

INTRODUCTION

The governance structure of Freehold Royalty Trust (the Trust) is not the same as for a conventional corporation. The Trust has no directors. The board of directors (the Board) of Freehold Resources Ltd. (Freehold Resources) has a mandate to supervise the management of the business and affairs of the Trust in the best interests of the Trust and Freehold Resources.

The Board is committed to maintaining a high standard of governance. The Board has responsibility for the overall stewardship of the Trust and its controlled entities and discharges its responsibility by reviewing, discussing and approving the Trust's strategic planning and organizational structure, and supervising management, including retention of the Manager, with a view to preserving and enhancing the underlying value of the Trust. Management of the business within this process and structure is the responsibility of the Chief Executive Officer (CEO) and the Manager.

While the Trust technically was not a shareholder of Freehold Resources when the Trust was established, a Unanimous Shareholder Agreement was entered into between Freehold Resources, the Manager and the Trustee with the intention that the Trust and the Unitholders would be given rights substantially equivalent to those which they would have if they were shareholders of Freehold Resources.

Mandate of the Trustee

Computershare Trust Company of Canada is the Trustee of the Trust and also acts as the transfer agent for the Trust Units. The Trustee's responsibilities include:

- Accepting subscriptions for Trust Units and issuing Trust Units pursuant thereto.
- Maintaining the books and records of the Trust and providing timely reports to holders of Trust Units.
- Paying cash distributions to Unitholders.

The Trust Indenture provides that the Trustee must exercise its powers and carry out its functions as Trustee honestly, in good faith and in the best interests of the Trust and the Unitholders and, in connection therewith, is to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

Mandate of the Manager

Rife Resources Management Ltd. is the Manager of the Trust. The Manager operates in accordance with the requirements of the Trust Indenture, the Royalty Agreement and related agreements. When the Trust was established, Freehold Resources and the Trustee entered into a

Management Agreement with the Manager. Under this agreement, the Manager is responsible for the day-to-day management of the business of the Trust subject to a supervisory role of the Board. In exercising its powers and discharging its duties under the Management Agreement, the Manager must exercise the degree of care, diligence and skill that a reasonably prudent advisor and manager in respect of petroleum and natural gas properties in western Canada would exercise in comparable circumstances.

Pursuant to the provisions of the Management Agreement, the Manager provides certain administrative and support services to the Trust, including those necessary to:

- Ensure compliance by the Trust with continuous disclosure obligations under applicable securities legislation.
- Provide investor relations services.
- Provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Trust Indenture.
- Call, hold and distribute materials including notices of meetings and information circulars in respect of all necessary meetings of Unitholders.
- Determine the amounts payable from time to time to Unitholders and to arrange for distributions to Unitholders.
- Determine the timing and terms of future offerings of Trust Units, if any.
- Determine the terms and conditions upon which the Trust may acquire additional royalties.
- Determine the terms and conditions upon which the Trust may from time to time borrow money.

The Manager is paid (in Trust Units) for providing its services and is entitled to reimbursement for general and administrative costs incurred.

GENERAL

The Board of Freehold Resources is committed to maintaining a high standard of governance. The Board has responsibility for the overall stewardship of the Trust and its controlled entities and discharges its responsibility by reviewing, discussing and approving the Trust's strategic planning and organizational structure, and supervising management, including retention of the Manager, with a view to preserving and enhancing the underlying value of the Trust.

Management of the business within this process and structure is the responsibility of the Chief Executive Officer (CEO) and the Manager.

COMPOSITION OF THE BOARD

It is a term of the Unanimous Shareholder Agreement that the Board will consist of a minimum of five and a maximum of nine directors. The Unanimous Shareholder Agreement provides that the Unitholders will be entitled to elect a majority of the directors and the Manager is entitled to elect the balance of the directors.

The Board currently consists of seven members, two of whom are to be elected annually by the Manager and five of whom are independent directors. The independent directors are nominated annually by the directors of Freehold Resources based on the recommendation of the Governance Committee. At all times, a majority of the directors will be independent, as defined below.

Director Independence

The Board has determined that an independent director is a director who is not a member of management and who does not have a relationship with the Trust or with management that may affect the director's ability to act with a view to the best interests of the Trust, or be perceived to do so. The Board may adopt other categorical standards for determining whether a director is independent and will review the independence of each of the non-management directors annually.

For Audit Committee purposes only, a director is not independent if he or she does not satisfy the Audit Committee independence requirements contained in any applicable securities legislation, or rules of any stock exchange on which the Trust's securities are listed for trading.

Independent directors and their firms will not be retained for consulting without the approval of the Board.

Selection of Chair

The Chair will be appointed by the Board from among the independent directors. The Chair reports to the Board and to the Unitholders. The Board has approved, and will periodically review, a position description for the Chair.

Director Compensation

The Board has determined that the directors should be compensated in a form and amount that is appropriate and which is customary for comparable entities, having regard to such matters as time commitment, responsibility and trends in director compensation. The Board, based upon recommendations of the Compensation Committee, will periodically review the adequacy and form of directors' compensation, including compensation of the Chair and committee chairs, to ensure that it is competitive and realistically reflects the responsibilities and risks involved in being a director.

Directors appointed by the Manager, who are employees of the Manager, will not receive additional compensation for Board service.

Term Limits for Directors

The Board has determined that fixed term limits for directors should not be established. The Board is of the view that such a policy would have the effect of forcing directors off the Board who have developed, over a period of service, increased insight into the Trust and who, therefore, can be expected to provide an increasing contribution to the Board. At the same time, the Board recognizes the value of some turnover in Board membership to provide ongoing input of fresh ideas and views and annually considers changes to the composition of the Board.

Selection of New Director Candidates

Subject to the Unanimous Shareholder Agreement, the selection of directors and procedures to identify possible nominees, will be determined after giving consideration to:

- the competencies and skills that the Board considers necessary for the Board as a whole to possess,
- the competencies and skills possessed by each current director,
- the competencies and skills each new nominee will bring to the Board, and
- the appropriate size of the Board, with a view to facilitating effective decision-making.

Director Qualification Standards

In nominating an individual to become a director, the Board will consider education, business, governmental and civic experience, communication and interpersonal skills, the diversity of the existing board and the background of the potential candidate, as well as any other matters which are relevant to the Board's objectives.

This review will take into account the desirability of maintaining a reasonable diversity of personal characteristics such as age, gender and geographic residence. However, all directors should possess high personal and professional ethics, integrity and values and be committed to representing the long-term interests of the Unitholders. They must also have an inquisitive and objective perspective, practical wisdom and mature judgment, outstanding ability in their individual fields of expertise and a willingness to devote necessary time to Board matters.

Director Orientation and Education

The Board is committed to ensuring that directors have the requisite skills, knowledge and understanding to fulfill their duties as directors. A director's manual containing board and committee mandates, position descriptions, policies, and other information is provided to new

directors who are expected to review and become familiar with its contents. In addition, management conducts orientation sessions with new directors to review the Trust's business, current issues and opportunities.

Management provides directors with opportunities to increase their knowledge and understanding of the Trust's business. Pre-reading materials are provided in quarterly Board packages sent to directors in advance of regularly scheduled Board meetings. Briefings on strategic issues are conducted annually and typically include reviews of the competitive environment, the Trust's performance relative to its peers, and any other developments that could materially affect the Trust's business. In addition, the Board is briefed on a regular basis on governance developments and emerging best practices in governance.

MATTERS REQUIRING BOARD APPROVAL

Pursuant to the Management Agreement, the Manager has responsibility for the day-to-day operations of the Trust, subject to the Board's general supervision and direction. Any amendment to the Management Agreement requires the approval of the Board.

Certain responsibilities of the Board are sufficiently important to warrant the attention of the full Board and, accordingly, are not delegated or are only delegated in a qualified or partial manner, including:

- Submitting to Unitholders any matter requiring their approval.
- Filling vacancies among the directors or appointing additional directors, other than nominees of the Manager.
- Approving capital structure plans and strategies.
- Approving borrowing and hedging.
- Approving debt or equity securities, declaring distributions or repurchasing Trust Units, and approving related prospectuses or information circulars.
- Approving capital expenditures outside approved budgets.
- Approving acquisition and disposition of properties of the Trust or Freehold Resources within the limits of the Trust Indenture.
- Approving policies relating to material expenditures or assumptions of liability outside of the ordinary course of business, including expenditures for acquisitions, joint ventures, divestitures, leasing transactions, third party loans and other similar transactions.
- Approving management proxy circulars.

- Approving annual and interim financial statements and related management's discussion and analysis.
- Approving the annual statement of reserves data and other oil and gas information and reports thereon.
- Adopting, amending or repealing By-laws.

Appointment, Supervision, and Compensation of the Manager, and Review of Compensation of the Officers

The Board is responsible for:

- Succession planning, including appointing the officers, monitoring the Manager, and determining if the Manager's engagement should be extended.
- Reviewing the Manager's compensation strategy and approving the Trust's annual commitment and funding contribution to the Manager's incentive compensation programs.
- Satisfying itself as to the business and professional integrity of the Chief Executive Officer (the CEO) and other officers, as well as the CEO's leadership in the creation of a culture of integrity throughout the organization.

Strategic Planning and Risk Management

The Board is responsible for:

- Approving goals and objectives for the Trust.
- Reviewing, adopting and monitoring the strategic planning process.
- Reviewing the Trust's long-term strategy annually.
- Reviewing and approving the operating budget.
- Considering principal business risks and reviewing and approving risk management strategies, including a quarterly review of risk management and an annual review of insurance coverage.
- Confirming that management processes are in place to address and comply with applicable regulatory, corporate, securities and other compliance matters.

- Approving policies and other protocols and controls and confirming that processes are in place to comply with Freehold Resources' By-laws, codes of conduct, and all other significant policies and procedures.

Financial Reporting and Management

The Board is responsible for:

- Monitoring operating and financial performance and reviewing results relative to established strategy, budgets and objectives.
- Approving financial statements and reviewing and overseeing compliance with applicable audit, accounting and financial reporting requirements.
- Approving annual operating and capital budgets.
- Approving any single capital commitment exceeding \$5 million or any capital commitment that results in expenditures in excess of the approved annual capital expenditure budget.
- Approving cash management plans and strategies and all activities relating to cash accounts and cash investments portfolio, including the establishment and maintenance of bank, investment and brokerage accounts.
- Satisfying itself that management has an appropriate system in place to ensure the integrity of internal control and management information systems, and reviewing the effectiveness of internal control procedures annually.
- Ensuring that a system is in place for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- Approving significant changes in accounting practices or policies.

Shareholder Communication

The Board is responsible for:

- Adopting a disclosure policy relating to, among other matters, the confidentiality of business information and the timely reporting of developments that have a significant and material impact on the value of the Trust.

- Confirming that management has established a system for effective communications including disclosure controls and processes for consistent, transparent, regular and timely public disclosure.
- Reporting annually to Unitholders on the Board's stewardship for the previous year.
- Ensuring that a system is in place to receive feedback from Unitholders, including a process to permit stakeholders to communicate with the Board. Any person who has a concern about Freehold Resources' governance, business conduct or financial practices may communicate that concern to the Board. Concerns may be submitted in writing, addressed to the Chair, Freehold Resources Ltd., c/o Burnet, Duckworth & Palmer LLP, Attention: Grant A. Zawalsky, Suite 1400, 350 - 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

The Board believes it is generally a function of management to speak for the Trust in its communications with the investment community, the media, customers, suppliers, employees, governments and the general public. The Chair or other individual directors may from time to time be requested by management to assist with such communications.

Governance

The Board, based on the recommendations of the Governance Committee, is responsible for:

- Approving appropriate governance principles and guidelines, including practices to permit the Board to function independently of management.
- Establishing committees and approving their respective mandates and the limits of authority delegated to each committee.
- Establishing a written position description for directors, that describe and communicate performance expectations of directors and provide a benchmark for developing an approach to individual director assessment and evaluation.
- Discussing the Governance Committee's evaluation of the effectiveness of individual directors, each committee, and the Board as a whole.
- Ensuring that adequate orientation programs are in place for new directors and that all directors have access to education programs to maintain and enhance their skills and abilities as directors.
- Determining director qualification standards and approving the nomination of directors.
- Arranging for independent directors to hold regular in-camera sessions, at which non-independent directors and members of management are not in attendance.

- Establishing procedures for monitoring compliance with written standards of business conduct and ethics, and approving any waivers.

The Board, based on the recommendations of the Compensation Committee, is responsible for approving directors' compensation, including compensation to the Chair and committee chairs.

POLICIES RELATING TO DISCLOSURE, INSIDER TRADING AND BUSINESS CONDUCT

The Board will confirm that policies and procedures are in place to:

- Ensure that the Trust has consistent standards and procedures for communication of both material and non-material information.
- Ensure that communication of material information to the investing public (whether positive or negative) is timely, factual and accurate, and is broadly disseminated in a non-selective manner in accordance with applicable legal and regulatory guidelines.
- Ensure that the directors and officers, and the employees of the Manager, comply with the Trust's written standards of business conduct and ethics. The Board must approve any waivers and ensure disclosure of any waivers, if required.
- Ensure that the directors and officers, and the employees of the Manager, have been given guidelines regarding trading in securities of the Trust, including mandatory blackout periods.

BOARD OPERATIONS

Number of Board Meetings

The Board will meet quarterly, or more frequently as needed for the directors to diligently discharge their responsibilities.

Committees of the Board

The Board has established four standing committees of its members (Audit, Compensation, Governance, and Reserves) to assist it in discharging its responsibilities, and may constitute other committees from time to time. Each committee has a mandate approved by the Board and reviewed annually.

All members of the Audit Committee and the majority of the members of other committees must be independent directors.

Any committee of the Board may retain persons having special expertise or obtain independent professional advice to assist in fulfilling their responsibilities at the expense of the Trust without any further approval of the Board.

Notwithstanding the delegation of responsibilities to a committee, the Board as a whole is ultimately responsible for matters assigned to the committees for determination. Except as may be explicitly provided in the mandate of the committee or a resolution of the Board, the role of the committee is to review and make recommendations to the Board with respect to the approval of matters considered by the committee.

Conduct of Meetings

Board and committee meetings will be conducted in a manner which ensures open communication, meaningful participation and timely resolution of issues.

Agenda for Board and Committee Meetings

The Chair and the CEO will propose an agenda for each Board meeting. Each director is free to suggest the inclusion of items on the agenda. The chair of each committee of the Board, in consultation with appropriate members of management, will develop agendas for committee meetings.

Materials Distributed in Advance of Meetings

Meeting materials will be distributed to directors before each Board meeting, in sufficient time to ensure adequate opportunity for review. Under some circumstances, due to the confidential nature of matters to be discussed at the meeting, it may not be prudent or appropriate to distribute materials in advance.

Non-Directors at Board Meetings

The Board believes there is value in having certain members of management attend each Board meeting to provide information and opinions to assist the directors in their deliberations. Attendance by management will be determined by the CEO with the concurrence of the Chair. Management attendees will be excused for any agenda items that are reserved for discussion among directors only.

In-Camera Sessions

The independent directors will hold in-camera sessions in conjunction with every regular meeting of the Board, at which non-independent directors and members of management are not in attendance.