

FOR THE PERIOD ENDED DECEMBER 31, 1999

## Freehold Royalty Trust

1999 FOURTH QUARTER REPORT

### Fourth Quarter Results

- ◆ Total revenue increased 139% to \$11.5 million
- ◆ Cash distributions rose 107% to \$8.3 million (\$0.31 per Trust Unit)
- ◆ Crude oil and NGLs production declined 6% to average 3,251 barrels per day
- ◆ Natural gas production averaged 10.9 million cubic feet per day, down 8%

	Three Months Ended			Year Ended	
	DEC. 31, 1999	DEC. 31, 1998	% Change	DEC. 31, 1999	DEC. 31, 1998
<b>Financial</b>					
<i>(\$000s except per Trust Unit)</i>					
Total Revenue	<b>11,484</b>	4,801	+139	35,270	23,723
Royalty Lands income	<b>7,516</b>	2,157	+248	22,075	14,429
Working interest sales <small>(net of royalties)</small>	<b>3,968</b>	2,644	+50	13,195	9,294
Less: Operating expenses	<b>866</b>	981	-12	3,555	3,655
Working interest income	<b>3,102</b>	1,663	+87	9,640	5,639
Operating income	<b>10,618</b>	3,820	+178	31,715	20,068
Funds generated from operations before non-cash expenses	<b>9,696</b>	2,525	+284	27,350	15,244
Income available for distribution per Trust Unit	<b>8,958</b> <b>0.34</b>	2,479 0.09	+261 +278	26,207 0.98	14,859 0.56
Distributable income per Trust Unit	<b>8,256</b> <b>0.31</b>	3,983 0.15	+107 +107	20,757 0.78	17,186 0.65
<b>Operating</b>					
Production					
Crude oil and NGLs (Bbls/d)	<b>3,251</b>	3,463	-6	3,223	3,547
Natural gas (Mmcf/d)	<b>10.9</b>	11.9	-8	11.2	11.9
Barrels of oil equivalent (Boe/d)	<b>4,340</b>	4,656	-7	4,338	4,737
Potash (Tonnes/d)	<b>13.9</b>	10.1	+38	14.2	15.3
Average Prices (\$Cdn.)					
Crude oil and NGL's (\$/Bbl)	<b>28.53</b>	13.56	+110	21.37	13.00
Natural gas (\$/Mcf)	<b>3.06</b>	2.19	+40	2.48	1.91
Barrels of oil equivalent (\$/Boe)	<b>29.05</b>	15.70	+85	22.25	14.54
Potash (\$/Tonnes)	<b>154.92</b>	167.55	-8	157.56	147.72

RESERVES (as at December 31, 1999)	Proven	Probable (1)	Established
Crude Oil (million barrels)	13.0	3.5	<b>16.5</b>
Natural Gas (billion cubic feet)	51.6	8.4	<b>60.0</b>
Natural Gas Liquids (million barrels)	2.2	0.4	<b>2.6</b>
Oil Equivalent (million barrels)	20.4	4.7	<b>25.1</b>

(1) Probable reserves risked at 50%.

## Report to Unitholders

### Extra Distribution Declared

Income available for distribution for the fourth quarter of 1999 was up 261% to \$9.0 million (\$0.34 per Trust Unit) versus \$2.5 million (\$0.09 per Trust Unit) for the corresponding quarter in 1998. During the fourth quarter of 1999, the Trust continued to strengthen its balance sheet by improving its working capital position in the amount of \$0.7 million (\$0.03 per Trust Unit). After strengthening the balance sheet, the Trust provided actual distributable income of \$8.3 million (\$0.31 per Trust Unit), up 107% from the fourth quarter of 1998.

#### RECONCILIATION OF DISTRIBUTABLE INCOME CHANGE (Q4 1999 vs. Q4 1998)

Distributable income for the three months ended December 31, 1999	\$0.1500
Impact of higher commodity prices	0.2777
Effect of decreased production	(0.0319)
Impact of interest, production and other charges	(0.0029)
Working Capital replacement	(0.0829)
Distributable income for the three months ended December 31, 1999	\$0.3100

Income available for distribution for the full year 1999 was up 76% to \$26.2 million (\$0.98 per Trust Unit) versus \$14.9 million (\$0.56 per Trust Unit) in 1998. Of this amount the Trust repaid \$3.2 million (\$0.12 per Trust Unit) to reduce short-term debt. This short-term debt was used to sustain 1998 distributions in a period of depressed oil prices. In addition, at December 31, 1999, the Trust had an accrued undistributed working capital surplus of \$2.4 million (\$0.09 per Trust Unit). The Trust will use \$0.06 per Trust Unit of this working capital to provide an extra distribution to Unitholders and will hold \$0.03 per Trust Unit in reserve to be used for capital expenditures, debt repayment or other corporate uses as determined by the Board of Directors.

The Trust distributed a total of \$20.8 million (\$0.78 per Trust Unit) during 1999, up 21% from \$17.2 million (\$0.65 per Trust Unit) in 1998. A distribution for the month of February of \$0.07 per Trust Unit will be paid on March 15, 2000 to Unitholders of record on February 29, 2000. **The monthly distribution is fixed at \$0.07 per Trust Unit until further notice. Directors review amounts of excess funds available for distribution each quarter. Following a review of fourth quarter 1999 results, the Board of Directors have declared an extra distribution of \$0.06 per Trust Unit payable on March 15, 2000 to Unitholders of record on February 29, 2000.** Combined, the regular monthly distribution and the extra distribution will total \$0.13 per Trust Unit, to be paid on March 15, 2000. The Trust will not be adjusting its regular monthly distribution but will continue to provide extra distributions to Unitholders to the extent warranted by ongoing cash flow.

### Financial Results

Total revenues for the fourth quarter of 1999 increased 139% to \$11.5 million from \$4.8 million last year. Revenues for the full year 1999 were up 49% to \$35.3 million compared to \$23.7 million in 1998. Freehold's average crude oil and NGLs price of \$28.53 per barrel was 110% higher than the fourth quarter of 1998. The full year crude oil and NGLs price was \$21.37 compared to \$13.00 in 1998. Natural gas prices recorded for the quarter at \$3.06 per thousand cubic feet were 40% higher than the fourth quarter of last year. Natural gas averaged \$2.48 per thousand cubic feet for the full year 1999, as compared to \$1.91 in 1998.

Operating costs for the fourth quarter were \$2.17 per barrel of oil equivalent compared to \$2.29 last year. Full year operating costs were \$2.24 per barrel of oil equivalent compared to \$2.11 in 1998. General and administrative expenses were down 39% during the quarter at \$0.82 per barrel of oil equivalent, compared to \$1.34 last year. G&A expenses for the full year totaled \$1.19 per barrel of oil equivalent, compared to \$1.30 in 1998. The Trust's all-in costs (combined operating costs, G&A and management fee) for the year were \$3.71 per barrel of oil equivalent, among the lowest of the royalty trust group.

## Operating Results

Freehold's daily production for the fourth quarter averaged 4,340 barrels of oil equivalent, down 7% compared to 4,656 barrels of oil equivalent in the fourth quarter of 1998. Production for the full year averaged 4,338 barrels of oil equivalent, down 8% from the 1998 average of 4,737 barrels of oil equivalent. This decrease was in line with expected normal decline.

The Trust replaced 65% of its annual production in 1999 through development activities on its lands. At year-end, Freehold's established reserves are estimated to be 25.1 million barrels of oil equivalent, down four percent from the previous year. The average cost of reserve additions during 1999 was \$1.52 per barrels of oil equivalent, compared to \$1.58 reported last year. At year-end 1999 the Trust had a reserve life index of 15.8 years, compared to 15.1 years at year-end 1998.

**Activity on Royalty Interest Lands** – Consistent with industry trends, drilling by lessees on Freehold's royalty lands increased substantially in the fourth quarter of 1999 compared to the first nine months of the year. A total of 96 wells were drilled compared to 19 wells during the fourth quarter of 1998. For the full year 1999, a total of 287 wells were drilled on Freehold's royalty lands, compared to 305 wells in 1998. More importantly, there were more wells drilled on Freehold's higher interest royalty lands. As a result, the contribution to Freehold during 1999 more than doubled to 10.8 net wells compared to 5.1 net wells in 1998. The production and reserve additions from this new drilling will be reflected in the first half of 2000 and is expected to partially offset normal decline.

DRILLING ON ROYALTY LANDS	1999	1998	1997
First Quarter	16	141	65
Second Quarter	86	61	126
Third Quarter	89	84	215
Fourth Quarter	96	19	93
Total	287	305	499
Net wells	10.8	5.1	9.3

**Working Interest Properties** – Freehold owns working and mineral title interests of 23.52% in 640 acres in the Hayter area of east central Alberta. At Hayter, the average realized field price rose 100% to \$25.16 compared to \$12.55 per barrel in the fourth quarter of 1998. During the quarter, the operator commenced drilling of three wells which had been deferred from 1998 due to low oil prices. A total of 11 wells are approved at Hayter for the first quarter of 2000. Freehold participated in the drilling of 32 working interest wells (1.1 net) during 1999, as compared to 27 (0.9 net) in 1998.

## Outlook

Freehold's production for the fourth quarter of 1999 was up slightly over the second and third quarters of the year. The strengthening of oil prices beginning in the second quarter of 1999 has resulted in a significant increase in drilling activity in Western Canada. This translated into increased activity on Freehold's lands making the quarter the most active one of the last seven quarters. Based on announced capital budget increases of many exploration and production companies, this increased level of drilling is anticipated to continue into the first quarter of 2000. We exceeded our 1999 production target of 4,300 barrels of oil equivalent per day, exiting the year at 4,384.

Based on a forecast of US \$21.67 WTI per barrel, along with our production forecast of 4,250 barrels of oil equivalent per day, and an estimated capital budget of \$5.0 million due to increased development activity on our working interest properties, we anticipate a cash distribution of approximately \$1.00 per Trust Unit for the year 2000.

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

David J. Sandmeyer  
President & Chief Executive Officer

February 15, 2000

## Combined Balance Sheets

(STATED IN THOUSANDS OF DOLLARS)	DECEMBER 31, 1999	DECEMBER 31, 1998
<i>Assets</i>		
Current assets:		
Cash	\$ 68	\$ 84
Accounts receivable	8,838	5,715
	8,906	5,799
Reclamation fund	566	409
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$70,657 (1998 - \$52,731)	222,840	239,826
	\$ 232,312	\$ 246,034
<i>Liabilities and Unitholders' Equity</i>		
Current liabilities:		
Distributions payable to unitholders	\$ 1,865	\$ 1,328
Accounts payable and accrued liabilities	2,305	2,035
Bank indebtedness	2,350	5,500
	6,520	8,863
Provision for future site restoration	566	409
Long-term debt	39,288	39,288
Unitholders' equity	185,938	197,474
	\$ 232,312	\$ 246,034

## Combined Statements of Unitholders' Equity

(STATED IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)	DECEMBER 31, 1999		DECEMBER 31, 1998	
	Units	Dollars	Units	Dollars
Unitholders' equity, beginning of period	26,568,000	\$ 197,474	26,488,000	\$ 223,301
Net income (loss)	-	8,783	-	(9,190)
Distributions to unitholders	-	(20,757)	-	(17,186)
Trust Units issued in lieu of management fee	80,000	438	80,000	549
	26,648,000	\$ 185,938	26,568,000	\$ 197,474
Unitholders' equity, end of period	26,648,000	\$ 185,938	26,568,000	\$ 197,474

## Combined Statements of Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	1999	1998	1999	1998
	(Unaudited)	(Unaudited)		
Revenues:				
Royalty income	\$ 7,516	\$ 2,157	\$ 22,075	\$ 14,429
Working interest sales (net of royalties)	3,968	2,644	13,195	9,294
Operating expenses	866	981	3,555	3,655
Working interest income	3,102	1,663	9,640	5,639
	10,618	3,820	31,715	20,068
Other expenses:				
Administrative	326	574	1,882	2,248
Interest on long-term debt	550	586	2,155	2,206
Other interest	32	102	255	272
Capital and Large Corporations Tax	14	33	73	98
	922	1,295	4,365	4,824
Funds generated from operations before non-cash expenses	9,696	2,525	27,350	15,244
Depletion and depreciation	4,460	5,062	17,926	23,670
Site restoration	84	46	203	215
Management fee	119	89	438	549
Net income (loss)	\$ 5,033	\$ (2,672)	\$ 8,783	\$ (9,190)
Net income (loss) per Trust Unit	\$ 0.19	\$ (0.10)	\$ 0.33	\$ (0.35)

## Combined Statements of Distributable Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	1999	1998	1999	1998
	(Unaudited)	(Unaudited)		
Funds generated from operations before non-cash expenses	\$ 9,696	\$ 2,525	\$ 27,350	\$ 15,244
Deduct:				
Site reclamation fund contributions	(84)	(46)	(203)	(215)
Capital expenditures	(654)	-	(940)	(170)
Income available for distribution	\$ 8,958	\$ 2,479	\$ 26,207	\$ 14,859
Income available for distribution per Trust Unit	0.34	0.09	0.98	0.56
Working capital use (replacement)	(702)	1,504	(5,450)	2,327
Distributable income	\$ 8,256	\$ 3,983	\$ 20,757	\$ 17,186
Distributable income per Trust Unit	\$ 0.31	\$ 0.15	\$ 0.78	\$ 0.65

## Combined Statements of Cash Flows

(STATED IN THOUSANDS OF DOLLARS)	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	1999	1998	1999	1998
	(Unaudited)	(Unaudited)		
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ 5,033	\$ (2,672)	\$ 8,783	\$ (9,190)
Items not involving cash:				
Depletion and depreciation	4,460	5,062	17,926	23,670
Site restoration	84	46	203	215
Trust Units issued in lieu of management fee	119	89	438	549
Funds generated from operations	9,696	2,525	27,350	15,244
Changes in non-cash operating working capital	(743)	1,722	(2,853)	1,561
	8,953	4,247	24,497	16,805
Financing:				
Bank indebtedness	-	-	(3,150)	5,500
Long-term debt	-	-	-	1,113
Distributions paid	(8,255)	(3,982)	(20,220)	(22,456)
	(8,255)	(3,982)	(23,370)	(15,843)
Investing:				
Development expenditures	(654)	(204)	(940)	(1,790)
Site reclamation fund contributions	(84)	(46)	(203)	(215)
	(738)	(250)	(1,143)	(2,005)
Increase (decrease) in cash	(40)	15	(16)	(1,043)
Cash, beginning of period	108	69	84	1,127
Cash, end of period	\$ 68	\$ 84	\$ 68	\$ 84

## Unitholder Information

Historical Distributions	Record Date	Payment Date	Per Trust Unit
<b>Quarterly</b>			
December 31, 1996 (37 day period)	Jan. 31, 1997	Feb. 28, 1997	\$0.1300
March 31, 1997	Apr. 30, 1997	May 15, 1997	\$0.3200
June 30, 1997	July 31, 1997	Aug. 15, 1997	\$0.2800
September 30, 1997	Oct. 31, 1997	Nov. 15, 1997	\$0.2500
December 31, 1997	Jan. 31, 1998	Feb. 15, 1998	\$0.2500
March 31, 1998	Apr. 30, 1998	May 15, 1998	\$0.1700
<b>Monthly</b>			
April, 1998	Apr. 30, 1998	May 15, 1998	\$0.0575
May, 1998	May 31, 1998	June 15, 1998	\$0.0575
June, 1998	June 30, 1998	July 15, 1998	\$0.0575
July, 1998	July 31, 1998	Aug. 15, 1998	\$0.0575
August, 1998	Aug. 31, 1998	Sept. 15, 1998	\$0.0500
September, 1998	Sept. 30, 1998	Oct. 15, 1998	\$0.0500
October, 1998	Oct. 31, 1998	Nov. 15, 1998	\$0.0500
November, 1998	Nov. 30, 1998	Dec. 15, 1998	\$0.0500
December, 1998	Dec. 31, 1998	Jan. 15, 1999	\$0.0500
January, 1999	Jan. 31, 1999	Feb. 15, 1999	\$0.0500
February, 1999	Feb. 28, 1999	Mar. 15, 1999	\$0.0400
March, 1999	Mar. 31, 1999	Apr. 15, 1999	\$0.0400
April, 1999	Apr. 30, 1999	May 15, 1999	\$0.0400
May, 1999	May 31, 1999	June 15, 1999	\$0.0500
June, 1999	June 30, 1999	July 15, 1999	\$0.0500
July, 1999	July 31, 1999	Aug. 15, 1999	\$0.0600
August, 1999	Aug. 31, 1999	Sept. 15, 1999	\$0.0700
September, 1999	Sept. 30, 1999	Oct. 15, 1999	\$0.0700
October, 1999	Oct. 31, 1999	Nov. 15, 1999	\$0.0700
November, 1999	Nov. 30, 1999	Dec. 15, 1999	\$0.0700
<b>Extra Distribution</b>	Nov. 30, 1999	<b>Dec. 15, 1999</b>	<b>\$0.1000</b>
December, 1999	Dec. 31, 1999	Jan. 15, 1999	\$0.0700
January, 2000	Jan. 31, 2000	Feb. 15, 2000	\$0.0700
February, 2000	Feb. 29, 2000	Mar. 15, 2000	\$0.0700
<b>Extra Distribution</b>	Feb. 29, 2000	<b>Mar. 15, 2000</b>	<b>\$0.0600</b>
<b>Total distributions to date</b>			<b>\$2.86</b>

### Income Tax Information

For Canadian income tax purposes, the distributions paid to date are deemed to be a “return of capital”. The Trust is able to distribute cash as a “return of capital” due to its significant tax pools, which are expected to shelter distributions until approximately the year 2001. Such distributions designated as “return of capital” distributions by the Trust enable Unitholders who are non-residents of Canada to receive such amounts exempt from Canadian withholding tax.

**A more complete tax description may be obtained from our website ([www.freeholdtrust.com](http://www.freeholdtrust.com)) or by contacting the Trust directly.**

*The income tax liability of each Unitholder will depend on the Unitholder’s specific circumstances and, accordingly, each Unitholder should obtain independent advice regarding their specific income tax status.*

## Corporate Information

Trust Unit Trading Information	Quarter Ended			
	Dec. 31, 1999	Sept. 30, 1999	June 30, 1999	March 31, 1999
High	\$6.40	\$6.90	\$6.00	\$5.35
Low	\$5.25	\$5.15	\$4.56	\$4.13
Close	\$5.95	\$6.00	\$5.15	\$4.80
Volume (TSE/ME)	1,824,575	1,263,573	1,051,213	1,641,512
Trust Units Outstanding	26,648,000	26,628,000	26,608,000	26,588,000
Market Capitalization (\$MM)	\$159	\$160	\$137	\$128

### Directors

**D. Nolan Blades**<sup>1, 2</sup>  
President & C.E.O.  
Pursuit Resources Corp.

**Harry S. Campbell**  
Partner  
Burnet, Duckworth & Palmer

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

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

**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.

### Officers

**William W. Siebens**  
Chairman of the Board

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

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

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

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

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

### Head Office

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### Stock Exchange Listings

The Toronto Stock Exchange  
Trading Symbol: FRU.UN

### Trustee and Transfer Agent

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### Investor Relations

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### Website

Visit our website at:  
[www.freeholdtrust.com](http://www.freeholdtrust.com)

<sup>1</sup> Audit Committee

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