

CALGARY, ALBERTA--(Marketwired - Aug 4, 2016) - [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced second quarter results for the period ended June 30, 2016.

RESULTS AT A GLANCE

	Three Months Ended June 30			Six Months Ended June 30			
FINANCIAL (\$000s, except as noted)	2016	2015	Change	2016	2015	Change	
Gross revenue	32,219	38,004	-15	% 57,152	65,755	-13	%
Net income (loss)	(2,249)	3,919	-157	% (10,839)	25,536	-142	%
Per share, basic and diluted (\$)	(0.02)	0.04	-150	% (0.11)	0.31	-135	%
Funds from operations	24,142	28,730	-16	% 39,642	50,668	-22	%
Per share, basic (\$)	0.23	0.32	-28	% 0.39	0.62	-37	%
Operating income (1)	28,011	32,733	-14	% 48,303	55,365	-13	%
Operating income from royalties (%)	91	85	7	% 94	84	12	%
Acquisitions	162,211	342,310	-53	% 162,430	410,680	-60	%
Capital expenditures	753	2,750	-73	% 2,837	8,719	-67	%
Dividends declared	13,380	24,459	-45	% 31,225	44,788	-30	%
Per share (\$ (2)	0.12	0.27	-56	% 0.30	0.54	-44	%
Net debt obligations (1)	98,191	146,992	-33	% 98,191	146,992	-33	%
Shares outstanding, period end (000s)	117,652	98,203	20	% 117,652	98,203	20	%
Average shares outstanding (000s) (3)	106,736	89,388	19	% 102,914	82,333	25	%
OPERATING							
Average daily production (boe/d) (4)	12,041	10,617	13	% 12,006	10,338	16	%
Average price realizations (\$/boe) (4)	28.48	38.63	-26	% 25.37	34.36	-26	%
Operating netback (\$/boe) (1) (4)	25.57	33.88	-25	% 25.11	29.58	-25	%

(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 (the Board) has declared a dividend of \$0.04 per share, to be paid on September 15, 2016 to shareholders of record on August 31, 2016. The dividend is designated as an eligible dividend for Canadian income tax purposes.

DRIP Suspension

Effective with the August dividend the Board has approved the suspension of our dividend reinvestment plan (DRIP) pending further notice. As of September 15, 2016, shareholders that were enrolled in the DRIP will receive the regular monthly cash dividend of \$0.04 per share. Participants in the DRIP will still receive shares in lieu of the monthly cash dividend to be paid on August 15, 2016 to shareholders of record as at July 31, 2016.

2016 Second Quarter Highlights

- Freehold's production averaged a record 12,041 boe/d in Q2-2016. Gains in production were the result of acquisition activity (see news release dated May 25, 2016) and a strong quarter from our audit function (largely responsible for 475 boe/d of prior period adjustments for Q2-2016).
- Funds from operations totaled \$24.1 million (\$0.23/share) in Q2-2016, up 55% from Q1-2016. Royalties accounted for 91% of operating income, reinforcing our royalty focus.
- Freehold acquired royalty production and fee lands from certain affiliates of [Husky Energy Inc.](#) (the Husky Transaction) for \$162 million; Freehold's royalty acreage now totals 5.9 million acres (73% increase).
- After a review of our prospect inventory, including the upside from the Husky Transaction, we estimate that we have greater than 10-years of free drilling on our royalty lands.
- In Q2-2016, Freehold issued 15 leases, with the majority of the interest focused on Freehold's southeast Saskatchewan royalty lands.
- Basic payout ratio (dividends declared/funds from operations) for Q2-2016 totaled 55% while the adjusted payout ratio (cash dividends plus capital expenditures/funds from operations) for the same period was 50%.
- At June 30, 2016, net debt obligations totaled \$98.2 million, down \$51.0 million from \$149.2 million at March 31, 2016. This implies a net debt to 12-month trailing funds from operations ratio of 1.1 times (0.9 times including the proforma effects of acquisitions).

Guidance Update

The table below summarizes our key operating assumptions for 2016, updated to reflect actual statistics for the first six months and our current expectations for the remainder of the year.

- We have increased our production guidance from 11,400 boe/d to 11,700 boe/d, reflecting lower than expected decline within our royalty production 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 93% of operating income.
- We have revised upward our 2016 AECO natural gas price assumption from \$1.80/mcf to \$2.00/mcf.
- Increased expected royalty production, which has no operating costs, has resulted in a downward revision to our operating costs from \$4.00/boe to \$3.75/boe.
- Our G&A costs have been reduced from \$2.50/boe to \$2.40/boe, reflecting the increased production guidance.
- Freehold's Board has approved the suspension of the DRIP pending further notice, resulting in estimates for our dividends paid in shares for the full year decreasing from \$8 million to \$5 million.
- Our capital spending budget remains at \$7 million. A large percentage of our capital expenditure program is non-operated and the activity level is difficult to predict.
- Weighted average shares outstanding have increased from 109 million to 110 million due to the full exercise of the over-allotment option relating to our May 2016 financing.
- Based on the announced DRIP suspension and changes to certain operating assumptions, we forecast our 2016 basic payout ratio to be approximately 74% (previously 82%).
- We forecast year-end net debt to funds from operations of approximately 1.1 times based on our revised key operating assumptions (excluding the proforma effects of acquisitions).

Key Operating Assumptions

2016 Annual Average		Aug. 4, 2016	May 11, 2016	Mar. 3, 2016	Nov. 12, 2015
Daily production	boe/d	11,700	11,400	9,800	9,800
WTI oil price	US\$/bbl	40.00	40.00	35.00	50.00
Western Canadian Select (WCS)	Cdn\$/bbl	34.00	34.00	31.00	47.00
AECO natural gas price	Cdn\$/Mcf	2.00	1.80	2.00	2.75
Exchange rate	Cdn\$/US\$	0.76	0.77	0.72	0.76
Operating costs	\$/boe	3.75	4.00	4.75	5.00
General and administrative costs (1)	\$/boe	2.40	2.50	2.65	2.85
Capital expenditures	\$ millions	7	7	7	15
Dividends paid in shares (DRIP)	\$ millions	5	8	8	13
Weighted average shares outstanding	millions	110	109	100	100

(1) Excludes share based and other compensation

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.

Based on our current guidance and commodity price assumptions, and assuming no significant changes in the current business environment, we expect to maintain the monthly dividend rate through the next quarter. We will continue to evaluate the commodity price environment and adjust the dividend levels as necessary (subject to the quarterly review and approval of our Board of Directors).

Availability on SEDAR

Freehold's 2016 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 4, 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;

- years of free drilling on our royalty lands;
- drilling activity during 2016 and the impact on our production base;
- capital expenditures and development of working interest properties;
- estimated capital budget and expenditures and the timing thereof;
- average production, contribution from royalty lands and weighting of oil, NGL's and natural gas;
- forecast 2016 basic payout ratio;
- forecast year end net debt to funds from operations;
- key operating assumptions including operating costs and general and administrative costs;
- our dividend policy and expectations for future dividends; and
- maintaining our monthly dividend rate through the next quarter.

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 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. 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.

Contact

[Freehold Royalties Ltd.](#)

Matt Donohue: Manager, Investor Relations

403.221.0833

1.888.257.1873

403.221.0888

mdonohue@rife.com