



Quarterly Report for the period ended June 30, 2003

### Second Quarter Highlights

- ◆ Production averaged 5,746 barrels of oil equivalent (boe) per day, down 4%
- ◆ Average price realizations increased 14% to \$33.49 per boe
- ◆ Operating netback rose to \$30.47 per boe, up 17% from \$26.11 last year
- ◆ Completed an acquisition of 65 boe per day of natural gas royalty production for \$1.5 million (net of adjustments)
- ◆ Declared record distributions of \$0.50 per Trust Unit (\$0.30 regular plus \$0.20 top-up related to the first quarter), up 56%
- ◆ Regular monthly distribution remains set at \$0.10 per Trust Unit; declared extra distribution related to the second quarter of \$0.10 per Trust Unit to be paid in September

Since June 2002, Freehold's monthly distribution rate has been stable at \$0.10 per Trust Unit. Regular monthly distributions are supplemented by quarterly top-ups, when excess income is available. Strong price realizations in the second quarter have enabled the Board of Directors to declare an extra distribution of \$0.10 per Trust Unit payable on September 15, 2003 to Unitholders of record on August 31, 2003. **Combined, the September 15<sup>th</sup> payment (regular monthly distribution and the top-up for the second quarter), will total \$0.20 per Trust Unit.** Including the above distribution, the trailing 12-month-distributions paid is \$1.68 per Trust Unit. Since inception in November 1996, the Trust has distributed a total of \$8.05 per Trust Unit. Freehold currently estimates that 70% to 75% of 2003 distributions will be taxable as ordinary income in the hands of Unitholders due to high commodity prices to date in 2003.

Highlights (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2003	2002	% Change	2003	2002	% Change
Gross revenue	17,855	16,235	+10	39,609	29,079	+36
Operating income	15,932	14,290	+11	35,498	25,583	+39
Royalty lands income	12,582	11,447	+10	27,599	20,245	+36
Working interest income	3,350	2,843	+18	7,899	5,338	+48
Net income	9,340	7,703	+21	22,273	12,223	+82
Per Trust Unit (\$) <sup>(1)</sup>	0.30	0.26	+15	0.72	0.41	+76
Funds generated from operations	14,922	13,318	+12	33,287	23,428	+42
Per Trust Unit (\$) <sup>(1)</sup>	0.48	0.44	+9	1.08	0.78	+38
Income available for distribution	13,293	12,358	+8	30,329	21,808	+39
Per Trust Unit (\$) <sup>(1)</sup>	0.42	0.41	+2	0.98	0.72	+36
Distributable income	15,631	9,653	+62	28,029	16,884	+66
Per Trust Unit (\$) <sup>(2)</sup>	0.50	0.32	+56	0.90	0.56	+61
Long-term debt	18,500	30,500	-39	18,500	30,500	-39
Trust Units outstanding	31,279,236	30,180,236	+4	31,279,236	30,180,236	+4
Weighted average	31,256,983	30,146,927	+4	30,941,184	30,138,162	+3
Average daily production (boe/d)	5,746	6,015	-4	5,796	6,030	-4
Total production (boe)	522,848	547,344	-4	1,049,045	1,091,503	-4
Average price realizations (\$/boe)	33.49	29.27	+14	37.24	26.32	+41

(1) Basic and diluted.

(2) Based on Trust Units issued and outstanding at each record date.

## Management's Discussion and Analysis (MD&A)

The following discussion is management's opinion about Freehold Resources Ltd. ("Resources") and Freehold Royalty Trust's (the "Trust") (collectively "Freehold"), operating and financial results for the three months ended June 30, 2003 and previous periods, and the outlook for Freehold based on currently available information. All comparative percentages are between the quarters ended June 30, 2003 and June 30, 2002, unless stated otherwise. This discussion should be read in conjunction with the Trust's annual MD&A and audited combined financial statements for the years ended December 31, 2002 and 2001, together with the accompanying notes. These are included on pages 12 through 38 of the Trust's 2002 annual report to Unitholders.

### Results of Operations

**Production** – Average daily production declined 4% for the second quarter and year to date. Freehold's production is influenced by the drilling activities of the operators of its properties. Wet spring conditions resulted in delays in the drilling and tie-in of new wells. Positive natural gas production increases at Southeast Alberta and oil production in Southeast Saskatchewan were more than offset by oil production declines in the Saskatchewan heavy oil property at Luseland. On June 23, 2003 the Trust acquired predominantly royalty properties, which are producing approximately 65 boe per day of natural gas.

Average Daily Production	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
	2003	2002		2003	2002	
<b>Royalty Lands</b>						
Oil (bbls/d)	2,405	2,597	-7	2,450	2,677	-8
NGLs (bbls/d)	243	214	+14	227	217	+5
Natural gas (mcf/d)	8,383	8,611	-3	8,350	7,977	+5
Oil equivalent (boe/d)	4,045	4,246	-5	4,069	4,224	-4
<b>Working Interest Properties</b>						
Oil (bbls/d)	1,118	1,186	-6	1,164	1,229	-5
NGLs (bbls/d)	87	68	+28	92	64	+44
Natural gas (mcf/d)	2,973	3,085	-4	2,824	3,081	-8
Oil equivalent (boe/d)	1,700	1,769	-4	1,727	1,806	-4
<b>Total Trust (boe/d)</b>	<b>5,746</b>	<b>6,015</b>	<b>-4</b>	<b>5,796</b>	<b>6,030</b>	<b>-4</b>
Potash (tonnes/d)	8.3	9.8	-15	8.7	8.8	-1

**Pricing** – In the second quarter of 2003, benchmark WTI crude oil prices rose 10% year-over-year and AECO natural gas prices increased 58%. As a result of higher light/heavy oil price differentials, the benchmark price for Bow River heavy oil declined 3%. Commodity prices have demonstrated considerable strength for the year to date compared with the first six months of last year.

Average Benchmark Commodity Prices*	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
	2003	2002		2003	2002	
WTI crude oil (US\$/bbl)	28.91	26.25	+10	31.39	23.95	+31
Bow River heavy oil (C\$/bbl)	31.41	32.41	-3	35.60	29.34	+21
AECO natural gas (C\$/mcf)	6.99	4.42	+58	7.46	3.88	+92

\* Source: Canadian Association of Petroleum Producers

Freehold's average selling price increased 14% for the second quarter and 41% for the year to date, reflecting strong natural gas prices. Freehold's production remains unhedged.

Freehold Average Selling Prices (C\$)	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
	2003	2002		2003	2002	
Oil (\$/bbl)	31.26	32.98	-5	35.71	29.20	+22
NGLs (\$/bbl)	29.40	24.48	+20	32.75	22.22	+47
Oil and NGLs (\$/bbl)	31.10	32.39	-4	35.47	28.73	+23
Natural gas (\$/mcf)	6.39	3.80	+68	6.83	3.48	+96
Oil equivalent (\$/boe)	33.49	29.27	+14	37.24	26.32	+41
Potash (\$/tonne)	134.96	146.24	-8	133.17	146.97	-9

**Revenue** – Gross revenue for the second quarter increased \$1.6 million to \$17.9 million on the strength of higher natural gas prices. For the first half, revenue of \$39.6 million was \$10.5 million higher than last year. The accompanying table demonstrates the net effect of price and volume variances on gross revenues.

<b>Gross Revenue Variances</b> (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	<b>2003 vs. 2002</b>	2002 vs. 2001	<b>2003 vs. 2002</b>	2002 vs. 2001
Oil and NGLs				
Production increase (decrease)	<b>(602)</b>	(248)	<b>(1,630)</b>	1,031
Price increase (decrease)	<b>(474)</b>	2,728	<b>5,108</b>	2,671
Net increase (decrease)	<b>(1,076)</b>	2,480	<b>3,478</b>	3,702
Natural gas				
Production increase (decrease)	<b>(198)</b>	100	<b>144</b>	(182)
Price increase (decrease)	<b>2,764</b>	(2,438)	<b>6,717</b>	(9,525)
Net increase (decrease)	<b>2,566</b>	(2,338)	<b>6,861</b>	(9,707)
Other	<b>130</b>	74	<b>191</b>	64
Gross revenue increase (decrease)	<b>1,620</b>	216	<b>10,530</b>	(5,941)

**Royalty Expenses** – Royalty expenses related to our working interest production, which are directly tied to commodity prices and volumes, were 27% higher on a boe basis than the second quarter last year and 56% higher than the first half of 2002. As Freehold is a mineral title owner on most of its production, it does not incur royalty expenses on production from its royalty lands.

<b>Royalty Expenses</b> (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	<b>2003</b>	2002	% Change	<b>2003</b>	2002	% Change
Working interest properties	<b>785</b>	649	+21	<b>1,735</b>	1,162	+49
Per boe (\$)	<b>5.07</b>	4.03	+26	<b>5.55</b>	3.55	+56
Royalty interest properties	<b>0</b>	0	—	<b>0</b>	0	—
Per boe (\$)	<b>0</b>	0	—	<b>0</b>	0	—
Total royalty expense (net of ARC)	<b>785</b>	649	+21	<b>1,735</b>	1,162	+49
Per boe (\$)	<b>1.50</b>	1.18	+27	<b>1.65</b>	1.06	+56

**Operating Expenses** – Overall operating expenses were \$2.18 per boe for the second quarter and \$2.26 per boe for the year to date. Operating expenses on working interest properties declined by 9% per boe in the second quarter and were 6% higher than the six months ended June 30, 2002. Year-to-date operating costs are up primarily due to high power costs experienced in the first quarter of 2003. The cost of purchased power was lower in the second quarter than in the first quarter. Freehold does not incur operating expenses on its royalty lands.

<b>Operating Expenses</b> (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	<b>2003</b>	2002	% Change	<b>2003</b>	2002	% Change
Working interest properties	<b>1,138</b>	1,296	-12	<b>2,376</b>	2,334	+2
Per boe (\$)	<b>7.35</b>	8.05	-9	<b>7.60</b>	7.14	+6
Royalty interest properties	<b>0</b>	0	—	<b>0</b>	0	—
Per boe (\$)	<b>0</b>	0	—	<b>0</b>	0	—
Total operating expenses	<b>1,138</b>	1,296	-12	<b>2,376</b>	2,334	+2
Per boe (\$)	<b>2.18</b>	2.37	-8	<b>2.26</b>	2.14	+6

**General and Administrative Expenses (G&A)** – Freehold incurs expenses to administer its royalty interests in more than 15,000 producing wells in western Canada. G&A expenses for the second quarter of 2003 were 11% higher on a boe basis, largely due to lower production volumes versus the second quarter of 2002 and the timing of certain one time expenses. Year-to-date, G&A expenses were 5% higher than the first six months of 2002.

<b>G&amp;A Expenses</b> (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	<b>2003</b>	2002	% Change	<b>2003</b>	2002	% Change
G&A expenses	<b>734</b>	690	+6	<b>1,629</b>	1,601	+2
Per boe (\$)	<b>1.40</b>	1.26	+11	<b>1.55</b>	1.47	+5

**Management Fees** – The Manager of the Trust receives its management fee in Trust Units. For the second quarter of 2003, the Manager received 22,500 Trust Units, with an ascribed value of \$294,000 (\$13.05 per Trust Unit) versus 22,500 Trust Units with an ascribed value of \$244,000 (\$10.85 per Trust Unit) in the second quarter of 2002. The change in the value of management fees reflects the higher market price of the Trust Units compared with last year. The Manager also received a fee of \$25,000 relating to the property acquisition completed on June 23, 2003.

<b>Management Fees</b> (\$000s, except as noted)	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
	2003	2002	Change	2003	2002	Change
Management fees (paid in Trust Units)	294	244	+20	559	475	+18
Acquisition fees (1.5%)	25	0	—	25	0	—
Total	319	244	+31	584	475	+23
Per boe (\$)	0.61	0.45	+36	0.56	0.43	+30

**Netbacks** – Freehold's operating netback for the second quarter rose by 17% to \$30.47 per boe, driven by higher average selling prices. Since Freehold's production remains unhedged, the Trust received the full benefit of higher commodity prices in both the second quarter and year to date. Freehold has consistently delivered a superior netback as it does not incur operating expenses on its royalty lands. For the first half of 2003, the Trust's operating netback was 44% higher, at \$33.84 per boe.

<b>Operating Netbacks</b> (\$/boe)	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
	2003	2002	Change	2003	2002	Change
Gross revenue *	34.15	29.66	+15	37.75	26.64	+42
Royalty expenses (net of ARC)	1.50	1.18	+27	1.65	1.06	+56
Operating expenses	2.18	2.37	-8	2.26	2.14	+6
Operating netback	30.47	26.11	+17	33.84	23.44	+44

\* includes potash revenue, sulphur revenue & other

**Net Income, Funds Generated from Operations and Distributable Income** – Net income increased 21% to \$9.3 million versus \$7.7 million in the second quarter of 2002. In the first six months of 2003, net income totalled 22.3 million, up 82%. Quarter over quarter, funds generated from operations rose 12% to \$14.9 million. Year to date, funds generated from operations increased 42%. For the second quarter, the Trust's distributable income to Unitholders was \$15.6 million or \$0.50 per Trust Unit, up 56%. For the first six months of 2003, distributable income was \$28.0 million or \$0.90 per Trust Unit, an increase of 61% over the prior year. Distributions for the year to date represent a payout ratio of 84%, compared with 72% in the same period last year. Since inception, Freehold has paid out a total of 83% of funds generated from operations.

<b>Distributable Income</b> (\$000s, except as noted)	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
	2003	2002	Change	2003	2002	Change
Income available for distribution	13,293	12,358	+8	30,329	21,808	+39
Per Trust Unit	\$0.42	\$0.41	+2	\$0.98	\$0.72	+36
Debt additions (repayment)	1,000	(2,500)	+140	(2,200)	(2,500)	-12
Property and royalty acquisitions	(1,522)	—	—	(1,522)	—	—
Working capital change	2,860	(205)	+1495	1,422	(2,424)	+159
Distributable income	15,631	9,653	+62	28,029	16,884	+66
Per Trust Unit	\$0.50	\$0.32	+56	\$0.90	\$0.56	+61

**Liquidity and Capital Resources** – Interest expenses of \$0.2 million in the second quarter were 29% lower due to lower debt levels. As at June 30, 2003, Freehold had no short-term debt outstanding and long-term debt was \$18.5 million, down 39% from \$30.5 million on June 30, 2002. The Trust's healthy financial condition is best demonstrated by the ratio of net debt (long-term debt less positive working capital of \$7.1 million) to trailing funds generated from operations, which at 0.2:1 is among the lowest in the energy trust sector.

**Capital Expenditures** – As the Trust does not incur capital expenditures to develop its royalty properties, Freehold's capital requirements are relatively modest. Freehold's 2003 development expenditures for working interest properties will be roughly \$5.9 million, weighted toward the last half of the year. Capital expenditures in the second quarter totalled \$1.0 million and were \$2.2 million for the year to date.

**Acquisition Expenditures** – On June 23, 2003, Freehold acquired predominantly royalty properties for \$1.7 million (\$1.5 million net of purchase price adjustments and acquisition fees), adding approximately 65 boe per day of natural gas production.

**Reclamation Fund** – To fund Freehold's ongoing environmental obligations on working interest properties, quarterly cash payments are made to a reclamation fund. For the second quarter of 2003, a total of \$79,000 (Q2 2002 – \$60,000) was paid into the reclamation account and \$1,000 in site restoration expense (Q2 2002 – \$38,000) was paid from the fund. The balance in the fund at the end of the quarter was \$1,160,000. No reclamation expenses are incurred on the royalty lands.

**Future Income Tax Provision** – The Trust recorded a future income tax provision related to the operations of Freehold Resources Ltd. of \$0.2 million for the second quarter and \$0.4 million for the six months ended June 30, 2003. The future income tax provision does not impact current distributable income of the Trust as it is a non-cash accounting entry.

## Development Activities

**Royalty Lands** – Industry operators drilled 169 (2.4 net) wells on Freehold's royalty lands in the second quarter, compared with 104 (2.8 net) wells in the second quarter of 2002. Year-to-date a total of 311 (6.4 net) wells were drilled. Wet spring conditions delayed both drilling and well tie-in activity. There are currently 57 (3.0 net) drilling locations planned on Freehold's royalty lands, compared to 60 (3.2 net) one year ago.

**Working Interest Properties** – In the second quarter, Freehold spent \$1.0 million on facilities and the drilling of 8 (0.7 net) wells. One (0.2 net) well was drilled at Hayter, where Freehold owns 48.5% of the mineral title as well as a 23.5% working interest. Seven (1.6 net) wells will be drilled at Hayter in the third quarter. Five (0.5 net) infill wells were drilled at Pembina Cardium Unit #9 (PCU #9), where Freehold has a 0.6% royalty interest and a 9.9% working interest. Of the 27 well program approved at PCU #9 for 2003, 11 wells remain to be drilled during the last half of the year. Two natural gas wells were drilled at Ring Border where Freehold has a small working interest. Two (1.3 net) wells are planned at Lashburn during the third quarter.

Wells Drilled	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
	2003	2002		Change	2003	
Royalty lands (includes unitized wells)	169	104	+63	311	328	-5
Working interest properties	8	4	+100	47	29	+62
Total wells (gross)	177	108	+64	358	357	-
Total wells (net)	3.2	3.6	-11	9.2	6.8	+35

## Outlook

Industry drilling in the second half of 2003 is forecast to increase and may result in a record number of wells drilled in western Canada. This industry activity will increase competition for oilfield goods and services and may cause drilling and operating costs to increase. Freehold should benefit from increased industry drilling activity as drilling on our royalty lands generally mirrors industry levels. The Trust will be somewhat sheltered from the effects of increased costs as the majority of production comes from our royalty lands, which is not subject to capital and operating costs or abandonment facilities.

Short-term global supply issues kept U.S. crude oil inventories at low historical levels throughout the second quarter, contributing to a 10% increase in WTI prices compared with the second quarter last year. Average WTI prices fell 15% between the first and second quarters of this year, however, prices in June and July averaged over US\$30.00 per barrel. We believe that oil prices will trend downward as reconstruction in Iraq progresses and its export volumes increase. We expect WTI prices to average \$28.00 for the final five months of 2003. There remains a potential negative impact of a strengthening in the Canadian dollar since oil is priced in U.S. dollars. Freehold's distribution sensitivity to every \$0.01 change in the exchange rate is \$0.03 per Trust Unit. We expect the Trust's light/heavy oil differential will average \$11.00 per barrel in 2003.

Our view of supply and demand fundamentals in the North American energy markets is that natural gas has a greater stability in terms of short-term pricing. AECO natural gas prices rose 13% between the first and second quarters of this year. However, there was some price weakness late in the second quarter, as lower than expected industrial and cooling demand resulted in increased injection of natural gas into storage. Consequently, we believe that the price of natural gas will remain strong, averaging \$6.00 per mcf for 2003.

Effective September 1, 2003, the Alberta Energy and Utilities Board intends to shut in certain natural gas production in the Athabasca oil sands area of northeastern Alberta. This is expected to increase the recovery of bitumen by thermally enhanced insitu recovery. Freehold has no production in this area and will be unaffected by this decision.

Production volumes are estimated to average 5,800 boe per day for the year. Based on the following assumptions, we estimate that cash distributions for the year 2003 will total \$1.60 per Trust Unit, up from our previous estimate of \$1.50. The Board of Directors will evaluate the distribution outlook throughout the remainder of the year and we will provide additional guidance as warranted.

<b>Distribution Outlook</b>	<b>August 13, 2003</b>	<b>May 7, 2003</b>
<b>2003 Assumptions</b>		
Average daily production (boe/d), excluding acquisitions	<b>5,800</b>	5,800
Average WTI oil price (US\$/bbl)	<b>30.00</b>	27.25
Average AECO natural gas price (C\$/mcf)	<b>6.00</b>	6.00
Average light/heavy oil price differential (C\$/bbl)	<b>11.00</b>	9.50
Average Canadian/US dollar exchange rate	<b>0.7050</b>	0.68
<b>Estimated cash distributions (\$ per Unit)</b>	<b>1.60</b>	1.50

Due to the high commodity prices received in the first half of 2003, it is expected that approximately 70% to 75% of distributable income will be taxable to Unitholders in 2003.

The regular monthly distribution level has been stable since June 2002. The monthly rate remains set at \$0.10 per Trust Unit, which we expect to be sustainable for the balance of the year. As in the past, a portion of any excess income available for distribution will be directed toward repayment of long-term debt and/or working capital improvement and extra distributions may be declared from time to time at the discretion of the Board of Directors. We caution that significant changes in production rates, commodity prices or foreign exchange rates (positive or negative) will result in adjustments to the distribution level. Freehold is particularly vulnerable to swings in the light/heavy oil price differential, as approximately 35% of our total boe production is heavy oil. An analysis of the potential impact of key variables on distributable income can be found on page 25 of the Trust's 2002 annual report to Unitholders.

Some trusts in our sector have recently reported foreign ownership levels approaching 50%, which may affect their status as a mutual fund trust. This is not currently a concern for Freehold, as non-resident ownership is approximately 5%. Freehold reviews foreign ownership levels on an annual basis.

The Trust's lower-cost structure continues to deliver superior netbacks to Unitholders, as demonstrated by our solid second quarter results. We continue to actively seek opportunities to augment our production and reserves through the purchase of producing properties. However, in the first half of 2003, transaction costs remain high and we have not found significant assets available that meet our investment criteria, in particular royalty assets. We believe ongoing industry consolidation will create acquisition opportunities that are attractive to the Trust and our strong balance sheet positions us to take advantage of these as they arise.

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

(Signed)  
David J. Sandmeyer  
President & Chief Executive Officer

August 13, 2003

## Combined Balance Sheets

(\$000s)	June 30 2003	December 31 2002
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash	\$ 122	\$ 316
Accounts receivable	13,569	13,443
	<b>13,691</b>	13,759
Reclamation fund	1,160	1,006
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$142,324 (2002 – \$132,399)	203,377	209,557
	<b>\$ 218,228</b>	\$ 224,322
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities:		
Distributions payable to Unitholders	\$ 3,128	\$ 3,020
Accounts payable and accrued liabilities	3,489	2,819
	<b>6,617</b>	5,839
Provision for future site restoration	1,528	1,353
Long-term debt (note 2)	18,500	30,000
Future income tax liability	2,001	1,650
Unitholders' equity (note 3)	189,582	185,480
	<b>\$ 218,228</b>	\$ 224,322

## Combined Statements of Unitholders' Equity

(\$000s)	Six Months Ended June 30 2003	Year Ended December 31 2002
	(Unaudited)	
Unitholders' equity, beginning of period	\$ 185,480	\$ 196,442
Net income	22,273	27,557
Distributions to Unitholders	(28,029)	(39,530)
Issue of new Trust Units	9,858	1,011
Unitholders' equity, end of period	<b>\$ 189,582</b>	\$ 185,480

## Combined Statements of Income

(\$000s, Except per Unit Data)	Three Months Ended June 30		Six Months Ended June 30	
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)
Revenue:				
Royalty income and working interest sales	\$ 17,855	\$ 16,235	\$ 39,609	\$ 29,079
Royalty expense (net of ARC)	(785)	(649)	(1,735)	(1,162)
	<b>17,070</b>	15,586	<b>37,874</b>	27,917
Other expenses:				
Operating	1,138	1,296	2,376	2,334
General and administrative	734	690	1,629	1,601
Interest on long-term debt	177	249	417	487
Capital taxes and other	99	33	165	67
	<b>2,148</b>	2,268	<b>4,587</b>	4,489
Funds generated from operations	14,922	13,318	33,287	23,428
Depletion and depreciation	4,968	5,291	9,925	10,570
Provision for future site restoration	89	80	179	160
Management fee	294	244	559	475
Net income before income taxes	9,571	7,703	22,624	12,223
Future income tax provision	231	—	351	—
Net income	\$ 9,340	\$ 7,703	\$ 22,273	\$ 12,223
Net income per Trust Unit, basic and diluted	\$ 0.30	\$ 0.26	\$ 0.72	\$ 0.41

## Combined Statements of Cash Flows

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2003 (Unaudited)	2002 (Unaudited)	2003 (Unaudited)	2002 (Unaudited)
Cash provided by (used in):				
Operating:				
Net income	\$ 9,340	\$ 7,703	\$ 22,273	\$ 12,223
Items not involving cash:				
Depletion and depreciation	4,968	5,291	9,925	10,570
Future income tax provision	231	—	351	—
Provision for future site restoration	89	80	179	160
Trust Units issued in lieu of management fee	294	244	559	475
Funds generated from operations	14,922	13,318	33,287	23,428
Changes in non-cash working capital	2,360	(907)	544	(2,716)
	17,282	12,411	33,831	20,712
Financing:				
Trust Units issued upon exercise of options	—	40	9,300	40
Long-term debt	1,000	(2,500)	(11,500)	(2,500)
Distributions paid	(15,629)	(9,046)	(27,921)	(16,879)
	(14,629)	(11,506)	(30,121)	(19,339)
Investing:				
Property and royalty acquisitions (note 4)	(1,522)	—	(1,522)	—
Development expenditures	(989)	(516)	(2,224)	(1,076)
Site reclamation fund contributions	(79)	(60)	(158)	(120)
	(2,590)	(576)	(3,904)	(1,196)
Increase (decrease) in cash	63	329	(194)	177
Cash, beginning of period	59	108	316	260
Cash, end of period	\$ 122	\$ 437	\$ 122	\$ 437

## Notes to Interim Combined Financial Statements

For the period ended June 30, 2003

### 1) Significant Accounting Policies

The interim combined financial statements of Freehold Royalty Trust "the Trust" have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim combined financial statements have been prepared following the same accounting policies and methods of computation as the combined financial statements for the fiscal year ended December 31, 2002. The interim combined financial statements should be read in conjunction with the combined financial statements and the notes thereto in the Trust's annual report for the year ended December 31, 2002.

### 2) Long-Term Debt

The Trust has a \$50.0 million committed production facility on which \$18.5 million was drawn at June 30, 2003. The facility is structured as a one-year committed revolving credit facility, extendible annually. In the event that the lender does not consent to such extension, the revolving credit facility will revert to a three-year, non-revolving amortizing term loan with equal quarterly principal repayments. At June 30, 2003, the entire amount outstanding under the production facility is presented as long-term based on the Trust's ability to refinance this amount with the undrawn portion of the facility. Borrowings under the facility bear interest at the Bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins, ranging from 90 to 165 basis points.

In addition, the Trust has available a \$15.0 million demand operating facility and a U.S. \$10.0 million swap facility which was unused at June 30, 2003. Borrowings under these facilities bear interest at the Bank's prime lending rate.

Cash interest paid during the six months ended June 30, 2003 was \$356,000 (2002 - \$477,000) and for the current quarter was \$180,000 (2002 - \$284,000).

### 3) Unitholders' Equity

During the quarter the Trust issued 22,500 Trust Units in payment for the management fee to Rife Resources Management Ltd. This brought the total outstanding Trust Units at June 30, 2003 to 31,279,236 (2002 - 30,180,236). The weighted average number of Trust Units outstanding for the six months ending June 30, 2003 was 30,941,184 (2002 - 30,138,162) and for the quarter was 31,256,983 (2002 - 30,146,927).

At June 30, 2003, 130,000 Trust Unit options were outstanding, all with an exercise price of \$9.24 and an expiry date of November 14, 2006. There was no significant impact on the current period financial statements as a result of the Trust Unit Option Plan.

For the six months ended June 30, 2003, the Manager charged the Trust \$1,200,000 in general and administrative costs, of which \$556,000 was for the current quarter. At June 30, 2003 there was \$368,000 in accounts payable relating to these costs. As well, the Manager earns a fee of 1.5% of the purchase price of oil and gas properties acquired by Freehold, with the fee being \$25,000 for the quarter and six months ended June 30, 2003.

### 4) Property and Royalty Acquisition

On June 23, 2003 the Trust completed an acquisition of producing overriding royalty and working interest properties for \$1,650,000 (\$1,522,000 net of purchase price adjustments).

## 5) Combined Statements of Distributable Income

(\$000s, Except per Unit Data)	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Funds generated from operations	\$ 14,922	\$ 13,318	\$ 33,287	\$ 23,428
Deduct:				
Site reclamation fund contributions	(79)	(60)	(158)	(120)
Provision for capital expenditures	(1,550)	(900)	(2,800)	(1,500)
Income available for distribution	\$ 13,293	\$ 12,358	\$ 30,329	\$ 21,808
Per Trust Unit	\$ 0.42	\$ 0.41	\$ 0.98	\$ 0.72
Debt additions (repayment)	1,000	(2,500)	(2,200)	(2,500)
Property and royalty acquisitions	(1,522)	—	(1,522)	—
Working capital change	2,860	(205)	1,422	(2,424)
Distributable income	\$ 15,631	\$ 9,653	\$ 28,029	\$ 16,884
Per Trust Unit	\$ 0.50	\$ 0.32	\$ 0.90	\$ 0.56

**Forward-Looking Statements** – Certain information set forth in this document, including management's assessment of Freehold's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Freehold's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Freehold's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Freehold will derive therefrom. Freehold disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Supplemental Disclosure** – Distributable income, income available for distribution and cash on cash yield are not recognized measures under Canadian generally accepted accounting principles. Management believes that in addition to net income and net income per Trust Unit, distributable income and income available for distribution are useful supplemental measures as they provide investors with information on cash available for distribution. Cash on cash yield is a useful and widely used supplemental measure that provides investors with information on cash actually distributed relative to trading price. Investors are cautioned that distributable income, income available for distribution and cash on cash yield should not be construed as an alternate to net income as determined by Canadian generally accepted accounting principles. Investors are also cautioned that cash on cash yield represents a blend of return **of** investors initial investment and a return **on** investors initial investment and is not comparable to traditional yield on debt instruments where investors are entitled to full return of the principal amount of debt on maturity in addition to a return on investment through interest payments.

## Corporate Information

### Directors

**D. Nolan Blades**<sup>1, 2</sup>  
President  
Sunny Gables Holdings Ltd.

**Harry S. Campbell, Q.C.**  
Managing Partner  
Burnet, Duckworth & Palmer, LLP

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

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

**Dr. P. Michael Maher**<sup>1, 2</sup>  
Professor, Haskayne School of Business  
University of Calgary

**David J. Sandmeyer**  
President  
Rife Resources Ltd.

**William W. Siebens**<sup>2</sup>  
President & C.E.O.  
Candor Investments Ltd.

<sup>1</sup> Audit Committee  
<sup>2</sup> Corporate Governance &  
Nominating Committee

### Unitholder Services

Registered Unitholders should contact the Transfer Agent regarding distribution payments, Trust Unit certificates, change of address/duplicate mailings, and Unitholder Plans (direct deposit, distribution reinvestment, and U.S. currency payments):

Computershare Trust Company of Canada  
600, 530 – 8<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3S8  
Telephone: 1-888-267-6555  
Fax: (403) 267-6598  
Contact: Laura Leong  
Email: laura.leong@computershare.com  
Website: www.computershare.com

### 2003 Cash Distributions

Record Date	Payment Date	Per Trust Unit
December 31, 2002	January 15, 2003	\$0.10
January 31, 2003	February 15, 2003	\$0.10
February 28, 2003	March 15, 2003	\$0.20*
March 31, 2003	April 15, 2003	\$0.10
April 30, 2003	May 15, 2003	\$0.10
May 31, 2003	June 15, 2003	\$0.30*
June 30, 2003	July 15, 2003	\$0.10
July 31, 2003	August 15, 2003	\$0.10
August 31, 2003	September 15, 2003	\$0.20*

\* Monthly distributions are supplemented by quarterly top-ups, when excess income is available. Payment includes quarterly top-up.

### Taxability of 2003 Distributions

Freehold estimates that approximately 70% to 75% of distributions paid in 2003 will be taxable to Unitholders. Further information on taxability is available on Freehold's website or by contacting Freehold.

### Officers

**William W. Siebens**  
Chairman

**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

**Freehold Resources Ltd.**  
**Freehold Royalty Trust**  
400, 144 - 4<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3N4  
Telephone: (403) 221-0802  
Fax: (403) 221-0888

### Investor Relations

**Karen C. Taylor**  
Manager, Investor Relations  
Direct: (403) 221-0891  
Fax: (403) 221-0888  
Toll Free: 1-888-257-1873  
Email: ir@freeholdtrust.com

### Website

www.freeholdtrust.com

### Stock Exchange Listing

Toronto Stock Exchange  
Trading Symbol: FRU.UN

### Second Quarter Trading Summary

High – \$13.48  
Low – \$12.51  
Close – \$13.05  
Volume (000s) – 2,447

### Trustee & Transfer Agent

Computershare Trust Company of Canada  
Calgary, Alberta  
Toronto, Ontario

### Legal Counsel

Burnet Duckworth & Palmer, LLP  
Calgary, Alberta

### Auditors

KPMG, LLP  
Calgary, Alberta

### Banker

Canadian Imperial Bank of Commerce  
Calgary, Alberta

### Evaluation Engineers

Trimble Engineering Associates Ltd.  
Calgary, Alberta