

U.S. Income Tax Information

The following information is being provided to assist U.S. individual unitholders ("Unitholders") of Freehold Royalty Trust ("Freehold") in reporting distributions received from Freehold during 2005 on their Internal Revenue Service ("IRS") Form 1040, *U.S. Individual Income Tax Return* ("Form 1040") and IRS Form 8621, *Return by a Shareholder of a Passive Foreign Investment Company of Qualified Electing Fund* ("Form 8621").

This summary is of a general nature only and is not intended to be legal or tax advice to any particular Unitholder or potential Unitholder of Freehold trust units. Unitholders or potential Unitholders of Freehold trust units are strongly advised to consult their own legal and tax advisors as to their particular tax consequences of holding Freehold trust units.

Freehold has not received an IRS letter ruling or a tax opinion from its tax advisors on these matters.

Passive Foreign Investment Company

In consultation with its U.S. tax advisors, Freehold believes that it should be classified as a passive foreign investment company ("PFIC") under U.S. federal income tax principles. As such, distributions made during 2005 are subject to the regimes of U.S. federal income taxation applicable to PFICs.

Under U.S. federal income tax principles, a foreign corporation is treated as a PFIC if it meets either a gross income test or an asset test. The gross income test is met if 75 percent or more of a foreign corporation's gross income for the tax year consists of passive income. The asset test is met if 50 percent or more of the average yearly value of its assets consists of assets that produce passive income. A foreign corporation, like Freehold, which primarily earns royalty income (as opposed to income from working interests in oil and gas property), is generally treated as a PFIC.

Unitholders who own, directly or indirectly, trust units in Freehold must file a Form 8621 with respect to their units. Form 8621 must be attached to a Unitholder's Form 1040.

Qualified Electing Fund Regime

Unitholders in Freehold should consult their tax advisors regarding the advantages of treating Freehold as a qualified electing fund ("QEF"). If a QEF election is made, a Unitholder will be taxed currently on his or her pro rata share of Freehold's ordinary income and capital gains (each separately stated). QEF electing Unitholders must obtain an information statement from Freehold that both provides this information and gives the Unitholders access to Freehold's books and records in the event of an audit by the IRS (see discussion below on how to obtain this Annual Information Statement).

Foreign tax credits associated with the deemed QEF inclusion are permitted, in general, subject to normal U.S. tax principles. The basis of an investor's units in Freehold, provided he or she has made a QEF election, is increased by any amount included in income under the QEF regime with respect to such trust units, and decreased by the amount distributed with respect to such units which is not includible in income because it has been previously taxed under the QEF rules. Where a Unitholder has timely elected the application of the QEF regime, any gain realized on the appreciation of Freehold trust units is generally taxable as capital gain (if the trust units are a capital asset in the hands of the investor).

If QEF treatment is not elected, Unitholders in Freehold will be subject to the "excess distribution regime".

Excess Distribution Regime

The excess distribution regime operates by imposing a unique system of taxation on "excess distributions" with respect to a PFIC or dispositions of PFIC stock. The excess distribution regime applies only if a Unitholder has not elected to have his or her investment in Freehold treated as an investment in a QEF.

Tax liability under the excess distribution rules arises only when an actual distribution is made by Freehold, or when the Unitholder disposes of his or her investment in Freehold.

Absent a QEF election, all gains recognized on the disposition of Freehold trust units are treated as an excess distribution. By contrast, some, all, or none of an actual distribution from Freehold may be an excess distribution. An actual distribution is an excess distribution only to the extent the total of actual distributions during a taxable year received by the Unitholder exceeds 125 percent of the average of actual distributions received in the three preceding taxable years. The portion of an actual distribution that is not an excess distribution is not taxed under the excess distribution rules, but rather is treated as ordinary income.

If a QEF election is made by a Unitholder in Freehold for 2005, and this is not the first year of the investor's holding period, both the QEF regime and the excess distribution regime will apply simultaneously. These regimes apply simultaneously in the sense that undistributed earnings (if any), and unrecognized trust unit appreciation prior to 2005, will be subject to the excess distribution regime, while all earnings and stock appreciation subsequent to making a QEF election in 2005 will be subject to the QEF regime.

Unitholders of Freehold trust units are strongly advised to consult their own legal and tax advisors as to their particular tax consequences resulting from the excess distribution regime.

Annual Reporting Requirements – Qualified Electing Fund Regime

The QEF election is normally made on Form 8621, on or before the due date, including extensions, of the Form 1040 with respect to the taxable year to which the election relates. The election may be made later if the Unitholder fails to make an otherwise timely election because he or she reasonably believed the foreign corporation was not a PFIC. Once the election is made, failure to comply with the annual information reporting requirements, however, will result in termination or invalidation of the QEF election.

After a Unitholder has made the initial QEF election, he or she must satisfy additional filing requirements each year the election remains in effect. Specifically, the Unitholder must:

1. Complete form 8621 as specified on the Form;
2. Attach Form 8621 to the Unitholder's Form 1040 filed by the due date of the return, as extended, and
3. Receive and reflect in Form 8621 the information provided by Freehold to the Unitholder on the PFIC Annual Information Statement.

Freehold, in order to allow Unitholders the ability to make a QEF election, posts annually a PFIC Annual Information Statement on its website at <http://www.freeholdtrust.com>. Unitholders should contact their own tax advisors for information on correctly completing Form 8621. This information is not available from Freehold.

Trust Units Held Outside a Qualified Retirement Plan

The taxable portion (for Canadian income tax purposes) of 2005 distributions from Freehold is subject to a minimum 15 percent Canadian withholding tax that is withheld prior to any payments being distributed to Unitholders. Beginning in 2005, the return of capital portion (for Canadian income tax purposes) of the distributions is also subject to a 15 percent withholding tax that is withheld prior to any payments being distributed to Unitholders. Where trust units are held in a cash account, we believe the full amount of all withholding tax should be creditable, subject to numerous limitations, for U.S. tax purposes in the year in which the withholding taxes are withheld. Where trust units are held in qualified retirement account, the same withholding taxes apply but the amount is not creditable for U.S. tax purposes.

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The amount of Canadian tax withheld should be reported on Form 1116, *Foreign Tax Credit (Individual, Estate, or Trust)*. Information regarding the amount of Canadian tax withheld in 2005 should be determined from your own records and is not available from Freehold. Amounts over withheld, if any, from Canada should be claimed as a refund from the Canada Revenue Agency no later than two years after the calendar year in which the payment was paid.

Investors should report their ordinary income and capital gain (if any), and make adjustments to their tax basis in Freehold's units, in accordance with this information and subject to advice from their tax advisors. U.S. individual Unitholders who hold their Freehold trust units through a stockbroker or other intermediary should receive tax reporting information from their stockbroker or other intermediary. We expect that the stockbroker or other intermediary will issue a Form 1099-DIV, "Dividends and Distributions" or a substitute form developed by the stockbroker or other intermediary. Freehold is not required to furnish such Unitholders with Form 1099-DIV. Information on the Forms 1099-DIV issued by the brokers or other intermediaries may not accurately reflect the information in this summary for a variety of reasons. Investors should consult their brokers and tax advisors to ensure that the information presented here is accurately reflected on their tax returns. Brokers and/or intermediaries may or may not be required to issue amended Forms 1099-DIV.

Trust Units Held Within a Qualified Retirement Plan

No amounts are generally required to be reported on a Form 1040 where Freehold trust units are held within a qualified retirement plan.