

FREEHOLD ROYALTY TRUST

Initial Annual Information Form

April 20, 1998

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Abbreviations

bbl and bbls barrel and barrels, respectively, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons

bbls/d and bopd barrels per day and barrels of oil per day, respectively

mbbls one thousand barrels

mmbbls one million barrels

boe 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.

boe/d barrels of oil equivalent per day

mboe one thousand barrels of oil equivalent

mmboe one million barrels of oil equivalent

mcf one thousand cubic feet

mcf/d one thousand cubic feet per day

mmcf one million cubic feet

mmbtu one million British Thermal Units

ston one short ton

ston/d one short ton per day

Lton one long ton

Lton/d one long ton per day

mLton one thousand long tons

mston one thousand short tons

API American Petroleum Institute

WTI 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:

“**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.

“**ARTC**” 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 Fund**” means the Canadian National Railways 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 and the Freehold Resources Royalty received by the Trust plus the interest income from Permitted Investments and ARTC, 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 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.

“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.

“**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 January 31, April 30, July 31 and October 31 in each year up to April 30, 1998 and thereafter 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 following 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.

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 ⁽¹⁾	Non-Unitized		Unitized		
			Gas Wells	Oil Wells	Production Units	Gas Wells	Oil Wells
Western Alberta	85,975	7,200	78	142	65	446	1,895
Saskatchewan Heavy Oil	52,380	13,660	44	352	6	25	797
Lloydminster/Bonnyville	63,011	7,339	127	218	18	104	657
Southeast Alberta	129,500	3,394	592	99	34	2,707	276
Bashaw/Leduc	78,718	4,554	85	119	34	396	669
Provost	52,592	5,320	28	233	13	347	154
Hatton/Gull Lake	113,250	26,659	171	101	35	9	1,142
Other	75,916	9,780	74	63	12	267	68
Total	651,342	77,906	1,199	1,327	217	4,301	5,658

Note:

(1) Undeveloped lands are undrilled 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 85,975 gross acres which currently includes an interest in 78 non-unitized gas wells and 142 non-unitized oil wells and 7,200 gross acres of undeveloped lands. The Trust also owns interests in 65 units currently containing 446 gas wells and 1,895 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 2782.4 mbbbls of oil and 25,813.7 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. 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.

During 1997, 10 non-unit and 17 unit wells were drilled on HB Lands in the western Alberta area and are expected to impact production during 1998 as the new wells are equipped for production.

Lloydminster/Bonnyville

Within the Lloydminster/Bonnyville area, the Trust owns an interest in the revenue from 63,011 gross acres which currently includes an interest in 127 non-unitized gas wells, 218 non-unitized oil wells and approximately 7,339 acres of undeveloped land. The Trust also has interests in 18 units currently containing 104 gas wells and 657 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 3325.3 mbbbls of oil and 2978.5 mmcf of gas to this royalty interest.

This area is characterized by the production of heavy 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 three Chauvin South units and the five Wainwright units. The largest single revenue property in this area is the Lloydminster Sparky Pool.

Development of lands within the Lloydminster/Bonnyville area continued with 7 non-unit and 8 unit wells drilled during 1997. Including production from the Wildmere acquisition, 82 net boe/d was added during the year.

Saskatchewan Heavy Oil

In the Saskatchewan Heavy Oil area, the Trust has an interest in the revenue from 52,380 gross acres which currently includes interests in 44 non-unitized gas wells and 352 non-unitized oil wells and 13,660 acres of undeveloped land. The Trust also has interests in six units currently containing 25 gas wells and 797 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 2609.3 mbbbls of oil and 476.5 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 pools. 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.

In the Lloydminster area, the Mannville formation is comprised of multiple sands which have the potential to produce heavy oil or gas. Recent production increases in this area have resulted from the use of improved pump technology, horizontal wells and development drilling. An example of this is the Trust's Plover Lake property. The Trust's royalty interest in the Plover Lake property is 7.83%. At the time the Trust was established, this property contained five producing oil wells grossing 170 barrels of 15° API crude oil per day, with an additional three wells licenced. All of these wells were drilled on 40-acre spacing. By year-end 1997, an additional eight wells had been drilled by the operator and gross production had grown to 720 bopd, adding approximately 40 bopd of royalty production to Freehold Resources. At year end, the operator had licenced three additional wells for drilling. The Trust's lands in this area may have reduced spacing drilling opportunities.

During 1997, 25 non-unit and 61 unit wells were drilled in the Saskatchewan Heavy Oil area, adding production of 128 net boe/d.

Bashaw/Leduc

In the Bashaw/Leduc area, the Trust owns an interest in the revenue from 78,718 gross acres which currently includes interests in 85 non-unitized gas wells and 119 non-unitized oil wells and 4,554 acres of undeveloped land. The Trust also has interests in 34 units currently containing 396 gas wells and 669 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 579.9 mbbbls of oil and 4680.8 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 production units in this area fairly represent the range of reservoirs with 13 Devonian units, three Mississippian Pekisko units, eight Mannville units, six Viking units and two Belly River units. The highest revenue properties in 1997 in this area were the Bonnie Glen D-3A Gas Cap Unit, the Gilby Upper Mannville J Unit and the Ghost Pine Gas Unit.

Drilling activity remained strong during 1997 with 19 non-unit and 33 unit wells drilled, adding production of 67 net boe/d.

Provost

The Provost area is a compact but active area. The Trust has an interest in the revenue from 52,592 gross acres which currently includes interests in 28 non-unitized gas wells and 233 non-unitized oil wells and 5,320 acres of undeveloped lands. The Trust also owns interests in 13 units currently containing 347 gas wells and 154 oil wells. The Trimble Oil and Gas Report has assigned gross reserves of 867.4 mbbbls of oil and 547.2 mmcf of gas to this royalty interest.

Historically, the Provost area was developed for production from the shallow Viking formation, where the Trust is represented in eight Viking gas units and three Viking oil units. More recently, the focus in this area has shifted to the development of the underlying medium to low gravity oil from the Dina, Ellerslie and Cummings Sands of the Mannville formation at a depth of less than 3,500 feet.

Drilling activity during 1997 of 39 non-unit wells was mostly conducted on the Provost oil pools where the drilling was able to replace production declines.

Southeast Alberta

The southeast Alberta area contains the most extensive acreage base and the most gas wells in which the Trust owns an interest. The Trust has an interest in the revenue from 129,500 gross acres which currently includes an interest in 592 non-unitized gas wells and 99 non-unitized oil wells and approximately 3,394 acres of undeveloped lands in this area. The Trust also owns interests in 34 units currently containing 2,707 gas wells and 276 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 1255.9 mbbbls of oil and 5984.0 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 is currently being utilized to develop the Glauconite heavy oil trend in the Suffield area. During 1997 on the Suffield, Alberta property, in which the Trust has a 4.704 percent royalty interest, development continued. At the time this property was evaluated for inclusion in the Trust portfolio, the lessee had drilled four shallow gas wells, two deeper producing horizontal oil wells, and three deeper shut-in wells, providing approximately 20 bopd of royalty production for the Trust. During 1996, eight deeper horizontal wells were drilled, and in 1997, an additional six horizontal oil wells were drilled. The increased royalty production of 80 bopd was at no cost to the Trust.

Development activity in the southeastern Alberta during 1997 resulted in 48 non-unit and 48 unit wells drilled, including 16 non-unit and 45 unit gas wells, contributing 45 net boe/d production increase over 1996.

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 113,250 gross acres which includes an interest in 171 gas wells and 101 non-unit and 1,142 unit oil wells and approximately 26,659 acres of undeveloped land. The Trimble Oil and Gas Report has assigned gross reserves of 2,735.8 mmcf of gas and 484.9 mbbls to this royalty interest.

During 1997, approximately 66 non-unit wells and 113 unitized wells were drilled on the royalty lands. Including the acquired lands, and the drilling by lessees, production of 60 boe/d was added.

Undeveloped Lands

The undeveloped lands which are included in the Royalty Lands are undrilled spacing units totaling approximately 77,900 acres. Additional 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 1997 and the last four years. During this period 2,020 unitized and non-unitized wells have been drilled on the Royalty Lands.

	1997 ⁽¹⁾		1996		1995		1994		1993		Total	
	<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	202	137	60	99	65	82	50	72	128	106	505	496
Gas Wells	68	29	135	23	145	24	157	57	146	54	651	187
Service/Other Wells	8	26	2	--	4	7	5	3	8	8	27	44
Dry and Abandoned	4	25	2	21	5	19	4	13	1	16	16	94
Total	282	217	199	143	219	132	216	145	283	184	1199	821
Success Rate	99%	88%	99%	85%	98%	86%	98%	91%	100%	91%		

Note:

(1) Includes wells drilled in 1997 on lands acquired in 1997.

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, 1997 and ending January 1, 1998:

	Crude Oil & NGL's (mdbl)		Natural Gas (mmcf)		Total (mboe)	
	Proven	Probable ⁽¹⁾	Proven	Probable ⁽¹⁾	Proven	Probable
---	-	-	-	-	-	-
---	-	-	-	-	-	-
---	-	-	-	-	-	-
---	-	-	-	-	-	-
---	-	-	-	-	-	-
---	-	-	-	-	-	-
---	-	-	-	-	-	-

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.

(5) Columns may not add due to rounding.

Hayter, Alberta

Freehold Resources owns participating and mineral title interests of 23.52% in 640 acres in the Hayter area of east central Alberta, which is located 140 miles east of the city of Edmonton near the Alberta and Saskatchewan border. Production is from the Hayter Dina "B" pool which was discovered in 1963 and covers approximately 3,500 acres. The Dina sand is over 200 feet thick with an average net oil pay of 37 feet. The 15° API oil in the Dina "B" pool is supported by an active aquifer. Horizontal drilling in the 1990's has increased both productivity and recoverable reserves from this pool and new central battery facilities were constructed in 1994 to handle the increased production. The annual production from the property has increased from 340 bopd in 1993 to over 3,800 bopd in 1996 as a result of these activities. Freehold Resource's current share of production is 1053 bopd from both horizontal and vertical wells. Additional horizontal drilling is anticipated to continue over the next several years.

Pembina Cardium Unit No. 9, Alberta

Freehold Resources has a 9.9% unit interest in the Pembina Cardium Unit No. 9 in the Pembina area of Central Alberta which is located 85 miles southwest of the city of Edmonton. Production is from part of the large Pembina Cardium pool which was discovered in the 1950's. The unit, which encompasses about 25,280 acres, has been on an 80 acre five-spot waterflood pattern since 1962. Since 1989, the production from the unit has declined by approximately 3.2% per year. Freehold Resource's current share of production of 217 boe/d of light gravity crude, gas and natural gas liquids is from approximately 119 producing wells. The owners have approved two infill locations to be drilled during 1998.

Pouce Coupe

During 1997, Freehold Resources acquired a diverse number of working interest properties in Alberta and Saskatchewan. Included in the purchases was a 25.56 percent interest in the Pouce Coupe South Boundary "B" Unit No. 2 in Alberta. This light oil property which is under waterflood produces from the Boundary Lake formation. The Pouce Coupe property has remaining reserves of approximately 0.9 mmboe with a reserve life index greater than 19 years. The operator of the property has drilling plans for 1998.

Working Interest Wells

The following table sets forth the number and status of wells as at January 1, 1998 in which Freehold Resources has a working interest which are producing or which are considered capable of production:

Property	Producing ⁽¹⁾⁽⁵⁾		Shut-in ⁽¹⁾⁽²⁾⁽³⁾	
	Oil	Gas	Oil	Gas
	Gross			
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-

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. Royalty interest wells have been assigned a net number of zero.
- (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,									
	1997		1996		1995		1994		1993	
	Gross(<u>1</u>)	Net(<u>2</u>)	Gross(<u>1</u>)	Net(<u>2</u>)	Gross(<u>1</u>)	(<u>2</u>)	Gross(<u>1</u>)	Net(<u>2</u>)	Gross(<u>1</u>)	Net
Exploratory										
Oil	0	0	0	0	0	0.0	4	0.5	1	0
Gas	0	0	0	0	1	0.0	0	0.0	2	0
Dry	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0</u>	<u>1</u>	<u>0.0</u>	<u>1</u>	
Total Exploratory	0	0	0	0	1	0.0	5	0.5	4	0
Development										
Oil	27	5.2	16	3.3	7	1.3	16	4.0	17	1.0
Gas	22	0.1	16	0.1	2	0.1	11	0.0	7	0.1
Dry	1	0	1	0	0	0.0	2	0.2	1	0.0
Total Development	<u>50</u>	<u>5.3</u>	<u>33</u>	<u>3.4</u>	<u>9</u>	<u>1.4</u>	<u>29</u>	<u>4.2</u>		
Total	<u>50</u>	<u>5.3</u>	<u>33</u>	<u>3.4</u>	<u>10</u>	<u>1.4</u>	<u>34</u>	<u>4.7</u>	<u>29</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. Royalty interest wells have a net number of zero.

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, 1997 and ending January 1, 1998:

	Crude Oil & NGL's (mbl)		Natural Gas (mmcf)		Total (mboe)	
	Proven	Probable ⁽¹⁾	Proven	Probable ⁽¹⁾	Proven	Probable

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, 1998, 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		Natural Gas (mmcf)				Sulphur (mLton)		Present Worth of Future Net Pre-Tax Cash Flow (\$000)		
	Crude Oil and Natural Gas Liquids (mbl)		Natural Gas (mmcf)		Sulphur (mLton)		Discounted at				
	Gross	Net	Gross	Net	Gross	Net	Undiscounted	10%	12%	15%	
Proved											
Producing	14,569	14,065	43,525	41,435	27	27	522,003	163,967	147,198	128,591	
Non-Producing	<u>1,417</u>	<u>1,413</u>	<u>7,129</u>	<u>5,914</u>	<u>0</u>	<u>0</u>	<u>30,990</u>	<u>15,768</u>	<u>14,321</u>	<u>12,550</u>	
Total Proved	15,987	15,478	50,654	47,349	27	27	552,993	179,734	161,518	141,141	
Risked Probable Additional	<u>4,531</u>	<u>4,419</u>	<u>11,099</u>	<u>10,987</u>	<u>5</u>	<u>5</u>	<u>213,898</u>	<u>33,138</u>	<u>28,104</u>	<u>22,968</u>	
Established Reserves	<u>20,517</u>	19,897	61,752	58,336	32	32	766,891	212,872	189,622	164,109	

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

	Trust Interest Reserves		Natural Gas (mmcf)				Sulphur (mLton)		Present Worth of Future Net Pre-Tax Cash Flow (\$000)		
	Crude Oil and Natural Gas Liquids (mbl)		Natural Gas (mmcf)		Sulphur (mLton)		Discounted at				
	Gross	Net	Gross	Net	Gross	Net	Undiscounted	10%	12%	15%	
Proved											
Producing	14,264	13,768	43,292	41,307	24	24	308,383	135,211	123,980	110,864	
Non-Producing	1,503	1,498	7,140	6,012	0	0	21,663	12,301	11,294	10,029	
Total Proved	15,767	15,266	50,432	47,319	24	24	330,046	147,512	135,274	120,893	
Risked Probable Additional	4,586	4,477	11,033	10,937	4	4	96,498	24,606	21,577	18,248	
Established Reserves	20,353	19,744	61,465	58,256	28	28	426,544	172,118	156,850	139,141	

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 15, 1997 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
1998	20.52	27.23	26.23	16.15	16.03	27.23	6.50	12.00
1999	21.06	27.69	26.69	15.51	16.51	27.69	6.61	15.00
2000	21.61	28.43	27.43	15.92	16.95	28.43	6.79	17.51
2001	22.17	29.19	28.19	16.35	17.41	29.19	6.97	18.40
2002	22.75	29.97	28.97	16.79	17.87	29.97	7.16	19.32
2003	23.35	30.77	29.77	17.24	18.35	30.77	7.35	20.27
2004	23.96	31.59	30.59	17.70	18.84	31.59	7.54	21.25
2005	24.58	32.44	31.44	18.17	19.34	32.44	7.75	22.26
2006	25.22	33.30	32.30	18.65	19.86	33.30	7.95	23.30
2007	25.88	34.19	33.19	19.15	20.39	34.19	8.16	24.38
2008	26.56	35.10	34.10	19.66	20.93	35.10	8.38	25.49
2009	27.25	36.04	35.04	20.18	21.49	36.04	8.61	26.63
2010	27.96	37.00	36.00	20.72	22.06	37.00	8.83	27.81

* 40 API, 0.4% sulphur

** Edmonton Par Price less \$1.00

Beyond the year 2010, oil prices escalate at 2.6% to the year 2017, thereafter at 2.0%.

Year	Alberta Gas Reference Price Cdn\$/mmbtu	TransCanada Gas Services Limited Cdn\$/mmbtu	Henry Hub US\$/mmbtu	CanWest Wellhead Cdn\$/mmbtu	BC Spot Wellhead Cdn\$/mmbtu
1998	1.80	1.79	2.19	1.28	1.33
1999	1.92	1.92	2.08	1.46	1.51
2000	2.00	2.02	2.12	1.59	1.64
2001	2.08	2.09	2.19	1.66	1.71
2002	2.17	2.18	2.26	1.74	1.79
2003	2.24	2.25	2.34	1.80	1.86
2004	2.31	2.32	2.41	1.86	1.92
2005	2.40	2.41	2.49	1.94	2.00
2006	2.47	2.49	2.57	2.01	2.07
2007	2.56	2.57	2.65	2.08	2.15
2008	2.65	2.66	2.74	2.16	2.23
2009	2.74	2.75	2.82	2.24	2.31
2010	2.83	2.85	2.91	2.33	2.39

Beyond the year 2010, gas prices escalate at 2.0%.

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

Crude Oil	\$27.23 per bbl
Ethane	\$ 6.50 per bbl
Propane	\$16.15 per bbl
Butane	\$16.03 per bbl
Pentanes Plus	\$27.23 per bbl
Natural Gas	\$ 1.79 per mmbtu
Sulphur	\$12.00 per Lton

- (6) The \$US/\$Cdn exchange rate is assumed to be \$0.73 throughout the period of the Trimble Oil and Gas Report.
- (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 \$3,574,000 with \$2,549,000, \$400,000 and \$575,000 of such costs estimated for the calendar years 1998, 1999 and 2000, respectively. The corresponding costs to achieve the estimated future net revenues from the Proved Reserves plus 50% risked Probable Reserves are \$5,422,000 with \$2,684,000, \$1,346,000 and \$1,343,000, 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 \$3,539,000 with \$2,549,000, \$392,000 and \$553,000 of such costs estimated for the calendar years 1998, 1999 and 2000, respectively. The corresponding costs to achieve the estimated future net revenues from the Proved plus 50% risked Probable Reserves are \$5,339,000 with \$2,684,000, \$1,320,000 and \$1,291,000, 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 2% annually. For the Constant Cost and Price Case, operating and capital costs have not been escalated.

(1)

**Escalating Cost and Price Case
From the Trimble Oil and Gas Report
(\$000's, except production)**

<u>Year</u>	<u>Estimated Production (boe/d)</u>	<u>Company Interest Revenue</u>	<u>Royalty Burdens</u>	<u>Net Revenue After Royalty</u>	<u>Operating</u>	<u>Net Production Revenue(4)</u>	<u>Net Capital</u>	<u>Net Cash Flow Before Income Taxes</u>
								766,890

_____ to January 1, 1998 at:

10%:	\$212,872
12%:	\$189,622
15%:	\$164,109
20%:	\$135,446

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) Columns may not add due to rounding.

Estimated Future Net Pre-Tax Cash Flows Based on Established Reserves⁽¹⁾

Constant Cost and Price Case
From the Trimble Oil and Gas Report
(\$000's, except production)

<u>Year</u>	<u>Estimated Production (boe/d)</u>	<u>Company Interest Revenue⁽²⁾</u>	<u>Royalty Burdens⁽³⁾</u>	<u>Net Revenue After Royalty⁽⁴⁾</u>	<u>Operatin g⁽⁵⁾</u>	<u>AMT⁽⁶⁾</u>	<u>Net Production Revenue</u>	<u>Net Capital</u>	<u>Net Cash Flow Before Income Taxes</u>
	5,206	35,518	1,275	34,243	3,434	292	31,102	1,320	29,782
2000	4,777	32,528	1,352	31,176	3,573	260	27,863	1,291	26,571
2001	4,303	29,263	1,159	28,104	3,407	227	24,925	0	24,924
2002	3,681	25,198	1,003	24,195	3,140	203	21,258	0	21,258
2003	3,217	22,117	891	21,226	2,884	185	18,528	12	18,516
2004	2,866	19,801	803	18,998	2,701	168	16,465	32	16,433
2005	2,570	17,805	720	17,085	2,549	151	14,687	0	14,687
2006	2,305	16,005	623	15,382	2,393	129	13,118	0	13,118
2007	2,093	14,524	558	13,966	2,144	115	11,938	0	11,938
2008	1,901	13,226	501	12,725	2,003	105	10,827	0	10,827
2009	1,740	12,140	461	11,679	1,922	95	9,852	0	9,852
2010	1,588	11,106	425	10,681	1,998	87	8,770	0	8,770
2011	1,420	9,994	394	9,600	1,349	80	8,331	0	8,331
2012	1,327	9,355	370	8,985	1,310	75	7,750	0	7,750
Remain der TOTAL ⁽⁷⁾		201,042	7,643	193,400	21,629	654	172,425	0	172,425
		508,155	19,677	488,478	59,759	3,165	431,885	5,339	426,544

Cash Flow Before Income Taxes Discounted to January 1, 1998 at:

10%:	\$172,118
12%:	\$156,850
15%:	\$139,141
20%:	\$118,054

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) 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, 1997, approximately \$1.14 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 year 2002.

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 will be 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 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 (mston)		Undiscounted	Discounted at		
	Gross ⁽¹⁾	Net ⁽²⁾		10%	12%	15%
Proved						
Constant Price and Cost	---	---	---	---	---	---

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. \$79.00 per ston.
- (3) Average yearly potash prices, which were deemed appropriate by LAS Energy as at January 1, 1998 for potash are outlined in the following table:

Year	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	Thereafter
Price/ston														
(\$U.S.)	79.00	81.00	83.00	85.00	86.70	88.00	90.20	92.01	93.85	95.72	97.64	99.59	101.58	+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 estimated net production of potash in 1998 is 12.5 ston/d in both the constant and escalated price cases. The estimated undiscounted net pre-tax cash flow in 1998 is \$515,165 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 modest and 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 30% 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 \$2,601,000. A reclamation fund, consisting of cash invested in an interest-bearing account, has been established and is funded by quarterly cash payments. 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. No conversion, retraction, redemption or preemptive rights attach to 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 quarterly basis up to April 30, 1998 and on a monthly basis thereafter, 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 2000 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.

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 30% 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, 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, 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:

- I. quarterly distributions will be deposited directly into the Unitholder’s Canadian bank account;
- II. optional confirmation of deposit feature will be offered; and
- III. 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:

- A. 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;

- B. Trust Units are purchased quarterly with reinvested cash distributions on the open market or from the Trust at prevailing market prices, at the option of the Trust;
- C. Plan participants receive quarterly statements detailing the number of additional Trust Units acquired through reinvestment to assist their record-keeping; and
- D. 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.

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, with the initial number of directors set at six 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 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:

Name and Municipality of Residence	Position with Freehold Resources	Principal Occupation
(2)(4) Calgary, Alberta	Chairman and Director	President and Chief Executive Officer, Candor Investment Ltd. (private energy and investment corporation)
D. Nolan Blades (1)(2)(4) Calgary, Alberta	Director	President and Chief Executive Officer, Pursuit Resources Inc. (oil and gas exploration and development company)
Harry S. Campbell (2) Calgary, Alberta	Director	Partner, Brown, Dickson & Palmer (investment and advisory)
Paul T. Brossard (1)(2) Brossard, Québec	Director	Director and Vice-President, Canadian Equities, Montrusco Associates Inc. (investment counsel)
(1)(2)(4)	—	—
(3) Montreal, Québec	Director	President and C.E.O., CN Investment Division
David J. Sandmeyer (3) 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, aside from Peter T. Harrison who became an independent director on January 21, 1998, were elected by the Unitholders at the first annual general meeting of the Trust on June 6, 1997.
- (3) Nominees of the Manager.
- (4) Corporate Governance Committee.

As at April 20, 1998, the directors and senior officers of Freehold Resources, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 53,000 Trust Units or approximately two-tenths of one percent (0.2%) 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:

1. manage the Trust, subject to the supervision of Freehold Resources;
2. 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;
3. provide management services for the economic and efficient exploitation of oil and natural gas properties;
4. operate oil and natural gas properties which Freehold Resources is entitled to operate and monitor the activities of third party operators;
5. recommend, carry out and monitor property acquisitions and dispositions and exploitation and development programs for the Trust and Freehold Resources;

6. 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;
7. recommend and, subject to the supervision of Freehold Resources, negotiate banking arrangements for the Trust and Freehold Resources; and
8. 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 \$1,274,000 for General and Administrative Costs for the one year period ended December 31, 1997.

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.

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:

Name and Municipality of Residence	Position with the Manager	Principal Occupation
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 April 20, 1998 the directors and senior officers of the Manager, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, nil Trust Units. The directors and senior officers of the Manager are currently not permitted to own Trust Units as a result of their employment contracts. The Manager owns 108,000 Trust Units directly or approximately four-tenths of one percent (0.4%) of the issued and outstanding Trust Units and

the indirect owner of the Manager, CN Pension Fund, owns, directly or indirectly, excluding the Trust Units owned by the Manager, 5,280,000 Trust Units or approximately 20% 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

	1997	<u>1996</u>
<u>Earnings Information</u>		
—	-	-
—	35,204	<u>2,926</u>
—	-	-
—	-	-
—	-	-
—	-	-
<u>Distributable Income Information</u>		
—	-	-
—	-	-
—	-	-
—	-	-
<u>Balance Sheet Information</u>		
Total Assets	271,784	263,264
Long Term Liabilities	38,175	10,719
Trust Units Outstanding	26,488,000	26,408,000

* 37 days of operation

Summary of 1997 Quarterly Financial Information

	Three Months Ended (Unaudited)			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
<u>Earnings Information</u>				
Total Revenue	9,558	10,388	8,807	9,536
Expenses	<u>6,981</u>	<u>9,921</u>	<u>8,624</u>	<u>9,678</u>
Net Income	2,577	467	183	(142)

Per Unit	0.10	0.02	0.01	(0.01)
Basic	0.10	0.02	0.01	(0.01)
Diluted	0.09	0.02	0.01	0.00
<u>Distributable Income Information</u>				
Distributable Income	8,382	7,351	6,750	6,598
Distributable Income per Unit	0.32	0.28	0.25	0.25
Basic	0.32	0.28	0.25	0.25
Diluted	0.29	0.26	0.23	0.23
<u>Balance Sheet Information</u>				
Total Assets	263,632	279,285	271,586	271,784
Long Term Liabilities	10,719	33,099	33,099	38,175
Trust Units Outstanding	26,428,000	26,448,000	26,468,000	26,488,000

DISTRIBUTIONS TO UNITHOLDERS

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

Distribution Per Trust Unit

1996:

Fourth Quarter (37 days) \$0.13

1997:

First Quarter \$0.32

Second Quarter \$0.28

Third Quarter \$0.25

Fourth Quarter \$0.25

All cash distributions paid to Unitholders in 1996 and 1997 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 1997 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 2000 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 14 to 21, inclusive, of the Trust's 1997 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 and Montreal 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 are 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 ARTC 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, 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 12, 1998 which relates to the Annual Meeting of Unitholders to be held on May 13, 1998, and additional financial information is provided in the combined financial statements of the Trust and Freehold Resources for the period ended December 31, 1997.

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

- IV. 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,
 - A. 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,

- B. one copy of the combined financial statements of the Trust and Freehold Resources for the period ended December 31, 1997 together with the accompanying report of the auditor and one copy of any subsequent interim financial statements,
 - C. one copy of the Information Circular - Proxy Statement of the Trust dated March 12, 1998, and
 - D. 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
- V. 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