiate any exploratory drilling but may participate in exploratory drilling initiated by the operator of a property where, in the opinion of Freehold Resources, to do so would be in the best interests of the Trust. Under the terms of the Freehold Resources Royalty Agreement, annual capital expenditures (including acquisitions of Additional Properties) will not exceed 5% of the annual net cash flow from the HB Lands Royalties, Additional Royalties and the Freehold Resources Properties unless financed with borrowings, additional issuances of Trust Units or Freehold Resources Royalty disposition proceeds.

### **Deferred Purchase Price Obligation**

Under the terms of the Freehold Resources Royalty Agreement, the purchase price of the Freehold Resources Royalty included the Deferred Purchase Price Obligation which recognizes that cash flows from any after-acquired property and certain capital expenditures will be subject to the Freehold Resources Royalty for the benefit of Unitholders. The Deferred Purchase Price Obligation consists of 99% of the cost of, or any amount borrowed to acquire, a “Canadian resource property”, as defined under the Tax Act, subsequently acquired by Freehold Resources and up to 99% of the cost of, or any amount borrowed to fund, certain capital expenditures incurred on the Freehold Resources Properties to the extent so designated by Freehold Resources. The Trust intends to finance the Deferred Purchase Price Obligations through additional issues of Trust Units or the application of the proceeds of disposition of HB Lands Royalties or Freehold Resources Properties.

### **Borrowing by Freehold Resources**

Pursuant to the Freehold Resources Royalty Agreement, Freehold Resources is permitted to borrow funds to finance the purchase of Additional Properties, for capital expenditures or for other financial obligations or expenditures in respect of the Freehold Resources Properties or for working capital purposes. Freehold Resources has established guidelines which provide that: (a) the amounts borrowed to finance the purchase of Additional Properties when combined with existing debt of Freehold Resources and existing debt of the Trust will not exceed 40% of the Asset Value of all of the HB Lands Royalties, the Additional Royalties and the Freehold Resources Properties at the time of borrowing; and (b) the Debt Service Charges on amounts borrowed to finance the purchase of Additional Properties or capital expenditures to maintain or improve production from the Freehold Resources Properties or other borrowings as permitted above will not exceed 10% of the estimated annual Royalty Income. Freehold Resources will be entitled to grant security or guarantee the obligations of the Trust with respect to any borrowing by the Trust. See “Trust Units - Borrowing by the Trust”.

Debt Service Charges will be deducted in computing Freehold Resources Royalty Income. The debt repayment will be scheduled to minimize, to the extent possible, any income tax payable by Freehold Resources.

Freehold Resources has entered into an agreement establishing a credit facility from a Canadian chartered bank to provide a revolving term loan facility of up to \$65,000,000 for general corporate purposes including acquisitions. The outstanding principal amount of such facility bears interest at either the bank’s Canadian dollar prime rate or bankers’ acceptance rate, plus 60 basis points at the option of Freehold Resources.

In addition, Freehold Resources may borrow from the Trust without reference to the foregoing test at a commercial rate of interest, provided that the Trust funds such lending out by the sale of Trust Units or by borrowing.

### **Environmental Obligations – Reclamation Fund**

Freehold Resources will be liable for its share of ongoing environmental obligations and for the ultimate reclamation of the Freehold Resources Properties upon abandonment. Ongoing environmental obligations are expected to be funded out of cash flow.

Freehold Resources currently estimates that the future environmental and reclamation obligations in respect of the Working Interest Properties will aggregate approximately \$4,780,000. A reclamation fund, consisting of cash invested in an interest-bearing account, has been established and is funded by quarterly cash payments. This will result in the estimated future environmental and reclamation obligations being fully funded within 15 years. This payment may be adjusted by Freehold Resources from time to time based on its assessment of its share of expected environmental and final site reclamation costs.

With respect to the HB Lands, the responsibilities for adherence to environmental regulations reside with the operators and working interest owners of the HB Lands and not with the Trust. Therefore, no reclamation fund has been established for the HB Lands.

The estimates of reserves and the present worth of future net cash flows from such reserves contained in the Trimble Oil and Gas Report are stated after providing for estimated well abandonment and site restoration costs.

### **Insurance**

Freehold Resources carries insurance policies to provide protection for its working interest in the Freehold Resources Properties at or above industry standards. Insurance policies cover property damage, general liability and, for certain properties, business interruption. The ongoing level, type and maintenance of insurance are determined by Freehold Resources based upon the availability and cost of such insurance and Freehold Resources' perception of the risk of loss.

## **TRUST UNITS**

### **The Trust Indenture**

An unlimited number of Trust Units have been created and may be issued pursuant to the Trust Indenture. The Trust Units represent equal undivided beneficial interests in the Trust. All Trust Units share equally in all distributions from the Trust and all Trust Units carry equal voting rights at meetings of Unitholders. No Unitholder will be liable to pay any further calls or assessments in respect of the Trust Units.

The Trust Indenture, among other things, provides for the calling of meetings of Unitholders, the conduct of business thereof, notice provisions, the appointment and removal of the Trustee and the form of Trust Unit certificates. The Trust Indenture may be amended from time to time. Substantive amendments to the Trust Indenture, including early termination of the Trust and the sale or transfer of the property of the Trust as an entirety or substantially as an entirety requires approval by Special Resolution of the Unitholders. See "Meetings and Voting".

The following is a summary of certain provisions of the Trust Indenture. For a complete description of such indenture, reference should be made to the Trust Indenture, copies of which may be viewed at the offices of, or obtained from, the Trustee.

### **Trustee**

Montreal Trust Company of Canada (the "Trustee") is the trustee of the Trust and also acts as the transfer agent for the Trust Units. The Trustee is responsible for, among other things: (a) accepting subscriptions for Trust Units and issuing Trust Units pursuant thereto; (b) maintaining books and records of the Trust and providing timely reports to holders of Trust Units; and (c) paying cash distributions to Unitholders. The Trust Indenture provides that the Trustee shall exercise its powers and carry out its functions thereunder as Trustee honestly, in good faith and in the best interests of the Trust and the Unitholders and, in connection therewith, shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

The Trustee may resign upon 60 days' notice to Freehold Resources and the Manager. The Trustee may also be removed by Special Resolution of the Unitholders. Such resignation or removal becomes effective upon the acceptance or appointment of a successor trustee.

The Trust has retained the Manager to administer the Trust on behalf of the Trustee. The Manager, on behalf of the Trustee, keeps such books and records as are necessary for the proper recording of the business transactions of the Trust.

The Trust Indenture provides that the Trustee shall be under no liability for any action or failure to act unless such liabilities arise out of the Trustee's gross negligence, wilful default or fraud. The Trustee, where it has met its standard of care, shall be indemnified out of the assets of the Trust in consequence of its performance of its duties but shall have no additional recourse against Unitholders. In addition, the Trust Indenture contains other customary provisions limiting the liability of the Trustee.

### **Cash Distributions of Royalty Income**

The amount of cash distributed annually per Trust Unit is equal to a pro rata share of the Distributable Income for the year. Cash distributions are made on a monthly basis on the 15th day of the month following each Record Date to Unitholders of record on the Record Date.

The actual amount of Distributable Income will depend on, among other things, the quantity of oil, gas, natural gas liquids and potash produced, prices received, General and Administrative Costs, direct expenses of the Trust, Debt Service Charges, Crown royalties and other Crown charges, net contributions to Freehold Resources' reclamation fund, and interest income.

It is anticipated that the Trust will have sufficient tax deductions to offset Royalty Lands Royalty Income and Freehold Resources Royalty Income until its 2001 taxation year based upon the production and cash flow estimated in the Trimble Oil and Gas Report and the LAS Energy Potash Report. Consequently, amounts paid or payable to a Unitholder prior to that time will not constitute taxable income.

### **Income Tax Considerations**

Future acquisitions of Canadian resource properties would result in royalty payments to the Trust and, in turn, distributions to Unitholders that would, under most circumstances, be on the same tax deferred basis as are current distributions. Future acquisitions of corporations, facilities or other forms of oil and gas assets may result in dividend, interest or other forms of payments to the Trust (as opposed to royalty payments) and, in turn, distributions to Unitholders that may be wholly or in part taxable. In approving any future acquisition, the board of directors of Freehold Resources would be required to consider the impact that such acquisition would have on anticipated after-tax distributions to Unitholders.

### **Right of Redemption**

Trust Units are redeemable at any time on demand by the holders thereof upon delivery to the Trust of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by the Trust, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Trust Unit ("Market Redemption Price") equal to the lesser of: (i) 90% of the market price of the Trust Units on The Toronto Stock Exchange or if not trading on The Toronto Stock Exchange at such time the principal market on which the Trust Units are quoted for trading at such time (the "Principal Market") during the 10 trading day period commencing immediately after the date on which the Trust Units are surrendered for redemption; and (ii) 90% of the "closing market price" on the Principal Market on which the Trust Units are quoted for trading on the date that the Trust Units are surrendered for redemption.

The aggregate cash Market Redemption Price payable by the Trust in respect of any Trust Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month; provided that the entitlement of Unitholders to receive cash upon the redemption of their Trust Units is subject to the limitations that: (i) the total amount payable by the Trust in respect of such Trust Units and all other Trust Units tendered for retraction in the same calendar month shall not exceed \$100,000 provided that such limitation may be waived at the discretion of the board of directors of Freehold Resources in respect of any calendar month; (ii) at the time such Trust Units are tendered for retraction the outstanding Trust Units of the Trust shall be listed for trading on a stock exchange or traded or quoted on any other market which the board of directors of Freehold Resources consider, in its sole discretion, provided representative fair market value prices for the Trust Units and on which market price can be calculated; or (iii) the normal trading of Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed (or, if not listed on a stock exchange, on any market on which the Trust Units are quoted for trading) on the date that the Trust Units are tendered for retraction or for more than five trading days during the ten day trading period commencing immediately after the date on which the Trust Units are tendered for retraction.

If a Unitholder is not entitled to receive cash upon the redemption of Trust Units as a result of the foregoing limitations, then the Market Redemption Price for such Trust Units shall be paid on the last day of the following month by the Trust distributing Freehold Resources Notes having an aggregate principal amount equal to the aggregate Market Redemption Price of the Trust Units tendered for redemption but not redeemed as provided above.

If at the time Trust Units are tendered for redemption by a Unitholder the outstanding Trust Units are not listed for trading on The Toronto Stock Exchange or Montreal Exchange and are not traded or quoted on any other stock exchange or market which Freehold Resources considers in its sole discretion, provides representative fair market values for the Trust Units or trading of the outstanding Trust Units is suspended or halted on the date such Trust Units tendered for redemption or for more than five trading days during the 10 trading days commencing immediately after the date such Trust Units were tendered for redemption then such Unitholder shall, instead of the Market Redemption Price, be entitled to receive a price per Trust Unit (the "Appraised Redemption Price") equal to 90% of the fair market value thereof as determined by Freehold Resources as at the date upon which such Trust Units were tendered for redemption. The aggregate Appraised Redemption Price payable by the Trust in respect of Trust Units tendered for redemption in any calendar month shall be paid on the last day of the third following month by, at the option of the Freehold Resources: (i) a cash payment, or (ii) a distribution of Freehold Resources Notes.

The Freehold Resources Notes, if and when needed, are proposed to be created and issued by Freehold Resources to the Trust pursuant to a note indenture and are to be unsecured and bear interest from the date of issue at the lesser of: (a) the interest paid on two year Government of Canada bonds minus 2%; or (b) 6% per annum. A new series of Freehold Resources Notes will be created and issued for each monthly redemption of Trust Units, if any. The Freehold Resources Notes are due and payable on maturity on the 15<sup>th</sup> anniversary of the date of issuance.

The holder of the Freehold Resources Notes of a particular series (equal in principal amount to the Market Redemption Price or Appraised Redemption price, as the case may be, of one Trust Unit for a particular series) will be paid interest and principal, if any, monthly, in arrears on the 20<sup>th</sup> day of the next following month (and interest will only be deemed to accrue and principal to be payable only to the extent of the amount calculated hereunder) in an amount calculated in accordance with the following formula:

$$\frac{\text{RUU}}{\text{All RUU} + \text{All OS}} \times \text{Distributable Income}$$

Where:

RUU means the number of the redeeming Unitholder's Units tendered for redemption.

All RUU	means the aggregate of the number of the redeeming Unitholders' Units tendered for redemption.
All OS	means all of the issued and outstanding Units.
Distributable Income	means the amounts held by the Trust which are to be actually distributed to Unitholders for the applicable month.

All amounts paid will be applied firstly to interest and then to principal. Any interest not paid when due will not bear interest but will be carried forward to the next interest payment date.

The Freehold Resources Notes may be prepaid at any time without notice, bonus or penalty at the discretion of the board of directors of Freehold Resources and will be prepaid to the extent the sale of resource properties increases Distributable Income. The Freehold Resources Notes will be paid in full in cash or in specie prior to any distributions to Unitholders in the event of the dissolution or winding-up of the Trust.

The Freehold Resources Notes will be in default and become immediately due and payable on the occurrence of the following events of default: (i) default in payments of principal or interest when due for a period of three months, (ii) default by Freehold Resources on indebtedness exceeding \$10,000,000, (iii) certain events of insolvency, bankruptcy, winding-up or receivership, (iv) taking of possession of all or substantially all of the property of Freehold Resources by an encumbrancer, or (v) breach of any material term of the note indenture for a period of 30 days after notice of breach.

The Freehold Resources Notes will be unsecured debt obligations of the Trust and will be subordinate to any "senior indebtedness" which includes all indebtedness for borrowed money (or for the purchase of property) on any default in payment of any such senior indebtedness and to all trade debt of the Trust or Freehold Resources or any subsidiary of either of them or any creditor proceedings such as bankruptcy, liquidation or insolvency.

It is anticipated that this retraction right will not be the primary mechanism for holders of Trust Units to dispose of their Trust Units. Freehold Resources Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in the Freehold Resources Notes. Freehold Resources Notes may be subject to resale restrictions under applicable securities laws. Freehold Resources Notes so distributed may be qualified investments for trusts governed by registered retirement savings plans, registered retirement income trusts and deferred profit sharing plans.

### **Future Offerings**

Under the Trust Indenture, the Trust may offer additional Trust Units or rights to acquire additional Trust Units at such times and on such terms as the board of directors of Freehold Resources may determine. Pursuant to the Deferred Purchase Price Obligation, the Freehold Resources Royalty will attach to the interests of Freehold Resources in any Additional Properties it may acquire from time to time. Accordingly, the proceeds from any offerings of Trust Units will be used to finance the acquisition of Additional Royalties by the Trust or Additional Properties should such interests be available on terms and conditions acceptable to Freehold Resources on behalf of Unitholders.

## **Borrowing by the Trust**

Pursuant to the Trust Indenture, the Trust will be permitted to borrow funds to finance the purchase of Additional Royalties, for capital expenditures or for other financial obligations or expenditures in respect of the HB Lands Royalties and Additional Royalties or for working capital purposes and to grant security on the HB Lands Royalties and Additional Royalties to secure the loan of such funds. The Trust has established guidelines which provide that: (a) the amounts borrowed to finance the purchase of Additional Royalties when combined with existing debt of the Trust and existing debt of Freehold Resources will not exceed 40% of the Asset Value of all of the HB Lands Royalties, the Additional Royalties and the Freehold Resource Properties at the time of borrowing; and (b) the Debt Service Charges on amounts borrowed to finance the purchase of Additional Royalties or capital expenditures to maintain or improve production from the HB Lands Royalties or other borrowing as permitted above will not exceed 10% of the estimated annual Royalty Income.

Debt Service Charges incurred by the Trust will be deducted in computing the Distributable Income. The debt repayment will be scheduled to minimize, to the extent possible, any income tax payable by the Trust.

## **Meetings and Voting**

Annual meetings of the Unitholders will be held annually. Special meetings of Unitholders may be called at any time by the Trustee and shall be called by the Trustee upon the written request of Unitholders holding in aggregate not less than 20% of the Trust Units. Notice of all meetings of Unitholders shall be given to Unitholders at least 21 days prior to the meeting.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and proxyholder need not be a holder of Trust Units. At least two persons present in person or represented by proxy and representing in the aggregate not less than 10% of the votes attaching to all outstanding Trust Units constitute a quorum for the transaction of business at all such meetings.

Unitholders are entitled to one vote per Trust Unit at all meetings of Unitholders called pursuant to the Trust Indenture. A Special Resolution of Unitholders is required to, among other things, make certain amendments to the Trust Indenture, remove the Trustee or terminate the Trust.

## **Management of the Trust**

Pursuant to the provisions of the Management Agreement, the Manager provides certain administrative and support services to the Trust, including those necessary: (i) to ensure compliance by the Trust with continuous disclosure obligations under applicable securities legislation; (ii) to provide investor relations services; (iii) to provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Trust Indenture; (iv) to call, hold and distribute materials including notices of meetings and information circulars in respect of all necessary meetings of Unitholders; (v) to determine the amounts payable from time to time to Unitholders and to arrange for distributions to Unitholders of Distributable Income; (vi) to determine the timing and terms of future offerings of Trust Units, if any; (vii) to determine the terms and conditions upon which the Trust may acquire Additional Royalties; and (viii) to determine the terms and conditions upon which the Trust may from time to time borrow money. The board of directors of Freehold Resources is required to approve all matters referred to in items (iv), (v), (vi), (vii) and (viii) above and, in addition will be required to approve any amendment to the Management Agreement, the HB Lands Royalty Agreement or the Freehold Resources Royalty Agreement.

### **Limitation on Non-Resident Ownership**

In order for the Trust to maintain its status as a mutual fund trust under the Tax Act, the Trust must not be established or maintained primarily for the benefit of non-residents of Canada (“non-residents”) within the meaning of the Tax Act. Accordingly, the Trust Indenture provides that at no time may non-residents be the beneficial owners of a majority of the Trust Units. If the Trustee becomes aware that the beneficial owners of 49% of the Trust Units then outstanding are or may be non-residents or that such a situation is imminent, the Trustee may make a public announcement thereof and shall not accept a subscription for Trust Units from or issue or register a transfer of Trust Units to a person unless the person provides a declaration that the person is not a non-resident. Notwithstanding the foregoing, if the Trustee determines that a majority of the Trust Units are held by non-residents, the Trustee may send a notice to non-resident holders of Trust Units, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustee may consider equitable and practicable, requiring them to sell their Trust Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Trust Units or provided the Trustee with satisfactory evidence that they are not non-residents within such period, the Trustee may on behalf of such Unitholders sell such Trust Units and, in the interim, shall suspend the voting and payment of Distributable Income and other rights attached to such Trust Units and shall make any distribution in respect of such Trust Units by depositing such amounts in a separate bank account. Upon such sale, the affected holders shall cease to be holders of Trust Units and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates representing such Trust Units.

### **Termination of the Trust**

The Unitholders may vote to terminate the Trust at any meeting of the Unitholders, subject to the following: (a) a vote may only be held if requested in writing by the holders of not less than 20% of the Trust Units or the Trust Units have become ineligible for investment by RRSPs, RESPs, RRIFs or DPSPs; (b) a quorum of 50% of the issued and outstanding Trust Units is present in person or by proxy; and (c) the termination must be approved by Special Resolution of the Unitholders.

Unless the Trust is terminated or extended by vote of the Unitholders earlier, the Trustee shall commence to wind-up the affairs of the Trust on December 31, 2096. In the event that the Trust is wound-up, the Trustee will liquidate all the assets of the Trust, pay, retire, discharge or make provision for some or all obligations of the Trust and then distribute the remaining proceeds of sale to the Unitholders.

### **Reporting to Unitholders**

The financial statements of the Trust will be audited annually by an independent recognized firm of chartered accountants. The auditors of the Trust are KPMG LLP, Chartered Accountants. The audited financial statements of the Trust, together with the report of such chartered accountants, will be mailed by the Trustee to Unitholders and the unaudited interim financial statements of the Trust will be mailed to Unitholders within the periods prescribed by securities legislation. The year end of the Trust is December 31. The Trust will be subject to the continuous disclosure obligations under all applicable securities legislation.

Unitholders are entitled to inspect, during normal business hours, at the offices of the Trustee, and, upon payment of reasonable reproduction costs, to receive photocopies of the HB Lands Royalty Agreement (other than schedules), the Resources Royalty Agreement (other than schedules), the Trust Indenture, the Management Agreement and a listing of the registered holders of Trust Units.

### **Direct Deposit Plan**

A Direct Deposit Plan (the “Deposit Plan”) has been established for the Trust to provide holders who have Canadian bank accounts with a method of receiving cash distributions as a direct deposit into their bank account.

The main features of the Deposit Plan are as follows:

- a. distributions will be deposited directly into the Unitholder’s Canadian bank account;
- b. optional confirmation of deposit feature will be offered; and
- c. all administrative costs of the Deposit Plan are borne by the Trust.

### **Cash Distribution Reinvestment Plan**

A Trust Unit Cash Distribution reinvestment plan (the “Plan”) has been established for the Trust to provide Unitholders who are residents of Canada with a method of reinvesting cash distributions into new Trust Units.

The main features of the Plan are as follows:

- (i) any Canadian resident holder of record holding a minimum of 1,000 Trust Units may join or opt out of the Plan at any time;
- (ii) Trust Units are purchased monthly with reinvested cash distributions on the open market or from the Trust at prevailing market prices, at the option of the Trust;
- (iii) Plan participants receive quarterly statements detailing the number of additional Trust Units acquired through reinvestment to assist their record-keeping; and
- (iv) all administrative costs of the Plan are borne by the Trust.

Once a Unitholder has enrolled in the Plan, his participation in the Plan continues automatically until terminated by the Unitholder or until the Plan is terminated by the Trust in the Trust’s sole discretion.

If the Trust Units are issued directly by the Trust, participating Unitholders will pay no service or brokerage charges in respect of additional Trust Units acquired under the Plan and proceeds from the issuance of those additional Trust Units will be added to working capital of the Trust.

### **US Currency Payment Plan**

The US Currency Payment plan allows holders of Trust Units of the Trust who maintain US currency accounts to obtain convenient payments in US currency.

The main features of the Plan are as follows:

- (i) Unitholders may elect to obtain their cash distributions from Trust Units of Freehold Royalty Trust (the “Trust”) in US currency.
- (ii) US currency distributions will be made by the Trustee of the Trust, Montreal Trust Company of Canada (the “Trustee”).

- (iii) Participants do not pay any costs associated with the Plan.
- (iv) Due to the structure of the Plan, participants shall not be permitted to coincidentally participate in the Distribution Reinvestment Plan (the “DRIP”).

## **CORPORATE GOVERNANCE**

### **General**

In general, Freehold Resources has been delegated the significant management decisions of the Trust. The Unitholders are entitled to elect a majority of the board of directors of Freehold Resources pursuant to the terms of the Unanimous Shareholder Agreement. Subject to the ultimate authority of the board of directors of Freehold Resources, Freehold Resources and the Trust are managed by the Manager.

### **Unanimous Shareholders Agreement**

Pursuant to the Unanimous Shareholder Agreement dated November 25, 1996 among the Manager, Freehold Resources, the trustee of the Share Trust and the Trustee as trustee for and on behalf of the Trust, the Unitholders will be entitled to attend all meetings of shareholders of Freehold Resources and except as set forth below, to direct the manner in which the Share Trust will vote its shares in Freehold Resources at all such meetings. Prior to the Share Trust voting its shares in Freehold Resources each Unitholder shall be entitled to vote in respect of the matter on the basis of one vote per Trust Unit held, and the Share Trust shall be required to vote its shares in Freehold Resources in accordance with the result of the vote of the Unitholders. Unitholders shall be entitled to direct the Share Trust as to how to vote in respect of all matters placed before the shareholders of Freehold Resources including, in respect of matters relating to the election of the directors of Freehold Resources (other than the directors of Freehold Resources to be elected by the Manager pursuant to the terms of the Unanimous Shareholder Agreement, which is currently two), approving its financial statements and appointing auditors of Freehold Resources. In addition, Unitholders will be entitled to direct the Share Trust as to how to vote its shares in Freehold Resources on any proposed amendment to the Unanimous Shareholder Agreement, where such amendment is required to be approved by Special Resolution. The Share Trust will not be entitled, without the direction of Unitholders, to exercise its rights as shareholder of Freehold Resources except as set forth above.

The Unanimous Shareholder Agreement provides that the board of directors of Freehold Resources shall consist of a minimum of five and a maximum of nine directors, and that the Unitholders will be entitled to elect a majority of the board of directors of Freehold Resources and the Manager will be entitled to elect the balance of the directors. The number of directors is currently set at seven.

The Unanimous Shareholder Agreement also provides that Freehold Resources will be prohibited from making payment of dividends on its shares.

## Decision Making

Although the Manager provides certain advisory and management services to the Trust and Freehold Resources pursuant to the Management Agreement, the board of directors of Freehold Resources supervises the management of the business and affairs of the Trust and Freehold Resources. In particular, significant operational decisions and all decisions relating to: (a) issuances of additional Trust Units; (b) the acquisition and disposition of properties of the Trust or Freehold Resources for a purchase price or proceeds in excess of \$5,000,000; (c) capital expenditures outside of approved budgets; (d) establishment of credit facilities; and (e) the payment of Distributable Income, will be made by the board of directors of Freehold Resources. Any amendment to the Management Agreement or the Freehold Resources Royalty Agreement requires the approval of the board of directors of Freehold Resources on behalf of the Trust. The board of directors of Freehold Resources has held regularly scheduled meetings to review the business and affairs of Freehold Resources and make any necessary decisions relating thereto.

## Board of Directors of Freehold Resources

Freehold Resources has a board of directors consisting of seven individuals, two of whom have been elected by the Manager and five of whom are independent directors. Four of the five independent directors have been elected by the Unitholders. The Chairman of the board of directors is one of the independent directors.

The name, municipality of resident, position held and principal occupation of each director and officer of Freehold Resources are set out below:

<b>Name and Municipality of Residence</b>	<b>Position with Freehold Resources</b>	<b>Principal Occupation</b>
William W. Siebens <sup>(2)(4)</sup> Calgary, Alberta	Chairman and Director	President and Chief Executive Officer, Candor Investment Ltd. (private energy and investment corporation)
D. Nolan Blades <sup>(1)(2)(4)</sup> Calgary, Alberta	Director	President and Chief Executive Officer, Pursuit Resources Inc. (oil and gas exploration and development company)
Harry S. Campbell, Q.C. <sup>(2)</sup> Calgary, Alberta	Director	Partner, Burnet, Duckworth & Palmer (barristers and solicitors)
Peter T. Harrison <sup>(1)(2)</sup> Brossard, Québec	Director	Senior Vice-President, Canadian Equities, Montrusco Bolton Inc. (investment counsel)
Dr. P. Michael Maher <sup>(1)(2)(4)</sup> Calgary, Alberta	Director	Professor, Faculty of Management, University of Calgary
Tullio Cedraschi <sup>(3)</sup> Montreal, Québec	Director	President and C.E.O., CN Investment Division
David J. Sandmeyer <sup>(3)</sup> Calgary, Alberta	Director, President and Chief Executive Officer	President of Rife

J. Frank George Calgary, Alberta	Vice-President, Exploitation	Vice-President, Exploration of Rife
Joseph N. Holowisky Calgary, Alberta	Vice-President, Finance and Administration, and Secretary	Vice-President, Finance and Administration of Rife
William O. Ingram Calgary, Alberta	Vice-President, Production	Vice-President, Production of Rife
Michael J. Okrusko Calgary, Alberta	Vice-President, Land	Vice-President, Land of Rife

**Notes:**

- (1) Member of Audit Committee.
- (2) Independent directors of Freehold Resources who were elected by the Unitholders at the last annual and special meeting of the Trust on May 4, 1999.
- (3) Nominees of the Manager.
- (4) Corporate Governance Committee.

As at March 3, 2000, the directors and senior officers of Freehold Resources, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 72,125 Trust Units or approximately [three-tenths of one percent (0.3%)] of the issued and outstanding Trust Units.

**THE MANAGER****Management Agreement**

Freehold Resources and the Trustee, as trustee for and on behalf of the Trust, have entered into the Management Agreement with the Manager, pursuant to which Freehold Resources and the Trust have engaged the Manager for an initial term of five years from November 25, 1996 to:

- a. manage the Trust, subject to the supervision of Freehold Resources;
- b. administer all matters relating to the HB Lands Royalties, Additional Royalties, Freehold Resources Royalty and Trust Units, including: (i) determining the total amount owing to the Trust and Freehold Resources from third parties and conducting joint venture audits as required; (ii) determining the total amounts owing to Unitholders and arranging for cash distributions of Distributable Income, subject to the supervision of Freehold Resources; (iii) providing Unitholders with periodic reports on the HB Lands Royalties, Additional Royalties, Freehold Resources Royalty and the Freehold Resources Properties; and (iv) providing Unitholders with financial reports and tax information relating to the HB Lands Royalties, Additional Royalties, Freehold Resources Properties and the Freehold Resources Royalty;
- c. provide management services for the economic and efficient exploitation of oil and natural gas properties;
- d. operate oil and natural gas properties which Freehold Resources is entitled to operate and monitor the activities of third party operators;

- e. recommend, carry out and monitor property acquisitions and dispositions and exploitation and development programs for the Trust and Freehold Resources;
- f. negotiate on behalf of Freehold Resources all exploitation and development agreements, operating agreements, working agreements, farmin and farmout agreements, leases and other documents relating to the exploitation of the oil and natural gas properties as may be advisable;
- g. recommend and, subject to the supervision of Freehold Resources, negotiate banking arrangements for the Trust and Freehold Resources; and
- h. provide office space, office furnishings and equipment and personnel necessary for the proper administration of the assets of the Trust and Freehold Resources.

The Management Agreement will be renewed for successive three year terms following the end of its initial five year term unless the termination of the Management Agreement at the end of a term has been approved by a Special Resolution of Unitholders and the Manager is given 12 months written notice of termination or unless the Trustee is given 12 months written notice of termination by the Manager prior to the end of a term.

Proceeds relating to subscription offerings, Royalty Income and any cash flow and other revenues generated from or associated with any interest of the Trust in the HB Lands Royalties, the Additional Royalties or the Freehold Resources Royalty, or of Freehold Resources in the Freehold Resources Properties may not be commingled with the funds of any other entity which is managed by the Manager.

The Manager is paid Management Fees for providing all of the management services. The Manager will be indemnified by Freehold Resources in respect of certain damages which it may suffer in discharging its obligations under the Management Agreement provided that such damages do not arise from the fraud, wilful default, gross negligence or bad faith of the Manager.

The board of directors of Freehold Resources and the Trustee will review on an ongoing basis both the nature and extent of the services required of the Manager and the costs of providing the same. All amendments to the Management Agreement must be approved by a majority of the independent members of the board of directors of Freehold Resources and the Trustee, upon the recommendation of Freehold Resources and the Manager.

### **Compensation**

The Manager will be compensated as follows for providing services to the Trust and Freehold Resources.

### ***Management Fees***

Pursuant to the Management Agreement, the Manager receives a quarterly Management Fee in order to align the economic interests of the Manager with the interests of the Unitholders. The Management Fee is paid in Trust Units based on the number of issued and outstanding Trust Units at the end of each quarter. The quarterly Management Fee was initially 20,000 Trust Units. The Management Fee is adjusted based on the total issued and outstanding Trust Units so that the quarterly Management Fee is in the same proportion as 20,000 was to the outstanding Trust Units on November 25, 1996 excluding Trust Units issued as a Management Fee. To the extent that the Management Fee is borne by Freehold Resources, it will purchase Trust Units from the Trust for delivery to the Manager. Sales of Trust Units are subject to applicable laws and regulations.

### ***General and Administrative Costs***

The Manager is also reimbursed for General and Administrative Costs. General and Administrative Costs are deducted in computing Freehold Resources Royalty Income to the extent not paid from the residual income of Freehold Resources. General and Administrative Costs are generally charged to Freehold Resources and the Trust by the Manager based on time spent and direct costs incurred in fulfilling the obligations of the Manager to Freehold Resources and the Trust pursuant to the Management Agreement. The Manager was reimbursed \$1,452,000 for General and Administrative Costs for the one year period ended, December 31, 1999.

### ***Acquisition and Disposition Fees***

The Manager is paid an acquisition fee equal to 1.5% of the purchase price of any Additional Royalties purchased by the Trust or any Additional Properties acquired by Freehold Resources. In the case of property exchanges or swaps, the Manager will receive the 1.5% acquisition fee up to the purchase price of the properties acquired. No fees will be payable with respect to the proceeds of disposition of any HB Lands Royalties, Additional Royalties or Freehold Resources Properties. The Manager did not receive any acquisition fees for the acquisition of the HB Lands Royalties or the Working Interest Properties. The Manager has received fees of \$405,000 in connection with the acquisitions of Additional Properties during 1997. As there were no acquisitions in 1999, acquisition fees were nil.

### **Directors and Officers of the Manager**

The name, municipality of residence, position held and principal occupation of each director and officer of the Manager are set out below:

<b>Name and Municipality of Residence</b>	<b>Position with the Manager</b>	<b>Principal Occupation</b>
David J. Sandmeyer Calgary, Alberta	President and Director	President of Rife
J. Frank George Calgary, Alberta	Vice-President Exploitation	Vice-President, Exploration of Rife
Joseph N. Holowisky Calgary, Alberta	Vice-President, Finance and Administration, Secretary and Director	Vice-President, Finance and Administration of Rife
William O. Ingram Calgary, Alberta	Vice-President, Production	Vice-President, Production of Rife
Michael J. Okrusko Calgary, Alberta	Vice-President, Land	Vice-President, Land of Rife

As at March 3, 2000 the directors and senior officers of the Manager, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 11,325 Trust Units. The Manager owns 248,000 Trust Units directly or approximately nine-tenths of one percent (0.9%) of the issued and outstanding Trust Units and the indirect owner of

the Manager, CN Pension Trust Fund, owns, directly or indirectly, excluding the Trust Units owned by the Manager, 7,425,000 Trust Units or approximately 27.86% of the issued and outstanding Trust Units.

### **Business of the Manager**

The Manager was established to provide comprehensive oil and gas company management and operational services to the Trust and Freehold Resources. The Manager is a wholly-owned subsidiary of Rife. Pursuant to an agreement between Rife and the Manager dated November 25, 1996, Rife provides the Manager, on a contract basis, with all necessary personnel, equipment and facilities required to provide management and operational services to the Trust and Freehold Resources on a cost recovery basis.

### **CONFLICTS OF INTEREST**

There may be situations in which the interests of the Manager will conflict with those of Unitholders. As part of the ordinary course of business of the Manager, the Manager may continue to acquire oil and natural gas properties on its own behalf and on behalf of persons other than the Unitholders. The Manager may manage and administer such additional properties, as well as enter into other types of energy-related management, advisory and investment activities. Thus neither the Manager, nor its management, will carry on their full-time activities on behalf of Unitholders and, when acting on its own behalf or on behalf of others, may at times act in contradiction to or competition with the interests of Unitholders.

In resolving such conflicts, decisions will be made by the Manager on a basis consistent with the objectives and financial resources of each group of interested parties, the time limitations on investment of such financial resources, and on the basis of operating efficiencies having regard to the then current holdings of properties of each group of interested parties all consistent with the duties of the Manager to each such group of persons. The Management Agreement contains provisions which require the Manager to make disclosure to the board of directors of Freehold Resources of the fact and substance of any particular conflict of interest and to use all reasonable efforts to resolve such conflicts of interest in a manner which will treat the Trust or Freehold Resources, as the case may be, and the other interested party fairly taking into account all of the circumstances of the Trust or Freehold Resources, as the case may be, and such interested party and to act honestly and in good faith in resolving such matters.

Although the Manager provides advisory and management services to Freehold Resources, the board of directors of Freehold Resources supervises the management of the business and affairs of Freehold Resources. The board makes significant operational decisions and all decisions relating to: (i) the issuance of additional Trust Units; (ii) the acquisition and disposition of properties for a purchase price or proceeds in excess of \$5,000,000; (iii) the approval of capital expenditure budgets; (iv) the establishment of credit facilities; and (v) the determination of the amount of Distributable Income.

Properties will not be acquired from officers or directors of the Manager or persons not at arm's length with such persons at prices which are greater than fair market value, nor will properties be sold to officers or directors of the Manager or persons not at arm's length with such persons at prices which are less than fair market value, in each case as established by an opinion of an independent financial advisor and approved by the independent members of the board of directors of Freehold Resources. There may be circumstances where certain transactions may also require the preparation of a formal valuation and the affirmative vote of Unitholders in accordance with the requirements of Ontario Securities Commission Policy No. 9.1 and Commission des valeurs mobilières du Québec Policy Q-27.

Circumstances may arise where members of the board of directors of Freehold Resources serve as directors or officers of corporations which are in competition to the interests of Freehold Resources and the Trust. No assurances

can be given that opportunities identified by such board members will be provided to Freehold Resources and the Trust.

## SELECTED FINANCIAL INFORMATION

### Financial Summary (\$000's, except Trust Unit and per Trust Unit numbers)

#### Summary of Annual Financial Information

	Year Ended December 31 (Audited)	
	<u>1999</u>	<u>1998</u>
<b><u>Earnings Information</u></b>		
Total Revenue	35,270	23,723
Expenses	<u>26,487</u>	<u>32,913</u>
Net Income	8,783	(9,190)
Per Unit	0.33	(0.35)
Basic	0.33	(0.35)
Diluted	0.32	(0.35)
<b><u>Distributable Income Information</u></b>		
Distributable Income	20,757	17,186
Distributable Income per Unit	0.78	0.65
Basic	0.78	0.65
Diluted	0.75	0.62
<b><u>Balance Sheet Information</u></b>		
Total Assets	232,312	246,034
Long Term Liabilities	39,288	39,288
Trust Units Outstanding	26,648,000	26,568,000

#### Summary of 1999 Quarterly Financial Information

	Three Months Ended (Unaudited)			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
<b><u>Earnings Information</u></b>				
Total Revenue	6,244	7,513	10,029	11,484
Expenses	<u>6,716</u>	<u>6,545</u>	<u>6,775</u>	<u>6,451</u>
Net Income	(473)	968	3,254	5,033
Per Unit	(0.02)	0.04	0.12	0.19
Basic	(0.02)	0.04	0.12	0.19
Diluted	(0.02)	0.03	0.12	0.18
<b><u>Distributable Income Information</u></b>				
Distributable Income	3,455	3,723	5,323	8,256
Distributable Income per Unit	0.13	0.14	0.20	0.31
Basic	0.13	0.14	0.20	0.31
Diluted	0.12	0.13	0.19	0.30
<b><u>Balance Sheet Information</u></b>				
Total Assets	241,496	237,481	235,067	232,312
Long Term Liabilities	39,288	39,288	39,288	39,288
Trust Units Outstanding	26,588,000	26,608,000	26,628,000	26,648,000

## DISTRIBUTIONS TO UNITHOLDERS

The following per Trust Unit distributions have been made to date:

Historical Distributions	Record Date	Payment Date	Per Trust Unit
<b>Quarterly</b>			
December 31, 1996 (37 day period)	Jan. 31, 1997	Feb. 28, 1997	\$0.1300
March 31, 1997	Apr. 30, 1997	May 15, 1997	\$0.3200
June 30, 1997	July 31, 1997	Aug. 15, 1997	\$0.2800
September 30, 1997	Oct. 31, 1997	Nov. 15, 1997	\$0.2500
December 31, 1997	Jan. 31, 1998	Feb. 15, 1998	\$0.2500
March 31, 1998	Apr. 30, 1998	May 15, 1998	\$0.1700
<b>Monthly</b>			
April, 1998	Apr. 30, 1998	May 15, 1998	\$0.0575
May, 1998	May 31, 1998	June 15, 1998	\$0.0575
June, 1998	June 30, 1998	July 15, 1998	\$0.0575
July, 1998	July 31, 1998	Aug. 15, 1998	\$0.0575
August, 1998	Aug. 31, 1998	Sept. 15, 1998	\$0.0500
September, 1998	Sept. 30, 1998	Oct. 15, 1998	\$0.0500
October, 1998	Oct. 31, 1998	Nov. 15, 1998	\$0.0500
November, 1998	Nov. 30, 1998	Dec. 15, 1998	\$0.0500
December, 1998	Dec. 31, 1998	Jan. 15, 1999	\$0.0500
January, 1999	Jan. 31, 1999	Feb. 15, 1999	\$0.0500
February, 1999	Feb. 28, 1999	Mar. 15, 1999	\$0.0400
March, 1999	Mar. 31, 1999	Apr. 15, 1999	\$0.0400
April, 1999	Apr. 30, 1999	May 15, 1999	\$0.0400
May, 1999	May 31, 1999	June 15, 1999	\$0.0500
June, 1999	June 30, 1999	July 15, 1999	\$0.0500
July, 1999	July 31, 1999	Aug. 15, 1999	\$0.0600
August, 1999	Aug. 31, 1999	Sept. 15, 1999	\$0.0700
September, 1999	Sept. 30, 1999	Oct. 15, 1999	\$0.0700
October, 1999	Oct. 31, 1999	Nov. 15, 1999	\$0.0700
November, 1999	Nov. 30, 1999	Dec. 15, 1999	\$0.0700
<b>Extra Distribution</b>	<b>Nov. 30, 1999</b>	<b>Dec. 15, 1999</b>	<b>\$0.1000</b>
December, 1999	Dec. 31, 1999	Jan. 15, 2000	\$0.0700
January, 2000	Jan. 31, 2000	Feb. 15, 2000	\$0.0700
February, 2000	Feb. 29, 2000	Mar. 15, 2000	\$0.0700
<b>Extra Distribution</b>	<b>Feb. 29, 2000</b>	<b>Mar. 15, 2000</b>	<b>\$0.0600</b>
<b>Total distributions to date</b>			<b>\$ 2.860</b>

All cash distributions paid to Unitholders to date were 100% tax deferred and have been treated as a return of capital. Unitholders are not required to report any taxable income resulting from cash distributions on their 1999 personal income tax returns. It is anticipated that the Trust will have sufficient tax deductions to offset Royalty Lands Royalty Income and Freehold Resources Royalty Income until its 2001 taxation year based upon the production and cash flow

estimated in the Trimble Oil and Gas Report and the LAS Energy Potash Report. Consequently, amounts paid or payable to a Unitholder prior to that time will not constitute taxable income.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Reference is made to the information under the heading "Management's Discussion and Analysis" on pages 16 to 25, inclusive, of the Trust's 1999 Annual Report, which pages are incorporated herein by reference.

### **Environmental Regulation**

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and gas industry operations and can affect the location of wells and facilities and the extent to which exploration and development is permitted. In addition, legislation requires that well and facilities sites be abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders. Environmental legislation in Alberta has undergone a major revision and has been consolidated into the *Environmental Protection and Enhancement Act*. Under the new Act, environmental standards and compliance for releases, clean-up and reporting are stricter. Also, the range of enforcement actions available and the severity of penalties have been significantly increased. These changes will have an incremental effect on the cost of conducting operations in Alberta. British Columbia's *Environmental Assessment Act* became effective June 30, 1995. This legislation rolled the previous processes for the review of major energy projects into a single environmental assessment process with public participation in the environmental review process. Freehold Resources is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the environment. Freehold Resources' internal procedures are designed to ensure that the environmental aspects of new developments are taken into account prior to proceeding. The Manager believes that Freehold Resources is in material compliance with applicable environmental laws and regulations with respect to the Freehold Resources Properties.

With respect to the HB Lands, the responsibilities for adherence to environmental regulations reside with the operators and working interest owners of the HB Lands and not with the Trust.

## **MARKET FOR SECURITIES**

The Trust Units are listed and traded on The Toronto Stock Exchange. The trading symbol for the Trust Units is FRU.UN.

## **RISK FACTORS**

The following is a summary of certain risk factors relating to the business of the Trust which prospective investors should carefully consider before deciding whether to purchase Trust Units.

## **Purchase of Royalties**

The price paid for the purchase of the HB Lands Royalties, the Additional Royalties and the Freehold Resources Royalty was based on engineering and economic assessments of the reserves made by independent engineers. These assessments include a number of material assumptions regarding such factors as recoverability and marketability of oil, natural gas and natural gas liquids, future prices of oil, natural gas and natural gas liquids and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the operators of the Properties, Freehold Resources, the Manager and the Trust. In particular, changes in the prices of and markets for oil, natural gas and natural gas liquids from those anticipated at the time of making such assessments will affect the return on the value of the Trust Units. In addition, all such assessments involve a measure of geological and engineering uncertainty which could result in lower production and reserves than attributed to the properties.

## **Reserve Estimates**

The reserve and recovery information contained in the Trimble Oil and Gas Report and the LAS Energy Potash Report are only estimates and the actual production and ultimate reserves from the Royalty Lands, the Additional Properties and the Working Interest Properties may be greater or less than the estimates prepared by Trimble and LAS Energy.

## **Volatility of Oil and Natural Gas Prices**

The Trust's operational results and financial condition, and therefore the amounts paid to the Trust pursuant to the HB Lands Royalties, the Additional Royalties and the Freehold Resources Royalty, will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, all of which are beyond the control of the Trust and the Manager. Any decline in oil and natural gas prices could have an adverse effect on the Trust's financial condition and therefore on the Distributable Income to be distributed to holders of Trust Units.

## **Changes in Legislation**

There can be no assurance that income tax laws and government incentive programs relating to the oil and gas industry, such as ARC and the resource allowance, will not be changed in a manner which adversely affects Unitholders.

## **Investment Eligibility**

If the Trust ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments for RRSPs, RESPs, RRIFs and DPSPs ("Exempt Plans"). Where at the end of any month an Exempt Plan holds Trust Units that are not qualified investments, the Exempt Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units at the time such Trust Units were acquired by the Exempt Plan. In addition, where a trust governed by an RRSP holds Trust Units that are not qualified investments, the trust will become taxable on its income attributable to the Trust Units while they are not qualified investments.

## **Operational Matters**

The operation of oil and gas wells involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to Freehold Resources and possible liability to third parties. Freehold Resources will maintain liability insurance, where available, in amounts consistent with industry standards. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. Freehold Resources may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce Freehold Resources Royalty Income.

Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of Freehold Resources to certain Working Interest Properties. A reduction of the Freehold Resources Royalty Income could result in such circumstances.

## **Environmental Concerns**

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of Freehold Resources or the Freehold Resources Properties. Such legislation may be changed to impose higher standards and potentially more costly obligations on Freehold Resources. See “Management’s Discussion and Analysis – Environmental Regulation”. Although Freehold Resources has established a reclamation fund for the purpose of funding its currently estimated future environmental and reclamation obligations based on its current knowledge, there can be no assurance that the fund will be able to satisfy actual future environmental and reclamation obligations. See “Other Information Respecting Freehold Resources – Environmental Obligations – Reclamation Fund”.

## **Debt Service**

Amounts paid in respect of interest and principal on debt incurred in respect of the HB Lands Royalties, the Additional Royalties, the Additional Properties and the Working Interest Properties will reduce Royalty Lands Royalty Income and Freehold Resources Royalty Income. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment of the Royalty Lands Royalty Income and Freehold Resources Royalty Income and Distributable Income. Certain covenants of the agreements with the lender may also limit distributions to the Trust. Although the Manager and Freehold Resources believe the credit facility will be sufficient for the Trust's and Freehold Resources' immediate requirements, there can be no assurance that the amount will be adequate for the future financial obligations of the Trust or Freehold Resources or that additional funds will be able to be obtained.

The lender will be provided with security over substantially all of the assets of the Trust and Freehold Resources. If the Trust or Freehold Resources becomes unable to pay its Debt Service Charges or otherwise commits an event of default such as bankruptcy, the lender may foreclose on or sell all or some of the HB Lands Royalties, the Additional Royalties, Additional Properties and the Working Interest Properties free from or together with the Freehold Resources Royalty.

**Delay in Cash Distributions**

In addition to the usual delays in payment by purchasers of oil and natural gas to the payors of the HB Lands Royalties, the Additional Royalties and/or operators of the Freehold Resources Properties, and by those payors and operators to the Manager or Freehold Resources, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operators of expenses incurred in the operation of the Freehold Resources Properties or the establishment by the operators of reserves for such expenses.

**Reliance on the Manager**

Unitholders will be dependent on the management of the Manager in respect of the administration and management of all matters relating to the HB Lands Royalties, the Additional Royalties and the Freehold Resources Royalty, the Trust and Trust Units. Investors who are not willing to rely on the management of the Manager should not invest in the Trust Units.

**Depletion of Reserves**

The Trust has certain unique attributes which differentiate it from other oil and gas industry participants. Distributions of Distributable Income in respect of Properties, absent commodity price increases or cost effective acquisition and development activities, will decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. The Trust and Freehold Resources will not be reinvesting cash flow in the same manner as other industry participants. Accordingly, absent capital injections, successful development or acquisition of additional reserves, the Trust and Freehold Resources will have difficulty maintaining current production levels and reserves.

The Trust's and Freehold Resources' future oil and natural gas reserves and production, and therefore its cash flows, will be highly dependent on activities of the working interest owners of the Royalty Lands and Freehold Resources' success in exploiting its reserve base and acquiring additional reserves on the Freehold Resources Properties. Without reserve additions through acquisition or development activities, the Trust's and Freehold Resources' reserves and production will decline over time as reserves are exploited.

There can be no assurance that the Manager, on behalf of Freehold Resources, will be successful in developing or acquiring additional reserves on terms that meet the Trust's investment objectives.

**Additional Financing**

To the extent that external sources of capital, including the issuance of additional Trust Units become limited or unavailable, the Trust's and Freehold Resources' ability to make the necessary capital investments to maintain or expand its oil and gas reserves will be impaired. To the extent that the Trust or Freehold Resources is required to use cash flow to finance capital expenditures or property acquisitions, the level of Distributable Income will be reduced.

**Competition**

There is strong competition relating to all aspects of the oil and gas industry. The Trust and Freehold Resources will actively compete for reserve acquisitions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial and other resources than the Trust or Freehold Resources.

## **Return of Capital**

Trust Units will have no value when reserves from the HB Lands Royalties, the Additional Royalties and/or the Freehold Resources Properties can no longer be economically marketed and, as a result, investors will have to obtain the return of capital invested out of cash distributions during the period when reserves can be economically recovered.

## **Potential Conflicts of Interest**

There may be circumstances in which the interests of the Manager will conflict with those of Unitholders. The Manager may acquire oil and gas properties on its own behalf or on behalf of persons other than the Unitholders. The Manager may manage and administer such additional properties, as well as enter into other types of energy-related management, advisory and investment activities. Neither the Manager, nor its management, will carry on their full-time activity on behalf of Unitholders and, when acting on their own behalf or on behalf of others, may at times act in competition with the interests of Unitholders.

Circumstances may arise where members of the board of directors of Freehold Resources are directors or officers of corporations which are in competition to the interests of Freehold Resources and the Trust. No assurances can be given that opportunities identified by such board members will be provided to Freehold Resources and the Trust. See “Conflicts of Interest”.

## **Nature of Trust Units**

Securities such as Trust Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Trust Units do not represent a traditional investment in the oil and natural gas sector and should not be viewed by investors as shares in Freehold Resources. The Trust Units represent a fractional interest in the Trust. As holders of Trust Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. The Trust’s sole assets will be Permitted Investments, the HB Lands Royalties, Additional Royalties and the Freehold Resources Royalty. The price per Trust Unit is a function of anticipated Distributable Income, the HB Lands Royalties, the Additional Royalties and the Freehold Resources Royalty and the Manager’s ability to effect long-term growth in the value of the Trust. The market price of the Trust Units is sensitive to a variety of market conditions including, but not limited to, interest rates and the ability of the Trust to acquire suitable oil and natural gas properties. Changes in market conditions may adversely affect the trading price of the Trust Units.

## **Unitholder Limited Liability**

The Trust Indenture provides that no Unitholder will be subject to any liability in connection with the Trust or its obligations and affairs and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of the Trust’s assets. Pursuant to the Trust Indenture, the Trust will indemnify and hold harmless each Unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having such limited liability.

The Trust Indenture provides that all written instruments signed by or on behalf of the Trust must contain a provision to the effect that such obligation will not be binding upon Unitholders personally. Personal liability may also arise in respect of claims against the Trust that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

The operations of the Trust will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the Unitholders for claims against the Trust.

### **ADDITIONAL INFORMATION**

Additional information including remuneration of directors and officers of Freehold Resources and the Manager, principal holders of the Trust Units and options to purchase Trust Units, is contained in the Information Circular - Proxy Statement of the Trust dated March 3, 2000 which relates to the Annual and Special Meeting of Unitholders to be held on May 3, 2000, and additional financial information is provided in the combined financial statements of the Trust and Freehold Resources for the period ended December 31, 1999.

The Trust shall provide to any person, upon request to the Manager on behalf of the Trust:

- a. when the securities of the Trust are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
  - (i) one copy of the Annual Information Form of the Trust, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form,
  - (ii) one copy of the combined financial statements of the Trust and Freehold Resources for the period ended December 31, 1999 together with the accompanying report of the auditor and one copy of any subsequent interim financial statements,
  - (iii) one copy of the Information Circular - Proxy Statement of the Trust dated March 3, 2000, and
  - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or
- b. at any other time, one copy of any other documents referred to in (1)(i), (ii) and (iii) above, provided the Trust may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Trust.

For additional copies of the Annual Information Form and the materials listed in the preceding paragraphs please contact:

Corporate Secretary  
Freehold Royalty Trust  
400, 144 - 4th Avenue S.W.  
Calgary, Alberta, T2P 3N4

Telephone: (403) 221-0802  
Facsimile: (403) 221-0888