

## NEWS RELEASE

TSX: FRU

### Freehold Royalties Ltd. Announces 2020 Results and Increases 2021 Dividend and Production Guidance

**CALGARY, ALBERTA, (GLOBE NEWSWIRE – March 4, 2021)** – Freehold Royalties Ltd. (Freehold or the Company) (TSX:FRU) announces fourth quarter and annual results for the period ended December 31, 2020.

#### Operating and Financial Highlights

FINANCIAL (\$000s, except as noted)	Three Months Ended December 31			Twelve Months Ended December 31		
	2020	2019	Change	2020	2019	Change
Royalty and other revenue	25,793	36,827	-30%	89,958	140,837	-36%
Net income (loss)	373	6113	-94%	(13,931)	5,193	nm
Per share, basic and diluted (\$) <sup>(1)</sup>	-	0.05	-100%	(0.12)	0.04	nm
Cash flows from operations	20,610	27,954	-26%	65,767	105,801	-38%
Funds from operations	22,129	30,659	-28%	72,891	118,098	-38%
Per share, basic (\$) <sup>(1)</sup>	0.19	0.26	-27%	0.61	1.00	-39%
Acquisitions and related expenditures	222	2,727	-92%	7,058	49,689	-86%
Dividends Paid	5,343	18,675	-71%	39,158	74,663	-48%
Per share (\$) <sup>(2)</sup>	0.045	0.1575	-71%	0.3300	0.6300	-48%
Dividends declared	5,938	18,683	-68%	35,306	74,663	-53%
Per share (\$) <sup>(2)</sup>	0.0500	0.1575	-68%	0.2975	0.6300	-53%
Payout ratio <sup>(3)</sup>	24%	61%	-37%	54%	63%	-9%
Long term debt	93,000	109,000	-15%	93,000	109,000	-15%
Net debt	65,765	94,634	-31%	65,765	94,634	-31%
Shares outstanding, period end (000s)	118,788	118,623	-	118,788	118,623	-
Average shares outstanding (000s) <sup>(1)</sup>	118,747	118,568	-	118,685	118,486	-
<b>OPERATING</b>						
Royalty production (boe/d) <sup>(4)</sup>	9,563	10,315	-7%	9,605	10,229	-6%
Light and medium oil (bbl/d)	3,239	4,024	-20%	3,449	3,814	-10%
Heavy oil (bbl/d)	1,173	1,089	8%	1,018	1,034	-2%
NGL (bbl/d)	813	799	2%	827	853	-3%
Total liquids (bbl/d)	5,225	5,912	-12%	5,294	5,701	-7%
Natural gas (Mcf/d)	26,027	26,416	-1%	25,868	27,166	-5%
Total production (boe/d) <sup>(4)</sup>	9,681	10,740	-10%	9,781	10,628	-8%
Oil and NGL (%)	54	57	-4%	55	56	-2%
Average price realizations (\$/boe) <sup>(4)</sup>	28.16	37.04	-24%	24.56	35.78	-31%
Cash Costs (\$/boe) <sup>(3) (4)</sup>	4.11	5.10	-19%	4.63	5.30	-13%
Operating netback (\$/boe) <sup>(3) (4)</sup>	28.64	36.19	-21%	24.56	35.28	-30%

nm – not meaningful

(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

2020 was a significant year for Freehold, one in which we undertook a number of key initiatives to underpin the long-term sustainability of our business and reinforce Freehold's identity as a lower risk income vehicle for our shareholders. This was accomplished despite the challenging backdrop of COVID-19 and the sharp decline in oil prices.

Our team worked hard to identify acquisition opportunities in the bottom of the price cycle and in November we announced the acquisition of a diversified U.S. royalty package that solidified our position as the only publicly traded North American focused oil and gas royalty company. This transaction added a growing production stream to our portfolio and broadens the opportunity set in front of us to further enhance our portfolio.

In April, we completed a divestment of the majority of our remaining working interest assets, allowing for increased focus on our core royalty business and driving our cash costs down to the lowest level in our 24-year history.

Our 2020 royalty production was very resilient to the commodity price volatility, declining only 6% year-over-year despite the slowdown in Western Canada drilling activity and the production shut-ins that occurred in response to the pricing lows in the second quarter.

The initiatives we have taken to position our portfolio “in front of the drill bit” was rewarded in 2020 as drilling activity ramped up in the second half of the year. In the fourth quarter, we had more wells drilled on our royalty lands than we had in Q4-2019 and we see continued strong drilling activity into 2021.

The groundwork we have set in 2020 has positioned us for an exciting 2021 as we return to growth, projecting a 10–15% increase in royalty production year-over-year. The improved economic conditions are very positive for our industry. Reflecting our strong belief in our business model, our healthy balance sheet, the improving commodity price stability, and our commitment to return value to our shareholders, we will revise our dividend upward by 50% from \$0.02/share to \$0.03/share starting with our April dividend payment.

We want to thank our employees and shareholders for their patience and support as we navigated 2020. We see an exciting year ahead for Freehold and its shareholders.

**David M. Spyker**

**President and CEO**

### **Dividend Announcement**

With an improved outlook for commodity prices and a strengthened business model, Freehold's Board of Directors (the Board) has approved increasing the monthly dividend from \$0.02 to \$0.03 per share, or \$0.36 per share annualized. The \$0.03 per share dividend will commence on April 15, 2021 and will be paid to shareholders of record on March 31, 2021. The dividend is designated as an eligible dividend for Canadian income tax purposes.

Projected 2021 payouts are below our stated dividend policy levels, which outlines a 60%-80% payout ratio over the long-term based on forward looking funds from operations. The dividend increase announced today is at a measured pace as, although the commodity price outlook has improved substantially, there is still risk as the supply - demand balance for oil continues to be tenuous. We also see meaningful, high quality, acquisition opportunities across North America and feel it would be prudent to retain financial flexibility to pursue these as we work to continually enhance our portfolio positioning and business strength.

### **Subsequent Event**

#### **U.S. Royalty Acquisition**

On January 5, 2021, Freehold closed the acquisition of U.S. royalty properties for US\$58 million (\$74 million) net of customary adjustments financed by \$60.7 million of proceeds from an equity financing and utilization of Freehold's credit facilities. The acquisition included 400,000 gross drilling unit acres of mineral title and overriding royalty interests across 12 basins in eight

states; predominantly weighted towards the Permian and Eagle Ford basins. 2021 production associated with the acquired assets is forecast at 1,250 boe/d. The acquired assets are well capitalized having seen approximately 1.5% of all Lower-48 E&P capital spending over the past five years.

Freehold also closed two additional U.S. royalty transactions subsequent to year-end, complementing our positions in the Bakken and Permian basins. Total consideration associated with these transactions was approximately \$4.7 million and the assets are estimated to add 75 boe/d to 2021 average production.

#### **Fourth Quarter Highlights**

- Dividends declared for Q4-2020 totaled \$0.05 per share, up 11% from Q3-2020 with the December increase to \$0.02 per share. Our payout ratio <sup>(1)</sup> totaled 24% for the quarter and 54% for the year.
- With decreasing volatility in oil prices and strength in operations, on November 10, 2020, Freehold announced a 33% increase to the monthly dividend to \$0.02 per share (annualized \$0.24 per share). The first payment at the revised dividend level was paid to shareholders on record as of December 31, 2020 on January 15, 2021.
- Funds from operations for Q4-2020 totaled \$22.1 million, an increase of 11% from Q3-2020. On a per share basis, funds from operations totaled \$0.19 per share in Q4-2020, a 12 % increase from the \$0.17 per share in Q3-2020.
- At December 31, 2020, net debt totaled \$65.8 million, down from \$81.7 million in Q3-2020, implying a net debt to 12-month trailing funds from operations ratio of 0.9 times. The decrease in net debt over the previous quarter reflected excess free cash flow over and above our dividend and acquisition capital in Q4-2020.
- Cash costs <sup>(1)</sup> for the quarter totaled \$4.11/boe, up from \$3.70/boe in Q3-2020 but down from \$5.10/boe achieved during the same period last year. The decrease year-over-year reflects reduced debt levels and lower interest charges, the disposition of working interest properties, and lower G&A costs.
- Q4-2020 net income totaled \$0.4 million, flat versus Q3-2020.
- Freehold's total royalty production averaged 9,563 boe/d, up 5% versus the previous quarter.
- Royalty oil production, which has higher operating netbacks <sup>(1)</sup> and returns, averaged 5,225 boe/d in Q4-2020, increasing 4% when compared to the previous quarter, as wells returned from being shut-in.
- Wells drilled on our royalty lands totaled 111 (4.9 net) in the quarter, up on a net measure versus 186 (4.5 net) drilled during the same period in 2019.

(1) See Non-GAAP Financial Measures.

#### **2020 Highlights**

- Dividends declared for 2020 totaled \$35.3 million (\$0.30 per share), down 53% versus 2019 when Freehold declared dividends of \$74.7 million (\$0.63 per share). Our dividend payout ratio <sup>(1)</sup> for 2020 totaled 54%.
- Royalty and other revenue totaled \$90.0 million in 2020, down 36% from the previous year as weakness in crude oil prices impacted revenue and production volumes. Total royalty revenue was comprised of 79% oil and natural gas liquids (NGL's) as we maintained our crude oil and liquids focus.
- Funds from operations in 2020 totaled \$72.9 million or \$0.61 per share, down 38% from \$118.1 million or \$1.00 per share in 2019.

- Freehold exited 2020 with long term debt of \$93 million, implying debt to trailing funds from operations of 1.3 times. This compares to \$109 million in long term debt as of year-end 2019 with a 0.9 ratio. Despite lower funds from operations causing an increase in this ratio, the absolute decrease in leverage reflected funds from operations exceeding dividend obligations.
- Freehold completed \$3.3 million in royalty acquisitions in 2020. Much of the focus was associated with smaller tuck-in deals building on Freehold's position in North Dakota. Subsequent to year-end, Freehold completed its first material U.S. royalty transaction as previously discussed.
- 2020 royalty production averaged 9,605 boe/d, a 6% decrease versus the previous year as reduced third-party royalty drilling additions and shut-in production negatively impacted volumes. Since late Q2-2020, however, royalty production has displayed steady growth into year-end, as producers have increased capital towards third-party drilling and shut-in volumes have come back on-line.
- Oil and NGL's volumes represented 55% of 2020 royalty production, down slightly from 56% in 2019 as weakness in crude oil prices during the year resulted in shut-in production which was estimated to have an annual impact of 365 boe/d.
- In total, 372 (13.6 net) wells were drilled on our royalty lands in 2020, a 35% and 42% decrease on a gross and net measure respectively, versus 2019. Despite the reduction in drilling year-over-year, Freehold saw a ramp-up in activity during Q4-2020 with 111 gross (4.9 net) wells drilled on our royalty lands, a 9% improvement on a net measure versus the same quarter in 2019. We saw a broadening of producers drilling on our royalty lands over the fourth quarter with capital focused on southeast Saskatchewan, the Viking, the Cardium in northwest Alberta and the Sparky in Central Alberta driving much of drilling activity for the period.
- Proved plus probable net reserves <sup>(2)</sup> totaled 29.4 MMboe as at December 31, 2020, down from 31.7 MMboe as at December 31, 2019. The slight decrease year-over-year reflected working interest dispositions and production despite additions from tuck-in acquisitions in North Dakota, drilling additions and an on-going evaluation of our undeveloped properties.

(1) See Non-GAAP Financial Measures

(2) A detailed review of Freehold's reserve information, including a summary of the evaluation of Freehold's reserves and associated future net revenues as prepared by Trimble Engineering Associates Ltd., Freehold's independent reserves evaluator effective as at December 31, 2020, is provided in the Annual Information Form (AIF). A copy of the AIF can be found on Freehold's website at [www.freeholdroyalties.com](http://www.freeholdroyalties.com) or [www.sedar.com](http://www.sedar.com).

#### **Q4 drilling ahead of 2019 levels**

In total, 372 (13.6 net) wells were drilled on our royalty lands in 2020, a 35% decline on a net measure versus 2019. We saw reduced drilling activity associated with an overall reduction in North America drilling. Freehold's royalty land base, however, continued to outperform activity levels across western Canada and North Dakota.

In 2020, approximately 49% of gross wells on our royalty lands targeted prospects in Saskatchewan, 40% in Alberta and 11% in Manitoba. Producers continue to remain focused on oil prospects within Freehold's land base with 87% of prospects drilled during the year, targeting oil and liquids with 80% of net wells drilled targeting gross overriding royalty (GORR) prospects with the remaining 20% drilled on Freehold's mineral title lands. The Viking in southwest Saskatchewan, Clearwater in central Alberta, Cardium in northwest Alberta and Sparky in central Alberta continue to be key areas of focus, with our top royalty payors remaining well capitalized.

In Q4-2020, Freehold saw 111 gross (4.9 net) wells drilled on our royalty lands which was more than double Q3-2020 activity and an 9% improvement versus the same quarter in 2019. Looking forward, we believe there remains strong momentum both within our Canadian and U.S. portfolios that is expected to drive strong third-party drilling and production additions into 2021. The

acquisition of U.S. royalty production and royalty lands subsequent to 2020 is expected to further diversify our royalty lands, bringing added sustainability to our portfolio and dividend.

### Royalty Interest Drilling

	Three Months Ended December 31				Twelve Months Ended December 31			
	2020		2019		2020		2019	
	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>
Total	111	4.9	186	4.5	372	13.6	641	20.8

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

### 2021 Guidance

The following table summarizes our key operating assumptions for 2021.

- With the resurgence in drilling activity on Freehold's lands, we are increasing our 2021 guidance and assuming an average royalty production range of 10,500 boe/d to 11,000 boe/d. Royalty volumes are expected to be weighted approximately 55% oil and NGL's and 45% natural gas.
- We are assuming WTI and Edmonton Light Sweet oil price assumptions of US\$50.00/bbl and \$58.00/bbl respectively, and AECO at \$2.75/mcf.

		Guidance Dated Mar. 4, 2021
2021 Annual Average		
Royalty production	boe/d	10,500-11,000
West Texas Intermediate crude oil	US\$/bbl	50.00
Edmonton Light Sweet crude oil	Cdn\$/bbl	58.00
AECO natural gas	Cdn\$/Mcf	2.75
Exchange rate	Cdn\$/US\$	0.79

(1) See Non-GAAP Financial Measures.

### 2020 Reserves Information

Freehold's reserve information, including a summary of the evaluation of Freehold's reserve and associated future net revenue as prepared by Trimble Engineering Associates Ltd., Freehold's independent reserve evaluator effective as at December 31, 2020 is included in our AIF which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and Freehold's website at [www.freeholdroyalties.com](http://www.freeholdroyalties.com)

### Conference Call Details

A conference call to discuss financial and operational results for the period ended December 31, 2020 will be held for the investment community on Friday March 5, 2021 beginning at 7:00 AM MST (9:00 AM ET). To participate in the conference call, approximately 10 minutes prior to the conference call, please dial 1-866-696-5910 (toll-free in North America) participant passcode is 5856352#.

### Forward-Looking Statements

This news release offers our assessment of Freehold's future plans and operations as at March 4, 2021 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 expectation of continued strong drilling activity in 2021;
- our projection of a 10–15% increase in royalty production year-over-year;
- our commitment to return value to our shareholders;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil and natural gas;

- our expectation of seeing meaningful, high quality, acquisition opportunities across North America;
- our intent to retain financial flexibility to pursue acquisition opportunities and enhance our portfolio positioning and business strength;
- 2021 forecast production associated with various U.S. royalty asset acquisitions;
- our expectation of strong third-party drilling and production additions within our Canadian and U.S. portfolios in 2021;
- our expectation that the acquisition of U.S royalty production and royalty lands will further diversify our royalty lands, bringing added sustainability to our portfolio and dividend;
- 2021 guidance including average royalty production (including commodity weighting) and commodity prices; and
- our dividend policy and expectations for future dividends.

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 AIF for the year ended December 31, 2020 available at [www.sedar.com](http://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.

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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