

CALGARY, ALBERTA--(Marketwired - May 11, 2016) - [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced first quarter results for the period ended March 31, 2016.

RESULTS AT A GLANCE

	Three Months Ended March 31			
FINANCIAL (\$000s, except as noted)	2016	2015	Change	
Gross revenue	24,933	27,751	-10	%
Net income (loss)	(8,590)	21,617	-140	%
Per share, basic and diluted (\$)	(0.09)	0.29	-131	%
Funds from operations	15,500	21,938	-29	%
Per share, basic (\$)	0.16	0.29	-45	%
Operating income ⁽¹⁾	20,292	22,632	-10	%
Operating income from royalties (%)	97	83	17	%
Acquisitions	219	68,370	-	
Capital expenditures	2,084	5,969	-65	%
Dividends declared	17,845	20,329	-12	%
Per share (\$) ⁽²⁾	0.18	0.27	-33	%
Net debt obligations ⁽¹⁾	149,197	198,834	-25	%
Shares outstanding, period end (000s)	99,284	75,457	32	%
Average shares outstanding (000s) ⁽³⁾	99,093	75,199	32	%
OPERATING				
Average daily production (boe/d) ⁽⁴⁾	11,974	10,058	19	%
Average price realizations (\$/boe) ⁽⁴⁾	22.23	29.80	-25	%
Operating netback (\$/boe) ^{(1) (4)}	18.62	25.01	-26	%

(1) See 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 \$0.04 per share, to be paid on June 15, 2016 to shareholders of record on May 31, 2016. The dividend is designated as an eligible dividend for Canadian income tax purposes. Including the June 15, 2016 payment, the 12-month trailing cash dividends total \$0.81/share.

2016 First Quarter Highlights

- Production for Q1-2016 averaged 11,974 boe/d, a 19% increase over Q1-2015 and a 1% increase over Q4-2015.
- Royalties accounted for 97% of operating income and 79% of production, reinforcing our royalty focus.
- Royalty production was up 33% compared to Q1-2015, averaging 9,495 boe/d. Growth in volumes was associated with a combination of production acquired through the year, new production from drilling on our royalty lands and a strong quarter from our audit function; which was largely responsible for approximately 600 boe/d of prior period adjustments, including compensatory royalties on our mineral title lands.
- Working interest production averaged 2,479 boe/d for the quarter, down 14% when compared to the same period last year, reflecting reduced spending through a weaker commodity price environment.
- Funds from operations totaled \$15.5 million (\$0.16/share) in Q1-2016, down 29% from the same period last year owing to continued weakness in oil and natural gas prices.
- Though average commodity price realizations decreased 25%, reduced revenues were partly offset by the increase in production volumes, resulting in a 10% decrease in gross revenue compared to Q1-2015.
- Q1-2016 net loss was \$8.6 million (Q1-2015 net income of \$21.6 million - without a \$24.3 million gain on corporate acquisition it would have been a \$2.7 million net loss) primarily due to lower revenues and increased depletion and depreciation expense as a result of higher production volumes.
- Dividends declared for Q1-2016 totaled \$0.18 per share, down from \$0.27 per share one year ago. On March 3, 2016, Freehold adjusted its monthly dividend to \$0.04 per share from \$0.07 per share as a result of reduced funds from operations within the weak commodity price environment.
- Average participation in our dividend reinvestment plan (DRIP) was 11% (Q1-2015 - 35%). DRIP proceeds for Q1-2016 totaled \$2.4 million.
- Net capital expenditures on our working interest properties totaled \$2.1 million over the quarter.
- Basic payout ratio (dividends declared/funds from operations) for Q1-2016 totaled 115% while the adjusted payout ratio (cash dividends plus capital expenditures/funds from operations) for the same period was 132%. However, based on our 2016 key operating assumptions our current dividend level remains well funded with our basic payout ratio expected to total approximately 82% for 2016.

- At March 31, 2016, net debt obligations totaled \$149.2 million, up \$2.3 million from \$146.9 million at December 31, 2015. This implies a net debt to 12-month trailing funds from operations ratio of 1.5 times (excluding the proforma effects of acquisitions).

Subsequent Events

On May 2, 2016, Freehold entered into a definitive agreement with certain affiliates of [Husky Energy Inc.](#) to acquire an extensive suite of royalty production and fee lands for an aggregate purchase price of \$165 million, prior to normal closing adjustments (the Husky Transaction). The effective date of the Husky Transaction is January 1, 2016, with closing expected to occur on or about May 25, 2016, subject to regulatory approval and certain other closing conditions.

Highlights include (based on relevant assumptions from our 2016 Key Operating Assumptions):

- Adds approximately 2.5 million acres of royalty lands (including 0.3 million acres of mineral title land), increasing our royalty lands acreage by 74% to 5.9 million acres.
- Expected 2016 annualized average royalty production of 1,700 boe/d and annualized operating income of \$11.4 million.
- Expected to increase royalties as a percentage of 2016 operating income to approximately 94%.
- The production base is expected to have a low decline of approximately 17% per year in 2016.

The Husky Transaction will be funded by a concurrent \$165 million public equity financing (before 15% over-allotment option and underwriters' fees) and an approximate \$20 million concurrent private placement to CN Pension Trust Funds, with remaining funds allocated to debt repayment. 16,018,000 common shares at a price of \$11.55 per share will be issued through the financings (excluding potential effects of the over-allotment option). If the over-allotment option is exercised in full by the underwriters an additional 2,142,900 common shares will be issued at a price of \$11.55 per share for gross proceeds of approximately \$25 million. The underwriters will receive a commission of 4% on the common shares issued pursuant to the financing (other than the common shares issued pursuant to the concurrent private placement).

Directors Succession

Two of Freehold's long standing directors, Nolan Blades (Chair of the Board) and David Sandmeyer are not standing for re-election and after 19 years of service will retire from the Board at the Annual and Special Meeting of Shareholders (the Meeting) being held May 11, 2016. Mr. Blades joined the Board in 1996 and was appointed Chair of the Board in May 2009. Mr. Sandmeyer was appointed to the Board in 1996 and served as President and Chief Executive Officer of Rife Resources Ltd. and Freehold until his retirement in May 2009. We would like to thank them for their dedication, wisdom and leadership throughout their tenure on the Board. It is planned that Marvin Romanow will succeed Mr. Blades as Chair of the Board following the Meeting. Mr. Romanow has over 30 years of experience in the oil and gas industry.

We are pleased to announce that Douglas Kay has agreed to stand for election at the Meeting. Mr. Kay is a Corporate Director and former oil and gas executive with over 35 years industry experience.

Guidance Update

The table below summarizes our key operating assumptions for 2016, updated to reflect actual statistics for the first three months and our current expectations for the remainder of the year. The assumptions and guidance reflects the Husky Transaction and the financings (before over-allotment option) discussed in Subsequent Events.

- The increase in our production guidance on May 2, 2016 from 9,800 boe/d to 11,400 boe/d was a function of the Husky Transaction, higher than expected drilling activity on our royalty lands, lower than expected shut-in heavy oil volumes and positive prior period adjustments. Volumes are expected to be weighted approximately 59% oil and natural gas liquids (NGL's) and 41% natural gas. We continue to maintain our royalty focus with royalty production accounting for 80% of forecasted 2016 production and 94% of operating income.
- We have increased our WTI and WCS pricing to US\$40.00/bbl and \$34.00/bbl respectively (previously US\$35.00/bbl and \$31.00/bbl respectively), due to recent price momentum. We have revised downward our 2016 AECO natural gas price assumption from \$2.00/mcf to \$1.80/mcf.
- Based on our key operating assumptions, we forecast our 2016 basic payout ratio to total approximately 82%.
- Operating costs have been reduced from \$4.75/boe to \$4.00/boe as a result of increased royalty production as a percentage of total production.
- Our capital spending budget remains at \$7 million.
- G&A costs have decreased to \$2.50/boe as a result of production added through the Husky Transaction, offset somewhat by expected acquisition integration costs
- Weighted average shares outstanding have increased due to the financings detailed in Subsequent Events.

Key Operating Assumptions ⁽¹⁾

2016 Annual Average		May 11, 2016	Mar. 3, 2016	Nov. 12, 2015
Daily production	boe/d	11,400	9,800	9,800
WTI oil price	US\$/bbl	40.00	35.00	50.00
Western Canadian Select (WCS)	Cdn\$/bbl	34.00	31.00	47.00
AECO natural gas price	Cdn\$/Mcf	1.80	2.00	2.75
Exchange rate	Cdn\$/US\$	0.77	0.72	0.76
Operating costs	\$/boe	4.00	4.75	5.00
General and administrative costs ⁽²⁾	\$/boe	2.50	2.65	2.85
Capital expenditures	\$ millions	7	7	15
Dividends paid in shares (DRIP) ⁽³⁾	\$ millions	8	8	13
Weighted average shares outstanding millions		109	100	100

⁽¹⁾ Production guidance was updated to 11,400 boe/d on May 2, 2016 but no other assumptions were changed at that time.

⁽²⁾ Excludes share based and other compensation.

⁽³⁾ Assumes an average 15% 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 the next quarter. We will continue to evaluate the commodity price environment with the expectation to increase dividend levels as the environment stabilizes or improves (subject to the quarterly review and approval of our Board of Directors - see Dividend Policy).

Availability on SEDAR

Freehold's 2016 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 11, 2016, 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;
- drilling activity during 2016 and the impact on our production base;
- industry drilling, development activity on our royalty lands, our exposure in emerging resource plays, 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;
- average production and contribution from royalty lands;
- forecast 2016 basic payout ratio;
- key operating assumptions;
- amounts and rates of income taxes and timing of payment thereof;
- expected 2016 annualized net production and operating income from the Husky Transaction;
- expected increase of royalties as a percentage of operating income resulting from the Husky Transaction;
- expected decline rate associated with the assets acquired pursuant to the Husky Transaction;
- the expected closing dates of the Husky Transaction and the concurrent financings;
- the expected use of proceeds from the financings discussed herein;
- the expectation that the Husky Transaction and concurrent financings will close.
- maintaining our revised monthly dividend rate through the first quarter of 2016;
- the expectation to increase dividend levels as the commodity price environment stabilizes or improves; 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 commodity prices, future capital expenditure levels, future production levels, future exchange rates, future tax rates, future participation rates in the DRIP and use of cash preserved 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 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. 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 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 (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, net debt obligations, net debt to funds from operations, basic payout ratio and adjusted payout ratio 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 (see Netback Analysis). Net debt obligations is long-term debt less working capital (current assets less current liabilities). Net debt to funds from operations is calculated as net debt 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.

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.

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