Freehold
ROYALTIES LTD.

2014
FIRST QUARTER
INTERIM REPORT

FIRST QUARTER REPORT
Period ended March 31, 2014

RESULTS AT A GLANCE

	Three Months Ended March 31		
FINANCIAL ($000s, except as noted)	**2014**	2013	Change
Gross revenue	**49,200**	40,637	21%
Net income	**17,854**	10,493	70%
Per share, basic and diluted ($)	**0.26**	0.16	63%
Funds from operations (1)	**30,793**	23,817	29%
Per share ($) (1)	**0.45**	0.36	25%
Operating income (1)	**43,795**	35,350	24%
Net operating income from royalties (%)	**77**	74	4%
Capital expenditures (not including acquisitions)	**11,106**	14,914	-26%
Property and royalty acquisitions (2)	**1,884**	-	-
Dividends declared	**28,576**	27,897	2%
Per share ($) (3)	**0.42**	0.42	0%
Long-term debt, period end (4)	**49,000**	47,000	4%
Shares outstanding, period end (000s)	**68,157**	66,522	2%
Average shares outstanding (000s) (5)	**67,965**	66,375	2%
OPERATING			
Average daily production (boe/d) (6)	**8,623**	9,067	-5%
Average price realizations ($/boe) (6)	**62.72**	49.09	28%
Operating netback ($/boe) (1) (6)	**56.43**	43.32	30%

(1) See Additional GAAP Measures and Non-GAAP Financial Measures.
(2) Net of adjustments.
(3) Based on the number of shares issued and outstanding at each record date.
(4) Net debt as at March 31, 2014 was $48.6 million, up $3.2 million from $45.4 million at December 31, 2013.
(5) Weighted average number of shares outstanding during the period, basic.
(6) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe).

Management's Discussion and Analysis (MD&A)

The following Management's Discussion and Analysis (MD&A) was prepared as of May 14, 2014, and is management's opinion about the consolidated operating and financial results of Freehold Royalties Ltd. and its wholly-owned subsidiaries (collectively, Freehold) for the three months ended March 31, 2014, and previous periods, and the outlook for Freehold based on information available as of May 14, 2014.

The financial information contained herein is based on information in the interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. All comparative percentages are between the quarters ended March 31, 2014 and March 31, 2013, and all dollar amounts are expressed in Canadian currency, unless otherwise noted. This discussion should be read in conjunction with Freehold's annual MD&A and audited financial statements for the year ended December 31, 2013, together with the accompanying notes. Information contained in the 2013 annual MD&A that is not discussed in this document remains materially unchanged.

This MD&A contains additional GAAP measures, non-GAAP financial measures, and forward-looking statements that are intended to help readers better understand our business and prospects. Readers are cautioned that the MD&A should be read in conjunction with our disclosure under "Additional GAAP Measures", "Non-GAAP Financial Measures", and "Forward-Looking Statements" included at the end of this MD&A.

Business Overview

Freehold is a dividend-paying corporation incorporated under the laws of the Province of Alberta and trades on the Toronto Stock Exchange under the symbol FRU. Freehold resulted from the reorganization of Freehold Royalty Trust effective December 31, 2010. Freehold is directly and indirectly involved in the development and production of oil and natural gas, predominantly in western Canada. We receive revenue from oil and natural gas properties as reserves are produced over the economic life of the properties. Our primary focus is acquiring and managing oil and gas royalties.

The Royalty Advantage

We manage one of the largest non-government portfolios of oil and gas royalties in Canada. Our total land holdings encompass over three million gross acres, 93% of which are royalties. Of this, our mineral title lands (including royalty assumption lands), which we own in perpetuity, cover more than 690,000 acres. In addition, we have gross overriding royalty interests in over 2.2 million acres.

We have royalty interests in more than 30,000 wells and receive royalty income from over 200 industry operators. Royalty rates vary from less than 1.0% (for some gross overriding royalties) to 22.5% (for some lessor royalties). This diversity lowers our risk, while we benefit from the drilling activity of other operators on our lands.

As a royalty interest owner, we do not pay any of the capital costs to drill and equip the wells for production, nor do we incur costs to operate the wells, maintain production, and ultimately restore the land to its original state. All of those costs are paid by others. On the majority of our production, we receive royalty income from gross production revenue (revenue before any royalty expenses and operating costs are deducted). Our high percentage of royalty production (70% in 2013) results in strong netbacks.

When Freehold was formed in 1996, all of our royalty lands were leased to producing and third parties. Over the years, our unleased mineral title acreage has grown – through acquisitions, lease expiries, surrenders, and defaults. We now have over 100,000 unleased acres available to lease out to industry.

Royalty interests accounted for 69% of gross revenue and 74% of production through the first three months of 2014, but contributed 77% of operating income.

Our Strategy

We effectively manage our assets to consistently deliver superior returns to shareholders over the long term. Our vision is to be recognized and respected as a leading royalty focused oil and gas corporation in Canada. We employ the following strategies in order to achieve this goal.

- Acquire appropriate assets with a bias toward royalty interests in order to provide long-term growth in value. Key criteria include quality assets, attractive returns, reasonable evaluation assumptions and long economic life.
- Maintain an aggressive audit program.
- Optimize reserves and production.
- Manage debt prudently.
- Deliver long-term dividend sustainability.

Outlook

Business Environment

The first quarter of 2014 represented a strong period for North American commodity prices. Through the quarter, we saw AECO prices (30-day firm contract) average $4.75/mcf, representing greater than a 50% increase versus the same period in 2013. On the oil side, West Texas Intermediate (WTI) prices averaged $98.68/bbl, up 5% when compared to the same period in 2013, while Western Canadian Select (WCS) prices averaged $83.40/bbl, a 32% increase versus the first quarter 2013. Outside of the commodity, the Canadian/U.S. dollar exchange averaged $0.91 through the quarter, this compares to $0.99 one year ago, also benefiting Canadian producers. For every cent change in the CD/US currency exchange, our funds from operations are impacted by approximately $0.02/share.

A key takeaway for the quarter was the considerable strength exhibited by natural gas prices. In particular, Canadian natural gas producers benefited from the extreme cold temperatures driving the supply/demand balance back to more “normal” historical levels. As of quarter-end, U.S. storage stood at 822 Bcf, 52% below last year. Within Canada, supply/demand fundamentals remain extremely tight with the expectation that Canadian inventory levels will not reach average levels until sometime in 2015. At winter-end, Canadian inventories stood at approximately 20% of capacity, which is well below the historical range of about 50% for the same period.

On the liquids side, while WTI prices were relatively flat versus 2013, Canadian producers saw a substantial improvement in Edmonton Par and WCS price levels. The North American macro environment remains focused on building supply derived from activity within tight oil plays such as the Bakken, Eagle Ford and Permian basins. Currently, the Energy Information Administration forecasts have U.S. production averaging 8.4 and 9.1 million boe/d through 2014 and 2015 respectively, which would near the country’s all-time high of 9.6 million boe/d reached in 1970. Offsetting increases in supply, improved infrastructure has allowed producers to receive premium pricing for their production, while gains in transportation have enabled barrels to reach destinations once thought to be uneconomic. A key data point behind gains in infrastructure, inventories at Cushing Oklahoma (major U.S. storage centre) are currently at a 5-year low. We see this primarily as a result of new pipeline capacity, particularly the build-up in infrastructure from the U.S. Midwest to Gulf Coast refining centres.

Industry Activity

In late November, the Canadian Association of Oilwell Drilling Contractors forecasted a 2014 well count for Canadian producers of approximately 10,604, flat to 2013. Total wells drilled through the first quarter are up slightly when compared to the same period during 2013. We also note that data points, particularly well licenses, are indicative of a strong remainder of 2014 in terms of activity within plays such as the Cardium, Deep Basin and Viking.

We see the majority of producers remaining focused on horizontal development of liquids rich plays, with strong growth in activity within the play types mentioned above. Given Freehold’s diversified land base, our royalty drilling levels typically mirror industry activity.

Second Quarter Acquisition

On May 2, 2014, Freehold acquired royalty interests on certain producing and non-producing lands in southeast Saskatchewan and Manitoba for $111 million, prior to normal closing adjustments. Total proceeds associated with the purchase and sale agreement were funded through Freehold's existing bank credit facilities. The acquisition further added to Freehold's land position within southeast Saskatchewan while enhancing Freehold's near-term growth profile.

Acquisition Highlights:

- 2013 average production of 470 boe/d (99% oil weighted), from over 400 producing wells.
- Revenue is derived from a combination of Lessor Royalties and Non-Convertible Overriding Royalties, offering Freehold enhanced netbacks.
- 2013 operating income of $15.0 million.
- Increased land exposure comprised of 71,700 acres of Mineral Title Lands.
- Proved plus probable reserves of approximately 1.5 million boe, based on an independent engineering report prepared by Trimble Engineering Associates Ltd. as of December 31, 2013.

ROYALTY INTEREST DRILLING

	Three Months Ended March 31			
	2014		2013	
		Equivalent		Equivalent
	Gross	**Net** (1)	Gross	Net (1)
Non-unitized wells	**68**	**4.1**	67	3.6
Unitized wells (2)	**60**	**0.3**	41	0.2
Total	**128**	**4.4**	108	3.8
Licenced drilling locations, period end	**59**	**4.4**	68	5.2

(1) Equivalent net wells are the aggregate of the numbers obtained by multiplying each gross well by our royalty interest percentage.
(2) Production units wherein we generally have small royalty interests in hundreds of wells.

Driven by upward momentum in commodity prices we saw strength in third party drilling on our royalty lands over the quarter. In total, 128 (4.4 net) wells were drilled on our lands representing an increase of 20 (0.6 net) locations versus the first quarter of 2013.

To date in 2014, royalty drilling has focused primarily on recognized oil and liquids-rich natural gas trends within the Alberta and Williston basins, including the Lloydminster heavy oil area, the Mississippian subcrop, the Bakken resource play in southeast Saskatchewan, and the Cardium light oil play in west central Alberta. Both vertical and horizontal wells were drilled on our royalty lands, with horizontal drilling accounting for 77% of the activity, up from 68% last year.

WORKING INTEREST DRILLING

	Three Months Ended March 31			
	2014		2013	
	Gross	**Net** (1)	Gross	Net (1)
Oil	**19**	**5.3**	22	8.1
Natural gas	**2**	**-**	-	-
Other	**4**	**0.8**	7	0.7
Total	**25**	**6.1**	29	8.8

(1) Excludes royalty interest portion on properties where Freehold has both a working interest and a royalty interest. The royalty interest portion is included in equivalent net wells in the Royalty Interest Drilling table above.

Through the first quarter, we participated in the drilling of 25 (6.1 net) wells. In southeast Saskatchewan, we participated in the drilling of three (1.0 net) horizontal Frobisher oil wells, one (0.1 net) horizontal Midale oil well and two (0.4 net) horizontal Bakken oil wells. One additional (0.3 net) horizontal Bakken oil location was spud but not rig released before the end of the quarter. Combined with fourth quarter 2013 flush production, the lower southeast Saskatchewan investment resulted in lower working interest production.

In the Lloydminster area, we participated in the drilling of two (1.4 net) vertical Sparky heavy oil wells and two (1.0 net) horizontal Cummings heavy oil wells. One additional (0.5 net) horizontal Cummings heavy oil location was spud but not rig released before the end of the quarter.

In Alberta (outside of the Lloydminster area), we participated in the drilling of two (0.2 net) horizontal Viking oil wells at Redwater, one (0.3 net) horizontal Cardium oil well at Minnehik, and one (0.8 net) horizontal Cardium oil well at Pembina. We also participated in the drilling of seven horizontal wells with small net interests. At Ferrier a Cardium gas well was drilled and a Bluesky gas well was drilled at Pine Creek. Two Glauconitic oil wells were drilled in the Thorsby Unit and three Boundary Lake oil were drilled in the Pouce Coupe Unit #1. In addition, two wells were spud but not rig released before the end of the quarter. One (0.1 net) horizontal oil well was drilled at Willesden Green and another small interest well was drilled at Pine Creek.

Guidance Update

The table below summarizes our key operating assumptions for 2014, updated to reflect actual statistics for the first three months and our current expectations for the remainder of the year. We note that subsequent to the first quarter, Freehold closed a purchase and sale agreement to acquire additional royalty barrels and mineral title lands in Saskatchewan and Manitoba for total proceeds of $111 million, prior to normal closing adjustments. The updated guidance reflects this transaction.

- Through 2014, we are now forecasting WTI and WCS prices to average $98.00/bbl and $85.00/bbl respectively, up slightly from our previous guidance forecast.
- Adding debt associated with our recent royalty transaction, we are now forecasting 2014 year-end net debt of approximately $137 million. This is down slightly from our initial guidance range ($140-$145 million) accounting for higher than forecast revenues.
- We have made no changes to our 2014 production forecast (9,100 boe/d) as stated April 14, 2014. Volumes are expected to be weighted approximately 64% oil and natural gas liquids (NGL's) and 36% natural gas. We continue to maintain our royalty focus with royalty production accounting for 69% of forecasted 2014 production.
- We have increased our 2014 tax expense assumption, accounting for greater revenues.
- Our capital spending budget remains at $35 million.

KEY OPERATING ASSUMPTIONS (1)

		Guidance Dated	
2014 Annual Average		**May. 14, 2014**	Mar. 6, 2014
Daily production	boe/d	**9,100**	8,700
WTI oil price	US$/bbl	**98.00**	97.00
Western Canada Select (WCS)	Cdn$/bbl	**85.00**	83.00
AECO natural gas price	Cdn$/Mcf	**4.50**	4.50
Exchange rate	Cdn$/US$	**0.90**	0.90
Operating costs	$/boe	**6.00**	6.00
General and administrative costs (1)	$/boe	**2.60**	2.60
Capital expenditures	$ millions	**35**	35
Dividends paid in shares (DRIP) (2)	$ millions	**29**	29
Long-term debt at year end	$ millions	**137**	38
Current income tax expense (3)	$ millions	**33**	32
Weighted average shares outstanding	millions	**68**	68

(1) Excludes share based and other compensation.
(2) Assumes an average 25% participation rate in Freehold's dividend reinvestment plan, which is subject to change at the participants' discretion.
(3) Corporate tax estimates will vary depending on commodity prices and other factors.

Recognizing the cyclical nature of the oil and gas industry, we continue to closely monitor commodity prices and industry trends for signs of deteriorating market conditions. We caution that it is inherently difficult to predict activity levels on our royalty lands since we have no operational control. As well, significant changes (positive or negative) in commodity prices (including Canadian oil price differentials), foreign exchange rates, or production rates may result in adjustments to the dividend rate.

Based on our current guidance and commodity price assumptions, and assuming no significant changes in the current business environment, we expect to maintain the current monthly dividend rate through 2014, subject to the Board's quarterly review and approval (see Dividend Policy).

Results of Operations

2014 First Quarter Highlights:

- Average production for the first quarter declined 5% while average price realizations increased 28%, resulting in a 21% increase in gross revenue compared to the first quarter of 2013.
- Compared to the first quarter of 2013, oil and NGL production was down 10%, while natural gas volumes improved 5%. The first quarter included positive prior period adjustments to production of 380 boe/d (90% natural gas) mainly the result of our ongoing audit program.
- Royalty production was down 2% compared to the first quarter of 2013, averaging 6,351 boe/d. Total royalty barrels accounted for 74% of production, versus 71% in the first quarter of 2013.
- Working interest production was down 13% when compared to the same period last year. The reduction in volumes was primarily driven by lower spending levels associated with non-operated drilling, temporary production shut-ins, along with the end of flush production from a number of locations brought on in the fourth quarter 2013.
- Funds from operations totalled $30.8 million in the first quarter, up 29% from the same period last year, mainly due to higher realized pricing. We remain primarily a liquids producer with 62% of our volumes weighted to liquids production.
- Net income of $17.9 million, represented a 70% improvement from the first quarter of 2013.
- In total, royalty interests accounted for 69% of gross revenue through the first three months of 2014, but contributed 77% of operating income.
- Dividends for the first quarter of 2014 totalled $0.42 per share, unchanged from the prior year.
- Average participation in our DRIP was 27% (Q1 2013 – 16%). Cash retained totalled $7.6 million (first three months of 2014) and continues to fund our capital program.
- Net capital expenditures on our working interest properties totalled $11.1 million over the quarter versus our forecast of $14.0 million, with the majority invested on our mineral title lands.
- At March 31, 2014, net debt totalled $48.6 million, up $3.2 million from $45.4 million at December 31, 2013.
- Net debt as of the first quarter 2014 implied a 0.4 times trailing funds from operations and net debt obligations represented approximately 14% of total capitalization.
- During the quarter, Freehold acquired working interest participation rights in three wells in Ferrier, Alberta. As at March 31, 2014, $1.8 million has been spent. The total expected expenditure for all three wells is $4.2 million. Upon each well paying out, Freehold's working interest will convert to an overriding royalty.

Quarterly Performance and Seasonality

Quarterly variances in revenues, net income and funds from operations are caused mainly by fluctuations in commodity prices and production volumes. Crude oil prices are generally determined by global supply and demand factors, and the variances do not have seasonable predictability. Natural gas is a typically seasonal, weather-dependent fuel; demand is generally higher during the winter (for heating) and summer (for cooling), and lower during the spring and fall. Over most of the past eight quarters, this seasonality has been muted by ample supply. Recently, below average temperatures has brought supply/demand fundamentals back into balance and we should expect a return to normal seasonality. Natural gas prices are affected by weather conditions, industrial demand, and North American natural gas inventories.

Our financial results over the last eight quarters were affected by the following significant changes:

- Refinery outages and pipeline bottlenecks in the U.S. Midwest have reduced crude oil volume access to the Texas and Louisiana Gulf Coast where there is greater refinery demand. Recently however, the progression of a number of infrastructure initiatives have narrowed the WTI to Brent price differential, along with mitigating some of the price volatility for Canadian blends like Edmonton Par and WCS relative to WTI.
- Fluctuations in foreign exchange rates also affected our oil price realizations, resulting in both positive and negative effects on our Canadian dollar oil revenues relative to the benchmark WTI, which is referenced in U.S. dollars.
- While displaying some improvement off their lows one year ago, AECO prices are still affected by supply outstripping old demand.
- Production has been affected by drilling activities and acquisitions, as well as a number of one-time adjustments. We use government reporting databases and past production receipts to estimate revenue accruals. Due to the large number of wells in which we have royalty interests, the nature of royalty interests, the lag in receiving production receipts from the operators, and our audit program, our reported royalty volumes usually include both positive and negative adjustments related to prior periods.
- Over the past eight quarters, we have acquired more than $20 million of mainly royalty interests in Alberta, Saskatchewan, and British Columbia.
- Subsequent to the quarter, Freehold acquired royalty interests on certain producing and non-producing lands in southeast Saskatchewan and Manitoba for $111 million.

QUARTERLY REVIEW

	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial ($000s, except as noted)								
Revenue, net of royalty expense	**48,169**	43,436	49,728	42,704	39,332	43,832	40,294	34,498
Dividends declared	**28,576**	28,373	28,206	28,019	27,897	27,787	27,616	27,399
Per share ($) (1)	**0.42**	0.42	0.42	0.42	0.42	0.42	0.42	0.42
Net income	**17,854**	14,106	18,961	14,292	10,493	13,431	11,975	7,862
Per share, basic and diluted ($)	**0.26**	0.21	0.28	0.21	0.16	0.20	0.18	0.12
Funds from operations (2)	**30,793**	29,092	36,407	30,115	23,817	31,475	26,272	20,522
Per share ($) (2)	**0.45**	0.43	0.54	0.45	0.36	0.48	0.40	0.31
Operating Income (2)	**43,795**	37,954	44,642	37,898	35,350	39,012	36,296	31,437
Net operating income from royalties (%)	**77**	74	69	74	74	68	71	81
Dividends paid in shares (DRIP)	**7,591**	7,617	9,076	6,874	4,381	6,672	7,013	6,940
Average DRIP participation rate (%) (3)	**27**	27	32	25	16	24	25	25
Property and royalty acquisitions (4)	**1,884**	6,891	2,542	658	-	243	10,789	(99)
Capital expenditures	**11,106**	5,335	5,725	3,313	14,914	7,743	9,160	6,598
Long-term debt	**49,000**	49,000	49,000	55,000	47,000	18,000	25,000	23,000
Shares outstanding								
Weighted average (000s)	**67,965**	67,483	67,078	66,649	66,375	66,091	65,677	65,159
At quarter end (000s)	**68,157**	67,746	67,326	66,874	66,522	66,270	65,879	65,440
Operating ($/boe, except as noted)								
Daily production (boe/d) (5)	**8,623**	9,173	8,699	8,714	9,067	9,510	8,654	8,501
Royalty interest (%)	**74**	68	67	71	71	66	68	76
Average selling price	**62.72**	52.99	63.74	54.66	49.09	51.55	51.71	45.74
Operating netback (2)	**56.43**	44.97	55.79	47.80	43.32	44.59	45.59	40.64
Operating expenses	**5.64**	6.50	6.36	6.06	4.88	5.51	5.02	3.96
Working interest properties	**21.40**	20.53	19.50	21.00	16.91	16.36	15.47	16.47
Net general and administrative expenses (6)	**3.62**	2.13	1.74	2.04	3.47	2.25	1.88	2.13
Benchmark Prices								
WTI crude oil (US$/bbl)	**98.68**	97.46	105.83	94.22	94.37	88.18	92.22	93.49
Exchange rate (US$/Cdn$)	**0.91**	0.95	0.96	0.98	0.99	1.01	1.01	0.99
Edmonton Par crude oil (Cdn$/bbl)	**99.73**	86.28	104.69	92.55	88.16	83.99	84.33	83.95
Western Canada Select (WCS) (Cdn$/bbl)	**83.40**	68.44	91.71	76.78	62.96	69.43	69.99	71.29
AECO natural gas (Cdn$/Mcf)	**4.75**	3.15	2.82	3.59	3.08	3.06	2.19	1.83
Share Trading Performance								
High ($)	**23.47**	24.63	24.88	24.58	24.48	22.45	20.34	19.67
Low ($)	**21.41**	21.54	22.50	22.46	21.00	19.62	17.83	17.25
Close ($)	**23.28**	22.11	23.78	23.57	23.38	22.40	19.76	18.44
Volume (000s)	**7,322**	6,077	4,374	8,108	7,203	7,435	5,656	7,483

(1) Based on the number of shares issued and outstanding at each record date.
(2) See Additional GAAP Measures and Non-GAAP Financial Measures.
(3) Participation in our DRIP is subject to change monthly at the participants' discretion.
(4) Net of adjustments.
(5) Reported production for a period may include adjustments from previous production periods.
(6) Excludes share based and other compensation.

AVERAGE DAILY PRODUCTION

	Three Months Ended March 31		
	2014	2013	Change
Royalty interest (1)			
Oil (bbls/d)	**3,193**	3,436	-7%
NGL (bbls/d)	**320**	357	-10%
Natural gas (Mcf/d)	**17,025**	15,941	7%
Oil equivalent (boe/d)	**6,351**	6,450	-2%
Working interest (1)			
Oil (bbls/d)	**1,735**	2,037	-15%
NGL (bbls/d)	**102**	108	-6%
Natural gas (Mcf/d)	**2,608**	2,832	-8%
Oil equivalent (boe/d)	**2,272**	2,617	-13%
Total			
Oil (bbls/d)	**4,928**	5,473	-10%
NGL (bbls/d)	**422**	465	-9%
Natural gas (Mcf/d)	**19,633**	18,773	5%
Oil equivalent (boe/d)	**8,623**	9,067	-5%
Number of days in period (days)	**90**	90	0%
Total volumes during period (Mboe)	**776**	816	-5%

(1) On certain properties where we have both a royalty interest and a working interest, production is allocated based on the applicable royalty and working interest percentages.

Our production mix through the first three months of 2014 was approximately 38% natural gas and 62% liquids (25% heavy oil, 32% light and medium oil and 5% NGL's). Over the past three years, the composition of our liquids volumes has become slightly lighter, largely as a result of our exposure to the Bakken and Cardium light oil plays.

Compared to the same period in 2013, oil and NGL production decreased 10% in the quarter, while natural gas production rose 5%. In the first quarter of 2014, positive prior period adjustments relating to production were approximately 380 boe/d (10% oil), the majority resulting from our strong audit function. In the first quarter of 2013 prior period adjustments were 450 boe/d (50% oil).

Working interest production decreased 13% versus the first quarter of 2013 while royalty volumes were down 2% versus the same period in 2013. The reduction in volumes was primarily driven by lower spending levels associated with non-operated drilling, along with an end to flush production from a number of locations brought on in the fourth quarter 2013.

Marketing and Hedging

Our royalty lands consist of a large number of properties with generally small volumes per property. A provision of most leases calls for our natural gas to be marketed with the lessees' production. Some of our leases allow us to take our oil production in-kind. In the first quarter, we took in kind and marketed approximately 25% of our royalty oil production using 30-day contracts.

We market most of our working interest oil production using 30-day contracts to ensure competitive pricing. In the first quarter, approximately 20% of our working interest natural gas production was sold under marketing arrangements tied to the Alberta monthly or daily spot price (AECO) or other indexed referenced prices, and the balance was marketed with the operators' production.

To date we have not hedged any of our production. Hedging is monitored on an ongoing basis and is reviewed quarterly by the Board.

AVERAGE BENCHMARK PRICES

	Three Months Ended March 31		
	2014	2013	Change
WTI crude oil (US$/bbl)	**98.68**	94.37	5%
Exchange rate (US$/Cdn$)	**0.91**	0.99	-9%
Edmonton Par crude oil (Cdn$/bbl)	**99.73**	88.16	13%
Western Canada Select (WCS) (Cdn$/bbl)	**83.40**	62.96	32%
WTI/Edmonton Par differential ($/bbl)	**1.05**	(6.21)	-117%
Edmonton Par/WCS differential (Cdn$/bbl)	**(16.33)**	(25.20)	-35%
AECO natural gas (Cdn$/Mcf)	**4.75**	3.08	54%

WTI is an important benchmark for Canadian crude oil as it reflects onshore North American prices. The price we receive for our production is primarily driven by the U.S. dollar price of WTI, adjusted to western Canada. Therefore, a decrease in the value of the Canadian dollar relative to the U.S. dollar will increase the revenue received, which we saw happen in the first quarter of 2014.

About one quarter of our total production is heavy crude, which trades at a discount to light crude. Over the quarter, we have seen both a contraction in the light/heavy differential as well an improvement in WCS pricing on an absolute basis. With an improvement in transportation methods getting volumes to higher demand centres, we expect the macro environment to improve, however remain volatile.

AVERAGE SELLING PRICES

	Three Months Ended March 31		
	2014	2013	Change
Oil ($/bbl)	**85.37**	68.18	25%
NGL ($/bbl)	**66.01**	57.55	15%
Oil and NGL ($/bbl)	**83.84**	67.35	24%
Natural gas ($/Mcf)	**4.70**	2.41	95%
Oil equivalent ($/boe)	**62.72**	49.09	28%

Representing the key driver behind our strong performance, liquids pricing remained robust over the quarter with our average realized oil and NGL price improving by 24% versus the first quarter last year. Our average selling prices reflect production quality and transportation differences from benchmark prices. Driven by below average temperatures within North America, AECO prices also exhibited significant upward momentum over the quarter, thus increasing our natural gas price by 95% versus the same period last year. Our natural gas price realizations are discounted compared to AECO pricing as they include transportation and processing fees netted from some natural gas royalty payments.

Revenue

Revenue from royalty interests increased 29% in the first quarter as a result of higher realized prices. Working interest revenues improved 7%, however higher pricing was offset by lower than expected production volumes.

GROSS REVENUE BY PRODUCT

	Three Months Ended March 31		
($000s)	**2014**	2013	Change
Royalty interest revenue			
Oil	**24,487**	20,514	19%
NGL	**1,896**	1,903	0%
Natural gas	**7,053**	3,283	115%
Other (1)	**377**	573	-34%
	33,813	26,273	29%
Working interest revenue			
Oil	**13,374**	13,066	2%
NGL	**610**	503	21%
Natural gas	**1,249**	790	58%
Other (1)	**154**	5	2980%
	15,387	14,364	7%
Total gross revenue			
Oil	**37,861**	33,580	13%
NGL	**2,506**	2,406	4%
Natural gas	**8,302**	4,073	104%
Other (1)	**531**	578	-8%
	49,200	40,637	21%

(1) Other includes potash, sulphur, lease rentals, and other revenue for royalty interest, and processing fees, interest and other revenue for working interest.

The following table demonstrates the effect of price and volume variances on gross revenues. While the first quarter saw a reduction in our liquids volumes, strength in commodity prices drove outperformance relative to 2013.

GROSS REVENUE VARIANCES

	Three Months Ended March 31	
($000s)	**2014 vs. 2013**	2013 vs. 2012
Oil and NGL		
Production increase (decrease)	**(4,433)**	2,427
Price increase (decrease)	**8,814**	(6,321)
Net increase (decrease)	**4,381**	(3,894)
Natural gas		
Production increase (decrease)	**364**	(214)
Price increase	**3,865**	618
Net increase	**4,229**	404
Other (1)	**(47)**	(239)
Gross revenue increase (decrease)	**8,563**	(3,729)

(1) Other revenue includes potash, sulphur, lease rentals, processing fees, interest and other.

NET REVENUE

	Three Months Ended March 31		
($000s)	**2014**	2013	Change
Gross revenue	**49,200**	40,637	21%
Royalty expense (1)	**(1,031)**	(1,305)	-21%
Net revenue	**48,169**	39,332	22%

(1) Royalty expense includes both Crown charges and royalty payments to third parties.

Expenses

ROYALTY EXPENSE (1)

	Three Months Ended March 31		
($000s, except as noted)	**2014**	2013	Change
Working interest	**1,031**	1,302	-21%
Per boe ($)	**5.04**	5.53	-9%
Royalty interest (2)	**-**	3	-100%
Per boe ($)	**-**	0.01	-100%
Total	**1,031**	1,305	-21%
Per boe ($)	**1.33**	1.60	-17%

(1) Royalty expense includes both Crown charges and royalty payments to third parties.
(2) Comprised of freehold mineral tax.

Oil and gas producers pay royalties to the owners of mineral rights from whom they have acquired leases. These are paid to the Crown (provincial and federal governments) and freehold mineral title owners. Crown royalty rates are tied to commodity prices and the level of oil and gas sales.

On a per boe basis, royalty expense on working interest properties were 9% lower than the first three months of 2013. On a corporate level, royalty charges were down 21% versus the same period in 2013 mainly due to a favorable prior period adjustment of $0.3 million. We do not incur Crown or third party royalty expenses on production from our royalty interest properties other than minor freehold mineral taxes. As the royalty owner, we receive the royalty as income from other companies.

OPERATING EXPENSES

	Three Months Ended March 31		
($000s, except as noted)	**2014**	2013	Change
Working interest	**4,374**	3,982	10%
Per boe ($)	**21.40**	16.91	27%
Royalty interest (1)	**-**	-	-
Per boe ($)	**-**	-	-
Total operating expenses	**4,374**	3,982	10%
Total ($/boe)	**5.64**	4.88	16%

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

On certain properties where we have both a royalty interest and a working interest, production is allocated based on the royalty/working interest percentages. However, all of the operating costs relating to that production have been allocated to the working interest properties. Operating expenses in the first quarter averaged $5.64/boe. This represented a 16% increase from the same period in 2013. Rising costs associated with a combination of higher than forecast electricity charges, well servicing and maintenance costs on our heavy oil properties were the primary drivers behind the increase.

Netback Analysis

As a royalty owner, we share in production revenue without incurring the operational costs, risks, and responsibilities typically associated with oil and natural gas operations. The table below demonstrates the advantage of our royalty lands, which have no operating or royalty expenses (other than minor freehold mineral taxes). Royalty interests accounted for 69% of gross revenue through the first three months of 2014, but contributed 77% of operating income (see Non-GAAP Financial Measures).

OPERATING INCOME

	Three months ended March 31, 2014		
($000s)	Royalty Interest	Working Interest	**Total**
Gross revenue (1)	33,813	15,387	**49,200**
Royalty expense (2)	-	(1,031)	**(1,031)**
Net revenue	33,813	14,356	**48,169**
Operating expense	-	(4,374)	**(4,374)**
Operating income	33,813	9,982	**43,795**
Percentage by category	77%	23%	**100%**

(1) Gross revenue includes potash, sulphur, lease rentals, processing fees, interest and other.
(2) Royalty expense includes both Crown charges and royalty payments to third parties.

OPERATING NETBACK

($/boe)	Three Months Ended March 31 2014	2013	Change
Gross revenue (1)	**63.40**	49.80	27%
Royalty expense (2)	**(1.33)**	(1.60)	-17%
Operating expenses	**(5.64)**	(4.88)	16%
Operating netback (3)	**56.43**	43.32	30%

(1) Gross revenue includes potash, sulphur, lease rentals, processing fees, interest and other.
(2) Royalty expense includes both Crown charges and royalty payments to third parties.
(3) Operating netback is calculated by subtracting royalty and operating expenses from gross revenue. See Non-GAAP Financial Measures.

Freehold's operating netback increased 30% versus the first quarter of 2013, mainly as a result of momentum in the commodity market.

GENERAL AND ADMINISTRATIVE EXPENSES

($000s, except as noted)	Three Months Ended March 31 2014	2013	Change
Gross general and administrative expenses	**3,240**	3,215	1%
Less: capitalized and overhead recoveries	**(432)**	(385)	12%
Net general and administrative expenses	**2,808**	2,830	-1%
Per boe ($)	**3.62**	3.47	4%

We have significant land administration, accounting and auditing requirements to administer and collect royalty payments including systems to track development activity on royalty lands. General and administrative (G&A) expenses include direct costs and reimbursement of G&A expenses incurred by the Manager on behalf of Freehold (see Related Party Transactions). In the first quarter G&A charges were similar to the same period in 2013.

MANAGEMENT FEES (PAID IN SHARES)

	Three Months Ended March 31 2014	2013	Change
Shares issued in payment of management fees	**49,119**	48,028	2%
Ascribed value ($000s) (1)	**1,143**	1,122	2%
Per boe ($)	**1.47**	1.38	7%

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

The Manager (see Related Party Transactions) receives a management fee in shares. In accordance with the management agreement, the issue of shares from treasury related to the DRIP, resulted in pro-rata increases in the number of shares issued as the management fee (see Shareholders' Capital).

SHARE BASED AND OTHER COMPENSATION

	Three Months Ended March 31		
($000s, except as noted)	**2014**	2013	Change
Gross LTIP	**560**	503	11%
Less: capitalized portion	**(95)**	(76)	25%
Net LTIP	**465**	427	9%
Deferred share unit plan	**446**	386	16%
Retirement benefit	**6**	57	-89%
Share based and other compensation	**917**	870	5%
Per boe ($)	**1.18**	1.07	10%

We are responsible for funding a portion of the long-term incentive compensation plan (the LTIP) for employees of the Manager. The 2011 LTIP grants valued at $1.0 million were paid out in 2014.

Fully-vested deferred share units are granted annually in the first quarter to non-management directors and are redeemable for an equal number of shares (less tax withholdings if necessary) after the director's retirement. As at March 31, 2014, there were 141,453 deferred share units outstanding, and as at May 14, 2014, there were 142,295 deferred share units outstanding.

Related Party Transactions

Freehold does not have any employees. Rife Resources Management Ltd. (the Manager) is the manager of Freehold. The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife), and two of Rife's directors are also directors of Freehold. Rife is 100% owned by the CN Pension Trust Funds (the pension funds for the employees of Canadian National Railway Company), which in turn is a shareholder of Freehold. The Manager recovers its general and administrative costs and a portion of its long-term incentive plan costs and retirement benefit costs, and receives a quarterly management fee paid in shares.

The Manager provides certain services for a fee based on a specified number of shares per quarter, pursuant to the amended and restated management agreement. For the three months ended March 31, 2014, Freehold issued 49,119 shares (2013 – 48,028) as a management fee to the Manager pursuant to the management agreement. The ascribed value of $1.1 million (2013 – $1.1 million) was based on the closing price of the shares on the last trading day of each quarter.

For the three months ended March 31, 2014, the Manager charged $2.5 million in general and administrative costs (2013 – $2.4 million). At March 31, 2014, there was $0.5 million (2013 – $0.5 million) in accounts payable and accrued liabilities relating to these costs. All transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by both parties.

Freehold maintains ownership interests in certain oil and gas properties operated by Rife. A portion of net operating revenues and capital expenditures represent joint operations amounts from Rife. At March 31, 2014, there was $1.5 million (2013 - $2.5 million) in accounts payable and accrued liabilities relating to these transactions. In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the three months ended March 31, 2014, Freehold received royalties of approximately $0.5 million (2013 – $0.5 million). At March 31, 2014, there was $0.2 million (2013 - $0.2 million) in accounts receivable relating to these transactions. All transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by both parties.

Canpar Holdings Ltd. (Canpar) is also managed by Rife and owned 100% by the CN Pension Trust Funds, and two of Canpar's directors are also directors of Freehold. Canpar acts as an agent to Freehold on a majority of its freehold title lands. All transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by both parties. At March 31, 2014, there was $0.3 million (2013 – $nil) in accounts payable and accrued liabilities relating to these transactions.

All amounts owing to/from the Manager, Rife, and Canpar are unsecured, non-interesting bearing and due on demand.

INTEREST AND FINANCING

	Three Months Ended March 31		
($000s, except as noted)	**2014**	2013	Change
Interest and financing expense	**581**	466	25%
Per boe ($)	**0.75**	0.57	32%

In the first quarter of 2014, interest and financing expense increased due to higher average debt levels. The average effective interest rate on advances under our credit facilities was 3.2% (Q1 2013 – 3.2%).

DEPLETION AND DEPRECIATION

	Three Months Ended March 31		
($000s, except as noted)	**2014**	2013	Change
Depletion and depreciation	**14,289**	15,899	-10%
Per boe ($)	**18.41**	19.49	-6%

Oil and gas properties and royalty interests, including the cost of production equipment, future capital costs associated with proved plus probable reserves, and the capitalized portion of the decommissioning liability, are depleted on the unit-of-production method based on estimated proved plus probable oil and gas reserves.

Income Tax

As a corporation, taxable income is based on revenues (which will vary depending on commodity prices and production volumes) less allowable expenses including claims for both accumulated tax pools and tax pools associated with current year expenditures. For the three months ended March 31, 2014, Freehold recorded $8.5 million of current income tax expense (Q1 2013 – $6.0 million).

Liquidity and Capital Resources

Operating Activities

Net income and funds from operations were both higher in the first quarter 2014 mainly as a result of higher prices, both for liquids and natural gas. For the first quarter, non-cash charges included in net income amounted to $14.1 million (Q1 2013 – $15.5 million).

NET INCOME AND FUNDS FROM OPERATIONS

	Three Months Ended March 31		
($000s, except as noted)	**2014**	2013	Change
Net income	**17,854**	10,493	70%
Per share, basic and diluted ($)	**0.26**	0.16	63%
Funds from operations (1)	**30,793**	23,817	29%
Per share ($)	**0.45**	0.36	25%

(1) See Additional GAAP Measures.

Financing Activities

We retain working capital primarily to fund capital expenditures or acquisitions and reduce bank indebtedness. In the oil and natural gas industry, accounts receivable from industry partners are typically settled in the following month. However, due to administrative complexity, payments to royalty owners are often delayed longer. Working capital at each period end can vary due to volume and price changes during the period.

COMPONENTS OF WORKING CAPITAL

($000s)	**Mar. 31 2014**	Dec. 31 2013	Sep. 30 2013	Jun. 30 2013	Mar. 31 2013
Cash	**480**	158	688	320	229
Accounts receivable	**30,948**	25,587	28,705	26,989	23,615
Current assets	**31,428**	25,745	29,393	27,309	23,844
Dividends payable	**(9,542)**	(9,485)	(9,426)	(9,363)	(9,312)
Accounts payable and accrued liabilities	**(18,195)**	(10,813)	(11,045)	(12,349)	(21,635)
Current taxes payable	**(2,156)**	(730)	(315)	-	(299)
Current portion of share based and other compensation payable	**(1,135)**	(1,102)	(1,322)	(1,161)	(1,064)
Current liabilities	**(31,028)**	(22,130)	(22,108)	(22,873)	(32,310)
Working capital	**400**	3,615	7,285	4,436	(8,466)

Working capital decreased through the first three months of 2014. This was driven in part by higher accounts payable and accrued liabilities due to unpaid capital expenditures occurring late in the quarter offset by an increase in accounts receivable due to higher commodity prices.

DEBT ANALYSIS

($000s)	**Mar. 31 2014**	Dec. 31 2013	Sep. 30 2013	Jun. 30 2013	Mar. 31 2013
Long-term debt	**49,000**	49,000	49,000	55,000	47,000
Short-term debt	**-**	-	-	-	-
Total debt	**49,000**	49,000	49,000	55,000	47,000
Working capital	**(400)**	(3,615)	(7,285)	(4,436)	8,466
Net debt obligations	**48,600**	45,385	41,715	50,564	55,466

Net debt obligations increased slightly when compared to the fourth quarter of 2013 at $48.6 million due to the changes in working capital mentioned above.

We have a $195 million extendible revolving term credit facility with a syndicate of three Canadian chartered banks and a $15 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 and standby fees. The facilities are secured with $300 million demand debentures over Freehold's petroleum and natural gas assets but do not contain any financial covenants. At March 31, 2014, we had $161 million of available capacity under our credit and operating facilities.

Our borrowing base is dependent on our lenders' annual review and interpretation of our reserves and future commodity prices. The lenders at any time can request a redetermination of the borrowing base, which may require a repayment to the lenders within 90 days of receiving notice. The facilities are extendible annually with the latest review completed in May 2014, with no change to our borrowing base.

FINANCIAL LEVERAGE AND COVERAGE RATIOS (1)

	Mar. 31 2014	Dec. 31 2013	Sep. 30 2013	Jun. 30 2013	Mar. 31 2013
Net debt to funds from operations (times) (2)	**0.4**	0.4	0.3	0.5	0.5
Net debt to dividends (times)	**0.4**	0.4	0.4	0.5	0.5
Dividends to interest expense (times)	**42**	44	47	51	54
Net debt to net debt plus equity (%)	**14**	13	12	14	15

(1) Funds from operations, dividends, and interest expense are 12-months trailing.
(2) See Additional GAAP Measures and Non-GAAP Financial Measures.

At March 31, 2014, net debt was 0.4 times trailing funds from operations and net debt obligations were approximately 14% of total capitalization.

Under our credit facilities, we are restricted from declaring dividends if we are or would be in default under the facilities or if our borrowings thereunder exceed our borrowing base. As at March 31, 2014, we were in compliance with all such covenants. We are also restricted from declaring dividends if we do not satisfy the liquidity and solvency tests under the *Business Corporations Act* (Alberta).

SHAREHOLDERS' CAPITAL

	March 31, 2014		December 31, 2013	
	Shares	**Amount ($000s)**	Shares	Amount ($000s)
Balance, beginning of period	**67,746,470**	**455,497**	66,270,230	422,728
Issued for dividend reinvestment plan	**361,698**	**7,591**	1,263,571	27,948
Issued in lieu of management fee	**49,119**	**1,143**	193,694	4,495
Issued for deferred share unit plan redemption	**-**	**-**	18,975	326
Balance, end of period	**68,157,287**	**464,231**	67,746,470	455,497

SHARES OUTSTANDING

	Three Months Ended March 31		
	2014	2013	Change
Weighted average			
Basic	**67,964,890**	66,374,821	2%
Diluted	**68,083,899**	66,495,455	2%
At period end	**68,157,287**	66,522,464	2%

As at March 31, 2014, there were 68,157,287 shares outstanding, and as at May 14, 2014, there were 68,240,254 shares outstanding.

Dividend Policy

The Board reviews and determines the dividend rate quarterly after considering expected commodity prices, foreign exchange rates, economic conditions, production volumes, DRIP participation levels, tax payable, and our capacity to finance operating and investing obligations. The dividend rate is established with the intent of absorbing short-term market volatility over several months. It also recognizes our intention to fund capital expenditures primarily through funds from operations and to maintain a strong balance sheet to take advantage of acquisition opportunities and withstand potential commodity price declines.

Freehold's dividends are designated as eligible dividends for Canadian income tax purposes.

RECONCILIATION OF DIVIDENDS DECLARED

	Three Months Ended March 31	
($000s)	**2014**	2013
Funds from operations (1)	**30,793**	23,817
Proceeds from the DRIP	**7,591**	4,381
Debt additions	**-**	29,000
Property and royalty acquisitions (net)	**(1,884)**	-
Capital expenditures	**(11,106)**	(14,914)
Working capital change	**3,182**	(14,387)
Dividends declared	**28,576**	27,897

(1) See Additional GAAP Measures.

ACCUMULATED DIVIDENDS

	Three Months Ended March 31	
	2014	2013
Dividends declared ($000s)	**28,576**	27,897
Accumulated, beginning of period	**1,216,044**	1,103,549
Accumulated, end of period	**1,244,620**	1,131,446
Dividends per share ($) (1)	**0.42**	0.42
Accumulated, beginning of period	**27.25**	25.57
Accumulated, end of period	**27.67**	25.99

(1) Based on the number of shares issued and outstanding at each record date.

Dividend Reinvestment Plan (DRIP)

In the first quarter of 2014, average participation in Freehold's DRIP was 27% (Q1 2013 – 16%). We issued 361,698 (Q1 2013 – 204,206) shares related to the DRIP with an ascribed value of $7.6 million (Q1 2013 – $4.4 million). Participation levels can fluctuate greatly on a month to month basis. The ascribed value was based on the weighted average closing price for the 10 trading days preceding each payment date.

The DRIP allows for the issuance of shares from treasury at a 5% discount to market (i.e. 95% of the weighted average closing price for the 10 trading days preceding each payment date). Registered shareholders who wish to enrol in the DRIP may do so by contacting Computershare Trust Company of Canada, the Plan Agent. Beneficial shareholders who wish to participate in the DRIP should contact the broker or other nominee through which their shares are held to obtain appropriate enrolment instructions, ensuring any deadlines or other requirements that such broker or nominee may impose or be subject to are met. U.S. residents may not participate in the DRIP.

DIVIDENDS PAID

($000s)	Three Months Ended March 31 2014	2013
Dividends paid in cash	**20,928**	23,482
Dividends paid in shares (DRIP)	**7,591**	4,381
Total dividends paid	**28,519**	27,863
Dividends paid in cash as a percentage of funds from operations (1)	**68%**	99%

(1) See Additional GAAP Measures.

Investing Activities

ACQUISITIONS AND CAPITAL EXPENDITURES

($000s)	Three Months Ended March 31 2014	2013	Change
Property and royalty acquisitions (net)	**1,884**	-	-
Capital expenditures	**11,106**	14,914	-26%
	12,990	14,914	-13%

During the quarter, Freehold acquired working interest participation rights in three wells in Ferrier, Alberta. As at March 31, 2014, $1.8 million has been spent. The total expected expenditure for all three wells is $4.2 million. Upon each well payout, Freehold's working interest will convert into an overriding royalty.

Freehold's capital expenditures for the quarter were $11.1 million (2013 $14.9 million).

Contingency

In May 2009, a statement of claim was filed against Freehold for $9 million. The claim involves disputed land interests and royalty obligations. After receiving external legal advice, Freehold has assessed the claim and believes it has no merit. The claim's outcome is not determinable and therefore no liability has been recorded in the financial statements.

Additional Information

Additional information about Freehold, including our annual information form (AIF), is available on SEDAR at www.sedar.com and on our website at www.freeholdroyalties.com.

Internal Controls

Freehold is required to comply with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during the three months ended March 31, 2014. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, *Certification of Interim Filings*, which can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This document offers our assessment of Freehold's future plans and operations as at May 14, 2014, and contains forward-looking statements that we believe allow readers to better understand our business and prospects. Forward-looking statements are contained in the MD&A under Business Environment, Guidance Update, 2014 First Quarter Highlights and 2014 Outlook and include our expectations for the following:

- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil, and natural gas;
- light/heavy oil price differentials;
- changing economic conditions;
- foreign exchange rates;
- industry drilling, development and licensing activity on our royalty lands, our exposure in emerging resource plays, and the potential impact of horizontal drilling on production and reserves;
- development of working interest properties;
- participation in the DRIP and our use of cash preserved through the DRIP;
- estimated capital budget, and expenditures and the timing thereof;
- estimated operating and general and administrative expenses;
- long-term debt at year end;
- average production and contribution from royalty lands;
- key operating assumptions;
- our assessment of Freehold's liability described under "Contingency"
- amounts and rates of income taxes and timing of payment thereof; and
- maintaining our monthly dividend rate through 2014 and our dividend policy.

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, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. Risks are described in more detail in our AIF.

With respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, future oil and natural gas prices, future capital expenditure levels, future production levels, future exchange rates, future tax rates, future participation rates in the DRIP and use of cash retained through the DRIP, future legislation, the cost of developing and producing our assets, our ability and the ability of our lessees to obtain equipment in a timely manner to carry out development activities, our ability to market our oil and natural gas successfully to current and new customers, our expectation for the consumption of crude oil and natural gas, our expectation for industry drilling levels, our ability to obtain financing on acceptable terms, and our ability to add production and reserves through development and acquisition activities. The key operating assumptions with respect to the forward-looking statements referred to above are detailed in our discussion of the Business Environment.

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. The forward-looking information contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is to update our key operating assumptions quarterly and, except as required by law, we do not undertake to update any other forward-looking statements.

You are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates may change, having either a positive or negative effect on net income, as further information becomes available and as the economic environment changes.

Conversion of Natural Gas to Barrels of Oil Equivalent (BOE)

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (boe). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 boe ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

Additional GAAP Measures

This MD&A contains the term “funds from operations”, which does not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities. Funds from operations, as presented, is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to net income or other measures of financial performance calculated in accordance with GAAP. We consider funds from operations to be a key measure of operating performance as it demonstrates Freehold’s ability to generate the necessary funds to fund capital expenditures, sustain dividends, and repay debt. We believe that such a measure provides a useful assessment of Freehold’s operations on a continuing basis by eliminating certain non-cash charges. It is also used by research analysts to value and compare oil and gas companies, and it is frequently included in their published research when providing investment recommendations. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share.

Non-GAAP Financial Measures

Within this MD&A, references are made to terms commonly used as key performance indicators in the oil and natural gas industry. We believe that operating income, operating netback, and net debt to funds from operations are useful supplemental measures for management and investors to analyze operating performance, financial leverage, and liquidity, and we use these terms to facilitate the understanding and comparability of our results of operations and financial position. However, these terms do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

Operating income, which is calculated as gross revenue less royalties and operating expenses, represents the cash margin for product sold. Operating netback, which is calculated as average unit sales price less royalties and operating expenses, represents the cash margin for product sold, calculated on a per boe basis (see Netback Analysis). Net debt to funds from operations is calculated as net debt (total debt less working capital) as a proportion of funds from operations for the previous twelve months (see Debt Analysis). In addition, we refer to various per boe figures, such as revenues and costs, also considered non-GAAP measures, which provide meaningful information on our operational performance. We derive per boe figures by dividing the relevant revenue or cost figure by the total volume of oil and natural gas production during the period, with natural gas converted to equivalent barrels of oil as described above.

Condensed Consolidated Balance Sheets

($000s) (unaudited)	**March 31 2014**	December 31 2013
Assets		
Current assets:		
Cash	**$ 480**	$ 158
Accounts receivable	**30,948**	25,587
	31,428	25,745
Exploration and evaluation assets (note 2)	**24,250**	24,858
Petroleum and natural gas interests (note 3)	**377,839**	377,262
	$ 433,517	$ 427,865
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable	**$ 9,542**	$ 9,485
Accounts payable and accrued liabilities	**18,195**	10,813
Current taxes payable	**2,156**	730
Current portion of share based and other compensation payable (note 7)	**1,135**	1,102
	31,028	22,130
Decommissioning liability	**17,004**	15,781
Share based and other compensation payable (note 7)	**703**	1,240
Long-term debt (note 4)	**49,000**	49,000
Deferred income tax liability	**43,252**	45,642
Shareholders' equity:		
Shareholders' capital (note 5)	**464,231**	455,497
Contributed surplus	**2,613**	2,167
Deficit	**(174,314)**	(163,592)
	292,530	294,072
	$ 433,517	$ 427,865

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Income and Comprehensive Income

(unaudited) ($000s, except per share and weighted average data)	Three Months Ended March 31 2014	 2013
Revenue:		
Royalty income and working interest sales	**$ 49,200**	$ 40,637
Royalty expense	**(1,031)**	(1,305)
	48,169	39,332
Expenses:		
Operating	**4,374**	3,982
General and administrative (note 6)	**2,808**	2,830
Share based and other compensation (note 7)	**917**	870
Interest and financing	**581**	466
Depletion and depreciation	**14,289**	15,899
Accretion of decommissioning liability	**125**	98
Management fee (note 6)	**1,143**	1,122
	24,237	25,267
Income before taxes	**23,932**	14,065
Income taxes:		
Current expense	**8,468**	6,035
Deferred recovery	**(2,390)**	(2,463)
	6,078	3,572
Net income and comprehensive income	**$ 17,854**	$ 10,493
Net income per share, basic and diluted	**$ 0.26**	$ 0.16
Weighted average number of shares:		
Basic	**67,964,890**	66,374,821
Diluted	**68,083,899**	66,495,455

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

($000s) (unaudited)	Three Months Ended March 31 2014	2013
Operating:		
Net income	**$ 17,854**	$ 10,493
Items not involving cash:		
Depletion and depreciation	**14,289**	15,899
Share based and other compensation	**917**	870
Deferred income tax recovery	**(2,390)**	(2,463)
Accretion of decommissioning liability	**125**	98
Management fee	**1,143**	1,122
Expenditures on share based and other compensation	**(1,070)**	(2,075)
Decommissioning expenditures	**(75)**	(127)
Funds from operations	**30,793**	23,817
Changes in non-cash working capital	**(1,131)**	(23,707)
	29,662	110
Financing:		
Long-term debt	**-**	29,000
Dividends paid	**(20,928)**	(23,482)
	(20,928)	5,518
Investing:		
Property and royalty acquisitions	**(1,884)**	-
Capital expenditures	**(11,106)**	(14,914)
Changes in non-cash working capital	**4,578**	9,413
	(8,412)	(5,501)
Increase in cash	**322**	127
Cash, beginning of period	**158**	102
Cash, end of period	**$ 480**	$ 229

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

($000s) (unaudited)	Three Months Ended March 31 2014	2013
Shareholders' capital:		
Balance, beginning of period	**$ 455,497**	$ 422,728
Shares issued for dividend reinvestment plan	**7,591**	4,381
Shares issued in lieu of management fee	**1,143**	1,122
Balance, end of period	**464,231**	428,231
Contributed surplus:		
Balance, beginning of period	**2,167**	2,036
Share based compensation expense	**446**	386
Balance, end of period	**2,613**	2,422
Deficit:		
Balance, beginning of period	**(163,592)**	(108,949)
Net income and comprehensive income	**17,854**	10,493
Dividends declared	**(28,576)**	(27,897)
Balance, end of period	**(174,314)**	(126,353)
Total shareholders' equity	**$ 292,530**	$ 304,300

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013.

1. Basis of Presentation

Freehold Royalties Ltd. (Freehold) is a dividend-paying corporation incorporated under the laws of the Province of Alberta. Freehold's primary focus is acquiring and managing oil and gas royalties and developing and producing its working interest oil and gas assets.

Freehold's principal place of business is located at 400, 144 – 4 Avenue SW, Calgary, Alberta, Canada, T2P 3N4.

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements and notes for the year ended December 31, 2013, except as disclosed in Note 1(c), and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2013. In the opinion of management, these interim condensed consolidated financial statements contain all adjustments necessary to present fairly Freehold's financial position as at March 31, 2014 and the results of its operations and cash flows for the three months then ended.

These interim condensed consolidated financial statements were approved by the Board of Directors on May 14, 2014.

b) Basis of Measurement and Principles of Consolidation

These interim condensed consolidated financial statements have been prepared on a historical cost basis and include the accounts of Freehold and its wholly-owned subsidiaries: Freehold Resources Ltd. and Freehold Royalties Partnership. All inter-entity transactions have been eliminated.

c) Change in Accounting Policy

On January 1, 2014 Freehold implemented the IASB issued IFRIC 21 "Levies", which was developed by the IFRS Interpretations Committee ("IFRIC"). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. The adoption of this standard has no impact on Freehold's condensed interim consolidated financial statements.

d) Recent Pronouncements

The IASB has implemented a three-phase project to replace IAS 39, *Financial Instruments*: *Recognition and Measurement* with IFRS 9, *Financial Instruments*. The first two completed phases replaced the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The third phase issued in November 2013 details a new hedge accounting model. The effective date for adopting IFRS 9 in its entirety is January 1, 2018. The impact on Freehold's consolidated financial statements is yet to be determined.

2. Exploration and Evaluation Assets

($000s)	March 31 2014	December 31 2013
Balance, beginning of period	**24,858**	25,905
Property and royalty acquisitions	**-**	915
Transfers to petroleum and natural gas interests (note 3)	**(608)**	(1,962)
Balance, end of period	**24,250**	24,858

There were no impairments for the period ended March 31, 2014.

3. Petroleum and Natural Gas Interests

($000s)	March 31 2014	December 31 2013
Cost		
Balance, beginning of period	**600,171**	560,594
Property and royalty acquisitions	**1,884**	9,176
Capital expenditures	**11,106**	29,287
Capitalized portion of long term incentive plan	**95**	169
Transfers from exploration and evaluation assets (note 2)	**608**	1,962
Decommisioning liability additions and revisions	**1,173**	(1,017)
Balance, end of period	**615,037**	600,171
Accumulated depletion and depreciation		
Balance, beginning of period	**(222,909)**	(161,589)
Depletion and depreciation	**(14,289)**	(61,320)
Balance, end of period	**(237,198)**	(222,909)
Net book value, end of period	**377,839**	377,262

During the quarter, Freehold acquired working interest participation rights in three wells in Ferrier, Alberta. As at March 31, 2014, $1.8 million has been spent to date. Upon each well payout, Freehold's working interest will convert into an overriding royalty.

For the year ended December 31, 2013 Freehold closed several royalty and working interest acquisitions for $10.1 million.

There were no impairments for the period ended March 31, 2014.

4. Long-term Debt

Freehold has a $195 million extendible revolving term credit facility with a syndicate of three Canadian chartered banks, on which $49 million was drawn at March 31, 2014. In addition, Freehold has available a $15 million extendible revolving operating facility.

The facilities are secured with $300 million demand debentures over Freehold's petroleum and natural gas assets but do not contain any financial covenants. The lenders at any time can request a redetermination of the borrowing base, which may require a repayment to the lenders within 90 days of receiving notice. The facilities are extendible annually with the latest review completed in May 2014. Freehold's borrowing base is dependent on the lenders annual review and interpretation of Freehold's reserves and future commodity prices, with the next renewal to occur by May 2015. In the event that the lenders do not consent to an extension, the revolving credit facility would 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.

Borrowings under the facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees. At March 31, 2014 and December 31, 2013 the fair value of the long-term debt approximated its carrying value, as the long-term debt carries interest at prevailing market rates. For the three months ended March 31, 2014, the average effective interest rate on advances under the credit facilities was 3.2% (2013 – 3.2%).

5. Shareholders' Capital

Freehold has authorized an unlimited number of common shares, without stated par value. Freehold has authorized 10,000,000 preferred shares, without stated par value, of which none have been issued.

SHARES ISSUED AND OUTSTANDING

	March 31, 2014		December 31, 2013	
	Shares	**Amount ($000s)**	Shares	Amount ($000s)
Balance, beginning of period	**67,746,470**	**455,497**	66,270,230	422,728
Issued for dividend reinvestment plan	**361,698**	**7,591**	1,263,571	27,948
Issued in lieu of management fee (note 6)	**49,119**	**1,143**	193,694	4,495
Issued for deferred share unit plan redemption	**-**	**-**	18,975	326
Balance, end of period	**68,157,287**	**464,231**	67,746,470	455,497

6. Related Party Transactions

Freehold does not have any employees. Rife Resources Management Ltd. (the Manager) is the manager of Freehold. The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife), and two of Rife's directors are also directors of Freehold. Rife is 100% owned by the CN Pension Trust Funds (the pension funds for the employees of Canadian National Railway Company), which in turn is a shareholder of Freehold. The Manager recovers its general and administrative costs and a portion of its long-term incentive plan costs and retirement benefit costs, and receives a quarterly management fee paid in shares.

The Manager provides certain services for a fee based on a specified number of shares per quarter, pursuant to the amended and restated management agreement. For the three months ended March 31, 2014, Freehold issued 49,119 shares (2013 – 48,028) as a management fee to the Manager pursuant to the management agreement. The ascribed value of $1.1 million (2013 – $1.1 million) was based on the closing price of the shares on the last trading day of each quarter.

For the three months ended March 31, 2014, the Manager charged $2.5 million in general and administrative costs (2013 – $2.4 million). At March 31, 2014, there was $0.5 million (2013 – $0.5 million) in accounts payable and accrued liabilities relating to these costs. All transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by both parties.

Freehold maintains ownership interests in certain oil and gas properties operated by Rife. A portion of net operating revenues and capital expenditures represent joint operations amounts from Rife. At March 31, 2014, there was $1.5 million (2013 - $2.5 million) in accounts payable and accrued liabilities relating to these transactions. In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the three months ended March 31, 2014, Freehold received royalties of approximately $0.5 million (2013 – $0.5 million). At March 31, 2013, there was $0.2 million (2013 - $0.2 million) in accounts receivable relating to these transactions. All transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by both parties.

Canpar Holdings Ltd. (Canpar) is also managed by Rife and owned 100% by the CN Pension Trust Funds, and two of Canpar's directors are also directors of Freehold. Canpar acts as an agent to Freehold on a majority of its freehold title lands. All transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by both parties. At March 31, 2014, there was $0.3 million (2013 – $nil) in accounts payable and accrued liabilities relating to these transactions.

All amounts owing to/from the Manager, Rife, and Canpar are unsecured, non-interesting bearing and due on demand.

7. Share Based and Other Compensation

(a) Long-term Incentive Plan

Freehold participates in its proportionate share of a long-term incentive plan (LTIP) for all employees of Rife through the Manager. The 2011 LTIP grants valued at $1.0 million were paid out in 2014. For the three months ended March 31, 2014, Freehold expensed $0.5 million (2013 – $0.4 million) of share based compensation.

The following table reconciles the change in total accrued share-based incentive compensation:

($000s)	**March 31 2014**	December 31 2013
Balance, beginning of period	**2,098**	3,148
Increase in liability	**560**	990
Cash payout	**(1,002)**	(2,040)
Balance, end of period	**1,656**	2,098
Current portion of liability	**1,071**	1,003
Long-term portion of liability	**585**	1,095

The following table reconciles the incentive plan activity for the period:

PHANTOM COMMON SHARES

	March 31 2014	December 31 2013
Balance, beginning of period	**118,511**	136,271
Issued	**38,145**	35,154
Dividends reinvested	**2,334**	8,664
Cash payout	**(40,473)**	(61,578)
Balance, end of period	**118,517**	118,511

(b) Deferred Share Unit Plan

Fully-vested deferred share units (DSUs) are granted annually to non-management directors. As at March 31, 2014, there were 141,453 DSUs outstanding (2013 – 139,457), which are redeemable for an equal number of shares (less withholding tax if necessary) after the director's retirement. For the three months ended March 31, 2014, Freehold expensed $0.4 million (2013 – $0.4 million) of share based compensation with a corresponding increase to contributed surplus.

DEFERRED SHARE UNITS

	March 31 2014	December 31 2013
Balance, beginning of period	**121,317**	122,296
Annual grants	**17,641**	16,142
Additional resulting from dividends	**2,495**	9,987
Redeemed	**-**	(27,108)
Balance, end of period	**141,453**	121,317

(c) Retirement Benefit

Freehold participates in its proportionate share of a retirement benefit for certain employees of Rife through the Manager. For the three months ended March 31, 2014, Freehold expensed $6,000 (2013 – $57,000) with a corresponding increase to the obligation.

($000s)	March 31 2014	December 31 2013
Accrued benefit obligation, beginning of period	**244**	250
Current service cost	**6**	64
Payments	**(68)**	(70)
Accrued benefit obligation, end of period	**182**	244
Current portion of liability	**64**	99
Long-term portion of liability	**118**	145

8. Supplemental Cash Flow Disclosure

CASH EXPENSES PAID

	Three months ended March 31	
($000s)	**2014**	2013
Interest	**556**	556
Taxes	**7,042**	28,831

9. Contingency

In May 2009, a statement of claim was filed against Freehold for $9 million. The claim involves disputed land interests and royalty obligations. After receiving external legal advice, Freehold has assessed the claim and believes it has no merit. The claim's outcome is not determinable and therefore no liability has been recorded in the financial statements.

10. Subsequent Event

On May 2, 2014, Freehold closed an acquisition of royalty interests on certain producing and non-producing lands in southeast Saskatchewan and Manitoba for approximately $111 million, prior to normal closing adjustments. This acquisition was funded through Freehold's existing credit facilities.

Corporate information

Board of Directors

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

Harry S. Campbell, Q.C. (2)(4)
Chairman
Burnet, Duckworth & Palmer LLP

Peter T. Harrison (4)
Manager, Oil and Gas Investments
CN Investment Division

Arthur N. Korpach (1)(3)
Corporate Director

Thomas J. Mullane
President and Chief Executive Officer
Rife Resources Ltd.

David J. Sandmeyer (3)(4)
Corporate Director

Rodger A. Tourigny (1)(3)
President
Tourigny Management Ltd.

Aidan M. Walsh (1)(2)
President and Chief Executive Officer
Baccalieu Energy Inc.

(1) Audit Committee
(2) Governance and Nominating Committee
(3) Compensation Committee
(4) Reserves Committee

Officers

D. Nolan Blades
Chair of the Board

Thomas J. Mullane
President and Chief Executive Officer

Darren G. Gunderson
Vice-President, Finance and Chief Financial Officer

Scott W. Hadley
Vice-President, Exploration

Daniel R. Moore
Vice-President, Production

Michael J. Stone
Vice-President, Land

Michael J. Mogan
Controller

Karen C. Taylor
Corporate Secretary

Head Office

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Bankers

Canadian Imperial Bank of Commerce

Royal Bank of Canada

The Toronto-Dominion Bank

Legal Counsel

Burnet, Duckworth & Palmer LLP

Reserve Evaluators

Trimble Engineering Associates Ltd.

Stock Exchange and Trading Symbol

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Common Shares: FRU

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