

FOR THE PERIODS ENDED DECEMBER 31, 1997

## FOURTH QUARTER PERFORMANCE

- ◆ Distributable income of \$6,597,642, seven percent above forecast for the quarter
- ◆ Cash distribution for the period of \$0.25 per Trust Unit
- ◆ Crude oil and NGL production for the quarter averaged 4,048 barrels per day, up 31% from forecast
- ◆ During the quarter Natural gas production averaged 15.7 million cubic feet per day, six percent higher than forecast

	Three Months Ended Dec. 31, 1997	Year Ended Dec. 31, 1997	1997 Forecast	% Change
<b>FINANCIAL</b>				
(\$000s except per Trust Unit)				
Revenue				
Royalty income	5,605	23,183	18,768	+24
Working interest sales(net of royalties)	<u>3,931</u>	<u>15,106</u>	<u>12,008</u>	+26
Total revenue	9,536	38,289	30,776	+24
Funds generated from operations	6,893	29,748	26,002	+14
Net income	(143)	3,085	3,080	0
<b>Distributable income per Trust Unit</b>	<b>6,597 0.25</b>	<b>29,081 1.10</b>	<b>24,700 0.94</b>	<b>+18 +17</b>
<b>OPERATING</b>				
Production				
Crude oil (Bbls/d)	3,721	3,760	2,795	+35
NGLs (Bbls/d)	326	348	296	+18
Natural gas (Mmcf/d)	15.7	15.9	14.8	+7
<b>Barrels of oil equivalent (Boe/d)</b>	<b>5,617</b>	<b>5,695</b>	<b>4,575</b>	<b>+24</b>
Potash (Tons/d)	15.0	12.5	9.0	+39
Average prices (\$ Cdn.)				
Crude oil and NGLs (\$/Bbl)	18.47	19.19	20.35	-6
Natural gas (\$/Mcf)	1.82	1.78	1.60	+11
Barrels of oil equivalent (\$/Boe)	18.40	18.81	18.94	-1
Potash (\$/Ton)	125.44	114.29	105.48	+8

**REPORT TO UNITHOLDERS**

## FINANCIAL RESULTS SUPPORT STRONG CASH DISTRIBUTIONS

Revenues for the fourth quarter were \$9.5 million, resulting in distributable income for the period of \$6.6 million. **A cash distribution of \$0.25 per Trust Unit has been approved and will be paid February 15, 1998 to Unitholders of record as at January 31, 1998.** Distributions for the year 1997 total \$1.10 per Trust Unit. Cumulative distributions, since Freehold's initial issue in November 1996, amount to \$1.23 per Trust Unit. Distributable income is currently 100% tax deferred as it is considered a "return of capital" and thus reduces the adjusted cost base of the units for capital gains tax purposes.

## OPERATING RESULTS ACHIEVE GROWTH

Oil and NGL production averaged 4,048 barrels per day for the quarter, compared to fourth quarter 1996 levels of 3,356 barrels per day. Natural gas production averaged 15.7 million cubic feet per day, up from the previous year of 13.5 million cubic feet per day.

During 1997, Freehold participated in the drilling of 50 working interest wells (5.4 net) with a 98% success rate. More significantly, 287 wells were drilled on the Trust's royalty interest lands, at no cost to Freehold, with a 92% success rate. On the HB Royalty Lands, 154 wells were drilled during 1997, up from the 143 wells drilled in 1996, and 133 wells were drilled on lands acquired during 1997. These wells will add to production as they are brought on stream.

On the working interest properties, Freehold incurred capital expenditures of \$1.6 million during the fourth quarter, bringing the total for the year 1997 to \$2.6 million. The capital spent during the fourth quarter was primarily for the drilling of six horizontal wells at Hayter. These wells are expected to be on production by the first quarter of 1998.

A strong indicator of the Trust's secure asset base was its ability to replace the reserves it produced during the year. In 1997 the Trust replaced 178% of its annual production. At year-end, Freehold's established reserves are estimated to be 26.7 million barrels of oil equivalent, up 6.5% from the previous year. The average cost of reserve additions during 1997 including acquisitions was \$6.03 per barrel of oil equivalent. This cost level, combined with the high proportion of royalty production at no operating cost, will continue to provide Freehold with high netbacks to investors. At year-end 1997 the Trust had a reserve life index of 13.0 years, compared to 14.6 years at year-end 1996. This reduction is a result of the increased production from our properties over the year. At 13.0 years, our reserve life index is still one of the longest of the conventional oil and gas trusts.

## 1998 OUTLOOK FOR STRENGTH AND OPPORTUNITY

Industry drilling activity established new record levels in 1997. However, as we exit 1997, weakness in oil prices has resulted in some operators re-examining their plans for the first quarter of 1998. We do not expect activity to continue at record levels until oil prices recover some of the ground they lost in December and early January. Reductions in drilling activity will not affect Freehold in the near-term as operators continue to put wells drilled in 1997 on production. Continued drilling activity on Freehold's assets, on which Freehold holds an overriding royalty, is expected to add to both our reserves and production levels, at no cost to the Trust.

Freehold was affected in 1997 by greater differentials in prices received for heavy versus light crudes. Approximately 50% of Freehold's crude is heavy for which we receive a price lower than the Edmonton posted price. This price differential increased by \$2.40 per barrel over the prior year to \$6.75 in 1997. December saw the highest differential in several years at \$8.88 per barrel. For 1998 we do not anticipate December's differential levels to be sustained, however price differentials for 1998 will likely remain above 1997 levels. At Hayter, where Freehold has a 21.8% working interest, the Operator plans to drill additional wells once the crude differential improves.

During the year 1997, the Trust completed acquisitions totalling \$27 million. In the second quarter the Trust acquired royalty and working interest properties in Alberta and Saskatchewan for \$22 million, enhancing production by 600 barrels of oil equivalent per day. During the fourth quarter, Freehold acquired royalty interests in Alberta for \$5 million, adding 90 barrels of oil equivalent per day of high netback, long-life production. We are in a solid financial position to weather softer commodity prices, maintain a strong flow of cash distributions, and capitalize on acquisition opportunities.

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

David J. Sandmeyer  
President & Chief Executive Officer

January 21, 1998

COMBINED BALANCE SHEET

	December 31, 1997	December 31, 1996
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,127,110	\$ 298,847
Accounts receivable	8,722,621	4,603,598
	9,849,731	4,902,445
Reclamation fund	228,100	12,367
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$29,061,434 (1996 - \$2,398,510)	261,706,044	258,349,306
	\$ 271,783,875	\$ 263,264,118
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current liabilities:		
Distributions payable to Unitholders	\$ 6,597,642	\$ 3,531,523
Accounts payable and accrued liabilities	3,482,226	537,454
	10,079,868	4,068,977
Provision for future site restoration	228,100	12,367
Long-term debt	38,175,201	10,719,144
Unitholders' equity	223,300,706	248,463,630
	\$ 271,783,875	\$ 263,264,118

## COMBINED STATEMENT OF INCOME

	Three Months Ended December 31, 1997	Year Ended December 31, 1997	November 25, 1996 to December 31, 1996
<b>REVENUES:</b>			
Royalty income	\$ 5,604,702	\$ 23,182,946	\$ 2,640,439
Working interest sales (net of royalties)	3,919,962	15,052,121	1,342,568
Interest	11,755	54,506	0
	<u>9,536,419</u>	<u>38,289,573</u>	<u>3,983,007</u>
<b>EXPENSES:</b>			
Operating	1,048,916	3,617,148	172,514
Administrative	911,769	2,276,910	199,138
Interest on long-term debt	409,731	1,549,125	53,971
Provision for future site restoration	62,602	224,194	12,367
Capital taxes	40,966	40,966	0
	<u>2,473,984</u>	<u>7,708,343</u>	<u>437,990</u>
Income before non-cash expenses	7,062,435	30,581,230	3,545,017
Depletion and depreciation	7,022,725	26,662,924	2,398,510
Management fee	182,000	833,000	89,600
Net Income	\$ (142,290)	\$ 3,085,306	\$ 1,056,907
Net Income per Trust Unit (26,488,000 units)	\$ 0.00	\$ 0.12	\$ 0.04

## COMBINED STATEMENT OF DISTRIBUTABLE INCOME

	Three Months Ended December 31, 1997	Year Ended December 31, 1997	November 25, 1996 to December 31, 1996
Income before non-cash expenses	\$ 7,062,435	\$ 30,581,230	\$ 3,545,017
Capital expenditures	(464,793)	(1,500,000)	(13,494)
Distributable income	\$ 6,597,642	\$ 29,081,230	\$ 3,531,523
Distributable income per Trust Unit	\$ 0.25	\$ 1.10	\$ 0.13

## COMBINED STATEMENT OF UNITHOLDERS' EQUITY

	January 1, 1997 to December 31, 1997		November 25, 1996 to December 31, 1996	
	Units	Dollars	Units	Dollars
Unitholders' equity, beginning of period	26,408,000	\$ 248,463,630	0	\$ 0
Proceeds on issue of trust units		0	26,400,000	264,000,000
Proceeds on issue of Freehold Resources Ltd. shares (100 shares)		0		100
Trust unit issue costs		0		(13,151,454)
Net income		3,085,306		1,056,907
Unit distribution declared		(29,081,230)		(3,531,523)
Trust units issued in lieu of management fee	80,000	833,000	8,000	89,600
Unitholders' equity, end of period	26,488,000	\$ 223,300,706	26,408,000	\$ 248,463,630

## COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Three Months Ended December 31, 1997	Year Ended December 31, 1997	November 25, 1996 to December 31, 1996
Cash provided by (used in):			
<b>OPERATING:</b>			
Net income	\$ (142,290)	\$ 3,085,306	\$ 1,056,907
Item not involving cash:			
Depletion and depreciation	7,022,725	26,662,924	2,398,510
Funds generated from operations	6,880,435	29,748,230	3,455,417
Changes in non-cash operating working capital	2,050,330	(1,174,251)	(4,066,144)
	8,930,765	28,573,979	(610,727)
<b>FINANCING:</b>			
Trust units issued in lieu of management fee	182,000	833,000	89,600
Issue of trust units	0	0	264,000,000
Issue of Freehold Resources Ltd. shares	0	0	100
Distributions paid	(6,719,671)	(26,015,111)	0
Trust unit issue costs	0	0	(13,151,454)
Long-term debt	5,076,609	27,456,057	10,719,144
	(1,461,062)	2,273,946	261,657,390
<b>INVESTING:</b>			
Additions to petroleum and natural gas properties	(1,577,850)	(2,613,057)	(13,494)
Property and royalty acquisitions	(5,076,605)	(27,406,605)	(260,734,322)
	(6,654,455)	(30,019,662)	(260,747,816)
Increase in cash	815,248	828,263	298,847
Cash, beginning of period	311,862	298,847	0
Cash, end of period	\$ 1,127,110	\$ 1,127,110	\$ 298,847

## CORPORATE AND UNITHOLDER INFORMATION

Trust Unit Trading Information	Quarter ended December 31, 1997	Quarter ended September 30, 1997	Quarter ended June 30, 1997	Quarter ended March 31, 1997
November 25, 1996 Issue Price \$10.00				
High	\$11.85	\$11.85	\$11.25	\$11.75
Low	\$8.40	\$10.90	\$9.25	\$9.50
Close	\$9.10	\$11.70	\$10.90	\$9.85
Volume (TSE/ME)	2,011,634	2,212,449	2,136,601	5,031,480
Trust Units Outstanding	26,488,000	26,468,000	26,448,000	26,428,000
Market Capitalization	\$241,040,800	\$309,675,600	\$288,283,200	\$260,315,800

Historical Quarterly Distributions	Record Date	Payment Date	Per Trust Unit
December 31, 1996 (37 day period)	Jan. 31, 1997	Feb. 28, 1997	\$0.13
March 31, 1997	Apr. 30, 1997	May 15, 1997	\$0.32
June 30, 1997	July 31, 1997	Aug. 15, 1997	\$0.28
September 30, 1997	Oct. 31, 1997	Nov. 15, 1997	\$0.25
December 31, 1997	Jan. 31, 1998	Feb. 15, 1998	<u>\$0.25</u>
<b>Total distributions to date</b>			<b>\$1.23</b>

## DISTRIBUTION TAX INFORMATION

Distributable income is currently 100% tax deferred as it is considered a "return of capital" and thus reduces the adjusted cost base of the units for capital gains tax purposes. The Trust has significant tax pools which are expected to shelter all Unitholder distributions from income taxes until approximately the year 2000. As the distributions are considered a return of capital, Unitholders who are non-residents of Canada, are not subject to Canadian withholding tax. It is recommended that Unitholders seek tax advice regarding their personal tax situation.

## STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange/The Montreal Exchange - Trading Symbol: "**FRU.UN**"

### DIRECTORS

**D. Nolan Blades**<sup>1, 2</sup>

President & C.E.O.  
Pursuit Resources Corp.

**Harry S. Campbell**

Partner  
Burnet, Duckworth & Palmer

**Peter T. Harrison**<sup>1</sup>

Vice-President, Canadian Equities  
Montrustco

**P. Michael Maher**<sup>1, 2</sup>

Dean, Faculty of Management  
University of Calgary

**David J. Sandmeyer**

President  
Rife Resources Ltd.

**William W. Siebens**<sup>2</sup>

President & C.E.O.  
Candor Investments Ltd.

### 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

### HEAD OFFICE

**Freehold Resources Ltd.**

**Freehold Royalty Trust**

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### TRUSTEE AND TRANSFER AGENT INFORMATION

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### INVESTOR RELATIONS

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<sup>1</sup> Audit Committee

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

