

CALGARY, ALBERTA--(Marketwired - Nov 8, 2016) - [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced third quarter results for the period ended September 30, 2016.

RESULTS AT A GLANCE

FINANCIAL (\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30			
	2016	2015	Change	2016	2015	Change	
Gross revenue	32,923	36,076	-9	% 90,075	101,831	-12	%
Funds from operations ⁽¹⁾	24,148	27,643	-13	% 63,790	78,311	-19	%
Per share, basic (\$)	0.21	0.28	-25	% 0.59	0.89	-34	%
Acquisitions	68	815	-92	% 162,498	411,495	-61	%
Operating income ⁽²⁾ from royalties (%)	93	90	3	% 93	86	8	%
Dividends declared	14,133	24,604	-43	% 45,358	69,392	-35	%
Per share (\$) ⁽³⁾	0.12	0.25	-52	% 0.42	0.79	-47	%
Net debt obligations ⁽²⁾	87,301	148,994	-41	% 87,301	148,994	-41	%
Shares outstanding, period end (000s)	117,850	98,599	20	% 117,850	98,599	20	%
OPERATING							
Average daily production (boe/d) ⁽⁴⁾	12,281	11,266	9	% 12,099	10,652	14	%
Oil and NGL (%)	55	63	-13	% 59	61	-3	%
Average price realizations (\$/boe) ⁽⁴⁾	28.69	34.11	-16	% 26.50	34.27	-23	%
Operating netback (\$/boe) ^{(2) (4)}	24.99	29.52	-15	% 23.09	29.57	-22	%

⁽¹⁾ For the three and nine months ended September 30, 2016, funds from operations included a \$1.1 million loss upon settlement of litigation.

⁽²⁾ See Non-GAAP Financial Measures.

⁽³⁾ Based on the number of shares outstanding at each record date.

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

President's Message

We had a strong quarter, setting a production record averaging 12,281 boe/d aided by organic growth within our portfolio and a full quarter of production from our recent acquisition, and as a result, we have revised our 2016 production guidance from 11,700 boe/d to 12,000 boe/d. We are also seeing activity levels rebound with 48 (2.3 net) wells drilled on our royalty lands over the quarter with higher productivity from new wells.

Freehold has established a relatively conservative dividend policy which we believe serves our shareholders well in times of uncertainty. This quarter's dividend of \$0.12 per share was safely within our funds from operations of \$0.21 per share. Our long term goal is to have an adjusted payout ratio between 60%-80% and at current levels we are comfortably at the bottom of this range. We expect to use excess free cash flow over and above our dividend to fund future acquisitions and pay down debt, keeping our net debt to funds from operations between 0.5 to 1.5 times.

Looking into 2017, we remain confident that commodity prices will continue to improve and we are looking for indications of oil price stability prior to resetting dividend levels. We are estimating average production of 11,000 boe/d for 2017 with continued conservatism in forecasting drilling activity.

On November 25, 2016, Freehold will celebrate its 20th anniversary. Over this time frame we have generated superior returns and would like to thank our employees for their hard work, which has made this possible. From a \$10 per share initial public offering in 1996, we have provided dividends of over \$30 per share. We would like to thank our shareholders for their ongoing support.

Tom Mullane, President and CEO

Dividend Announcement

The Board of Directors (the Board) has declared a dividend of \$0.04 per share, to be paid on December 15, 2016 to shareholders of record on November 30, 2016. The dividend is designated as an eligible dividend for Canadian income tax purposes.

2016 Third Quarter Highlights

- Freehold's production averaged a record 12,281 boe/d, a 9% improvement over Q3-2015 and 2% increase over Q2-2016. Gains in production were largely driven by better than expected third party production additions and a full quarter's production from our Q2-2016 acquisition from certain affiliates of [Husky Energy Inc.](#) (the Husky Transaction).
- Royalty production was up 16% compared to Q3-2015, averaging 10,169 boe/d, accounting for 83% of production and 93% of operating income.
- Funds from operations totaled \$24.1 million (\$0.21 per share) in Q3-2016, flat over the previous quarter but down 13% from last year with reduced commodity prices somewhat offset by higher production. Impacting funds from operations Freehold settled an outstanding legal claim recognizing a loss of \$1.1 million.
- Freehold generated \$9.8 million in free cash flow⁽¹⁾ over and above our dividend, which we applied to outstanding debt. At September 30, 2016, net debt obligations⁽¹⁾ totaled \$87.3 million, down \$10.9 million from \$98.2 million at June 30, 2016. This implies a net debt to 12-month trailing funds from operations ratio of 1.0 times. Despite challenging commodity prices, we continue to generate an attractive netback and free cash flow.
- Cash costs⁽¹⁾ for the quarter totaled \$6.78/boe, down from \$7.34/boe in Q2-2016 and \$8.84/boe in Q3-2015. Included in these costs General and Administrative (G&A) costs totalled \$1.71/boe for Q3-2016 versus \$2.04/boe in Q2-2016 and \$2.33/boe in Q3-2015.
- Wells drilled on our royalty lands totaled 48 (2.3 equivalent net) in the quarter; for the first three quarters of 2016, 156 (6.1 equivalent net) wells were drilled, including 15 royalty wells on the recently acquired acreage associated with the Husky Transaction, with seven locations targeting the Shaunavon.
- In Q3-2016, Freehold issued four leases; 71 leases have been issued year-to-date in 2016, 57 relating to the Q2-2016 Husky Transaction.
- Dividends declared for Q3-2016 totaled \$0.12 per share, unchanged from the previous quarter and down from \$0.25 per share one year ago.
- Basic payout ratio⁽¹⁾ (dividends declared/funds from operations) for Q3-2016 totaled 59% while the adjusted payout ratio⁽¹⁾ (cash dividends plus capital expenditures/funds from operations) for the same period was 55%.

⁽¹⁾ See Non-GAAP Financial Measures.

2016 Guidance Update

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

Key Operating Assumptions

2016 Annual Average		Nov. 8, 2016	Aug. 4, 2016	May 11, 2016	Mar. 3, 2016	Nov. 12, 2015
Daily production	boe/d	12,000	11,700	11,400	9,800	9,800
WTI oil price	US\$/bbl	43.00	40.00	40.00	35.00	50.00
Western Canadian Select (WCS)	Cdn\$/bbl	38.00	34.00	34.00	31.00	47.00
AECO natural gas price	Cdn\$/Mcf	2.10	2.00	1.80	2.00	2.75
Exchange rate	Cdn\$/US\$	0.76	0.76	0.77	0.72	0.76
Operating costs	\$/boe	3.75	3.75	4.00	4.75	5.00
General and administrative costs ⁽¹⁾	\$/boe	2.35	2.40	2.50	2.65	2.85
Capital expenditures	\$ millions	6	7	7	7	15
Dividends paid in shares (DRIP) ⁽²⁾	\$ millions	5	5	8	8	13
Weighted average shares outstanding millions		110	110	109	100	100

⁽¹⁾ Excludes share based and other compensation.

⁽²⁾ Effective with the August dividend the Board approved the suspension of the DRIP pending further notice.

2017 Outlook

We see average production volumes of 11,000 boe/d (assuming no acquisitions), which includes expectations of 100 boe/d of shut-in working interest natural gas, 100 boe/d of shut-in heavy oil production (primarily working interest) and production additions associated with our strong audit function. Estimated volumes are comprised of approximately 56% oil and NGL and 44% natural gas. We continue to maintain our royalty focus with royalty production expected to account for approximately 84% of production and 91% of operating income.

Key Operating Assumptions

2017 Annual Average		Nov. 8, 2016
Daily production	boe/d	11,000
WTI oil price	US\$/bbl	50.00
Western Canadian Select (WCS)	Cdn\$/bbl	46.00
AECO natural gas price	Cdn\$/Mcf	3.00
Exchange rate	Cdn\$/US\$	0.75

Operating costs	\$/boe	3.25
General and administrative costs (1)	\$/boe	2.65
Capital expenditures	\$ millions	6
Weighted average shares outstanding millions		118

(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 third 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 November 8, 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 2017 and the impact on our production base;
- capital expenditures and development of working interest properties;
- estimated capital budget and expenditures and the timing thereof;
- our long term goal of having an adjusted payout ratio between 60%-80%;
- expectations to use excess free cash flow over and above our dividend to fund future acquisitions and pay down debt;
- keeping our net debt to funds from operations between 0.5 to 1.5 times;
- improving commodity prices;
- average production for 2016 and 2017, contribution from royalty lands and weighting of oil, NGL and natural gas;
- 2016 and 2017 percentage of operating income from royalties;
- key operating assumptions including operating costs and general and administrative costs;
- expectations of shut-in production;
- expected production additions from our strong audit function;
- 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, shut-in production, production additions from our strong audit function 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, adjusted payout ratio, free cash flow and cash costs 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 obligations as a proportion of funds from operations for the previous twelve months.

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.

Free cash flow is calculated by subtracting capital expenditures from funds from operations. Free cash flow is a measure often used by dividend paying companies to determine cash available for payment of dividends, paying down debt or investment.

Cash costs is a total of all recurring costs in the statement of income (loss) and deducted in determining funds from operations. For Freehold cash costs are identified as royalty expense, operating expense, general and administrative expense, interest expense and share based and other compensation expense (if paid out in the relevant period). It is a key input to funds from operations and an important measure reinforcing the high operating netback of our royalty properties.

We refer to various per boe figures 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, NGL and natural gas production during the period, with natural gas converted to equivalent barrels of oil as described above.

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