

FOR THE THREE MONTHS ENDED MARCH 31, 1997

**REPORT TO UNITHOLDERS****FIRST QUARTER HIGHLIGHTS**

- ◆ Crude oil production up 22% from forecast
- ◆ Natural gas production 9% lower than forecast
- ◆ Net income 222% higher than forecast
- ◆ Distributable income 36% higher than forecast
- ◆ Cash distribution for the period of \$0.32

	Three months ended March 31, 1997		
	Actual	Forecast	% Change
<b>FINANCIAL</b> (\$000s except per Trust Unit)			
Revenue			
Royalty income	6,357	4,692	+ 35%
Working interest sales (net of royalties)	<u>3,201</u>	<u>3,002</u>	+7%
Total revenue	9,558	7,694	+24%
Funds generated from operations	8,325	6,501	+28%
Net income	2,577	801	+222%
Distributable income	8,382	6,175	+36%
per Trust Unit	0.32	0.235	+36%
<b>OPERATING</b>			
Production			
Crude oil (Bbls/d)	3,412	2,795	+22%
NGLs (Bbls/d)	262	296	-11%
Natural gas (Mmcf/d)	13.4	14.8	-9%
Barrels of oil equivalent (Boe/d)	5,010	4,575	+10%
Potash (Tons/d)	10.9	9.0	+21%
Average prices (\$ Cdn.)			
Crude oil and NGLs (\$/Bbl)	21.70	20.35	+7%
Natural gas (\$/Mcf)	2.15	1.60	+34%
Barrels of oil equivalent (\$/Boe)	21.66	18.94	+14%
Potash (\$/Ton)	105.78	105.48	-

**FINANCIAL HIGHLIGHTS**

Revenues were \$9,557,922 for the period, an increase of 24% from the initial prospectus forecast. Net income was higher than forecast due to stronger commodity prices and increased production volumes during the period. Distributable income of \$8,381,605 was 36% higher than forecast. A cash distribution of \$0.32 per Trust Unit was paid on May 15, 1997 to Unitholders of record on April 30, 1997.

## OPERATIONAL HIGHLIGHTS

Oil production averaged 3,412 barrels per day, an increase of 22% over the forecast amount of 2,795. This was due to increased production from both the HB Royalty Lands and the Hayter, Alberta working interest property. During the first quarter, growth came primarily from Freehold's 21.8% working interest at Hayter, Alberta. A total of 13 wells were drilled on the property in 1996, adding approximately 300 barrels per day of oil production during the first quarter. An additional eight horizontal wells are planned to be drilled by the second quarter. Natural gas and NGL production was lower than forecast due to lessee delays in tying-in wells on the HB Royalty Lands. Although commodity prices continued to be higher than forecast during the first quarter, it is not expected that these prices will be maintained during the remainder of the year.

Freehold's operating costs remained low during the first quarter at \$1.06 per barrel. The Trust is able to maintain one of the lowest operating costs in the industry, as it incurs no capital expenditures, operating costs or environmental costs on the HB Royalty Lands.

## RECENT DEVELOPMENTS

On April 29, 1997, Freehold announced that it had entered into an agreement to acquire various Royalty Interests in 29 units and Working Interests in 28 properties located in Alberta and Saskatchewan for a total of \$22 million plus interest. The transaction will add an estimated \$2.9 million to 1997 cash flow before debt servicing. Proven plus half probable reserves are 2.8 million barrels of oil equivalent. Production from the properties is expected to average approximately 400 barrels of oil and liquids, and 1.25 million cubic feet of gas for 1997. The acquisition, effective January 1, 1997, is subject to normal due diligence requirements and is expected to close on or about May 30, 1997.

On May 7, 1997, Freehold completed the listing of its Trust Units on the Montreal Exchange. Trust Units now trade on both the Toronto and Montreal stock exchanges under the symbol "FRU.UN".

## 1997 OUTLOOK

Freehold's cash distribution forecast, as stated in the initial prospectus, was \$0.468 per Trust Unit for the six months ended June 30, 1997. As a result of the first quarter distribution of \$0.32 per Trust Unit, and the added production from the recently announced acquisition, the first half distribution is expected to exceed the forecast amount of \$0.468 per Trust Unit.

The Canadian oil and gas industry is drilling new wells this year at a pace expected to surpass the 1996 record. A continued high number of wells drilled on the Trust's HB Royalty Lands will sustain both our reserves and production levels at no cost to the Trust.

With high production volumes in the first quarter, and the recently announced acquisition, our target for 1997 production is 5,300 barrels of oil equivalent, a 16% increase over the prospectus forecast of 4,575 barrels of oil equivalent.

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

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

May 20, 1997

COMBINED BALANCE SHEET

	Mar. 31, 1997	Dec. 31, 1996
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 4,215,756	\$ 311,214
Accounts receivable	6,673,823	4,603,598
	10,889,579	4,914,812
Petroleum and natural gas interests, net of accumulated depletion and depreciation of \$8,146,538 (1996 - \$2,398,510)	252,742,109	258,349,306
	\$ 263,631,688	\$ 263,264,118
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current liabilities:		
Distributions payable to unitholders	\$ 8,381,605	\$ 3,531,523
Bank operating loan	200,000	0
Accounts payable and accrued liabilities	1,358,874	483,493
Interest payable	72,764	53,961
Provision for future site restoration	42,868	12,367
	10,056,111	4,081,344
Long-term debt	10,719,144	10,719,144
Unitholders' equity	242,856,433	248,463,630
	\$ 263,631,688	\$ 263,264,118

## COMBINED STATEMENT OF INCOME

	Actual Jan. 1/97 to Mar. 31/97	Forecast Jan. 1/97 to Mar. 31/97	Actual Nov. 25/96 to Dec. 31/96
(Unaudited)			
<b>REVENUES:</b>			
Royalty income	\$ 6,356,589	\$ 4,692,000	\$ 2,640,439
Working interest sales (net of royalties)	3,196,073	2,974,000	1,342,568
Interest	5,260	28,000	0
	9,557,922	7,694,000	3,983,007
<b>EXPENSES:</b>			
Operating	476,566	594,000	172,514
Administrative	442,983	440,500	199,138
Interest on long-term debt	85,437	128,500	53,971
Site restoration	30,500	30,500	12,367
	1,035,486	1,193,500	437,990
Income before non-cash expenses	8,522,436	6,500,500	3,545,017
Depletion and depreciation	5,748,028	5,700,000	2,398,510
Management fee	197,000		89,600
Net income	\$ 2,577,408	\$ 800,500	\$ 1,056,907
Net income per Trust Unit	\$ 0.10	\$ 0.03	\$ 0.04

## COMBINED STATEMENT OF DISTRIBUTABLE INCOME

	Actual Jan. 1/97 to Mar. 31/97	Forecast Jan. 1/97 to Mar. 31/97	Actual Nov. 25/96 to Dec. 31/96
(Unaudited)			
Income before non-cash expenses	\$ 8,522,436	\$ 6,500,500	\$ 3,545,017
Capital expenditures	(140,831)	(325,500)	(13,494)
Distributable income	\$ 8,381,605	\$ 6,175,000	\$ 3,531,523
Distributable income per Trust Unit	\$ 0.32	\$ 0.23	\$ 0.13

# COMBINED STATEMENT OF UNITHOLDERS' EQUITY

	Actual Jan. 1/97 to Mar. 31/97		Actual Nov. 25/96 to Dec. 31/96	
	(Unaudited)			
	Units	Dollars	Units	Dollars
Unitholders' equity, beginning of period	26,408,000	\$ 248,463,630	-	\$ 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		2,577,408		1,056,907
Unit distribution declared		(8,381,605)		(3,531,523)
Trust units to be issued in lieu of management fee	20,000	197,000	8,000	89,600
Unitholders' equity, end of period	26,428,000	\$ 242,856,433	26,408,000	\$ 248,463,630

## COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Actual Jan. 1/97 to Mar. 31/97		Actual Nov. 25/96 to Dec. 31/96	
	(Unaudited)			
Cash provided by (used in):				
<b>OPERATING:</b>				
Net income		\$ 2,577,408		\$ 1,056,907
Item not involving cash:				
Depletion and depreciation		5,748,028		2,398,510
Funds generated from operations		8,325,436		3,455,417
Changes in non-cash operating working capital		(1,244,023)		(4,053,777)
		7,081,413		(598,360)
<b>FINANCING:</b>				
Bank operating loan		200,000		-
Trust units to be issued in lieu of management fee		197,000		89,600
Issue of trust units		-		264,000,000
Issue of Freehold Resources Ltd. shares		-		100
Distributions paid		(3,433,040)		-
Trust unit issue costs		-		(13,151,454)
Long-term debt		-		10,719,144
		(3,036,040)		261,657,390
<b>INVESTING:</b>				
Additions to petroleum and natural gas properties		(140,831)		(13,494)
Property and royalty acquisitions		-		(260,734,322)
		(140,831)		(260,747,816)
Increase in cash		\$ 3,904,542		\$ 311,214
Cash, beginning of period		\$ 311,214		\$ 0
Cash, end of period		\$ 4,215,756		\$ 311,214

## CORPORATE AND UNITHOLDER INFORMATION

Trust Unit Trading Information	Quarter ended March 31, 1997	37 Days ended December 31, 1996
High	\$11.75	\$12.70
Low	\$9.50	\$11.15
Close	\$9.85	\$11.20
Volume (TSE)	5,031,480	12,942,929
Trust Units Outstanding	26,428,000	26,408,000
Market Capitalization	\$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	<u>\$0.32</u>
Total distributions to date			\$0.45

## DISTRIBUTION TAX INFORMATION

As distributions paid to date are not taxable they are considered a "return of capital" and the cost base of the Units must be reduced by the amount of the distributions. Therefore, the payment of tax is deferred until such time as the Units are sold. 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

**William W. Siebens**, *Chairman*  
President & C.E.O.  
Candor Investments Ltd.

**D. Nolan Blades**<sup>1</sup>  
President & C.E.O.  
Pursuit Resources Corp.

**Harry S. Campbell**  
Partner  
Burnet, Duckworth & Palmer

**Peter T. Harrison**<sup>1</sup>  
Manager, Investments  
CN Pension Fund

**P. Michael Maher**<sup>1</sup>  
Dean, Faculty of Management  
University of Calgary

**David J. Sandmeyer**  
President  
Rife Resources Ltd.

<sup>1</sup> Audit Committee

## OFFICERS

**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**  
1530, 140 - 4<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3N3  
Telephone: (403) 221-0802  
Fax: (403) 269-6617

## TRUSTEE AND TRANSFER AGENT INFORMATION

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

**Montreal Trust Company of Canada**  
600, 530 - 8<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3S8  
Telephone: (403) 267-6555  
Fax: (403) 267-6592  
Toll Free: 1-800-558-0046

## INVESTOR RELATIONS CONTACT

**Karen C. Taylor**  
Manager, Corporate Communications  
Telephone: (403) 221-0891  
Toll Free: 1-888-257-1873  
Fax: (403) 269-6617  
Email: [kctaylor@freeholdtrust.com](mailto:kctaylor@freeholdtrust.com)