

Freehold Royalties Ltd. Announces Continued Royalty Growth and First Quarter Results

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CALGARY, Alberta, May 09, 2018 (GLOBE NEWSWIRE) -- [Freehold Royalties Ltd.](https://www.freeholdroyalties.com) (Freehold) (TSX:FRU) announced first quarter results for the period ended March 31, 2018.

Results at a Glance

FINANCIAL (\$000s, except as noted)	Three Months Ended		
	March 31		
	2018	2017	Change
Royalty and other revenue	39,366	41,091	-4 %
Net income	4,423	7,088	-38 %
Per share, basic and diluted (\$)	0.04	0.06	-33 %
Funds from operations	32,384	32,069	1 %
Per share, basic (\$)	0.27	0.27	-
Operating income ⁽¹⁾	37,658	37,084	2 %
Operating income from royalties (%)	99	91	9 %
Acquisitions	30,881	33,352	-7 %
Working interest dispositions	8,130	288	-
Dividends declared	18,026	15,338	18 %
Per share (\$) ⁽²⁾	0.1525	0.13	17 %
Net debt	89,567	76,030	18 %
Shares outstanding, period end (000s)	118,238	118,018	-
Average shares outstanding (000s) ⁽³⁾	118,183	117,956	-
OPERATING			
Royalty production (boe/d) ⁽⁴⁾	11,197	10,701	5 %
Total production (boe/d) ⁽⁴⁾	12,002	12,753	-6 %
Oil and NGL (%)	54	56	-4 %
Average price realizations (\$/boe) ⁽⁴⁾	34.52	34.88	-1 %
Operating netback (\$/boe) ^{(1) (4)}	34.86	32.31	8 %

(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 continued to generate strong returns for our shareholders in Q1-2018 as royalty production averaged 11,197 boe/d, up 5% over the same period in 2017. We expect near record drilling on our lands and are maintaining our 2018 production forecast between 11,750-12,250 boe/d. After increasing our dividend by 5% earlier this year, we are forecasting an adjusted payout ratio for 2018 near the lower end of our target adjusted payout range of 60%-80%. We will continue to monitor commodity prices and allocate free cash flow in ways that maximize shareholder value.

We recently held our inaugural Investor Day unveiling our 2017 Asset Book highlighting the multi-year upside on Freehold's royalty lands. A copy can be found on our website at www.freeholdroyalties.com.

As a leading royalty company, 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

Dividend Announcement

The Board has declared a dividend of \$0.0525 per common share to be paid on June 15, 2018 to shareholders of record on May 31, 2018. The dividend is designated as an eligible dividend for Canadian income tax purposes.

2018 First Quarter Highlights

Freehold delivered strong operational results in the first quarter of 2018. Highlights included:

- Freehold's royalty production averaged 11,197 boe/d, up 5% versus Q1-2017 and 2% when compared to Q4-2017. Growth in production was associated with acquisitions completed late in 2017 and during Q1-2018, the strength of our audit function (approximately 550 boe/d of prior period adjustments) and third party drilling on our lands.
 - Royalty interests accounted for 93% of total production and contributed 99% of operating income in Q1-2018, reinforcing our royalty focus.
 - Funds from operations totaled \$32.4 million, an increase of 1% compared to Q1-2017, with slightly lower revenue more than offset by a reduction in cash costs. On a per share basis, funds from operations was \$0.27/share in Q1-2018 flat to \$0.27/share in Q1-2017.
 - While West Texas Intermediate (WTI) prices improved 21% versus the same period in 2017, Edmonton Light Sweet oil prices were up only 12% and Western Canadian Select (WCS) prices were down 1% over the same period, reflecting the infrastructure/egress issues Canadian producers continue to experience. In addition, AECO prices retreated 37% versus the same quarter in 2017, and the Canadian/U.S. exchange rate increased, resulting in average oil and gas price realizations on a \$/boe basis similar to Q1-2017.
 - Freehold generated \$12.8 million in free cash flow ⁽¹⁾, over and above our dividend, which we applied to outstanding debt. At March 31, 2018, net debt totaled \$89.6 million resulting in a net debt to 12-month trailing funds from operations ratio of 0.7 times.
 - Freehold closed a \$7.0 million royalty acquisition in the prospective East Shale Duvernay Basin in central Alberta. As part of the transaction, Freehold acquired a 1.0% Gross Overriding Royalty (GORR) on approximately 114,000 gross acres and a 3.0% GORR on 1,920 gross acres of royalty lands. The asset has multiple years of development planned.
 - Freehold closed two other royalty acquisitions, one in the Weyburn Unit in Saskatchewan and the other on the Mitsue Gilwood Sand Unit #1 in Alberta. The purchase price associated with these transactions was \$24 million and the assignment by Freehold of certain minor working interest assets.
 - Freehold disposed of our non-core working interest in the Pembina Cardium Unit No. 9 in Alberta for \$8.1 million. As part of the transaction Freehold retained a new 4.0% GORR on the same interests that were sold.
 - Wells drilled on our royalty lands totaled 239 (6.4 net) in the quarter compared to 150 (8.6 net) in Q1-2017 and 112 (5.7 net) in the previous quarter.
 - In Q1-2018, Freehold issued 42 new lease agreements with 15 companies, compared to 32 issued in Q4-2017 and 25 leases in Q1-2017, highlighting the success of our leasing team.
 - Cash costs ⁽¹⁾ for the quarter totaled \$6.32/boe, down from \$7.66/boe in Q1-2017. Cash costs are typically higher in the first quarter of the year associated with certain annual general and administrative charges that occur early in the year. For 2018, we are forecasting cash costs of approximately \$5.00/boe.
 - Dividends declared for Q1-2018 totaled \$0.1525 per share, up slightly versus the previous year. In March 2018, Freehold announced an increase to its monthly dividend from \$0.05 to \$0.0525 per share.
 - Basic payout ratio ⁽¹⁾ (dividends declared/funds from operations) for Q1-2018 totaled 56% while the adjusted payout ratio ⁽¹⁾ ((cash dividends plus capital expenditures)/funds from operations) for the same period was 60%.
- (1) See Non-GAAP Financial Measures.

Continued Strength in Royalty Drilling

Including drilling associated with acquisitions, 239 (6.4 net) wells were drilled on our royalty lands during the

first three months of 2018, up 59% on a gross measure but down 26% on a net measure versus the same period in 2017. When compared to Q4-2017 activity increased 113% and 12% on a gross and net measure respectively.

Activity through the first three months of 2018 was primarily focused on Saskatchewan oil prospects, including Viking at Dodsland, Mississippian plays in SE Saskatchewan, and Shaunavon in SW Saskatchewan. Together, Saskatchewan and Manitoba wells represented greater than 60% of our gross non-unit drilling through the quarter. Alberta activity has been concentrated in the Cardium, with strong drilling (17 gross wells) on our newly acquired Pembina Cardium acreage. Drilling for Deep Basin Spirit River and Montney remains positive, and four wells were drilled for East Shale Basin Duvernay on our acreage. Our top payors continue to represent some of the most well capitalized E&P companies in Canada.

Royalty Interest Drilling

	Three Months Ended March 31			
	2018		2017	
	Gross	Equivalent Net ⁽¹⁾	Gross	Equivalent Net ⁽¹⁾
Non-unitized wells	144	6.0	140	8.5
Unitized wells ⁽²⁾	95	0.4	10	0.1
Total	239	6.4	150	8.6

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

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

2018 Guidance Update

Below are details of some of the changes made to our key operating assumptions for 2018 based on results for the first quarter and expectations for the remainder of the year.

- We are maintaining our 2018 average production range to 11,750-12,250 boe/d. Volumes are expected to be weighted approximately 55% oil and natural gas liquids (NGL) and 45% natural gas. We continue to maintain our royalty focus with royalty production accounting for 93% of forecasted 2018 production and 99% of operating income.
- We are revising our WTI oil price assumption to US\$65.00/bbl (previously US\$60.00/bbl).
- Our AECO natural gas price assumption has been reduced to \$1.75/mcf (previously \$2.00/mcf).
- Based on our current \$0.0525/share monthly dividend level, we expect our 2018 adjusted payout ratio ((cash dividends plus capital expenditures)/funds from operations) to be approximately 54% (previously 61%). The expectation of our longer term payout ratio remains cautious as the market is showing future light oil prices below current levels.
- General and administrative costs remain at \$2.50/boe even though costs for the first quarter were \$3.60/boe. G&A expenses are typically higher in the first quarter and decline through the remainder of the year, as a number of annual expenses occur early in the year.
- We have reduced our forecast year-end net debt to funds from operations to approximately 0.3 times (from 0.4 times) due to increased oil price expectations.

Key Operating Assumptions

		Guidance Date	
		May 9, 2018	Mar. 8, 2018
2018 Annual Average			
Total daily production	boe/d	11,750-12,250	11,750-12,250
West Texas Intermediate crude oil	US\$/bbl	65.00	60.00
Edmonton Light Sweet crude oil	Cdn\$/bbl	76.00	N/A
Western Canadian Select crude oil	Cdn\$/bbl	53.00	45.00
AECO natural gas	Cdn\$/Mcf	1.75	2.00
Exchange rate	Cdn\$/US\$	0.79	0.80
Operating costs	\$/boe	1.45	1.45
General and administrative costs ⁽¹⁾	\$/boe	2.50	2.50

Weighted average shares outstanding millions 118 118

(1) Excludes share based 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 results for the period ended March 31, 2018 will be held for the investment community on Thursday, May 10, 2018 beginning at 7:00 am MT (9:00 am ET). To participate in the conference call, approximately 10 minutes prior to the conference call, please dial 1-800-806-5484 (toll-free in North America).

Availability on SEDAR

Freehold's 2018 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 at www.freeholdroyalties.com.

Forward-looking Statements

This news release offers our assessment of Freehold's future plans and operations as at May 9, 2018, 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;
- the Asset Book inventory further validating our long term value proposition;
- the assets of the \$7 million royalty acquisition having multiple years of development planned;
- cash costs forecasted at approximately \$5.00/boe;
- drilling activity during 2018 and the impact on our production base;
- our goal to position Freehold as a low risk investment in oil and gas royalties;
- our expected adjusted payout ratio for 2018;
- average production for 2018, contribution from royalty lands and weighting of oil, NGL and natural gas;
- 2018 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;
- our strategies and the expectation that those strategies will sustain production and reserves life;
- 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 AIF.

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, 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 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 certain cash expenses in the statement of income 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 compensation payments. 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.

For further information related to these non-GAAP terms, including reconciliations to the most directly comparable GAAP terms, see our most recent MD&A.

For further information, contact:

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