

NEWS RELEASE

TSX: FRU

Freehold Royalties Ltd. Announces Third Quarter 2020 Results and Increases 2021 Dividend

CALGARY, ALBERTA, (GLOBE NEWSWIRE – November 10, 2020) – Freehold Royalties Ltd. (Freehold or the Company) (TSX:FRU) announces third quarter results for the period ended September 30, 2020.

Results at a Glance

FINANCIAL (\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	Change	2020	2019	Change
Royalty and other revenue	23,123	33,068	-30%	64,165	104,010	-38%
Net income (loss)	139	2,729	-95%	(14,304)	(920)	-1455%
Per share, basic and diluted (\$) ⁽¹⁾	-	0.02	-100%	(0.12)	(0.01)	-1100%
Cash flows from operations	1,130	30,711	-96%	45,157	77,847	-42%
Funds from operations	19,893	27,996	-29%	50,763	87,439	-42%
Per share, basic (\$) ⁽¹⁾	0.17	0.24	-29%	0.43	0.74	-42%
Acquisitions and related expenditures	415	15,060	-97%	6,836	46,962	-85%
Dividends Paid	5,342	18,666	-71%	33,815	55,988	-40%
Per share (\$) ⁽²⁾	0.045	0.1575	-71%	0.2850	0.4725	-40%
Dividends declared	5,342	18,669	-71%	29,368	55,980	-48%
Per share (\$) ⁽²⁾	0.045	0.1575	-71%	0.2475	0.4725	-48%
Payout ratio ⁽³⁾	27%	67%	-40%	67%	64%	3%
Net debt	81,678	105,524	-23%	81,678	105,524	-23%
Shares outstanding, period end (000s)	118,746	118,568	-	118,746	118,568	-
Average shares outstanding (000s) ⁽¹⁾	118,706	118,513	-	118,665	118,459	-
OPERATING						
Royalty production (boe/d) ⁽⁴⁾	9,096	10,149	-10%	9,620	10,200	-6%
Light and medium oil (bbl/d)	3,383	3,771	-10%	3,520	3,744	-6%
Heavy oil (bbl/d)	791	1,148	-31%	966	1,015	-5%
NGL (bbl/d)	848	740	15%	831	871	-5%
Total liquids (bbl/d)	5,022	5,659	-11%	5,317	5,630	-6%
Natural gas (Mcf/d)	24,446	26,938	-9%	25,819	27,419	-6%
Total production (boe/d) ⁽⁴⁾	9,143	10,482	-13%	9,816	10,591	-7%
Oil and NGL (%)	55	56	-1%	55	55	-
Average price realizations (\$/boe) ⁽⁴⁾	26.93	33.87	-20%	23.37	35.35	-34%
Cash Costs (\$/boe) ^{(3) (4)}	3.70	4.67	-21%	4.80	5.37	-11%
Operating netback (\$/boe) ^{(3) (4)}	27.20	33.36	-18%	23.21	34.98	-34%

(1) Weighted average number of shares outstanding during the period, basic

(2) Based on the number of shares issued and outstanding at each record date

(3) See Non-GAAP Financial Measures

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

President's Message

The third quarter results highlight the simplicity and resiliency of our business model as production stabilized and was flat quarter over quarter at 9,096 boe/d and royalty revenue was up materially at \$23.1 million with the rebound in oil price. We saw a return to drilling in the latter part of the quarter with 32 (2.1 net) wells being drilled in the light oil and liquids rich plays within our portfolio.

Our funds from operations was \$19.9 million, highlighting the strong margins associated with royalty production. The year to date dividend payout is now at 67% after being greater than 90% in the first half of the year. As the necessary early steps were taken to position our company to successfully weather the challenges facing our industry earlier in the year, we can now provide a dividend increase that is aligned with our strategy of targeting a payout ratio in the 60%-80% range while maintaining balance sheet health and flexibility.

The recent strategies to position our company “in front of the drill bit” with key asset acquisitions in Canada and the U.S., along with our drive to reduce cash costs are leading to a continued strengthening of our business. In Q3-2020, our cash costs of \$3.70/BOE, were the lowest in our history. We have strong leadership in place, an engaged and idea rich workforce, and a supportive and constructive Board of Directors.

Earlier this year, we prioritized the health and safety of our workforce by directing all employees to work remotely from home while our company remained fully operational. Over the summer months our Return to Office Task Force worked diligently to develop office safety protocols in alignment with government and public health guidelines which allowed us to successfully re-open our office with a reduced staff complement. We continue to closely monitor the COVID-19 situation and will not compromise on the health and safety of our workforce. We appreciate the unwavering efforts of all our staff during this time and we want to thank our shareholders for their ongoing support.

Despite considerable uncertainty associated with the ultimate impact of COVID-19 as it pertains to supply and demand fundamentals surrounding commodity oil pricing, Freehold has continued to deliver attractive operating margins, which in turn provides a steady source of income to our shareholders.

David M. Spyker
Interim President and CEO

Dividend Announcement

The Board has declared a dividend of \$0.015 per share to be paid on December 15, 2020 to shareholders of record on November 30, 2020, in-line with the previous dividend level set for 2020. The dividend is designated as an eligible dividend for Canadian income tax purposes.

With decreasing volatility in oil prices and strength in operations, Freehold’s Board has approved a 33% increase to the monthly dividend to \$0.02 per share (annualized \$0.24 per share) where the first increased dividend is expected to be paid on January 15, 2021 to shareholders of record on December 31, 2020. While our strategy remains a 60%-80% payout, we are mindful of future events such as the upcoming OPEC meeting and the overall supply and demand market fundamentals from the continuing impact of COVID-19 as well as potential acquisition opportunities that may arise. Based on current commodity price assumptions, and assuming no significant changes to the current business environment, we expect to maintain the revised 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 review and approval of our Board).

Q3 2020 Highlights

- Our payout ratio⁽¹⁾ totaled 27% for the quarter, versus 67% during the same period last year. Dividends paid for Q3-2020 totaled \$0.0450 per share, down from Q3-2019 when dividends paid totaled \$0.1575 per share. The decreased payout reflected a dividend reduction made by the Board during Q2-2020 in response to a weaker crude oil price outlook driven by a supply/demand imbalance associated with COVID-19. As oil prices appear sustainable at current levels and the business environment has stabilized, the Board is comfortable adjusting the dividend upward, starting with the January 2021 dividend payment.

- Q3-2020 funds from operations totaling \$19.9 million, or \$0.17 per share over the quarter, is almost double the \$10.6 million reported in Q2-2020, but down compared to \$28.0 million or \$0.24 per share in Q3-2019. The reduction in funds from operations from the same period in 2019 reflected weakness in oil prices along with reduced production volumes associated with shut-in production and lower levels of third-party drilling. Based on Freehold's share price at quarter-end of \$3.69/share and annualizing Q3-2020 funds from operations, Freehold offers investors a 18% free cash flow⁽¹⁾ yield, a strong return given its low risk profile.
- Freehold's royalty production averaged 9,096 boe/d during Q3-2020, essentially unchanged from Q2-2020, as volumes were brought back on-stream from the price induced shut-ins that occurred during Q2-2020. Q3-2020 royalty production represents a 10% decline versus the same quarter of last year due to lower levels of third-party drilling and shut-in production. Royalty liquids production averaged 5,022 boe/d for Q3-2020, down 11% versus the same period in 2019 but up 1% when compared to Q2-2020. On an exit to exit measure, Freehold was able to increase its oil and liquids volumes by 8% versus Q2-2020, as production trended up throughout the quarter.
- Overall, only 5% of payor's production remained shut-in in Q3-2020, 3% as we exited the quarter, a significant recovery from the 9% that was shut-in during Q2-2020.
- Production from Freehold's U.S. royalty assets averaged 148 boe/d in Q3-2020, doubling from Q2-2020 levels of 74 boe/d, as previously shut-in wells were reactivated late in the quarter. As we exited the quarter, production had recovered to 240 boe/d, back to the levels achieved in early 2020.
- Oil and natural gas liquids represented 55% of production in Q3-2020, down slightly from 56% in Q3-2019 as production shut-in during 2020 was primarily oil focused.
- Cash costs⁽¹⁾ for the quarter totaled \$3.70/boe, a record low for Freehold, down from \$4.67/boe in Q3-2019 and \$4.79/boe in Q2-2020. The decrease in costs year over year reflects lower operating costs and reduced interest charges reflecting a decline in prime lending rates.
- Closing net debt as at September 30, 2020 was \$81.7 million, a decrease of \$14.4 million versus the previous quarter. The decrease quarter over quarter reflects continued positive funds from operations relative to costs and dividend obligations. Long term debt ended the quarter at \$107.0 million, reflecting the previously announced deposit made to the Canada Revenue Agency (CRA).
- Q3-2020 net income totaled \$0.1 million this quarter compared to \$2.7 million in net income in Q3-2019. Despite Q3-2020 funds from operations of \$19.9 million buoyed by lower cash costs, the lower net income reflected lower revenues due to the retreat in oil prices and lower production volumes.

(1) See Non-GAAP Financial Measures.

Return to Drilling in Q3

In Q2-2020, producers chose to preserve capital through a cessation of drilling activities in response to crude prices trading at multi-decade lows. We are now observing the beginning of a return to drilling activity. Although lower than the same quarter of 2019, there were 32 (2.1 net) wells drilled on our royalty lands. This compares to 181 (6.1 net) royalty wells drilled in Q3-2019. In dialogue with some of the major operators on our royalty lands, we believe that with continued stability in commodity prices, activity levels will increase through Q4-2020 and into 2021.

Royalty Interest Drilling

	Three Months Ended September 30				Nine Months Ended September 30			
	2020		2019		2020		2019	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾
Total	32	2.1	181	6.1	261	8.7	455	16.3

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

Conference Call Details

A conference call to discuss financial and operational results for the period ended September 30, 2020 will be held for the investment community on Tuesday November 10, 2020 beginning at 4:00 PM MST (6:00 PM ET). To participate in the conference call, approximately 10 minutes prior to the conference call, please dial 1-800-898-3989 (toll-free in North America) participant passcode is 5501124#.

Forward-Looking Statements

This news release offers our assessment of Freehold's future plans and operations as at November 10, 2020 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 expectations regarding increases in activity in certain jurisdictions;
- our expectation that Freehold will continue to pay down debt levels over and above its dividend with free cash flow potentially available to fund transactions and that such transactions may be value enhancing;
- our expectation that we will continue to maintain the revised monthly dividend rate through the next quarter and will continue to monitor our dividend rate;
- our expected timing for certain production to come back on-line and that certain production will remain shut-in;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil and natural gas including anticipated actions at and outcomes of the upcoming OPEC meeting and the impact of COVID-19 on such factors;
- anticipated economic uncertainty and our expectation that its direct and indirect impacts could have a prospective material impact on Freehold's operations, cash flows and liquidity;
- our expectations regarding L3R, including its anticipated in service date;
- our expectation that our production and revenue will stabilize over the short term;
- our expectation to update the market on our production profile, including the timing thereof;
- our expectation that with continued stability in commodity prices activity levels will increase through Q4-2020 and year-end on our royalty lands;
- our expectation of generating lower risk returns to our shareholders by driving oil and gas development on our lands through our lease program, acquiring royalty assets with acceptable risk profiles and long economic life and generating gross overriding royalties for revenue growth;
- our intent to maintain balance sheet strength (1.5 times or less net debt to funds from operations) and achieve a payout ratio of between 60%-80%;
- changing economic conditions;
- our strategies and the expectation that those strategies will deliver growth and lower risk attractive returns to shareholders;
- our ability to continue to meet the financial covenants under the agreements governing our credit facilities;
- foreign exchange rates;
- our dividend policy and expectations for future dividends;
- treatment under governmental regulatory regimes and tax laws; and
- our assessment of risk associated with the CRA proposal.

By their nature, forward-looking statements are 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, and our ability to access sufficient capital from internal and external sources. Risks are described in more detail in our annual information form for the year ended December 31, 2019 available at www.sedar.com.

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. Additional 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 gas industry. We believe that operating income, operating netback, 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 is calculated as royalty and other revenue, less operating expenses. It shows the profitability of our revenue streams as it provides the cash margin for product sold after directly related expenses. Operating netback, which is calculated as average unit sales price less royalty 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. 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.

Cash costs is a total of all recurring costs in the statement of income deducted in determining funds from operations. For Freehold, cash costs are identified as operating expense, general & 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 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 MD&A.

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