

Q2

report

FREEHOLD ROYALTY TRUST

Interim Report for the period ended June 30, 2000

Second Quarter Highlights

- ◆ Record financial results reflect continued high commodity prices
- ◆ Funds generated from operations increased 126% to \$12.6 million
- ◆ Production was up 16% to 4,921 barrels of oil equivalent per day
- ◆ Distributable income rose 129% to \$8.5 million (\$0.32 per Trust Unit)
- ◆ Completed an acquisition of royalty and working interests for \$5.1 million

	Three Months Ended June 30, 2000	June 30, 1999	%
			Change
Financial			
<i>(\$000s except per Trust Unit)</i>			
Total Revenue	15,109	7,513	+101
Royalty lands income	9,998	4,647	+115
Working interest sales <small>(net of royalties)</small>	5,111	2,866	+78
Less: Operating expenses	1,063	825	+29
Working interest income	4,048	2,041	+98
Operating income	14,046	6,688	+110
Funds generated from operations	12,551	5,548	+126
Income available for distribution	11,191	5,360	+109
per Trust Unit	0.42	0.20	+109
Distributable income	8,536	3,723	+129
per Trust Unit	0.32	0.14	+129
Operating			
Production			
Crude oil and NGLs (Bbls/d)	3,832	3,105	+23
Natural gas (Mmcf/d)	10.9	11.5	-5
Barrels of oil equivalent (Boe/d)	4,921	4,260	+16
Average Prices (\$Cdn.)			
Crude oil and NGL's (\$/Bbl)	33.88	18.56	+83
Natural gas (\$/Mcf)	3.80	2.05	+85
Barrels of oil equivalent (\$/Boe)	34.79	19.10	+82

Report to Unitholders

Freehold distributed \$8.5 million (\$0.32 per Trust Unit) to Unitholders during the second quarter of 2000, up 129% from the \$3.7 million (\$0.14 per Trust Unit) distributed in the second quarter of 1999.

Reconciliation of Distributable Income Change (Q2 2000 vs. Q2 1999)

Distributable income for the three months ended June 30, 1999	\$0.1400
Impact of higher commodity prices	0.2130
Effect of increased production	0.0754
Impact of interest, production and other charges	(0.0260)
Capital expenditures and site reclamation contributions	(0.0442)
Short-term debt re-payment and working capital change	(0.0382)
Distributable income for the three months ended June 30, 2000	\$0.3200

Monthly Distribution Increased and Extra Distribution Declared

Freehold is increasing its monthly distribution rate from \$0.08 to \$0.10 per Trust Unit. The monthly distribution is fixed at \$0.10 per Trust Unit until further notice. The Board of Directors has declared a distribution of \$0.15 per Trust Unit, which will be paid on September 15, 2000 to all Unitholders of record on August 31, 2000. This represents the regular monthly distribution for the month of August of \$0.10 per Trust Unit, plus an extra distribution of \$0.05 per Trust Unit. The extra amount being paid is in accordance with the Trust's previously announced policy of paying a portion of cash available for distribution in excess of regular monthly distributions to Unitholders at the end of each quarter. Approximately \$0.04 per Trust Unit of available second quarter income will be applied to reduce the Trust's long term debt. Including the above distributions, the trailing 12 month distributions paid is \$1.20 per Trust Unit. The Trust has distributed a total of \$3.48 per Trust Unit since inception in November of 1996. Distributions continue to be 100% tax deferred, considered a return of capital for Canadian income tax purposes. No foreign withholding tax has been deducted from source.

Distribution Policy

In response to the period of strong commodity prices, the Board of Directors has confirmed that a portion of the cash available for distribution in excess of the regular monthly distribution will continue to be paid out to Unitholders quarterly with the balance used to further strengthen the financial position of the Trust through debt reduction. The relative portions which will be distributed to Unitholders and applied against debt will reflect the prevailing market conditions and will be reviewed on an ongoing basis.

Financial Results

Funds generated from operations rose 126% to \$12.6 million in the second quarter of 2000, as compared to \$5.5 million in 1999. Total revenues for the second quarter of 2000 increased 101% to \$15.1 million from \$7.5 million last year. These strong financial results reflect the continued high commodity prices received during the period. During the second quarter, the West Texas Intermediate (WTI) price of oil averaged U.S.\$28.63 versus \$17.66 WTI during the same period last year. With no hedging contracts in place, we saw the full benefit of those prices. Freehold's average crude oil and natural gas liquids price of \$33.88 per barrel was 83% higher than the second quarter of 1999. Natural gas prices of \$3.80 per mcf were 85% higher than the second quarter of last year.

Acquisition of Luseland Properties

Effective April 1, 2000, Freehold acquired royalty and working interest properties in the Luseland area of Saskatchewan for \$5.1 million, funded through its existing bank facilities. The Luseland property is located approximately 85 miles southeast of Lloydminster. The properties added 309 barrels of oil equivalent per day (46% of which is royalty production) to Freehold's production base during the second quarter. The established reserves (proven plus half probable) attributed to the properties by Gilbert Lausten Jung in an independent report prepared as at April 1, 2000 are 568,000 barrels of oil equivalent. Since acquiring the property, one well (0.4 net) has been drilled and is currently being production tested. The acquisition will add approximately \$0.04 per Trust Unit to full year 2000 distributions.

Operating Results

Freehold's daily production for the second quarter averaged 4,921 barrels of oil equivalent, up 16% from 4,260 barrels of oil equivalent in the second quarter of 1999, and 11% higher than the first quarter of 2000. In addition to the production added from the Luseland acquisition, 1,145 barrels of oil equivalent was added from ongoing drilling activity since the second quarter of 1999, more than offsetting production decline. A total of 106 wells (3.6 net) were drilled on the Trust's properties during the second quarter as compared to 87 wells (1.9 net) in the second quarter of 1999.

Drilling Summary	Six Months Ended June 30, 2000		Six Months Ended June 30, 1999	
	Gross	Net	Gross	Net
Royalty lands				
Hudson's Bay (HB) Royalty Lands	51	3.7	33	2.5
Unitized wells and acquired royalty lands	212	0.9	69	0.2
Working interest properties	41	4.5	26	0.1
TOTAL	304	9.1	128	2.8

Activity on Royalty Lands – Consistent with overall industry activity, the drilling programs of royalty payors (lessees) on the Trust's royalty base continues to be steady. Royalty production continued its upward trend, averaging 3,084 barrels of oil equivalent in the second quarter of 2000, up 19% compared to 2,598 barrels of oil equivalent in the second quarter of 1999. A total of 96 royalty wells (2.0 net), including 57 (0.2 net) unitized wells, were drilled during the second quarter of 2000, compared to 86 royalty wells (1.9 net) during the second quarter of 1999. The production and reserve additions from this new drilling and the drilling in the last half of 1999 has contributed to the strong production increase. There are currently 43 wells licensed to be drilled on our royalty lands.

Working Interest Properties – Working interest production rose 11% in the second quarter of 2000 to 1,837 barrels of oil equivalent versus 1,662 barrels of oil equivalent in the second quarter of 1999. Approximately \$1.3 million (\$2.2 million year-to-date) was spent during the second quarter on drilling and facilities on the working interest properties, which contributed to the production increase. Freehold participated in the drilling of 10 working interest wells (1.6 net) during the quarter, as compared to one (0.0 net) in the second quarter of 1999. At Hayter, Alberta, the Operator drilled one well (0.2 net) during the quarter. Production at Hayter was reduced by approximately 65 barrels of oil equivalent per day during the quarter due to a planned annual maintenance shutdown. There are no further shutdowns scheduled at Hayter for the remainder of 2000. A total of 11 wells (2.6 net) have been drilled at Hayter during the first six months of 2000, all of which are now on production. At Ribstone, Alberta, eight wells (1.3 net) were drilled in the second quarter. An additional nine wells (1.5 net) will be drilled at Ribstone during the third quarter. At Pembina Cardium Unit #9 in Alberta, one well (0.1 net) was drilled in the second quarter. Eight additional wells (0.8 net) have been approved for the last half of the year. One horizontal well (0.3 net) is currently being drilled at Pouce Coupe, Alberta.

Outlook

Historically the third quarter has been the most active for drilling activity on Freehold's royalty lands. If oil prices remain relatively high, we expect strong financial and operational performance throughout the remainder of the year. The net production contribution from wells drilled during the first six months of 2000 is just slightly under the net amount achieved for the full year 1999. Freehold is revising its average production target for the year upwards to 4,700 barrels of oil equivalent, representing an 8% increase over 1999 production of 4,338 barrels of oil equivalent.

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

David J. Sandmeyer
President & Chief Executive Officer

August 16, 2000

Combined Balance Sheets

(STATED IN THOUSANDS OF DOLLARS)	JUNE 30, 2000	DECEMBER 31, 1999
	(Unaudited)	
<i>Assets</i>		
<i>Current assets:</i>		
Cash	\$ 1,502	\$ 68
Accounts receivable	10,578	8,838
	12,080	8,906
Reclamation fund	675	566
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$80,120 (1999 - \$70,657)	220,667	222,840
	\$ 233,422	\$ 232,312
<i>Liabilities and Unitholders' Equity</i>		
<i>Current liabilities:</i>		
Distributions payable to unitholders	\$ 2,135	\$ 1,865
Accounts payable and accrued liabilities	2,506	2,305
Bank indebtedness	-	2,350
	4,641	6,520
Provision for future site restoration	733	566
Long-term debt	44,414	39,288
Unitholders' equity	183,634	185,938
	\$ 233,422	\$ 232,312

Combined Statements of Unitholders' Equity

(STATED IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)	JUNE 30, 2000		DECEMBER 31, 1999	
	Units	Dollars	Units	Dollars
	(Unaudited)			
Unitholders' equity, beginning of period	26,648,000	\$ 185,938	26,568,000	\$ 197,474
Net income	-	13,147	-	8,783
Distributions to unitholders	-	(15,732)	-	(20,757)
Trust Units issued in lieu of management fee	40,000	281	80,000	438
Unitholders' equity, end of period	26,688,000	\$ 183,634	26,648,000	\$ 185,938

Combined Statements of Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:				
Royalty income	\$ 9,998	\$ 4,647	\$ 18,328	\$ 8,429
Working interest sales (net of royalties)	5,111	2,866	9,397	5,328
Operating expenses	1,063	825	1,995	1,674
Working interest income	4,048	2,041	7,402	3,654
	14,046	6,688	25,730	12,083
Other expenses:				
Administrative	540	520	1,086	1,030
Interest on long-term debt	719	528	1,297	1,076
Other interest	6	75	26	169
Capital taxes and other expenses	230	17	252	41
	1,495	1,140	2,661	2,316
Funds generated from operations before non-cash expenses	12,551	5,548	23,069	9,767
Depletion and depreciation	4,942	4,439	9,463	8,993
Site restoration	93	38	178	79
Management fee	159	103	281	199
Net income	\$ 7,357	\$ 968	\$ 13,147	\$ 496
Net income per Trust Unit	\$ 0.28	\$ 0.04	\$ 0.49	\$ 0.02

Combined Statements of Distributable Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Funds generated from operations	\$ 12,551	\$ 5,548	\$ 23,069	\$ 9,767
Deduct:				
Site reclamation fund contributions	(60)	(38)	(120)	(79)
Provision for capital expenditures	(1,300)	(150)	(2,600)	(237)
Income available for distribution	11,191	5,360	20,349	9,451
Income available for distribution per Trust Unit	0.42	0.20	0.76	0.36
Short-term debt repayment	(600)	(1,400)	(2,350)	(1,700)
Working capital change	(2,055)	(237)	(2,267)	(573)
Distributable income	\$ 8,536	\$ 3,723	\$ 15,732	\$ 7,178
Distributable income per Trust Unit	\$ 0.32	\$ 0.14	\$ 0.59	\$ 0.27

Combined Statements of Cash Flows

(STATED IN THOUSANDS OF DOLLARS)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):				
Operating:				
Net income	\$ 7,357	\$ 968	\$ 13,147	\$ 496
Items not involving cash:				
Depletion and depreciation	4,942	4,439	9,463	8,993
Site restoration	93	38	178	79
Trust Units issued in lieu of management fee	159	103	281	199
Funds generated from operations	12,551	5,548	23,069	9,767
Changes in non-cash operating working capital	(919)	(451)	(1,539)	(534)
	11,632	5,097	21,530	9,233
Financing:				
Bank indebtedness	(600)	(1,400)	(2,350)	(1,700)
Long-term debt	5,126	-	5,126	-
Distributions paid	(8,268)	(3,457)	(15,462)	(7,176)
	(3,742)	(4,857)	(12,686)	(8,876)
Investing:				
Property and royalty acquisitions	(5,126)	-	(5,126)	-
Development expenditures	(1,284)	(150)	(2,164)	(237)
Site reclamation fund contributions	(60)	(38)	(120)	(79)
	(6,470)	(188)	(7,410)	(316)
Increase in cash	1,420	52	1,434	41
Cash, beginning of period	82	73	68	84
Cash, end of period	\$ 1,502	\$ 125	\$ 1,502	\$ 125

Unitholder Information

Trust Unit Trading Information	Quarter Ended			
	June 30, 2000	Mar. 31, 2000	Dec. 31, 1999	Sept. 30, 1999
High	\$8.00	\$6.70	\$6.40	\$6.90
Low	\$6.00	\$5.60	\$5.25	\$5.15
Close	\$7.95	\$6.10	\$5.95	\$6.00
Volume	1,552,502	1,933,646	1,824,575	1,263,573
Trust Units Outstanding	26,688,000	26,668,000	26,648,000	26,628,000
Market Capitalization (\$MM)	\$212	\$163	\$159	\$160

2000 Distributions		Record Date	Payment Date	Per Trust Unit
January, 2000		Jan. 31, 2000	Feb. 15, 2000	\$0.07
February, 2000		Feb. 29, 2000	Mar. 15, 2000	\$0.07
February, 2000	Extra Distribution	Feb. 29, 2000	Mar. 15, 2000	\$0.06
March, 2000		Mar. 31, 2000	Apr. 15, 2000	\$0.07
April, 2000		Apr. 30, 2000	May 15, 2000	\$0.07
May, 2000		May 31, 2000	June 15, 2000	\$0.08
May, 2000	Extra Distribution	May 31, 2000	June 15, 2000	\$0.09
June, 2000		June 30, 2000	July 15, 2000	\$0.08
July, 2000		July 31, 2000	Aug. 15, 2000	\$0.08
August, 2000		Aug. 31, 2000	Sept. 15, 2000	\$0.10
August, 2000	Extra Distribution	Aug. 31, 2000	Sept. 15, 2000	\$0.05
2000 Year-To-Date Total				\$0.82

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. Distributions designated as “return of capital” by the Trust enable Unitholders who are non-residents of Canada to receive such amounts exempt from Canadian withholding tax. **A more complete tax description and a historical listing of distributions paid since inception of the Trust may be obtained from our website (www.freeholdtrust.com) or by contacting the Trust directly.**

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.

Unitholder Services

Registered Unitholders should contact the Trustee and 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):

Montreal Trust Company of Canada
 600, 530 – 8th Avenue S.W.
 Calgary, Alberta T2P 3S8
 Telephone: (403) 267-6555
 Fax: (403) 267-6592
 Toll Free: 1-800-558-0046
 Email: lleong@montrealtrust.com
 Website: www.montrealtrust.com

Corporate Information

Directors

D. Nolan Blades^{1, 2}
Independent Businessman

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

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

Peter T. Harrison¹
Senior Vice-President,
Canadian Equities
Montrusco Bolton Inc.

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

David J. Sandmeyer
President
Rife Resources Ltd.

William W. Siebens²
President & C.E.O.
Candor Investments Ltd.

¹ Audit Committee
² Corporate Governance &
Nominating Committee

Note:

This report contains forward-looking information. Actual results may differ. The risks, uncertainties and other factors which could influence actual results are described in other documents previously filed with regulatory authorities.

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

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Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol: FRU.UN

Trustee and Transfer Agent

Montreal Trust Company of Canada
Calgary, Alberta

Legal Counsel

Burnet Duckworth & Palmer
Calgary, Alberta

Auditors

KPMG, LLP
Calgary, Alberta

Banker

Canadian Imperial Bank of Commerce
Calgary, Alberta

Evaluation Engineers

Grant Trimble Engineering
Calgary, Alberta