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Financial Statements of

**FREEHOLD PETROLEUM &
NATURAL GAS OWNERS
ASSOCIATION**

Year ended March 31, 2001

AUDITORS' REPORT TO THE MEMBERS

We have audited the balance sheet of Freehold Petroleum & Natural Gas Owners Association (the "Association") as at March 31, 2001 and the statements of operations and changes in Members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Association as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada

April 6, 2001

FREEHOLD PETROLEUM & NATURAL GAS OWNERS ASSOCIATION

Balance Sheet

March 31, 2001, with comparative figures for 2000

	2001	2000
Assets		
Current assets:		
Cash and short-term investments	\$ 35,217	\$ 25,300
Other current assets	218	287
	<u>\$ 35,435</u>	<u>\$ 25,587</u>
Liabilities and Members' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,873	\$ 928
Short-term loan (note 2)	—	2,000
	<u>1,873</u>	<u>2,928</u>
Members' equity:		
Unrestricted	33,562	22,659
	<u>\$ 35,435</u>	<u>\$ 25,587</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

FREEHOLD PETROLEUM & NATURAL GAS OWNERS ASSOCIATION

Statement of Operations and Changes in Member's Equity

Year ended March 31, 2001, with comparative figures for 2000

	2001	2000
Revenues:		
Membership dues	\$ 21,334	\$ 28,723
Interest	967	292
Technical service fees	307	75
	<u>22,608</u>	<u>29,090</u>
Expenses:		
Professional fees	4,195	549
Office (note 2)	4,072	2,193
Printing and reproduction	2,156	524
Intervention expense	469	-
Corporate	334	375
Travel	206	368
Bank service charges	116	152
Telephone	112	114
Technical and program	45	322
	<u>11,705</u>	<u>4,597</u>
Excess of revenues over expenses	10,903	24,493
Members equity (deficiency), beginning of year	22,659	(1,834)
Members equity, end of year	<u>\$ 33,562</u>	<u>\$ 22,659</u>

See accompanying notes to financial statements.

FREEHOLD PETROLEUM & NATURAL GAS OWNERS ASSOCIATION

Statement of Cash Flows

Year ended March 31, 2001, with comparative figures for 2000

	2001	2000
Cash flows provided by (used in):		
Operations:		
Excess of revenues over expenses	\$ 10,903	\$ 24,493
Change in non-cash operating working capital	1,014	641
	<u>11,917</u>	<u>25,134</u>
Financing:		
Decrease in short-term loan	(2,000)	—
Increase in cash	<u>9,917</u>	<u>25,134</u>
Cash and short-term investments, beginning of year	25,300	166
Cash and short-term investments, end of year	<u>\$ 35,217</u>	<u>\$ 25,300</u>

Cash and short-term investments includes deposits which mature in less than 90 days.

See accompanying notes to financial statements.

FREEHOLD PETROLEUM & NATURAL GAS OWNERS ASSOCIATION

Notes to Financial Statements

Year ended March 31, 2001

Organization:

Freehold Petroleum & Natural Gas Owners Association (the "Association") was incorporated under the Canada Corporations Act on October 16, 1998 to provide education and information to individuals who own subsurface petroleum or natural gas in Canada ("freehold owners"). The Association provides a common voice for freehold owners in respect of matters which impact their ownership rights. As a not-for-profit organization, the Association does not pay income taxes on any excess of revenues over expenses.

1. Significant accounting policy:

Revenue recognition:

The Association follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

2. Short-term loan and related party transactions:

- (a) During the year, the short-term loan was repaid to a company in which one of the principals is a director of the Association. This loan was unsecured and non-interest bearing.
- (b) Included in office expenses is \$3,210 of rent paid to Calterra Freehold Ventures Inc., a company of which one of the principals is a director of the Association.