

FOR THE SIX MONTHS ENDED JUNE 30, 1997

REPORT TO UNITHOLDERS

SECOND QUARTER HIGHLIGHTS

- ◆ Crude oil production up 54% from forecast
- ◆ Natural gas production 24% higher than forecast
- ◆ Distributable income 19% above forecast
- ◆ Cash distribution for the period of \$0.28

	Three Months Ended		Six Months Ended June 30, 1997		
	June 30, 1997 (unaudited)	Mar. 31, 1997 (unaudited)	Actual (unaudited)	Forecast	% Change
FINANCIAL					
(\$000s except per Trust Unit)					
Revenue					
Royalty income	6,011	6,357	12,368	9,384	+ 32%
Working interest sales (net of royalties)	<u>4,377</u>	<u>3,201</u>	<u>7,578</u>	<u>6,004</u>	+26%
Total revenue	10,388 *	9,558	19,946	15,388	+30%
Funds generated from operations	7,822	8,325	16,147	13,001	+24%
Net income	468	2,577	3,045	1,540	+98%
Distributable income	7,351	8,382	15,733	12,350	+27%
per Trust Unit	0.28	0.32	0.60	0.47	+27%
OPERATING					
Production					
Crude oil (Bbbls/d)	4,310	3,412	3,863	2,795	+38%
NGLs (Bbbls/d)	423	262	343	296	+16%
Natural gas (Mmcf/d)	18.3	13.4	15.8	14.8	+7%
Barrels of oil equivalent (Boe/d)	6,560 *	5,010	5,788	4,575	+27%
Potash (Tons/d)	9.6	10.9	10.2	9.0	+13%
Average prices (\$ Cdn.)					
Crude oil and NGLs (\$/Bbl)	18.50	21.70	19.89	20.35	-2%
Natural gas (\$/Mcf)	1.66	2.15	1.87	1.60	+17%
Barrels of oil equivalent (\$/Boe)	17.98	21.66	19.56	18.94	+3%
Potash (\$/Ton)	115.03	105.78	110.16	105.48	+4%

* reflects adjustment for acquisition effective January 1, 1997

FINANCIAL HIGHLIGHTS

Revenues for the period were \$10,387,648, an increase of 35% from the initial prospectus forecast, mainly due to increased production volumes. This resulted in distributable income of \$7,351,502, a 19% gain over the forecast. A cash distribution of \$0.28 per Trust Unit will be paid August 15, 1997 to Unitholders of record as at July 31, 1997. Approximately \$0.03 per Trust Unit of the distribution paid for the second quarter is attributable to the acquisition made during the second quarter.

OPERATIONAL HIGHLIGHTS

On May 30, 1997, Freehold acquired royalty interests and working interest properties located in Alberta and Saskatchewan for \$22.0 million. The acquisition enhanced production by 600 barrels of oil equivalent per day. Prior to giving effect to the acquisition, oil production averaged 3,910 barrels per day, an increase of 40% over the forecast amount.

Production at the Hayter property was approximately 220 barrels per day lower during the quarter due to a shutdown for equipment maintenance and construction tie-ins for new wells. Hayter's production is expected to return to first quarter levels during the third quarter. The reduction at Hayter was partially offset by production from a significant new gas well at Hatton which added 185 barrels of oil equivalent per day. Capital expenditures for the three months were \$688,000, bringing the half year total to \$829,000, a 27% increase over forecast. The expenditures were incurred primarily for the drilling of eight horizontal wells at Hayter, as well as for several wells at Doddsland and the tie-in of the Hatton gas well. Four additional horizontal wells will be drilled at Hayter before year end. Production from the new wells is expected to maintain our production levels, offsetting normal productivity declines, and sustaining the distributable income for the third and fourth quarters of 1997.

As the properties acquired were largely comprised of working interest properties, operating expenses for the second quarter increased to \$1.83 from \$1.06 per barrel of oil equivalent. These costs still remain low when compared to industry averages. The Trust is able to maintain low operating costs, as it incurs no capital expenditures, operating costs or environmental costs on the HB Royalty Lands.

Freehold's HB Royalty Lands continue to perform well for the Trust. Second quarter royalty production was 3,600 barrels of oil equivalent per day, 33% above the prospectus forecast and 12% above the first quarter. The HB Royalty Lands generated 74% of distributable cash flow for the first half of the year. Drilling activity remains at a high level on the HB Royalty Lands with 29 wells being drilled in the first quarter. Production from these wells will continue to support our royalty production.

CASH DISTRIBUTIONS

Freehold's cash distribution forecast for the six months ended June 30, 1997, as stated in the initial prospectus, was \$0.468 per Trust Unit. Actual distributions paid during the first six months totalled \$0.60, an increase of 27% over forecast. Cumulative distributions, since Freehold's initial issue in November 1996, have amounted to \$0.73 per Trust Unit.

Beginning with the second quarter distribution, Unitholders who are Canadian residents, can participate in Freehold's Distribution Reinvestment Plan by reinvesting their cash distributions to purchase additional Trust Units. All costs associated with the Plan, including brokerage commissions and administrative fees are borne by the Trust.

1997 OUTLOOK

Despite the lower commodity prices experienced by the industry during the second quarter, Freehold's performance for the first half of the year was strong and the Trust exceeded forecast levels. The properties acquired during the second quarter are accretive to Unitholder distributions and will increase investor returns over the longer term. Freehold continues to aggressively pursue acquisition opportunities that will enhance the value of the Trust for Unitholders.

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

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

July 25, 1997

COMBINED BALANCE SHEET

	June 30, 1997	Dec. 31, 1996
	(Unaudited)	
ASSETS		
Current assets:		
Cash	\$ 2,497,634	\$ 311,214
Accounts receivable	8,381,310	4,603,598
	10,878,944	4,914,812
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$15,501,085 (1996 - \$2,398,510)	268,405,943	258,349,306
	\$ 279,284,887	\$ 263,264,118
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Distributions payable to unitholders	\$ 7,351,502	\$ 3,531,523
Accounts payable and accrued liabilities	2,524,433	537,454
Provision for future site restoration	120,094	12,367
	9,996,029	4,081,344
Long-term debt	33,098,592	10,719,144
Unitholders' equity	236,190,266	248,463,630
	\$ 279,284,887	\$ 263,264,118

COMBINED STATEMENT OF INCOME

	Actual Apr. 1/97 to June 30/97	Actual Jan. 1/97 to June 30/97	Forecast Jan. 1/97 to June 30/97	Actual Nov. 25/96 to Dec. 31/96
	(Unaudited)	(Unaudited)		
REVENUES:				
Royalty income	\$ 6,010,943	\$ 12,367,532	\$ 9,384,000	\$ 2,640,439
Working interest sales (net of royalties)	4,352,973	7,549,046	5,948,000	1,342,568
Interest	23,732	28,992	56,000	0
	10,387,648	19,945,570	15,388,000	3,983,007
EXPENSES:				
Operating	1,089,638	1,566,204	1,188,000	172,514
Administrative	490,687	933,670	881,000	199,138
Interest on long-term debt	690,213	775,650	257,000	53,971
Site restoration	77,227	107,727	61,000	12,367
	2,347,765	3,383,251	2,387,000	437,990
Income before non-cash expenses	8,039,883	16,562,319	13,001,000	3,545,017
Depletion and depreciation	7,354,548	13,102,576	11,461,000	2,398,510
Management fee	218,000	415,000	0	89,600
Net Income	\$ 467,335	\$ 3,044,743	\$ 1,540,000	\$ 1,056,907
Net Income per Trust Unit (26,448,000 units)	\$ 0.02	\$ 0.12	\$ 0.06	\$ 0.04

COMBINED STATEMENT OF DISTRIBUTABLE INCOME

	Actual Apr. 1/97 to June 30/97	Actual Jan. 1/97 to June 30/97	Forecast Jan. 1/97 to June 30/97	Actual Nov. 25/96 to Dec. 31/96
	(Unaudited)	(Unaudited)		
Income before non-cash expenses	\$ 8,039,883	\$ 16,562,319	\$ 13,001,000	\$ 3,545,017
Capital expenditures	(688,381)	(829,212)	(651,000)	(13,494)
Distributable income	\$ 7,351,502	\$ 15,733,107	\$ 12,350,000	\$ 3,531,523
Distributable income per Trust Unit	\$ 0.28	\$ 0.60	\$ 0.47	\$ 0.13

COMBINED STATEMENT OF UNITHOLDERS' EQUITY

	Actual Jan. 1/97 to June 30/97		Actual Nov. 25/96 to Dec. 31/9	
	Units	Dollars	Units	Dollars
	(Unaudited)			
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		3,044,743		1,056,907
Unit distribution declared		(15,733,107)		(3,531,523)
Trust units to be issued in lieu of management fee	40,000	415,000	8,000	89,600
Unitholders' equity, end of period	26,448,000	\$ 236,190,266	26,408,000	\$ 248,463,630

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Actual Apr. 1/97 to June 30/97		Actual Jan. 1/97 to June 30/97		Actual Nov. 25/96 to Dec. 31/96	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):						
OPERATING:						
Net income	\$ 467,335	\$ 3,044,743	\$ 1,056,907			
Item not involving cash:						
Depletion and depreciation	7,354,547	13,102,575	2,398,510			
Funds generated from operations	7,821,882	16,147,318	3,455,417			
Changes in non-cash operating working capital	(462,111)	(1,706,134)	(4,053,777)			
	7,359,771	14,441,184	(598,360)			
FINANCING:						
Bank operating loan	(200,000)	0	0			
Trust units to be issued in lieu of management fee	218,000	415,000	89,600			
Issue of trust units	0	0	264,000,000			
Issue of Freehold Resources Ltd. shares	0	0	100			
Distributions paid	(8,456,960)	(11,890,000)	0			
Trust unit issue costs	0	0	(13,151,454)			
Long-term debt	22,379,448	22,379,448	10,719,144			
	13,940,488	10,904,448	261,657,390			
INVESTING:						
Additions to petroleum and natural gas properties	(688,381)	(829,212)	(13,494)			
Property and royalty acquisitions	(22,330,000)	(22,330,000)	(260,734,322)			
	(23,018,381)	(23,159,212)	(260,747,816)			
Increase (decrease) in cash	\$ (1,718,122)	\$ 2,186,420	\$ 311,214			
Cash, beginning of period	\$ 4,215,756	\$ 311,214	\$ 0			
Cash, end of period	\$ 2,497,634	\$ 2,497,634	\$ 311,214			

CORPORATE AND UNITHOLDER INFORMATION

Trust Unit Trading Information	Quarter ended June 30, 1997	Quarter ended March 31, 1997	37 Days ended December 31, 1996
November 25, 1996 Issue Price \$10.00			
High	\$11.25	\$11.75	\$12.70
Low	\$9.25	\$9.50	\$11.15
Close	\$10.90	\$9.85	\$11.20
Volume (TSE/ME)	2,136,601	5,031,480	12,942,929
Trust Units Outstanding	26,448,000	26,428,000	26,408,000
Market Capitalization	\$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
Total distributions to date			\$0.73

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**"

DIRECTORS

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David J. Sandmeyer
President
Rife Resources Ltd.

¹ Audit Committee

² Corporate Governance & Nominating Committee

OFFICERS

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TRUSTEE AND TRANSFER AGENT INFORMATION

Unitholders' change of address or inquiries regarding Trust Units or distributions should be directed to:

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