

Freehold Royalties Ltd. Announces 2014 Second Quarter Results

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CALGARY, ALBERTA--(Marketwired - Aug 7, 2014) - [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced second quarter results for the period ended June 30, 2014.

RESULTS AT A GLANCE

FINANCIAL (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	Change	2014	2013	Change
Gross revenue	54,676	44,109	24 %	103,876	84,746	23 %
Net income	19,598	14,292	37 %	37,452	24,785	51 %
Per share, basic and diluted (\$)	0.29	0.21	38 %	0.55	0.37	49 %
Funds from operations (1)	37,319	30,115	24 %	68,112	53,932	26 %
Per share (\$) (1)	0.55	0.45	22 %	1.00	0.81	23 %
Operating income (1)	47,801	37,898	26 %	91,596	73,248	25 %
Net operating income from royalties (%)	77	74	4 %	77	74	4 %
Acquisition and joint venture expenditures	109,044	658	-	110,928	658	-
Capital expenditures	6,284	3,313	90 %	17,390	18,227	-5 %
Dividends declared	28,711	28,019	2 %	57,287	55,916	2 %
Per share (\$) (2)	0.42	0.42	0 %	0.84	0.84	0 %
Long-term debt, period end (3) (6)	172,000	55,000	213 %	172,000	55,000	213 %
Shares outstanding, period end (000s)	68,520	66,874	2 %	68,520	66,874	2 %
Average shares outstanding (000s) (4)	68,296	66,649	2 %	68,131	66,512	2 %
OPERATING						
Average daily production (boe/d) (5)	8,810	8,714	1 %	8,716	8,889	-2 %
Average price realizations (\$/boe) (5)	67.45	54.66	23 %	65.12	51.84	26 %
Operating netback (\$/boe) (1) (5)	59.62	47.80	25 %	58.05	45.53	27 %

(1) See Additional GAAP Measures and Non-GAAP Financial Measures.

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

(3) Net debt as at June 30, 2014 was \$160.1 million, up \$111.5 million from \$48.6 million at March 31, 2014. As of August 7, 2014 net debt was \$141 million.

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

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

(6) On May 2, 2014, Freehold acquired mineral title and royalty interests on certain producing and non-producing lands for \$107.6 million, after closing adjustments.

August Dividend Announcement

The Board of Directors has declared the August dividend of \$0.14 per share, will be paid on September 15, 2014 to shareholders of record on August 31, 2014. The dividend is designated as an eligible dividend for Canadian income tax purposes. Including the September 15, 2014 payment, the 12-month trailing cash dividends total \$1.68/share.

2014 Second Quarter Highlights

- Driven by commodity strength, funds from operations totalled \$37.3 million (\$0.55/share) for the quarter, representing a 22% improvement (on a per share basis) versus both Q2-2013 and Q1-2014. Royalty production represented 77% of total operating income through the second quarter.
- Net income of \$19.6 million (\$0.29/share) represented a 37% improvement from Q2-2013.
- Closed an acquisition of mineral title and royalty interests on certain producing and non-producing lands in southeast Saskatchewan and Manitoba for approximately \$107.6 million including adjustments. Production associated with these assets averaged approximately 470 boe/d through 2013. The transaction was funded through Freehold's existing credit facilities.

- Production for the quarter averaged 8,810 boe/d; this represented a 1% increase over Q2-2013 and a 2% gain when compared to Q1-2014. Compared to Q2-2013, oil and NGL production was up 11%, while natural gas volumes declined 14%. The increase in oil and NGL volumes was primarily associated with Freehold's southeast Saskatchewan acquisition which closed on May 2, 2014.
- Overall, royalty production represented approximately 74% of total volumes through the second quarter.
- Working interest production declined by 8% versus Q2-2013, primarily associated with reduced or delayed activity by our working interest partners, due to corporate takeovers.
- The second quarter included positive prior period adjustments to production of approximately 200 boe/d (70% oil) partially the result of our ongoing audit program.
- Dividends for the second quarter of 2014 totalled \$0.42 per share, unchanged from the prior year.
- Average participation in our DRIP was 26% (Q2-2013 - 25%). Cash retained totalled \$7.6 million for the quarter and \$15.2 million for the first six months of 2014.
- Net capital expenditures on our working interest properties totalled \$6.3 million over the quarter, with the majority invested on our mineral title lands.
- At June 30, 2014, net debt totalled \$160.1 million, up \$111.5 million from \$48.6 million at March 31, 2014. The increase in our debt levels was primarily associated with acquisition activity.
- Net debt as of the second quarter 2014 implied a 1.2 times trailing funds from operations and net debt obligations represented approximately 35% of total capitalization.

Second Quarter Acquisition

On May 2, 2014, Freehold acquired mineral title and royalty interests on certain producing and non-producing lands in southeast Saskatchewan and Manitoba for \$107.6 million (after closing adjustments). Total proceeds associated with the purchase and sale agreement were funded through Freehold's existing bank credit facilities. The acquisition further added to Freehold's land position within southeast Saskatchewan while enhancing Freehold's near-term growth profile.

Acquisition Highlights:

- 2013 average production of 470 boe/d (99% oil weighted), from over 400 producing wells.
- Revenue is derived from a combination of Lessor Royalties and Non-Convertible Overriding Royalties, offering Freehold enhanced netbacks.
- 2013 operating income of \$15.0 million.
- Increased land exposure comprised of 71,700 acres of Mineral Title Lands.
- Proved plus probable reserves of approximately 1.5 million boe, based on an independent engineering report prepared by Trimble Engineering Associates Ltd. as of December 31, 2013.

Subsequent Events

Joint Venture

On July 16, 2014, Freehold closed a \$120 million strategic joint venture with a Canadian based company in the East Edson area of Alberta (the "Joint Venture" or "JV"). The Joint Venture is effective July 1, 2014 and will encompass a multi-year commitment by both parties to develop the JV Partner's East Edson acreage.

- Freehold assumes a priority share of production through the creation of a gross overriding royalty (GORR). Royalty production anticipated by Freehold with this Joint Venture is forecasted at approximately 5.6 mmcf/d of sales natural gas plus associated liquids (82% natural gas) through 2014. Total royalty production from the Joint Venture is forecast to remain flat from 2014 to year-end 2022, declining 10% per year thereafter.
- Under the Joint Venture, Freehold assumes no operating costs (outside of transport fees), no royalty deductions and no abandonment liabilities. Freehold will receive "priority" royalty volumes.

- As part of its \$120 million capital commitment, Freehold will acquire a 50% royalty interest on current production within the JV area (Producing Royalty) for \$50 million and will have a capital commitment of \$70 million (approximately 14 net Wilrich horizontal wells) pursuant to a Farmout and Royalty Agreement (Drilling Royalty). Once Freehold's share of the existing royalty production declines below 5.6 mmcf/d, volumes from new wells are added pursuant to the Drilling Royalty to maintain Freehold's production at a cap rate of 5.6 mmcf/d plus associated liquids for 8.5 years. The \$70 million capital commitment pursuant to the Drilling Royalty was paid by Freehold at closing and will be held in escrow until such time as the capital is required for the drilling program. The Joint Venture comes with associated Canadian Oil and Gas Property Expense (COGPE) and drilling program tax pools.
- The JV Partner has agreed to spend \$60 million (approximately 11 net Wilrich horizontal wells) in additional drilling over the life of the agreement over and above Freehold's capital. The JV Partner has also committed to construct a new 30 mmcf/d gas plant or expand existing processing infrastructure within the JV Area.
- Freehold considers this Joint Venture as offering a low risk, attractive return for Freehold, showcasing the Company's flexibility in creating value for its shareholders as well as presenting an attractive non-dilutive method of funding energy industry development drilling.

Equity Offering

In conjunction with the Joint Venture, Freehold closed a bought deal financing, issuing 4,900,000 common shares at a price of \$26.90 per share for gross proceeds of approximately \$131.8 million, which included the partial exercise of the over-allotment option granted to the underwriters.

Concurrent with the closing of the bought deal offering, the pension trust funds for employees of Canadian National Railway Company (CN Pension Trust Funds) purchased approximately \$15 million (557,621 common shares) of Freehold, at \$26.90 on a non-brokered private placement basis.

The aggregate gross proceeds raised by Freehold pursuant to the bought deal offering and the investment by the CN Pension Trust Funds totaled approximately \$146.8 million. Freehold used a portion of the net proceeds from the bought deal offering and investment by the CN Pension Trust Funds to fund its commitments pursuant to the Joint Venture and used the remainder to pay down a portion of outstanding indebtedness.

Royalty Acquisition

Subsequent to June 30, 2014, Freehold also acquired certain royalty interests in southeast Saskatchewan for approximately \$6.9 million, including adjustments. In this acquisition Freehold purchased a 1.8% royalty on 21.2 sections of land, netting 22 boe/d of high netback royalty volumes. In addition, Freehold sees further upside within the area through accelerated development of the Midale and Bakken which is expected to keep acquired production volumes flat through the next five to eight years.

Guidance Update

The table below summarizes our key operating assumptions for 2014, updated to reflect actual statistics for the first six months of 2014 and our current expectations for the remainder of the year.

The updated guidance reflects the Joint Venture and the \$6.9 million southeast Saskatchewan royalty acquisition described above.

- Through 2014, we are forecasting WTI to average \$99.00/bbl, up slightly from our previous guidance forecast, and AECO to average \$4.25/mcf, down \$0.25.
- Reducing leverage associated with our recent equity raise, we are forecasting 2014 year-end net debt of approximately \$131 million. This is down slightly from our last update (\$137 million) accounting for the issue of shares, and the acquisition activity subsequent to quarter-end.

- We have increased our 2014 production forecast to 9,500 boe/d (previously 9,100 boe/d). The increase in our guidance is associated with our recent Joint Venture. Volumes are expected to be weighted approximately 62% oil and natural gas liquids (NGL's) and 38% natural gas for the remainder of 2014. We continue to maintain our royalty focus with royalty production accounting for 73% of forecasted 2014 production (previously 69% of 2014 volumes).
- We have decreased our 2014 tax expense assumption, reflecting increased tax pools resulting from the Joint Venture.
- The increase in our weighted average shares outstanding accounts for our latest share offering which closed July 16, 2014.

2014 Annual Average		Guidance Dated		
		Aug. 7, 2014	May 14, 2014	Mar. 6, 2013
Daily production	boe/d	9,500	9,100	8,700
WTI oil price	US\$/bbl	99.00	98.00	97.00
Western Canada Select (WCS)	Cdn\$/bbl	85.00	85.00	83.00
AECO natural gas price	Cdn\$/Mcf	4.25	4.50	4.50
Exchange rate	Cdn\$/US\$	0.92	0.90	0.90
Operating costs	\$/boe	6.00	6.00	6.00
General and administrative costs (1)	\$/boe	2.60	2.60	2.60
Capital expenditures	\$ millions	35	35	35
Dividends paid in shares (DRIP) (2)	\$ millions	31	29	29
Long-term debt at year end	\$ millions	131	137	38
Current income tax expense (3)	\$ millions	28	33	32
Weighted average shares outstanding	millions	71	68	68

(1) Excludes share based and other compensation.

(2) Assumes an average 25% participation rate in Freehold's dividend reinvestment plan, which is subject to change at the participants' discretion.

(3) Corporate tax estimates will vary depending on commodity prices and other factors.

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 2014, subject to the Board's quarterly review and approval.

Availability on SEDAR

Freehold's 2014 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.

Forward-looking Statements

This news release offers our assessment of Freehold's future plans and operations as at August 7, 2014, 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;
- industry drilling, development and licensing activity on our royalty lands, and the potential impact of horizontal drilling on production and reserves;
- development of working interest properties;
- participation in the DRIP and our use of cash preserved through the DRIP;
- estimated capital budget and expenditures and the timing thereof;

- estimated operating and general and administrative expenses;
- long-term debt at year end;
- average production and contribution from royalty lands, acquisitions and the Joint Venture;
- key operating assumptions;
- amounts and rates of income taxes and timing of payment thereof; and
- maintaining our monthly dividend rate through 2014 and our dividend policy.

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 oil and gas prices, future capital expenditure levels, future production levels, future exchange rates, future tax rates, future participation rates in the DRIP and use of cash retained through the DRIP, 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 natural 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, 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. 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 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.

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.

Additional GAAP Measures

This news release contains the term "funds from operations", which does not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities. Funds from operations, as presented, is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to net income or other measures of financial

performance calculated in accordance with GAAP. 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 fund 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 per share.

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, and net debt to funds from operations 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 gross 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. Net debt to funds from operations is calculated as net debt (total debt less working capital) as a proportion of funds from operations for the previous twelve months. In addition, we refer to various per boe figures, such as revenues and costs, also considered non-GAAP measures, 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 and natural gas production during the period, with natural gas converted to equivalent barrels of oil as described above.

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