

FOR THE PERIOD ENDED SEPTEMBER 30, 1999

## Freehold Royalty Trust

1999 THIRD QUARTER REPORT

### Third Quarter Results

- ◆ Total revenue increased 53% to \$10.0 million
- ◆ Crude oil and NGL's production declined 11% to average 3,213 barrels per day
- ◆ Natural gas production averaged 10.8 million cubic feet per day, down 9%
- ◆ \$2.5 million was used to reduce short-term debt and improve working capital (\$0.09 per Trust Unit)
- ◆ Distributable income rose 27% to \$5.3 million (\$0.20 per Trust Unit)

	Three Months Ended		%	Nine Months Ended	
	SEPT. 30, 1999	SEPT. 30, 1998		SEPT. 30, 1999	SEPT. 30, 1998
<b>Financial</b>					
<i>(\$000s except per Trust Unit)</i>					
Total Revenue	<b>10,029</b>	6,566	+53	23,786	18,922
Royalty lands income	<b>6,130</b>	4,045	+52	14,559	12,272
Working interest sales (net of royalties)	<b>3,899</b>	2,521	+55	9,227	6,650
Less: Operating expenses	<b>1,015</b>	975	+4	2,689	2,674
Working interest income	<b>2,884</b>	1,546	+87	6,538	3,976
Operating income	<b>9,014</b>	5,591	+61	21,097	16,248
Income available for distribution per Trust Unit	<b>7,798</b> <b>0.29</b>	4,179 0.1575	+87 +84	17,249 0.65	12,380 0.47
Distributable income per Trust Unit	<b>5,323</b> <b>0.20</b>	4,179 0.1575	+27 +27	12,501 0.47	13,203 0.50
<b>Operating</b>					
Production					
Crude oil and NGL's (Bbls/d)	<b>3,213</b>	3,604	-11	3,214	3,721
Natural gas (Mmcf/d)	<b>10.8</b>	11.9	-9	11.2	12.9
Barrels of oil equivalent (Boe/d)	<b>4,294</b>	4,795	-10	4,338	5,014
Potash (Tons/d)	<b>11.4</b>	15.5	-26	14.3	17.0
Average Prices (\$Cdn.)					
Crude oil and NGL's (\$/Bbl)	<b>25.08</b>	13.43	+87	18.92	12.02
Natural gas (\$/Mcf)	<b>2.63</b>	1.88	+40	2.29	1.92
Barrels of oil equivalent (\$/Boe)	<b>25.39</b>	14.76	+72	19.95	13.86
Potash (\$/Ton)	<b>147.64</b>	154.22	-4	158.43	143.75

## Report to Unitholders

### Extra Distribution Declared

A distribution for the month of November in the amount of \$0.07 per Trust Unit will be paid on December 15, 1999 to Unitholders of record on November 30, 1999. **The monthly distribution is fixed at \$0.07 per Trust Unit until further notice. As a result of the continued improvement in commodity prices, Freehold has declared an extra distribution of \$0.10 per Trust Unit payable on December 15, 1999 to Unitholders of record on November 30, 1999.** The extra distribution will be paid on December 15<sup>th</sup> along with the regular monthly distribution for November (total of \$0.17 per Trust Unit). In the future, on a quarterly basis, the Board will review the Trust's ability to make extra distributions having regard to market conditions and the Trust's working capital and debt position.

### Financial Results

Total revenues for the third quarter of 1999 increased 53% to \$10.0 million from \$6.6 million last year. Average crude oil and natural gas liquids prices of \$25.08 per barrel were 87% higher than the third quarter of 1998. Natural gas prices recorded for the period at \$2.63 per thousand cubic feet were 40% higher than the third quarter of last year.

Income available for distribution for the third quarter of 1999 was up 87% to \$7.8 million (\$0.29 per Trust Unit) versus \$4.2 million (\$0.1575 per Trust Unit) for the corresponding quarter in 1998. During the third quarter of 1999, the Trust continued to strengthen its balance sheet by repaying short-term debt and improving its working capital position in the amount of \$2.5 million (\$0.9 per Trust Unit). After strengthening the balance sheet, the Trust was able to provide actual distributable income of \$5.3 million and declared distributions for the quarter of twenty cents (\$0.20) per Trust Unit, up 27% from the third quarter of last year.

The netback to our investors for the third quarter of 1999 (excluding the improvement to the balance sheet) was \$19.74 per barrel of oil equivalent, approximately 108% higher than the netback achieved during the same period in 1998. Contributing positively to the improved netback was the continued strength in oil prices, the turnaround of heavy oil netbacks, and very favorable natural gas prices.

Operating costs were \$2.57 per barrel of oil equivalent compared to \$2.21 last year. The increase is a result of lower production volumes. General and administrative expenses totalled \$1.33 per barrel of oil equivalent, up slightly from \$1.22 reported last year. Including the management fee allocation of \$0.30 per barrel of oil equivalent, the Trust's all-in costs (operating costs, G&A, management fee) for the period were \$4.20 per barrel of oil equivalent, among the lowest of the royalty trust group.

### Operating Results

Freehold's daily production averaged 4,294 barrels of oil equivalent compared to 4,795 barrels of oil equivalent in the third quarter of 1998. Third quarter 1998 production was overstated by 167 barrels of oil equivalent. Adjusting for the over-accrual, the year-over-year production decrease is 7%. This reduction was comprised of shut-in heavy oil and normal decline, consistent with expected performance.

**Activity on Royalty Interest Lands** – Freehold owns the mineral title rights or a gross overriding royalty on over 660,000 acres of land in Western Canada. Third party lessees drill on Freehold's royalty lands and pay a royalty to Freehold on the oil, gas and potash produced and sold from these lands. The royalty rates typically range from 4.7% to 20%, depending upon the terms of the individual lease and royalty agreements. Consistent with industry trends, drilling by lessees on Freehold's royalty lands increased substantially in the third quarter of 1999 as compared to the first half of the year. A total of 89 wells were drilled compared to 86 wells during the third quarter of 1998. More importantly, there were more wells drilled on Freehold's higher interest royalty lands. As a result, the net wells drilled for Freehold more than doubled to 4.7 net wells compared to 1.9 net wells for the same period last year. The production and reserve additions from this new drilling will be reflected in the first half of 2000 and is expected to help offset normal decline.

**Working Interest Properties** – Freehold owns working and royalty interests of 23.52% in 640 acres in the Hayter area of east central Alberta located 140 miles east of Edmonton. At Hayter, the average realized field price rose to \$25.08 as compared to \$13.20 in the third quarter of 1998. In addition, the operator commenced the drilling of three wells which had been deferred from 1998 due to low oil prices. They have also indicated a continuation of the development drilling program for Hayter in the first quarter of 2000.

**Year 2000 Progress and Readiness Statement**

The Trust's "Manager" is responsible for the Year 2000 assessment and remediation program that commenced in the latter part of 1997 (see 1998 Annual Report – MD&A section). The Year 2000 readiness program, testing, upgrades and replacement of systems and software, has been completed. Costs incurred to date directly by the Trust are unlikely to exceed \$20,000 in total.

In addition to our Year 2000 issues identified by the Trust's "Manager", the Trust is also exposed to the potential impact of non-compliance by its joint venture partners, royalty payors and third party business associates, including suppliers, banks, utility and communications providers, government and others. While the Trust is making all reasonable efforts to assess and manage this risk, it does not seem possible to obtain complete information with respect to all third parties. In the event that significant failure occurs in the activity of any of these third party business associates, it could have a material adverse affect on the Trust's operations and financial results. Although we cannot control the progress of these third parties in relation to Year 2000 readiness, we are preparing contingency plans to address possible interruptions to our business activities and, specifically, receipt of cash flow from royalty payors and joint venture partners. The contingency plans will be directed to 30 royalty payors that historically have paid approximately 90 percent of the total royalty income.

**Outlook**

Freehold's production for the third quarter of 1999 was up one percent from the second quarter of this year. Production from new wells and the return to production of wells shut-in last year due to low oil prices has offset natural decline. The strengthening of oil prices beginning in the second quarter of this year has resulted in a significant increase in drilling activity in Western Canada. This translated into increased activity on Freehold's lands and was the most active period in the last six 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.

There are widely held expectations that current prices will be sustained at approximately US \$22.00 through the first quarter of 2000, with full year estimates in the US \$19.00 - \$20.00 range. On this basis, we believe the development activity on Freehold's royalty lands will continue at high levels, sustaining Freehold's production and reserve base. We are on target with our 1999 production forecast of 4,300 barrels of oil equivalent per day and expect to exit 1999 at a production rate slightly above our forecast.

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

David J. Sandmeyer  
President & Chief Executive Officer

November 17, 1999

## Combined Balance Sheets

(STATED IN THOUSANDS OF DOLLARS)	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	(Unaudited)	
<i>Assets</i>		
Current assets:		
Cash	\$ 108	\$ 84
Accounts receivable	7,788	5,715
	7,896	5,799
Reclamation fund	525	409
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$66,197 (1998 - \$52,731)	226,646	239,826
	\$ 235,067	\$ 246,034
 <i>Liabilities and Unitholders' Equity</i>		
Current liabilities:		
Distributions payable to unitholders	\$ 1,864	\$ 1,328
Accounts payable and accrued liabilities	1,998	2,035
Bank indebtedness	2,350	5,500
	6,212	8,863
Provision for future site restoration	525	409
Long-term debt	39,288	39,288
Unitholders' equity	189,042	197,474
	\$ 235,067	\$ 246,034

## Combined Statements of Unitholders' Equity

(STATED IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)	SEPTEMBER 30, 1999		DECEMBER 31, 1998	
	Units	Dollars	Units	Dollars
	(Unaudited)			
Unitholders' equity, beginning of period	26,568,000	\$ 197,474	26,488,000	\$ 223,301
Net income (loss)	-	3,750	-	(9,190)
Distributions to unitholders	-	(12,501)	-	(17,186)
Trust Units issued in lieu of management fee	60,000	319	80,000	549
	26,628,000	\$ 189,042	26,568,000	\$ 197,474

## Combined Statements of Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:				
Royalty income	\$ 6,130	\$ 4,045	\$ 14,559	\$ 12,272
Working interest sales (net of royalties)	3,899	2,521	9,227	6,650
Operating expenses	1,015	975	2,689	2,674
Working interest income	2,884	1,546	6,538	3,976
	9,014	5,591	21,097	16,248
Other expenses:				
Administrative	526	540	1,556	1,674
Interest	583	679	1,828	1,790
Capital and Large Corporations Tax	18	20	59	65
	1,127	1,239	3,443	3,529
Income before depletion, depreciation, site restoration and management fee	7,887	4,352	17,654	12,719
Depletion and depreciation	4,473	5,902	13,466	18,608
Site restoration	40	55	119	169
Management fee	120	140	319	460
Net income (loss)	\$ 3,254	\$ (1,745)	\$ 3,750	\$ (6,518)
Net income (loss) per Trust Unit	\$ 0.12	\$ (0.07)	\$ 0.14	\$ (0.25)

## Combined Statements of Distributable Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Income before depletion, depreciation, site restoration and management fee	\$ 7,887	\$ 4,352	\$ 17,654	\$ 12,719
Deduct:				
Site restoration fund contributions	(40)	(55)	(119)	(169)
Capital expenditures	(49)	(118)	(286)	(170)
Income available for distribution	\$ 7,798	\$ 4,179	\$ 17,249	\$ 12,380
Income available for distribution per Trust Unit	0.29	0.16	0.65	0.47
Working capital use (replacement)	(2,475)	-	(4,748)	823
Distributable income	\$ 5,323	\$ 4,179	\$ 12,501	\$ 13,203
Distributable income per Trust Unit	\$ 0.20	\$ 0.16	\$ 0.47	\$ 0.50

## Combined Statements of Cash Flows

(STATED IN THOUSANDS OF DOLLARS)	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ 3,254	\$ (1,745)	\$ 3,750	\$ (6,518)
Items not involving cash:				
Depletion and depreciation	4,473	5,902	13,466	18,608
Trust Units issued in lieu of management fee	120	140	319	460
Funds generated from operations	7,847	4,297	17,535	12,550
Changes in non-cash operating working capital	(1,576)	323	(2,110)	(161)
	6,271	4,620	15,425	12,389
Financing:				
Bank indebtedness	(1,450)	225	(3,150)	5,500
Long-term debt	-	-	-	1,113
Distributions paid	(4,789)	(4,377)	(11,965)	(18,474)
	(6,239)	(4,152)	(15,115)	(11,861)
Investing:				
Development expenditures	(49)	(474)	(286)	(1,586)
Increase (decrease) in cash	(17)	(6)	24	(1,058)
Cash, beginning of period	125	75	84	1,127
Cash, end of period	\$ 108	\$ 69	\$ 108	\$ 69

## 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
December, 1999	Nov. 30, 1999	Dec. 15, 1999	\$0.1000
Extra Distribution			
<b>Total distributions to date</b>			<b>\$2.59</b>

### RECONCILIATION OF DISTRIBUTABLE INCOME

Distributable income for the three months ended September 30, 1998	\$0.1575
Impact of higher commodity prices	0.1772
Effect of decreased production	(0.0439)
Impact of interest, production and other charges	0.0022
Distributable income available for distribution	\$0.2930
Working Capital replacement	(0.0930)
Distributable income for the three months ended September 30, 1999	\$0.2000

### 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.

*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		
	Sept. 30, 1999	June 30, 1999	March 31, 1999
High	\$6.90	\$6.00	\$5.35
Low	\$5.15	\$4.56	\$4.13
Close	\$6.00	\$5.15	\$4.80
Volume (TSE/ME)	1,263,573	1,051,213	1,641,512
Trust Units Outstanding	26,628,000	26,608,000	26,588,000
Market Capitalization (\$MM)	\$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  
The Montreal 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