

CALGARY, ALBERTA--(Marketwired - May 14, 2015) - [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced first quarter results for the period ended March 31, 2015.

RESULTS AT A GLANCE

	Three Months Ended March 31			
FINANCIAL (\$000s, except as noted)	2015	2014	Change	
Gross revenue	27,751	49,200	-44	%
Net income	21,617	17,854	21	%
Per share, basic and diluted (\$)	0.29	0.26	12	%
Funds from operations (1)	21,938	30,793	-29	%
Per share, basic (\$) (1)	0.29	0.45	-36	%
Operating income (1)	22,632	43,795	-48	%
Operating income from royalties (%)	83	77	8	%
Acquisitions	68,370	1,884	3529	%
Capital expenditures	5,969	11,106	-46	%
Dividends declared	20,329	28,576	-29	%
Per share (\$) (2)	0.27	0.42	-36	%
Net debt obligations (1)	198,834	48,600	309	%
Shares outstanding, period end (000s)	75,457	68,157	11	%
Average shares outstanding (000s) (3)	75,199	67,965	11	%
OPERATING				
Average daily production (boe/d) (4)	10,058	8,623	17	%
Average price realizations (\$/boe) (4)	29.80	62.72	-52	%
Operating netback (\$/boe) (1) (4)	25.01	56.43	-56	%

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

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

May Dividend Announcement

The Board of Directors has declared the May dividend of \$0.09 per share, will be paid on June 15, 2015 to shareholders of record on May 31, 2015. The dividend is designated as an eligible dividend for Canadian income tax purposes. Including the June 15, 2015 payment, the 12-month trailing cash dividends total \$1.43/share.

2015 First Quarter Highlights

- Freehold's production averaged a record 10,058 boe/d, a 17% improvement over Q1-2014 and it eclipsed 10,000 boe/d for the first time in our history. Gains in production were largely driven by success in executing our acquisition strategy, closing over \$68 million in transactions during the quarter.
- Royalty production was up 13% compared to Q1-2014, averaging 7,164 boe/d. Total royalty barrels accounted for 71% of production.
- Dividends declared for Q1-2015 totalled \$0.27 per share, down from \$0.42 per share one year ago.
- Working interest production was up 27% when compared to the same period last year. The increase in volumes was primarily driven by higher spending levels through 2014 and volumes associated with the corporate acquisition of [Anderson Energy Ltd.](#) on January 23, 2015.
- Average price realizations decreased 52%, resulting in a 44% decrease in gross revenue compared to Q1-2014.
- Funds from operations totalled \$21.9 million in Q1-2015, down 29% from the same period last year, due to lower realized pricing, partly offset by income tax recoveries.
- Net income of \$21.6 million, was a 21% improvement from Q1-2014 due to a \$24.3 million gain (non-cash) on the corporate acquisition, offset by lower revenues. Without the one-time gain, Freehold would have a net loss of \$2.7 million in Q1-2015.
- In total, royalty interests accounted for 67% of gross revenue in Q1-2015, however they contributed 83% of operating income.
- Average participation in our DRIP was 35% (Q1 2014 - 27%). Cash retained totalled \$8.4 million (first three months of 2015).
- Net capital expenditures on our working interest properties totalled \$6.0 million over the quarter, slightly below forecast.
- At March 31, 2015, net debt totalled \$198.8 million, up \$63.0 million from \$135.8 million at December 31, 2014, primarily the result of increased acquisition activity. Our current long term debt is \$140.0 million which implies a debt to funds from operations ratio of approximately 1.0 times.
- On January 23, 2015 Freehold increased its credit facilities from \$210 million to \$260 million through a syndicate of four Canadian chartered banks. This increase allows Freehold to maintain its financial flexibility.

First Quarter Acquisitions

On January 23, 2015, Freehold acquired all of the outstanding shares of [Anderson Energy Ltd.](#) ("Anderson") pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) for total consideration of \$35 million (subject to certain adjustments) with Freehold funding the deal through its existing credit facilities. Pursuant to the plan of arrangement, Anderson shareholders exchanged their shares for a newly formed publicly listed company, Anderson Energy Inc. ("New Anderson"). In addition, prior to Freehold acquiring the outstanding shares, Anderson transferred certain assets and liabilities to New Anderson. The liabilities transferred to New Anderson included Anderson's liabilities and obligations for its outstanding convertible debentures. Production from the assets is expected to be approximately 350 boe/d (95% working interest natural gas) in 2015.

Immediately following the completion of the acquisition of Anderson, Freehold completed a corporate restructuring pursuant to which Freehold first amalgamated with Anderson (after Anderson had changed its name to 1851328 Alberta Ltd.) and subsequently amalgamated with its wholly-owned subsidiary, Freehold Resources Ltd. In addition, pursuant to the restructuring, Freehold Holdings Trust was established and became a partner in Freehold Royalties Partnership.

On January 23, 2015, Freehold closed the purchase of royalty and mineral title assets in Alberta, British Columbia and Saskatchewan for \$12.4 million. These assets are producing approximately 70 boe/d (60% gas) and included 35,600 mineral title acres.

On March 24, 2015, Freehold closed an acquisition of a new royalty with [Marquee Energy Ltd.](#) ("Marquee") for total consideration of \$20 million. The transaction is expected to add 137.5 bbl/d of new heavy oil royalty production for the next eight years, declining at 20% per year thereafter. Marquee has committed to (i) spend a minimum of \$2.75 million and (ii) drill a minimum of four new wells per year from 2016-2022, to continue development of the lands subject to the royalty.

Subsequent Events

On May 6, 2015, Freehold closed an acquisition from [Penn West Petroleum Ltd.](#) ("Penn West") of two royalty packages totalling approximately 1,400 boe/d of 2015 average net royalty production and annualized operating income of \$29 million (under the pricing assumptions US\$60/bbl WTI oil price, Cdn\$3.00/mcf AECO natural gas price and Cdn\$/US\$ 0.80 exchange rate) for an aggregate purchase price of \$318 million, prior to normal closing adjustments (together, the "Penn West Transactions"). The effective date of the Penn West Transactions is March 1, 2015.

The first royalty package is an 8.5% gross overriding royalty ("GORR") covering 45,000 acres in Penn West's Dodsland area of Saskatchewan prospective for the Viking formation. It is a highly economic oil play with low cost structure and attractive netbacks anchored by an expected five year development plan. 2015 expected average net production is 660 boe/d (93% liquids weighting based on 2014 actuals).

The second package is existing royalties and mineral title lands across a variety of plays within the Western Canadian Sedimentary Basin covering 280,000 acres. Income is split approximately 57% from GORR's and 43% from mineral title, with over 70% of existing production derived from southeast Saskatchewan and central Alberta, which is complementary to Freehold's existing core mineral title acreage. 2015 expected average net production is 740 boe/d (74% liquids weighting based on 2014 actuals).

The Penn West Transactions were funded by a \$373 million public equity financing (20,700,000 common shares at \$18.00 per share, which included the exercising of the over-allotment option of 2,700,000 common shares on the same terms) and a \$33 million concurrent private placement (1,833,334 common shares at \$18.00 per share) to CN Pension Trust Funds. The aggregate gross proceeds raised was \$406 million and net proceeds after underwriters' fees was \$391 million. Freehold used the net proceeds to complete the Penn West Transactions and pay down a portion of its outstanding indebtedness with the remainder.

Guidance Update

The table below summarizes our key operating assumptions for 2015, updated to reflect actual statistics for the first three months and our current expectations for the remainder of the year. We note that the assumptions and guidance reflects the transactions discussed in Subsequent Events. As a result of deleveraging associated with these transactions and the assumptions below, year-end long-term debt is forecast to be approximately \$110 million with a trailing debt to funds from operations of 0.8 times.

- We have made no changes to our latest 2015 production forecast (10,800 boe/d) as stated April 14, 2015. Volumes are expected to be weighted approximately 62% oil and natural gas liquids (NGL's) and 38% natural gas. We continue to maintain our royalty focus with royalty production accounting for 73% of forecasted 2015 production and 83% of operating income.
- WTI and WCS oil prices remain unchanged but AECO natural gas price has dropped by \$0.25 representing a further softening of supply/demand fundamentals.

- Operating costs have been reduced to \$5.25 per boe from \$6.60 per boe due to an increase in our royalty production with recent acquisitions.
- Our capital spending budget remains at \$25 million. However a large percentage of our capital expenditures program is non-operated and the exact capital is difficult to predict. We expect to have additional information on the spending of our partners as we move through the year.
- Weighted average shares outstanding have increased due to our equity financings.

		Guidance Dated		
2015 Annual Average		May 14, 2015	Mar. 5, 2015	Jan. 14, 2015
Daily production (1)	boe/d	10,800	9,800	9,800
WTI oil price	US\$/bbl	60.00	60.00	60.00
Western Canadian Select (WCS)	Cdn\$/bbl	56.00	56.00	54.00
AECO natural gas price	Cdn\$/Mcf	2.75	3.00	3.00
Exchange rate	Cdn\$/US\$	0.82	0.80	0.84
Operating costs	\$/boe	5.25	6.60	6.60
General and administrative costs (2)	\$/boe	2.60	2.60	2.60
Capital expenditures	\$ millions	25	25	25
Dividends paid in shares (DRIP) (3)	\$ millions	27	26	26
Weighted average shares outstanding millions		91	76	76

(1) Production guidance was updated to 10,800 boe/d on April 14, 2015 but no other assumptions were changed at that time.

(2) Excludes share based and other compensation.

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

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 2015, subject to the Board's quarterly review and approval.

Availability on SEDAR

Freehold's 2015 first 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 May 14, 2015, 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 and debt to funds from operations at year end;
- average production and contribution from royalty lands;
- key operating assumptions;
- estimated production and operating income on acquisitions
- amounts and rates of income taxes and timing of payment thereof; and
- maintaining our monthly dividend rate through 2015 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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