

Results at a Glance

FINANCIAL (\$'000s, except as noted)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Royalty and other revenue	40,153	38,430	4%	79,519	79,521	-
Net income	5,386	13,084	-59%	9,809	20,172	-51%
Per share, basic and diluted (\$)	0.05	0.11	-55%	0.08	0.17	-53%
Funds from operations	34,540	31,769	9%	66,924	63,838	5%
Per share, basic (\$)	0.29	0.27	7%	0.57	0.54	6%
Operating income ⁽¹⁾	38,331	35,235	9%	75,989	72,319	5%
Operating income from royalties (%)	100	97	3%	99	94	5%
Acquisitions	2,697	1,267	113%	33,578	34,619	-3%
Working interest dispositions	7	28,808	-100%	8,137	29,096	-72%
Dividends declared	18,625	17,705	5%	36,651	33,043	11%
Per share (\$) ⁽²⁾	0.1575	0.15	5%	0.31	0.28	11%
Net debt	77,908	49,819	56%	77,908	49,819	56%
Shares outstanding, period end (000s)	118,293	118,073	-	118,293	118,073	-
Average shares outstanding (000s) ⁽³⁾	118,238	118,018	-	118,211	117,987	-
OPERATING						
Royalty production (boe/d) ⁽⁴⁾	11,052	11,270	-2%	11,124	10,986	1%
Total production (boe/d) ⁽⁴⁾	11,721	12,589	-7%	11,860	12,670	-6%
Oil and NGL (%)	54	54	-	54	55	-2%
Average price realizations (\$/boe) ⁽⁴⁾	36.96	32.98	12%	35.73	33.93	5%
Operating netback (\$/boe) ⁽¹⁾⁽⁴⁾	35.94	30.76	17%	35.39	31.54	12%

(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

With oil prices continuing to display strength, our funds from operations per share grew by 7% from Q1 to Q2 and we are forecasting an adjusted payout ratio for 2018 near the lower end of our target adjusted payout range of 60%-80%. We will continue to monitor commodity prices and allocate free cash flow in ways that maximize shareholder value.

On the activity front, drilling on our royalty lands came in slightly below expectations, however the second quarter typically represents a period of reduced activity. We are maintaining our 2018 production forecast between 11,750-12,250 boe/d and we continue to position Freehold as a high quality investment in oil and gas with low debt, sustainable dividends and an attractive yield.

Tom Mullane
President and CEO

Second Quarter Highlights

- Freehold's royalty production averaged 11,052 boe/d, nearly flat versus Q2-2017 and Q1-2018. Volumes were impacted by acquisitions completed in Q1-2018, the strength of our audit function (approximately 380 boe/d of prior period adjustments) and third-party drilling on our lands.
- Royalty interests accounted for 94% of total production and contributed 100% of operating income in Q2-2018, representing all-time highs for Freehold.
- Funds from operations totaled \$34.5 million, an increase of 9% compared to Q2-2017. Higher funds from operations was driven by better oil and natural gas liquids (NGL) prices and lower cash costs. On a per share basis, funds from operations was \$0.29/share in Q2-2018 up from \$0.27/share in both Q2-2017 and Q1-2018.
- Freehold generated \$15.1 million in free cash flow⁽¹⁾, over and above our dividend, which we applied to outstanding debt. At June 30, 2018, net debt totaled \$77.9 million resulting in a net debt to 12-month trailing funds from operations ratio of 0.6 times.
- Freehold closed a \$2.7 million royalty acquisition in Q2-2018. The transaction included a 3% gross overriding royalty on a 21% working interest on the Mitsue Gilwood Sands Unit No. 1. Annualized 2018 production and operating income associated with this asset is estimated to be 16 bbl/d and \$0.4 million.
- Wells drilled on our royalty lands totaled 85 (1.2 net) in the quarter compared to 58 (1.6 net) in Q2-2017. The second quarter typically represents a period of slower drilling on our lands as spring break-up occurs, slowing operations. For the year, 324 gross (7.6 net) wells have been drilled.
- In Q2-2018, Freehold issued 18 new lease agreements with 10 companies, compared to 42 issued in Q1-2018 and 12 leases in Q2-2017, highlighting the success of our leasing team. Year-to-date (YTD) we have completed 60 new lease agreements on our royalty lands. Since the inception of our leasing team in January 2017 we have completed 161 new lease agreements.
- Cash costs⁽¹⁾ for the quarter totaled \$5.17/boe, down from \$5.63/boe in Q2-2017. For 2018, we are forecasting cash costs of approximately \$5.00/boe.
- Dividends declared for Q2-2018 totaled \$0.1575 per share, up 5% versus the previous year. In March 2018, Freehold announced an increase to its monthly dividend from \$0.05 to \$0.0525 per share commencing in April 2018.
- Basic payout ratio⁽¹⁾ (dividends declared/funds from operations) for Q2-2018 totaled 54% while the adjusted payout ratio⁽¹⁾ ((cash dividends plus capital expenditures)/funds from operations) for the same period was 56%.

(1) See Non-GAAP Financial Measures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) was prepared as of August 2, 2018, 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 and six months ended June 30, 2018, and previous periods, and the outlook for Freehold based on information available as of August 2, 2018.

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 three and six months ended June 30, 2018 and June 30, 2017, 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, 2017, together with the accompanying notes. Information contained in the 2017 annual MD&A that is not discussed in this document remains materially unchanged.

This MD&A contains 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 "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 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 natural gas royalties.

The Royalty Advantage

We manage one of the largest non-government portfolios of oil and natural gas royalties in Canada. Our total land holdings encompass approximately 6.2 million gross acres, greater than 97% of which are royalty lands. Our mineral title lands (including royalty assumption lands), which we own in perpetuity, cover approximately 1.0 million acres and we have gross overriding royalty interests in approximately 5.0 million acres.

We have interests in more than 42,000 wells (of which over 40,000 are royalty wells including over 20,000 unitized wells). We receive royalty income from approximately 300 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, and as a royalty owner, we benefit from the drilling activity of others on our lands.

As a royalty interest owner, we generally do not pay any of the capital costs to drill and equip the wells for production on most of our properties, nor do we incur costs to operate the wells, maintain production, and ultimately restore the land to its original state. Generally all of these 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 operating income from royalties (100% in Q2-2018) results in strong netbacks.

When Freehold was formed in 1996, all of our royalty lands were leased to third parties and producing. Over the years, our unleased mineral title acreage has grown – through acquisitions, lease expiries, surrenders, and defaults. We now have approximately 430,000 acres of unleased mineral titles.

Our Strategy

As a leading royalty company, Freehold's objective is to deliver growth and low risk attractive returns to shareholders over the long term. Freehold accomplishes this by:

- **Creating Value**

- Drive oil and gas development on our lands through our lease out program.
- Acquire royalty assets with acceptable risk profiles and long economic life.
- Generate gross overriding royalties for revenue growth.

- **Enhancing value**

- Maximize our royalty interests through a comprehensive audit program.
- Manage our debt prudently with a target of 0.5-1.5 times net debt to funds from operations.

- **Delivering value**

- Target a dividend with an adjusted payout ratio of 60%-80%.

Outlook

Business Environment

Crude oil prices, both globally and in North America displayed strong upward momentum in the quarter as tightening supply/demand fundamentals continue to drive prices higher. In addition, the announcement by OPEC in June 2018 to increase production quotas by 0.6 mmbbl/d was seen as largely priced into the market. Globally, there remains numerous concerns on the supply side associated with Libya, Venezuela and Iran that is expected to put pressure on prices in the near-term.

Within North America, West Texas Intermediate (WTI) oil price displayed continued upward strength in Q2-2018 averaging US\$67.88/bbl, up 41% and 8% respectively versus the same period in 2017 and the previous quarter. Similarly Edmonton Light Sweet oil price averaged \$80.47/bbl, increasing 30% and 12% respectively when compared to Q2-2017 and Q1-2018. Unlike Q1-2018, heavy oil prices participated in this upward momentum. Over the quarter, Western Canadian Select (WCS) oil price averaged \$62.82/bbl, up 26% year-over-year and 29%

versus the previous quarter. Offsetting strength on the oil side, Canadian natural gas prices were down 63% versus the same period last year and 44% compared to the previous quarter, with AECO averaging \$1.03/mcf for the quarter.

The Petroleum Services Association of Canada (PSAC) is currently forecasting a total of 6,900 wells to be drilled in Canada for 2018, representing a decrease from the April 2018 forecast calling for 7,400 wells. PSAC based its forecast on average natural gas prices of \$1.55/mcf AECO, a WTI price of US\$65.00/bbl and the Canadian dollar averaging \$0.77/US\$.

Drilling Activity

Including drilling associated with acquisitions and unit wells, 324 (7.6 net) wells were drilled on our royalty lands during the first six months of 2018. This represents an increase of 56% on gross wells but a decrease of 25% on net wells versus the same period in 2017. While the second quarter typically represents a period of slowed activity, we saw even lower drilling activity than expected.

Activity through the first six months of 2018 was primarily focused on Saskatchewan oil prospects, including Viking at Dodsland, Mississippian plays in southeast Saskatchewan, and Shaunavon and Cantuar in southwest Saskatchewan. Together, Saskatchewan and Manitoba wells represented approximately 60% of our gross non-unit drilling through the quarter. Alberta activity has been concentrated in the Cardium, with strong drilling on our newly acquired Pembina Cardium acreage. Drilling for Deep Basin Spirit River, Ellerslie and Montney remains positive, along with Mannville Oil drilling in eastern Alberta. Our top payors continue to represent some of the most well capitalized E&P companies in Canada.

ROYALTY INTEREST DRILLING

	Three Months Ended June 30				Six Months Ended June 30			
	2018		2017		2018		2017	
	Equivalent		Equivalent		Equivalent		Equivalent	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾
Non-unitized wells	24	1.0	35	1.5	168	7.0	175	10.0
Unitized wells ⁽²⁾	61	0.2	23	0.1	156	0.6	33	0.2
Total	85	1.2	58	1.6	324	7.6	208	10.2

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

(2) 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 2018 based on results for the first half of the year and expectations for the remainder of the year.

- We are maintaining our 2018 average production range of 11,750-12,250 boe/d. Volumes are expected to be weighted approximately 54% oil and NGL and 46% natural gas (previously 55% and 45% respectively). We continue to maintain our royalty focus with royalty production accounting for 94% of forecasted 2018 production and 99% of operating income.
- As part of continued weakness in equity markets and depressed prices associated with natural gas we reduced our 2018 drilling forecast from 25 to 20 net wells.
- We are maintaining our WTI oil price assumption of US\$65.00/bbl but have increased our WCS oil price assumption to \$55.00/bbl (from \$53.00/bbl) as Q2-2018 heavy oil differentials were lower than expected.
- Our AECO natural gas price assumption remains unchanged at \$1.75/mcf. Even though market prices are slightly lower, there have been significant AECO price fluctuations so a change was not yet justified.
- Based on our current \$0.0525/share monthly dividend level, we expect our 2018 adjusted payout ratio ((cash dividends plus capital expenditures)/funds from operations) to be approximately 55% (previously 54%). The expectation of our longer term payout ratio remains cautious as the forward commodity market is showing future light oil prices below current levels.
- General and administrative costs remain at \$2.50/boe.
- We have increased our forecast year-end net debt to funds from operations to approximately 0.4 times (from 0.3 times) due to acquisitions completed YTD, changes in working capital and a slight increase in gas production relative to oil production.

KEY OPERATING ASSUMPTIONS

2018 Annual Average		Aug 2, 2018	Guidance Date	
			May 9, 2018	Mar. 8, 2018
Total daily production	boe/d	11,750-12,250	11,750-12,250	11,750-12,250
West Texas Intermediate crude oil	US\$/bbl	65.00	65.00	60.00
Edmonton Light Sweet crude oil	Cdn\$/bbl	76.00	76.00	N/A
Western Canadian Select crude oil	Cdn\$/bbl	55.00	53.00	45.00
AECO natural gas	Cdn\$/Mcf	1.75	1.75	2.00
Exchange rate	Cdn\$/US\$	0.77	0.79	0.80
Operating costs	\$/boe	1.45	1.45	1.45
General and administrative costs ⁽¹⁾	\$/boe	2.50	2.50	2.50
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 changing 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 - see Dividend Policy).

Quarterly Performance and Trends

Our financial results over the last eight quarters were influenced by the following significant factors:

- Quarterly variances in revenues, net income (loss) and funds from operations are caused mainly by fluctuations in commodity prices and production volumes.
- Oil prices are impacted significantly by global supply and demand factors, with OPEC decisions and U.S. production growth having the largest effects. In 2018 there has been negative effects on realized prices in western Canada due to transportation constraints.
- Fluctuations in the U.S./Canadian exchange rate affects our oil price realizations, resulting in positive or negative impacts on our Canadian dollar oil revenues relative to the benchmark WTI, which is referenced in U.S. dollars. The higher value of the Canadian dollar in late 2017 and early 2018 had a negative effect on our oil price realizations.
- AECO natural gas prices continue to be negatively impacted by supply outstripping demand. In Western Canada there are added transportation constraints further discounting our prices.
- The largest effect on setting our dividends is funds from operations, which is mainly a function of revenues and cash expenses; however the timing of dividend adjustments is dependent on forward projections and the decisions of our Board of Directors. Improvement in oil prices led to the dividend increases in 2017 and 2018.
- Production has been affected by drilling activity, acquisitions and dispositions, as well as prior period 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, 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 \$120 million of royalty assets in Alberta and Saskatchewan. Freehold also disposed of \$41 million of working interest properties over the same period. This activity affects our revenues, operating costs, percentage royalty interests, oil, NGL and natural gas production mix and debt levels, among others.
- Net income (loss) may be affected by large unique items in any given period. Freehold had a \$1.1 million loss on settlement of certain legal proceedings in Q3-2016, a \$5.6 million impairment reversal in Q1-2017, a \$14.7 million gain on working interest dispositions in Q2-2017 and a \$16.2 million impairment in Q4-2017.

The accompanying table illustrates the fluctuations experienced over the past eight quarters and the resulting effect on our financial results. Additional information about our quarterly results is provided in our interim reports, copies of which are available on SEDAR and on our website.

QUARTERLY REVIEW

	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial (\$000s, except as noted)								
Revenue, net of royalty expense	39,961	39,157	38,235	33,763	38,036	40,686	39,439	32,639
Funds from operations	34,540	32,384	32,023	27,927	31,769	32,069	30,421	24,148
Per share, basic (\$)	0.29	0.27	0.27	0.24	0.27	0.27	0.26	0.21
Net income (loss)	5,386	4,423	(8,057)	103	13,084	7,088	1,638	(1,962)
Per share, basic and diluted (\$)	0.05	0.04	(0.07)	-	0.11	0.06	0.01	(0.02)
Dividends declared	18,625	18,026	17,722	17,714	17,705	15,338	14,144	14,133
Per share (\$) ⁽¹⁾	0.1575	0.1525	0.15	0.15	0.15	0.13	0.12	0.12
Basic payout ratio (%) ⁽²⁾	54	56	55	63	56	48	46	59
Operating Income ⁽²⁾	38,331	37,658	36,149	31,246	35,235	37,084	34,487	28,231
Operating income from royalties (%)	100	99	97	99	97	91	93	93
Acquisitions	2,697	30,881	52,270	(146)	1,267	33,352	92	68
Working interest dispositions	7	8,130	354	2,969	28,808	288	-	-
Net debt	77,908	89,567	68,621	38,274	49,819	76,030	73,161	87,301
Shares outstanding								
Weighted average, basic (000s)	118,238	118,183	118,128	118,073	118,018	117,956	117,847	117,726
At quarter end (000s)	118,293	118,238	118,183	118,128	118,073	118,018	117,918	117,850
Operating (\$/boe, except as noted)								
Royalty production (boe/d) ⁽³⁾	11,052	11,197	10,960	10,919	11,270	10,701	10,351	10,169
Total production (boe/d) ⁽³⁾	11,721	12,002	12,032	12,036	12,589	12,753	12,579	12,281
Royalty interest (%)	94	93	91	91	90	84	82	83
Average selling price	36.96	34.52	33.59	29.67	32.98	34.88	33.72	28.69
Operating netback ⁽²⁾	35.94	34.86	32.66	28.22	30.76	32.31	29.80	24.99
Operating expenses	1.53	1.39	1.88	2.27	2.45	3.14	4.28	3.90
General and administrative expenses ⁽⁴⁾	2.36	3.60	2.59	1.88	2.27	3.01	2.33	1.71
Benchmark Prices								
West Texas Intermediate crude oil (US\$/bbl)	67.88	62.87	55.40	48.21	48.29	51.91	49.29	44.94
Exchange rate (Cdn\$/US\$)	0.77	0.79	0.79	0.80	0.74	0.76	0.75	0.77
Edmonton Light Sweet crude oil (Cdn\$/bbl)	80.47	71.88	69.14	56.73	61.84	64.00	61.54	54.85
Western Canadian Select crude oil (Cdn\$/bbl)	62.82	48.77	54.87	47.89	49.99	49.38	46.63	41.02
AECO natural gas (Cdn\$/Mcf)	1.03	1.85	1.96	2.04	2.77	2.94	2.81	2.20
Share Trading Performance								
High (\$)	14.01	14.85	16.41	15.15	14.37	14.75	15.16	13.09
Low (\$)	11.81	11.71	13.77	12.51	11.96	12.22	11.68	10.61
Close (\$)	12.40	12.35	14.05	14.74	13.05	13.48	14.17	12.65
Volume (000s)	19,975	15,635	13,985	13,428	13,890	17,059	15,440	20,873

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

(2) See Non-GAAP Financial Measures

(3) Reported production for a period may include adjustments from previous production periods.

(4) Excludes share based and other compensation.

Production

Our production in the quarter averaged 11,721 boe/d, down 7% versus the same period last year. The decline was largely the result of our working interest dispositions completed during 2017, which reduced volumes over the period.

Royalty volumes averaged 11,052 boe/d, down 2% versus the same period last year and comprised 94% of total production in Q2-2018, up from 90% in Q2-2017. Natural declines on our royalty volumes were offset by acquisitions, the strength of our audit function (approximately 380 boe/d of prior period adjustments for Q2-2018) and third party drilling on our royalty lands.

Working interest production declined 49% to 669 boe/d in Q2-2018 relative to Q2-2017 largely due to lower capital expenditures and dispositions.

Our production mix through the first six months of 2018 was 34% light and medium oil, 12% heavy oil, 8% NGL and 46% natural gas.

AVERAGE DAILY PRODUCTION

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Royalty interest ⁽¹⁾						
Oil (bbls/d)	5,052	5,116	-1%	5,116	5,039	2%
NGL (bbls/d)	903	932	-3%	882	895	-1%
Natural gas (Mcf/d)	30,581	31,330	-2%	30,756	30,312	1%
Oil equivalent (boe/d)	11,052	11,270	-2%	11,124	10,986	1%
Working interest ⁽¹⁾						
Oil (bbls/d)	298	648	-54%	331	900	-63%
NGL (bbls/d)	53	107	-50%	57	159	-64%
Natural gas (Mcf/d)	1,907	3,386	-44%	2,089	3,747	-44%
Oil equivalent (boe/d)	669	1,319	-49%	736	1,684	-56%
Total						
Oil (bbls/d)	5,350	5,764	-7%	5,447	5,939	-8%
NGL (bbls/d)	956	1,039	-8%	939	1,054	-11%
Natural gas (Mcf/d)	32,488	34,716	-6%	32,845	34,059	-4%
Oil equivalent (boe/d)	11,721	12,589	-7%	11,860	12,670	-6%
Number of days in period (days)	91	91	-	181	181	-
Total volumes during period (Mboe)	1,067	1,146	-7%	2,147	2,293	-6%

(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.

Product Prices

The price we receive for our oil production is primarily driven by the U.S. dollar price of WTI, adjusted for the value of the Canadian dollar relative to the U.S. dollar. WTI averaged US\$67.88/bbl in Q2-2018, up 41% over the same quarter last year and Edmonton Light Sweet averaged \$80.47/bbl, up 30% versus the same period in 2017. An improving crude oil environment was also aided by a slight decline in the Cdn\$/US\$ exchange rate, which

averaged \$0.77 Cdn/US in Q2-2018, down from \$0.79 Cdn/US in Q1-2018. Similar to light oil prices, heavy oil displayed positive momentum in Q2-2018 with WCS prices averaging \$62.82/bbl, up 26% versus Q2-2017. AECO natural gas price averaged \$1.03/mcf, down 63% from \$2.77/mcf in Q2-2017.

AVERAGE BENCHMARK PRICES

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
West Texas Intermediate crude oil (US\$/bbl)	67.88	48.29	41%	65.37	50.10	30%
Exchange rate (Cdn\$/US\$)	0.77	0.74	4%	0.78	0.75	4%
Edmonton Light Sweet crude oil (Cdn\$/bbl)	80.47	61.84	30%	76.18	62.92	21%
Western Canadian Select crude oil (Cdn\$/bbl)	62.82	49.99	26%	55.80	49.68	12%
AECO natural gas (Cdn\$/Mcf)	1.03	2.77	-63%	1.44	2.86	-50%

Our average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price at \$36.96/boe was 12% higher in Q2-2018 versus the same period last year. As the key driver behind an increase in overall cash flows, liquids pricing improved from 2017 with a realized oil and NGL price of \$64.40/bbl, up 30% versus the second quarter of last year.

Natural gas prices were down 63% relative to the prior year averaging \$0.83/mcf in Q2-2018 due to ongoing supply and transportation issues. 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.

AVERAGE SELLING PRICES

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Oil (\$/bbl)	67.36	52.42	29%	62.33	53.04	18%
NGL (\$/bbl)	47.85	34.59	38%	46.73	36.43	28%
Oil and NGL (\$/bbl)	64.40	49.69	30%	60.03	50.53	19%
Natural gas (\$/Mcf)	0.83	2.22	-63%	1.23	2.24	-45%
Oil equivalent (\$/boe)	36.96	32.98	12%	35.73	33.93	5%

Marketing and Hedging

Our production remained unhedged in Q2-2018. Our hedging policy is reviewed quarterly with the Board of Directors.

Our royalty lands consist of a large number of properties with generally small volumes per property. Many of our leases and royalty agreements allow us to take our share of oil and natural gas in-kind. As part of our risk mitigation program we carefully monitor our royalty receivables and may choose to take our royalty in-kind if there are benefits in doing so. Currently we take in-kind and market approximately 17% of our total royalty production using 30-day contracts.

Royalty and Other Revenue

Royalty and other revenue of \$40.2 million in Q2-2018 was 4% higher than in Q2-2017 and \$79.5 million for YTD-2018 was flat compared to the same period in 2017, with oil and NGL pricing improvements offset by weakness in natural gas pricing and the reduction in working interest revenue resulting from the 2017 and 2018 dispositions. In Q2-2018 royalty interest revenue increased by 11% whereas working interest revenue was down 52% versus Q2-2017, due to the above mentioned dispositions. Bonus consideration and lease rentals was \$0.4 million in Q2-2018 versus \$0.3 million in the prior year.

ROYALTY AND OTHER REVENUE

(\$000s)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	37,796	34,110	11%	73,391	67,085	9%
Bonus consideration and lease rentals	438	306	43%	1,965	900	118%
Total royalty interest revenue	38,234	34,416	11%	75,356	67,985	11%
Working interest revenue	1,919	4,014	-52%	4,163	11,536	-64%
Total royalty and other revenue	40,153	38,430	4%	79,519	79,521	-

(1) Includes potash royalties and other.

ROYALTY AND OTHER REVENUE BY PRODUCT

(\$000s)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Oil	32,792	27,492	19%	61,449	57,013	8%
NGL	4,162	3,270	27%	7,945	6,951	14%
Natural gas	2,459	7,013	-65%	7,309	13,839	-47%
Potash	257	327	-21%	780	662	18%
Bonus consideration and lease rentals	438	306	43%	1,965	900	118%
Other	45	22	105%	71	156	-54%
	40,153	38,430	4%	79,519	79,521	-

The following table demonstrates the net effect of price and volume variances on royalty and other revenue.

ROYALTY AND OTHER REVENUE VARIANCES

(\$000s)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018 vs. 2017	2017 vs. 2016	2018 vs. 2017	2017 vs. 2016
Oil and NGL				
Production decrease	(2,910)	(1,509)	(6,591)	(3,549)
Price increase	9,102	3,968	12,021	18,759
Net increase	6,192	2,459	5,430	15,210
Natural gas				
Production increase (decrease)	(168)	1,068	(270)	2,394
Price increase (decrease)	(4,386)	3,038	(6,260)	4,764
Net increase (decrease)	(4,554)	4,106	(6,530)	7,158
Other ⁽¹⁾	85	(354)	1,098	1
Royalty and other revenue increase (decrease)	1,723	6,211	(2)	22,369

(1) Other includes potash royalties, bonus consideration, lease rentals and other.

Expenses

Royalty Expense and Mineral Taxes

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.

We do not incur royalty expense on production from our royalty interest lands, other than minor freehold mineral taxes. As the royalty owner, we receive the royalty as income from other companies. On a per boe basis royalty expense decreased by 47% Q2-2017 to Q2-2018 and by 46% YTD-2017 to YTD-2018 largely as a result of the 2017 and 2018 working interest dispositions.

ROYALTY EXPENSE ⁽¹⁾

(\$000s, except as noted)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Total royalty expense	192	394	-51%	401	799	-50%
Per boe (\$)	0.18	0.34	-47%	0.19	0.35	-46%

(1) Royalty expense includes both Crown charges (including minor freehold mineral tax) and royalty payments to third parties.

Operating Expenses

Operating expenses are comprised of direct costs incurred and costs allocated among oil, natural gas, and NGL production. Overhead recoveries associated with operated properties are included in operating expenses and accounted for as a reduction to general and administrative (G&A) expenses. Approximately half of operating expenses are fixed and, as such, per boe operating expenses are highly variable to production volumes.

Operating expenses decreased 42% to \$1.6 million in Q2-2018 versus \$2.8 million in Q2-2017 and decreased 51% to \$3.1 million in YTD-2018 versus \$6.4 million in YTD-2017 due to the 2017 and 2018 working interest dispositions. On a total production per boe basis, operating expenses decreased by 38% to \$1.53 per boe in Q2-2018 relative to the same period in 2017.

OPERATING EXPENSES ⁽¹⁾

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Change	2018	2017	Change
Total operating expenses	1,630	2,801	-42%	3,129	6,403	-51%
Per boe (\$)	1.53	2.45	-38%	1.46	2.79	-48%

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

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 following tables demonstrate the advantage of our royalty lands, which have no operating or royalty expenses (other than minor freehold mineral taxes). Royalty interests accounted for 95% of gross revenue YTD-2018 and more importantly contributed 99% of operating income. Freehold's operating netback for the second quarter increased 17% to \$35.94/boe versus Q2-2017 with improvement driven largely by higher oil and NGL prices and lower operating expenses.

OPERATING INCOME ⁽¹⁾

(\$000s)	Six months ended June 30, 2018		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	75,356	4,163	79,519
Royalty expense ⁽³⁾	(64)	(337)	(401)
Net revenue	75,292	3,826	79,118
Operating expense	-	(3,129)	(3,129)
Operating income	75,292	697	75,989
Percentage by category	99%	1%	100%

(1) See Non-GAAP Financial Measures.

(2) Royalty interest revenue includes potash royalties, bonus consideration, lease rentals and other.

(3) Royalty expense includes both Crown charges (including minor freehold mineral tax) and royalty payments to third parties.

OPERATING NETBACK ⁽¹⁾

(\$/boe)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Change	2018	2017	Change
Royalty and other revenue	37.65	33.55	12%	37.04	34.68	7%
Royalty expense ⁽²⁾	(0.18)	(0.34)	-47%	(0.19)	(0.35)	-46%
Operating expenses	(1.53)	(2.45)	-38%	(1.46)	(2.79)	-48%
Operating netback	35.94	30.76	17%	35.39	31.54	12%

(1) See Non-GAAP Financial Measures.

(2) Royalty expense includes both Crown charges (including minor freehold mineral tax) and royalty payments to third parties.

General and Administrative Expenses

We have significant land administration, accounting and auditing requirements to administer and collect royalty payments, including systems to track development activity on our royalty lands. General and administrative (G&A) expenses include direct costs and reimbursement of G&A expenses incurred by Rife Resources Management Ltd. (the Manager) on behalf of Freehold (see Related Party Transactions).

In Q2-2018 G&A expenses were down slightly from Q2-2017 at \$2.5 million versus \$2.6 million but up 4% to \$2.36/boe on a boe basis over the same period. On a YTD basis there was an increase to \$6.4 million this year from \$6.1 million last year and up 13% to \$2.98 on a boe basis largely due to increased employee costs.

GENERAL AND ADMINISTRATIVE EXPENSES

(\$000s, except as noted)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
General and administrative expenses						
before capitalized and overhead recoveries	2,954	3,039	-3%	7,391	7,010	5%
Less: capitalized and overhead recoveries	(441)	(436)	1%	(991)	(947)	5%
General and administrative expenses	2,513	2,603	-3%	6,400	6,063	6%
Per boe (\$)	2.36	2.27	4%	2.98	2.64	13%

Management Fee

The Manager (see Related Party Transactions) receives a management fee in Freehold common shares. The amended and restated management agreement dated November 9, 2015 (the Management Agreement) capped the management fee at 55,000 Freehold common shares per quarter for 2017 and 2018, with the fee gradually decreasing to 5,500 Freehold common shares per quarter by 2023. The management fee was down 5% in Q2-2018 compared to Q2-2017 and down 7% on a YTD basis. The ascribed value is based on Freehold's common share price on the last day of the quarter which was lower in 2018 than 2017.

MANAGEMENT FEE (PAID IN SHARES)

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Shares issued for management fees	55,000	55,000	-	110,000	110,000	-
Ascribed value (\$000s) ⁽¹⁾	682	718	-5%	1,361	1,459	-7%
Per boe (\$)	0.64	0.63	2%	0.63	0.64	-2%

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

Share Based Compensation

LONG-TERM INCENTIVE PLANS

In March 2017, Freehold adopted a new long-term incentive plan (LTIP) to replace the previous long-term incentive plan for the employees of Rife Resources Ltd. (see Related Party Transactions). Grants will no longer be made under the previous plan but pre-existing grants will continue until vesting and payout occurs. Freehold's

long-term incentive compensation consists of grants of performance share units (PSUs) and restricted share units (RSUs) under the new LTIP.

Under both the new and previous LTIP, compensation expense is based on Freehold's share price, the number of share based awards outstanding at each period end, an estimated performance multiplier, if applicable, and an estimated forfeiture rate. Compensation expense is recognized over the vesting period.

The 2015 grants under the previous LTIP valued at \$0.2 million vested and were paid out in 2018 (2014 grants vested in 2017 and \$0.1 million was paid out). One-third of the granted 2017 RSUs vested in March 2018 and the total paid out on vesting of such RSUs was \$0.2 million. In the first six months of 2018, there were 114,100 RSUs and PSUs granted under the new LTIP (after estimated forfeitures) and in the first six months of 2017, there were 90,026 RSUs and PSUs granted under the new LTIP (after estimated forfeitures). In Q2-2018 expense related to the LTIP was a \$0.3 million (Q2-2017 - \$0.3 million) and YTD-2018 was \$13,000 (YTD-2017 - \$0.4 million). The largest effect on the expense is from the price of Freehold's common shares.

DEFERRED SHARE UNIT PLAN

Pursuant to our deferred share unit plan, fully-vested deferred share units (DSUs) are granted annually in the first quarter of the year to non-management directors and are redeemable for an equal number of Freehold common shares (less tax withholdings if necessary) after the director's retirement. Dividends declared prior to redemption are assumed to be reinvested in notional share units on the dividend payment date. In the second quarter of 2018, Freehold expensed \$25,000 (Q2-2017 - \$17,000) and YTD-2018 \$0.5 million (YTD-2017 - \$0.4 million) of share based compensation with a corresponding offset to contributed surplus.

On January 1, 2018 our Board of Directors granted 34,519 DSUs to eligible directors as part of their annual compensation. As at June 30, 2018, there were 155,435 DSUs outstanding and at August 2, 2018, there were 156,090 DSUs outstanding (including notional DSUs granted as a result of dividends paid on our common shares).

SHARE BASED COMPENSATION

(\$000s, except as noted)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Long-term incentive plan before capitalized portion	304	339	-10%	16	519	-97%
Less: capitalized portion	(52)	(61)	-15%	(3)	(93)	-97%
Long-term incentive plan	252	278	-9%	13	426	-97%
Deferred share unit plan	25	17	47%	531	356	49%
Share based compensation	277	295	-6%	544	782	-30%
Per boe (\$)	0.26	0.26	-	0.25	0.34	-26%

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 receives a quarterly management fee paid in Freehold common shares. 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.

(a) Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares per quarter, pursuant to the amended and restated management agreement. The amended and restated management agreement capped the management fee at 55,000 Freehold common shares per quarter for 2018. For the three months ended June 30, 2018, Freehold issued 55,000 common shares (2017 – 55,000) as payment of the management fee. The ascribed value of \$0.7 million (2017 – \$0.7 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter. The total number of Freehold common shares for the six months ended June 30, 2018 was 110,000 (2017 – 110,000) with an ascribed value of \$1.4 million (2017 – \$1.5 million).

For the three months ended June 30, 2018, the Manager charged \$2.5 million in general and administrative costs (2017 – \$2.4 million). The total charged for the six months ended June 30, 2018 was \$5.8 million (2017 – \$5.5 million). At June 30, 2018, there was \$0.7 million (June 30, 2017 – \$0.8 million) in accounts payable and accrued liabilities relating to these costs.

(b) Rife Resources Ltd.

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 June 30, 2018, there was \$nil (December 31, 2017 - \$nil) in accounts receivable relating to these transactions. At June 30, 2018, there was \$nil (December 31, 2017 - \$0.1 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 June 30, 2018, Freehold received royalties of approximately \$0.2 million (2017 – \$0.2 million). The total received for the six months ended June 30, 2018 was \$0.3 million (2017 – \$0.5 million). At June 30, 2018, there was \$0.1 million (December 31, 2017 - \$0.1 million) in accounts receivable relating to these transactions.

(c) Canpar Holdings Ltd.

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, 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. At June 30, 2018, there was \$nil (December 31, 2017 – \$nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

All amounts owing to/from the Manager, Rife, and Canpar are unsecured, non-interest 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.

Interest and Financing

For Q2-2018 interest and financing expense increased to \$1.2 million from \$0.7 million in Q2-2017 and for YTD-2018 increased to \$2.0 million from \$1.5 million in YTD-2017 largely due to higher average debt levels. The average effective interest rate on advances under our credit facilities for the six months ended June 30, 2018 was 3.3% (2017 – 2.9%).

INTEREST AND FINANCING

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Change	2018	2017	Change
Interest and financing expense	1,169	651	80%	1,975	1,537	28%
Per boe (\$)	1.10	0.57	93%	0.92	0.67	37%

Depletion and Depreciation

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.

DEPLETION AND DEPRECIATION

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Change	2018	2017	Change
Depletion and depreciation	26,226	27,617	-5%	52,103	54,904	-5%
Per boe (\$)	24.59	24.11	2%	24.27	23.94	1%

Working Interest Dispositions

In the first quarter of 2018 Freehold closed the sale of its Pembina Cardium Unit No. 9 working interest property in exchange for cash proceeds of \$8.1 million (including adjustments) and an acquisition of a new 4% gross overriding royalty (GORR) on the same property valued at \$1.9 million (including adjustments). At December 31, 2017, this working interest property was classified as assets held for sale as it was highly probable that its carrying value would be received through a sales transaction rather than continued use.

At December 31, 2017, this working interest asset was recorded at the lower of carrying value and management's best estimate of its fair value less costs to sell, resulting in Freehold recording an impairment of \$6.3 million.

Freehold reclassified its new recoverable estimated net book value of \$13.8 million from its Other Working Interest cash generating unit (CGU) in petroleum and natural gas interests to assets held for sale. In addition, Freehold reclassified its proportionate share of decommissioning liabilities of \$3.7 million to liabilities related to assets held for sale. These assets and related liabilities held for sale were removed when the transaction closed.

During the first quarter of 2017 Freehold recorded an impairment reversal of \$5.6 million on its Southeast Saskatchewan Working Interest CGU based on anticipated sale proceeds of the assets that were sold in April 2017. When the transactions closed in the second quarter of 2017 (\$28.9 million, including adjustments), Freehold recognized a gain on working interest dispositions of \$14.7 million.

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 and six months ended June 30, 2018 and 2017, there was no current income tax expense. Deferred income tax expense was \$2.0 million in the second quarter (Q2-2017 \$4.8 million) and \$3.6 million for YTD-2018 (YTD-2017 - \$7.5 million). Freehold's tax pools at December 31, 2017 were \$966 million.

Liquidity and Capital Resources

Operating Activities

Q2-2018 net income was \$5.4 million which compared to net income in Q2-2017 of \$13.1 million. The largest factor affecting this decrease was the \$14.7 million gain on working interest dispositions that occurred in the second quarter of 2017. On the positive side the second quarter of 2018 had higher revenues, lower operating costs and lower depletion and depreciation.

YTD-2018 net income was \$9.8 million compared to \$20.2 million YTD-2017. In addition to the 2017 YTD period being positively affected by the gain on working interest dispositions, there was also a \$5.6 million impairment reversal in the first quarter of 2017. Other offsetting factors affecting 2018 include lower operating costs and lower depletion and depreciation.

Funds from operations for the current quarter was up 9% to \$34.5 million from \$31.8 million in the same quarter last year, as lower operating costs and higher revenues drove the outperformance. For the YTD period 2018 funds from operations was up 5% to \$66.9 million from \$63.8 million in 2017, with the increase largely a result of lower operating costs.

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 support 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 (loss) per share.

NET INCOME AND FUNDS FROM OPERATIONS

(\$000s, except as noted)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Net income	5,386	13,084	-59%	9,809	20,172	-51%
Per share, basic and diluted (\$)	0.05	0.11	-55%	0.08	0.17	-53%
Funds from operations	34,540	31,769	9%	66,924	63,838	5%
Per share (\$)	0.29	0.27	7%	0.57	0.54	6%

Financing Activities

We retain working capital primarily to fund capital expenditures or acquisitions and reduce bank indebtedness. In the oil and 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. Also, working capital at each period end can vary due to volume and price changes at each period end and unpaid capital expenditures.

Working capital increased by \$4.7 million in the second quarter of 2018 compared to the previous quarter. The biggest impact on the increase in working capital was the increase in accounts receivable due to higher oil prices at the end of the second quarter and a reduction in accounts payable and accrued liabilities.

COMPONENTS OF WORKING CAPITAL

(\$000s)	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017	Jun. 30 2017
Cash	436	920	284	712	715
Accounts receivable	27,894	24,257	25,952	21,064	24,014
Assets held for sale	-	-	13,810	-	-
Current assets	28,330	25,177	40,046	21,776	24,729
Dividends payable	(6,207)	(6,206)	(5,908)	(5,905)	(5,902)
Accounts payable and accrued liabilities	(5,594)	(7,849)	(7,206)	(5,779)	(7,406)
Current portion of share based compensation payable	(1,559)	(1,277)	(399)	(366)	(240)
Current portion of decommissioning liability	(1,878)	(1,412)	(1,444)	-	-
Liabilities related to assets held for sale	-	-	(3,710)	-	-
Current liabilities	(15,238)	(16,744)	(18,667)	(12,050)	(13,548)
Working capital	13,092	8,433	21,379	9,726	11,181

Net debt decreased by \$11.7 million from the previous quarter to \$77.9 million at June 30, 2018. Net debt was reduced by application of funds from operations in excess of dividends and the increase in our working capital.

DEBT ANALYSIS

	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017	Jun. 30 2017
(\$000s)					
Long-term debt	91,000	98,000	90,000	48,000	61,000
Working capital	(13,092)	(8,433)	(21,379)	(9,726)	(11,181)
Net debt	77,908	89,567	68,621	38,274	49,819

At June 30, 2018 Freehold had a committed three year \$165 million secured revolving credit facility with a syndicate of four Canadian chartered banks, on which \$91 million was drawn. In addition, Freehold had available a three year \$15 million senior secured operating facility.

In May 2018 Freehold amended our credit agreement. The current maturity date of the credit facilities is May 31, 2021 and Freehold may annually request an extension to the maturity date. The credit facilities are not reserve-based but are secured with \$400 million first charge demand debentures over all of Freehold's assets. The credit agreement contains two financial covenants as follows: debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times and debt to capitalization ratio shall not exceed 55%.

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's debt to EBITDA on royalty interest properties. For the six months ended June 30, 2018, the average effective interest rate on advances under Freehold's credit facilities was 3.3% (2017 – 2.9%).

At June 30, 2018, net debt was 0.6 times 12-months trailing funds from operations and net debt obligations were 9% of total capitalization.

FINANCIAL LEVERAGE AND COVERAGE RATIOS

	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017	Jun. 30 2017
Net debt to funds from operations (times) ⁽¹⁾	0.6	0.7	0.6	0.3	0.4
Net debt to dividends (times) ⁽¹⁾	1.1	1.3	1.0	0.6	0.8
Dividends to interest expense (times) ⁽¹⁾	24	28	26	22	18
Net debt to net debt plus equity (%)	9	10	8	4	5

(1) Funds from operations, dividends, and interest expense are 12-months trailing and do not include the proforma effects of acquisitions.

As at June 30, 2018 and as of August 2, 2018, there were 118,292,667 shares outstanding.

SHAREHOLDERS CAPITAL

	June 30, 2018		December 31, 2017	
	Shares	Amount (\$000s)	Shares	Amount (\$000s)
Balance, beginning of period	118,182,667	1,267,591	117,918,274	1,263,796
Issued for payment of management fee	110,000	1,361	220,000	3,043
Issued for deferred share unit plan redemption	-	-	44,393	752
Balance, end of period	118,292,667	1,268,952	118,182,667	1,267,591

SHARES OUTSTANDING

	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Weighted average						
Basic	118,238,271	118,018,271	-	118,210,926	117,987,247	-
Diluted	118,392,774	118,132,624	-	118,364,536	118,106,283	-
At period end	118,292,667	118,072,667	-	118,292,667	118,072,667	-

Dividend Policy

Freehold's Board of Directors reviews and determines the monthly dividend rate on a quarterly basis, or as conditions necessitate, after considering expected commodity prices, foreign exchange rates, economic conditions, production volumes, 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 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. We are restricted from declaring dividends if we do not satisfy the liquidity and solvency tests under the *Business Corporations Act* (Alberta).

Dividends declared in Q2-2018 totaled \$18.6 million or \$0.1575 per share which is a 5% improvement over 2017 on a per share basis. For the 2018 YTD period dividends were \$36.7 million or \$0.31 per share, an 11% increase over the first half of 2017 on a per share basis. Freehold increased our monthly dividend from \$0.05 to \$0.0525, for the dividend declared in March 2018 and paid in April 2018.

ACCUMULATED DIVIDENDS ⁽¹⁾

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
Dividends declared (\$000s)	18,625	17,705	36,651	33,043
Accumulated, beginning of period	1,571,978	1,500,811	1,553,952	1,485,473
Accumulated, end of period	1,590,603	1,518,516	1,590,603	1,518,516
Dividends per share (\$) ⁽²⁾	0.1575	0.15	0.31	0.28
Accumulated, beginning of period	31.2025	30.60	31.05	30.47
Accumulated, end of period	31.3600	30.75	31.36	30.75

(1) Accumulated dividends reflect distributions paid on trust units of Freehold Royalty Trust (the predecessor of Freehold) from 1996 through 2010 and dividends on common shares of Freehold from 2011 onwards.

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

The following tables show reconciliations of funds from operations and dividends. Our basic payout ratio for Q2-2018 was 54% versus 56% one year ago and for YTD-2018 was 55% compared to 52% in 2017.

RECONCILIATION OF DIVIDENDS DECLARED

(\$000s)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
Funds from operations	34,540	31,769	66,924	63,838
Debt additions (repayments)	(7,000)	(40,000)	1,000	(23,000)
Acquisitions	(2,697)	(1,267)	(33,578)	(34,619)
Capital expenditures	(819)	(1,139)	(2,334)	(1,851)
Working interest dispositions	7	28,808	8,137	29,096
Working capital change	(5,406)	(466)	(3,498)	(421)
Dividends declared	18,625	17,705	36,651	33,043

DIVIDENDS ANALYSIS

(\$000s)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
Dividends paid in cash ⁽¹⁾	18,623	17,703	36,443	31,878
Dividends declared	18,625	17,705	36,651	33,043
Funds from operations	34,540	31,769	66,924	63,838
Capital expenditures	819	1,139	2,334	1,851
Basic payout ratio ⁽²⁾	54%	56%	55%	52%
Adjusted payout ratio ⁽³⁾	56%	59%	58%	53%

(1) Based on the dividend payment date which is generally on the 15th day of the month following the month it was declared.

(2) Dividends declared as a percentage of funds from operations (see Non-GAAP Financial Measures).

(3) Dividends paid in cash plus capital expenditures as a percentage of funds from operations (see Non-GAAP Financial Measures).

Investing Activities

Freehold allocated \$2.7 million towards acquisition activity in Q2-2018 with the purchase of a GORR interest on the Mitsue Gilwood Sands Unit No. 1. In February 2018 Freehold closed a \$7.0 million royalty acquisition in Alberta which included undeveloped land valued at \$3.3 million. In March 2018 Freehold closed an acquisition of oil royalties on the Weyburn Unit and Mitsue Gilwood Sand Unit #1 in Saskatchewan for \$24.1 million and the assignment of certain minor working interest assets. All transactions were funded through Freehold's existing credit facilities. YTD there has also been \$0.2 million of minor reductions to previous acquisition costs.

In the six months ended June 30, 2018 Freehold recorded \$8.1 million of working interest dispositions (2017 - \$29.1 million), as we continue the de-emphasis of our working interest properties (see Working Interest Dispositions).

ACQUISITIONS, DISPOSITIONS AND CAPITAL EXPENDITURES

(\$000s)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Acquisitions	2,697	1,267	113%	33,578	34,619	-3%
Capital expenditures	819	1,139	-28%	2,334	1,851	26%
Working interest dispositions	(7)	(28,808)	-100%	(8,137)	(29,096)	-72%
	3,509	(26,402)	-113%	27,775	7,374	277%

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 June 30, 2018. 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.

New Accounting Standards

(a) IFRS 9

On January 1, 2018 Freehold adopted IFRS 9 *Financial Instruments* with no material transitional impact on the financial statements. IFRS 9 contains three classifications for financial assets: amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The new classifications are based on an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The previous IAS 39 *Financial Instruments: Recognition and Measurement* classifications of held-to-maturity, loans and receivables and available-for-sale have been eliminated. In addition, IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" impairment model that applies to financial assets measured at amortized cost. Under IFRS 9, credit losses, if any, may be recognized earlier than under IAS 39. All of Freehold's financial assets (cash and accounts receivable) are measured at amortized cost and the adoption of IFRS 9 did not result in any adjustment to the carrying amount of the related assets.

There was no change to the classification of accounts payable and accrued liabilities, dividends payable and long-term debt which are classified as "other financial liabilities" and are measured at amortized cost. No financial instruments have been classified as FVOCI or FVTPL. Presently and historically, Freehold has not entered into any transactions in which hedge accounting could be applied.

(b) IFRS 15

On January 1, 2018, Freehold adopted IFRS 15 *Revenue from Contracts with Customers*. Using IFRS 15's five step model, which includes the identification of performance obligations, Freehold reviewed its various royalty and other revenue streams and underlying contracts with customers. IFRS 15 did not have a material effect on Freehold's financial statements with the exception of certain new disclosures noted below and in note 9.

Royalty and other revenue is made up of royalty, working interest and other revenue earned during the period. The vast majority of royalty and other revenue represents the sale of crude oil, natural gas, natural gas liquids and other products. It was determined that Freehold has two different types of revenue streams coming from the sale of these products: royalty interest revenue and working interest revenue. These types of revenue are each recognized when the performance obligation is satisfied, which is typically on a monthly basis when the product is extracted from the lands and control of the product is transferred from Freehold, or the operator of Freehold's properties, to its customers.

Royalty and other revenue also includes bonus consideration and lease rentals which have different performance obligations. When a new mineral lease is executed Freehold gives the third party exclusive access to specifically identified lands for a certain time period and typically receives a lump sum non-refundable payment (bonus consideration). As the payment is non-refundable and access to land is granted, the performance obligation is met and revenue is recognized when the lease is executed and payment is received. Lease rental revenue is recognized when payment is received.

Royalty and other revenue is measured at fair value of the consideration received or receivable per the terms of the various agreements. Freehold uses government reporting databases, past production receipts, historical trends and current market prices to estimate revenue accruals. Actual results could differ as a result of using estimates and any differences are recorded in the period in which actuals are received.

Recent Pronouncements

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. Freehold's mineral leases are not in scope of IFRS 16. Transitional provisions have been provided. The effective date for adopting IFRS 16 in its entirety is January 1, 2019.

Freehold's assessment of IFRS 16 including a review of lease agreements is ongoing and the impact, if any, on the consolidated financial statements and additional disclosure requirements is yet to be fully determined.

Forward-looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or our expectations of future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "forecast", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions (including the negatives thereof). These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and, as such, forward-looking statements included in this MD&A should not be unduly relied upon. These forward-looking statements are provided to allow readers to better understand our business and prospects.

In particular, this MD&A contains forward-looking statements under President's Message, Second Quarter Highlights, Our Strategy, Business Environment, Guidance Update and Dividend Policy pertaining to 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;
- continuing to monitor commodity prices and allocate free cash flow in ways that maximize shareholder value;
- continuing to position Freehold as a high quality investment in oil and gas with low debt, sustainable dividends and an attractive yield;
- cash costs forecasted at approximately \$5.00/boe;
- numerous concerns on the oil supply side associated with Libya, Venezuela and Iran that is expected to put pressure on prices in the near-term;
- strong supply/demand fundamentals globally continuing to drive upward price momentum associated with light oil;
- our strategies and the expectation that those strategies will deliver growth and low risk attractive returns to our shareholders;
- expected revenue from oil, natural gas and natural gas liquids;
- our acquisition criteria and the intent that such criteria will result in acquisitions being accretive to shareholders;
- foreign exchange rates;
- industry drilling and development activity on our royalty lands, including our estimate of 2018 net royalty wells at 20;
- development of our working interest properties;
- estimated capital budget and expenditures and the timing thereof;

- Freehold's decommissioning liability and timing of payment thereof;
- forecast 2018 average production, including product mix and percentage from royalties;
- forecast 2018 percentage of operating income from royalties;
- forecast 2018 adjusted payout ratio;
- forecast 2018 year end net debt to funds from operations;
- key operating assumptions including operating costs and general and administrative costs;
- amounts and rates of income taxes and timing of payment thereof;
- expected production additions from our audit function;
- our tax pools and the expected tax horizon;
- our dividend policy and expectations for future dividends; and
- treatment under governmental regulatory regimes and tax laws; and
- our assessment of litigation risk.

Our actual results could differ materially from those anticipated in these forward-looking statements because of many factors, the most significant of which are as follows:

- volatility in market prices for crude oil, NGL and natural gas;
- lack of pipeline capacity;
- currency fluctuations;
- changes in income tax laws or changes in tax laws, regulations, royalties, or incentive programs relating to the oil and gas industry;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- uncertainties or imprecision associated with estimating oil and gas reserves;
- stock market volatility and our ability to access sufficient capital from internal and external sources;
- a significant or prolonged downturn in general economic conditions or industry activity;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- geological, technical, drilling, and processing problems;
- environmental risks and liabilities inherent in oil and gas operations; and
- other factors discussed in Freehold's annual MD&A, and audited financial statements for the year ended December 31, 2017 and our Annual Information Form.

Readers are cautioned that the foregoing list of factors is not exhaustive.

With respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, the following:

- future crude oil, NGL and natural gas prices;
- future capital expenditure levels;

- future production levels;
- future exchange rates;
- future tax rates;
- future legislation,
- the cost of developing and expanding our assets;
- our ability and the ability of our industry partners and royalty payors to obtain equipment in a timely manner to carry out development activities;
- our ability to market our product successfully to current and new customers;
- our expectation for the consumption of crude oil, NGL and natural gas;
- our expectation for industry drilling levels on our royalty lands;
- the impact of increasing competition;
- our ability to obtain financing on acceptable terms; and
- our ability to add production and reserves through our development and acquisition activities.

Key operating assumptions with respect to the forward-looking statements contained in this MD&A are provided in the Guidance Update section.

To the extent any guidance or forward-looking statements herein constitutes 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. 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.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement and speak only as of the date of this MD&A. 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.

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 barrel). 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, 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 MD&A, references are made to terms commonly used as key performance indicators in the oil and gas industry. We believe that operating income, operating netback, basic payout ratio and 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 by 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. (See our Netback Analysis section for calculations.)

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. (See our Dividend Policy section for calculations.)

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.

(\$000s)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Funds from operations	34,540	31,769	9%	66,924	63,838	5%
Capital expenditures	(819)	(1,139)	-28%	(2,334)	(1,851)	26%
Free cash flow	33,721	30,630	10%	64,590	61,987	4%

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

(\$000s)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2018	2017	Change	2018	2017	Change
Royalty expense	192	394	-51%	401	799	-50%
Operating expense	1,630	2,801	-42%	3,129	6,403	-51%
General and administrative expenses	2,513	2,603	-3%	6,400	6,063	6%
Interest expense	1,169	651	80%	1,975	1,537	28%
Expenditures on share based compensation	-	-	-	423	442	-4%
Total cash costs	5,504	6,449	-15%	12,328	15,244	-19%

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 figures 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.