

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997

REPORT TO UNITHOLDERS

THIRD QUARTER HIGHLIGHTS

- ◆ Crude oil and NGL production averaged 3,971 barrels per day
- ◆ Natural gas production averaged 16.1 million cubic feet per day
- ◆ Distributable income of \$6,750,482
- ◆ Cash distribution for the period of \$0.25 per Trust Unit

	Three Months Ended Sept. 30, 1997 (unaudited)	Nine Months Ended Sept. 30, 1997 (unaudited)
FINANCIAL		
(\$000s except per Trust Unit)		
Revenue		
Royalty income	5,211	17,578
Working interest sales (net of royalties)	<u>3,597</u>	<u>11,175</u>
Total revenue	8,808	28,753
Funds generated from operations	6,600	22,855
Net income	183	3,228
Distributable income per Trust Unit	6,750 0.25	22,484 0.85
OPERATING		
Production		
Crude oil (Bbls/d)	3,596	3,773
NGLs (Bbls/d)	375	354
Natural gas (Mmcf/d)	16.1	15.9
Barrels of oil equivalent (Boe/d)	5,585	5,721
Potash (Tons/d)	14.6	11.7
Average prices (\$ Cdn.)		
Crude oil and NGLs (\$/Bbl)	18.48	19.43
Natural gas (\$/Mcf)	1.61	1.78
Barrels of oil equivalent (\$/Boe)	17.80	18.98
Potash (\$/Ton)	108.52	109.47

FINANCIAL HIGHLIGHTS

Revenues for the period were \$8,807,584, resulting in distributable income for the quarter of \$6,750,482. A cash distribution of \$0.25 per Trust Unit has been approved and will be paid November 15, 1997 to Unitholders of record as at October 31, 1997. Distributions for the first nine months of 1997 total \$0.85 per Trust Unit.

OPERATIONAL HIGHLIGHTS

Oil and NGL production averaged 3,971 barrels per day for the quarter, compared to first half levels of 4,206 barrels per day. Pipeline restrictions at Hayter, which resulted in production cutbacks, account for approximately 20% of this reduction. Those constraints have since been removed. The balance of this reduction in third quarter volumes represents adjustments to royalty production, which are updated from quarter to quarter as actual volumes are confirmed. Natural gas production averaged 16.1 million cubic feet per day, up slightly from the first six-month actuals of 15.8 million cubic feet per day.

Freehold participated in the drilling of 40 working interest wells (1.6 net) during the first nine months of 1997, with a 98% success rate. More significantly, a total of 87 royalty interest development wells have been drilled by lessors on the HB Royalty Lands during 1997, with a 94% success rate. These wells will add reserves and production as they are brought on stream.

On the working interest properties, Freehold incurred capital expenditures of \$205,995 during the third quarter, bringing the total for the first nine months of 1997 to \$1,035,207. The capital spent during the third quarter was primarily for the tie-in of eight horizontal wells at Hayter. These wells were producing by the end of the third quarter.

CASH DISTRIBUTIONS

Actual distributions paid during the first nine months of 1997 total \$0.85. Cumulative distributions, since Freehold's initial issue in November 1996, amount to \$0.98 per Trust Unit. Distributable income is currently 100% tax deferred. This is considered a "return of capital" and thus reduces the adjusted cost base of the units for capital gains tax purposes. Freehold offers a distribution reinvestment plan (DRIP) and direct deposit plan. For more information, Unitholders can contact the Trustee and Transfer Agent, Montreal Trust, at 1-800-558-0046.

1997 OUTLOOK

Industry drilling activity levels remain high. A continued high number of wells drilled on Freehold's HB Royalty Lands will sustain both our reserves and production levels at no cost to the Trust. At Hayter, where Freehold has a 21.8% working interest, the Operator has plans to drill six additional wells late in the fourth quarter or early in the first quarter of 1998.

During the third quarter, Freehold's line of credit was increased from \$50 million to \$65 million. This increase will allow us to capitalize on acquisition opportunities. Subsequent to the quarter end, the Trust signed a letter of intent to purchase additional royalty interests valued at \$5 million dollars. The acquisition, effective July 1, 1997, is subject to normal due diligence requirements and is expected to close by the end of October 1997. The acquisition is estimated to add approximately 80 barrels of oil equivalent per day of high netback, long life royalty production.

Based on year-to-date results and the continued level of drilling activity for royalty and working interest lands, the Trust anticipates a yearly average production rate of 5,700 barrels of oil equivalent per day, prior to inclusion of production for the above acquisition.

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

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

October 23, 1997

COMBINED BALANCE SHEET

	September 30, 1997	December 31, 1996
	(Unaudited)	
ASSETS		
Current assets:		
Cash	\$ 311,862	\$ 311,214
Accounts receivable	9,025,892	4,603,598
	9,337,754	4,914,812
Reclamation fund	173,959	0
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$22,038,709 (1996 - \$2,398,510)	262,074,314	258,349,306
	\$ 271,586,027	\$ 263,264,118
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Distributions payable to unitholders	\$ 6,750,482	\$ 3,531,523
Accounts payable and accrued liabilities	1,704,356	537,454
	8,454,838	4,068,977
Provision for future site restoration	173,959	12,367
Long-term debt	33,098,592	10,719,144
Unitholders' equity	229,858,638	248,463,630
	\$ 271,586,027	\$ 263,264,118

COMBINED STATEMENT OF INCOME

	Three Months Ended September 30, 1997	Nine Months Ended September 30, 1997	Year Ended December 31, 1996
	(Unaudited)	(Unaudited)	
REVENUES:			
Royalty income	\$ 5,210,712	\$ 17,578,244	\$ 2,640,439
Working interest sales (net of royalties)	3,583,113	11,132,159	1,342,568
Interest	13,759	42,751	0
	8,807,584	28,753,154	3,983,007
EXPENSES:			
Operating	1,002,028	2,568,232	172,514
Administrative	431,470	1,365,141	199,138
Interest on long-term debt	363,744	1,139,394	53,971
Provision for future site restoration	53,865	161,592	12,367
	1,851,107	5,234,359	437,990
Income before non-cash expenses	6,956,477	23,518,795	3,545,017
Depletion and depreciation	6,537,624	19,640,199	2,398,510
Management fee	236,000	651,000	89,600
Net Income	\$ 182,853	\$ 3,227,596	\$ 1,056,907
Net Income per Trust Unit (26,468,000 units)	\$ 0.01	\$ 0.12	\$ 0.04

COMBINED STATEMENT OF DISTRIBUTABLE INCOME

	Three Months Ended September 30, 1997	Nine Months Ended September 30, 1997	Year Ended December 31, 1996
	(Unaudited)	(Unaudited)	
Income before non-cash expenses	\$ 6,956,477	\$ 23,518,795	\$ 3,545,017
Capital expenditures	(205,995)	(1,035,207)	(13,494)
Distributable income	\$ 6,750,482	\$ 22,483,588	\$ 3,531,523
Distributable income per Trust Unit	\$ 0.25	\$ 0.85	\$ 0.13

COMBINED STATEMENT OF UNITHOLDERS' EQUITY

		January 1, 1997 to September 30, 1997		November 25, 1996 to December 31, 1996	
	(Unaudited)				
	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		3,227,596			1,056,907
Unit distribution declared		(22,483,588)			(3,531,523)
Trust units to be issued in lieu of management fee	60,000	651,000		8,000	89,600
Unitholders' equity, end of period	26,468,000	\$ 229,858,638		26,408,000	\$ 248,463,630

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

		July 1, 1997 to September 30, 1997		January 1, 1997 to September 30, 1997	November 25, 1996 to December 31, 1996
	(Unaudited)			(Unaudited)	
Cash provided by (used in):					
OPERATING:					
Net income	\$	182,853	\$	3,227,596	\$ 1,056,907
Items not involving cash:					
Depletion and depreciation		6,537,624		19,640,199	2,398,510
Provision for future site restoration		53,865		161,592	12,367
Payments to reclamation fund		(173,959)		(173,959)	0
Funds generated from operations		6,600,383		22,855,428	3,467,784
Changes in non-cash operating working capital		(1,410,720)		(3,224,581)	(4,066,144)
		5,189,663		19,630,847	(598,360)
FINANCING:					
Trust units to be issued in lieu of management fee		236,000		651,000	89,600
Issue of trust units		0		0	264,000,000
Issue of Freehold Resources Ltd. shares		0		0	100
Distributions paid		(7,405,440)		(19,295,440)	0
Trust unit issue costs		0		0	(13,151,454)
Long-term debt		0		22,379,448	10,719,144
		(7,169,440)		3,735,008	261,657,390
INVESTING:					
Additions to petroleum and natural gas properties		(205,995)		(1,035,207)	(13,494)
Property and royalty acquisitions		0		(22,330,000)	(260,734,322)
		(205,995)		(23,365,207)	(260,747,816)
Increase (decrease) in cash		(2,185,772)		648	311,214
Cash, beginning of period		2,497,634		311,214	0
Cash, end of period	\$	311,862	\$	311,862	\$ 311,214

CORPORATE AND UNITHOLDER INFORMATION

Trust Unit Trading Information	Quarter ended September 30, 1997	Quarter ended June 30, 1997	Quarter ended March 31, 1997	37 Days ended December 31, 1996
November 25, 1996 Issue Price \$10.00				
High	\$11.85	\$11.25	\$11.75	\$12.70
Low	\$10.90	\$9.25	\$9.50	\$11.15
Close	\$11.70	\$10.90	\$9.85	\$11.20
Volume (TSE/ME)	2,212,449	2,136,601	5,031,480	12,942,929
Trust Units Outstanding	26,468,000	26,448,000	26,428,000	26,408,000
Market Capitalization	\$309,675,600	\$288,283,200	\$260,315,800	\$295,769,600

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	<u>\$0.25</u>
Total distributions to date			\$0.98

DISTRIBUTION TAX INFORMATION

Unitholder distributions are considered a "return of capital", and the adjusted cost base of the Trust Unit is reduced by the amount of such returns of capital. 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**"

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OFFICERS

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Joseph N. Holowisky
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HEAD OFFICE

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TRUSTEE AND TRANSFER AGENT INFORMATION

Unitholders' change of address, or inquiries regarding Trust Units, distributions, the distribution reinvestment plan, or the direct deposit plan, should be directed to:

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¹ Audit Committee

² Corporate Governance & Nominating Committee

