

Freehold Royalties Ltd. enters into an Agreement to Acquire U.S. Royalty Assets for US\$180 (CAD\$227) million and Announces CAD\$150 million Equity Financing

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TSX: FRU

CALGARY, Sept. 8, 2021 - [Freehold Royalties Ltd.](#) (Freehold or the Company) (TSX: FRU) has entered into a definitive agreement (the Definitive Agreement) with a private seller to acquire high-quality U.S. royalty assets located in the Eagle Ford basin in Texas (the Acquired Assets) for US\$180 million (CAD\$227 million) (the U.S. Royalty Transaction). The Acquisition is expected to significantly enhance the quality of Freehold's North American royalty portfolio, improving both the near-term and long-term sustainability of Freehold's dividend while providing further option value to return capital to our shareholders through many years of free cash flow growth. The U.S. Royalty Transaction further advances Freehold's strategy of being positioned in the highest quality development areas across North America, delivering growth and low risk attractive returns to our shareholders.

The U.S. Royalty Transaction will be funded through a combination of a CAD\$150 million bought deal treasury offering (the Treasury Offering) of subscription receipts of the Company (the Subscription Receipts) led by RBC Capital Markets and TD Securities on behalf of a syndicate of underwriters (the Underwriters) and utilization of Freehold's credit facility.

U.S. Royalty Transaction Highlights

- Concentrated royalty land position in the core of the Eagle Ford oil basin in Texas across approximately 92,000 gross unit acres with an average royalty rate of approximately 1.8%
- 2022 forecasted royalty production of 2,500 boe/d (73% liquids) is expected to generate funds from operations of approximately \$46 million in 2022
- Significant multi-year inventory with approximately 500 gross future drilling locations identified for development. Development is expected to be supported by a well-capitalized investment grade producer
- Development and future drilling expected to be economic at US\$30/bbl West Texas Intermediate (WTI)
- Strong well performance with average 90-day initial gross production rates of 1,200 boe/d (from 2018 through 2021) and average realized price of approximately \$56/boe (first half of 2021). This compares favorably to Freehold's average realized price of approximately \$41/boe for the first half of 2021
- Activity on the Acquired Assets has shown strong resilience and recovery with well completions in the first half of 2021 with the same time period in 2019
- The U.S. Royalty Transaction is immediately accretive to funds from operations per share by approximately 14% based on actual results for the first half of 2021 and is expected to be similarly accretive to funds from operations per share in 2022

Strategic Rationale

The U.S. Royalty Transaction is a key element of Freehold's strategy to continually enhance and position its royalty portfolio in the most economic and active development plays in North America, part of which includes expanding our U.S. footprint. Following the U.S. Royalty Transaction, production and funds from operations from the Acquired Assets will represent approximately 10% and 22% of the portfolio, respectively (based on the first half of 2021 actuals). In addition, after closing the U.S. Royalty Transaction, Freehold is forecasting production volumes to average between 11,750-12,250 boe/d for the second half of 2021 and expect production volumes to average 13,500-14,500 boe/d for 2022, representing 40%-50% growth in production over the next year. Growth in our portfolio is a culmination of focused execution of our business plan in 2021.

The Acquired Assets provide immediate production growth and further position Freehold "ahead of the drill bit" with royalty assets in the Eagle Ford basin in Texas.

that we believe will continue to attract capital in the current WTI price environment, and at WTI prices well below current levels. The U.S. Royalty Transaction further underpins the sustainability of Freehold's dividend while maintaining the core aspects of Freehold's strategy including maintaining conservative leverage ratios of less than 1.5x debt to funds from operations. The U.S. Royalty Transaction complements our environmental, social and governance approach by aligning with competent and responsible payors in jurisdictions that support growth and responsible development.

Definitive Agreement

Concurrently, with the execution of the Definitive Agreement, Freehold will pay a deposit of US\$27 million to be held in an escrow agent pending closing of the U.S. Royalty Transaction. The deposit will be credited to the purchase price of the Acquired Assets upon closing provided that if the U.S. Royalty Transaction does not close for any reason other than the failure of the Definitive Agreement by Freehold the deposit will be refunded to Freehold. In addition, if the U.S. Royalty Transaction does not close as a result of a breach of the Definitive Agreement by the seller, Freehold shall be entitled to an additional payment from the seller of US\$27 million. The Definitive Agreement also contains customary representations, warranties, covenants and other conditions. Closing of the U.S. Royalty Transaction is subject to customary confirmatory due diligence and is expected to occur on or about September 28, 2021. In addition to customary purchase price adjustments, the Definitive Agreement provides for adjustments to the purchase price for any title defects for which Freehold gives notice to the seller of prior to closing of the U.S. Royalty Transaction. Any unremedied title defects could also result in a portion of the Acquired Assets being retained by Freehold pursuant to the U.S. Royalty Transaction. Pursuant to the Definitive Agreement, the effective date of the U.S. Royalty Transaction is April 1, 2021.

Acquisition Financing

Freehold has entered into an agreement with RBC Capital Markets and TD Securities Inc., on behalf of the Underwriters, to sell on a bought deal basis, 16,580,000 Subscription Receipts at a price of \$9.05 per Subscription Receipt (the Issue Price) for total proceeds of approximately \$150 million pursuant to the Offering. Each Subscription Receipt will entitle the holder thereof to receive one common share of Freehold upon closing of the U.S. Royalty Transaction. The Underwriters have been granted an over-allotment option exercisable in whole or in part, until 30 days following the closing of the Offering to purchase up to an additional 2,500,000 Subscription Receipts on the same terms as the Offering.

The gross proceeds from the sale of Subscription Receipts pursuant to the Offering will be held in escrow pending the closing of the U.S. Royalty Transaction. If all outstanding conditions to the completion of the U.S. Royalty Transaction (other than those that are met on or before November 30, 2021), are met on or before November 30, 2021, the net proceeds from the sale of the Subscription Receipts will be released from escrow to Freehold or as otherwise directed by Freehold. Upon release of the escrowed funds to Freehold, the holders of the Subscription Receipts (without any action or payment of any additional consideration on the part of the holder) will receive one common share of Freehold for each Subscription Receipt held.

Holders of the Subscription Receipts will be entitled to receive payments per Subscription Receipt equal to the cash dividend paid on Freehold's common shares (the Dividend Equivalent Payments), if any, actually paid or payable to holders of such common shares in respect of all record dates for such dividends occurring from the closing date of the Offering to, but excluding, the last day on which the Subscription Receipts remain outstanding, to be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend. The Dividend Equivalent Payments will be made regardless of whether the U.S. Royalty Transaction is completed or not. If the U.S. Royalty Transaction is not completed at or before 5:00 p.m. (Calgary time) on November 30, 2021, then the subscription price for the Subscription Receipts will be returned to holders of Subscription Receipts together with any unpaid Dividend Equivalent Payments.

Upon release of the escrowed funds to Freehold such funds are anticipated to be used to pay a portion of the purchase price of the Acquired Assets with the remainder of the purchase price funded by drawing on our existing credit facilities. Completion of the Offering is subject to certain conditions including normal regulatory and Toronto Stock Exchange approvals. The Subscription Receipts will be offered via short form prospectus in each of the provinces of Canada, other than Québec, and to Qualified Institutional Buyers in the United States pursuant to the registration exemptions provided by Rule 144A of the Securities Act of 1933, and internationally as permitted. Closing of the Offering is expected to occur on or about September 22, 2021.

In connection with entering into the Definitive Agreement with respect to the U.S. Royalty Transaction, Freehold has received commitments from its syndicate of banks sufficient to increase its bank credit facilities to \$230 million from \$180 million, exercisable at Freehold's discretion. In addition, Freehold has commenced the process of seeking an increase to the maximum limit of the credit facilities above \$230 million. Any increase of the credit facilities beyond \$230 million will be subject to definitive documentation by Freehold and its lenders providing for such increase.

This press release is not an offer of the securities for sale in the United States. The securities may not be offered or sold in the United States absent registration or an available exemption from the registration requirements of the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") and applicable U.S. state securities laws. Freehold will not make any public offering of the securities in the United States. This press release shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful.

Forward-Looking Statements

This news release offers our assessment of Freehold's future plans and operations as at September 8th, 2021 and contains forward-looking information including, without limitation, forward-looking information with regards to the expected terms and conditions of the U.S. Royalty Transaction; the expected timing for closing of the U.S. Royalty Transaction; the expected attributes and benefits to be derived by Freehold pursuant to the U.S. Royalty Transaction; the expectation that the U.S. Royalty Transaction will enhance the long-term sustainability of Freehold's dividend and provide option value to return capital to Freehold's shareholders through multi-years of free cash flow growth; Freehold's intent to deliver growth and low risk attractive returns for our shareholders; the number of potential drilling locations associated with the Acquired Assets; the expectation that wells associated with the Acquired Assets will be economic at US\$30/bbl WTI pricing; 2022 average net daily royalty production (including the liquids weighting of such production) from the Acquired Assets; the expectation that development of the Acquired Assets will be supported by a well-capitalized investment grade producer; the forecasted 2022 funds from operations from the Acquired Assets; the expectation that accretion for funds from operations in 2022 resulting from the U.S. Royalty Transaction will be similar to the first half of 2021; the percentage of production and funds flow from operations that the Acquired Assets are expected to account for relative to Freehold's aggregate production and funds flow from operations; the expected average net daily production for Freehold for the second half of 2021 and for the full year 2022; the expectation that the Acquired Assets will enhance our near-term growth profile and further position with royalty acres we believe will attract capital at or below the current WTI price environment; the expectation that the U.S. Royalty Transaction will further enhance the sustainability of Freehold's dividend while maintaining conservative leverage ratios of less than 1.5x debt to funds from operations; the expected terms of the Public Offering; the expected terms of the Subscription Receipts; the expected use of proceeds from the Offering; the expected timing of closing the Offering; and the expected increase to Freehold's credit facilities.

This forward-looking information is provided to allow readers to better understand our business and prospects and may not be suitable for other purposes. By its nature, forward-looking information is subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of the COVID-19 pandemic on economic activity and demand for oil and natural gas, 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, our ability to access sufficient capital from internal and external sources. The closing of the Transaction, Offering could be delayed if Freehold or the other parties are not able to obtain the necessary regulatory and stock exchange approvals on the timelines anticipated. The U.S. Royalty Transaction, Offering may not be completed if these approvals are not obtained or some other condition to the closing of the U.S. Royalty Transaction is not satisfied. In addition, to the extent any title defects are discovered and unremedied it may result in Freehold not acquiring all of the Acquired Assets. Accordingly, there is a risk that the U.S. Royalty Transaction, Offering will not be completed within the anticipated time or at all. Risks are described in more detail in Freehold's annual information form for the year ended December 31, 2020 which is available under Freehold's profile on SEDAR at www.sedar.com.

With respect to forward looking information contained in this press release including relating to the 2022 forecast production and 2022 forecast funds from operations from the Acquired Assets, we have made assumptions regarding, among other things; future oil and natural gas prices (for the purposes of the estimates in this press release we have assumed a West Texas Intermediate price of US\$65/barrel of oil and a NYMEX natural gas price of US\$3.00/MMbtu); future exchange rates (for the purposes of the estimates in this press release we have assumed an exchange rate of US\$0.78 for every CDN\$1.00); that drilled uncompleted wells will be completed in the short term and brought on production; that wells that have been permitted will be drilled and completed within a customary timeframe; expectations as to additional wells to be permitted, drilled, completed and brought on production in 2021 and 2022 based on Freehold's review of the geology and economics of the plays associated with the Acquired Assets; expected production performance of wells to be drilled and/or brought on production in 2021 and 2022; the ability of our royalty payors to obtain equipment in a timely manner to carry out development activities; the ability and willingness

of royalty payors to fund development activities relating to the Acquired Assets; and such other assumptions as are identified herein.

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 information. 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 herein 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 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.

Drilling Locations

This press release discloses anticipated future drilling or development locations associated with the Acquired Assets, all of which are currently considered unbooked locations. Unbooked locations are generated by internal estimates of Freehold management based on prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Unbooked locations have been identified by management as an estimation of the multi-year drilling activities on the Acquired Assets based on evaluation of applicable geologic, seismic, engineering, historic drilling, production, commodity price assumptions and reserves information. There is no certainty that all unbooked drilling locations will be drilled and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. Freehold has no control on whether any wells will be actually drilled in respect of such unbooked locations. The drilling locations on which wells are actually drilled will ultimately depend upon the capital allocation decisions of royalty payors who have working interests in respect of such drilling locations and a number of other factors including, without limitation, availability of capital, regulatory approvals, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production. Upon purchase of the Acquired Assets, Freehold will have the reserves associated with the Acquired Assets evaluated by an independent qualified reserves evaluator in accordance with the requirements of National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities and it will be determined at such time whether any of the unbooked drilling locations disclosed herein are booked for the purposes of such evaluation with associated proved or probable reserves.

Production

All production disclosed herein is considered net production for the purposes of National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities, which includes Freehold's working interest (operating and non-operating) share after deduction of royalty obligations, plus our royalty interests. Since Freehold has minimal working interest production, net production is substantially equivalent to Freehold's royalty interest production. In 2022 net production from the Acquired Assets is expected to consist of approximately 50% of light oil, 23% of natural gas liquids and 27% of natural gas. In the second half of 2021 Freehold's aggregate net production is expected to consist of approximately 9% heavy oil, 39% light and medium oil, 10% natural gas liquids and 42% of natural gas. In 2022 Freehold's aggregate net production is expected to consist of approximately 8% heavy oil, 40% light and medium oil, 12% natural gas liquids and 40% natural gas.

Currency

All references in this press release to dollar amounts are to Canadian dollars unless otherwise indicated.

Initial Production Rates

References in this press release to initial production rates, other short-term production rates or initial performance measures relating to new wells are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. A pressure transient analysis or well-test interpretation has not necessarily been carried out in respect of all wells. Accordingly, the Company cautions that the test results or initial production rates should be considered to be preliminary.

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 gas industry. We believe that payout ratio and free cash flow are useful supplemental measures for management and investors to analyze operating performance, financial leverage, liquidity and sustainability of our dividend, 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.

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. Freehold's payout ratio is calculated as dividends paid as a percentage of funds from operations. Free cash flow is calculated by subtracting capital expenditures from funds from operations. In periods where Freehold has no capital expenditures, this figure is interchangeable with funds from operations. Free cash flow is a measure often used by dividend paying companies to determine cash available for the payment of dividends, reducing debt or available for investment. 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 figures 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 management's discussion and analysis, which is available on SEDAR at www.sedar.com.

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