CALGARY, Alberta, Aug. 09, 2017 (GLOBE NEWSWIRE) -- Freehold Royalties Ltd. (Freehold) (TSX:FRU) announced second quarter results for the period ended June 30, 2017.

Results at a Glance

	Three Months Ended June 30			Six Months Ended June 30		
FINANCIAL ($000s, except as noted)	2017	2016	Change	2017	2016	Change
Royalty and other revenue	38,430	32,219	19 %	79,521	57,152	39 %
Net income (loss)	13,084	(2,249)	-	20,172	(10,839)	-
Per share, basic and diluted ($)	0.11	(0.02)	-	0.17	(0.11)	-
Funds from operations	31,769	24,142	32 %	63,838	39,642	61 %
Per share, basic ($)	0.27	0.23	17 %	0.54	0.39	38 %
Operating income (1)	35,235	28,011	26 %	72,319	48,303	50 %
Operating income from royalties (%)	97	91	7 %	94	94	0 %
Acquisitions	1,267	162,211	-99 %	34,619	162,430	-79 %
Capital expenditures	1,139	753	51 %	1,851	2,837	-35 %
Working interest dispositions	28,808	-	-	29,096	-	-
Dividends declared	17,705	13,380	32 %	33,043	31,225	6 %
Per share ($) (2)	0.15	0.12	25 %	0.28	0.30	-7 %
Net debt	49,819	98,191	-49 %	49,819	98,191	-49 %
Shares outstanding, period end (000s)	118,073	117,652	0 %	118,073	117,652	0 %
Average shares outstanding (000s) (3)	118,018	106,736	11 %	117,987	102,914	15 %
OPERATING						
Average daily production (boe/d) (4)	12,589	12,041	5 %	12,670	12,006	6 %
Oil and NGL (%)	54	59	-8 %	55	61	-10 %
Average price realizations ($/boe) (4)	32.98	28.48	16 %	33.93	25.37	34 %
Operating netback ($/boe) (1) (4)	30.76	25.57	20 %	31.54	22.11	43 %

(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

Freehold achieved record royalty production and solid cash flow results in Q2-2017 marking the fourth consecutive quarter of increasing royalty production on a per share basis. We are revising our 2017 production guidance up 500 boe/d to 11,800 – 12,300 boe/d with better than expected audit recoveries and operating results. At current dividend levels we are forecasting an adjusted payout ratio for 2017 of 61%, safely within our target adjusted payout range of 60% – 80%. Not only are we growing royalty production on a per share basis, we exited the quarter with lower debt resulting in net debt to 12-month trailing funds from operations of 0.4 times (net debt of $50 million). In Q2-2017, Freehold issued 12 new lease agreements for a cumulative total of 37 new leases in the first half of 2017, exceeding the entire 2016 new lease count as we deliver continued organic growth. Our quarter was in line with Freehold's objective to deliver growth and low risk attractive returns to shareholders over the long term.

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 September 15, 2017 to shareholders of record on August 31, 2017. The dividend is designated as an eligible dividend for Canadian income tax purposes.

2017 Second Quarter Highlights

- Freehold's production averaged 12,589 boe/d, a 5% improvement over Q2-2016. Gains in production were largely driven by drilling activity on our royalty lands, our strong audit function (over 700 boe/d of prior period adjustments) and royalty acquisitions.

- Royalty production was up 16% compared to Q2-2016, averaging 11,270 boe/d. Royalty production increased 5% on a per share basis versus Q1-2017. We have grown our royalty production nine successive quarters and four quarters on a per share measure.
- Royalty interests accounted for 90% of total production and contributed 97% of operating income in Q2-2017, both being the highest totals in our history.
- Wells drilled on our royalty lands totaled 58 (1.6 net) in Q2-2017, up from 23 (0.4 net) in Q2-2016. Year-to-date we have seen 208 (10.2 net) wells drilled on our royalty lands compared to 108 (3.8 net) locations drilled during the same period in 2016.
- In Q2-2017 Freehold issued 12 new lease agreements for a cumulative total of 37 new leases in the first half of 2017, exceeding the 2016 total new lease count. Freehold’s unleased holdings are available for review on our website’s Leasing Opportunities page at www.freeholdroyalties.com.
- Freehold closed $28.9 million dispositions of various working interest assets located in southeast Saskatchewan. Total production and operating income associated with these assets for Q1-2017 was approximately 650 boe/d and $1.4 million respectively.
- Funds from operations totaled $31.8 million, an increase of 32% compared to Q2-2016, largely due to the increase in revenue. On a per share basis, funds from operations was $0.27/share in Q2-2017 up from $0.23/share in Q2-2016.
- Freehold generated $12.9 million in free cash flow (1), over and above our dividend, which we applied to outstanding debt. At June 30, 2017, net debt totaled $49.8 million resulting in a net debt to 12-month trailing funds from operations ratio of 0.4 times.
- Cash costs (1) for the quarter totaled $5.63/boe, down from $7.34/boe in Q2-2016 and $7.66/boe in Q1-2017. With the April 2017 disposition of our southeast Saskatchewan working interest assets and growth in our royalty production, we have reduced our cash costs and enhanced our netback.
- Dividends declared for Q2-2017 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 Q2-2017 totaled 56% while the adjusted payout ratio (1) ((cash dividends plus capital expenditures)/funds from operations) for the same period was 59%.

(1) See Non-GAAP Financial Measures.

Sustained Momentum on our Lands

Including drilling associated with acquisitions, 208 (10.2 net) wells were drilled on our royalty lands during the first six months of 2017, a 168% increase versus the same time period in 2016 (on a net basis). While the second quarter typically represents a slower period on the activity front, drilling on our lands came in above expectations with 58 (1.6 net) locations drilled, this compares to 23 (0.4 net) during the same period last year.

Activity through the first half 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 two quarters. We also see continued activity in core areas southeast Saskatchewan (Bakken, Mississippian), southwest Saskatchewan (Shaunavon) and the Deep Basin (Montney). Our top payors continue to represent some of the most well capitalized E&P producers in Canada.

Royalty Interest Drilling

	Three Months Ended June 30 (1)				Six Months Ended June 30 (1)			
	2017		2016		2017		2016	
	Gross	Equivalent Net (2)	Gross	Equivalent Net (2)	Gross	Equivalent Net (2)	Gross	Equivalent Net (2)
Non-unitized wells	35	1.5	11	0.3	175	10.0	59	3.5
Unitized wells (3)	23	0.1	12	0.1	33	0.2	49	0.3
Total	58	1.6	23	0.4	208	10.2	108	3.8

(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

The table below summarizes our key operating assumptions for 2017.

- We are increasing our 2017 production range to 11,800-12,300 boe/d (previously 11,300-11,800 boe/d), as a result of higher than expected results through the first half of the year, mostly due to drilling activity and prior period adjustments. 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.
- Volumes are expected to be weighted approximately 55% oil and natural gas liquids (NGL) and 45% natural gas.
- We continue to improve our royalty focus with royalty production accounting for 88% of forecasted 2017 production (up from 87%) and 95% of operating income (up from 94%).

- We are reducing our West Texas Intermediate price assumption to US$50.00/bbl (previously US$52.00/bbl). Western Canadian Select remains unchanged due to positive effects of the declining light/heavy oil differentials. Our AECO natural gas price assumption remains at $2.60/mcf.
- The Cdn$/US$ exchange rate has been adjusted upwards to $0.77 from $0.76 as a result of recent Canadian dollar appreciation and market expectations for the remainder of the year.
- Our operating costs forecast is revised downwards to $2.40/boe (from $2.50/boe) and general and administrative costs to $2.50/boe (from $2.60/boe) as a result of our increased royalty production.
- 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 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.

Key Operating Assumptions

		Guidance Dated			
2017 Annual Average		Aug. 9, 2017	May 10, 2017	Mar. 2, 2017	Nov. 8, 2016
Daily production	boe/d	11,800-12,300	11,300 - 11,800	11,300 - 11,800	11,000
West Texas Intermediate crude oil	US$/bbl	50.00	52.00	52.00	50.00
Western Canadian Select crude oil	Cdn$/bbl	49.00	49.00	49.00	46.00
AECO natural gas	Cdn$/Mcf	2.60	2.60	2.60	3.00
Exchange rate	Cdn$/US$	0.77	0.76	0.76	0.75
Operating costs	$/boe	2.40	2.50	3.25	3.25
General and administrative costs (1)	$/boe	2.50	2.60	2.60	2.65
Capital expenditures	$ millions	4	4	6	6
Weighted average shares outstanding	millions	118	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 June 30, 2017 will be held for the investment community on Thursday, August 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 1-800-273-9672 (toll-free in North America).

Availability on SEDAR

Freehold’s 2017 second 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 August 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;
- 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 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 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.

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 expense (if paid out in the period). 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.

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