Freehold Royalties Ltd. Announces 2018 Results and Unveils 2019 Guidance

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CALGARY, March 07, 2019 - Freehold Royalties Ltd. (Freehold) (TSX:FRU) announced fourth quarter and year-end results for the period ended December 31, 2018.

Results at a Glance

	Three Months Ended December 31			Twelve Months Ended December 31		
FINANCIAL ($000s, except as noted)	2018	2017	Change	2018	2017	Change
Royalty and other revenue	24,902	38,435	-35 %	145,236	151,894	-4 %
Funds from operations	18,463	32,023	-42 %	121,287	123,788	-2 %
Per share, basic ($)	0.16	0.27	-41 %	1.03	1.05	-2 %
Acquisitions	10,247	52,270	-80 %	61,740	86,743	-29 %
Dividends declared	18,643	17,722	5 %	73,928	68,479	8 %
Per share ($) (1)	0.1575	0.15	5 %	0.6250	0.58	8 %
Net debt	89,375	68,621	30 %	89,375	68,621	30 %
Shares outstanding, period end (000s)	118,403	118,183	-	118,403	118,183	-
OPERATING						
Royalty production (boe/d) (2)	10,312	10,960	-6 %	10,718	10,963	-2 %
Total production (boe/d)(2)	10,929	12,032	-9 %	11,410	12,350	-8 %
Oil and NGL (%)	56	53	6 %	54	55	-2 %
Average price realizations ($/boe) (2)	23.40	33.59	-30 %	33.54	32.80	2 %
Operating netback ($/boe) (2) (3)	23.33	32.66	-29 %	33.30	31.00	7 %

(1) Based on the number of shares outstanding at each record date.
(2) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe).
(3) See Non-GAPP Financial Measures.

President's Message

2018 was another successful year for Freehold as we maintained our identity as a lower risk oil and gas investment.

We became a pure play royalty company, with royalty production averaging 10,718 boe/d for the year, representing 94% of total volumes and over 99% of operating income. Despite egress and infrastructure constraints within Canada that drove commodity prices lower, our liquids weighted royalty portfolio continues to attract capital as gross spending on our land increased by approximately 50% year-over-year. On the acquisition front, we completed $62 million in transactions adding a combination of low decline and emerging royalty assets. We are forecasting royalty production to average 9,900 boe/d -10,300 boe/d in 2019. This does not include our non-core working interest production, which we will be continuing to reduce.

We are maintaining our monthly dividend at $0.0525 per share. This is consistent with our dividend strategy of positioning our adjusted payout between 60%-80% of funds from operations. Our forecasted adjusted payout ratio for 2019 is 76%. We continue to maintain significant financial flexibility with our 2019 net debt to funds from operations expected to be 0.7 times, at the lower end of our leverage thresholds.

Early in the year, we held our inaugural Investor Day, unveiling our Asset Book which highlights the quality of our asset base as well as our multi-year upside on Freehold’s royalty lands. As a leading royalty company, Freehold’s objective is to deliver lower risk attractive returns to shareholders over the long term, which we believe we have continued to provide during 2018.

Thomas J. Mullane
President and CEO

Dividend Announcement

With uncertainty around commodity prices and other macroeconomic factors in Canada, Freehold's Board of Directors (the Board) has approved maintaining its monthly dividend at $0.0525 per share or $0.63 per share annualized. We will continue to review our dividend level quarterly. The Board has declared a dividend of $0.0525 per common share to be paid on April 15, 2019 to shareholders of record on March 31, 2019. The dividend is designated as an eligible dividend for Canadian income tax purposes.

Current payout levels are 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 current dividend rate through 2019. However, we will continue to evaluate the commodity price environment and adjust the dividend level if necessary.

2018 Highlights

- Achieved average royalty production of 10,718 boe/d, representing a 2% decrease versus 2017 as acquisition and royalty drilling production additions did not fully offset natural declines and lower prior period adjustments. Total production averaged 11,410 boe/d, an 8% decrease versus 2017, as we completed significant dispositions within our working interest portfolio. Total production volumes were comprised of 54% oil and natural gas liquids (NGL) and 46% natural gas. Production was enhanced by the strength of our audit and compliance functions which added over 400 boe/d and $8.0 million to 2018 results.
- Funds from operations totaled $121.3 million or $1.03 per share, down from $123.8 million or $1.05 per share in 2017. The decrease year-over-year reflected a combination of lower gas prices and reduced production volumes offset by slightly higher oil prices in 2018 and lower operating expenses.
- Dividends declared totaled $73.9 million ($0.6250 per share), up from $68.5 million ($0.58 per share) in 2017. Freehold increased its monthly dividend by 5% in April 2018.
- Exited 2018 with net debt of $89.4 million, implying net debt to funds from operations of 0.7 times. At year end we had $90.0 million of available capacity within our credit facility.
- Freehold completed $61.7 million in royalty acquisitions in 2018, adding new lands in the emerging Clearwater and Duvernay plays and further bolstering our key land positions in southeast and southwest Saskatchewan.
- Proved plus probable net reserves totaled 30.9 mmboe, down from 35.3 mmboe in 2017, mostly reflecting working interest dispositions and 2018 production. A detailed review of Freehold's reserve information was provided as part of the Annual Information Form (AIF). A copy of the AIF can be found on Freehold's website at www.freeholdroyalties.com or www.sedar.com.

Fourth Quarter Results

Despite a very challenging business environment, Freehold continued to execute on its strategy in the fourth quarter of 2018. Highlights included:

- Freehold’s total royalty production averaged 10,312 boe/d, down 6% versus the same period in 2017 but flat versus the previous quarter. Reduced volumes compared to Q4-2017 were driven by lower third-party production additions, natural gas and heavy oil curtailments and fewer prior period adjustments (120 boe/d in Q4-2018 versus 600 boe/d in Q4-2017).
- Royalty oil and NGL production, which has higher operating netbacks (1) than natural gas, averaged 5,818 boe/d in the fourth quarter of 2018, flat compared to Q4-2017 and 4% higher than the previous quarter.
- Operating income (1) from royalties represented over 99% of our total operating income in 2018 for both the current quarter and the full year, as we continue to divest of our working interest properties.

- Q4-2018 royalty and other revenue totaled $24.9 million, down 35% versus the previous year largely due to significantly lower realized oil prices resulting from wider Canadian oil price differentials. Freehold’s average realized oil and NGL price in the quarter was $34.48/boe compared to $55.18/boe in Q4-2017.
- Q4-2018 net loss was $4.2 million as low revenues affected our results. This compared to an $8.1 million net loss in Q4-2017, which included an impairment charge of $16.2 million on Freehold’s working interest properties.
- Funds from operations for Q4-2018 totaled $18.5 million, a decrease of 42% versus the same period in 2017. This was largely due to lower revenues caused by lower oil prices, including wider Canadian oil price differentials. On a per share basis, funds from operations totaled $0.16 per share in Q4-2018, down from $0.27 per share in Q4-2017.
- Freehold closed an acquisition of 77,000 gross royalty acres and 11,200 gross acres of mineral title in southwest Saskatchewan for a purchase price of $8.9 million. The royalty assets currently produce approximately 55 boe/d (100% oil) and provide a low expected decline (<10%) adding to the sustainability of our production and dividend.
- At December 31, 2018, net debt totaled $89.4 million, up from $78.7 million at September 30, 2018, implying a net debt to 12-month trailing funds from operations ratio of 0.7 times. The increase in net debt over the previous quarter reflected the funds allocated towards acquisitions, as there was no excess free cash flow(1) over and above our dividend in Q4-2018.
- Wells drilled on our royalty lands totaled 220 (7.4 net) in the quarter, up from 175 (6.3 net) in the previous quarter and 112 (5.7 net) during the same period in 2017.
- In Q4-2018, Freehold issued 26 leases associated with our unleased mineral title lands; 102 leases were issued in 2018, compared to 100 leases in 2017.
- Dividends declared for Q4-2018 totaled $0.1575 per share, unchanged from the previous quarter and up from $0.15 per share in Q4-2017.
- Basic payout ratio (1) (dividends declared/funds from operations) for Q4-2018 totaled 101% while the adjusted payout ratio (1) ((dividends paid plus capital expenditures)/funds from operations) was 105%.
    1. See Non-GAAP Financial Measures

Q4 Brings Increased Activity on our Royalty Lands

Including drilling associated with acquisitions, 719 (21.3 net) wells were drilled on our royalty lands in 2018, a 55% increase versus 2017 on a gross measure and a 4% decrease on a net measure. Of the net wells drilled, 27% were drilled on mineral title lands (139 gross non-unit wells). There was a continued shift towards oil investment on our royalty lands, with 94% of the drilling focused on oil targets. Activity continues to be driven by well-capitalized operators in the southwest Saskatchewan Viking, southeast Saskatchewan Mississippian carbonates, central Alberta Mannville heavy and light oil plays, and west central Alberta Cardium oil. Looking into 2019, we remain optimistic that activity levels will remain strong on our royalty lands, similar to 2018, with strong results expected in the Alberta and Saskatchewan Viking.

ROYALTY INTEREST DRILLING

	Three Months Ended December 31 (1)				Twelve Months Ended December 31 (1)			
	2018		2017		2018		2017	
	Gross	Equivalent Net (2)	Gross	Equivalent Net (2)	Gross	Equivalent Net (2)	Gross	Equivalent Net (2)
Non-unitized wells	170	7.3	71	5.6	469	20.4	367	21.9
Unitized wells (3)	50	0.1	41	0.1	250	0.9	97	0.4
Total	220	7.4	112	5.7	719	21.3	464	22.3

(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.

2019 Guidance

The following table summarizes our key operating assumptions for 2019.

- We are assuming a royalty production range of 9,900 boe/d to 10,300 boe/d, which is expected to be approximately 96% of our total production. Income from royalty properties is expected to be 100% of operating income. Royalty volumes are expected to be weighted approximately 58% oil and natural gas liquids (NGL) and 42% natural gas. In addition, we have forecast 400 boe/d to 500 boe/d of non-core working interest volumes.
- We are currently forecasting 20 net wells will be drilled on our lands in 2019, representing a 6% decrease over 2018.
- We are assuming West Texas Intermediate and Edmonton Light Sweet oil price assumptions of US$55.00/bbl and $61.00/bbl respectively, and AECO at $1.60/mcf.
- Our general and administrative expense assumption is forecast at $3.00/boe and total cash costs are forecast to be approximately $5.25/boe.
- With our monthly dividend remaining at $0.0525 per share, we expect our 2018 adjusted payout ratio ((dividends paid plus capital expenditures)/funds from operations) to be approximately 76%.
- We forecast year-end net debt to funds from operations of approximately 0.7 times based on our key operating assumptions (with no acquisition activity).

Key Operating Assumptions

		Guidance Dated
2019 Annual Average		Mar. 7, 2019
Royalty production (excludes working interest production)	boe/d	9,900-10,300
West Texas Intermediate crude oil	US$/bbl	55.00
Edmonton Light Sweet crude oil	Cdn$/bbl	61.00
AECO natural gas	Cdn$/Mcf	1.60
Exchange rate	Cdn$/US$	0.76
General and administrative costs (1)	$/boe	3.00
Weighted average shares outstanding	millions	119

1. Excludes share based compensation; per share cost is based on estimated total production, which includes working interest production

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.

2018 Reserves Information

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

Advance Notice By-Law

Freehold announced that its Board today approved the adoption of an advance notice by-law. The by-law fixes a deadline by which shareholders must submit a notice of director nominations to Freehold prior to any annual or special meeting of shareholders where directors are to be elected and sets forth the information that a shareholder must include in the notice for it to be valid.

Specifically, the by-law requires advance notice to Freehold in circumstances where nominations of persons for election as a director of Freehold are made by shareholders other than pursuant to: (i) a requisition of a meeting made pursuant to the provisions of the *Business Corporations Act* (Alberta); or (ii) shareholder proposal made pursuant to the provisions of the *Business Corporations Act* (Alberta).

In the case of an annual meeting of shareholders, notice to Freehold must be made not less than 30 days prior to the date of the annual meeting. In the event that the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the 10th day following such public announcement.

In the case of a special meeting of shareholders (which is not also an annual meeting), notice to Freehold must be made not later than the close of business on the 15th day following the day on which the first public announcement of the date of the special meeting was made.

If Freehold determines to use the notice-and-access provisions under National Instrument 54-101 - *Communication with Beneficial Owners of Securities of a Reporting Issuer* for delivery of proxy related materials in respect of either an annual or special meeting of shareholders and provided Freehold's first public announcement of the date of such meeting is at least 50 days before the date of the applicable meeting then the notice of a shareholder's director nomination must be received not later than the close of business on the 40th day before the date of the applicable meeting.

The by-law is effective immediately. At the next meeting of shareholders of Freehold, shareholders will be asked to confirm and ratify the by-law. If the by-law is not confirmed and ratified at the next meeting of shareholders of Freehold, the by-law will cease to have effect as of such date. A copy of the by-law is available on www.sedar.com and on our website at www.freeholdroyalties.com.

Conference Call Details

A conference call to discuss financial and operational results for the period ended December 31, 2018 will be held for the investment community on Friday, March 8, 2019 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), participant access code 6745430#.

Availability on SEDAR

Freehold’s 2018 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 7, 2019 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;
- cash costs forecasted at approximately $5.25/boe;
- forecast 2019 average royalty production, including product mix and percentage of total average production from royalties;
- forecast 2019 working interest production;
- continuing to reduce our working interest production;
- the expectation that activity levels in 2019 will remain strong on our royalty lands, similar to 2018, with strong results expected in the Alberta and Saskatchewan Viking;
- expectations as to decline rates on certain acquired assets;
- foreign exchange rates;
- our expected adjusted payout ratio for 2019;
- 2019 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;
- industry drilling and development activity on our royalty lands, including our estimate of 2019 net royalty wells at 20;
- our dividend policy and expectations for future dividends; and

- maintaining our monthly dividend rate through the next year.

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 available at www.sedar.com.

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, 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 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 is calculated as royalty and other revenue less royalty and operating expenses. It shows the profitability of our revenue streams as it provides the cash margin for product sold after directly related expenses. Operating netback, which is calculated as average unit sales price less royalty 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 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 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.

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.

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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