Freehold

ROYALTY TRUST

# Q2

400, 144 – 4TH AVENUE S.W.
CALGARY, ALBERTA T2P 3N4
TELEPHONE: 403 . 221 . 0802
FAX: 403 . 221 . 0888

TSX: FRU.UN
CUSIP: 355904103

## NEWS RELEASE & QUARTERLY REPORT

# Freehold Royalty Trust Announces 2005 Second Quarter Results, Declares Second Quarter Top-up, and Increases Monthly Distribution

**CALGARY, ALBERTA, (CCNMatthews – August 10, 2005) – Freehold Royalty Trust** (Freehold or the Trust) (TSX:FRU.UN) today announced results for the three months ended June 30, 2005.

## *SECOND QUARTER HIGHLIGHTS*

- On May 10, 2005, Freehold completed the previously announced acquisition of royalty interests (Petrovera Partnership), for $352 million, acquiring 3,700 barrels of oil equivalent (boe) per day of royalty production.
- Production averaged 7,279 boe per day, up 26% from the second quarter of 2004.
- Price realizations averaged $42.42 per boe, 14% higher than a year ago.
- Operating netback averaged $39.61 per boe, up 18% from last year.
- Distributions to Unitholders totalled $0.41 per Trust Unit ($0.36 regular plus $0.05 top-up related to the first quarter of 2005.)

The board of directors has declared an extra distribution of $0.06 per Trust Unit (top-up related to the second quarter) and increased the regular monthly distribution by 17% from $0.12 to $0.14 per Trust Unit. The $0.06 top-up will be paid on September 15, 2005, along with the $0.14 regular monthly distribution (total of $0.20 per Trust Unit.) The record date is August 31, 2005, and the ex-distribution date is August 29, 2005. Including the September 15$^{th}$ payment, the 12-month trailing cash distributions total $1.75 per Trust Unit.

| **Results at a Glance** | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| **Financial** ($000s, except as noted) | | | | | | |
| Gross revenue | **28,564** | 19,878 | 44% | **48,423** | 37,829 | 28% |
| Operating income | | | | | | |
| Net income | **10,858** | 9,515 | 14% | **20,226** | 17,189 | 18% |
| Per Trust Unit, diluted ($) | **0.26** | 0.30 | -13% | **0.55** | 0.55 | — |
| Funds generated from operations (1) | **24,344** | 16,407 | 48% | **40,447** | 30,782 | 31% |
| Per Trust Unit ($) | **0.59** | 0.52 | 13% | **1.11** | 0.98 | 13% |
| Distributions to Unitholders | **17,981** | 12,593 | 43% | **30,917** | 24,233 | 28% |
| Per Trust Unit (2) ($) | **0.41** | 0.40 | 3% | **0.82** | 0.77 | 6% |
| Long-term debt | **120,000** | 17,000 | 606% | **120,000** | 17,000 | 606% |
| Unitholders' equity | **413,908** | 174,617 | 137% | **413,908** | 174,617 | 137% |
| **Operating** | | | | | | |
| Average daily production (boe/d) | **7,279** | 5,757 | 26% | **6,395** | 5,667 | 13% |
| Average price realizations ($/boe) | **42.42** | 37.37 | 14% | **41.16** | 36.20 | 14% |
| Operating netback ($/boe) | **39.61** | 33.57 | 18% | **38.14** | 32.39 | 18% |
| **Trust Units Outstanding** | | | | | | |
| At period end (000s) | **48,960** | 31,499 | 55% | **48,960** | 31,499 | 55% |
| Weighted average (000s) | **41,489** | 31,477 | 32% | **36,544** | 31,466 | 16% |

*(1) Prior periods restated to conform to the current period's presentation.*

*(2) Based on the number of Trust Units issued and outstanding at each record date.*

# Message to Unitholders

In the second quarter of 2005, Freehold achieved record revenue, funds generated from operations (cash flow) and net income, fueled by a 26% boost to oil and gas production, and a 14% increase in average price realizations. Our production remained unhedged in the second quarter, and we have no plans to enter into any foreign currency or commodity price hedges at this time. This policy is subject to quarterly review by our board of directors.

Cash distributions declared totalled $18 million, or $0.41 per Trust Unit, representing a payout ratio of 74% of cash flow. In addition, we declared a quarterly top-up of $0.06 per Trust Unit relating to the second quarter. This top-up will be paid on September 15, along with the regular monthly distribution, which we are increasing to $0.14 per Trust Unit.

On May 10, we acquired the Petrovera Partnership – the largest acquisition in our history. The acquisition adds critical mass to enhance stability of our distributions over the long term, from royalty interest assets that are a very good fit with our existing portfolio. It doubles our royalty production and solidifies Freehold's position as the only oil and gas trust in Canada focused primarily on royalty interests. About 80% of our production now comes from royalty interests.

The properties acquired include interests in approximately 7,600 wells, of which 3,618 wells overlap with Freehold's current wells and production units. As a result, we have redrawn the boundaries of our royalty areas, adding two new areas: Peace River Arch and Ontario. The accompanying map shows our new royalty areas within western Canada. (The map is also available on our website.)

The integration process is well underway, although it will take some time to transfer all of the lands into our name and ensure we receive the proper royalty payments directly. With Petrovera contributing royalty production for only 52 days, the positive impact of the acquisition was not fully reflected in our second quarter results. The third quarter will be more representative. With the benefit of Petrovera royalty production for the full period, both operating and general and administrative expenses will be lower in the third quarter, on a per boe basis. Synergies and economies of scale are expected to further reduce G&A expenses on a per boe basis, once the integration of assets is complete.

From an operational perspective, drilling activity on the Petrovera lands is ahead of expectations. We are pleased with the quality of the wells drilled to date in 2005, which have been generally oil prone. This compares with primarily shallow uphole-gas targets being drilled on Freehold's lands, and provides a balanced portfolio. There are currently 151 licensed drilling locations on our royalty lands, of which 66 are on Petrovera lands.

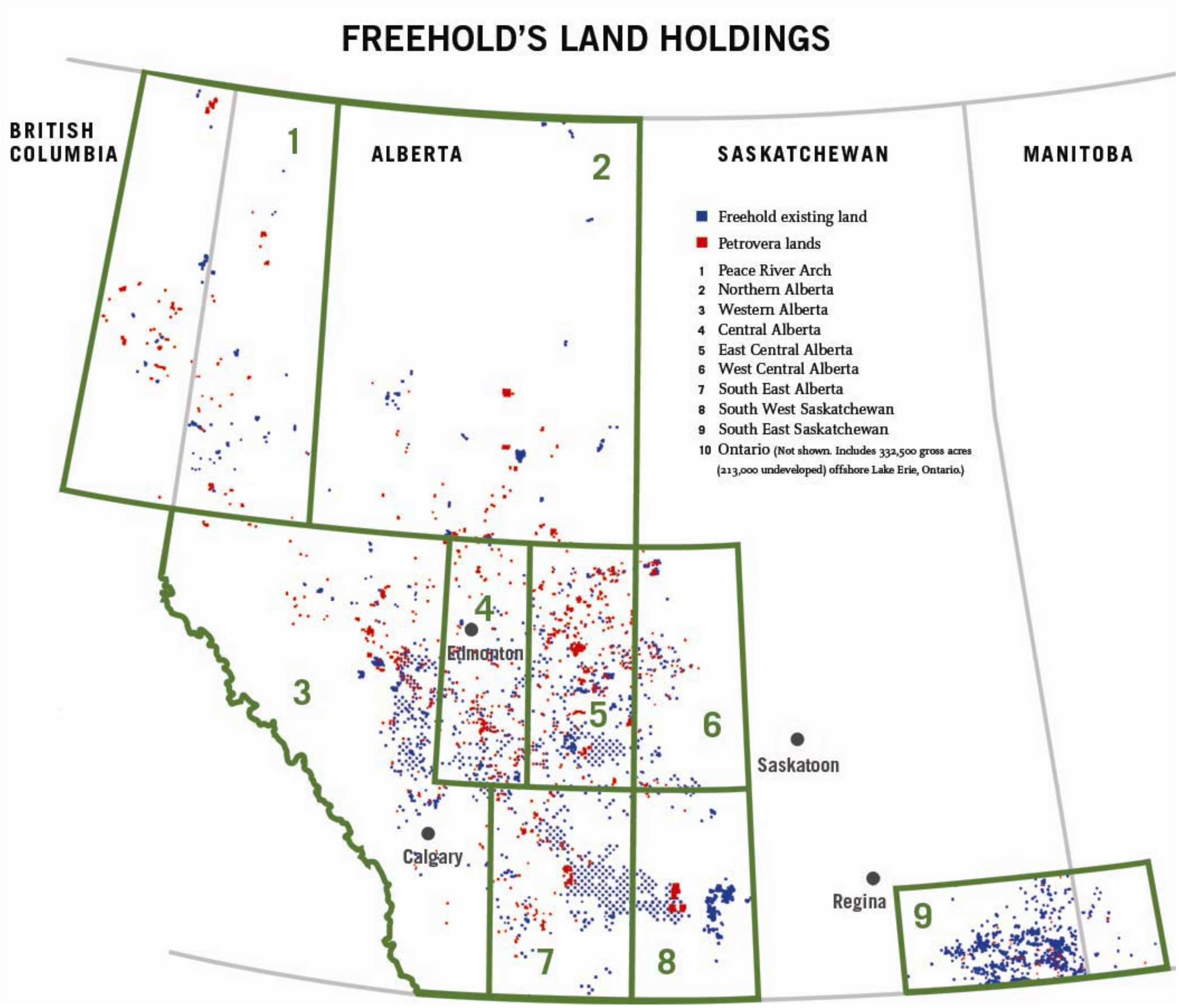
We have increased our estimate of 2005 cash distributions to $1.80 per Trust Unit, resulting in a payout ratio of approximately 75% in 2005. While this payout ratio is lower than our historical average of 83%, it does not signal a change in strategy. Rather, the increased royalty interest production has required a significant, one-time increase in our receivables, caused by the normal lag in receiving royalty revenue. Beyond 2005, we expect to maintain a payout ratio in line with our historical average.

I would like to acknowledge the very significant contribution of the employees of the Manager, who have worked exceptionally hard and put in many long hours over the last several months on the Petrovera acquisition.

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

DJ Sandmeyer

David J. Sandmeyer
President & Chief Executive Officer




| Summary of Royalty Assets Acquired | Freehold | Petrovera | **Combined** |
|---|---|---|---|
| **Production** (year ended December 31, 2004) | | | |
| Royalty production (%) | 66 | 99 | **79** |
| Oil (bbls/d) | 3,594 | 2,005 | **5,599** |
| NGL (bbls/d) | 283 | 101 | **384** |
| Natural gas (Mcf/d) | 10,270 | 9,347 | **19,617** |
| Total (boe/d) | 5,588 | 3,663 | **9,251** |
| **Reserves** (as at December 31, 2004) | | | |
| Net proved (Mboe) | 14,678 | 8,324 | **23,002** |
| Net proved plus probable (Mboe) | 21,163 | 12,889 | **34,052** |
| Reserve life index (net proved plus probable, years) | 10.6 | 9.6 | **10.2** |
| **Land** (as at December 31, 2004) | | | |
| Gross (acres) | 867,155 | 1,109,922 | **1,892,294** |
| Gross undeveloped (acres) | 246,177 | 386,509 | **623,366** |

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

The following discussion is management's opinion about Freehold Resources Ltd. and Freehold Royalty Trust's (the "Trust") (collectively "Freehold"), operating and financial results for the three and six months ended June 30, 2005 and previous periods, and the outlook for Freehold based on information available as at August 10, 2005. The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All comparative percentages are between the quarters ended June 30, 2005 and June 30, 2004 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. This discussion should be read in conjunction with the Trust's annual MD&A and audited financial statements for the years ended December 31, 2004 and 2003, together with the accompanying notes. These are included on pages 19 through 44 of the Trust's 2004 annual report to Unitholders.

## FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Freehold's future plans and operations as at August 10, 2005, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our 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. You 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. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them.

## SUPPLEMENTAL DISCLOSURE

We believe that distributions to Unitholders, cash flow and netback are useful supplemental measures. You are cautioned that distributions to Unitholders should not be construed as an alternative to net income as determined by GAAP. Cash flow, as used in this report, refers to funds generated from operations derived from our Consolidated Statements of Cash Flows. Cash flow represents cash provided by operating activities, before changes in non-cash working capital. We use cash flow to analyze operating performance, leverage and liquidity. Operating netback, which is calculated as average unit sales price less royalties and operating expenses; and investor netback, which deducts administrative and interest expense and income and capital taxes, represent the cash margin for product sold, calculated on a per boe basis. Distributions to Unitholders, cash flow and netback do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

## CONVERSION OF NATURAL GAS TO OIL EQUIVALENT

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are mathematically converted to equivalent barrels of oil (boe). We use the international conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 boe ratio approximates an equivalent energy value at the burner tip and does not represent a value equivalency at the wellhead. While it is useful for comparative measures, it may not accurately reflect individual product values and may be misleading if used in isolation.

## *RESULTS OF OPERATIONS*

The table below is a summary of our performance for the second quarter of 2005, with comparative data for the preceding seven quarters. This presentation illustrates the fluctuations in pricing experienced over the past eight quarters, and the resultant effect on our financial results. In recent quarters, our results have benefited from strong commodity prices.

| **Quarterly Results** | **2005** | | 2004 | | | | 2003 | |
|---|---|---|---|---|---|---|---|---|
| ($000s, except as noted) | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| **Financial** | | | | | | | | |
| Revenue, net of royalty expense | **27,922** | **19,170** | 19,204 | 19,994 | 19,066 | 17,250 | 15,230 | 16,865 |
| Funds generated from operations (1) | **24,344** | **16,103** | 16,139 | 17,392 | 16,407 | 14,375 | 12,664 | 14,711 |
| Per Trust Unit ($) | **0.59** | **0.51** | 0.51 | 0.55 | 0.52 | 0.46 | 0.40 | 0.47 |
| Distributions to Unitholders | **17,981** | **12,936** | 15,449 | 14,808 | 12,593 | 11,640 | 12,575 | 12,545 |
| Per Trust Unit ($) | **0.41** | **0.41** | 0.49 | 0.47 | 0.40 | 0.37 | 0.40 | 0.40 |
| Payout ratio (%) | **74** | **80** | 96 | 85 | 77 | 81 | 99 | 85 |
| Net income (2) | **10,858** | **9,368** | 9,397 | 10,306 | 9,515 | 7,674 | 5,947 | 8,868 |
| Per Trust Unit, diluted ($) | **0.26** | **0.30** | 0.30 | 0.33 | 0.30 | 0.24 | 0.19 | 0.28 |
| Long-term debt | **120,000** | **27,000** | 27,000 | 17,000 | 17,000 | 18,000 | 18,000 | 17,500 |
| **Operating** | | | | | | | | |
| Daily production (boe/d) | **7,279** | **5,502** | 5,575 | 5,447 | 5,757 | 5,577 | 5,768 | 5,909 |
| Average selling price ($/boe) | **42.42** | **39.47** | 38.37 | 40.96 | 37.37 | 35.00 | 29.51 | 32.15 |
| Operating netback ($/boe) | **39.61** | **36.18** | 34.67 | 36.85 | 33.57 | 31.18 | 25.88 | 28.61 |
| **Benchmark Prices** | | | | | | | | |
| WTI crude oil (US$/bbl) | **53.20** | **49.84** | 48.28 | 43.88 | 38.31 | 35.14 | 31.18 | 30.20 |
| Exchange rate (Cdn$/US$) | **0.8039** | **0.8150** | 0.8195 | 0.7651 | 0.7357 | 0.7590 | 0.7600 | 0.7247 |
| Edmonton Par (Cdn$) | **65.76** | **61.45** | 57.70 | 56.25 | 50.60 | 45.60 | 39.55 | 40.92 |
| Light/heavy oil differential (Cdn$/bbl) | **24.17** | **22.48** | 21.60 | 14.29 | 13.29 | 10.67 | 11.02 | 10.13 |
| Bow River/Hardisty (Cdn$/bbl) | **41.59** | **38.97** | 36.10 | 41.96 | 37.31 | 34.93 | 28.53 | 30.79 |
| AECO natural gas (Cdn$/Mcf) | **7.38** | **6.69** | 7.08 | 6.66 | 6.80 | 6.61 | 5.59 | 6.29 |
| **Trading Performance** | | | | | | | | |
| High ($) | **17.63** | **18.49** | 18.42 | 16.97 | 15.80 | 16.30 | 17.19 | 13.85 |
| Low ($) | **14.25** | **15.50** | 15.75 | 14.57 | 14.65 | 14.02 | 13.11 | 12.81 |
| Close ($) | **15.99** | **16.10** | 17.45 | 16.25 | 15.00 | 14.75 | 16.35 | 13.70 |
| Volume (000s) | **8,311** | **2,418** | 4,252 | 1,768 | 3,149 | 2,399 | 2,506 | 2,991 |

*(1) Prior periods restated to conform to the current period's presentation.*

*(2) 2003 restated.*

### NET INCOME AND FUNDS GENERATED FROM OPERATIONS

Higher average selling prices and increased royalty production led to record income and funds generated from operations (cash flow) for the second quarter of 2005.

| **Net Income and Funds Generated From Operations** | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| Net income ($000s) | **10,858** | 9,515 | 14% | **20,226** | 17,189 | 18% |
| Per Trust Unit ($) | **0.26** | 0.30 | -13% | **0.55** | 0.55 | — |
| Funds generated from operations ($000s) | **24,344** | 16,407 | 48% | **40,447** | 30,782 | 31% |
| Per Trust Unit ($) | **0.59** | 0.52 | 13% | **1.11** | 0.98 | 13% |

## DISTRIBUTIONS TO UNITHOLDERS

Distributions to Unitholders for the second quarter of 2005 were $18 million, or $0.41 per Trust Unit, up 3% from last year on a per Trust Unit basis. This represents a payout of 74% of cash flow. Since inception, our payout ratio has averaged 83%. Royalty income contributed 83% of distributions in the second quarter.

The board has declared an extra distribution of $0.06 per Trust Unit (top-up related to the second quarter) and increased the regular monthly distribution by 17% from $0.12 to $0.14 per Trust Unit. The $0.06 top-up will be paid on September 15, 2005, along with the $0.14 regular monthly distribution (total of $0.20 per Trust Unit.)

| **Analysis of Distributions to Unitholders** ($000s, except as noted) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| **Funds generated from operations** | **24,344** | 16,407 | 48% | **40,447** | 30,782 | 31% |
| **Add (deduct):** | | | | | | |
| Net reclamation fund contribution | **(93)** | (82) | 13% | **(141)** | (181) | -22% |
| Provision for capital expenditures | **(650)** | (650) | — | **(2,300)** | (1,650) | 39% |
| Debt additions (repayment) | **93,000** | (1,000) | | **93,000** | (1,000) | |
| Proceeds from Trust Unit issuance | **258,935** | — | | **258,935** | — | |
| Property and royalty acquisitions | **(351,705)** | (330) | | **(351,705)** | (330) | |
| Changes in working capital | **(5,850)** | (1,752) | 234% | **(7,319)** | (3,388) | 116% |
| **Distributions to Unitholders** | **17,981** | 12,593 | 43% | **30,917** | 24,233 | 28% |
| Per Trust Unit (1) ($) | **0.41** | 0.40 | 3% | **0.82** | 0.77 | 6% |
| **Payout ratio (2)** | **74%** | 77% | -4% | **76%** | 79% | -4% |

*(1) Based on the number of Trust Units issued and outstanding at each record date.*
*(2) Distributions to Unitholders as a percentage of cash flow.*

## NETBACK

Our second quarter operating netback was $39.61 per boe, 18% higher than last year. We have consistently delivered a superior netback, relative to our peer group, as we do not incur royalty or operating expenses on our royalty lands. We do not have any commodity price or foreign currency hedges in place.

| **Operating Netback** ($/boe) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| Gross revenue (1) | **43.12** | 37.95 | 14% | **41.83** | 36.68 | 14% |
| Royalty expenses (2) | **0.97** | 1.55 | -37% | **1.15** | 1.47 | -22% |
| Operating expenses | **2.54** | 2.83 | -10% | **2.54** | 2.82 | -10% |
| Operating netback | **39.61** | 33.57 | 18% | **38.14** | 32.39 | 18% |

*(1) Gross revenue includes potash revenue, sulphur revenue and other.*
*(2) Net of Alberta Royalty Credit.*

## PRODUCTION

Average daily production volumes rose 26% in the second quarter. Royalty production volumes jumped 43%, with the Petrovera acquisition contributing approximately 3,700 boe per day of royalty production for the last 52 days of the quarter. Since production revenue from January 1 to May 9, 2005 was netted against the purchase price, the annualized production from this acquisition in 2005 will be approximately 2,300 boe per day. Working interest production declined 9%, as an early spring break-up and wet weather curtailed access and delayed the tie-in of some new wells.

In the second quarter of 2005, our boe production profile was 34% natural gas, 5% natural gas liquids (NGL), 22% light and medium oil, and 39% heavy oil. The Petrovera acquisition increases both the natural gas and heavy oil components of our production; in the third quarter, these are expected to be about 37% and 40%, respectively. Freehold's 2005 exit production rate is expected to be 9,300 boe per day.

| **Average Daily Production** | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| **Royalty lands** | | | | | | |
| Oil (bbls/d) | **3,156** | 2,157 | 46% | **2,633** | 2,175 | 21% |
| NGL (bbls/d) | **288** | 232 | 24% | **261** | 216 | 21% |
| Natural gas (Mcf/d) | **12,915** | 9,092 | 42% | **10,462** | 8,181 | 28% |
| Oil equivalent (boe/d) | **5,596** | 3,904 | 43% | **4,637** | 3,755 | 23% |
| **Working interest properties** | | | | | | |
| Oil (bbls/d) | **1,279** | 1,368 | -7% | **1,332** | 1,436 | -7% |
| NGL (bbls/d) | **53** | 80 | -34% | **58** | 63 | -8% |
| Natural gas (Mcf/d) | **2,104** | 2,428 | -13% | **2,210** | 2,477 | -11% |
| Oil equivalent (boe/d) | **1,683** | 1,853 | -9% | **1,758** | 1,912 | -8% |
| **Total Trust** | | | | | | |
| Oil (bbls/d) | **4,435** | 3,526 | 26% | **3,965** | 3,611 | 10% |
| NGL (bbls/d) | **341** | 311 | 10% | **319** | 280 | 14% |
| Natural gas (Mcf/d) | **15,019** | 11,520 | 30% | **12,672** | 10,659 | 19% |
| Oil equivalent (boe/d) | **7,279** | 5,757 | 26% | **6,395** | 5,667 | 13% |
| Number of days in period (days) | **91** | 91 | — | **181** | 182 | -1% |
| Total volumes during period (Mboe) | **662** | 524 | 26% | **1,158** | 1,031 | 12% |
| Potash production (tonnes/d) | **9.8** | 9.9 | -1% | **9.6** | 8.4 | 14% |

## BENCHMARK PRICES

In the second quarter, WTI crude oil prices rose 39%, while Edmonton Par prices rose 30%, reflecting a stronger Canadian dollar. Heavy grades of crude oil sell at a discount to light oil. A global surplus of heavy oil and a lack of upgrading capacity significantly amplified light/heavy oil price differentials in the first half of the year, and differentials reached unprecedented levels in the second quarter of 2005. AECO natural gas prices were up 9% in the quarter and 5% for the year to date.

| **Average Benchmark Prices** | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| WTI crude oil (US$/bbl) | **53.20** | 38.31 | 39% | **51.52** | 36.73 | 40% |
| US$/Cdn$ exchange rate | **0.8039** | 0.7357 | 9% | **0.8095** | 0.7474 | 8% |
| Edmonton Par crude oil (Cdn$/bbl) | **65.76** | 50.60 | 30% | **63.61** | 48.10 | 32% |
| Light/heavy oil differential (Cdn$/bbl) | **24.17** | 13.29 | 82% | **23.33** | 11.98 | 95% |
| Bow River/Hardisty (Cdn$/bbl) | **41.59** | 37.31 | 11% | **40.28** | 36.12 | 12% |
| AECO natural gas (Cdn$/Mcf) | **7.38** | 6.80 | 9% | **7.03** | 6.71 | 5% |

### REALIZED PRICES

At $42.42 per boe, our average price realization is 14% higher than the second quarter last year. However, the increase in light/heavy oil differential prices resulted in a lower average price for our oil production relative to the benchmark WTI price. The differential is significant for Freehold, as approximately 59% of our oil production (39% of our total boe production) is heavy oil. In addition, the cost of purchased condensate, used as a diluent and blending agent for transport of heavy oil, has also risen dramatically.

| **Average Selling Prices** | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| Oil ($/bbl) | **41.92** | 37.23 | 13% | **40.90** | 35.60 | 15% |
| NGL ($/bbl) | **44.29** | 34.78 | 27% | **43.69** | 34.12 | 28% |
| Oil and NGL ($/bbl) | **42.09** | 37.03 | 14% | **41.10** | 35.49 | 16% |
| Natural gas ($/Mcf) | **7.17** | 6.34 | 13% | **6.88** | 6.29 | 9% |
| Oil equivalent ($/boe) | **42.42** | 37.37 | 14% | **41.16** | 36.20 | 14% |
| Potash ($/tonne) | **212.65** | 162.81 | 31% | **207.89** | 157.35 | 32% |

## *DEVELOPMENT ACTIVITIES*

### ROYALTY INTEREST LANDS

An early spring break-up, extended road bans, and record rainfall and flooding on the southern Prairies in June, slowed industry drilling activity in the second quarter. In western Canada, just over 3,900 wells were drilled in the quarter, short of the 5,100 that industry experts had anticipated. Nevertheless, 141 wells were drilled on our royalty lands in the quarter, including 66 unit wells in which we have very small royalty interests. On an equivalent net basis, this is 4.4 net wells, up from 2.1 net wells in the second quarter of 2004. These wells were drilled at no cost to Freehold.

Drilling activity on the Petrovera lands in 2005 is ahead of expectations and we are pleased with the quality of the wells drilled to date, which have been generally oil prone. This compares with primarily shallow uphole-gas targets being drilled on Freehold's lands, and provides a balanced portfolio.

In the third quarter, the industry has resumed its record-setting pace, and we anticipate a strong second half. There are currently 151 (7.7 equivalent net) licensed drilling locations on our royalty lands, compared with 73 (4.1 equivalent net) locations at this time last year. Of this number, 66 (3.6 equivalent net) locations are on Petrovera lands.

| **Royalty Interest Lands Drilling Summary (1)** | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2005** | | 2004 | | **2005** | | 2004 | |
| | **Gross** | **Net (2)** | Gross | Net (2) | **Gross** | **Net (2)** | Gross | Net (2) |
| Oil | **22** | **0.7** | 32 | 0.3 | **85** | **2.7** | 71 | 1.2 |
| Natural gas | **75** | **0.5** | 122 | 0.6 | **295** | **2.7** | 305 | 1.5 |
| Service and other | **44** | **3.2** | 22 | 1.2 | **84** | **4.9** | 36 | 1.6 |
| Dry and abandoned | — | — | — | — | **1** | **0.1** | 1 | — |
| Total | **141** | **4.4** | 176 | 2.1 | **465** | **10.4** | 413 | 4.3 |

*(1) Includes drilling on the Petrovera lands from January 1, 2005 (the effective date of the acquisition), but excludes any wells drilled in Ontario. Gross wells excludes common wells.*

*(2) Equivalent net wells are the aggregate of the numbers obtained by multiplying each gross well by the Trust's royalty interest percentage.*

| **Summary of Royalty Wells Drilled** | Six Months Ended June 30, 2005 | | |
|---|---|---|---|
| | Freehold | Petrovera | **Combined** [(1)] |
| Gross wells | 401 | 165 | **465** |
| Equivalent net wells [(2)] | 5.6 | 4.8 | **10.4** |
| Net success rate (%) | 99% | 98% | **99%** |

*(1) Combined gross wells excludes common wells.*

*(2) Equivalent net wells are the aggregate of the numbers obtained by multiplying each gross well by the Trust's royalty interest percentage.*

**WORKING INTEREST PROPERTIES**

In the second quarter of 2005, we spent $1.2 million on facilities and the drilling of 6 (0.7 net) wells, resulting in 3 oil wells and 3 natural gas wells, for a 100% success rate.

Most of our 2005 development activity will occur during the third quarter. Drilling programs are currently underway at Hayter (11 gross /2.6 net wells), Pembina Cardium Unit #9 (20 gross /2.0 net wells), Pouce Coupe (3 gross /0.6 net wells), and Lashburn (2 gross /1.6 net wells).

| **Working Interest Properties Drilling Summary** | Three Months Ended June 30 | | | | Six Months Ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2005** | | 2004 | | **2005** | | 2004 | |
| | **Gross** | **Net** | Gross | Net | **Gross** | **Net** | Gross | Net |
| Oil | **3** | **0.7** | 1 | 0.1 | **10** | **0.8** | 10 | 0.3 |
| Natural gas | **3** | **0.0** | 3 | 0.1 | **21** | **0.2** | 24 | 0.5 |
| Total | **6** | **0.7** | 4 | 0.2 | **31** | **1.0** | 34 | 0.8 |

## *REVENUE*

We receive revenue from about 200 industry operators. Gross revenue of $28.6 million for the second quarter of 2005 was up 44% from a year ago, fuelled by higher commodity prices and increased royalty production volumes. The accompanying table demonstrates the net effect of price and volume variances on gross revenues.

| **Gross Revenue Variances** ($000s) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2005 vs. 2004** | 2004 vs. 2003 | **2005 vs. 2004** | 2004 vs. 2003 |
| **Oil and NGL** | | | | |
| Production increase (decrease) | **3,598** | (54) | **2,764** | (139) |
| Price increase (decrease) | **1,766** | 2,079 | **3,974** | 16 |
| Net increase (decrease) | **5,364** | 2,025 | **6,738** | (123) |
| **Natural gas** | | | | |
| Production increase (decrease) | **2,284** | 95 | **2,434** | (520) |
| Price increase (decrease) | **871** | (54) | **1,132** | (1,086) |
| Net increase (decrease) | **3,155** | 41 | **3,566** | (1,606) |
| Other | **167** | (43) | **290** | (51) |
| **Gross revenue increase (decrease)** | **8,686** | 2,023 | **10,594** | (1,780) |

# *EXPENSES*

## ROYALTIES PAID

Royalty expenses are tied directly to commodity prices and production volumes. In the second quarter, we paid royalty expenses of $4.19 per boe relating to ownership in working interest production. On a total Trust basis, royalty expenses declined 37%, reflecting the increase in royalty production volumes, which have no royalty expenses.

| **Royalty Expenses** (net of Alberta Royalty Credit) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| Working interest properties ($000s) | **642** | 812 | -21% | **1,331** | 1,513 | -12% |
| Per boe ($) | **4.19** | 4.82 | -13% | **4.18** | 4.35 | -4% |
| Royalty interest lands (1) ($000s) | **—** | — | — | **—** | — | — |
| Per boe ($) | **—** | — | — | **—** | — | — |
| Total royalty expenses ($000s) | **642** | 812 | -21% | **1,331** | 1,513 | -12% |
| Total Trust ($/boe) | **0.97** | 1.55 | -37% | **1.15** | 1.47 | -22% |

*(1) We do not incur royalty expenses on production from our royalty lands; as the royalty owner, we receive the royalty as income from other companies.*

## OPERATING EXPENSES

Operating expenses on our working interest properties were $11.00 per boe for the second quarter, up 25% from 2004. The increase relates to lower working interest production volumes, compounded by access issues caused by wet spring conditions. On a total Trust basis, operating costs per boe were 10% lower than last year, as a higher percentage of our production was from royalties, which have no operating costs. Our overall operating expenses per boe will decline further in the third quarter, with the benefit of Petrovera royalty production for the full period.

| **Operating Expenses** | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| Working interest properties ($000s) | **1,685** | 1,480 | 14% | **2,939** | 2,907 | 1% |
| Per boe ($) | **11.00** | 8.78 | 25% | **9.23** | 8.35 | 11% |
| Royalty interest lands (1) ($000s) | **—** | — | — | **—** | — | — |
| Per boe ($) | **—** | — | — | **—** | — | — |
| Total operating expenses ($000s) | **1,685** | 1,480 | 14% | **2,939** | 2,907 | 1% |
| Total Trust ($/boe) | **2.54** | 2.83 | -10% | **2.54** | 2.82 | -10% |

*(1) We do not incur operating expenses on production from our royalty lands.*

## GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

G&A expenses for the second quarter of 2005 rose 27%. The increase in G&A relates to higher staff levels, and rising costs associated with regulatory compliance, reserve report preparation, and financial reporting, as well as administrative expenses relating to the Petrovera acquisition. On a per boe basis, G&A expenses were level compared with the second quarter of last year, and will decline in the third quarter, as volumes increase. Synergies and economies of scale resulting from the Petrovera acquisition are expected to further reduce G&A expenses on a per boe basis, once the integration of assets is complete.

| **G&A Expenses** | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| G&A expenses ($000s) | **943** | 740 | 27% | **2,206** | 1,907 | 16% |
| Per boe ($) | **1.42** | 1.41 | 1% | **1.91** | 1.85 | 3% |
| As a percentage of revenue | **3%** | 4% | -25% | **5%** | 5% | — |

**MANAGEMENT FEES**

The Manager of the Trust receives its management fee in Trust Units. For the second quarter, the Manager received 30,017 Trust Units, with an ascribed value of $479,972 ($15.99 per Trust Unit) compared with 22,500 Trust Units with an ascribed value of $337,500 ($15.00 per Trust Unit) in the second quarter of 2004. The issue of 17.4 million Trust Units in May resulted in a pro-rata increase in the management fee, in accordance with the management contract. Effective July 1, 2005, the management fee will increase to 35,654 Trust Units per quarter. In connection with the Petrovera acquisition, an acquisition fee of $5.3 million was paid to the Manager, in accordance with the management contract.

| **Management Fees** ($000s, except as noted) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| Management fees (paid in Trust Units) (1) | **480** | 337 | 42% | **842** | 669 | 26% |
| Per boe ($) | **0.73** | 0.64 | 13% | **0.73** | 0.65 | 12% |
| Acquisition fees (2) | **5,306** | 5 | | **5,306** | 5 | |

*(1) The ascribed value of the management fees is based on the closing Trust Unit price at the end of each quarter.*

*(2) The Manager earns an acquisition fee of 1.5% of the purchase price of oil and gas properties that we acquire. This fee is charged to capital assets as part of the properties acquired.*

**INTEREST EXPENSES**

In the second quarter, interest expenses totalled $0.7 million, or $0.01 per Trust Unit. The increase relates to additional debt assumed in May to finance the Petrovera acquisition.

| **Interest Expenses** ($000s, except as noted) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| Net interest expense | **690** | 147 | 369% | **935** | 318 | 194% |
| Per boe ($) | **1.04** | 0.28 | 271% | **0.81** | 0.31 | 161% |

## *LIQUIDITY AND CAPITAL RESOURCES*

On May 10, 2005, we acquired Petrovera Resources, a general partnership, for $351.7 million, net of adjustments. The purchase price was funded with a combination of equity and debt, as described below. The acquisition was accounted for using the purchase method of accounting, with results of operations included from May 10, 2005.

In conjunction with the Petrovera acquisition, we expanded our credit facilities from $65 million to $165 million. These credit facilities were used to fund $93 million of the purchase price for the acquisition, inclusive of transaction costs.

We have a $15 million extendible revolving operating facility and a $150 million extendible revolving term credit facility. The borrowing base was $65 million before the acquisition and became $165 million concurrent with completion of the acquisition on May 10, 2005. The credit facilities bear interest at the lenders’ prime rate, bankers’ acceptances or LIBOR rates plus applicable margins ranging from 85 to 140 basis points and standby fees. They are secured with $300 million demand debentures over our petroleum and natural gas assets.

The increased royalty interest production from the Petrovera acquisition has required a significant, one-time increase in our receivables, caused by the normal lag in receiving royalty revenue. This increase resulted in a change to working capital of $5.9 million at June 30, 2005.

At the end of the second quarter, we had no short-term debt outstanding and long-term debt was $120 million. We had working capital of $11.5 million, resulting in net debt of $108.5 million. The Trust's ratio of net debt (long-term debt less positive working capital) to trailing cash flow was 1.5:1, higher than our historical average. By year-end, this ratio should improve to about 1.1:1, as the uplift in production revenue from the Petrovera properties is reflected in higher cash flows.

| **Debt Analysis** ($000s) | As at June 30 **2005** | 2004 | Change |
|---|---|---|---|
| Long-term debt | **120,000** | 17,000 | 606% |
| Short-term debt | — | — | — |
| Less: working capital | **11,454** | 7,755 | 48% |
| Net debt obligations | **108,546** | 9,245 | 1074% |

| **Financial Leverage and Coverage Ratios** (1) | As at June 30 **2005** | 2004 | Change |
|---|---|---|---|
| Net debt to cash flow (times) | **1.5** | 0.2 | 650% |
| Net debt to distributions (times) | **1.8** | 0.2 | 800% |
| Distributions to interest expense (times) | **49** | 73 | -33% |
| Net debt to net debt plus equity (%) | **21%** | 5% | 320% |

*(1) Cash flow, distributions and interest expense are 12-months trailing.*

## CAPITAL EXPENDITURES

Capital expenditure obligations are deducted from funds generated from operations, before determining distributions to Unitholders. As we do not incur any capital expenditures on our royalty properties, our capital requirements are modest, relative to most energy trusts. Capital expenditures on working interest properties totalled $1.2 million in the second quarter (2004 – $0.7 million) and $2.3 million for the first six months of 2005 (2004 – $1.7 million). Capital expenditures for the last six months of 2005 will be approximately $4.3 million, funded from cash flow.

## TRUST UNITS OUTSTANDING

As at June 30, 2005 and August 10, 2005, there were 48,960,273 Trust Units outstanding. There are no options outstanding under the Trust Unit option plan. In connection with the Petrovera acquisition, we issued 17,363,520 Trust Units at $15.55 per Trust Unit on May 10, 2005. On June 30, 2005, we issued 30,017 Trust Units in payment of the management fee.

| **Trust Units Outstanding** (000s) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change |
| At period end | **48,960** | 31,499 | 55% | **48,960** | 31,499 | 55% |
| Weighted average | **41,489** | 31,477 | 32% | **36,544** | 31,466 | 16% |

## *DISTRIBUTION OUTLOOK*

The Petrovera acquisition, combined with continued strength in commodity pricing, leads us to increase our estimate of cash distributions for 2005 to $1.80 per Trust Unit, up 8% from our earlier guidance of $1.66 per Trust Unit. In keeping with our stated practice, a portion of any excess income available for distribution may be directed toward repayment of long-term debt and improvements to working capital, and extra distributions may be declared from time to time at the board's discretion.

Our assumptions, which are provided below, include average production volumes of 7,895 boe per day for the full year, with contribution of approximately 3,700 boe per day of production from the Petrovera assets from May 10, 2005 (2,300 boe per day annualized for 2005). We have increased our WTI price, and reduced the light/heavy oil differential slightly. As well, we have assumed $3 million in debt repayment during the last half of this year. This results in a payout ratio of approximately 75% in 2005. Beyond 2005, we expect to maintain a payout ratio in line with our historical average.

| **2005 Distribution Outlook** | **August 10, 2005** | May 11, 2005 |
|---|---|---|
| Estimated cash distributions ($ per Trust Unit) | **1.80** | 1.66 |
| **2005 Assumptions** | | |
| Average daily production (boe/d) | **7,895** | 7,895 |
| Average WTI oil price (US$/bbl) | **53.00** | 49.00 |
| Average AECO natural gas price (Cdn$/Mcf) | **7.00** | 7.00 |
| Average light/heavy oil price differential (Cdn$/bbl) | **24.00** | 25.00 |
| Average exchange rate (Cdn$/US$) | **0.81** | 0.80 |
| Capital expenditures ($ millions) | **6.6** | 6.6 |
| Long-term debt at year end ($ millions) | **117** | 117 |
| Weighted average Trust Units outstanding (thousands) | **42,812** | 42,815 |

For Canadian residents, approximately 20% of distributions to Unitholders will be tax-deferred in 2005 and 80% will be taxable as other income, as high commodity prices have resulted in record cash flows.

Recognizing the cyclical nature of our industry, we caution that significant changes in production rates, commodity prices, interest rates 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 40% of our total boe production is heavy oil. An analysis of the potential impact of key variables on distributable income is provided on page 34 of the Trust's 2004 annual report to Unitholders.

**FOR FURTHER INFORMATION, PLEASE CONTACT:**

**David Sandmeyer**, President & CEO (403) 221-0848
**Joe Holowisky**, Vice-President, Finance & CFO (403) 221-0855
**Karen Taylor**, Manager, Investor Relations (403) 221-0891

**Freehold Royalty Trust**
Phone: (403) 221-0802
Fax: (403) 221-0888
(toll free in Canada/U.S. 1-888-257-1873)
E-mail: ir@freeholdtrust.com
Website: www.freeholdtrust.com

# Consolidated Balance Sheets

| ($000s) | June 30, 2005 | December 31, 2004 |
|---|---|---|
| | (unaudited) | |
| **Assets** | | |
| Current assets: | | |
| Cash | **$ 215** | $ 66 |
| Accounts receivable | **21,707** | 12,797 |
| | **21,922** | 12,863 |
| Reclamation fund | **1,787** | 1,646 |
| Petroleum and natural gas interests, net of accumulated depletion and depreciation of $200,245 (2004 – $180,919) | **528,201** | 193,492 |
| | **$ 551,910** | $ 208,001 |
| **Liabilities and Unitholders' Equity** | | |
| Current liabilities: | | |
| Distributions payable to Unitholders | **$ 5,875** | $ 3,785 |
| Accounts payable and accrued liabilities | **4,593** | 4,950 |
| | **10,468** | 8,735 |
| Asset retirement obligation (note 5) | **4,027** | 3,937 |
| Long-term debt (note 3) | **120,000** | 27,000 |
| Future income tax liability | **3,507** | 3,507 |
| Unitholders' equity: | | |
| Unitholders' capital (note 4) | **558,713** | 298,936 |
| Accumulated earnings | **184,326** | 164,100 |
| Accumulated distributions | **(329,131)** | (298,214) |
| | **413,908** | 164,822 |
| | **$ 551,910** | $ 208,001 |

# Consolidated Statements of Income and Accumulated Earnings

| (unaudited)<br>($000s, Except per Unit Data) | Three Months Ended June 30<br>**2005** | <br>2004 | Six Months Ended June 30<br>**2005** | <br>2004 |
|---|---|---|---|---|
| Revenue: | | | | |
| Royalty income and working interest sales | **$ 28,564** | $ 19,878 | **$ 48,423** | $ 37,829 |
| Royalty expense (net of ARC) | **(642)** | (812) | **(1,331)** | (1,513) |
| | **27,922** | 19,066 | **47,092** | 36,316 |
| Expenses: | | | | |
| Operating | **1,685** | 1,480 | **2,939** | 2,907 |
| General and administrative | **943** | 740 | **2,206** | 1,907 |
| Interest on long-term debt | **690** | 147 | **935** | 318 |
| Depletion and depreciation | **12,957** | 6,479 | **19,326** | 12,772 |
| Accretion of asset retirement obligation | **61** | 57 | **122** | 113 |
| Management fee | **480** | 337 | **842** | 669 |
| | **16,816** | 9,240 | **26,370** | 18,686 |
| Net income before taxes | **11,106** | 9,826 | **20,722** | 17,630 |
| Income and capital taxes | **248** | 271 | **496** | 376 |
| Future income tax provision | **–** | 40 | **–** | 65 |
| Net income | **$ 10,858** | $ 9,515 | **$ 20,226** | $ 17,189 |
| Accumulated earnings – beginning of period | **173,468** | 134,882 | **164,100** | 127,208 |
| Accumulated earnings – end of period | **$ 184,326** | $ 144,397 | **$ 184,326** | $ 144,397 |
| Net income per Trust Unit, basic and diluted | **$ 0.26** | $ 0.30 | **$ 0.55** | $ 0.55 |

# Consolidated Statements of Cash Flows

| (unaudited)<br>($000s) | Three Months Ended<br>June 30<br>**2005** | <br><br>2004 | Six Months Ended<br>June 30<br>**2005** | <br><br>2004 |
|---|---|---|---|---|
| Cash provided by (used in): | | | | |
| Operating: | | | | |
| Net income | **$ 10,858** | $ 9,515 | **$ 20,226** | $ 17,189 |
| Items not involving cash: | | | | |
| Depletion and depreciation | **12,957** | 6,479 | **19,326** | 12,772 |
| Future income tax provision | – | 40 | – | 65 |
| Accretion of asset retirement obligation | **61** | 57 | **122** | 113 |
| Trust Units issued in lieu of management fee | **480** | 337 | **842** | 669 |
| Expenditures on reclamation | **(12)** | (21) | **(69)** | (26) |
| Funds generated from operations | **24,344** | 16,407 | **40,447** | 30,782 |
| Changes in non-cash working capital | **(7,301)** | (1,235) | **(9,267)** | (2,984) |
| | **17,043** | 15,172 | **31,180** | 27,798 |
| Financing: | | | | |
| Issue of Trust Units, net of issue costs | **258,935** | – | **258,935** | – |
| Long-term debt | **93,000** | (1,000) | **93,000** | (1,000) |
| Distributions paid | **(15,896)** | (12,590) | **(28,828)** | (24,228) |
| | **336,039** | (13,590) | **323,107** | (25,228) |
| Investing: | | | | |
| Property and royalty acquisitions | **(351,705)** | (330) | **(351,705)** | (330) |
| Development expenditures | **(1,215)** | (710) | **(2,292)** | (1,650) |
| Increase in reclamation fund | **(93)** | (82) | **(141)** | (181) |
| | **(353,013)** | (1,122) | **(354,138)** | (2,161) |
| Increase in cash | **69** | 460 | **149** | 409 |
| Cash, beginning of period | **146** | 6 | **66** | 57 |
| Cash, end of period | **$ 215** | $ 466 | **$ 215** | $ 466 |

# Notes to Interim Consolidated Financial Statements

For the period ended June 30, 2005

## 1. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of Freehold Royalty Trust (“Freehold”) have been prepared by management in accordance with Canadian generally accounting principles. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2004, unless otherwise identified. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Freehold’s annual report for the year ended December 31, 2004.

## 2. BUSINESS COMBINATION

On May 10, 2005, Freehold closed the acquisition of Petrovera Resources, a general partnership which owns certain royalty, mineral and working interests. The acquisition cost of $351.7 million (net of adjustments) was funded partially with a concurrent bought-deal equity financing consisting of 13.5 million Trust Units at $15.55 per Trust Unit and a private placement to the vendor of 3.9 million Trust Units at $15.55 per Trust Unit for net proceeds of $258.9 million. The remaining cost of $92.8 million was financed utilizing Freehold’s credit facilities. The acquisition was accounted for using the purchase method of accounting with the results of operations being included from May 10, 2005.

The fair value of the acquisition costs are allocated as follows:

| ($000s) | |
|---|---|
| Petroleum and natural gas interests | 351,705 |
| Asset retirement obligations | (19) |

## 3. LONG-TERM DEBT

Freehold has a $150.0 million extendible revolving term credit facility, extendible annually, on which $120.0 million was drawn at June 30, 2005. In the event that the lender does not consent to an extension, the revolving credit facility will revert to a two-year, non-revolving term facility with equal quarterly principal repayments. The first quarterly payment would commence on January 1 of the year following the end of the revolving period. In addition Freehold has available a $15.0 million extendible revolving operating facility. Borrowings under the facilities bear interest at the Bank’s prime lending rate, bankers’ acceptance or LIBOR rates plus applicable margins, ranging from 85 to 140 basis points and standby fees. The facilities are secured with $300.0 million demand debentures over Freehold’s petroleum and natural gas assets.

Cash interest paid during the six months ended June 30, 2005 was $1,109,000 (2004 – $316,000) and for the current quarter was $864,000 (2004 – $145,000).

## 4. UNITHOLDERS' CAPITAL

| | June 30, 2005 | | December 31, 2004 | |
|---|---|---|---|---|
| | Units | Amount ($000s) | Units | Amount ($000s) |
| Balance, beginning of period | 31,544,236 | 298,936 | 31,454,236 | 297,508 |
| Issued for cash | 17,363,520 | 270,003 | – | – |
| Less: Issue expenses | – | (11,068) | – | – |
| Issued in lieu of management fee | 52,517 | 842 | 90,000 | 1,428 |
| Balance, end of period | 48,960,273 | 558,713 | 31,544,236 | 298,936 |

The weighted average number of Trust Units outstanding for the six months ended June 30, 2005 was 36,544,253 (2004 – 31,465,733 and for the current quarter was 41,489,077 (2004 – 31,476,983).

## 5. ASSET RETIREMENT OBLIGATION

Freehold has no asset retirement obligations (ARO) on its royalty income properties. Freehold's ARO results from its responsibility to abandon and reclaim its net share of all working interest properties. The net present value of Freehold's total ARO is estimated to be $3.9 million, with the undiscounted value being $9.8 million. Payments to settle the obligations are expected to occur continuously over the next 50 years, with the majority of obligations being over 15 years away. A credit adjusted risk free rate of 6.25% was used to calculate the present value of the ARO.

| ($000s) | **June 30, 2005** | December 31, 2004 |
|---|---|---|
| Balance, beginning of period | **$ 3,937** | $ 3,606 |
| Liabilities incurred | **18** | 156 |
| Liabilities added upon acquisition | **19** | – |
| Liabilities settled | **(69)** | (57) |
| Accretion expense | **122** | 232 |
| Balance, end of period | **$ 4,027** | $ 3,937 |

## 6. RELATED PARTY TRANSACTIONS

For the quarter, Freehold issued 30,017 Trust Units in payment for the management fee to Rife Resources Management Ltd. ("the Manager"). The total for the six months ended June 30, 2005 was 52,517 Trust Units.

For the six months ended June 30, 2005, the Manager charged the Trust $1,543,000 in general and administrative costs. At June 30, 2005, there was $470,000 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 fees being $5,304,000 for the six months ended June 30, 2005.

## 7. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's financial statement presentation.

## 8. DISTRIBUTIONS TO UNITHOLDERS

| (unaudited)<br>($000s, Except per Unit Data) | Three Months Ended June 30<br>**2005** | <br>2004 | Six Months Ended June 30<br>**2005** | <br>2004 |
|---|---|---|---|---|
| Funds generated from operations | **$ 24,344** | $ 16,407 | **$ 40,447** | $ 30,782 |
| Net reclamation fund contribution | **(93)** | (82) | **(141)** | (181) |
| Provision for capital expenditures | **(650)** | (650) | **(2,300)** | (1,650) |
| Debt additions (repayment) | **93,000** | (1,000) | **93,000** | (1,000) |
| Proceeds from Trust Unit issuance | **258,935** | – | **258,935** | – |
| Property and royalty acquisitions | **(351,705)** | (330) | **(351,705)** | (330) |
| Changes in working capital | **(5,850)** | (1,752) | **(7,319)** | (3,388) |
| Distributions to Unitholders | **17,981** | 12,593 | **30,917** | 24,233 |
| Accumulated distributions, beginning of period | **311,150** | 255,364 | **298,214** | 243,724 |
| Accumulated distributions – end of period | **$ 329,131** | $ 267,957 | **$ 329,131** | $ 267,957 |
| Distributions per Trust Unit | **$ 0.41** | $ 0.40 | **$ 0.82** | $ 0.77 |
| Accumulated distributions per Trust Unit, beginning of period | **10.69** | 8.92 | **10.28** | 8.55 |
| Accumulated distributions per Trust Unit, end of period | **$ 11.10** | $ 9.32 | **$ 11.10** | $ 9.32 |

# Corporate Information

## DIRECTORS

**D. Nolan Blades** (1)(2)(3)
President
Sunny Gables Holdings Ltd.

**Harry S. Campbell, Q.C.** (3)
Managing Partner
Burnet, Duckworth & Palmer, LLP

**Tullio Cedraschi**
President & Chief Executive Officer
CN Investment Division

**Peter T. Harrison** (1)(3)
Senior Vice-President
Montrusco Bolton Inc.

**Dr. P. Michael Maher** (1)(2)
Professor, Haskayne School of Business
University of Calgary

**David J. Sandmeyer**
President & Chief Executive Officer
Rife Resources Ltd.

**William W. Siebens** (2)
President & Chief Executive Officer
Candor Investments Ltd.

(1) Audit Committee
(2) Governance & Nominating Committee
(3) Reserves Committee

## 2005 CASH DISTRIBUTIONS (1)

| Record Date | Payment Date | Per Trust Unit |
|---|---|---|
| December 31, 2004 | January 15, 2005 | $0.12 |
| January 31, 2005 | February 15, 2005 | $0.12 |
| February 28, 2005 | March 15, 2005 | $0.17(2) |
| March 31, 2005 | April 15, 2005 | $0.12 |
| April 30, 2005 | May 15, 2005 | $0.12 |
| May 31, 2005 | June 15, 2005 | $0.17(2) |
| June 30, 2005 | July 15, 2005 | $0.12 |
| July 31, 2005 | August 15, 2005 | $0.12 |
| August 31, 2005 | September 15, 2005 | $0.20(2) |
| Total, year-to-date: | | $1.26 |

(1) For Canadian residents, approximately 20% of distributions to Unitholders will be tax-deferred in 2005 and 80% will be taxable as other income. Tax information and historical distributions are available on our website at www.freeholdtrust.com.
(2) Monthly distributions are supplemented by quarterly top-ups, when excess income is available; payment includes quarterly top-up.

## OFFICERS

**William W. Siebens**
Chairman

**David J. Sandmeyer**
President & Chief Executive Officer

**J. Frank George**
Vice-President, Exploitation

**Darren G. Gunderson**
Controller

**Joseph N. Holowisky**
Vice-President, Finance & Administration
Chief Financial Officer and Secretary

**William O. Ingram**
Vice-President, Production

**Michael J. Okrusko**
Vice-President, Land

## HEAD OFFICE

**Freehold Resources Ltd.**
**Freehold Royalty Trust**
400, 144 - 4th 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

## 2005 SECOND QUARTER TRADING SUMMARY

High – $17.63
Low – $14.25
Close – $15.99
Volume – 8,311,290
Trust Units Outstanding – 48.9 million
June 30 Market Capitalization – $783 million

## TRUSTEE & TRANSFER AGENT

Computershare Trust Company of Canada
600, 530 – 8th Avenue S.W.
Calgary, Alberta T2P 3S8
Toll Free: 1-888-267-6555
Fax: (403) 267-6598
Email: service@computershare.com

## 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