CONSOLIDATED FINANCIAL STATEMENTS

Management's Report

The accompanying consolidated financial statements and other financial information in this Financial Report have been prepared by management, who is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, Freehold maintains policies, procedures and systems of internal control to ensure that reporting practices and accounting and administrative procedures are appropriate to provide reasonable assurance that the assets are safeguarded, transactions are properly authorized and relevant and reliable financial information is produced.

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards and, where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Financial Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Independent auditors, KPMG LLP, were appointed by the shareholders to perform an examination of the corporate and accounting records so as to express an opinion on the consolidated financial statements. Their examination included tests and procedures considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with International Financial Reporting Standards.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through its Audit Committee, which is comprised of independent directors. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee both with and without management present to discuss their audit and related findings.

(signed) "*Thomas J. Mullane*"

Thomas J. Mullane
President and Chief Executive Officer

(signed) "*Darren G. Gunderson*"

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

March 3, 2016

Independent Auditors' Report

To the Shareholders of Freehold Royalties Ltd.

We have audited the accompanying consolidated financial statements of Freehold Royalties Ltd., which comprise the consolidated balance sheets as at December 31, 2015 and 2014, the consolidated statements of income (loss) and comprehensive income (loss), cash flows and changes in shareholders' equity for the years ended December 31, 2015 and 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Freehold Royalties Ltd. as at December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 3, 2016
Calgary, Canada

Consolidated Balance Sheets

($000s)	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash	$ 876	$ 1,126
Accounts receivable	21,046	26,430
Current taxes receivable	73	2,597
	21,995	30,153
Acquisition advance	-	949
Exploration and evaluation assets (note 4)	49,479	37,852
Petroleum and natural gas interests (note 5)	846,825	584,323
Deferred income tax asset (note 3, 11)	21,095	-
	$ 939,394	$ 653,277
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable	$ 6,924	$ 10,488
Accounts payable and accrued liabilities	9,826	15,864
Current portion of share based and other compensation payable (note 10)	194	611
	16,944	26,963
Decommissioning liability (note 7)	27,635	21,279
Share based and other compensation payable (note 10)	191	321
Long-term debt (note 6)	152,000	139,000
Deferred income tax liability (note 3, 11)	-	44,847
Shareholders' equity:		
Shareholders' capital (note 8)	1,050,494	635,223
Contributed surplus	3,282	2,577
Deficit	(311,152)	(216,933)
	742,624	420,867
	$ 939,394	$ 653,277

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors of Freehold Royalties Ltd.:

(signed) "*D. Nolan Blades*"

D. Nolan Blades
Director

(signed) "*Arthur N. Korpach*"

Arthur N. Korpach
Director

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

($000s, except per share and weighted average data)	Year Ended December 31 2015	2014
Revenue:		
Royalty income and working interest sales	$ 135,664	$ 199,850
Royalty expense	(2,297)	(5,666)
	133,367	194,184
Gain on corporate acquisition (note 3)	24,340	-
Other income (note 9)	756	-
Expenses:		
Operating	18,215	18,992
General and administrative	10,643	8,679
Share based and other compensation (note 10)	766	438
Interest and financing	5,696	4,405
Depletion and depreciation (note 5)	95,703	67,145
Impairment (note 5)	38,800	-
Accretion of decommissioning liability (note 7)	566	498
Management fee (note 9)	3,693	4,743
	174,082	104,900
Income (loss) before taxes	(15,619)	89,284
Income taxes (note 11):		
Current expense (recovery)	(5,097)	22,178
Deferred expense (recovery)	(6,442)	659
	(11,539)	22,837
Net income (loss) and comprehensive income (loss)	$ (4,080)	$ 66,447
Net income (loss) per share, basic and diluted	$ (0.05)	$ 0.94
Weighted average number of shares:		
Basic	90,504,786	71,029,156
Diluted	90,504,786	71,170,896

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

($000s)	Year Ended December 31 2015	2014
Operating:		
Net income (loss)	$ (4,080)	$ 66,447
Items not involving cash:		
Depletion and depreciation	95,703	67,145
Impairment	38,800	-
Share based and other compensation	766	438
Deferred income tax expense (recovery)	(6,442)	659
Accretion of decommissioning liability	566	498
Management fee	3,693	4,743
Gain on corporate acquisition	(24,340)	-
Expenditures on share based and other compensation	(619)	(1,195)
Decommissioning expenditures	(227)	(288)
Funds from operations	103,820	138,447
Changes in non-cash working capital (note 14)	6,693	(4,060)
	110,513	134,387
Financing:		
Issuance of shares, net of issue costs	390,236	141,085
Long-term debt	13,000	90,000
Dividends paid	(76,478)	(86,521)
	326,758	144,564
Investing:		
Acquisition advance	949	(949)
Acquisitions	(411,352)	(248,274)
Capital expenditures	(22,295)	(33,701)
Changes in non-cash working capital (note 14)	(4,823)	4,941
	(437,521)	(277,983)
Increase (decrease) in cash	(250)	968
Cash, beginning of year	1,126	158
Cash, end of year	$ 876	$ 1,126

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

($000s)	Year Ended December 31 2015	2014
Shareholders' capital:		
Balance, beginning of year	$ 635,223	$ 455,497
Shares issued for dividend reinvestment plan	17,225	32,264
Shares issued in lieu of management fee	3,693	4,743
Shares issued for deferred share unit plan redemption	-	180
Shares issued for equity offering	405,600	146,810
Issue costs, net of tax effect	(11,247)	(4,271)
Balance, end of year	1,050,494	635,223
Contributed surplus:		
Balance, beginning of year	2,577	2,167
Share based compensation expense	705	666
Deferred share unit plan redemption	-	(256)
Balance, end of year	3,282	2,577
Deficit:		
Balance, beginning of year	(216,933)	(163,592)
Net income (loss) and comprehensive income (loss)	(4,080)	66,447
Dividends declared	(90,139)	(119,788)
Balance, end of year	(311,152)	(216,933)
	$ 742,624	$ 420,867

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2015 and 2014

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the Canadian Institute of Chartered Accountants (CICA). The CICA recognizes IFRS as Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises.

These consolidated financial statements were approved by the Board of Directors on March 3, 2016.

b. Basis of measurement and principles of consolidation

These consolidated financial statements have been prepared on a historical cost basis, with the exception of certain share based compensation payable, and include the accounts of Freehold and its wholly-owned subsidiaries: 1872348 Alberta Ltd., Freehold Holdings Trust and Freehold Royalties Partnership. All inter-entity transactions have been eliminated.

c. Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ as a result of using estimates.

The amounts recorded for the depletion of petroleum and natural gas properties, the provision for decommissioning liability and the amounts used in the impairment calculations are based on estimates of petroleum and natural gas reserves and future costs to develop those reserves. By their nature, these estimates of reserves, costs and related future cash flows are subject to uncertainty, and the impact on the financial statements of future periods could be material.

The decommissioning liability amounts recorded are based on estimates of inflation rates, risk-free rates, timing of abandonments and future abandonment costs, all of which are subject to uncertainty. The long-term incentive plan amounts recorded include an estimate of forfeitures and certain management assumptions. The retirement benefit amounts recorded include an estimated discount rate. Actual results could differ as a result of using estimates.

Income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material.

The determination of a cash generating unit (CGU) and whether an acquisition transaction constitutes a business combination is subject to management judgments. The recoverability of petroleum and natural gas interests and exploration and evaluation assets are assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. Each acquisition transaction is reviewed by management and judgment is used when determining if the transaction met the IFRS 3 inputs and processes criteria for business combinations.

Freehold follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of revenues, royalties, production and other expenses and capital items related to the period being reported, for which actual results have not yet been received. It is expected that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results. Freehold has no operational control over its royalty lands and primarily holds small interests in several thousand wells. Thus, obtaining timely production data from the well operators is extremely difficult. As a result, Freehold uses government reporting databases and past production receipts to estimate revenue accruals.

Significant judgment is required to determine the interests of royalty properties in areas where mineral rights are shared with a related party, Canpar Holdings Ltd. (Canpar). Freehold uses publicly available information on geological formations to apportion revenues between the entities in accordance with the respective party's interests. As new geological information becomes available and as part of its ongoing internal audit activities, Freehold periodically revises these allocations and consideration is transferred to reflect the changes.

d. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of Freehold and its subsidiaries.

2. Significant Accounting Policies

a. Jointly controlled operations and jointly controlled assets

Some of Freehold's oil and gas activities involve jointly controlled assets. These consolidated financial statements include only Freehold's share of the jointly controlled assets and a proportionate share of the relevant revenue and related costs.

b. Exploration and evaluation assets

Exploration and evaluation (E&E) costs are accounted for in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. All E&E costs incurred after acquiring the "right to explore" are capitalized into a single cost pool. Upon determination of the technical feasibility and commercial viability of reserves, the associated E&E costs are assessed for impairment and the estimated recoverable amount is transferred to petroleum and natural gas interests. All costs incurred prior to acquiring the "right to explore" are expensed as incurred. At each reporting date, E&E costs are reviewed for indicators of impairment. If circumstances indicate the carrying amount exceeds its recoverable amount, the cost is written down to its recoverable amount and the difference is accounted for as an impairment expense. No depletion or depreciation is charged to E&E.

c. Petroleum and natural gas interests

Petroleum and natural gas interests

Petroleum and natural gas interests are classified under International Accounting Standard (IAS) 16 as Property, Plant and Equipment and include both working and royalty interests, stated at cost, less accumulated depletion and accumulated impairment losses. All costs incurred after determining technical feasibility and commercial viability of reserves are capitalized. Subsequent expenditures are capitalized only where they enhance the economic benefits of the asset. A gain or loss on disposal of a petroleum and natural gas interest is recognized to the extent that the net proceeds exceed or are less than the appropriate portion of the capitalized costs of the asset.

Depletion

Petroleum and natural gas interests, including the costs of production equipment, future capital costs, estimated decommissioning liability costs, and directly attributable general and administrative costs, are depleted on the unit-of-production method based on estimated proved plus probable oil and gas reserves. Reserves are converted to equivalent units on the basis of relative energy content.

Impairment

At each reporting date, Freehold assesses groups of assets or CGUs, for impairment whenever events or changes in circumstances indicate that the carrying value of the CGU may not be recoverable. If any such indication of impairment exists, Freehold makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs of disposal (FVLCTD) and its value in use (VIU). Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down. In assessing VIU, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. FVLCTD is the amount obtainable from the sale of assets in an arm's length transaction less cost of disposal.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized for the CGU in prior periods. Such a reversal is recognized in profit or loss. After such a reversal, the depletion charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

d. Decommissioning liability

Freehold measures the decommissioning liability as the present value of management's best estimate of the expenditure required to settle the liability at the reporting date using a risk-free discount rate. This estimate is recognized when a legal or constructive obligation arises and is recorded as a long-term liability, with a corresponding increase in the carrying value of the petroleum and natural gas working interest asset. The capitalized amount is depleted on a unit-of-production method over the life of the reserves. At each reporting date, the passage of time and changes to estimates results in liability changes, and the amount of accretion is charged against current period income.

e. Income taxes

Freehold follows the asset and liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantially enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period that the change occurs.

f. Share based and other compensation plans

Long-term incentive plan

Freehold funds its proportionate share of the costs associated with a long-term incentive compensation plan (LTIP) for employees of Rife Resources Ltd. (Rife) through the Manager of Freehold, Rife Resources Management Ltd. The LTIP uses a combination of the value of phantom Rife shares and Freehold shares as the basis for rights, which are granted annually at the discretion of the directors of Rife and vest at the end of a three-year period. Dividends to shareholders paid by Freehold during the vesting period are assumed to be reinvested in notional rights on the dividend payment date. Since participants in the LTIP receive a cash payment on a fixed vesting date, a liability is determined and recognized as services are rendered based on the fair value of the rights at each period end. The valuation incorporates the consideration of the share price, the number of rights outstanding at each period end, an estimated performance multiplier (0.25 to 1.5 times the market value) and an estimated forfeiture rate. Compensation expense is recognized over the vesting period.

Deferred share unit plan

A deferred share unit (DSU) plan was established for the non-management directors of Freehold whereby fully-vested DSUs are granted annually. Under this plan, dividends to shareholders declared prior to redemption are assumed to be reinvested on behalf of the directors in notional share units on the dividend payment date. Compensation expense is recognized at the market value of Freehold's common shares at the time of grant or dividend, with a corresponding increase to contributed surplus. Upon redemption of the DSUs for Freehold's common shares, the amount previously recognized in contributed surplus is recorded as an increase to shareholders' capital.

Retirement benefit

Freehold funds its proportionate share of a retirement benefit for certain former employees of the Manager, upon fulfilling certain criteria. The retirement benefit is paid in four equal installments. Freehold accrues its share of the post retirement costs over the service life of the employees.

g. Net income per share

Basic net income per share is calculated using the weighted average number of shares outstanding for each period. Diluted net income per share is calculated using the weighted average number of diluted shares outstanding for each period. Diluted shares outstanding are calculated assuming that any proceeds received from options with a market value in excess of option price would be used to buy back shares at the average market price for the period.

h. Revenue recognition

Revenue is made up of royalty income, working interest sales and other income earned during the period. Royalty income and working interest sales represent the sale of crude oil, natural gas, natural gas liquids and other products. Revenue is recognized when title passes from Freehold, or the operator of Freehold's properties, to its customers. Royalty income and working interest sales are measured at the fair value, using estimates, per the terms of various royalty interest and working interest agreements. Actual results could differ as a result of using estimates and any differences are recorded in the period in which actuals are received.

i. Financial instruments

All financial instruments, including all derivatives, are recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities, except those measured at fair value through profit and loss and available-for-sale, are measured at amortized cost using the effective interest rate method. Available for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired.

Cash and short-term investments, if any, are financial assets measured at fair value through profit or loss, and the fair values approximate their carrying value due to their short-term nature. Accounts receivable and current taxes receivable are classified as loans and receivables and are measured at amortized cost. Dividends payable, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities and are measured at amortized cost. The fair values of accounts receivable, current taxes receivable, dividends payable, accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these instruments. Freehold has not designated any financial instruments as available-for-sale, held-to-maturity or financial liabilities at fair value through profit and loss. Freehold does not have any material embedded derivatives that required separate recognition and measurement.

A three level hierarchy that reflects the significance of the inputs used in making the fair value measurements is required. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

j. Recent pronouncements

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, and other revenue related interpretations. The standard establishes a single revenue recognition framework that applies to contracts with customers. The effective date for adopting IFRS 15 in its entirety is January 1, 2018. The impact on Freehold's consolidated financial statements is yet to be determined.

In July 2014, the IASB completed 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 describes 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.

In January, 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. The standard establishes a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The effective date for adopting IFRS 16 in its entirety is January 1, 2019. The impact on Freehold's consolidated financial statements is yet to be determined.

3. Corporate Acquisition

On January 23, 2015 Freehold acquired all of the outstanding shares of Anderson Energy Ltd. (Anderson) pursuant to a plan of arrangement under the Business Corporations Act (Alberta) for total consideration of $35 million (subject to certain post-closing adjustments) with Freehold funding the deal through its existing credit facilities. Pursuant to the plan of arrangement, Anderson shareholders exchanged their shares for shares of a newly formed publicly listed company, Anderson Energy Inc. (New Anderson). In addition, prior to Freehold acquiring the outstanding shares, Anderson transferred certain assets and liabilities to New Anderson. The liabilities transferred to New Anderson included Anderson's liabilities and obligations for its convertible debentures. One of the directors (chairman) of Anderson before amalgamation, and now new Anderson, is also a director of Freehold.

Immediately following the completion of the acquisition of Anderson, Freehold completed a corporate restructuring pursuant to which Freehold first amalgamated with Anderson (after Anderson had changed its name to 1851328 Alberta Ltd.) and subsequently amalgamated with its wholly-owned subsidiary, Freehold Resources Ltd. In addition, pursuant to the restructuring, Freehold Holdings Trust was established and became a partner in Freehold Royalties Partnership.

Acquisition costs of $0.3 million were expensed for the year ended December 31, 2015 (2014 - $0.4 million) relating to this transaction. This transaction added approximately $220 million to existing tax pools. Details of the transaction and the allocation of the purchase price are as follows:

($000s)	
Petroleum and natural gas interests	7,533
Deferred tax asset	55,383
Decommissioning liability	(3,576)
Debt assumed	(18,500)
Gain on corporate acquisition	(24,340)
	16,500
Debt repaid	18,500
Total consideration paid	35,000

On closing of the acquisition, Anderson had bank debt of approximately $18.5 million which was immediately and concurrently repaid (as a condition of closing). The fair value of the petroleum and natural gas interests and decommissioning liabilities acquired was determined using internal estimates. A gain on corporate acquisition of $24.3 million was recognized as the estimated value of income tax pools less the fair value of assets and liabilities exceeded the consideration paid.

For the year ended December 31, 2015, as a result of this transaction, $1.8 million was included in revenue and net income was reduced by $1.7 million. The pro forma estimated effects on revenue and net income of the transaction as if it closed January 1, 2015 were minimal.

4. Exploration and Evaluation Assets

($000s)	December 31 2015	December 31 2014
Balance, beginning of year	37,852	24,858
Acquisitions (note 5)	14,300	15,342
Transfers to petroleum and natural gas interests (note 5)	(2,673)	(2,348)
Balance, end of year	49,479	37,852

There were no impairments for the years ended December 31, 2015 or December 31, 2014.

5. Petroleum and Natural Gas Interests

($000s)	December 31 2015	December 31 2014
Cost		
Balance, beginning of year	874,377	600,171
Acquisitions	369,585	232,932
Capital expenditures	22,295	33,701
Capitalized portion of long term incentive plan	11	(63)
Transfers from exploration and evaluation assets (note 4)	2,673	2,348
Decommissioning liability additions and revisions (note 7)	2,441	5,288
Balance, end of year	1,271,382	874,377
Accumulated depletion and depreciation		
Balance, beginning of year	(290,054)	(222,909)
Impairment	(38,800)	-
Depletion and depreciation	(95,703)	(67,145)
Balance, end of year	(424,557)	(290,054)
Net book value, end of year	846,825	584,323

The depletion calculation included $14.5 million (2014 - $18.7 million) for estimated future development costs associated with proved plus probable undeveloped reserves.

For the year ended December 31, 2015, Freehold capitalized $1.5 million (2014 - $1.3 million) of administrative costs and capitalized $11,000 (2014 – recovered $63,000) of LTIP costs directly related to development activities.

Including the corporate acquisition described in note 3, during the year ended December 31, 2015, Freehold had several acquisition expenditures of $411.4 million (2014 - $248.3 million), including adjustments.

Impairment

At December 31, 2015 Freehold tested its two working interest cash generating units (CGUs) for impairment due to the continued drop in expected future commodity prices as recognized by industry reserve evaluators. Freehold estimated the recoverable amount as the value in use based on discounted future net cash flows of proved and probable reserves using forecast prices and costs, discounted at 10% (pre-tax). In determining the discount rate, Freehold considered an estimated industry weighted cost of capital and the resource composition of the assets. The estimate was based on

Freehold's December 31, 2015 reserve report. Management recognizes that all assumptions and estimates affecting the value are subject to a high degree of uncertainty.

Freehold recognized a non-cash impairment charge on its Southeast Saskatchewan Working Interest CGU of $8.0 million as the carrying value exceeded the estimated value in use. The Southeast Saskatchewan Working Interest CGU contains all of Freehold's working interest properties in southeast Saskatchewan. The estimated recoverable amount of the Southeast Saskatchewan CGU at December 31, 2015 is $29.1 million. In addition, Freehold recognized a non-cash impairment charge on its Other Working Interest CGU of $30.8 million as the carrying value exceeded the estimated value in use. The Other Working Interest CGU contains Freehold’s diverse group of working interest properties outside of the Southeast Saskatchewan Working Interest CGU. The estimated recoverable amount of the Other Working Interest CGU at December 31, 2015 is $54.7 million.

As future commodity prices continue to fluctuate, additional impairment charges or recoveries could be recorded in future periods. The value in use estimates are categorized as Level 3 according to the IFRS 13 fair value hierarchy. The following table summarizes key benchmarks used in the impairment estimate.

	WTI	WCS	AECO	Exchange rate
	US$/bbl	Cdn$/bbl	Cdn$/Mcf	Cdn$/US$
2016	45.00	45.26	2.25	0.75
2017	60.00	57.96	2.95	0.80
2018	70.00	65.88	3.42	0.83
2019	80.00	75.11	3.91	0.85
2020	81.20	77.03	4.20	0.85
2021	82.42	78.19	4.28	0.85
Average annual increase, thereafter	1.5%	1.5%	1.5%	-

There were no impairments for the year ended December 31, 2014.

6. Long-Term Debt

Freehold has a $245 million extendible revolving term credit facility with a syndicate of four Canadian chartered banks, on which $152 million was drawn at December 31, 2015. In addition, Freehold has available a $15 million extendible revolving operating facility.

The facilities are secured with $400 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, of an amount that the indebtedness is in excess of the redetermined borrowing base. The facilities are extendible annually with the latest review completed in May 2015. 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 2016. 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 December 31, 2015 and December 31, 2014 the fair values of the long-term debt approximated its carrying value, as the long-term debt carries interest at prevailing market rates.

In 2015, the average effective interest rate on advances under Freehold’s credit facilities was 2.9% (2014 - 3.3%).

7. Decommissioning Liability

Freehold has no decommissioning liability on its royalty interest properties. Freehold's decommissioning liability results from its responsibility to abandon and reclaim its net share of all working interest properties. The undiscounted value of Freehold's total decommissioning liability is estimated to be $40.3 million (2014 - $33.4 million). Payments to settle the obligations are expected to occur over the next 55 years, with the majority being settled within 10 to 20 years. At December 31, 2015, a risk-free rate of 2.2% (2014 – 2.3%) and an inflation rate of 1.5% (2014 - 1.5%) were used to calculate the fair value.

($000s)	December 31 2015	December 31 2014
Balance, beginning of year	21,279	15,781
Liabilities incurred	1,091	1,010
Liabilities settled	(227)	(288)
Revision in estimates (1)	1,350	4,278
Accretion expense	566	498
Corporate acquisition (note 3)	3,576	-
Balance, end of year	27,635	21,279

(1) Revision in estimates is primarily a result of changes in the risk-free rate, and is also affected by changes in abandonment costs and assumptions.

8. 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

	December 31, 2015		December 31, 2014	
	Shares	Amount ($000s)	Shares	Amount ($000s)
Balance, beginning of year	74,918,711	635,223	67,746,470	455,497
Issued for dividend reinvestment plan	1,218,129	17,225	1,498,250	32,264
Issued in lieu of management fee	269,978	3,693	206,280	4,743
Issued for deferred share unit plan redemption	-	-	10,090	180
Issued for equity offering	22,533,334	405,600	5,457,621	146,810
Issue cost, net of tax effect	-	(11,247)	-	(4,271)
Balance, end of year	98,940,152	1,050,494	74,918,711	635,223

On May 6, 2015, Freehold closed a bought deal equity offering, issuing 20,700,000 common shares and a private equity offering with CN Pension Trust Funds (see note 9) issuing 1,833,334 common shares, both at a price of $18.00 per share for gross proceeds of $405.6 million. The issue costs including underwriters' fees were $15.4 million ($11.2 million net of tax effect).

On July 16, 2014, Freehold closed a bought deal equity offering, issuing 4,900,000 common shares and a private equity offering with CN Pension Trust Funds (see note 9) issuing 557,621 common shares, both at a price of $26.90 per share for gross proceeds of $146.8 million. The issue costs including underwriters' fees were $5.7 million ($4.3 million net of tax effect).

At December 31, 2015, a balance of 2,475,367 shares was reserved for the dividend reinvestment plan (DRIP), 966,115 shares for the management fee (note 9) and 270,935 shares for the deferred share unit plan (note 10).

For the year ended December 31, 2015, Deferred Share Units were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive.

9. 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 the 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. This agreement was recently amended on November 9, 2015. The new amended and restated management agreement caps the management fee at 71,912 shares per quarter for 2016 and requires a reduction of shares in future years. For the year ended December 31, 2015, Freehold issued 269,978 shares (2014 – 206,280) as a management fee to the Manager pursuant to the management agreement. The ascribed value of $3.7 million (2014 – $4.7 million) was based on the closing price of the shares on the last trading day of each quarter.

For the year ended December 31, 2015, the Manager charged $9.0 million in general and administrative costs (2014 – $7.5 million). At December 31, 2015, there was $0.7 million (2014 – $0.5 million) in accounts payable and accrued liabilities relating to these costs.

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 December 31, 2015, there was $nil (2014 - $0.3 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 year ended December 31, 2015, Freehold received royalties of approximately $1.5 million (2014 – $2.2 million). At December 31, 2015, there was $0.1 million (2014 - $0.2 million) in accounts receivable relating to these transactions. On November 27, 2014, Freehold acquired royalty interests in Soda Lake Saskatchewan and Lindbergh Alberta for $10.1 million from Rife, including adjustments.

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. Freehold and Canpar share mineral title ownership rights in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Given the nature of the mineral rights, which are dependent upon hydrocarbon pool formation classification as well as third party drilling data which is subject to change and revision, significant uncertainty can exist with respect to the royalty ownership of wells drilled and completed on lands where both Freehold and Canpar hold the mineral rights.

Freehold and Canpar have evaluated certain of these royalty interests where, among other factors, the identification of the reservoir formation was not straight forward and therefore ultimate ownership of the royalty interest wells was uncertain between Freehold and Canpar. An ongoing project relating to these interests was completed during the year whereby a settlement was reached and Freehold recognized $0.8 million of other income.

At December 31, 2015, there was $nil (2014 – $nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

Concurrent with the closing of the bought deal equity offering on May 6, 2015, CN Pension Trust Funds invested approximately $33 million in Freehold through the purchase of 1,833,334 common shares on a non-brokered private placement basis. In addition, concurrent with the closing of the bought deal equity offering on July 16, 2014, CN Pension Trust Funds invested approximately $15 million in Freehold through the purchase of 557,621 common shares on a non-brokered private placement basis.

All amounts owing to/from the Manager, Rife, and Canpar are unsecured, non-interesting bearing and due on demand. All transactions were in the normal course of operations and were measured at the amount of consideration established and agreed to by both parties.

Expenses relating to compensation for key management personnel, considered to be Freehold's Board of Directors and Senior Management, are as follows:

($000s)	December 31 2015	December 31 2014
Short-term benefits (including employee wages and directors fees)	1,346	1,208
Share based compensation (note 10a and 10b)	723	580
Total	2,069	1,788

10. Share Based and Other Compensation

a. Long-term incentive plan

Freehold funds its proportionate share of the costs associated with the LTIP for employees of Rife through the Manager, as described in note 2f. The share based compensation expense was based on the consideration of the share price, the number of rights outstanding at each period end, an estimated performance multiplier and an estimated forfeiture rate. The 2012 LTIP grants valued at $0.5 million were paid out in 2015. The total expensed for the year ended December 31, 2015 was $0.1 million (2014 – recovery $0.3 million). For the year ended December 31, 2015, Freehold capitalized $11,000 (2014 – recovered $63,000) of LTIP costs directly related to development activities.

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

($000s)	December 31 2015	December 31 2014
Balance, beginning of year	741	2,098
Increase (decrease) in liability	61	(355)
Cash payout	(545)	(1,002)
Balance, end of year	257	741
Current portion of liability	120	545
Long-term portion of liability	137	196

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

Phantom Common Shares

	December 31 2015	December 31 2014
Balance, beginning of year [1]	126,073	119,138
Issued	57,019	38,145
Dividends reinvested [1]	11,294	9,263
Cash payout	(44,070)	(40,473)
Balance, end of year	150,316	126,073

(1) Balance as at December 31, 2014 has been adjusted for revised estimates.

b. Deferred share unit plan

Freehold has a DSU plan for non-management directors as described in note 2f. As at December 31, 2015, there were 177,012 DSUs outstanding (2014 – 136,455), which are redeemable for an equal number of shares any time after the director's retirement. For the year ended December 31, 2015 no DSUs were redeemed. For the year-end December 31, 2014, 14,414 DSUs were redeemed, resulting in the issuance of 10,090 shares from treasury. In payment of withholding tax, 4,324 were cancelled and the cash value of $0.1 million was remitted to Canada Revenue Agency.

Deferred Share units

	December 31 2015	December 31 2014
Balance, beginning of year	136,455	121,317
Annual grants	28,007	19,280
Additional resulting from dividends	12,550	10,272
Redeemed	-	(14,414)
Balance, end of year	177,012	136,455

For the year ended December 31, 2015, Freehold expensed $0.7 million (2014 - $0.7 million) of share based compensation with a corresponding increase to contributed surplus.

c. Retirement benefit

Freehold participates in its proportionate share of a retirement benefit plan for certain former employees of the Manager as described in note 2f. For the year ended December 31, 2015, Freehold expensed $11,000 (2014 - $49,000).

($000s)	December 31 2015	December 31 2014
Accrued benefit obligation, beginning of year	191	244
Current service cost	11	49
Payments	(74)	(102)
Accrued benefit obligation, end of year	128	191
Current portion of liability	74	66
Long-term portion of liability	54	125

11. Income Taxes

Freehold uses the asset and liability method of accounting for income taxes, as described in note 2e.

The provision for taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial effective tax rate to Freehold's income before taxes. This difference is reconciled as follows:

($000s, except as noted)	December 31 2015	December 31 2014
Income (loss) before taxes	(15,619)	89,284
Combined federal and provincial tax rate	26.2%	25.4%
Computed expected income tax expense (recovery)	(4,092)	22,678
Increase (decrease) in income tax resulting from:		
Gain on corporate acquisition	(6,377)	-
Effect of rate change	(958)	-
Miscellaneous items	(112)	159
Total income taxes	(11,539)	22,837

The components of deferred income taxes are as follows:

($000s)	December 31 2015	December 31 2014
Deferred income tax assets:		
Non-capital losses	44,645	-
Decommissioning liability	7,461	5,405
Share issue expense	4,415	1,481
Deferred income tax liabilities:		
Petroleum and natural gas interests	(30,213)	(40,698)
Deferred tax on partnership income	(6,203)	(11,927)
Other	990	892
Net deferred income tax asset (liability)	21,095	(44,847)

The continuity of deferred income taxes is as follows:

($000s)	Balance December 31 2014	Recognized in Profit or Loss	Recognized in Equity	Recognized in Corporate Acquisition	Balance December 31 2015
Non-capital losses	-	(11,743)	-	56,388	44,645
Decommissioning liability	5,405	1,148	-	908	7,461
Share issue expense	1,481	(1,183)	4,117	-	4,415
Petroleum and natural gas interests	(40,698)	12,398	-	(1,913)	(30,213)
Deferred tax on partnership income	(11,927)	5,724	-	-	(6,203)
Other	892	98	-	-	990
Total	(44,847)	6,442	4,117	55,383	21,095

Freehold's deferred tax liability primarily relates to the deferral on partnership income and its assets having a higher carrying value relative to the associated tax value. Freehold's deferred tax asset primarily relates to the non-capital losses due to a corporate acquisition (note 3). When combined there is an overall net deferred tax asset.

12. Capital Management

Freehold is a publicly traded dividend-paying corporation incorporated under the laws of the Province of Alberta. Its primary focus is acquiring and managing oil and gas royalties and developing and producing its working interest oil and gas assets. Freehold receives revenue from oil and gas properties as reserves are produced, which is paid to shareholders on a regular basis over the economic life of the properties. Freehold's objective for managing capital is to maximize long-term shareholder value by distributing to shareholders any cash that is not required for financing operations or capital investment growth opportunities that may offer shareholders better value.

Freehold defines capital as long-term debt, shareholders' equity and working capital based on the consolidated financial statements. Freehold's capital structure is managed by taking into account operating activities, debt levels, debt covenants, capital expenditures, DRIP participation, dividend levels and taxes, among others. In addition, changes in economic conditions, commodity prices and the risk characteristics of Freehold's assets are considered. Freehold has a declining asset base, therefore ongoing development activities and acquisitions are necessary to replace production and add additional reserves. From time to time, Freehold may issue shares or adjust capital spending to manage current and projected debt levels.

Freehold retains working capital primarily to fund capital expenditures or acquisitions, pay dividends and reduce bank indebtedness. Freehold has chosen to issue its DRIP out of treasury, which increases its flexibility with the use of working capital. DRIP participation levels can fluctuate significantly on a monthly basis depending on shareholder requirements.

Management of Freehold's capital structure is facilitated through its financial and operating forecasting processes. The forecast of Freehold's future cash flows is based on estimates of production, commodity prices, forecast capital, royalty expenses, operating expenditures, taxes and other investing and financing activities. The forecast is regularly updated based on new commodity prices and other changes that Freehold views as critical in the current environment. Selected forecast information is frequently provided to and approved by the Board of Directors.

Freehold is bound by non-financial covenants on its credit facilities. The covenants are monitored as part of management's internal review to ensure compliance with requirements. Under the credit facilities, Freehold is restricted from paying dividends if it is or would be in default under the credit facilities or if borrowings thereunder exceed the borrowing base. As at December 31, 2015, Freehold was in compliance with all such covenants (see note 6).

Capitalization

($000s, except as noted)	December 31 2015	December 31 2014
Shareholders' equity	742,624	420,867
Long term debt	152,000	139,000
Working capital	(5,051)	(3,190)
Net debt [(1)]	146,949	135,810
Cash provided by operating activities for last 12 months	110,513	134,387
Change in non-cash operating working capital	(6,693)	4,060
Trailing 12 months funds from operations	103,820	138,447
Net debt to trailing 12 month funds from operations (times)	1.4	1.0

(1) Net debt as presented is a non-GAAP financial measures and does not have any standardized meaning prescribed by IFRS; and therefore may not be comparable to a similar measure of other entities.

13. Financial Instrument Risk Management

Freehold has exposure to credit, liquidity and market risks from its use of financial instruments. Management employs the following strategies to mitigate these risks.

a. Credit risk

Credit risk is the risk of financial loss to Freehold if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Freehold's receivables. A large part of accounts receivable is with oil and gas industry operators, either as joint venture partners or as payors of various royalty agreements. These agreements provide mechanisms to ensure that Freehold's interests are protected. There are also systems and processes in place to identify any unpaid or incorrect revenues. Freehold's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables.

Freehold maintains a dedicated compliance function, with an aggressive auditing program, to ensure that the terms of the various agreements are followed, including that royalties are paid correctly on production from Freehold's lands in accordance with the prices obtained by the royalty payor and that unwarranted or excessive deductions are not being taken. Freehold also audits its working interest properties to ensure that capital costs, operating expenses and production volumes are properly allocated.

The carrying amounts of accounts receivable and cash represent Freehold's maximum credit exposure. Freehold did not have an allowance for doubtful accounts as at December 31, 2015 or 2014, and did not provide for any doubtful accounts and was not required to write off any receivables during the years ended December 31, 2015 or 2014. Freehold considers all material amounts greater than three months to be past due. Due to the nature of Freehold's royalty income assets, there are amounts over three months which require significant time and effort to collect. Estimates of amounts owed for various time periods are as follows:

($000s)	Less than 3 months	4-12 months	over 1 year	Total
Accounts receivable	18,062	1,989	995	21,046

Freehold markets approximately 75% of its production along with the operator or royalty payor under the terms of a diverse number of agreements. Freehold takes its production in kind (currently approximately 25%) and sells to two primary purchasers.

b. Liquidity risk

Liquidity risk is the risk that Freehold will not be able to meet financial obligations as they come due. Management maintains a conservative approach to debt management that aims to provide maximum financial flexibility with respect to acquisitions and development expenditures, while maintaining stable dividend payments. At December 31, 2015, there was $108 million of available capacity under the credit facilities. As circumstances warrant, management allocates a portion of funds from operations to debt repayment. Management prepares annual capital expenditure and operating budgets, which are regularly monitored and updated. In addition, dividend levels are monitored and adjusted as necessary to levels that are supported by our funds from operations.

Freehold's non-derivative financial liabilities include its dividends payable, accounts payable and accrued liabilities, share based and other compensation payable and long-term debt. Freehold has no derivative financial liabilities. The following table outlines cash flows associated with the contractual maturities of Freeholds non-derivative financial liabilities as at December 31, 2015:

($000s)	Less than 1 Year	2-3 Years	Total
Dividends payable	6,924	-	6,924
Accounts payable and accrued liabilities	9,826	-	9,826
Share based and other compensation payable	194	191	385
Long-term debt	-	152,000	152,000
Total	16,944	152,191	169,135

c. Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, commodity prices and interest rates, will affect net income or the value of financial instruments. The Board reviews the potential use of derivative contracts on a quarterly basis. For short-term investments, if any, Freehold selects counterparties based on strong credit ratings and monitors all investments to ensure a stable return.

Foreign currency exchange rate risk

Freehold does not sell or transact in any foreign currency; however, the underlying market prices in Canada for oil and natural gas are influenced by changes in the exchange rate between the Canadian and U.S. dollar. During the years ended December 31, 2015 and 2014, Freehold had no foreign exchange related derivative contracts in place. Assuming all other variables held constant, a $0.01 change (plus or minus) in the U.S./Canadian dollar exchange rate for the year ended December 31, 2015, would have resulted in a corresponding change to income before taxes of approximately $1.4 million (2014 - $1.8 million).

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate with changes in commodity prices. Commodity prices for oil and natural gas are influenced by the relationship between the Canadian and U.S. dollar as well as macroeconomic events that dictate the levels of supply and demand. During the years ended December 31, 2015 and 2014, Freehold had no commodity price related derivative contracts in place. Assuming all other variables held constant, a US$1.00 change (plus or minus) in the WTI crude oil price for the year ended December 31, 2015, would have resulted in a corresponding change to income before taxes of approximately $2.2 million (2014 - $1.7 million). A $0.25 change (plus or minus) in the AECO natural gas price would have resulted in a corresponding change to income before taxes of approximately $1.9 million (2014 - $1.7 million).

Interest rate risk

Freehold is exposed to interest rate risk on outstanding bank debt, which has a floating interest rate, and fluctuations in interest rates would impact future cash flows. Assuming all other variables held constant, a 1% change (plus or minus) in the interest rate for the year ended December 31, 2015 would have resulted in a corresponding change to income before taxes of approximately $1.7 million (2014 - $1.2 million).

14. Supplemental Disclosure

a. Statements of income and comprehensive income presentation

Freehold’s consolidated statements of income and comprehensive income are prepared by nature of expense.

b. Supplemental cash flow disclosure

Changes in Non-Cash Working Capital Balance

($000s)	December 31 2015	December 31 2014
Accounts receivable	5,384	(843)
Current taxes receivable	2,524	(2,597)
Accounts payable and accrued liabilities	(6,038)	5,051
Current taxes payable	-	(730)
	1,870	881
Operating	6,693	(4,060)
Investing	(4,823)	4,941
	1,870	881

Cash Expenses Paid (RECEIVED)

($000s)	December 31 2015	December 31 2014
Interest	5,757	4,629
Taxes paid (received)	(7,621)	25,505

15. 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, believes it has no merit and intends to aggressively defend itself in the claim. The claim's outcome is not determinable and therefore no liability has been recorded in the financial statements.