



FREEHOLD ROYALTY TRUST
 † 1998 SECOND QUARTER REPORT †

Second Quarter Results

- Crude oil and NGL production for the quarter averaged 4,956 barrels per day
- During the quarter, natural gas production averaged 13.2 million cubic feet per day
- Potash production rose 58 percent compared to second quarter last year
- Distributable income for the quarter was \$4.5 million
- Cash distribution for the period of \$0.1725 per Trust Unit

	THREE MONTHS ENDED		SIX MONTHS ENDED		%
	JUNE 30		JUNE 30		
	1998	1997	1998	1997	CHANGE
<i>Operating</i>					
Production					
Crude oil (Bbls/d)	3,292	4,310	3,454	3,863	-11
NGLs (Bbls/d)	341	423	327	343	-5
Natural gas (Mmcf/d)	13.2	18.3	13.4	15.8	-15
Barrels of oil equivalent (Boe/d)	4,956	6,560*	5,125	5,788	-11
Potash (Tons/d)	15.2	9.6	17.8	10.2	+75
<i>Average prices (\$ Cdn.)</i>					
Crude oil and NGLs (\$/Bbl)	10.69	18.50	11.33	19.89	-43
Natural gas (\$/Mcf)	1.81	1.66	1.93	1.87	+3
Barrels of oil equivalent (\$/Boe)	12.66	17.98	13.43	19.56	-31
Potash (\$/Ton)	148.11	115.03	139.11	110.16	+26
<i>Financial</i>					
<i>(\$000s except per Trust Unit)</i>					
Revenue					
Royalty income	3,662	6,035	8,227	12,397	-34
Working interest sales (net of royalties)	2,089	4,353	4,129	7,549	-45
Total revenue	5,751	10,388	12,356	19,946	-38
Funds generated from operations	3,591	7,823	7,933	16,148	-51
Net income	(2,710)	468	(4,773)	3,045	-257
Distributable income	4,574	7,351	9,024	15,733	-43
per Trust Unit	0.1725	0.28	0.3425	0.60	-43

* Reflects adjustment for acquisition effective January 1, 1997 (production included 600 bbls/day which was booked in the second quarter but related to the first quarter).

*Report to Unitholders***Factors Influencing Second Quarter Results**

World oil prices dropped to 12-year lows in the first half of 1998. This has resulted in Freehold's average oil and liquids price in the first half decreasing by 43 percent to \$11.33 per barrel. Natural gas prices, however, rose three percent to average \$1.93 per thousand cubic feet during the half. The drop in oil prices resulted in a 38 percent decrease in revenues to \$12.4 million, as compared to \$19.9 million received during the first half of last year.

Distributions For First Six Months Total**\$0.3425 Per Trust Unit**

The Trust distributed \$0.1725 per Trust Unit during the second quarter bringing the first half total distributions to \$0.3425 per Trust Unit. Freehold's diverse revenue base, and the Trust's low cost operations, have cushioned the effect of volatile oil prices. In April of this year, the Trust changed from quarterly to a monthly distribution payment. Recognizing the current pricing uncertainty, and to ensure the long-term financial strength of the Trust, the monthly distribution is being reduced from \$0.0575 per Trust Unit to \$0.05 per Trust Unit, effective with the August distribution. The Trust has declared a cash distribution for the month of August, 1998 in the amount of five cents (\$0.05) per Trust Unit. The payment will be made on September 15, 1998 to Unitholders of record on August 31, 1998.

Operating Results

Overall, production declined by 11 percent in the first half of the year, compared to the first six months of 1997. This decline relates primarily to reduced production of approximately 227 barrels per day of crude oil from one working interest property, Hayter, and the impact of shut-in heavy oil royalty production of approximately 250 barrels per day. The Hayter reduction reflects a scheduled maintenance shutdown and the decision to delay the drilling of new wells. The reduction in heavy oil royalty volumes is the direct result of operators shutting in production in response to low prices. These volumes are capable of being restored very quickly when prices improve.

Natural gas production averaged 13.4 million cubic feet per day, a 15 percent decline year over year. A large portion of this decline was attributed to one working interest well at Progress, in which our interest converted from 47.3 percent to 17.6 percent at payout as per the working interest agreement.

Potash production jumped 75 percent to 17.8 tons per day, from 10.2 tons per day last year. Potash revenue, which represents a small portion of the Trust's revenue, has more than doubled from the same period last year due to both production volume and price increases. Due to increases in international demand for the product, strong potash revenues are expected to continue through the remainder of 1998.

Total Trust operating costs of \$1.75 per barrel of oil equivalent for the period were down from \$1.83 per barrel of oil equivalent for the second quarter of 1997. These operating costs are low by industry standards and exemplify the advantage of the royalty production from which the Trust receives revenue without the obligation for operating expenses.

Drilling On Royalty Lands Continues,**At No Cost To The Trust**

Lessees drilled 40 non-unit and 102 unitized (total of 142) wells on Freehold's royalty lands during the first half of the year with a 98 percent success rate, as compared to 56 non-unit and 111 unitized (total of 167) wells during the same period last year. There are approximately 40 wells licensed to be drilled on Freehold's royalty lands. This level of activity will assist in sustaining production and add new reserves, at no cost to Freehold. As a result of lower oil prices, Lessees have shifted the focus of their activity on Freehold's royalty lands from oil to natural gas. A reflection of this is that 44 percent of the wells drilled so far this year are natural gas, as compared to 18 percent for the full year of 1997. Freehold will benefit from this activity in the second half of the year with strong natural gas prices projected.

Working Interest Activity

During the second quarter, Freehold participated in the drilling of two successful working interest wells, bringing the total number of wells drilled this year to 23. A number of low-risk development wells are planned at Hayter, but have been deferred until oil prices recover.

At Berrymoor, Alberta, a light oil property which was acquired in 1997, Freehold participated in the recompletions of two wells and the drilling of two gross (0.4 net) wells during the quarter. These activities have increased Freehold's share of production four-fold to 80 barrels of oil equivalent per day.

Outlook For Second Half Of 1998

The heavy oil differential has narrowed from an average of Cdn \$8.80 per barrel for December 1997 to approximately Cdn \$4.36 per barrel in early August of this year. With a third of Freehold's total production being heavy oil, the lower differential will positively impact our cash flow, and will enhance the impact of any improvement in world oil prices.

As a result of shut-in heavy oil production and lower first half volumes at our Hayter property, Freehold has revised its 1998 production target downward by 200 barrels to 5,200 barrels.

On behalf of the board of directors,

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

August 12, 1998

RECONCILIATION OF DISTRIBUTABLE INCOME	Q1 98	Q2 98	TOTAL FIRST HALF 98
Distributable income 1997	\$0.32	\$0.2800	\$0.6000
Impact of lower commodity prices	(0.13)	(0.1175)	(0.2475)
Effect of increased (decreased) production	0.02	(0.0550)	(0.0350)
Impact of interest, production expenses and other charges	(0.04)	0.0100	(0.0300)
Use of working capital	-	0.0550	0.0550
Distributable income 1998	\$0.17	\$0.1725	\$0.3425

FREEHOLD ROYALTY TRUST
Combined Balance Sheets

(STATED IN THOUSANDS OF DOLLARS)	JUNE 30, 1998	DECEMBER 31, 1997
	<i>(Unaudited)</i>	
<i>Assets</i>		
Current assets:		
Cash	\$ 75	\$ 1,127
Accounts receivable	8,103	8,723
	8,178	9,850
Reclamation fund	311	228
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$41,767 (1997 – \$29,061)	250,112	261,706
	\$ 258,601	\$ 271,784
<i>Liabilities and Unitholders' Equity</i>		
Current liabilities:		
Distributions payable to unitholders	\$ 1,525	\$ 6,598
Accounts payable and accrued liabilities	2,378	3,482
Bank indebtedness	5,275	–
	9,178	10,080
Provision for future site restoration	311	228
Long-term debt	39,288	38,175
Unitholders' equity	209,824	223,301
	\$ 258,601	\$ 271,784

Combined Statements of Unitholders' Equity

(STATED IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)	JUNE 30, 1998		DECEMBER 31, 1997	
	UNITS	DOLLARS	UNITS	DOLLARS
	<i>(Unaudited)</i>			
Unitholders' equity, beginning of period	26,488,000	\$ 223,301	26,408,000	\$ 248,464
Net income (loss)	–	(4,773)	–	3,085
Distributions to unitholders	–	(9,024)	–	(29,081)
Trust Units issued in lieu of management fee	40,000	320	80,000	833
Unitholders' equity, end of period	26,528,000	\$ 209,824	26,488,000	\$ 223,301

| FREEHOLD ROYALTY TRUST |
Combined Statements of Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1998	1997	1998	1997
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:				
Royalty income	\$ 3,662	\$ 6,035	\$ 8,227	\$ 12,397
Working interest sales (net of royalties)	2,089	4,353	4,129	7,549
	5,751	10,388	12,356	19,946
Expenses:				
Operating	790	1,089	1,699	1,566
Administrative	553	491	1,134	934
Interest on long-term debt	535	690	1,046	775
Capital taxes and other interest	67	-	110	-
	1,945	2,270	3,989	3,275
Income before depletion, depreciation, site restoration and management fee				
	3,806	8,118	8,367	16,671
Depletion and depreciation	6,301	7,355	12,706	13,103
Site restoration	55	77	114	108
Management fee	160	218	320	415
Net income (loss)	\$ (2,710)	\$ 468	\$ (4,773)	\$ 3,045
Net income (loss) per Trust Unit	\$ (0.10)	\$ 0.02	\$ (0.18)	\$ 0.12

Combined Statements of Distributable Income

(STATED IN THOUSANDS OF DOLLARS, EXCEPT PER UNIT DATA)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1998	1997	1998	1997
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Income before depletion, depreciation, site restoration and management fee				
	\$ 3,806	\$ 8,118	\$ 8,367	\$ 16,671
Add (deduct):				
Site restoration fund contributions	(55)	(77)	(114)	(108)
Capital expenditures	-	(690)	(52)	(830)
Use of working capital	823	-	823	-
Distributable income	\$ 4,574	\$ 7,351	\$ 9,024	\$ 15,733
Distributable income per Trust Unit	\$ 0.17	\$ 0.28	\$ 0.34	\$ 0.60

Combined Statements of Changes in Financial Position

(STATED IN THOUSANDS OF DOLLARS)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1998	1997	1998	1997
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ (2,710)	\$ 468	\$ (4,773)	\$ 3,045
Item not involving cash:				
Depletion and depreciation	6,301	7,355	12,706	13,103
Funds generated from operations	3,591	7,823	7,933	16,148
Changes in non-cash operating working capital	(1,028)	(462)	(485)	(1,706)
	2,563	7,361	7,448	14,442
Financing:				
Trust Units issued in lieu of management fee	160	218	320	415
Bank indebtedness	5,275	(200)	5,275	—
Long-term debt	—	22,380	1,113	22,380
Distributions paid	(7,498)	(8,457)	(14,096)	(11,890)
	(2,063)	13,941	(7,388)	10,905
Investing:				
Property and royalty acquisitions	—	(22,330)	—	(22,330)
Development expenditures	(560)	(690)	(1,112)	(830)
	(560)	(23,020)	(1,112)	(23,160)
Increase (decrease) in cash	(60)	(1,718)	(1,052)	2,187
Cash, beginning of period	135	4,216	1,127	311
Cash, end of period	\$ 75	\$ 2,498	\$ 75	\$ 2,498

Unitholder Information

TRUST UNIT TRADING INFORMATION	QUARTER ENDED JUNE 30, 1998	QUARTER ENDED MARCH 31, 1998
November 25, 1996 Issue Price	\$10.00	
High	\$8.40	\$9.80
Low	\$6.00	\$7.30
Close	\$8.00	\$8.00
Volume (TSE/ME)	2,589,283	1,465,642
Trust Units Outstanding	26,528,000	26,508,000
Market Capitalization	\$212,224,000	\$212,064,000

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
Total distributions to date			\$1.6800

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

Directors

D. Nolan Blades^{1,2}
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Burnet, Duckworth & Palmer

Tullio Cedraschi
President & C.E.O.
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Peter T. Harrison¹
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Montrustco Associates Inc.

P. Michael Maher^{1,2}
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University of Calgary

David J. Sandmeyer
President
Rife Resources Ltd.

William W. Siebens²
President & C.E.O.
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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

The Toronto Stock Exchange
 The Montreal Exchange
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Trustee and Transfer Agent Information

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² Corporate Governance &
 Nominating Committee