



FREEHOLD ROYALTY TRUST  
2001 Quarterly Report

Quarterly Report for the period ended December 31, 2001

### Fourth Quarter Highlights

- ◆ Increased production 11% to 6,219 barrels of oil equivalent (Boe)\* per day
- ◆ Acquired 160 Boe per day of mainly royalty production for \$4.3 million (net of adjustments)
- ◆ Average price realizations down 45% to \$18.69 per Boe, due to lower commodity prices

	Three Months Ended		%	Year Ended		%
	December 31	December 31		December 31	December 31	
	2001	2000	Change	2001	2000	Change
<b>Financial</b>	(unaudited)	(unaudited)				
<i>(\$000s except per Trust Unit)</i>						
Total revenue	10,411	16,572	-37	58,403	61,194	-5
Royalty lands income	7,373	11,167	-34	41,755	39,987	+4
Working interest sales (net of royalties)	3,038	5,405	-44	16,648	21,207	-21
Less: operating expenses	1,167	962	+21	4,415	4,080	+8
Working interest income	1,871	4,443	-58	12,233	17,127	-29
Operating income	9,244	15,610	-41	53,988	57,114	-5
Funds generated from operations	8,325	14,401	-42	49,829	51,943	-4
Per Trust Unit	0.28	0.54	-48	1.73	1.95	-11
Income available for distribution	7,823	13,381	-42	46,597	46,542	—
Per Trust Unit	0.26	0.50	-48	1.62	1.74	-7
Distributable income	9,034	10,685	-15	45,264	35,226	+28
Per Trust Unit	0.30	0.40	-25	1.56	1.32	+18
<b>Operating</b>						
Production						
Crude oil (Bbls/d)	4,072	3,423	+19	3,873	3,353	+16
NGLs (Bbls/d)	309	324	-5	354	327	+8
Natural gas (Mmcf/d)	11.0	11.0	—	11.2	11.0	+2
Oil equivalent (Boe/d) *	6,219	5,588	+11	6,086	5,523	+10
Potash (Tonnes/d)	5.3	8.1	-35	7.9	10.9	-28
Average prices (\$Cdn.)						
Crude oil (\$/Bbl)	18.35	27.79	-34	24.42	32.97	-26
NGLs (\$/Bbl)	21.20	40.60	-48	29.91	32.81	-9
Natural gas (\$/Mcf)	3.17	7.32	-57	5.64	4.71	+20
Oil equivalent (\$/Boe) *	18.69	33.83	-45	27.63	31.39	-12
Potash (\$/Tonne)	153.19	151.03	+1	153.98	146.72	+5

\* Most Canadian companies have now adopted the international standard of converting natural gas to equivalent barrels of oil at a ratio of six thousand cubic feet to one barrel (6:1). This ratio more closely reflects the relative energy content of natural gas. In this report, references to barrels of oil equivalent (Boe) use the 6:1 ratio.

## Report to Unitholders

### Distribution Update

As previously announced, cash distributions to Unitholders in 2001 were 38% taxable (other income) and 62% tax deferred (return of capital). Freehold's monthly distribution rate is currently fixed at \$0.08 per Trust Unit until further notice. Including the regular monthly distribution in the amount of \$0.08 per Trust Unit payable on March 15, 2002 to Unitholders of record on February 28, 2002, the trailing 12-month-distribution (April 2001 through March 2002) is \$1.42 per Trust Unit, representing a 15% cash-on-cash yield at current Trust Unit prices. Since inception in November 1996, the Trust has distributed a total of \$5.70 per Trust Unit.

### Management's Discussion and Analysis (MD&A)

The following discussion is management's opinion about Freehold Resources Ltd. ("Resources") and Freehold Royalty Trust's (the "Trust") operating and financial results for the three months and year ended December 31, 2001 and previous periods, and the outlook for the Trust based on currently available information. This discussion should be read in conjunction with the Trust's annual MD&A and audited combined financial statements for the years ended December 31, 2000 and 1999, together with the accompanying notes. These are included on pages 17 through 26 of the Trust's 2000 annual report to Unitholders.

### Results of Operations

**Production** – Average daily production for the fourth quarter of 2001 increased 11% over the same period last year. Production from royalty properties was 21% higher, primarily as a result of acquisitions completed during 2001. Working interest production declined 6%, as the former operator at the Hayter, Alberta property cancelled its development activity during 2001. For the full year 2001, production increased 10% over 2000.

Average Daily Production	Three Months Ended			Year Ended		
	December 31		%	December 31		%
	2001	2000	Change	2001	2000	Change
Royalty Lands						
Crude oil and NGLs (Bbls/d)	3,027	2,216	+37	2,790	2,191	+27
Natural gas (Mmcf/d)	7.7	8.1	-5	7.9	7.8	+1
Oil equivalent (Boe/d)	4,305	3,558	+21	4,109	3,496	+18
Working Interest Lands						
Crude oil and NGLs (Bbls/d)	1,354	1,531	-12	1,437	1,489	-3
Natural gas (Mmcf/d)	3.4	3.0	+13	3.2	3.2	—
Oil equivalent (Boe/d)	1,914	2,030	-6	1,977	2,027	-2
Total Trust (Boe/d)	6,219	5,588	+11	6,086	5,523	+10

**Pricing** – Freehold's fourth quarter crude oil and natural gas liquids price realization averaged Cdn. \$18.55 per barrel, 36% lower than the fourth quarter last year. During this period, Benchmark West Texas Intermediate (WTI) oil prices averaged US\$20.42 per barrel, down 36%, while the light/heavy oil price differential improved to Cdn. \$14.00 per barrel from \$20.50 per barrel in the fourth quarter of 2000.

AECO natural gas prices peaked at a high of Cdn. \$12.50 in January and fell to a low of \$2.60 in October to average \$6.30 per Mcf for the year and \$3.30 per Mcf in the last three months of 2001. This has resulted in a year in which volatile gas prices significantly impacted quarterly results.

Average Prices (\$Cdn.)	Three Months Ended			Year Ended		
	December 31		%	December 31		%
	2001	2000	Change	2001	2000	Change
Crude oil (\$/Bbl)	18.35	27.79	-34	24.42	32.97	-26
NGLs (\$/Bbl)	21.20	40.60	-48	29.91	32.81	-9
Natural gas (\$/Mcf)	3.17	7.32	-57	5.64	4.71	+20
Per Boe (\$)	18.69	33.83	-45	27.63	31.39	-12

**Revenue** – Total revenue for the fourth quarter was down 37% from the prior period as lower realized prices more than offset increased revenue from higher production volumes. For the year, revenue was 5% lower than last year. Revenue from royalty lands was down 34% for the quarter but was up 4% for the year, compared with the same periods in 2000. Revenue from working interest properties declined 44% from the fourth quarter of 2000 and was down 21% year-over-year.

Gross Revenue Variances (\$000s)	Three Months Ended		Year Ended	
	December 31		December 31	
	2001 vs. 2000	2000 vs. 1999	2001 vs. 2000	2000 vs. 1999
Crude oil and NGL				
Production increase	1,083	1,317	4,881	5,612
Price (decrease) increase	(3,565)	109	(10,885)	13,648
Net increase (decrease)	(2,482)	1,426	(6,004)	19,260
Natural gas				
Production (decrease) increase	(6)	109	143	(112)
Price (decrease) increase	(4,211)	4,260	3,797	9,067
Net (decrease) increase	(4,217)	4,369	3,940	8,955
Gross revenue (decrease) increase	(6,699)	5,795	(2,064)	28,215

**Royalties** – Royalty expense on working interest properties totaled \$0.6 million for the fourth quarter, down 53%. On a year-over-year basis, total royalties were 8% higher, reflecting the price sensitive rate structure of these royalties. As Freehold is a mineral title owner on most of its production, no royalties are paid to others on the Trust's share of production from royalty lands (Freehold receives the royalty from other companies). As a percentage of gross revenue, royalties were 24% lower than the fourth quarter last year, but 58% lower on a Boe basis due to higher production from Royalty lands.

Royalty Expenses	Three Months Ended			Year Ended		
	December 31		%	December 31		%
	2001	2000	Change	2001	2000	Change
Total royalties (\$000s)	557	1,187	-53	3,815	3,534	+8
Per Boe (\$)	0.97	2.30	-58	1.72	1.75	-2

**Operating Costs** – Operating costs averaged \$2.04 per Boe in the fourth quarter, up 9% from the same period in 2000, primarily the result of higher electrical and fuel gas costs. For the full year 2001, operating costs declined 1% to \$1.99 per Boe reflecting higher proportionate volumes of royalty production which incur no operating costs.

Operating Costs	Three Months Ended			Year Ended		
	December 31		%	December 31		%
	2001	2000	Change	2001	2000	Change
Working interest wells (\$000s)	1,167	962	+21	4,415	4,080	+8
Per Boe (\$)	6.63	5.23	+27	6.12	5.50	+11
Royalty interest lands (\$000s)	—	—	—	—	—	—
Per Boe (\$)	—	—	—	—	—	—
Total operating costs (\$000s)	1,167	962	+21	4,415	4,080	+8
Per Boe (\$)	2.04	1.87	+9	1.99	2.02	-1

**Cash Flow** – Funds generated from operations (cash flow) declined 42% in the fourth quarter and 4% for the year, compared with the same periods in 2000. On a Boe basis, cash flow for the quarter totaled \$14.55, down 48% from a year ago. The decline is a function of the lower commodity price environment, which overshadowed production increases. Royalty lands provided 82% of cash flow for the quarter (79% for the year).

**Netbacks** – Freehold's operating netback for the fourth quarter was \$16.16 per Boe, down 47%. The sharp decline is attributable to lower commodity prices. For the year ended December 31, 2001, the Trust's operating netback was \$24.30 per Boe, down 14%.

Operating Netbacks (\$/Boe)	Three Months Ended			Year Ended		
	December 31		%	December 31		%
	2001	2000	Change	2001	2000	Change
Oil and gas sales	17.90	31.85	-44	25.96	29.78	-13
Other royalty revenue	0.27	0.32	-16	0.31	0.44	-30
Interest income	0.03	0.07	-57	0.02	0.05	-60
Total revenues	18.20	32.24	-44	26.29	30.27	-13
Operating costs	2.04	1.87	+9	1.99	2.02	-1
Operating netback	16.16	30.37	-47	24.30	28.25	-14

**General and Administrative Expenses** – General and administrative (G&A) expenses for the fourth quarter of 2001 rose 10% on a Boe basis, due to additional land administration costs as a result of acquisitions completed during the year. For the year 2001, G&A declined 3% to \$1.01 per Boe.

G&A Expenses	Three Months Ended			Year Ended		
	December 31		%	December 31		%
	2001	2000	Change	2001	2000	Change
G&A expenses (\$000s)	588	481	+22	2,244	2,097	+7
Per Boe (\$)	1.03	0.94	+10	1.01	1.04	-3
Per Trust Unit (\$)	0.02	0.02	—	0.08	0.08	—

**Management Fees** – The Manager of the Trust continues to receive its management fee in Trust Units. During the fourth quarter of 2001, the Manager received 22,500 Trust Units as the management fee. For the year ended December 31, 2001, 86,236 Trust Units were issued as payment of the management fee. The issuance of 3.3 million Trust Units in May of 2001 resulted in a pro-rata increase in the management fee in accordance with the Management Contract.

Management Fees	Three Months Ended			Year Ended		
	December 31		%	December 31		%
	2001	2000	Change	2001	2000	Change
Management fees (\$000s)	207	174	+19	776	625	+24
Per Boe (\$)	0.36	0.34	+6	0.35	0.31	+13
Per Trust Unit (\$)	0.01	0.01	—	0.03	0.02	+50

**Net Income** – Net income for the fourth quarter was \$2.4 million (\$0.08 per Trust Unit), compared with \$9.4 million (\$0.35 per Trust Unit) a year ago. The decrease in net income reflects lower prices, partially offset by higher production volumes, compared with the fourth quarter last year. Net income for the year declined 14% to \$27.3 million (\$0.95 per Trust Unit) compared with \$31.7 million (\$1.19 per Trust Unit) in 2000.

**Reclamation Fund** – To fund Freehold’s ongoing environmental obligations on working interest lands, quarterly cash payments are made to a reclamation fund. For the fourth quarter of 2001, a total of \$60,000 (Q4 2000 – \$60,000) was paid into the reclamation account and \$24,000 in restoration expenses (Q4 2000 – \$28,000) were paid from the fund. The balance in the fund at the end of the year was \$884,000. No reclamation expenses are incurred on the royalty lands.

**Unitholder Taxation** – By utilizing available tax deductions, cash distributions in the Trust’s initial years were sheltered from income tax. Over time, an increasing percentage of the annual distributions will become taxable. Cash distributions received in 2001 were 38% taxable to Unitholders as other income, and 62% were tax deferred (return of capital). Freehold estimates that 50% - 55% of distributions will be taxable to Unitholders in 2002.

**Distributable Income** – Freehold distributed \$9.0 million (\$0.30 per Trust Unit) to Unitholders during the fourth quarter of 2001, down 25% from the fourth quarter in 2000. For the full year 2001, Freehold distributed \$45.3 million (\$1.56 per Trust Unit), up 18% from 2000, including the issuance of 3.3 million new Trust Units.

**Capital Expenditures** – Freehold’s provision for capital expenditures (excluding acquisitions) totaled \$0.5 million in the fourth quarter, down from \$1.8 million for the same period last year. All capital expenditures were related to working interest properties and were funded entirely from cash flow. Freehold expended \$3.0 million on development capital in 2001, compared with \$5.1 million in 2000. Of this amount, \$1.9 million was spent at Pembina Cardium Unit #9.

**Liquidity and Capital Resources** – Freehold’s long-term debt outstanding at December 31, 2001 was \$33.0 million, down \$5.0 million from year-end 2000. Working capital at the end of the year totaled \$4.3 million, resulting in net debt obligations of \$28.7 million. The ratio of net debt to trailing cash flow of 0.6:1 reflects the Trust’s strong financial condition.

## Developments

**Drilling Activity** – A total of 154 wells (2.5 net) were drilled on Freehold’s lands during the fourth quarter of 2001, compared with 80 wells (3.7 net) in the same period last year. A total of 575 wells (14.0 net) were drilled in 2001, compared with 504 (18.6 net) in 2000.

**Activity on Royalty Lands** – Industry operators drilled a total of 148 (2.3 net) royalty wells (including unitized wells) on Freehold lands in the fourth quarter versus 66 (2.0 net) in the same period of 2000. In 2001, a total of 525 royalty wells (10.6 net) were drilled. These wells were drilled at no cost to Freehold. The Trust has royalty interests in more than 13,000 producing wells throughout western Canada.

**Activity on Working Interest Properties** – Freehold participated in the drilling of 6 (0.2 net) working interest wells during the fourth quarter, down from 14 (1.7 net) wells drilled in the fourth quarter of 2000. Due to the lack of development activity during 2001 at Hayter, total working interest production declined 116 Boe per day in the fourth quarter (50 Boe per day for the year). In November, Rife Resources Ltd. (the Manager of the Trust) took over as operator of the Hayter property and plans to resume development activity in 2002.

A significant portion of Freehold’s capital expenditures in 2001 was employed at Pembina Cardium Unit #9, where a 36 (3.6 net) well infill drilling program is nearing completion. To the end of the fourth quarter, a total of 29 wells have been drilled in the program. The remaining seven wells are expected to be drilled in early 2002. The program has been successful as it has increased production by 20% in 2001 and is expected to further impact 2002.

## Acquisition

Effective November 1, 2001, Freehold acquired approximately 140 Boe per day of royalty production in the Hayter property and 20 Boe per day of miscellaneous royalty and working interest production in proximal properties for \$4.5 million (\$4.3 million, net of purchase price adjustments). The Trust also owns a 23.52% working interest at Hayter. This acquisition was funded through Freehold’s existing bank facilities.

## Reserves

The Trust’s reserves are independently evaluated by Grant Trimble Engineering Ltd. on an annual basis. Year over year, established reserves (proven plus half probable) remained stable at 28.2 million Boe (0.94 Boe per Trust Unit), as reserves added through acquisitions and development activities offset annual production and revisions of prior estimates. In 2001, before revisions, Freehold replaced 175% (2000 – 107%) of its annual production through acquisitions and development activities. The average cost of reserve additions was \$8.40 per Boe, compared with \$4.85 in 2000, as the acquired reserves are mainly royalties which have a greater economic value than working interests and command a higher market price.

Including the potash reserves (evaluated by the Manager at \$4.9 million), the present value of Freehold’s future net revenue, discounted at 12%, totaled \$223.4 million. This represents a 6% decrease over last year due to the application of a lower price forecast at year-end 2001. Freehold’s net asset value as of December 31, 2001 based on a 12% discounted present value was \$6.64 per Trust Unit, down 15% from year end 2000. The decrease is related to the issuance of additional Trust Units, reduced working capital and lower reserve values resulting from a lower price forecast at year-end 2001. This decrease was partially offset by increased undeveloped land values and reduced bank debt. At December 31, 2001, the Trust had a reserve life index of 12.7 years, compared to 13.9 years at December 31, 2000, reflecting of the Trust’s higher production levels in 2001.

<b>Reserves</b> (as at December 31, 2001)	Proven	Risked Probable <sup>1</sup>	Established
Crude oil (Mbbbls)	13,744	2,988	16,732
NGLs (Mbbbls)	2,136	285	2,421
Natural gas (Mmcf)	44,335	9,811	54,146
Total (Mboe) <sup>2</sup>	23,269	4,908	28,177
Potash (Mtonnes)	65,972	—	65,972

1. Probable reserves have been reduced by 50% to account for the degree of uncertainty associated with probable reserves

2. 6 Mcf = 1 barrel of oil equivalent (Boe)

<b>Reserves Reconciliation</b>	<b>Oil and NGLs (Mbbbls)</b>		<b>Natural Gas (Mmcf)</b>		<b>Combined Equivalent (Mboe)<sup>1</sup></b>		
	Proven	Risked Probable <sup>2</sup>	Proven	Risked Probable <sup>1</sup>	Proven	Risked Probable <sup>1</sup>	Established
January 1, 2001	15,064	3,312	50,746	7,905	23,522	4,629	28,150
Reserve additions	543	102	1,926	2,363	863	495	1,359
Acquisitions	2,006	318	644	622	2,113	421	2,535
Revisions	(190)	(457)	(4,909)	(1,079)	(1,008)	(637)	(1,645)
Dispositions	—	—	—	—	—	—	—
Production	(1,543)	—	(4,071)	—	(2,221)	—	(2,221)
<b>January 1, 2002</b>	<b>15,880</b>	<b>3,273</b>	<b>44,335</b>	<b>9,811</b>	<b>23,269</b>	<b>4,909</b>	<b>28,177</b>
Change over prior year	816	(38)	(6,411)	1,906	(253)	280	27

1. 6 Mcf = 1 barrel of oil equivalent (Boe)

2. Probable reserves have been reduced by 50% to account for the degree of uncertainty associated with probable reserves

## Outlook

While industry drilling activity slowed in the fourth quarter, 2001 was nonetheless a record year for drilling in western Canada. Lower anticipated commodity prices in 2002 will reduce industry cash flows and thus the amount of capital for reinvestment. The Canadian Association of Oilwell Drilling Contractors is forecasting a 25% reduction in industry drilling activity in 2002.

For 2002, Freehold is assuming average prices of Cdn. \$2.86 per Mcf for AECO natural gas, U.S. \$20.50 per barrel for WTI crude oil and a narrowing of the light/heavy oil price differential to an average of Cdn. \$8.00 per barrel. Based on these assumptions and a 2002 production forecast of 6,000 Boe per day, Freehold estimates that approximately \$1.00 per Trust Unit will be distributed to Unitholders in 2002. However, significant changes in production rates or commodity prices (positive or negative) will result in adjustments to the distribution level.

Over the past five years, our strategy has remained consistent, regardless of commodity price cycles. We strive to achieve the highest level of distributable income for our Unitholders. The new properties acquired in 2001 continue to strengthen the performance of the Trust and we will continue to pursue similar opportunities to increase the assets of the Trust.

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

David J. Sandmeyer  
President & Chief Executive Officer

February 21, 2002

## Combined Balance Sheets

(\$000s)	December 31 2001	December 31 2000
<i>Assets</i>		
Current assets:		
Cash	\$ 260	\$ 280
Accounts receivable	9,074	12,261
	9,334	12,541
Reclamation fund	884	745
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$111,316 (2000 – \$89,914) (note 2)	225,367	214,070
	\$ 235,585	\$ 227,356
<i>Liabilities and Unitholders' Equity</i>		
Current liabilities:		
Distributions payable to Unitholders	\$ 3,013	\$ 2,673
Accounts payable and accrued liabilities	2,005	2,780
	5,018	5,453
Provision for future site restoration	1,125	874
Long-term debt	33,000	38,000
Unitholders' equity (note 3)	196,442	183,029
	\$ 235,585	\$ 227,356

## Combined Statements of Unitholders' Equity

(\$000s)	December 31 2001	December 31 2000
Unitholders' equity, beginning of period	\$ 183,029	\$ 185,938
Net income	27,299	31,692
Distributions to Unitholders	(45,264)	(35,226)
Issue of new Trust Units (note 3)	31,378	625
Unitholders' equity, end of period	\$ 196,442	\$ 183,029

## Combined Statements of Income

<i>(\$000s, Except per Unit Data)</i>	Three Months Ended December 31		Year Ended December 31	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)		
Revenues:				
Royalty income	<b>\$ 7,373</b>	\$ 11,167	<b>\$ 41,755</b>	\$ 39,987
Working interest sales (net of royalties)	<b>3,038</b>	5,405	<b>16,648</b>	21,207
Operating expenses	<b>1,167</b>	962	<b>4,415</b>	4,080
Working interest income	<b>1,871</b>	4,443	<b>12,233</b>	17,127
	<b>9,244</b>	15,610	<b>53,988</b>	57,114
Other expenses:				
General and administrative	<b>588</b>	481	<b>2,244</b>	2,097
Interest on long-term debt	<b>283</b>	647	<b>1,797</b>	2,672
Other interest	<b>1</b>	2	<b>17</b>	28
Capital taxes and other expenses	<b>47</b>	79	<b>101</b>	374
	<b>919</b>	1,209	<b>4,159</b>	5,171
Funds generated from operations	<b>8,325</b>	14,401	<b>49,829</b>	51,943
Depletion and depreciation	<b>5,604</b>	4,758	<b>21,402</b>	19,257
Provision for future site restoration	<b>84</b>	88	<b>352</b>	369
Management fee	<b>207</b>	174	<b>776</b>	625
Net income	<b>\$ 2,430</b>	\$ 9,381	<b>\$ 27,299</b>	\$ 31,692
Net income per Trust Unit, basic and diluted	<b>\$ 0.08</b>	\$ 0.35	<b>\$ 0.95</b>	\$ 1.19

## Combined Statements of Cash Flows

(\$000s)	Three Months Ended December 31		Year Ended December 31	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)		
Cash provided by (used in):				
Operating:				
Net income	\$ 2,430	\$ 9,381	\$ 27,299	\$ 31,692
Items not involving cash:				
Depletion and depreciation	5,604	4,758	21,402	19,257
Provision for future site restoration	84	88	352	369
Trust Units issued in lieu of management fee	207	174	776	625
Funds generated from operations	8,325	14,401	49,829	51,943
Changes in non-cash operating working capital	3,949	644	2,412	(2,948)
	<b>12,274</b>	<b>15,045</b>	<b>52,241</b>	<b>48,995</b>
Financing:				
Issue of new Trust Units	—	—	31,845	—
Issue cost of new Trust Units	—	—	(1,343)	—
Trust Units issued upon exercise of options	—	—	100	—
Bank indebtedness	—	—	—	(2,350)
Long-term debt	2,000	(5,000)	(5,000)	(1,288)
Distributions paid	(9,634)	(10,683)	(44,924)	(34,418)
	<b>(7,634)</b>	<b>(15,683)</b>	<b>(19,322)</b>	<b>(38,056)</b>
Investing:				
Property and royalty acquisitions (note 2)	(4,307)	—	(29,707)	(5,326)
Development expenditures	(452)	(1,783)	(2,992)	(5,161)
Site reclamation fund contributions	(60)	(60)	(240)	(240)
	<b>(4,819)</b>	<b>(1,843)</b>	<b>(32,939)</b>	<b>(10,727)</b>
Increase (decrease) in cash	(179)	(2,481)	(20)	212
Cash, beginning of period	439	2,761	280	68
Cash, end of period	<b>\$ 260</b>	<b>\$ 280</b>	<b>\$ 260</b>	<b>\$ 280</b>

## NOTES TO INTERIM COMBINED FINANCIAL STATEMENTS

For the period ended December 31, 2001

### 1) SIGNIFICANT ACCOUNTING POLICIES

The interim combined financial statements of Freehold Royalty Trust “the Trust” have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim combined financial statements have been prepared following the same accounting policies and methods of computation as the combined financial statements for the fiscal year ended December 31, 2000. The interim combined financial statements should be read in conjunction with the combined financial statements and the notes thereto in the Trust’s annual report for the year ended December 31, 2000.

### 2) PROPERTY AND ROYALTY ACQUISITIONS

On April 30, 2001 the Trust completed an acquisition of producing mineral title and gross overriding royalty properties and undeveloped land for \$27.6 million (\$25.4 million net of purchase price adjustments). As well, on November 26, 2001 the Trust completed an acquisition of producing mineral title and gross overriding royalty properties and working interest properties for \$4.5 million (\$4.3 million net of purchase price adjustments).

### 3) ISSUANCE OF NEW TRUST UNITS

On May 17, 2001 the Trust closed the issuance of 3.3 million new Trust Units at a price of \$9.65 per Trust Unit for gross proceeds of \$31.8 million (net of issuance costs - \$30.5 million). Proceeds of the offering were used to repay debt.

### 4) COMBINED STATEMENTS OF DISTRIBUTABLE INCOME

(\$000s, Except per Unit Data)	Three Months Ended December 31		Year Ended December 31	
	2001 (Unaudited)	2000 (Unaudited)	2001	2000
Funds generated from operations	\$ 8,325	\$ 14,401	\$ 49,829	\$ 51,943
Deduct:				
Site reclamation fund contributions	(60)	(60)	(240)	(240)
Provision for capital expenditures	(442)	(960)	(2,992)	(5,161)
Income available for distribution	\$ 7,823	\$ 13,381	\$ 46,597	\$ 46,542
Income available for distribution per Trust Unit	\$ 0.26	\$ 0.50	\$ 1.62	\$ 1.74
Debt repayment	(2,306)	(5,000)	(4,594)	(8,964)
Working capital change	3,517	2,304	3,261	(2,352)
Distributable income	\$ 9,034	\$ 10,685	\$ 45,264	\$ 35,226
Distributable income per Trust Unit	\$ 0.30	\$ 0.40	\$ 1.56	\$ 1.32

## Unitholder Information

2001 Trust Unit Information	Three Months Ended			
	December 31	September 30	June 30	March 31
Trust Unit Prices				
High	\$9.58	\$9.64	\$10.10	\$10.00
Low	\$8.11	\$8.00	\$8.50	\$8.35
Close	\$9.20	\$8.90	\$9.00	\$8.90
Volume (TSE) (000's)	1,834	2,098	2,801	1,430
Trust Units Outstanding	30,129,236	30,106,736	30,084,236	26,748,000
Weighted Average Trust Units Outstanding	30,106,981	30,084,481	28,386,365	26,728,222

2001 Distributions	Record Date	Payment Date	Per Trust Unit
January, 2001	Jan. 31, 2001	Feb. 15, 2001	\$0.10
February, 2001	Feb. 28, 2001	Mar. 15, 2001	\$0.10
<b>Extra Distribution</b>	<b>Feb. 28, 2001</b>	<b>Mar. 15, 2001</b>	<b>\$0.10</b>
March, 2001	Mar. 31, 2001	Apr. 15, 2001	\$0.10
April, 2001	Apr. 30, 2001	May 15, 2001	\$0.10
May, 2001	May 31, 2001	June 15, 2001	\$0.12
<b>Extra Distribution</b>	<b>May 31, 2001</b>	<b>June 15, 2001</b>	<b>\$0.11</b>
June, 2001	June 30, 2001	July 15, 2001	\$0.12
July, 2001	July 31, 2001	Aug. 15, 2001	\$0.12
August, 2001	Aug. 31, 2001	Sept. 15, 2001	\$0.12
<b>Extra Distribution</b>	<b>Aug. 31, 2001</b>	<b>Sept. 15, 2001</b>	<b>\$0.05</b>
September, 2001	Sept. 30, 2001	Oct. 15, 2001	\$0.12
October, 2001	Oct. 31, 2001	Nov. 15, 2001	\$0.10
November, 2001	Nov. 30, 2001	Dec. 15, 2001	\$0.10
December, 2001	Dec. 31, 2001	Jan. 15, 2002	\$0.10
<b>2001 Total</b>			<b>\$1.56</b>

2002 Distributions	Record Date	Payment Date	Per Trust Unit
January, 2002	Jan. 31, 2002	Feb. 15, 2002	\$0.08
February, 2002	Feb. 28, 2002	Mar. 15, 2002	\$0.08
<b>2002 Total</b>			<b>\$0.16</b>

**Total distributions paid since inception (November 1996 to March 2002) \$5.70**

**Forward-Looking Statements** – Certain information regarding Freehold set forth in this document, including management's assessment of Freehold's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Freehold's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise. Freehold's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Freehold will derive therefrom. Freehold disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

# Corporate Information

## Directors

**D. Nolan Blades**<sup>1, 2</sup>  
President  
Sunny Gables Holdings Ltd.

**Harry S. Campbell, Q.C.**  
Managing Partner  
Burnet, Duckworth & Palmer, LLP

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

**Peter T. Harrison**<sup>1</sup>  
Senior Vice-President,  
Montrusco Bolton Inc.

**Dr. P. Michael Maher**<sup>1, 2</sup>  
Professor, Faculty of Management  
University of Calgary

**David J. Sandmeyer**  
President  
Rife Resources Ltd.

**William W. Siebens**<sup>2</sup>  
President & C.E.O.  
Candor Investments Ltd.

<sup>1</sup> Audit Committee

<sup>2</sup> Corporate Governance &  
Nominating Committee

## Unitholder Services

Registered Unitholders should contact the Transfer Agent regarding distribution payments, Trust Unit certificates, change of address/duplicate mailings, and Unitholder Plans (direct deposit, distribution reinvestment, and U.S. currency payments):

Computershare Trust Company of Canada  
600, 530 – 8<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3S8  
Telephone: (403) 267-6555  
Fax: (403) 267-6592  
Toll Free: 1-888-267-6555  
Contact: Laura Leong  
Email: [laura.leong@computershare.com](mailto:laura.leong@computershare.com)  
Website: [www.computershare.com](http://www.computershare.com)

## Income Tax Information

Information regarding tax treatment of distributions is available on Freehold's website or by contacting Freehold directly.

## Officers

**William W. Siebens**  
Chairman

**David J. Sandmeyer**  
President & C.E.O.

**J. Frank George**  
Vice-President, Exploitation

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

**William O. Ingram**  
Vice-President, Production

**Michael J. Okrusko**  
Vice-President, Land

## Head Office

**Freehold Resources Ltd.**  
**Freehold Royalty Trust**  
400, 144 - 4<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3N4  
Telephone: (403) 221-0802  
Fax: (403) 221-0888

## Investor Relations

**Karen C. Taylor**  
Manager, Investor Relations  
Direct: (403) 221-0891  
Fax: (403) 221-0888  
Toll Free: 1-888-257-1873  
Email: [ir@freeholdtrust.com](mailto:ir@freeholdtrust.com)

## Website

[www.freeholdtrust.com](http://www.freeholdtrust.com)

## Stock Exchange Listing

The Toronto Stock Exchange  
Trading Symbol: FRU.UN

## Trustee

Montreal Trust Company of Canada  
Calgary, Alberta

## Transfer Agent

Computershare Trust Company of Canada  
Calgary, Alberta  
Toronto, Ontario

## Legal Counsel

Burnet Duckworth & Palmer, LLP  
Calgary, Alberta

## Auditors

KPMG, LLP  
Calgary, Alberta

## Banker

Canadian Imperial Bank of Commerce  
Calgary, Alberta

## Evaluation Engineers

Grant Trimble Engineering Ltd.  
Calgary, Alberta