

Freehold Royalties Ltd. Announces 2017 Results, Increases Dividend and Unveils 2018 Guidance

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CALGARY, Alberta, March 08, 2018 (GLOBE NEWSWIRE) -- [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced fourth quarter and year-end results for the period ended December 31, 2017.

RESULTS AT A GLANCE

	Three Months Ended December 31			Twelve Months Ended December 31		
FINANCIAL (\$000s, except as noted)	2017	2016	Change	2017	2016	Change
Royalty and other revenue	38,435	39,893	-4%	151,894	129,968	17%
Funds from operations	32,023	30,421	5%	123,788	94,211	31%
Per share, basic (\$)	0.27	0.26	4%	1.05	0.85	24%
Operating income ⁽¹⁾ from royalties (%)	97	93	4%	96	93	3%
Acquisitions	52,270	92	-	86,743	162,590	-47%
Working interest dispositions	354	-	-	32,419	-	-
Dividends declared	17,722	14,144	25%	68,479	59,502	15%
Per share (\$) ⁽²⁾	0.15	0.12	25%	0.58	0.54	7%
Net debt	68,621	73,161	-6%	68,621	73,161	-6%
Shares outstanding, period end (000s)	118,183	117,918	-	118,183	117,918	-
OPERATING						
Average daily production (boe/d) ⁽³⁾	12,032	12,579	-4%	12,350	12,219	1%
Oil and NGL (%)	53	56	-5%	55	58	-5%
Average price realizations (\$/boe) ⁽³⁾	33.59	33.72	-	32.80	28.37	16%
Operating netback (\$/boe) ^{(1) (3)}	32.66	29.80	10%	31.00	24.83	25%

(1) See Non-GAAP Financial Measures.

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

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

President's Message

2017 was a successful year for Freehold, as we achieved a number of objectives both operationally and financially.

Operationally, Freehold achieved record production in 2017 as volumes averaged 12,350 boe/d. We grew royalty production by 10% with volumes averaging 10,963 boe/d, a testament to the quality of our royalty portfolio. Volume additions were associated with oil focused drilling on our royalty lands and a key Viking acquisition. We also completed a transaction late in the year increasing our position in the Cardium. These deals provide multi-years of drilling inventory.

Financially, we are increasing our monthly dividend from \$0.05 to \$0.0525 per share (5% increase). This is consistent with our dividend strategy of positioning our adjusted payout at 60%-80% of funds from operations. Our forecasted adjusted payout ratio for 2018 is 61%, safely at the lower end of our target range. We lowered our net debt and lowered our total cash costs to \$5.13/boe in the fourth quarter. Our goal is to position Freehold as a low risk, attractive investment in oil and gas which we continue to achieve.

Thomas J. Mullane
President and CEO

Dividend Announcement

With increasing oil prices and strength in operations, Freehold's Board of Directors (the Board) has approved a 5% increase to its monthly dividend to \$0.0525 per share or \$0.63 per share annualized. The Board has declared a dividend of \$0.0525 per common share to be paid on April 16, 2018 to shareholders of record on March 31, 2018. The dividend is designated as an eligible dividend for Canadian income tax purposes.

The dividend increase is in-line with our previously stated dividend policy which outlines a 60%-80% adjusted payout ratio based on forward looking funds from operations. Based on our current guidance and commodity price assumptions, and assuming no significant changes in the current business environment, we expect to maintain the revised 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).

Subsequent Events

Consistent with our strategy of enhancing our royalty focus, on February 14, 2018 Freehold disposed of our non-core working interest in the Pembina Cardium Unit No. 9 in Alberta for \$8 million (before adjustments). As part of the transaction Freehold retained a 4% gross overriding royalty (GORR) on the same interests that were sold. Average production and operating income associated with the asset in 2017 was 179 boe/d and \$2.1 million (before GORR), respectively. This deal reduced our decommissioning liability by approximately 40 net working interest wells and also reduced our exposure to capital activities as Freehold had \$2.4 million of capital expenditures related to the property in 2017.

On February 28, 2018, Freehold completed a \$7.0 million royalty acquisition in the prospective East Shale Duvernay Basin in central Alberta. As part of the transaction, Freehold acquired a 1.0% GORR on approximately 113,920 gross acres (178 sections) and a 3.0% GORR on 1,920 gross acres (3 sections) of royalty lands. The asset has multiple years of development planned.

On March 7, 2018, Freehold closed two royalty acquisitions, one of them on the Weyburn Unit in Saskatchewan and the other on the Mitsue Gilwood Sand Unit #1 in Alberta. At Weyburn, where Freehold acquired a 0.2% lessor royalty, we see multi-year upside through expansion of the existing CO2 enhanced oil recovery process and additional infill drilling. At Mitsue, where Freehold acquired a 1.9% new GORR interest, we see further value enhancing opportunities through waterflood optimization, reactivations and infill drilling. The purchase price associated with these transactions was \$24 million (before adjustments) and the assignment by Freehold of certain minor working interest assets. Current production associated with the acquired royalty interests is approximately 110 boe/d (100% oil) and \$2.6 million in annualized operating income assuming strip pricing. We see these transactions shallowing Freehold's already low corporate decline.

Both transactions were funded through Freehold's existing credit facilities.

Fourth Quarter Results

Freehold delivered strong operational results in the fourth quarter of 2017. Highlights included:

- Freehold's production averaged 12,032 boe/d, down 4% versus the same period in 2016. Reduced volumes were largely driven by non-core working interest dispositions (approximately 800 boe/d based on 2016) completed in 2017.
- Royalty production was up 6% compared to Q4-2016 averaging 10,960 boe/d. Increased volumes were largely associated with better than expected third party production additions and the strength in our audit function (over 600 boe/d of prior period adjustments in the quarter). Royalties, as a percentage of operating income (97%) and production (91%), highlight our commitment to our royalty focus.

- Q4-2017 royalty and other revenue was down 4% to \$38.4 million versus the previous year largely due to reduced working interest production volumes.
- Net loss was \$8.1 million compared to \$1.6 million net income in Q4-2016. The loss was a result of a \$16.2 million impairment charge on our working interest assets, approximately half from assets disposed of in Q4-2017 and subsequent to year end.
- Funds from operations for Q4-2017 totaled \$32.0 million, an increase of 5% versus the same period in 2016. The increase year over year reflected growth in royalty revenue and lower cash costs. On a per share basis, funds from operations totaled \$0.27 per share in Q4-2017, up from \$0.26 per share in Q4-2016.
- Freehold closed the acquisition of a new 2% GORR in petroleum and natural gas rights in the Cadium, which included 166,000 gross acres (259 sections) of land in the greater Pembina area of Alberta. The purchase price of the GORR was \$52 million plus the assignment by Freehold of certain minor working interest assets. The royalty assets are currently producing approximately 210 boe/d (74% light oil).
- Freehold generated \$12.9 million in free cash flow ⁽¹⁾, over and above our dividend in Q4-2017, which we applied to outstanding debt. At December 31, 2017, net debt totaled \$68.6 million, up from \$38.3 million at September 30, 2017, implying a net debt to 12-month trailing funds from operations ratio of 0.6 times. The increase in net debt quarter over quarter reflected the \$52 million royalty acquisition which was funded through our existing credit facility.
- Cash costs ⁽¹⁾ for the quarter totaled \$5.13/boe, down from \$7.83/boe in Q4-2016. The decrease versus Q4-2016 reflected lower operating expenses due to the continued disposition of our working interest portfolio and gains in royalty production.
- Wells drilled on our royalty lands totaled 112 (5.7 net) in the quarter, down from 144 (6.4 net) in the previous quarter.
- In Q4-2017, Freehold issued 32 leases associated with our unleased mineral title lands; 100 leases were issued in 2017, compared to 30 leases in all of 2016.
- Dividends declared for Q4-2017 totaled \$0.15 per share, unchanged from the previous quarter and up from \$0.12 per share one year ago.
- Basic payout ratio ⁽¹⁾ (dividends declared/funds from operations) for Q4-2017 totaled 55% while the adjusted payout ratio ⁽¹⁾ ((cash dividends plus capital expenditures)/funds from operations) for the same period was 60%.

(1) See Non-GAAP Financial Measures.

Continued Strength in Drilling on our Royalty Lands

Including drilling associated with acquisitions, 464 (22.3 net) wells were drilled on our royalty lands in 2017, a 65% increase versus 2016. The majority of the spending on our royalty lands continues to be focused on oil targets with approximately 60% of the drilling associated with prospects in southeast Saskatchewan and in the Viking formation. In addition, we have seen an uptick in activity associated with the Shaunavon in southwest Saskatchewan and liquids rich natural gas targets in the Deep Basin in Alberta. Based on these activity levels, we estimate \$760 million was spent on our royalty lands in 2017. This compared to our estimate of \$475 million in 2016. Looking into 2018, we remain optimistic that activity levels will remain strong on our royalty lands.

ROYALTY INTEREST DRILLING

	Three Months Ended December 31 ⁽¹⁾				Twelve Months Ended December 31 ⁽¹⁾			
	2017		2016		2017		2016	
	Gross	Equivalent Net ⁽²⁾	Gross	Equivalent Net ⁽²⁾	Gross	Equivalent Net ⁽²⁾	Gross	Equivalent Net ⁽²⁾
Non-unitized wells	71	5.6	117	7.8	367	21.9	222	13.6
Unitized wells ⁽³⁾	41	0.1	8	-	97	0.4	59	0.3
Total	112	5.7	125	7.8	464	22.3	281	13.9
Royalty joint venture ⁽⁴⁾	2		1		4		1	

(1) Counts include wells drilled on acquired lands from January 1 through December 31 of the year the acquisition was made, other than the December 2017 acquisition (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.

(4) Wells drilled on various royalty joint venture lands, where equivalent net wells cannot be calculated.

2017 Highlights - Maintaining our Core Strategy

- Achieved record production with volumes averaging 12,350 boe/d, representing a 1% increase over 2016, despite completing approximately 800 boe/d (based on 2016 production) in non-core working interest dispositions. Volumes were comprised of 55% oil and natural gas liquids (NGL) and 45% natural gas. Royalty volumes averaged 10,963 boe/d a 10% increase versus 2016, highlighting the improvement of our royalty portfolio.
- Funds from operations totaled \$123.8 million or \$1.05 per share, up from \$94.2 million or \$0.85 per share in 2016, reflecting gains in operations and strength in the commodity.
- Declared dividends totaled \$68.5 million (\$0.58 per share), up from \$59.5 million (\$0.54 per share) in 2016, reflecting increased funds from operations. Freehold increased its monthly dividend by 25% in April 2017.
- Exited 2017 with net debt of \$68.6 million, implying net debt to funds from operations of 0.6 times. At year end we had \$90 million of available room within our credit facility.
- Freehold completed \$86.7 million in royalty acquisitions in 2017, adding new lands in the Cardium and further bolstering our key Viking royalty position.
- Proved plus probable reserves totaled 35.3 mmboe, down from 38.3 mmboe in 2016, with working interest dispositions in 2017 contributing to this reduction of reserves.

2018 Guidance

The table below summarizes our key operating assumptions for 2018.

- We are assuming a production range of 11,750 boe/d to 12,250 boe/d. Volumes are expected to be weighted approximately 55% oil and natural gas liquids (NGL) and 45% natural gas. We continue to maintain our royalty focus with royalty production accounting for 93% of forecasted 2018 production and 99% of operating income.
- We are currently forecasting 25 net wells will be drilled on our lands in 2018, representing a 12% increase over near-record drilling on our lands in 2017.
- We are assuming WTI and WCS price assumptions of US\$60.00/bbl and \$45.00/bbl respectively, and AECO at \$2.00/mcf.
- Our general and administrative expense assumption is forecast at \$2.50/boe. Total cash costs are forecast to be approximately \$5.00/boe.
- After increasing our monthly dividend by 5% from \$0.05 to \$0.0525 per share (see Dividend Announcement), we expect our 2018 adjusted payout ratio ((cash dividends plus capital expenditures)/funds from operations) to be approximately 61%.
- We forecast year-end net debt to funds from operations of approximately 0.4 times based on our revised key operating assumptions.

Key Operating Assumptions

		Guidance Dated
2018 Annual Average		Mar. 8, 2018
Daily production	boe/d	11,750-12,250
West Texas Intermediate (WTI) crude oil	US\$/bbl	60.00
Western Canadian Select (WCS) crude oil	Cdn\$/bbl	45.00
AECO natural gas	Cdn\$/Mcf	2.00
Exchange rate	Cdn\$/US\$	0.80
Operating costs	\$/boe	1.45
General and administrative costs (1)	\$/boe	2.50
Weighted average shares outstanding	millions	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.

2017 Reserves Information

Freehold's reserves information is included in our Annual Information Form (AIF) which is available on SEDAR at www.sedar.com and Freehold's website at www.freeholdroyalties.com

Conference Call Details

A conference call to discuss financial and operational results for the period ended December 31, 2017 will be held for the investment community on Friday, March 9, 2018 beginning at 7:00 am MT (9:00 am ET). To participate in the conference call, approximately 10 minutes prior to the conference call, please dial 1-800-806-5484 (toll-free in North America).

Availability on SEDAR

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

Forward-looking Statements

This news release offers our assessment of Freehold's future plans and operations as at March 8, 2018, 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;
- changing economic conditions;
- foreign exchange rates;
- drilling activity during 2018 and the impact on our production base;
- 2017 acquisitions providing multi-years of drilling inventory;
- our goal to position Freehold as a low risk investment in oil and gas royalties;
- the expectation that the assets underlying certain GORRs acquired by Freehold in the East Shale Duvernay Basin having multiple years of development planned;
- our expectation that there will be multi-year upside associated with the acquired royalties in the Weyburn Unit from expansion of the existing CO2 enhanced oil recovery process and additional infill drilling;
- our forecast that there will be further value enhancing opportunities in the Mitsue Gilwood Sand Unit #1 through waterflood optimization, reactivations and infill drilling;
- the March 7, 2018 royalty acquisition adding 110 boe/d and \$2.6 million in annualized operating income;
- our expectation that royalties acquired in the Weyburn Unit and Mitsue Gilwood Sand Unit #1 will shallow Freehold's already low corporate decline;
- our expected adjusted payout ratio for 2018;
- average production for 2018, contribution from royalty lands and weighting of oil, NGL and natural gas;
- 2018 percentage of production and operating income from royalties;
- key operating assumptions including operating costs and general and administrative costs;
- forecasted cash costs;
- forecast year-end net debt to funds from operations;
- our strategies and the expectation that those strategies will sustain production and reserves life;
- 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 AIF.

With respect to forward-looking statements contained in this news release, we have made assumptions regarding, among other things, future commodity prices, future capital expenditure levels, future production levels, future exchange rates, future tax rates, future legislation, the cost of developing and producing our assets, our ability and the ability of our lessees to obtain equipment in a timely manner to carry out development activities, our ability to market our oil and gas successfully to current and new customers, our expectation for the consumption of crude oil and natural gas, our expectation for industry drilling levels, our ability to obtain financing on acceptable terms, shut-in production, production additions from our audit function and our ability to add production and reserves through development and acquisition activities. The key operating assumptions with respect to the forward-looking statements referred to above are detailed in the body of this news release.

You are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. To the extent any guidance or forward looking statements herein constitute a financial outlook, they are included herein to provide readers with an understanding of management's plans and assumptions for budgeting purposes and readers are cautioned that the information may not be appropriate for other purposes. Our policy for updating forward-looking statements is to update our key operating assumptions quarterly and, except as required by law, we do not undertake to update any other forward-looking statements.

You are further cautioned that the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises, requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates may change, having either a positive or negative effect on net income (loss), as further information becomes available and as the economic environment changes.

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

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

Non-GAAP Financial Measures

Within this news release, references are made to terms commonly used as key performance indicators in the oil and natural gas industry. We believe that, operating income, operating netback, basic payout ratio, adjusted payout ratio, free cash flow and cash costs are useful supplemental measures for management and investors to analyze operating performance, financial leverage, and liquidity, and we use these terms to facilitate the understanding and comparability of our results of operations and financial position. However, these terms do not have any standardized meanings prescribed GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

Operating income, which is calculated as royalty and other revenue less royalties and operating expenses, represents the cash margin for product sold. Operating netback, which is calculated as average unit sales price less royalties and operating expenses, represents the cash margin for product sold, calculated on a per boe basis.

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

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

Cash costs is a total of certain cash expenses in the statement of income (loss) 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 compensation payments. It is key to funds from operations, representing the ability to, sustain dividends, repay debt and fund capital expenditures.

We refer to various per boe figures which provide meaningful information on our operational performance. We derive per boe figures by dividing the relevant revenue or cost figure by the total volume of oil, NGL and natural gas production during the period, with natural gas converted to equivalent barrels of oil as described above.

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

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