

CALGARY, ALBERTA--(Marketwired - Aug 6, 2015) - [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced second quarter results for the period ended June 30, 2015.

RESULTS AT A GLANCE

FINANCIAL (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	Change	2015	2014	Change
Gross revenue	38,004	54,676	-30%	65,755	103,876	-37%
Net income	3,919	19,598	-80%	25,536	37,452	-32%
Per share, basic and diluted (\$)	0.04	0.29	-86%	0.31	0.55	-44%
Funds from operations (1)	28,730	37,319	-23%	50,668	68,112	-26%
Per share, basic (\$) (1)	0.32	0.55	-42%	0.62	1.00	-38%
Operating income (1)	32,733	47,801	-32%	55,365	91,596	-40%
Operating income from royalties (%)	85	77	10%	84	77	9%
Acquisitions	342,310	109,044	214%	410,680	110,928	270%
Capital expenditures	2,750	6,284	-56%	8,719	17,390	-50%
Dividends declared	24,459	28,711	-15%	44,788	57,287	-22%
Per share (\$) (2)	0.27	0.42	-36%	0.54	0.84	-36%
Net debt obligations (1)	146,992	160,061	-8%	146,992	160,061	-8%
Shares outstanding, period end (000s)	98,203	68,520	43%	98,203	68,520	43%
Average shares outstanding (000s) (3)	89,388	68,296	31%	82,333	68,131	21%
OPERATING						
Average daily production (boe/d) (4)	10,617	8,810	21%	10,338	8,716	19%
Average price realizations (\$/boe) (4)	38.63	67.45	-43%	34.36	65.12	-47%
Operating netback (\$/boe) (1) (4)	33.88	59.62	-43%	29.58	58.05	-49%

(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).

Dividend Announcement

The Board of Directors has declared a dividend of \$0.09 per share to be paid on September 15, 2015 to shareholders of record on August 31, 2015. The dividend is designated as an eligible dividend for Canadian income tax purposes. Including the September 15, 2015 dividend, the 12-month trailing cash dividends total \$1.28/share.

2015 Second Quarter Highlights

- Freehold's production averaged a record 10,617 boe/d over the quarter, a 21% improvement versus Q2-2014 and 6% higher when compared to Q1-2015. Growth in production was largely driven by success in executing our acquisition strategy, with over \$340 million in transactions closed during the period.
- Royalty production was up 24% compared to Q2-2014, averaging 8,039 boe/d. Total royalty barrels accounted for 76% of production and 73% of gross revenue in Q2-2015; however they contributed 85% of operating income.
- Working interest production was up 11% when compared to the same period last year but down 11% versus Q1-2015. The increase in volumes was primarily driven by the corporate acquisition of [Anderson Energy Ltd.](#) while the reduction quarter over quarter reflected a combination of reduced spending within our working interest program and temporary non-operated facility issues.
- Funds from operations totalled \$28.7 million (\$0.32/share) in Q2-2015, down 23% from the same period last year, primarily reflecting continued weakness in oil and natural gas prices offset partially by increased production volumes and by reduced current tax expense resulting from tax pools obtained from the corporate acquisition.
- Average price realizations decreased 43%, resulting in a 30% decrease in gross revenue compared to Q2-2014, offset partially by the increase in production volumes.
- Dividends declared for Q2-2015 totalled \$0.27 per share, down from \$0.42 per share one year ago due to the reduction in funds from operations resulting from lower commodity prices.
- Net income of \$3.9 million had an 80% decline from Q2-2014 due to reduced revenue and higher depletion and depreciation, offset by lower tax expense.
- Average participation in our dividend reinvestment plan (DRIP) was 11% (Q2-2014 - 26%). DRIP proceeds for the first six months of 2015 totalled \$10.8 million.
- Net capital expenditures on our working interest properties totalled \$2.8 million over the quarter, below our forecast. Weakness in commodity prices has resulted in a slow-down in activity for all E&P producers within Western Canada.

- At June 30, 2015, net debt totalled \$147 million, down \$52 million from \$199 million at March 31, 2015, primarily the result of closing our equity financing. This implies a net debt to 12-months trailing funds from operations ratio of 1.2 times (excluding the proforma effects of acquisitions).
- Freehold completed an acquisition from [Penn West Petroleum Ltd.](#) of two royalty packages totalling an estimated 1,400 boe/d (over 80% liquids) of 2015 average net royalty production for \$318 million, prior to normal closing adjustments.
- The Penn West transactions were funded by a \$373 million public equity financing (20.7 million common shares at \$18.00 per share) and a \$33 million private placement (1.8 million common shares at \$18.00 per share) to CN Pension Trust Funds (see Related Party Transactions in our Management's Discussion and Analysis (MD&A) for the three and six months ended June 30, 2015). The aggregate gross proceeds raised was \$406 million and net proceeds after underwriters' fees was \$390 million.
- Freehold closed an acquisition of a new royalty with Manitek Energy Ltd. for total consideration of \$25 million. The transaction is expected to add 140 bbl/d of new light oil royalty production for the next eight years, declining at 10% per year thereafter.

Guidance Update

The table below summarizes our key operating assumptions for 2015, updated to reflect actual statistics for the first six months and our current expectations for the remainder of the year.

- Reflecting lower spending on our royalty lands and delayed working interest capital spending (majority of which are non-operated), we have revised our 2015 production forecast to 10,400 boe/d (previously 10,800 boe/d). Volumes are expected to be weighted approximately 61% oil and natural gas liquids (NGLs) and 39% natural gas. We continue to maintain our royalty focus with royalty production accounting for 75% of forecasted 2015 production and 85% of operating income.
- Continuing negative momentum in the commodity environment for oil has resulted in a downward revision to our price assumptions. Through 2015, we are now forecasting WTI and WCS prices to average US\$51.00/bbl and \$48.00/bbl, respectively (previously US\$60.00/bbl and \$56.00/bbl). Our AECO natural gas price assumption has been revised upward slightly to \$2.85/mcf (previously \$2.75/mcf).
- The Canadian/U.S. exchange rate has been adjusted downwards to \$0.79, reflecting the recent declining valuation of the Canadian dollar relative to the United States dollar.
- Operating costs have been reduced to \$5.00/boe from \$5.25/boe representing a general trending down in costs.
- We have revised our general and administration expense to \$2.50/boe from \$2.60/boe reflecting increased volumes after completing our recent acquisitions.
- Our capital spending budget has been reduced from \$25 million to \$20 million reflecting the weaker commodity outlook. 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.
- We have revised the estimated DRIP participation from 25% to 18% reflecting trends through the first half of 2015.

2015 Annual Average		Guidance Dated			
		Aug. 6, 2015	May 14, 2015	Mar. 5, 2015	Jan. 14, 2015
Daily production	boe/d	10,400	10,800	9,800	9,800
WTI oil price	US\$/bbl	51.00	60.00	60.00	60.00
Western Canadian Select (WCS)	Cdn\$/bbl	48.00	56.00	56.00	54.00
AECO natural gas price	Cdn\$/Mcf	2.85	2.75	3.00	3.00
Exchange rate	Cdn\$/US\$	0.79	0.82	0.80	0.84
Operating costs	\$/boe	5.00	5.25	6.60	6.60
General and administrative costs (1)	\$/boe	2.50	2.60	2.60	2.60
Capital expenditures	\$ millions	20	25	25	25
Dividends paid in shares (DRIP) (2)	\$ millions	16	27	26	26
Weighted average shares outstanding	millions	91	91	76	76

(1) Excludes share based and other compensation.

(2) Assumes an average 18% 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.

Availability on SEDAR

Freehold's 2015 second quarter interim unaudited condensed consolidated financial statements and accompanying 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 6, 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;
- 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;
- 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
- our dividend policy and expectations about future dividend levels.

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, which is available at www.sedar.com and on our website.

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 DRIP proceeds, 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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