

CALGARY, ALBERTA--(Marketwired - May 10, 2017) - [Freehold Royalties Ltd.](#) (Freehold) (TSX:FRU) announced first quarter results for the period ended March 31, 2017.

## Results at a Glance

FINANCIAL (\$000s, except as noted)	Three Months Ended		
	March 31		
	2017	2016	Change
Royalty and other revenue	41,091	24,933	65%
Net income (loss)	7,088	(8,590)	183%
Per share, basic and diluted (\$)	0.06	(0.09)	167%
Funds from operations	32,069	15,500	107%
Per share, basic (\$)	0.27	0.16	69%
Operating income <sup>(1)</sup>	37,084	20,292	83%
Operating income from royalties (%)	91	97	-6%
Acquisitions	33,352	219	-
Capital expenditures	712	2,084	-66%
Working interest dispositions	288	-	-
Dividends declared	15,338	17,845	-14%
Per share (\$) <sup>(2)</sup>	0.13	0.18	-28%
Net debt	76,030	149,197	-49%
Shares outstanding, period end (000s)	118,018	99,284	19%
Average shares outstanding (000s) <sup>(3)</sup>	117,956	99,093	19%
OPERATING			
Average daily production (boe/d) <sup>(4)</sup>	12,753	11,974	7%
Oil and NGL (%)	56	63	-11%
Average price realizations (\$/boe) <sup>(4)</sup>	34.88	22.23	57%
Operating netback (\$/boe) <sup>(1) (4)</sup>	32.31	18.62	74%

(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).

## President's Message

Freehold achieved record production and solid cash flow results again this quarter, marking the 13<sup>th</sup> consecutive quarterly production increase and the third consecutive on a per share basis. We are maintaining our 2017 production forecast between 11,300 - 11,800 boe/d after adjusting for the disposition of non-core working interest assets (see Subsequent Events), aligning with our royalty focus.

After increasing our dividend by 25% earlier this year, we are forecasting an adjusted payout ratio for 2017 of 62%, safely at the lower end of our target adjusted payout range of 60%-80%. As a leading royalty oil and gas corporation, Freehold's objective is to deliver growth and low risk attractive returns to shareholders over the long term which we have continued to provide in this reporting period.

Tom Mullane, President and CEO

## Subsequent Events

With our continued emphasis on royalties, in April 2017 Freehold sold all of its working interest assets located in southeast Saskatchewan for \$29 million, including adjustments. Total production and operating income associated with these assets in 2016 was approximately 750 boe/d and \$4.3 million respectively. Related decommissioning liabilities removed as a result of this sale amounts to \$4.8 million (over 300 gross wells plus related facilities). These dispositions reduce capital expenditure requirements and cash costs, further improving our risk profile.

With the objective to reduce cash costs, Freehold made the decision to reduce its credit facilities to \$180 million (from \$260 million). This decision aligns with keeping our net debt to funds from operations between 0.5-1.5 times. We currently have over \$110 million of unused capacity and in addition, we have the ability to increase our credit facilities should it be needed.

## 2017 First Quarter Highlights

- Freehold's production averaged a record 12,753 boe/d, a 7% improvement over Q1-2016 and 1% over Q4-2016. Gains in production were largely driven by royalty acquisitions, drilling activity on our royalty lands and a strong quarter from our audit function (over 300 boe/d of prior period adjustments).
  - Royalty production was up 13% compared to Q1-2016, averaging 10,701 boe/d. Royalty production increased 3% on a per share basis versus Q4-2016.
  - Royalty interests accounted for 84% of total production and contributed 91% of operating income in Q1-2017, reinforcing our royalty focus.
  - Wells drilled on our royalty lands totaled 150 (8.6 net) in the quarter, up from 85 (3.4 net) in Q1-2016 and 125 (7.8 net) in the previous quarter.
  - In Q1-2017, Freehold issued 25 new lease agreements with 11 companies, compared to 9 issued in Q4-2016 and 2 leases in Q1-2016, highlighting the success of our recently created leasing team.
  - Freehold closed a \$34 million acquisition of various gross overriding royalties and mineral title lands in the greater Dodsland area of Saskatchewan. Freehold acquired 32,000 acres of royalty lands with estimated production of 185 boe/d (91% oil) at the time of closing.
  - Funds from operations totaled \$32.1 million, an increase of 107% compared to Q1-2016 largely due to the increase in revenue. On a per share basis, funds from operations was \$0.27/share in Q1-2017 up from \$0.16/share in Q1-2016.
  - Freehold generated \$17.2 million in free cash flow <sup>(1)</sup>, over and above our dividend, which we applied to outstanding debt. At March 31, 2017, net debt totaled \$76 million resulting in a net debt to 12-month trailing funds from operations ratio of 0.7 times.
  - Cash costs <sup>(1)</sup> for the quarter totaled \$7.66/boe, down from \$8.65/boe in Q1-2016. These costs are typically higher in the first quarter and with the April 2017 disposition of our southeast Saskatchewan working interest assets, we expect cash costs to continue to trend downwards, enhancing our netback.
  - Dividends declared for Q1-2017 totaled \$0.13 per share, up slightly from the previous quarter and down from \$0.18 per share one year ago. In March 2017, Freehold announced an increase to its monthly dividend from \$0.04 to \$0.05 per share.
  - Basic payout ratio <sup>(1)</sup> (dividends declared/funds from operations) for Q1-2017 totaled 48% while the adjusted payout ratio <sup>(1)</sup> ((cash dividends plus capital expenditures)/funds from operations) for the same period was 46%.
- (1) See Non-GAAP Financial Measures.

## Sustained Momentum on our Lands

Including drilling associated with acquisitions, 150 (8.6 net) wells were drilled on our royalty lands during Q1-2017, a 153% increase versus 2016 (on a net basis). The first quarter continued a resurgence in activity on our land as 275 gross (16.4 net) locations have been drilled over the past two quarters, representing a 134% increase over the same period one year ago (on a net basis).

Activity through the quarter was focused in the greater Dodsland area with the operator drilling 17 gross wells. We also had continued drilling in southwest Saskatchewan (Shaunavon formation), southeast Saskatchewan (Bakken, Mississippian), the Deep Basin (Montney and other liquids rich bearing zones) and central Alberta (Viking).

## ROYALTY INTEREST DRILLING

	Three Months Ended March 31 <sup>(1)</sup>			
	2017		2016	
	Gross	Equivalent Net <sup>(2)</sup>	Gross	Equivalent Net <sup>(2)</sup>
Non-unitized wells	140	8.5	48	3.2
Unitized wells <sup>(3)</sup>	10	0.1	37	0.2
Total	150	8.6	85	3.4

(1) Counts include wells drilled on acquired lands from January 1st (this may differ from the closing date of the acquisitions).

(2) Equivalent net wells are the aggregate of the numbers obtained by multiplying each gross well by our royalty interest percentage.

(3) Unitized wells are in production units wherein we generally have small royalty interests in hundreds of wells.

## Guidance Update

The table below summarizes our key operating assumptions for 2017.

- We are maintaining our 2017 production range of 11,300-11,800 boe/d, after adjusting for the disposition of working interest volumes described in Subsequent Events.
- Volumes are expected to be weighted approximately 55% oil and natural gas liquids (NGL) and 45% natural gas.
- We continue to improve our royalty focus with royalty production accounting for 87% of forecasted 2017 production (up from 84%) and 94% of operating income (up from 91%).
- We are maintaining our West Texas Intermediate (WTI) and Western Canadian Select (WCS) price assumptions at US\$52.00/bbl and \$49.00/bbl and our AECO natural gas price assumption at \$2.60.
- Our operating costs forecast is revised downwards to \$2.50 per boe (from \$3.25 per boe) as a result of the working interest property dispositions which closed in April 2017.

- Based on our current \$0.05 monthly dividend level, we expect our 2017 adjusted payout ratio ((cash dividends plus capital expenditures)/funds from operations) to be approximately 62%.
- We forecast year-end net debt to funds from operations of approximately 0.3 times based on our revised key operating assumptions.

## Key Operating Assumptions

2017 Annual Average		Guidance Dated		
		May 10, 2017	Mar. 2, 2017	Nov. 8, 2016
Daily production	boe/d	11,300 - 11,800	11,300 - 11,800	11,000
West Texas Intermediate crude oil	US\$/bbl	52.00	52.00	50.00
Western Canadian Select crude oil	Cdn\$/bbl	49.00	49.00	46.00
AECO natural gas	Cdn\$/Mcf	2.60	2.60	3.00
Exchange rate	Cdn\$/US\$	0.76	0.76	0.75
Operating costs	\$/boe	2.50	3.25	3.25
General and administrative costs <sup>(1)</sup>	\$/boe	2.60	2.60	2.65
Capital expenditures	\$ millions	4	6	6
Weighted average shares outstanding	millions	118	118	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 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 and adjust the dividend levels as necessary (subject to the quarterly review and approval of our Board of Directors).

## Conference Call Details

A conference call to discuss financial and operational result for the period ended March 31, 2017 will be held for the investment community on Thursday, May 11, 2017 beginning at 6:00 am MT (8:00 am ET). To participate in the conference call, approximately 10 minutes prior to the conference call, please dial 1-800-273-9672 (toll-free in North America).

## Availability on SEDAR

Freehold's 2017 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](http://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 10, 2017, 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 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;
- the April 2017 dispositions improving our risk profile;
- the ability to increase our credit facilities should it be needed;
- our expected adjusted payout ratio for 2017;
- average production for 2017, contribution from royalty lands and weighting of oil, NGL and natural gas;
- 2017 percentage of production and operating income from royalties;
- key operating assumptions including operating costs and general and administrative costs;
- forecast year-end net debt to funds from operations;
- expected production additions from our 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 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 International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises, 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, 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 royalty and other 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.

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 period). It is key to funds from operations, representing the ability to, sustain dividends, repay debt and fund capital expenditures.

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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