

Third Quarter Results: Freehold Increases 2017 Production Guidance

CALGARY, Alberta, Nov. 09, 2017 -- Freehold Royalties Ltd. (Freehold) (TSX:FRU) announced third quarter results for the period ended September 30, 2017.

Results at a Glance

FINANCIAL (\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Royalty and other revenue	33,938	32,923	3 %	113,459	90,075	26 %
Net income (loss)	103	(1,962)	105 %	20,275	(12,801)	258 %
Per share, basic and diluted (\$)	-	(0.02)	-	0.17	(0.12)	242 %
Funds from operations	27,927	24,148	16 %	91,765	63,790	44 %
Per share, basic (\$)	0.24	0.21	14 %	0.78	0.59	32 %
Operating income ⁽¹⁾	31,246	28,231	11 %	103,565	76,534	35 %
Operating income from royalties (%)	99	93	6 %	95	93	2 %
Acquisitions	(146)	68	-315 %	34,473	162,498	-79 %
Capital expenditures	1,657	209	693 %	3,508	3,046	15 %
Working interest dispositions	2,969	-	-	32,065	-	-
Dividends declared	17,714	14,133	25 %	50,757	45,358	12 %
Per share (\$) ⁽²⁾	0.15	0.12	25 %	0.43	0.42	2 %
Net debt	38,274	87,301	-56 %	38,274	87,301	-56 %
Shares outstanding, period end (000s)	118,128	117,850	-	118,128	117,850	-
Average shares outstanding (000s) ⁽³⁾	118,073	117,726	-	118,016	107,888	9 %
OPERATING						
Average daily production (boe/d) ⁽⁴⁾	12,036	12,281	-2 %	12,456	12,099	3 %
Oil and NGL (%)	56	55	2 %	56	59	-5 %
Average price realizations (\$/boe) ⁽⁴⁾	29.67	28.69	3 %	32.54	26.50	23 %
Operating netback (\$/boe) ^{(1) (4)}	28.22	24.99	13 %	30.46	23.09	32 %

(1) See Non-GAAP Financial Measures.

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

(3) Weighted average number of shares outstanding during the period, basic.

(4) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe).

President's Message

As a result of strong drilling and production performance, we are increasing our 2017 average production guidance to 12.0-12.5 mboe/d. In the quarter, we created 30 new leases with producers, with year to date leasing more than double when compared to all of 2016. Freehold continued to pay down debt, maintained a conservative payout ratio and drove cash costs below \$5/boe, in-line with providing a safe oil and gas investment. Overall our objective is to deliver growth and low risk attractive returns to our shareholders over the long term and we feel the results of this quarter are consistent with this goal.

Tom Mullane
President and CEO

Dividend Announcement

The Board of Directors has declared a dividend of Cdn. \$0.05 per share to be paid on December 15, 2017 to shareholders of record on November 30, 2017. The dividend is designated as an eligible dividend for Canadian income tax purposes.

2017 Third Quarter Highlights

- Freehold's production averaged 12,036 boe/d, down 2% versus Q3-2016. The reduction in volumes was primarily the result of working interest dispositions made in 2017 (approximately 750 boe/d for the full year 2016) as our royalty volumes displayed strong growth versus the same period in 2016.
- Royalty production was up 7% compared to Q3-2016, averaging 10,919 boe/d. Gains in volumes were associated with strength in our audit function (approximately 700 boe/d in prior period adjustments) and strong drilling on our lands.
- Royalty interests accounted for 91% of total production and contributed 99% of operating income in Q3-2017, both representing the highest totals in our history. We remain committed to enhancing our royalty focus with ongoing efforts to dispose of our non-core working interest production.
- Freehold sold a minor working interest property for \$3.0 million. Production associated with this asset was approximately 45 boe/d.
- Wells drilled on our royalty lands totaled 144 (6.4 net) in Q3-2017, up from 48 (2.3 net) in Q3-2016. From January 1, 2017 to September 30, 2017 we have seen 352 (16.6 net) wells drilled on our royalty lands compared to 156 (6.1 net) locations drilled during the same period in 2016.
- In Q3-2017 Freehold issued 30 new leases for a cumulative total of 69 new leases in the first nine months of 2017, significantly exceeding the 2016 total new lease count. We expect to see drilling associated with these efforts to occur over the remainder of the year and into 2018. Freehold's unleased holdings are available for review on our website's Leasing Opportunities page at www.freeholdroyalties.com.
- Funds from operations totaled \$27.9 million, an increase of 16% compared to Q3-2016, largely due to an increase in revenue and reduced operating costs. On a per share basis, funds from operations was \$0.24/share in Q3-2017 up from \$0.21/share in Q3-2016.
- Freehold generated \$8.6 million in free cash flow ⁽¹⁾, over and above our dividend, which we applied to outstanding debt. At September 30, 2017, net debt totaled \$38.3 million resulting in a net debt to 12-month trailing funds from operations ratio of 0.3 times. Even though we are below our target of 0.5-1.5 times net debt to funds from operations, we will continue to apply excess cash to debt repayment in the short term but also remain committed to acquiring additional royalties.
- Cash costs ⁽¹⁾ for the quarter totaled \$4.80/boe, down from \$6.78/boe in Q3-2016 and \$5.63/boe in Q2-2017. The reduction versus the same period last year reflects the disposition of working interest production and deleveraging of our balance sheet.
- Dividends declared for Q3-2017 totaled \$0.15 per share, up 25% from \$0.12 per share one year ago. In March 2017, Freehold announced an increase to its monthly dividend from \$0.04 to \$0.05 per share.
- Basic payout ratio ⁽¹⁾ (dividends declared/funds from operations) for Q3-2017 totaled 63% while the adjusted payout ratio ⁽¹⁾ ((cash dividends plus capital expenditures)/funds from operations) for the same period was 69%.

(1) See Non-GAAP Financial Measures.

Increased Activity Returns to our Lands

Including drilling associated with acquisitions, 352 (16.6 net) wells were drilled on our royalty lands during the first nine months of 2017, a 172% increase versus the same time period in 2016 (on a net basis). After some slowdown in activity during the previous quarter, Q3-2017 saw a resurgence in activity on our lands with 144 (6.4 net) locations drilled, compared to 48 (2.3 net) during the same period last year.

Activity through the first nine months of 2017 was primarily focused on oil prospects including the Viking at Redwater and Dodsland, which represented greater than 40% of our net locations through the first three quarters. Through this time period, activity has also been concentrated in southeast Saskatchewan (Bakken, Mississippian), southwest Saskatchewan (Shaunavon) and the Deep Basin (Montney). In Q3-2017, we have also seen renewed activity in Central Alberta (Cardium) as well as Eastern Alberta (Mannville Heavy Oil). Our top payors continue to represent some of the most well capitalized E&P companies in Canada.

Royalty Interest Drilling

Three Months Ended September 30 ⁽¹⁾

Nine Months Ended September 30 ⁽¹⁾

	2017		2016		2017		2016	
	Equivalent		Equivalent		Equivalent		Equivalent	
	Gross	Net ⁽²⁾	Gross	Net ⁽²⁾	Gross	Net ⁽²⁾	Gross	Net ⁽²⁾
Non-unitized wells	121	6.3	46	2.3	296	16.3	105	5.8
Unitized wells ⁽³⁾	23	0.1	2	-	56	0.3	51	0.3
Total	144	6.4	48	2.3	352	16.6	156	6.1

(1) Counts include wells drilled on acquired lands from the beginning of the reporting period (this may differ from the closing date of the acquisitions).

(2) Equivalent net wells are the aggregate of the numbers obtained by multiplying each gross well by our royalty interest percentage.

(3) Unitized wells are in production units wherein we generally have small royalty interests in hundreds of wells.

Guidance Update

Below are details of some of the changes made to our key operating assumptions for 2017.

- We are increasing our 2017 average production range to 12.0-12.5 mboe/d (previously 11.8-12.3 mboe/d). We do not include the effects of future acquisition activity in our forecasts. Also, minimal prior period adjustments are in our forecast as we do not record the effects of audit and compliance activities until revenue collection is certain.
- We continue to improve our royalty focus with royalty production accounting for 89% of forecasted 2017 production (up from 88%) and 96% of operating income (up from 95%).
- Our AECO natural gas price assumption has been reduced to \$2.40/mcf (previously \$2.60/mcf).
- Based on our current \$0.05 monthly dividend level, we expect our 2017 adjusted payout ratio ((cash dividends plus capital expenditures)/funds from operations) to be approximately 62% (previously 61%).
- We continue to forecast year-end net debt to funds from operations of approximately 0.3 times based on our revised key operating assumptions.
- Reflecting the expectation that most of our royalty payors will provide capital spending guidance late in 2017 or early 2018, we expect to provide our 2018 operating guidance as part of our Q4-2017 results in March, 2018.

Key Operating Assumptions

2017 Annual Average		Guidance Dated		
		Nov.9, 2017	Aug. 9, 2017	Nov. 8, 2016
Daily production	boe/d	12,000-12,500	11,800-12,300	11,000
West Texas Intermediate crude oil	US\$/bbl	50.00	50.00	50.00
Western Canadian Select crude oil	Cdn\$/bbl	49.00	49.00	46.00
AECO natural gas	Cdn\$/Mcf	2.40	2.60	3.00
Exchange rate	Cdn\$/US\$	0.77	0.77	0.75
Operating costs	\$/boe	2.40	2.40	3.25
General and administrative costs ⁽¹⁾	\$/boe	2.50	2.50	2.65
Capital expenditures	\$ millions	4	4	6
Weighted average shares outstanding	millions	118	118	118

(1) Excludes share based compensation.

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 the next quarter. We will continue to evaluate the commodity price environment and adjust the dividend levels as necessary (subject to the quarterly review and approval of our Board of Directors).

Conference Call Details

A conference call to discuss financial and operational result for the period ended September 30, 2017 will be held for the

investment community on Friday, November 10, 2017 beginning at 6:00 am MT (8:00 am ET). To participate in the conference call, approximately 10 minutes prior to the conference call, please dial 1-800-806-5484 (toll-free in North America).

Availability on SEDAR

Freehold's 2017 third quarter interim unaudited condensed consolidated financial statements and accompanying Management's Discussion and Analysis (MD&A) are being filed today with Canadian securities regulators and will be available at www.sedar.com and on our website www.freeholdroyalties.com.

Forward-looking Statements

This news release offers our assessment of Freehold's future plans and operations as at November 9, 2017, and contains forward-looking statements that we believe allow readers to better understand our business and prospects. These forward-looking statements 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;
- drilling activity during 2017 and the impact on our production base;
- our intent to apply excess cash to debt repayment in the short term but also remaining committed to acquiring additional royalties;
- estimated capital budget and expenditures and the timing thereof;
- our expected adjusted payout ratio for 2017;
- average production for 2017, contribution from royalty lands and weighting of oil, NGL and natural gas;
- 2017 percentage of production and operating income from royalties;
- key operating assumptions including operating costs and general and administrative costs;
- forecast year-end net debt to funds from operations;
- our strategies and the expectation that those strategies will deliver growth and low risk attractive returns to our shareholders;
- our dividend policy and expectations for future dividends; and
- maintaining our monthly dividend rate through the next quarter.

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, 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 Annual Information Form.

With respect to forward-looking statements contained in this news release, we have made assumptions regarding, among other things, future commodity prices, future capital expenditure levels, future production levels, future exchange rates, future tax rates, 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 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, shut-in production, production additions from our audit function 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 the body of this news release.

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. To the extent any guidance or forward looking statements herein constitute a financial outlook, they are included herein to provide readers with an understanding of management's plans and assumptions for budgeting purposes and readers are cautioned that the information may not be appropriate for other purposes. 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 International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises, 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 (loss), 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.

Non-GAAP Financial Measures

Within this news release, 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, basic payout ratio, adjusted payout ratio, free cash flow and cash costs 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 GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

Operating income, which is calculated as royalty and other 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.

Payout ratios are often used for dividend paying companies in the oil and gas industry to identify its dividend levels in relation to the funds it receives and uses in its capital and operational activities. Basic payout ratio is calculated as dividends declared as a percentage of funds from operations. Adjusted payout ratio is calculated as dividends paid in cash plus capital expenditures as a percentage of funds from operations.

Free cash flow is calculated by subtracting capital expenditures from funds from operations. Free cash flow is a measure often used by dividend paying companies to determine cash available for payment of dividends, paying down debt or investment.

Cash costs is a total of all recurring costs in the statement of income (loss) and deducted in determining funds from operations. For Freehold cash costs are identified as royalty expense, operating expense, general and administrative expense, interest expense and share based and other compensation payments. It is key to funds from operations, representing the ability to, sustain dividends, repay debt and fund capital expenditures.

We refer to various per boe figures 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, NGL and natural gas production during the period, with natural gas converted to equivalent barrels of oil as described above.

For further information related to these non-GAAP terms, including reconciliations to the most directly comparable GAAP terms, see our most recent MD&A.

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