



FREEHOLD ROYALTY TRUST

† 1998 FOURTH QUARTER REPORT †

Fourth Quarter Results

- Production for the quarter averaged 4,656 barrels of oil equivalent
- Distributable income for the quarter was \$4 million
- Cash distribution for the period of \$0.15 per Trust Unit

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
	1998	1997	1998	1997
<i>Operating</i>				
Production				
Crude oil and NGLs (Bbbls/d)	3,463	4,047	3,547 (i)	3,913 (i)
Natural gas (Mmcf/d)	11.9	15.7	11.9 (i)	15.5 (i)
Barrels of oil equivalent (BOE/d)	4,656	5,617	4,737 (i)	5,461 (i)
Potash (Tons/d)	10.1	15.0	15.3	12.5
Average Prices (\$/Bbl)				
Crude oil and NGLs (\$/Bbl)	13.56	18.47	13.00	19.21 (i)
Natural gas (\$/Mcf)	2.19	1.82	1.91	1.79 (i)
Barrels of oil equivalent (\$/BOE)	15.70	18.40	14.54	18.84 (i)
Potash (\$/Ton)	167.55	125.44	147.72	114.29
<i>Financial</i>				
<i>(\$000s except per Trust Unit)</i>				
Revenues				
Royalty income	4,137	5,616	16,409	23,237
Estimate revision	(1,980) (i)	–	(1,980) (i)	–
Royalty income after adjustment	2,157	5,616	14,429	23,237
Working interest sales (net of royalties)	2,644	3,920	9,294	15,052
Operating expenses	981	1,049	3,655	3,617
Working interest income	1,663	2,871	5,639	11,435
Total Revenues	3,820	8,487	20,068	34,672
Funds generated from operations	2,390	6,881	14,480	29,748
Net income(loss)	(2,672)	(142)	(9,190)	3,085
Distributable income	3,983	6,598	17,186	29,081
per Trust Unit	0.15	0.25	0.65	1.10

(i) Represents a revision to estimate royalty revenues for 1997 and 1998. Operating data for 1997 and 1998 have been revised to reflect this adjustment.

*Report to Unitholders***Financial Results**

Freehold's results for the fourth quarter and full year of 1998 were impacted by lower crude oil prices and reduced production volumes. Fourth quarter revenues (net of royalty expense and operating expense) of \$5.8 million, before an estimate revision of \$1.98 million, were 32 percent below the same quarter last year. Adjusted revenues for the full year 1998 were \$20.1 million, down 42 percent compared to the prior year. Revenues declined primarily because of a 30 percent drop in benchmark oil price in year-over-year prices, as well as volume reductions and estimate revisions.

The Trust incurred a net loss of \$9.19 million for the year, which included a downward adjustment to accounts receivable and royalty income of \$1.98 million. During the fourth quarter of 1998, the Trust completed an extensive review of royalty income receivables. These receivables are based on estimates of production and sales from over 3,000 producing cost centres. Access to reliable production data on royalty income properties is subject to significant time delays, resulting from waiting for government reporting of actual results. During 1998, a computerized system was developed by the Trust, which enables the cross-matching of Trust royalty cost centres against actual government production databases. After completion of this review, management determined the estimate of receivables based on estimated production volumes, relating to 1997 and 1998 production, was overstated by approximately \$1.98 million at December 31, 1998. Of this amount, \$1.4 million (233 BOE per day) related to 1997 and \$0.6 million (186 BOE per day) related to 1998. This adjustment represents a reduction of 3.7 percent in reported 1997 revenue and 2.7 percent in 1998 revenue. In accordance with generally accepted accounting for revisions to estimates, the entire overstatement has been recorded as a reduction in fourth quarter 1998 revenue. Operating data for 1998 and 1997 has been adjusted to reflect this adjustment.

Distributions

The Trust distributed \$3.98 million (\$0.15 per Trust Unit) during the fourth quarter, bringing the 1998 total to \$17.19 million (\$0.65 per Trust Unit). Oil prices received to-date for the calendar month of February 1999 continue to be below \$12.00 WTI. Taking this into account, and to be prudent, the Board has reduced the monthly distribution from \$0.05 to \$0.04 per Trust Unit. We will continue to monitor oil prices and adjust the distribution accordingly. **In accordance with the Board of Director's policy, the monthly distribution has been set at four cents (\$0.04 Cdn.) per Trust Unit until further notice.** Record dates will be the last day of each month, and payment dates will be the fifteenth day following month-end.

Notice to Brokerage Firms and Nominees**Regarding 1998 Taxation**

You are not required to prepare T3 supplementary slips for Freehold Royalty Trust Units as no portion of the 1998 cash distributions is taxable to the Unitholders. However, each Unitholder should receive a copy of "1998 Income Tax Information for Unitholders", which has been prepared to provide assistance in preparing 1998 income tax returns. This information can be obtained from our website (www.freeholdtrust.com) or by contacting the Trust directly.

Operating Results

Production for the fourth quarter of 1998 was 4,656 barrels of oil equivalent (BOE) per day, compared to 5,617 BOE per day for the same period of 1997. Production for the full year 1998, after giving affect to the accrual adjustments, averaged 4,737 BOE per day, down 13 percent from the 1997 average of 5,461 BOE per day. This decline is due to reduced production of approximately 210 barrels per day from the Hayter property, the impact of shut-in heavy oil royalty production of approximately 175 barrels per day, and approximately 160 barrels per day of royalty production decline due to deferring drilling programs. The Hayter volume reductions were expected to be offset by the drilling of new wells which has been delayed due to continued low oil prices. The reduction in heavy oil royalty volumes is the direct result of operators shutting in production and

deferring drilling in response to low prices. A large portion of the decline in gas volumes (175 BOE per day) is attributed to one working interest gas well at Progress in which our working interest was reduced at payout.

Freehold's operating costs of \$2.29 per BOE for the fourth quarter were up 13 percent from \$2.03 per BOE for the fourth quarter of 1997. Full year operating costs were \$2.11 per BOE, compared to \$1.81 per BOE in 1997. The impact of fixed costs in the environment of reduced production volumes is the cause of per unit increases. These operating costs are low by industry standards and exemplify the advantage of the royalty production from which the Trust receives revenue without the obligation for operating expenses.

Potash production for 1998 rose 22 percent to 15.3 tons per day, up from 12.5 tons per day in the previous year. Potash prices were also up 29 percent from 1997. Increased volumes and higher prices resulted in a 58 percent increase in potash royalty income to \$0.8 million for 1998. Strong potash revenues are expected to continue through 1999.

Reserves

In 1998 the Trust replaced 61 percent of its annual production. At year-end, Freehold's established reserves are estimated to be 26.0 million BOE, down 2.5 percent from the previous year. The average cost of reserve additions during 1998 was \$1.58 per BOE. This cost level, combined

with the high proportion of royalty production at no operating cost, will continue to provide Freehold with high netbacks to investors, even in a low price environment. At year-end 1998 the Trust had a reserve life index of 15.5 years, compared to 13.5 years at year-end 1997. This increase reflects some of the shut-in production from our properties over the year.

Outlook

In 1999, we expect new acquisition opportunities at more realistic prices as companies review their assets and sell non-core properties. Freehold will continue to actively identify and complete quality royalty acquisitions as we endeavour to increase our share of revenue from royalty ownership.

If crude oil prices begin to improve, we will see increasing drilling activity on our lands, leading to higher reserves and productivity. With no price recovery for oil, we expect to average 4,300 BOE per day of production for 1999.

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



David J. Sandmeyer
President & Chief Executive Officer
February 17, 1999

Reserves Reconciliation

	CRUDE OIL & NGLS (Mbbls)		NATURAL GAS (Mmcf)		TOTAL (MBOE)		ESTABL'D
	PROVEN	PROBABLE*	PROVEN	PROBABLE*	PROVEN	PROBABLE*	
Balance January 1, 1998	15,987	4,531	50,654	11,099	21,052	5,641	26,693
Reserves additions	341	147	2,241	226	565	170	734
Acquisitions	-	-	-	-	-	-	-
Revisions/divestitures	1,751	(1,325)	2,376	(3,360)	1,989	(1,661)	328
Production	(1,295)		(4,344)		(1,729)		(1,729)
Balance January 1, 1999	16,784	3,353	50,928	7,965	21,877	4,150	26,026
Change over prior year	797	(1,178)	274	(3,134)	825	(1,491)	(666)

*Probable reserves are risked at 50%.

| FREEHOLD ROYALTY TRUST |
Combined Balance Sheets

(STATED IN THOUSANDS OF DOLLARS)	DECEMBER 31, 1998	DECEMBER 31, 1997
<i>Assets</i>		
Current assets:		
Cash	\$ 84	\$ 1,127
Accounts receivable	5,715	8,723
	5,799	9,850
Reclamation fund	409	228
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$52,731 (1997 - \$29,061)	239,826	261,706
	\$ 246,034	\$ 271,784
<i>Liabilities and Unitholders' Equity</i>		
Current liabilities:		
Distributions payable to unitholders	\$ 1,328	\$ 6,598
Accounts payable and accrued liabilities	2,035	3,482
Bank indebtedness	5,500	-
	8,863	10,080
Provision for future site restoration	409	228
Long-term debt	39,288	38,175
Unitholders' equity	197,474	223,301
	\$ 246,034	\$ 271,784

Combined Statements of Unitholders' Equity

(STATED IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)	DECEMBER 31, 1998		DECEMBER 31, 1997	
	UNITS	DOLLARS	UNITS	DOLLARS
Unitholders' equity, beginning of period	26,488,000	\$ 223,301	26,408,000	\$ 248,464
Net income (loss)	-	(9,190)	-	3,085
Distributions to unitholders	-	(17,186)	-	(29,081)
Trust Units issued in lieu of management fee	80,000	549	80,000	833
Unitholders' equity, end of period	26,568,000	\$ 197,474	26,488,000	\$ 223,301

┌ FREEHOLD ROYALTY TRUST ┐
Combined Statements of Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
	1998	1997	1998	1997
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
Revenues:				
Royalty income	\$ 4,137	\$ 5,616	\$ 16,409	\$ 23,237
Estimate revision	(1,980) (i)	-	(1,980) (i)	-
Royalty income after adjustment	2,157	5,616	14,429	23,237
Working interest sales (net of royalties)	2,644	3,920	9,294	15,052
Operating expenses	981	1,049	3,655	3,617
Working interest income	1,663	2,871	5,639	11,435
	3,820	8,487	20,068	34,672
Other expenses:				
Administrative	574	911	2,248	2,277
Interest on long-term debt	688	410	2,478	1,549
Capital and Large Corporations Tax	33	41	98	41
	1,295	1,362	4,824	3,867
Income before depletion, depreciation,				
site restoration and management fee	2,525	7,125	15,244	30,805
Depletion and depreciation	5,062	7,023	23,670	26,663
Site restoration	46	62	215	224
Management fee	89	182	549	833
Net income (loss)	\$ (2,672)	\$ (142)	\$ (9,190)	\$ 3,085
Net income (loss) per Trust Unit	\$ (0.10)	\$ 0.00	\$ (0.35)	\$ 0.12

(i) Represents a revision to estimate royalty revenues for 1997 and 1998. Operating data for 1997 and 1998 have been revised to reflect this adjustment.

Combined Statements of Distributable Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
	1998	1997	1998	1997
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
Income before depletion, depreciation,				
site restoration and management fee	\$ 2,525	\$ 7,125	\$ 15,244	\$ 30,805
Add (deduct):				
Site restoration fund contributions	(46)	(62)	(215)	(224)
Capital expenditures	-	(465)	(170)	(1,500)
Use of working capital	1,504	-	2,327	-
Distributable income	\$ 3,983	\$ 6,598	\$ 17,186	\$ 29,081
Distributable income per Trust Unit	\$ 0.15	\$ 0.25	\$ 0.65	\$ 1.10

— FREEHOLD ROYALTY TRUST —

Combined Statements of Changes in Financial Position

(STATED IN THOUSANDS OF DOLLARS)	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
	1998	1997	1998	1997
	<i>(Unaudited)</i>	<i>(Unaudited)</i>		
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ (2,672)	\$ (142)	\$ (9,190)	\$ 3,085
Item not involving cash:				
Depletion and depreciation	5,062	7,023	23,670	26,663
Funds generated from operations	2,390	6,881	14,480	29,748
Changes in non-cash operating working capital	1,722	2,050	1,561	(1,174)
	4,112	8,931	16,041	28,574
Financing:				
Trust Units issued in lieu of management fee	89	182	549	833
Bank indebtedness	—	—	5,500	—
Long-term debt	—	5,077	1,113	27,456
Distributions paid	(3,982)	(6,720)	(22,456)	(26,015)
	(3,893)	(1,461)	(15,294)	2,274
Investing:				
Development expenditures	(204)	(1,578)	(1,790)	(2,613)
Property and royalty acquisitions	—	(5,077)	—	(27,407)
	(204)	(6,655)	(1,790)	(30,020)
Increase (decrease) in cash	15	815	(1,043)	828
Cash, beginning of period	69	312	1,127	299
Cash, end of period	\$ 84	\$ 1,127	\$ 84	\$ 1,127

FREEHOLD ROYALTY TRUST

Unitholder Information

TRUST UNIT TRADING INFORMATION	QUARTER ENDED DECEMBER 31, 1998	QUARTER ENDED SEPTEMBER 30, 1998	QUARTER ENDED JUNE 30, 1998	QUARTER ENDED MARCH 31, 1998
November 25, 1996 Issue Price	\$10.00			
High	\$7.10	\$8.20	\$8.40	\$9.80
Low	\$4.15	\$4.55	\$6.00	\$7.30
Close	\$4.43	\$7.00	\$8.00	\$8.00
Volume (TSE/ME)	3,220,034	2,411,327	2,589,283	1,465,642
Trust Units Outstanding	26,568,000	26,548,000	26,528,000	26,508,000
Market Capitalization	\$117,696,240	\$185,836,000	\$212,224,000	\$212,064,000

HISTORICAL DISTRIBUTIONS	RECORD DATE	PAYMENT DATE	PER TRUST UNIT
QUARTERLY			
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
MONTHLY			
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
Total distributions to date			\$1.9700

RECONCILIATION OF DISTRIBUTABLE INCOME	Q1	Q2	Q3	Q4	TOTAL
Distributable income 1997	\$0.3200	\$0.2800	\$0.2500	\$0.2500	\$1.1000
Impact of lower commodity prices	(0.1300)	(0.1175)	(0.0547)	(0.0384)	(0.3406)
Effect of increased (decreased) production	0.0200	(0.0550)	(0.0446)	(0.1326)	(0.2122)
Impact of interest, production and other charges	(0.0589)	0.0129	(0.0066)	0.0068	(0.0458)
Use of Working Capital for CapEx and distributions	0.0189	0.0521	0.0134	0.0642	0.1486
Distributable income 1998	\$0.1700	\$0.1725	\$0.1575	\$0.1500	\$0.6500

Corporate Information

Directors

D. Nolan Blades^{1,2}
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. Harrison¹
Director and Vice-President,
Canadian Equities
Montrustco Associates Inc.

P. Michael Maher^{1,2}
Dean, Faculty of Management
University of Calgary

David J. Sandmeyer
President
Rife Resources Ltd.

William W. Siebens²
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"

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- 1 Audit Committee
- 2 Corporate Governance & Nominating Committee

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.