

FOR THE PERIOD ENDED JUNE 30, 1999

Freehold Royalty Trust

1999 SECOND QUARTER REPORT

Second Quarter Results

- ◆ Crude oil and NGL's production averaged 3,105 barrels per day
- ◆ Natural gas production averaged 11.5 million cubic feet per day
- ◆ Distributable income of \$3.7 million resulted in a cash distribution of \$0.14 per Trust Unit
- ◆ Short-term debt reduced by \$1.4 million

	Three Months Ended		% Change	Six Months Ended	
	JUNE 30, 1999	JUNE 30, 1998		JUNE 30, 1999	JUNE 30, 1998
<i>Financial</i>					
<i>(\$000s except per Trust Unit)</i>					
Revenue					
Royalty income	4,647	3,662	+27	8,429	8,227
Working interest sales (net of royalties)	2,866	2,089	+37	5,328	4,129
Less: Operating expenses	825	790	+4	1,674	1,699
Working interest income	2,041	1,299	+57	3,654	2,430
	6,688	4,961	+35	12,083	10,657
Income available for distribution per Trust Unit	5,360 0.20	3,751 0.14	+43 +43	9,451 0.36	8,201 0.31
Distributable income per Trust Unit	3,723 0.14	4,574 0.1725	-19 -19	7,178 0.27	9,024 0.3425
<i>Operating</i>					
Production					
Crude oil and NGL's (Bbls/d)	3,105	3,633	-15	3,214	3,781
Natural gas (Mmcf/d)	11.5	13.2	-13	11.5	13.4
Barrels of oil equivalent (Boe/d)	4,260	4,956	-14	4,360	5,125
Potash (Tons/d)	17.2	15.2	+13	15.8	17.8
Average Prices (\$Cdn.)					
Crude oil and NGL's (\$/Bbl)	18.56	10.69	+74	15.80	11.33
Natural gas (\$/Mcf)	2.05	1.81	+13	2.12	1.93
Barrels of oil equivalent (\$/Boe)	19.10	12.66	+51	17.23	13.43
Potash (\$/Ton)	160.45	148.11	+8	162.38	139.11

Report to Unitholders

Financial Results

Revenues for the second quarter of 1999 reflect significantly stronger commodity prices. Total revenues (before operating expenses) of \$7.5 million for the second quarter of 1999 were up 31 percent from the same period last year. Crude oil and natural gas liquids prices recorded for the second quarter of 1999 at \$18.56 per barrel were 74 percent higher than the second quarter of 1998. Natural gas prices recorded for the second quarter of 1999 at \$2.05 per thousand cubic feet (mcf) were 13 percent higher than the second quarter of last year.

Income available for distribution for the second quarter of 1999 was up 43 percent at \$5.4 million (\$0.20 per Trust Unit) versus \$3.8 million (\$0.14 per Trust Unit) for the corresponding quarter in 1998. Of this amount, the Trust strengthened its balance sheet by repaying short-term borrowings and replacing working capital in the amount of \$1.6 million (\$0.06 per Trust Unit). This resulted in actual distributable income of \$3.7 million, and declared distributions for the quarter of fourteen cents (\$0.14) per Trust Unit.

In 1998 the Trust utilized short-term borrowings in the amount of approximately \$2.3 million to stabilize distributions during a period when world oil prices collapsed to the lowest level since deregulation. During the first two quarters of 1999, as a result of the return to more favorable oil prices, the Trust re-paid essentially all of the amount borrowed.

The netback to our investors for the second quarter of 1999 (excluding short-term debt repayments) was \$13.83 per barrel of oil equivalent, approximately 66 percent higher than the netback achieved during the same period in 1998. Contributing positively to the improved netback was the dramatic turnaround of heavy oil prices. Heavy oil discounts in the second quarter averaged \$4.20 per barrel, compared to \$6.95 per barrel a year ago.

Monthly Distribution Increased

Effective as of the August 1999 distribution, the monthly distribution has been increased from \$0.06 per Trust Unit to \$0.07 per Trust Unit. Notice is hereby given that a cash distribution for the month of August in the amount of \$0.07 per Trust Unit will be paid on September 15, 1999 to Unitholders of record on August 31, 1999. **The monthly distribution will be fixed at \$0.07 per Trust Unit until further notice.** Record dates are the last day of each month and payment dates are the 15th day following month end. Including the month of August 1999, the Trust will have distributed a total of \$2.28 per Trust Unit since its inception on November 25, 1996. Distributable income is currently 100 percent tax deferred as it is considered a "return of capital" and thus reduces the adjusted cost base of the Trust Units for capital gains tax purposes.

Operating Results

Overall, reported production of 4,260 barrels of oil equivalent was down 14 percent in the second quarter of 1999, compared to the second quarter of 1998. Second quarter 1998 production was overstated by 320 barrels equivalent of oil per day. At year-end we reported the financial adjustment arising from the over-accrual, but did not restate quarterly numbers. Correcting for the accrual overstatement, the year over year production decrease is eight percent. This eight percent reduction was comprised of shut-in heavy oil and normal decline, consistent with expected performance. Potash production, which represents approximately five percent of the Trust's cash flow, increased 13 percent from the same period last year to 17.2 tons per day.

Total Trust operating costs (excluding non-cash items) of \$2.13 per barrel of oil equivalent for the period are up 22 percent from \$1.75 per barrel of oil equivalent for the second quarter of 1998. The increase is mainly as a result of reduced production volumes year over year. These operating costs are low by industry standards and exemplify the advantage of the royalty lands for which the Trust does not pay operating expenses.

Activity on Royalty Interest Lands – After a very disappointing first quarter, the second quarter saw 86 wells drilled by lessees on Freehold's royalty lands, as compared to 69 wells during the same period last year. On a year-to-date basis, a total of 102 wells have been drilled, compared to 202 for the same period last year. The Baldwin/Fremont area of Saskatchewan had seven recent development oil wells drilled on 12.5 percent net

royalty lands which will add to production and reserves. The increased oil price during the second quarter appears to have sharply added to the new well locations which now total 51. In the Hatton/Freeflight and Luseland areas of Saskatchewan, 25 wells have recently been licensed to drill. Reacting to the positive oil price environment, we are beginning to see evidence of the return to production of heavy oil properties. Approximately 150 barrels were shut-in last year due to low oil prices.

Working Interest Properties - Production at Hayter was approximately 138 barrels per day lower during the second quarter, compared to the first quarter of this year, due to the planned annual turnaround for normal equipment maintenance. Shut-in wells have since been returned to production. The reduced production was more than offset by higher commodity prices received with an average realized field price at Hayter of \$17.29 in the second quarter as compared to \$14.30 in the first quarter of 1999. A number of low-risk development wells had been deferred at Hayter for some time due to low oil prices. The operator expects to proceed with three of the six planned wells in the latter part of this year. The remaining three wells should proceed in early 2000.

Year 2000 Update

As we explained in our 1998 Annual Report (Management's Discussion and Analysis section), the Trust's "Manager" is responsible for the Year 2000 assessment and remediation program that commenced in the latter part of 1997. The Year 2000 readiness program would suggest that we are essentially complete relative to testing, upgrades and replacement of systems and software, awaiting only two minor upgrades, as at June 30, 1999.

In addition to our Year 2000 issues identified by the Trust's "Manager", the Trust is also exposed to the potential impact of non-compliance by its joint venture partners, royalty payors and third party business associates, including suppliers, banks, utility and communications providers, government and others. While the Trust is making all reasonable efforts to assess and manage this risk, it does not seem possible to obtain complete information with respect to all third parties. In the event that significant failure occurs in the activity of any of these third party business associates, it could have a material adverse affect on the Trust's operations and financial results. Although we cannot control the progress of these third parties in relation to Year 2000 readiness, we are preparing contingency plans to address possible interruptions to our business activities and specifically receipt of cash flow from royalty payors and joint venture partners. The contingency plans are expected to be finalized within the third quarter of 1999. Costs incurred to date, directly by the Trust, are nominal and are unlikely to exceed \$20,000 in total.

Outlook

Four months of improved oil prices for both light and heavy grades of crude oil and expectation of continuing oil and gas price strength through year-end have resulted in a dramatic increase in drilling investment by lessees on Freehold's royalty lands, compared to the first quarter of this year. This increase was achieved under less than ideal circumstances as a wet spring in much of western Canada kept drilling rigs inactive longer than usual. The substantial list of licensed but undrilled wells indicates this high level of drilling activity will continue. This is positive for Freehold's future production volumes and reserve additions.

The resurgence in property sale offerings has been of great interest to Freehold as we believe there are excellent opportunities to acquire assets which will strengthen the Trust and improve returns. As prices and production levels impact Freehold's cash flow, it is our intention to ensure our distributions through the remainder of the year reflect the improvement in results.

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

David J. Sandmeyer
President & Chief Executive Officer

August 18, 1999

Combined Balance Sheets

(STATED IN THOUSANDS OF DOLLARS)	JUNE 30, 1999	DECEMBER 31, 1998
	(Unaudited)	
<i>Assets</i>		
Current assets:		
Cash	\$ 125	\$ 84
Accounts receivable	5,798	5,715
	5,923	5,799
Reclamation fund	488	409
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$61,724 (1998 - \$52,731)	231,070	239,826
	\$ 237,481	\$ 246,034
<i>Liabilities and Unitholders' Equity</i>		
Current liabilities:		
Distributions payable to unitholders	\$ 1,330	\$ 1,328
Accounts payable and accrued liabilities	1,584	2,035
Bank indebtedness	3,800	5,500
	6,714	8,863
Provision for future site restoration	488	409
Long-term debt	39,288	39,288
Unitholders' equity	190,991	197,474
	\$ 237,481	\$ 246,034

Combined Statements of Unitholders' Equity

(STATED IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)	JUNE 30, 1999		DECEMBER 31, 1998	
	Units	Dollars	Units	Dollars
	(Unaudited)			
Unitholders' equity, beginning of period	26,568,000	\$ 197,474	26,488,000	\$ 223,301
Net income (loss)	-	496	-	(9,190)
Distributions to unitholders	-	(7,178)	-	(17,186)
Trust Units issued in lieu of management fee	40,000	199	80,000	549
	26,608,000	\$ 190,991	26,568,000	\$ 197,474

Combined Statements of Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:				
Royalty income	\$ 4,647	\$ 3,662	\$ 8,429	\$ 8,227
Working interest sales (net of royalties)	2,866	2,089	5,328	4,129
Operating expenses	825	790	1,674	1,699
Working interest income	2,041	1,299	3,654	2,430
	6,688	4,961	12,083	10,657
Other expenses:				
Administrative	520	553	1,030	1,134
Interest	603	583	1,245	1,110
Capital and Large Corporations Tax	17	19	41	46
	1,140	1,155	2,316	2,290
Income before depletion, depreciation, site restoration and management fee	5,548	3,806	9,767	8,367
Depletion and depreciation	4,439	6,301	8,993	12,706
Site restoration	38	55	79	114
Management fee	103	160	199	320
Net income (loss)	\$ 968	\$ (2,710)	\$ 496	\$ (4,773)
Net income (loss) per Trust Unit	\$ 0.04	\$ (0.10)	\$ 0.02	\$ (0.18)

Combined Statements of Distributable Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Income before depletion, depreciation, site restoration and management fee	\$ 5,548	\$ 3,806	\$ 9,767	\$ 8,367
Deduct:				
Site restoration fund contributions	(38)	(55)	(79)	(114)
Capital expenditures	(150)	-	(237)	(52)
Income available for distribution	\$ 5,360	\$ 3,751	\$ 9,451	\$ 8,201
Income available for distribution per Trust Unit	0.20	0.14	0.36	0.31
Working capital use (replacement)	(1,637)	823	(2,273)	823
Distributable income	\$ 3,723	\$ 4,574	\$ 7,178	\$ 9,024
Distributable income per Trust Unit	\$ 0.14	\$ 0.17	\$ 0.27	\$ 0.34

Combined Statements of Changes in Financial Position

(STATED IN THOUSANDS OF DOLLARS)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ 968	\$ (2,710)	\$ 496	\$ (4,773)
Item not involving cash:				
Depletion and depreciation	4,439	6,301	8,993	12,706
Funds generated from operations	5,407	3,591	9,489	7,933
Changes in non-cash operating working capital	(451)	(1,028)	(534)	(485)
	4,956	2,563	8,955	7,448
Financing:				
Trust Units issued in lieu of management fee	103	160	199	320
Bank indebtedness	(1,400)	5,275	(1,700)	5,275
Long-term debt	-	-	-	1,113
Distributions paid	(3,457)	(7,498)	(7,176)	(14,096)
	(4,754)	(2,063)	(8,677)	(7,388)
Investing:				
Development expenditures	(150)	(560)	(237)	(1,112)
Increase (decrease) in cash	52	(60)	41	(1,052)
Cash, beginning of period	73	135	84	1,127
Cash, end of period	\$ 125	\$ 75	\$ 125	\$ 75

Unitholder Information

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
March, 1999	Mar. 31, 1999	Apr. 15, 1999	\$0.0400
April, 1999	Apr. 30, 1999	May 15, 1999	\$0.0400
May, 1999	May 31, 1999	June 15, 1999	\$0.0500
June, 1999	June 30, 1999	July 15, 1999	\$0.0500
July, 1999	July 31, 1999	Aug. 15, 1999	\$0.0600
August, 1999	Aug. 31, 1999	Sept. 15, 1999	\$0.0700
Total distributions to date			\$2.2800

RECONCILIATION OF DISTRIBUTABLE INCOME

Distributable income for the three months ended June 30, 1998	\$0.1725
Impact of higher commodity prices	.1090
Effect of decreased production	(.0454)
Impact of interest, production and other charges	(.0037)
Distributable income available for distribution	\$0.2324
Working Capital replacement	(.0924)
Distributable income for the three months ended June 30, 1999	\$0.1400

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.

Corporate Information

Trust Unit Trading Information	Quarter Ended	
	June 30, 1999	March 31, 1999
High	\$6.00	\$5.35
Low	\$4.56	\$4.13
Close	\$5.15	\$4.80
Volume (TSE/ME)	1,051,213	1,641,512
Trust Units Outstanding	26,608,000	26,588,000
Market Capitalization	\$137,031,200	\$127,622,400

Directors

D. Nolan Blades^{1, 2}
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Pursuit Resources Corp.

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Partner
Burnet, Duckworth & Palmer

Tullio Cedraschi
President & C.E.O.
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David J. Sandmeyer
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William W. Siebens²
President & C.E.O.
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¹ Audit Committee
² Corporate Governance &
Nominating Committee

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 Listings

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