Q3 2017

Freehold
ROYALTIES LTD.

Third Quarter Report
Three and Nine Months | Ended September 30, 2017

Results at a Glance

	Three Months Ended September 30			Nine Months Ended September 30		
FINANCIAL ($000s, except as noted)	**2017**	2016	Change	**2017**	2016	Change
Royalty and other revenue	**33,938**	32,923	3%	**113,459**	90,075	26%
Net income (loss)	**103**	(1,962)	105%	**20,275**	(12,801)	258%
Per share, basic and diluted ($)	**-**	(0.02)	-	**0.17**	(0.12)	242%
Funds from operations	**27,927**	24,148	16%	**91,765**	63,790	44%
Per share, basic ($)	**0.24**	0.21	14%	**0.78**	0.59	32%
Operating income (1)	**31,246**	28,231	11%	**103,565**	76,534	35%
Operating income from royalties (%)	**99**	93	6%	**95**	93	2%
Acquisitions	**(146)**	68	-315%	**34,473**	162,498	-79%
Capital expenditures	**1,657**	209	693%	**3,508**	3,046	15%
Working interest dispositions	**2,969**	-	-	**32,065**	-	-
Dividends declared	**17,714**	14,133	25%	**50,757**	45,358	12%
Per share ($) (2)	**0.15**	0.12	25%	**0.43**	0.42	2%
Net debt	**38,274**	87,301	-56%	**38,274**	87,301	-56%
Shares outstanding, period end (000s)	**118,128**	117,850	-	**118,128**	117,850	-
Average shares outstanding (000s) (3)	**118,073**	117,726	-	**118,016**	107,888	9%
OPERATING						
Average daily production (boe/d) (4)	**12,036**	12,281	-2%	**12,456**	12,099	3%
Oil and NGL (%)	**56**	55	2%	**56**	59	-5%
Average price realizations ($/boe) (4)	**29.67**	28.69	3%	**32.54**	26.50	23%
Operating netback ($/boe) (1) (4)	**28.22**	24.99	13%	**30.46**	23.09	32%

(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

As a result of strong drilling and production performance, we are increasing our 2017 average production guidance to 12.0-12.5 mboe/d. In the quarter, we created 30 new leases with producers, with year to date leasing more than double when compared to all of 2016. Freehold continued to pay down debt, maintained a conservative payout ratio and drove cash costs below $5/boe, in-line with providing a safe oil and gas investment. Overall our objective is to deliver growth and low risk attractive returns to our shareholders over the long term and we feel the results of this quarter are consistent with this goal.

Tom Mullane
President and CEO

Third Quarter Highlights

- Freehold's production averaged 12,036 boe/d, down 2% versus Q3-2016. The reduction in volumes was primarily the result of working interest dispositions made in 2017 (approximately 750 boe/d for the full year 2016) as our royalty volumes displayed strong growth versus the same period in 2016.
- Royalty production was up 7% compared to Q3-2016, averaging 10,919 boe/d. Gains in volumes were associated with strength in our audit function (approximately 700 boe/d in prior period adjustments) and strong drilling on our lands.
- Royalty interests accounted for 91% of total production and contributed 99% of operating income in Q3-2017, both representing the highest totals in our history. We remain committed to enhancing our royalty focus with ongoing efforts to dispose of our non-core working interest production.
- Freehold sold a minor working interest property for $3.0 million. Production associated with this asset was approximately 45 boe/d.
- Wells drilled on our royalty lands totaled 144 (6.4 net) in Q3-2017, up from 48 (2.3 net) in Q3-2016. From January 1, 2017 to September 30, 2017 we have seen 352 (16.6 net) wells drilled on our royalty lands compared to 156 (6.1 net) locations drilled during the same period in 2016.
- In Q3-2017 Freehold issued 30 new leases for a cumulative total of 69 new leases in the first nine months of 2017, significantly exceeding the 2016 total new lease count. We expect to see drilling associated with these efforts to occur over the remainder of the year and into 2018. Freehold's unleased holdings are available for review on our website's Leasing Opportunities page at www.freeholdroyalties.com.
- Funds from operations totaled $27.9 million, an increase of 16% compared to Q3-2016, largely due to an increase in revenue and reduced operating costs. On a per share basis, funds from operations was $0.24/share in Q3-2017 up from $0.21/share in Q3-2016.
- Freehold generated $8.6 million in free cash flow [(1)], over and above our dividend, which we applied to outstanding debt. At September 30, 2017, net debt totaled $38.3 million resulting in a net debt to 12-month trailing funds from operations ratio of 0.3 times. Even though we are below our target of 0.5-1.5 times net debt to funds from operations, we will continue to apply excess cash to debt repayment in the short term but also remain committed to acquiring additional royalties.
- Cash costs [(1)] for the quarter totaled $4.80/boe, down from $6.78/boe in Q3-2016 and $5.63/boe in Q2-2017. The reduction versus the same period last year reflects the disposition of working interest production and deleveraging of our balance sheet.
- Dividends declared for Q3-2017 totaled $0.15 per share, up 25% from $0.12 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 [(1)] (dividends declared/funds from operations) for Q3-2017 totaled 63% while the adjusted payout ratio [(1)] ((cash dividends plus capital expenditures)/funds from operations) for the same period was 69%.

(1) See Non-GAAP Financial Measures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) was prepared as of November 9, 2017, and is management's opinion about the consolidated operating and financial results of Freehold Royalties Ltd. and its wholly-owned subsidiaries (collectively, Freehold) for the three and nine months ended September 30, 2017, and previous periods, and the outlook for Freehold based on information available as of November 9, 2017.

The financial information contained herein is based on information in the interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. All comparative percentages are between the three and nine months ended September 30, 2017 and September 30, 2016, and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Any references in this document to "year-to-date" or "YTD" refers to the period from January 1 to September 30 of the stated year. This discussion should be read in conjunction with Freehold's annual MD&A and audited financial statements for the year ended December 31, 2016, together with the accompanying notes. Information contained in the 2016 annual MD&A that is not discussed in this document remains materially unchanged.

This MD&A contains non-GAAP financial measures and forward-looking statements that are intended to help readers better understand our business and prospects. Readers are cautioned that the MD&A should be read in conjunction with our disclosure under "Non-GAAP Financial Measures" and "Forward-Looking Statements" included at the end of this MD&A.

Business Overview

Freehold is a dividend-paying corporation incorporated under the laws of the Province of Alberta and trades on the Toronto Stock Exchange under the symbol FRU. Freehold is directly and indirectly involved in the development and production of oil and natural gas, predominantly in western Canada. We receive revenue from oil and natural gas properties as reserves are produced over the economic life of the properties. Our primary focus is acquiring and managing oil and natural gas royalties.

The Royalty Advantage

We manage one of the largest non-government portfolios of oil and natural gas royalties in Canada. Our total land holdings encompass approximately 6.1 million gross acres, greater than 95% of which are royalty lands. Our mineral title lands (including royalty assumption lands), which we own in perpetuity, cover approximately 1.0 million acres and we have gross overriding royalty interests in approximately 4.9 million acres.

We have interests in more than 42,000 wells (of which over 40,000 are royalty wells including over 20,000 unitized wells). We receive royalty income from over 300 industry operators. Royalty rates vary from less than 1.0% (for some gross overriding royalties) to 22.5% (for some lessor royalties). This diversity lowers our risk, and as a royalty owner we benefit from the drilling activity of others on our lands.

As a royalty interest owner, we generally do not pay any of the capital costs to drill and equip the wells for production on most of our properties, nor do we incur costs to operate the wells, maintain production, and ultimately restore the land to its original state. Generally all of these costs are paid by others. On the majority of our production, we receive royalty income from gross production revenue (revenue before any royalty expenses and operating costs are deducted). Our high percentage of operating income from royalties (99% in Q3-2017) results in strong netbacks.

When Freehold was formed in 1996, all of our royalty lands were leased to third parties and producing. Over the years, our unleased mineral title acreage has grown – through acquisitions, lease expiries, surrenders, and defaults. We now have approximately 380,000 acres of unleased mineral titles.

Our Strategy

As a leading royalty company, Freehold's objective is to deliver growth and low risk attractive returns to shareholders over the long term. Freehold accomplishes this by:

- **Creating Value**
    - Drive oil and gas development on our lands through our lease out programs.
    - Acquire royalty assets with acceptable risk profiles and long economic life.
    - Generate gross overriding royalties for revenue growth.

- **Enhancing value**
    - Maximize our royalty interests through a comprehensive audit program.
    - Manage our debt prudently with a target of 0.5-1.5 times net debt to funds from operations.

- **Delivering value**
    - Target a dividend with an adjusted payout ratio of 60%-80%.

Outlook

Business Environment

West Texas Intermediate (WTI) oil price remained range bound through Q3-2017 averaging US$48.21/bbl, flat when compared to levels realized in Q2-2017 but 7% higher than prices averaged during the same period in 2016. Year-to-date, prices have averaged US$49.47/bbl, up 20% versus the same period in 2016.

Edmonton Light Sweet price lost some of the positive momentum through the first half of 2017 averaging $56.73/bbl in the third quarter, representing a 3% improvement versus the same period last year but down 8% versus Q2-2017. Similarly, Western Canadian Select (WCS) price averaged $47.89/bbl, up 17% versus Q3-2016 and down 4% versus Q2-2017. The key driver behind lost momentum in Canada was primarily associated with an appreciation of the Canadian dollar versus the U.S. benchmark which improved to $0.80 (Cdn$/US$) from $0.74 (Cdn$/US$) versus the previous quarter. On the natural gas front, AECO prices averaged $2.04/mcf, down 7% versus the same period last year, as weakened supply/demand fundamentals, particularly for Canadian producers, continue to weigh on prices.

The Petroleum Services Association of Canada (PSAC) is currently projecting 7,550 wells drilled through 2017, up 5% from its previously forecasted estimate of 7,200 wells and a 101% increase over 2016. PSAC based its 2017 forecast on average natural gas prices of $2.75/mcf AECO and a WTI price of US$49.00/bbl.

PSAC also released its 2018 Canadian Drilling Activity Forecast and expects a total of 7,900 wells to be drilled in Canada for 2018. PSAC based its forecast on average natural gas prices of $2.50/mcf AECO, a WTI price of US$53.00/bbl and the Canadian dollar averaging $0.82/US$.

Drilling Activity

Including drilling associated with acquisitions, 352 (16.6 net) wells were drilled on our royalty lands during the first nine months of 2017, a 172% increase versus the same time period in 2016 (on a net basis). After some slowdown in activity during the previous quarter, Q3-2017 saw a resurgence in activity on our lands with 144 (6.4 net) locations drilled, compared to 48 (2.3 net) during the same period last year.

Activity through the first nine months of 2017 was primarily focused on oil prospects including the Viking at Redwater and Dodsland, which represented greater than 40% of our net locations through the first three quarters. Through this time period, activity has also been concentrated in southeast Saskatchewan (Bakken, Mississippian), southwest Saskatchewan (Shaunavon) and the Deep Basin (Montney). In Q3-2017, we have also seen renewed activity in Central Alberta (Cardium) as well as Eastern Alberta (Mannville Heavy Oil). Our top payors continue to represent some of the most well capitalized E&P companies in Canada.

ROYALTY INTEREST DRILLING

	Three Months Ended September 30 (1)				Nine Months Ended September 30 (1)			
	2017		2016		2017		2016	
	Gross	Equivalent Net (2)	Gross	Equivalent Net (2)	Gross	Equivalent Net (2)	Gross	Equivalent Net (2)
Non-unitized wells	121	6.3	46	2.3	296	16.3	105	5.8
Unitized wells (3)	23	0.1	2	-	56	0.3	51	0.3
Total	144	6.4	48	2.3	352	16.6	156	6.1

(1) Counts include wells drilled on acquired lands from the beginning of the reporting period (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

Below are details of some of the changes made to our key operating assumptions for 2017.

- We are increasing our 2017 average production range to 12.0-12.5 mboe/d (previously 11.8-12.3 mboe/d). We do not include the effects of future acquisition activity in our forecasts. Also, minimal prior period adjustments are in our forecast as we do not record the effects of audit and compliance activities until revenue collection is certain.
- We continue to improve our royalty focus with royalty production accounting for 89% of forecasted 2017 production (up from 88%) and 96% of operating income (up from 95%).
- Our AECO natural gas price assumption has been reduced to $2.40/mcf (previously $2.60/mcf).
- 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% (previously 61%).
- We continue to forecast year-end net debt to funds from operations of approximately 0.3 times based on our revised key operating assumptions.
- Reflecting the expectation that most of our royalty payors will provide capital spending guidance late in 2017 or early 2018, we expect to provide our 2018 operating guidance as part of our Q4-2017 results in March, 2018.

KEY OPERATING ASSUMPTIONS

		Guidance Dated		
2017 Annual Average		Nov.9, 2017	Aug. 9, 2017	Nov. 8, 2016
Daily production	boe/d	12,000-12,500	11,800-12,300	11,000
West Texas Intermediate crude oil	US$/bbl	50.00	50.00	50.00
Western Canadian Select crude oil	Cdn$/bbl	49.00	49.00	46.00
AECO natural gas	Cdn$/Mcf	2.40	2.60	3.00
Exchange rate	Cdn$/US$	0.77	0.77	0.75
Operating costs	$/boe	2.40	2.40	3.25
General and administrative costs (1)	$/boe	2.50	2.50	2.65
Capital expenditures	$ millions	4	4	6
Weighted average shares outstanding	millions	118	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 - see Dividend Policy).

Quarterly Performance and Trends

Our financial results over the last eight quarters were influenced by the following significant factors:

- Quarterly variances in revenues, net income (loss) and funds from operations are caused mainly by fluctuations in commodity prices and production volumes.
- Oil prices are impacted significantly by global supply and demand factors, with OPEC decisions on production cuts and U.S. production growth having the largest effects. Supply has continued to outstrip demand which has resulted in the continuation of relatively low prices. Fluctuations in foreign exchange rates also affect our oil price realizations, resulting in positive or negative impacts on our Canadian dollar oil revenues relative to the benchmark WTI, which is referenced in U.S. dollars.
- AECO natural gas prices continue to be negatively impacted by supply outstripping demand.
- The largest effect on our dividends is from funds from operations, which is mainly a function of revenues and cash expenses; however the timing of dividend adjustments is dependent on forward projections and the decisions of our Board of Directors.
- Production has been affected by drilling activity and acquisitions, as well as prior period adjustments. We use government reporting databases and past production receipts to estimate revenue accruals. Due to the large number of wells in which we have royalty interests, the nature of royalty interests, the lag in receiving production receipts, and our audit program, our reported royalty volumes usually include both positive and negative adjustments related to prior periods.
- Over the past eight quarters, we have acquired $196.9 million of royalty assets in Alberta and Saskatchewan. This activity affects our revenues, percentage royalty interests, oil, NGL and natural gas production mix, debt levels and shares outstanding, among others.
- Freehold disposed of $32.1 million of our working interest properties in 2017 in an effort to enhance our royalty focus.
- Net income (loss) may be affected by large unique items in any given period, such as the $8.0 million impairment in Q4-2015, $1.1 million loss on settlement in Q3-2016, $5.6 million impairment reversal in Q1-2017 and the $14.7 million gain on working interest dispositions in Q2-2017.

The accompanying table illustrates the fluctuations experienced over the past eight quarters and the resulting effect on our financial results. Additional information about our quarterly results is provided in our interim reports, copies of which are available on SEDAR and on our website.

QUARTERLY REVIEW

	2017			2016				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial ($000s, except as noted)								
Revenue, net of royalty expense	**33,763**	38,036	40,686	39,439	32,639	31,903	24,670	33,728
Funds from operations	**27,927**	31,769	32,069	30,421	24,148	24,142	15,500	25,509
Per share, basic ($)	**0.24**	0.27	0.27	0.26	0.21	0.23	0.16	0.26
Net income (loss)	**103**	13,084	7,088	1,638	(1,962)	(2,249)	(8,590)	(7,423)
Per share, basic and diluted ($)	**-**	0.11	0.06	0.01	(0.02)	(0.02)	(0.09)	(0.08)
Dividends declared	**17,714**	17,705	15,338	14,144	14,133	13,380	17,845	20,747
Per share ($) [1]	**0.15**	0.15	0.13	0.12	0.12	0.12	0.18	0.21
Basic payout ratio (%) [2]	**63**	56	48	46	59	55	115	81
Operating Income [2]	**31,246**	35,235	37,084	34,487	28,231	28,011	20,292	29,186
Operating income from royalties (%)	**99**	97	91	93	93	91	97	89
Dividends paid in shares (DRIP) [3]	**-**	-	-	-	1,170	1,443	2,384	2,758
Average DRIP participation rate (%) [3]	**-**	-	-	-	8	11	11	13
Acquisitions	**(146)**	1,267	33,352	92	68	162,211	219	(143)
Capital expenditures	**1,657**	1,139	712	2,172	209	753	2,084	5,607
Working interest dispositions	**2,969**	28,808	288	-	-	-	-	-
Net debt	**38,274**	49,819	76,030	73,161	87,301	98,191	149,197	146,949
Shares outstanding								
Weighted average, basic (000s)	**118,073**	118,018	117,956	117,847	117,726	106,736	99,093	98,731
At quarter end (000s)	**118,128**	118,073	118,018	117,918	117,850	117,652	99,284	98,940
Operating ($/boe, except as noted)								
Average daily production (boe/d) [4]	**12,036**	12,589	12,753	12,579	12,281	12,041	11,974	11,815
Royalty interest (%)	**91**	90	84	82	83	81	79	78
Average selling price	**29.67**	32.98	34.88	33.72	28.69	28.48	22.23	30.34
Operating netback [2]	**28.22**	30.76	32.31	29.80	24.99	25.57	18.62	26.85
Operating expenses	**2.27**	2.45	3.14	4.28	3.90	3.55	4.02	4.18
Working interest properties	**24.49**	23.34	19.51	24.16	22.69	18.47	19.41	19.24
General and administrative expenses [5]	**1.88**	2.27	3.01	2.33	1.71	2.04	3.05	2.23
Benchmark Prices								
West Texas Intermediate crude oil (US$/bbl)	**48.21**	48.29	51.91	49.29	44.94	45.59	33.45	42.18
Exchange rate (Cdn$/US$)	**0.80**	0.74	0.76	0.75	0.77	0.78	0.73	0.75
Edmonton Light Sweet crude oil (Cdn$/bbl)	**56.73**	61.84	64.00	61.54	54.85	54.70	40.84	52.89
Western Canadian Select crude oil (Cdn$/bbl)	**47.89**	49.99	49.38	46.63	41.02	41.62	26.32	36.86
AECO natural gas (Cdn$/Mcf)	**2.04**	2.77	2.94	2.81	2.20	1.25	2.11	2.65
Share Trading Performance								
High ($)	**15.15**	14.37	14.75	15.16	13.09	13.00	12.05	13.52
Low ($)	**12.51**	11.96	12.22	11.68	10.61	9.66	8.29	9.00
Close ($)	**14.74**	13.05	13.48	14.17	12.65	11.91	10.54	10.86
Volume (000s)	**13,428**	13,890	17,059	15,440	20,873	23,559	19,690	19,312

(1) Based on the number of shares issued and outstanding at each record date.
(2) See Non-GAAP Financial Measures
(3) The dividend reinvestment plan (DRIP) was suspended effective with the August 2016 dividend, pending further notice.
(4) Reported production for a period may include adjustments from previous production periods.
(5) Excludes share based and other compensation.

Production

Our production in the quarter averaged 12,036 boe/d, down 2% versus the same period last year. The decline was a result of our working interest dispositions completed during the year, but was offset by increased drilling activity on our royalty lands and the strength of our audit function (approximately 700 boe/d of prior period adjustments). YTD 2017 volumes averaged 12,456 boe/d, up 3% from the previous year, also affected by the audit function and working interest dispositions, with further positive affects from royalty acquisitions both completed during the year and a full year's effect of acquisitions made in 2016.

Royalty volumes averaged 10,919 boe/d up 7% versus the same period last year and comprised 91% of total production in Q3-2017, up from 83% in Q3-2016. NGL production was positively affected by the Q2-2016 royalty acquisition and the drilling of liquid rich natural gas wells on our royalty lands.

Working interest production fell 47% to 1,117 boe/d in Q3-2017 relative to Q3-2016 largely due to reduced volumes from lower capital expenditures and the previously mentioned dispositions.

Our production mix through the first nine months of 2017 was 33% light and medium oil, 15% heavy oil, 8% NGL and 44% natural gas.

AVERAGE DAILY PRODUCTION

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	**2017**	2016	Change
Royalty interest [(1)]						
Oil (bbls/d)	**5,190**	4,753	9%	**5,090**	4,998	2%
NGL (bbls/d)	**962**	596	61%	**918**	579	59%
Natural gas (Mcf/d)	**28,603**	28,921	-1%	**29,736**	25,319	17%
Oil equivalent (boe/d)	**10,919**	10,169	7%	**10,964**	9,797	12%
Working interest [(1)]						
Oil (bbls/d)	**530**	1,259	-58%	**775**	1,385	-44%
NGL (bbls/d)	**94**	187	-50%	**137**	195	-30%
Natural gas (Mcf/d)	**2,958**	3,993	-26%	**3,481**	4,330	-20%
Oil equivalent (boe/d)	**1,117**	2,112	-47%	**1,492**	2,302	-35%
Total						
Oil (bbls/d)	**5,720**	6,012	-5%	**5,865**	6,383	-8%
NGL (bbls/d)	**1,056**	783	35%	**1,055**	774	36%
Natural gas (Mcf/d)	**31,561**	32,914	-4%	**33,217**	29,649	12%
Oil equivalent (boe/d)	**12,036**	12,281	-2%	**12,456**	12,099	3%
Number of days in period (days)	**92**	92	-	**273**	274	-
Total volumes during period (Mboe)	**1,107**	1,130	-2%	**3,401**	3,315	3%

(1) On certain properties where we have both a royalty interest and a working interest, production is allocated based on the applicable royalty and working interest percentages.

Product Prices

The price we receive for our oil production is primarily driven by the U.S. dollar price of WTI, adjusted for the value of the Canadian dollar relative to the U.S. dollar. WTI averaged US$48.21/bbl in the current quarter, up 7% over the same quarter last year, Edmonton Light Sweet averaged $56.73/bbl, up 3% versus the same period in 2016 and heavy oil producers benefited the most with WCS averaging $47.89/bbl for the quarter, up 17% versus Q3-2016. Increases in Canadian priced oil occurred despite a 4% increase in the value of the Canadian dollar relative to the U.S. dollar, which negatively affects the price and revenue received. AECO natural gas price averaged $2.04/mcf, down 7% from $2.20/mcf in Q3-2016. Volatility with commodity prices has continued as a result of supply/demand fundamentals.

AVERAGE BENCHMARK PRICES

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	**2017**	2016	Change
West Texas Intermediate (WTI) crude oil (US$/bbl)	**48.21**	44.94	7%	**49.47**	41.33	20%
Exchange rate (Cdn$/US$)	**0.80**	0.77	4%	**0.77**	0.76	1%
Edmonton Light Sweet (EDM) crude oil (Cdn$/bbl)	**56.73**	54.85	3%	**60.86**	50.13	21%
Western Canadian Select (WCS) crude oil (Cdn$/bbl)	**47.89**	41.02	17%	**49.08**	36.32	35%
WTI/EDM differential ($/bbl)	**8.52**	9.91	-14%	**11.39**	8.80	29%
EDM/WCS differential (Cdn$/bbl)	**(8.84)**	(13.83)	-36%	**(11.78)**	(13.81)	-15%
AECO natural gas (Cdn$/Mcf)	**2.04**	2.20	-7%	**2.58**	1.85	39%

Our average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price at $29.67/boe was 3% higher in Q3-2017 versus the same period last year. As the key driver behind an increase in overall cash flows, liquids improved from 2016 with a realized oil and NGL price of $46.58/bbl improving 10% versus the third quarter of last year. On a year-to-date basis the increase was even higher at 28%, resulting in a $49.23/bbl realized oil and NGL price.

Natural gas prices were down significantly relative to the prior year at $1.32/mcf in Q3-2017, decreasing 33% from last year due to ongoing supply and infrastructure maintenance issues. Our natural gas price realizations are discounted compared to AECO pricing as they include transportation and processing fees netted from some natural gas royalty payments.

AVERAGE SELLING PRICES

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	**2017**	2016	Change
Oil ($/bbl)	**49.35**	44.57	11%	**51.83**	39.81	30%
NGL ($/bbl)	**31.55**	24.95	26%	**34.79**	26.27	32%
Oil and NGL ($/bbl)	**46.58**	42.31	10%	**49.23**	38.35	28%
Natural gas ($/Mcf)	**1.32**	1.97	-33%	**1.95**	1.56	25%
Oil equivalent ($/boe)	**29.67**	28.69	3%	**32.54**	26.50	23%

Marketing and Hedging

Our production remained unhedged in Q3-2017. Our hedging policy is reviewed quarterly with the Board of Directors.

Our royalty lands consist of a large number of properties with generally small volumes per property. Many of our leases and royalty agreements allow us to take our share of oil and natural gas in-kind. As part of our risk mitigation program we carefully monitor our royalty receivables and may choose to take our royalty in-kind if there are benefits in doing so. Currently we take in-kind and market approximately 17% of our total royalty production using 30-day contracts.

Royalty and Other Revenue

Royalty and other revenue of $33.9 million in Q3-2017 was 3% higher than in Q3-2016, with oil and NGL pricing improvements more than offsetting a small drop in production and lower gas prices. For the YTD-2017 period royalty and other revenue of $113.5 million was 26% higher relative to the same period in 2016 with the most significant factor being improved oil and NGL prices. In the third quarter royalty interest revenue increased by 18% whereas working interest revenue was down 55% versus Q3-2016, with the decrease in working interest revenue resulting from the dispositions occurring early in Q2-2017. The other category of revenue includes $1.0 million of bonus consideration, one-time payments received upon the issuance of a new lease, in the nine months ended September 30, 2017 ($0.1 million - 2016).

ROYALTY AND OTHER REVENUE

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	**2017**	2016	Change	**2017**	2016	Change
Royalty interest revenue (1)	**30,929**	26,185	18%	**98,914**	71,526	38%
Working interest revenue (2)	**3,009**	6,738	-55%	**14,545**	18,549	-22%
	33,938	32,923	3%	**113,459**	90,075	26%

(1) Royalty interest revenue includes potash, sulphur, bonus consideration and lease rentals.

(2) Working interest revenue includes processing fees, interest and other.

ROYALTY AND OTHER REVENUE BY PRODUCT

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	**2017**	2016	Change	**2017**	2016	Change
Oil	**25,971**	24,649	5%	**82,984**	69,628	19%
NGL	**3,065**	1,798	70%	**10,016**	5,573	80%
Natural gas	**3,820**	5,964	-36%	**17,659**	12,645	40%
Other [(1)]	**1,082**	512	111%	**2,800**	2,229	26%
	33,938	32,923	3%	**113,459**	90,075	26%

(1) Other includes potash, sulphur, bonus consideration, lease rentals, processing fees, interest and other.

The following table demonstrates the net effect of price and volume variances on royalty and other revenue.

ROYALTY AND OTHER REVENUE VARIANCES

	Three Months Ended September 30		Nine Months Ended September 30	
($000s)	**2017 vs. 2016**	2016 vs. 2015	**2017 vs. 2016**	2016 vs. 2015
Oil and NGL				
Production increase (decrease)	**(82)**	(1,123)	**(3,545)**	7,274
Price increase (decrease)	**2,671**	(1,983)	**21,344**	(15,821)
Net increase (decrease)	**2,589**	(3,106)	**17,799**	(8,547)
Natural gas				
Production increase (decrease)	**(165)**	1,415	**1,841**	2,036
Price increase (decrease)	**(1,979)**	(1,254)	**3,173**	(5,294)
Net increase (decrease)	**(2,144)**	161	**5,014**	(3,258)
Other [(1)]	**570**	(208)	**571**	49
Royalty and other revenue increase (decrease)	**1,015**	(3,153)	**23,384**	(11,756)

(1) Other revenue includes potash, sulphur, bonus consideration, lease rentals, processing fees, interest and other.

Expenses

Royalty Expense and Mineral Taxes

Oil and gas producers pay royalties to the owners of mineral rights from whom they have acquired leases. These are paid to the Crown (provincial and federal governments) and freehold mineral title owners. Crown royalty rates are tied to commodity prices and the level of oil and gas sales.

We do not incur royalty expense on production from our royalty interest lands, other than minor freehold mineral taxes. As the royalty owner, we receive the royalty as income from other companies.

ROYALTY EXPENSE (1)

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2017**	2016	Change	**2017**	2016	Change
Working interest	**173**	278	-38%	**859**	774	11%
Per boe ($)	**1.68**	1.43	17%	**2.11**	1.23	72%
Royalty interest (2)	**2**	6	-67%	**115**	89	29%
Per boe ($)	**-**	0.01	-100%	**0.04**	0.03	33%
Total	**175**	284	-38%	**974**	863	13%
Per boe ($)	**0.16**	0.25	-36%	**0.29**	0.26	12%

(1) Royalty expense includes both Crown charges and royalty payments to third parties.
(2) Comprised of freehold mineral tax.

Operating Expenses

Operating expenses are comprised of direct costs incurred and costs allocated among oil, natural gas, and NGL production. Overhead recoveries associated with operated properties are included in operating expenses and accounted for as a reduction to general and administrative (G&A) expenses. A percentage of operating expense is fixed and, as such, per boe operating expenses are highly variable to production volumes.

Operating expenses decreased 43% to $2.5 million in Q3-2017 versus $4.4 million Q3-2016 and down 30% to $8.9 million YTD-2017 versus the same period in-2016. Reductions resulted from the lower working interest production caused by dispositions. The current quarter was negatively affected by approximately $0.2 million of prior period adjustments. On a total production per boe basis, operating expenses decreased by 42% in Q3-2017 relative to the same period in 2016. The decrease versus 2016 was aided by continued growth in royalty volumes, which have no operating expenses.

OPERATING EXPENSES

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2017**	2016	Change	**2017**	2016	Change
Working interest	**2,517**	4,408	-43%	**8,920**	12,678	-30%
Per boe ($)	**24.49**	22.69	8%	**21.90**	20.11	9%
Royalty interest (1)	**-**	-	-	**-**	-	-
Per boe ($)	**-**	-	-	**-**	-	-
Total operating expenses	**2,517**	4,408	-43%	**8,920**	12,678	-30%
Total ($/boe)	**2.27**	3.90	-42%	**2.62**	3.82	-31%

(1) We do not incur operating expenses on production from our royalty lands.

Netback Analysis

As a royalty owner, we share in production revenue without incurring the operational costs, risks, and responsibilities typically associated with oil and natural gas operations. The following tables demonstrate the advantage of our royalty lands, which have no operating or royalty expenses (other than minor freehold mineral taxes). Royalty interests accounted for 87% of gross revenue YTD-2017, however contributed 95% of operating income. In Q3-2017 royalty interests contributed 99% of operating income. Freehold's operating netback for the third quarter increased 13% to $28.22/boe versus Q3-2016 and for YTD-2017 increased 32% to $30.46/boe compared to the same period last year, both periods' improvement driven largely by higher oil and NGL prices and lower operating expenses.

OPERATING INCOME [(1)]

	Nine months ended September 30, 2017		
($000s)	Royalty Interest	Working Interest	**Total**
Royalty and other revenue [(2)]	98,914	14,545	**113,459**
Royalty expense [(3)]	(115)	(859)	**(974)**
	98,799	13,686	**112,485**
Operating expense	-	(8,920)	**(8,920)**
Operating income	98,799	4,766	**103,565**
Percentage by category	95%	5%	**100%**

(1) See Non-GAAP Financial Measures.
(2) Royalty interest revenue includes potash, sulphur, bonus consideration and lease rentals. Working interest revenue includes processing fees, interest and other.
(3) Royalty expense includes both Crown charges and royalty payments to third parties.

OPERATING NETBACK [(1)]

	Three Months Ended September 30			Nine Months Ended September 30		
($/boe)	**2017**	2016	Change	**2017**	2016	Change
Royalty and other revenue	**30.65**	29.14	5%	**33.37**	27.17	23%
Royalty expense [(2)]	**(0.16)**	(0.25)	-36%	**(0.29)**	(0.26)	12%
Operating expenses	**(2.27)**	(3.90)	-42%	**(2.62)**	(3.82)	-31%
Operating netback	**28.22**	24.99	13%	**30.46**	23.09	32%

(1) See Non-GAAP Financial Measures.
(2) Royalty expense includes both Crown charges and royalty payments to third parties.

General and Administrative Expenses

We have significant land administration, accounting and auditing requirements to administer and collect royalty payments, including systems to track development activity on the royalty lands. General and administrative (G&A) expenses include direct costs and reimbursement of G&A expenses incurred by Rife Resources Management Ltd. (the Manager) on behalf of Freehold (see Related Party Transactions).

In Q3-2017, G&A expenses were up 10% to $1.88/boe (YTD-2017 up 6% to $2.40/boe). Much of the increase for both the current quarter and year-to-date periods is due to higher activity levels associated with acquisition activity, lease outs and dispositions. On a boe basis, 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 in the first quarter.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2017**	2016	Change	**2017**	2016	Change
General and administrative expenses, before capitalized and overhead recoveries	**2,469**	2,225	11%	**9,479**	8,667	9%
Less: capitalized and overhead recoveries	**(383)**	(298)	29%	**(1,330)**	(1,183)	12%
General and administrative expenses	**2,086**	1,927	8%	**8,149**	7,484	9%
Per boe ($)	**1.88**	1.71	10%	**2.40**	2.26	6%

Management Fee

The Manager (see Related Party Transactions) receives a management fee in Freehold common shares. The amended and restated management agreement, entered into in November 2015, capped the management fee at 71,912 Freehold common shares per quarter for 2016 and 55,000 Freehold common shares per quarter for 2017 with the fee decreasing to 5,500 Freehold common shares per quarter by 2022. The value associated with the management fee was down 11% compared to Q3-2016 and 10% on a year-to-date basis, as the effect of reduced Freehold common shares was offset somewhat by a higher Freehold common share price in the current periods.

MANAGEMENT FEE (PAID IN SHARES)

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	**2017**	2016	Change
Shares issued for management fees	**55,000**	71,912	-24%	**165,000**	215,736	-24%
Ascribed value ($000s) (1)	**811**	910	-11%	**2,270**	2,524	-10%
Per boe ($)	**0.73**	0.81	-10%	**0.67**	0.76	-12%

(1) The ascribed value of the management fees is based on Freehold's closing common share price at the end of each quarter.

Share Based Compensation

In March 2017, Freehold adopted a new long-term incentive plan (LTIP) to replace the previous long-term incentive plan for the employees of Rife Resources Ltd. (see Related Party Transactions). Grants will no longer be made under the previous plan but pre-existing grants will continue until vesting and payout occurs.

In 2017 and in future years, Freehold's long-term incentive compensation will consist of grants of performance share units (PSUs) and restricted share units (RSUs) under the new LTIP. Underlying each PSU and RSU is one notional Freehold common share. The notional Freehold common shares underlying the PSUs and RSUs are adjusted whenever a dividend is paid by Freehold.

Upon vesting of the RSUs the holder is entitled to an amount equal in value to the notional Freehold common shares (as adjusted for dividends paid) underlying such RSUs. The value of the notional Freehold common shares is based on the volume weighted average trading price of Freehold common shares on the TSX for the five trading days prior to the settlement date of such RSUs. Generally, one-third of the granted RSUs will vest on each of the first, second and third anniversaries of the date of grant.

For PSUs, the notional Freehold common shares and value are calculated in the same manner as the RSUs, but with the additional application of a performance multiplier. The metrics used for determining the performance multiplier (which can range from 0 to 2 times) are at the discretion of our Board of Directors at the time of grant. For 2017 grants the performance multiplier target is based 50% on absolute total shareholder return and 50% on relative total shareholder return over a three year performance period. Generally, all of the granted PSUs will vest on the third anniversary of the date of grant.

Since participants receive a cash payment on a fixed vesting date, a liability is determined and recognized as services are rendered based on the fair value of the total rights at each period end. The valuation incorporates the consideration of the Freehold common share price, the number of notional Freehold common shares outstanding at each period end, an estimated performance multiplier and an estimated forfeiture rate. Compensation expense is recognized over the vesting period.

The 2014 grants under the previous LTIP valued at $0.1 million were paid out in 2017. During 2017 there were 90,026 RSUs and PSUs granted under the new LTIP (after estimated forfeitures).

Pursuant to our deferred share unit plan, fully-vested deferred share units (DSUs) are granted annually in the first quarter to non-management directors and are redeemable for an equal number of Freehold common shares (less tax withholdings if necessary) after the director's retirement. On January 1, 2017 Freehold's Board of Directors granted 27,521 DSUs to eligible directors. During Q1-2017 a retired director redeemed 63,419 DSUs, resulting in the issuance of 44,393 Freehold common shares from treasury and the cancellation of 19,026 DSUs for withholding tax. As at September 30, 2017, there were 116,240 DSUs outstanding, and at November 9, 2017, there were 116,629 DSUs outstanding (including notional DSUs granted as a result of dividends paid on our common shares).

Share based compensation expense at $0.7 million for the current quarter and $1.4 million for the year-to-date period were both up significantly over prior year periods largely a result of the increase in Freehold's common share price, with share price having the largest effect on the valuation.

SHARE BASED COMPENSATION

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2017**	2016	Change	**2017**	2016	Change
Long-term incentive plan before capitalized portion	**780**	227	244%	**1,299**	612	112%
Less: capitalized portion	**(140)**	(42)	233%	**(233)**	(111)	110%
Long-term incentive plan	**640**	185	246%	**1,066**	501	113%
Deferred share unit plan	**17**	(11)	255%	**373**	454	-18%
Retirement benefit	**-**	-	-	**-**	5	-100%
Share based compensation	**657**	174	278%	**1,439**	960	50%
Per boe ($)	**0.59**	0.15	293%	**0.42**	0.29	45%

Related Party Transactions

Freehold does not have any employees. Rife Resources Management Ltd. (the Manager) is the manager of Freehold. The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife), and two of Rife's directors are also directors of Freehold. Rife is 100% owned by the CN Pension Trust Funds (the pension funds for the employees of the Canadian National Railway Company), which in turn is a shareholder of Freehold. The Manager recovers its general and administrative costs and a portion of its long-term incentive plan costs and retirement benefit costs, and receives a quarterly management fee paid in Freehold common shares. Canpar Holdings Ltd. (Canpar) is also managed by Rife and owned 100% by the CN Pension Trust Funds, and two of Canpar's directors are also directors of Freehold.

(a) Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares per quarter, pursuant to the amended and restated management agreement. The amended and restated management agreement capped the management fee at 55,000 Freehold common shares per quarter for 2017 with the number of Freehold common shares to be issued per quarter as payment of the management fee reducing to 5,500 Freehold common shares by 2022. For the three months ended September 30, 2017, Freehold issued 55,000 common shares (2016 – 71,912) as payment of the management fee. The ascribed value of $0.8 million (2016 – $0.9 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter. The total number of Freehold common shares issued for the nine months ended September 30, 2017 was 165,000 (2016 – 215,736) with an ascribed value of $2.3 million (2016 – $2.5 million).

For the three months ended September 30, 2017, the Manager charged $2.1 million in general and administrative costs (2016 – $1.8 million). For the nine months ended September 30, 2017, the Manager charged $7.6 million in general and administrative costs (2016 – $6.8 million). At September 30, 2017, there was $0.7 million (December 31, 2016 – $0.9 million) in accounts payable and accrued liabilities relating to these costs.

(b) Rife Resources Ltd.

Freehold maintains ownership interests in certain oil and gas properties operated by Rife. A portion of net operating revenues and capital expenditures represent joint operations amounts from Rife. At September 30, 2017, there was $nil (December 31, 2016 - $0.1 million) in accounts receivable relating to these transactions. At September 30, 2017, there was $nil (December 31, 2016 - $nil) in accounts payable and accrued liabilities relating to these transactions.

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the three months ended September 30, 2017, Freehold received royalties of approximately $0.2 million (2016 – $0.2 million). For the nine months ended September 30, 2017, Freehold received royalties of approximately $0.7 million (2016 – $0.6 million). At September 30, 2017, there was $0.1 million (December 31, 2016 - $0.1 million) in accounts receivable relating to these transactions.

(c) Canpar Holdings Ltd.

Freehold and Canpar share mineral title ownership rights in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Given the nature of the mineral rights, which are dependent upon hydrocarbon pool formation classification as well as third party drilling data which is subject to change and revision, uncertainty can exist with respect to the royalty ownership of wells drilled and completed on lands where both Freehold and Canpar hold the mineral rights. At September 30, 2017, there was $nil (December 31, 2016 – $nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

All amounts owing to/from the Manager, Rife, and Canpar are unsecured, non-interesting bearing and due on demand. All transactions were in the normal course of operations and were measured at the amount of consideration established and agreed to by both parties.

Interest and Financing

For both Q3-2017 and YTD-2017 interest and financing expense decreased due to lower average debt levels. The average effective interest rate on advances under our credit facilities in the current quarter was 2.9% (Q3-2016 – 2.9%).

INTEREST AND FINANCING

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2017**	2016	Change	**2017**	2016	Change
Interest and financing expense	**538**	935	-42%	**2,075**	3,697	-44%
Per boe ($)	**0.49**	0.83	-41%	**0.61**	1.12	-46%

Depletion and Depreciation

Oil and gas properties and royalty interests, including the cost of production equipment, future capital costs associated with proved plus probable reserves, and the capitalized portion of the decommissioning liability, are depleted on the unit-of-production method based on estimated proved plus probable oil and gas reserves.

DEPLETION AND DEPRECIATION

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2017**	2016	Change	**2017**	2016	Change
Depletion and depreciation	**26,910**	25,777	4%	**81,814**	77,919	5%
Per boe ($)	**24.30**	22.82	6%	**24.06**	23.50	2%

Working Interest Dispositions

In April 2017 Freehold closed the sale of working interest properties in its Southeast Saskatchewan Working Interest cash generating unit (CGU) for proceeds of $28.9 million (including adjustments). These assets and related liabilities were held for sale at March 31, 2017. For the three months ended June 30, 2017, Freehold recognized a gain on working interest dispositions of $14.7 million. The gain was based on $28.9 million of proceeds received, minor adjustments of $0.1 million, the removal of assets held for sale of $18.9 million and the removal of liabilities related to assets held for sale of $4.8 million.

At March 31, 2017 these properties were classified as assets held for sale as it was highly probable that their carrying value would be received through a sales transaction rather than continued use. In addition, at March 31, 2017, based on the anticipated sale proceeds, Freehold reviewed the carrying value of the Southeast Saskatchewan Working Interest CGU for any reversal of impairment, as this CGU had a previous impairment charge. The recoverable amount was estimated using a fair value less cost to sell calculation based on the estimated sales price. As a result, there was an impairment reversal of $5.6 million recognized in the three months ended March 31, 2017, representing the maximum amount of impairment reversal able to be taken, made up of the original $8.0 million impairment estimate recorded in 2015 net of $2.4 million depletion calculated as if the impairment never occurred. In conjunction with the above, Freehold reclassified this new recoverable net book value of $18.9 million to assets held for sale, with $18.6 million removed from petroleum and natural gas interests and $0.3 million removed from exploration and evaluation assets. In addition, Freehold reclassified the proportionate share of decommissioning liabilities of $4.8 million to liabilities related to assets held for sale.

In addition, for the nine months ended September 30, 2017, Freehold sold minor working interest properties for $3.2 million (including adjustments), of which $3.0 million occurred in the three months ended September 30, 2017.

Income Tax

As a corporation, taxable income is based on revenues (which will vary depending on commodity prices and production volumes) less allowable expenses including claims for both accumulated tax pools and tax pools associated with current year expenditures. For the three months ended September 30, 2017, there was no current income tax expense (2016 - $nil) and deferred income tax expense was $39,000 (Q3-2016 – $0.7 million recovery). For YTD-2017 there was no current income tax expense (2016 - $nil) and deferred income tax expense was $7.5 million (2016 - $4.7 million recovery). Freehold's tax pools at December 31, 2016 were $1,028 million.

Liquidity and Capital Resources

Operating Activities

Q3-2017 net income was $0.1 million which compared to a Q3-2016 net loss of $2.0 million, with the improvement resulting from slightly higher revenue and lower operating expenses, offset by slightly higher depletion and depreciation expense. YTD-2017 net income was $20.3 million versus a $12.8 million net loss for the same period in 2016, the difference affected by a significant increase in revenue and lower operating costs offset by higher depletion and depreciation expense. There was also a $14.7 million gain on working interest dispositions and a $5.6 million impairment reversal that improved results in the YTD-2017 period. The differences between the year-to-date 2017 and 2016 periods were reduced by a $7.5 million deferred income tax expense in YTD-2017 compared to a $4.7 million deferred income tax recovery in YTD-2016.

Funds from operations for the current quarter was up 16% to $27.9 million from $24.1 million due to higher revenues from oil and NGLs and lower operating costs. For the year-to-date period funds from operations was up 44% to $91.8 million from $63.8 million last year, owing to higher revenue resulting from improved commodity prices and lower operating costs. We consider funds from operations to be a key measure of operating performance as it demonstrates Freehold's ability to generate the necessary funds to support capital expenditures, sustain dividends, and repay debt. We believe that such a measure provides a useful assessment of Freehold's operations on a continuing basis by eliminating certain non-cash charges. It is also used by research analysts to value and compare oil and gas companies, and it is frequently included in their published research when providing investment recommendations. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income (loss) per share.

NET INCOME AND FUNDS FROM OPERATIONS

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2017**	2016	Change	**2017**	2016	Change
Net income (loss)	**103**	(1,962)	105%	**20,275**	(12,801)	258%
Per share, basic and diluted ($)	**-**	(0.02)	100%	**0.17**	(0.12)	242%
Funds from operations	**27,927**	24,148	16%	**91,765**	63,790	44%
Per share ($)	**0.24**	0.21	14%	**0.78**	0.59	32%

Financing Activities

We retain working capital primarily to fund capital expenditures or acquisitions and reduce bank indebtedness. In the oil and gas industry, accounts receivable from industry partners are typically settled in the following month. However, due to administrative complexity, payments to royalty owners are often delayed longer. Also, working capital at each period end can vary due to volume and price changes at each period end and unpaid capital expenditures.

Working capital decreased by $1.5 million in Q3-2017 compared to the previous quarter. The biggest impact on the reduction was lower accounts receivable which was affected by lower natural gas prices.

COMPONENTS OF WORKING CAPITAL

($000s)	Sep. 30 2017	Jun. 30 2017	Mar. 31 2017	Dec. 31 2016	Sep. 30 2016
Cash	712	715	829	892	860
Accounts receivable	21,064	24,014	23,645	24,064	22,543
Assets held for sale	-	-	18,940	-	-
Current assets	21,776	24,729	43,414	24,956	23,403
Dividends payable	(5,905)	(5,902)	(5,900)	(4,716)	(4,713)
Accounts payable and accrued liabilities	(5,779)	(7,406)	(7,619)	(9,219)	(5,813)
Current portion of share based compensation payable	(366)	(240)	(165)	(182)	(178)
Liabilites related to assets held for sale	-	-	(4,760)	-	-
Current liabilities	(12,050)	(13,548)	(18,444)	(14,117)	(10,704)
Working capital	9,726	11,181	24,970	10,839	12,699

Net debt decreased by $11.5 million from the previous quarter to $38.3 million in Q3-2017. The biggest effects on this reduction resulted from the application of funds from operations in excess of dividends and the proceeds of $3.0 million of working interest dispositions.

DEBT ANALYSIS

($000s)	Sep. 30 2017	Jun. 30 2017	Mar. 31 2017	Dec. 31 2016	Sep. 30 2016
Long-term debt	48,000	61,000	101,000	84,000	100,000
Short-term debt	-	-	-	-	-
Total debt	48,000	61,000	101,000	84,000	100,000
Working capital	(9,726)	(11,181)	(24,970)	(10,839)	(12,699)
Net debt	38,274	49,819	76,030	73,161	87,301

At September 30, 2017 Freehold had a $165 million extendible revolving term credit facility with a syndicate of four Canadian chartered banks, on which $48 million was drawn. In addition, Freehold has available a $15 million extendible revolving operating facility.

The facilities are secured with $400 million demand debentures over most of Freehold's petroleum and natural gas assets but do not contain any financial covenants. The lenders at any time can request a redetermination of the borrowing base, which may require a repayment to the lenders within 90 days of receiving notice, of an amount that the indebtedness is in excess of the redetermined borrowing base. Freehold's borrowing base is dependent on the lenders review and interpretation of Freehold's reserves and future commodity prices. During the second quarter 2017 the annual review was completed. The next renewal will occur by May 31, 2018. In the event that the lenders do not consent to an extension, the revolving credit facility would revert to a one-year, non-revolving term facility with repayment due at the termination date.

At September 30, 2017, net debt was 0.3 times 12-months trailing funds from operations and net debt obligations were 4% of total capitalization.

FINANCIAL LEVERAGE AND COVERAGE RATIOS

	Sep. 30 2017	Jun. 30 2017	Mar. 31 2017	Dec. 31 2016	Sep. 30 2016
Net debt to funds from operations (times) (1)	**0.3**	0.4	0.7	0.8	1.0
Net debt to dividends (times) (1)	**0.6**	0.8	1.3	1.2	1.3
Dividends to interest expense (times) (1)	**22**	18	13	13	13
Net debt to net debt plus equity (%)	**4**	5	8	8	9

(1) Funds from operations, dividends, and interest expense are 12-months trailing and do not include the proforma effects of our acquisitions.

Under our credit facilities, we are restricted from declaring dividends if we are or would be in default under the facilities or if our borrowings thereunder exceed our borrowing base. As at September 30, 2017, we were in compliance with all such covenants. We are also restricted from declaring dividends if we do not satisfy the liquidity and solvency tests under the *Business Corporations Act* (Alberta).

As at September 30, 2017 and as of November 9, 2017, there were 118,127,667 shares outstanding. For the three and nine months ended September 30, 2016 deferred share units were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive.

SHAREHOLDERS CAPITAL

	September 30, 2017		December 31, 2016	
	Shares	Amount ($000s)	Shares	Amount ($000s)
Balance, beginning of period	**117,918,274**	**1,263,796**	98,940,152	1,050,494
Issued for dividend reinvestment plan	-	-	488,060	4,997
Issued for payment of management fee	**165,000**	**2,270**	287,648	3,543
Issued for deferred share unit plan redemption	**44,393**	**752**	59,198	1,066
Cancelled	-	-	(17,684)	(214)
Issued for equity offering	-	-	18,160,900	209,759
Issue costs, net of tax effect	-	-	-	(5,849)
Balance, end of period	**118,127,667**	**1,266,818**	117,918,274	1,263,796

SHARES OUTSTANDING

	Three Months Ended September 30			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Weighted average						
Basic	**118,073,265**	117,725,922	-	**118,016,235**	107,887,678	9%
Diluted	**118,188,903**	117,725,922	-	**118,134,126**	107,887,678	9%
At period end	**118,127,667**	117,849,946	-	**118,127,667**	117,849,946	-

Dividend Policy

Freehold's Board of Directors reviews and determines the monthly dividend rate on a quarterly basis, or as conditions necessitate, after considering expected commodity prices, foreign exchange rates, economic conditions, production volumes, tax payable, and our capacity to finance operating and investing obligations. The dividend rate is established with the intent of absorbing short-term market volatility over several months. It also recognizes our intention to fund capital expenditures primarily through funds from operations and to maintain a strong balance sheet to take advantage of acquisition opportunities and withstand potential commodity price declines.

Freehold's dividends are designated as eligible dividends for Canadian income tax purposes.

Dividends declared in Q3-2016 totaled $17.7 million or $0.15 per share, a 25% improvement over 2016 and for the year-to-date period dividends were $50.8 million or $0.43 per share. Freehold increased our monthly dividend from $0.04 to $0.05, for the dividend paid in April 2017.

ACCUMULATED DIVIDENDS (1)

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	**2017**	2016
Dividends declared ($000s)	**17,714**	14,133	**50,757**	45,358
Accumulated, beginning of period	**1,518,516**	1,457,196	**1,485,473**	1,425,971
Accumulated, end of period	**1,536,230**	1,471,329	**1,536,230**	1,471,329
Dividends per share ($) (2)	**0.15**	0.12	**0.43**	0.42
Accumulated, beginning of period	**30.75**	30.23	**30.47**	29.93
Accumulated, end of period	**30.90**	30.35	**30.90**	30.35

(1) Accumulated dividends reflect distributions paid on trust units of Freehold Royalty Trust (the predecessor of Freehold) from 1996 through 2010 and dividends on common shares of Freehold from 2011 onwards.

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

The following tables show reconciliations of funds from operations and dividends. Our basic payout ratio for Q3-2017 was 63% versus 59% one year ago as our increase in dividends was higher than our increase in funds from operations. For the 2017 year-to-date period we had a basic payout ratio of 55%, which was much reduced from 71% last year, as funds from operations increased significantly but dividend increases were smaller.

RECONCILIATION OF DIVIDENDS DECLARED

($000s)	Three Months Ended September 30 2017	2016	Nine Months Ended September 30 2017	2016
Funds from operations	27,927	24,148	91,765	63,790
Proceeds from the DRIP	-	1,170	-	4,997
Issuance of shares, net of issue costs	-	-	-	201,747
Debt repayment	(13,000)	(8,000)	(36,000)	(52,000)
Acquisitions	146	(68)	(34,473)	(162,498)
Capital expenditures	(1,657)	(209)	(3,508)	(3,046)
Working interest dispositions	2,969	-	32,065	-
Working capital change	1,329	(2,908)	908	(7,632)
Dividends declared	17,714	14,133	50,757	45,358

DIVIDENDS ANALYSIS

($000s)	Three Months Ended September 30 2017	2016	Nine Months Ended September 30 2017	2016
Dividends paid in cash	17,711	12,954	49,589	42,572
Dividends paid in shares (DRIP)	-	1,170	-	4,997
Total dividends paid (1)	17,711	14,124	49,589	47,569
Dividends declared	17,714	14,133	50,757	45,358
Funds from operations	27,927	24,148	91,765	63,790
Capital expenditures	1,657	209	3,508	3,046
Basic payout ratio (2)	63%	59%	55%	71%
Adjusted payout ratio (3)	69%	55%	58%	72%

(1) Based on the dividend payment date which is generally on the 15th day of the month following the month it was declared.
(2) Dividends declared as a percentage of funds from operations (see Non-GAAP Financial Measures).
(3) Dividends paid in cash plus capital expenditures as a percentage of funds from operations (see Non-GAAP Financial Measures).

The amended and restated DRIP allows for the issuance of shares from treasury at a 5% discount to market (i.e. 95% of the weighted average closing price for the 10 trading days preceding each payment date). Effective with the August 31, 2016 dividend the Board approved the suspension of the DRIP pending further notice.

Investing Activities

Freehold had minimal acquisition activity in Q3-2017 but $34.5 million YTD-2017. Of the acquisition expenditures in 2017, $33.7 million (including adjustments) related to various gross overriding royalties and mineral title lands in the greater Dodsland area of Saskatchewan. Capital expenditures for the current quarter were $1.7 million and for YTD-2017 were $3.5 million. There were 11 (1.1 net) non-operated working interest wells drilled in the first nine months of 2017, of which 8 (0.8 net) were drilled in the third quarter.

Freehold disposed of $32.1 million of working interest assets YTD-2017 of which $3.0 million occurred in the third quarter, as we continue the de-emphasis of our working interest properties.

ACQUISITIONS, DISPOSITIONS AND CAPITAL EXPENDITURES

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	2017	2016	Change	2017	2016	Change
Acquisitions	(146)	68	-315%	34,473	162,498	-79%
Capital expenditures	1,657	209	693%	3,508	3,046	15%
Working interest dispositions	(2,969)	-	-	(32,065)	-	-
	(1,458)	277	-626%	5,916	165,544	-96%

Additional Information

Additional information about Freehold, including our annual information form (AIF), is available on SEDAR at www.sedar.com and on our website at www.freeholdroyalties.com.

Internal Controls

Freehold is required to comply with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during the three months ended September 30, 2017. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, *Certification of Interim Filings*, which can be found on SEDAR at www.sedar.com.

New Accounting Standards

RECENT PRONOUNCEMENTS

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue, and other revenue related interpretations. The standard establishes a single revenue recognition framework that applies to contracts with customers. The effective date for adopting IFRS 15 in its entirety is January 1, 2018. Freehold continues to review its royalty and other revenue streams along with underlying contracts to determine the impact on the consolidated financial statements including the enhanced disclosures of disaggregation of revenue.

In July 2014, the IASB completed a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement with IFRS 9 Financial Instruments. The first two completed phases replaced the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The third phase describes a new hedge accounting model. Presently and historically, Freehold has not entered into any transactions in which hedge accounting could be applied and does not anticipate changing this practice. The effective date for adopting IFRS 9 in its entirety is January 1, 2018.

In January, 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. The standard establishes a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The effective date for adopting IFRS 16 in its entirety is January 1, 2019.

Freehold's assessment of these recent pronouncements is ongoing and the impact, if any, on the consolidated financial statements and additional disclosure requirements is yet to be fully determined.

Forward-looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or our expectations of future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "forecast", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions (including the negatives thereof). These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and, as such, forward-looking statements included in this MD&A should not be unduly relied upon. These forward-looking statements are provided to allow readers to better understand our business and prospects.

In particular, this MD&A contains forward-looking statements under President's Message, Our Strategy, Business Environment, Guidance Update and Dividend Policy pertaining to 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;
- our strategies and the expectation that those strategies will deliver growth and low risk attractive returns to our shareholders;
- our acquisition criteria and the intent that such criteria will result in acquisitions being accretive to shareholders;
- our intention to fund capital expenditures primarily through funds from operations and to maintain a strong balance sheet to take advantage of acquisition opportunities and withstand potential commodity price declines;
- foreign exchange rates;
- industry drilling and development activity on our royalty lands;

- our intent to apply excess cash to debt repayment in the short term but also remaining committed to acquiring additional royalties;
- estimated capital budget and expenditures and the timing thereof;
- Freehold’s decommissioning liability and timing of payment thereof;
- forecast 2017 average production, including product mix and percentage from royalties;
- forecast 2017 percentage of operating income from royalties;
- forecast 2017 adjusted payout ratio;
- forecast 2017 year end net debt to funds from operations;
- forecast key operating assumptions;
- amounts and rates of income taxes and timing of payment thereof;
- expected production additions from our audit function;
- our tax pools and the expected tax horizon;
- our dividend policy and expectations for future dividends; and
- treatment under governmental regulatory regimes and tax laws.

Our actual results could differ materially from those anticipated in these forward-looking statements because of many factors, the most significant of which are as follows:

- volatility in market prices for crude oil and natural gas;
- lack of pipeline capacity;
- currency fluctuations;
- changes in income tax laws or changes in tax laws, regulations, royalties, or incentive programs relating to the oil and gas industry;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- uncertainties or imprecision associated with estimating oil and gas reserves;
- stock market volatility and our ability to access sufficient capital from internal and external sources;
- a significant or prolonged downturn in general economic conditions or industry activity;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- geological, technical, drilling, and processing problems;
- environmental risks and liabilities inherent in oil and gas operations; and
- other factors discussed in Freehold's annual MD&A, and audited financial statements for the year ended December 31, 2016 and our Annual Information Form.

Readers are cautioned that the foregoing list of factors is not exhaustive.

With respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, the following:

- future crude oil and natural gas prices;
- future capital expenditure levels;
- future production levels;
- future exchange rates;
- future tax rates;
- future legislation,
- the cost of developing and expanding our assets;
- our ability and the ability of our industry partners and royalty payors to obtain equipment in a timely manner to carry out development activities;
- our ability to market our product successfully to current and new customers;
- our expectation for the consumption of crude oil and natural gas;
- our expectation for industry drilling levels on our royalty lands;
- the impact of increasing competition;
- our ability to obtain financing on acceptable terms; and
- our ability to add production and reserves through our development and acquisition activities.

Key operating assumptions with respect to the forward-looking statements contained in this MD&A are provided in the Guidance Update section.

To the extent any guidance or forward-looking statements herein constitutes 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. You are further cautioned that the preparation of financial statements in accordance with IFRS 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.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement and speak only as of the date of this MD&A. 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.

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 barrel). 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, 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 MD&A, references are made to terms commonly used as key performance indicators in the oil and gas industry. We believe that operating income, operating netback, basic payout ratio and 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. (See our Netback Analysis section for calculations.)

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. (See our Dividend Policy section for calculations.)

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.

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	**2017**	2016	Change	**2017**	2016	Change
Funds from operations	**27,927**	24,148	16%	**91,765**	63,790	44%
Capital expenditures	**(1,657)**	(209)	693%	**(3,508)**	(3,046)	15%
Free cash flow	**26,270**	23,939	10%	**88,257**	60,744	45%

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

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	2017	2016	Change	2017	2016	Change
Royalty expense	175	284	-38%	974	863	13%
Operating expense	2,517	4,408	-43%	8,920	12,678	-30%
General and administrative expenses	2,086	1,927	8%	8,149	7,484	9%
Interest expense	538	935	-42%	2,075	3,697	-44%
Expenditures on share based compensation	-	105	-	442	406	9%
Total cash costs	5,316	7,659	-31%	20,560	25,128	-18%

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.

Condensed Consolidated Balance Sheets

($000s) (unaudited)	**September 30, 2017**	December 31, 2016
Assets		
Current assets:		
Cash	**$ 712**	$ 892
Accounts receivable	**21,064**	24,064
	21,776	24,956
Exploration and evaluation assets (note 3)	**60,844**	64,019
Petroleum and natural gas interests (note 4)	**834,965**	892,120
Deferred income tax asset	**18,855**	26,355
	$ 936,440	$ 1,007,450
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable	**$ 5,905**	$ 4,716
Accounts payable and accrued liabilities	**5,779**	9,219
Current portion of share based compensation payable (note 5)	**366**	182
	12,050	14,117
Decommissioning liability	**17,949**	23,705
Share based compensation payable (note 5)	**1,860**	932
Long-term debt (note 6)	**48,000**	84,000
Shareholders' equity:		
Shareholders' capital (note 7)	**1,266,818**	1,263,796
Contributed surplus	**2,062**	2,717
Deficit	**(412,299)**	(381,817)
	856,581	884,696
	$ 936,440	$ 1,007,450

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(unaudited) ($000s, except per share and weighted average data)	Three Months Ended September 30 **2017**	2016	Nine Months Ended September 30 **2017**	2016
Revenue:				
Royalty and other revenue (note 9)	**$ 33,938**	$ 32,923	**$ 113,459**	$ 90,075
Royalty expense	**(175)**	(284)	**(974)**	(863)
	33,763	32,639	**112,485**	89,212
Gain on working interest dispositions (note 2)	**-**	-	**14,679**	-
Loss on settlement (note 10)	**-**	(1,066)	-	(1,066)
Expenses:				
Operating	**2,517**	4,408	**8,920**	12,678
General and administrative	**2,086**	1,927	**8,149**	7,484
Share based compensation (note 5)	**657**	174	**1,439**	960
Interest and financing	**538**	935	**2,075**	3,697
Depletion and depreciation	**26,910**	25,777	**81,814**	77,919
Impairment reversal (note 2)	**-**	-	**(5,625)**	-
Accretion of decommissioning liability	**102**	130	**347**	420
Management fee (note 8)	**811**	910	**2,270**	2,524
	33,621	34,261	**99,389**	105,682
Income (loss) before taxes	**142**	(2,688)	**27,775**	(17,536)
Deferred income tax expense (recovery)	**39**	(726)	**7,500**	(4,735)
Net income (loss) and comprehensive income (loss)	**$ 103**	$ (1,962)	**$ 20,275**	$ (12,801)
Net income (loss) per share, basic and diluted	**$ -**	$ (0.02)	**$ 0.17**	$ (0.12)
Weighted average number of shares:				
Basic	**118,073,265**	117,725,922	**118,016,235**	107,887,678
Diluted (note 7)	**118,188,903**	117,725,922	**118,134,126**	107,887,678

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

($000s) (unaudited)	Three Months Ended September 30 2017	2016	Nine Months Ended September 30 2017	2016
Operating:				
Net income (loss)	**$ 103**	$ (1,962)	**$ 20,275**	$ (12,801)
Items not involving cash:				
Depletion and depreciation	**26,910**	25,777	**81,814**	77,919
Gain on working interest dispositions	**-**	-	**(14,679)**	-
Impairment reversal	**-**	-	**(5,625)**	-
Share based compensation	**657**	174	**1,439**	960
Deferred income tax expense (recovery)	**39**	(726)	**7,500**	(4,735)
Accretion of decommissioning liability	**102**	130	**347**	420
Management fee	**811**	910	**2,270**	2,524
Expenditures on share based compensation	**-**	(105)	**(442)**	(406)
Decommissioning expenditures	**(695)**	(50)	**(1,134)**	(91)
Funds from operations	**27,927**	24,148	**91,765**	63,790
Changes in non-cash working capital	**445**	(198)	**(283)**	(2,168)
	28,372	23,950	**91,482**	61,622
Financing:				
Issuance of shares, net of issue costs	**-**	-	**-**	201,747
Long-term debt	**(13,000)**	(8,000)	**(36,000)**	(52,000)
Dividends paid	**(17,711)**	(12,954)	**(49,589)**	(42,572)
	(30,711)	(20,954)	**(85,589)**	107,175
Investing:				
Acquisitions	**146**	(68)	**(34,473)**	(162,498)
Capital expenditures	**(1,657)**	(209)	**(3,508)**	(3,046)
Working interest dispositions	**2,969**	-	**32,065**	-
Changes in non-cash working capital	**878**	(2,278)	**(157)**	(3,269)
	2,336	(2,555)	**(6,073)**	(168,813)
Increase (decrease) in cash	**(3)**	441	**(180)**	(16)
Cash, beginning of period	**715**	419	**892**	876
Cash, end of period	**$ 712**	$ 860	**$ 712**	$ 860

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

($000s) (unaudited)	Nine Months Ended September 30 2017	2016
Shareholders' capital:		
Balance, beginning of period	**$ 1,263,796**	$ 1,050,494
Shares issued for dividend reinvestment plan	-	4,997
Shares issued for payment of management fee	**2,270**	2,524
Shares issued for deferred share unit plan redemption	**752**	796
Shares issued for equity offering	-	209,759
Issue costs, net of tax effect	-	(5,849)
Balance, end of period	**1,266,818**	1,262,721
Contributed surplus:		
Balance, beginning of period	**2,717**	3,282
Share based compensation expense	**373**	454
Deferred share unit plan redemption and other	**(1,028)**	(998)
Balance, end of period	**2,062**	2,738
Deficit:		
Balance, beginning of period	**(381,817)**	(311,152)
Net income (loss) and comprehensive income (loss)	**20,275**	(12,801)
Dividends declared	**(50,757)**	(45,358)
Balance, end of period	**(412,299)**	(369,311)
Total shareholders' equity	**$ 856,581**	$ 896,148

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim
Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016 (unaudited).

1. Basis of Presentation

Freehold Royalties Ltd. (Freehold) is a dividend-paying corporation incorporated under the laws of the Province of Alberta. Freehold's primary focus is acquiring and managing oil and gas royalties.

Freehold's principal place of business is located at 400, 144 – 4 Avenue SW, Calgary, Alberta, Canada, T2P 3N4.

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements do not include all of the disclosures normally provided in annual financial statements. These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements and notes for the year ended December 31, 2016 and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2016.

These interim condensed consolidated financial statements were approved by the Board of Directors on November 9, 2017.

b) Basis of Measurement and Principles of Consolidation

These interim condensed consolidated financial statements have been prepared on a historical cost basis, with the exception of certain share based compensation payable, and include the accounts of Freehold and its wholly-owned subsidiaries: 1872348 Alberta Ltd., Freehold Holdings Trust and Freehold Royalties Partnership. All inter-entity transactions have been eliminated.

c) Recent Pronouncements

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue, and other revenue related interpretations. The standard establishes a single revenue recognition framework that applies to contracts with customers. The effective date for adopting IFRS 15 in its entirety is January 1, 2018. Freehold continues to review its royalty and other revenue streams along with underlying contracts to determine the impact on the consolidated financial statements including the enhanced disclosures of disaggregation of revenue.

In July 2014, the IASB completed a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement with IFRS 9 Financial Instruments. The first two completed phases replaced the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The third phase describes a new hedge accounting model.

Presently and historically, Freehold has not entered into any transactions in which hedge accounting could be applied and does not anticipate changing this practice. The effective date for adopting IFRS 9 in its entirety is January 1, 2018.

In January, 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. The standard establishes a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The effective date for adopting IFRS 16 in its entirety is January 1, 2019.

Freehold's assessment of these recent pronouncements is ongoing and the impact, if any, on the consolidated financial statements and additional disclosure requirements is yet to be fully determined.

2. Working Interest Dispositions

In April 2017 Freehold closed the sale of working interest properties in its Southeast Saskatchewan Working Interest cash generating unit (CGU) for proceeds of $28.9 million (including adjustments). These assets and related liabilities were held for sale at March 31, 2017. For the three months ended June 30, 2017, Freehold recognized a gain on working interest dispositions of $14.7 million. The gain was based on $28.9 million of proceeds received, minor adjustments of $0.1 million, the removal of assets held for sale of $18.9 million and the removal of liabilities related to assets held for sale of $4.8 million.

At March 31, 2017 these properties were classified as assets held for sale as it was highly probable that their carrying value would be received through a sales transaction rather than continued use. In addition, at March 31, 2017, based on the anticipated sale proceeds, Freehold reviewed the carrying value of the Southeast Saskatchewan Working Interest CGU for any reversal of impairment, as this CGU had a previous impairment charge. The recoverable amount was estimated using a fair value less cost to sell calculation based on the estimated sales price. As a result, there was an impairment reversal of $5.6 million recognized in the three months ended March 31, 2017, representing the maximum amount of impairment reversal able to be taken, made up of the original $8.0 million impairment estimate recorded in 2015 net of $2.4 million depletion calculated as if the impairment never occurred. In conjunction with the above, Freehold reclassified this new recoverable net book value of $18.9 million to assets held for sale, with $18.6 million removed from petroleum and natural gas interests and $0.3 million removed from exploration and evaluation assets. In addition, Freehold reclassified the proportionate share of decommissioning liabilities of $4.8 million to liabilities related to assets held for sale.

In addition, for the nine months ended September 30, 2017, Freehold sold minor working interest properties for $3.2 million (including adjustments), of which $3.0 million occurred in the three months ended September 30, 2017.

3. Exploration and Evaluation Assets

($000s)	September 30, 2017	December 31, 2016
Balance, beginning of period	**64,019**	49,479
Acquisitions	**-**	17,980
Transfers to petroleum and natural gas interests (note 4)	**(2,908)**	(3,440)
Working interest dispositions (note 2)	**(267)**	-
Balance, end of period	**60,844**	64,019

4. Petroleum and Natural Gas Interests

($000s)	September 30, 2017	December 31, 2016
Cost		
Balance, beginning of period	**1,420,836**	1,271,382
Acquisitions	**34,473**	144,610
Capital expenditures	**3,508**	5,218
Capitalized portion of long term incentive plan	**233**	167
Transfers from exploration and evaluation assets (note 3)	**2,908**	3,440
Decommissioning liability additions and revisions	**621**	(3,981)
Working interest dispositions (note 2)	**(92,594)**	-
Balance, end of period	**1,369,985**	1,420,836
Accumulated depletion and depreciation		
Balance, beginning of period	**(528,716)**	(424,557)
Depletion and depreciation	**(81,814)**	(104,159)
Impairment reversal (note 2)	**5,625**	-
Accumulated depletion and depreciation of working interest dispositions (note 2)	**69,885**	-
Balance, end of period	**(535,020)**	(528,716)
Net book value, end of period	**834,965**	892,120

For the three months ended March 31, 2017, Freehold closed an acquisition of various gross overriding royalties and mineral title lands in the greater Dodsland area of Saskatchewan for $33.7 million (including adjustments). For the three months ended June 30, 2017 Freehold closed a royalty acquisition of $1.6 million (including adjustments). In addition, for the nine months ended September 30, 2017, Freehold had minor adjustments on previous acquisitions resulting in reductions of $0.8 million to petroleum and natural gas interests.

At September 30, 2017 there were no indicators of impairment on any CGUs. The assessment of indicators of impairment is subjective in nature and requires management to make judgments based on the best available information at the time of issuance of the interim condensed consolidated financial statements.

5. Share Based Compensation

(a) Long-term Incentive Plans

In March 2017, Freehold adopted a new long-term incentive plan (LTIP) to replace the previous long-term incentive plan for the employees of Rife (see Related Party note 8). Grants will no longer be made under the previous plan but pre-existing grants will continue until vesting and payout occurs.

In 2017 and in future years, Freehold's long-term incentive compensation will consist of grants of performance share units (PSUs) and restricted share units (RSUs) under the new LTIP. Underlying each PSU and RSU is one notional Freehold common share. The notional Freehold common shares are adjusted whenever a dividend is paid by Freehold.

Upon vesting of the RSUs the holder is entitled to an amount equal in value to the notional Freehold common shares (as adjusted for dividends paid) underlying such RSUs. The value of the notional Freehold common shares is based on the volume weighted average trading price of Freehold common shares on the TSX for the five trading days prior to the settlement date of such RSUs. Generally, one-third of the granted RSUs will vest on each of the first, second and third anniversaries of the date of grant.

For PSUs, the notional Freehold common shares and value are calculated in the same manner as the RSUs, but with the additional application of a performance multiplier. The metrics used for determining the performance multiplier (which can range from 0 to 2 times) are at the discretion of our Board of Directors at the time of grant. For 2017 grants the performance multiplier target is based 50% on absolute total shareholder return and 50% on relative total shareholder return over a three year performance period. Generally, all of the granted PSUs will vest on the third anniversary of the date of grant.

Since participants receive a cash payment on a fixed vesting date, a liability is determined and recognized as services are rendered based on the fair value of the total rights at each period end. The valuation incorporates the consideration of the Freehold common share price, the number of notional Freehold common shares outstanding at each period end, an estimated performance multiplier and an estimated forfeiture rate. Compensation expense is recognized over the vesting period.

The 2014 grants under the previous LTIP valued at $0.1 million were paid out in 2017. During 2017 there were 90,026 RSUs and PSUs granted under the new LTIP (after estimated forfeitures).

For the three months ended September 30, 2017, Freehold expensed $0.6 million (2016 – $0.2 million) of share based compensation. The total expensed for the nine months ended September 30, 2017 was $1.1 million (2016 – $0.5 million).

The following table reconciles the change in total accrued share-based incentive compensation:

($000s)	September 30, 2017	December 31, 2016
Balance, beginning of period	**1,065**	257
Increase in liability	**1,299**	928
Cash payout	**(138)**	(120)
Balance, end of period	**2,226**	1,065
Current portion of liability	**366**	133
Long-term portion of liability	**1,860**	932

The following table reconciles the incentive plan activity for the period:

SHARE BASED AWARDS

	September 30, 2017	December 31, 2016
Balance, beginning of period	**214,863**	142,108
Issued	**90,026**	105,735
Dividends reinvested	**8,244**	11,170
Cash payout	**(38,298)**	(44,150)
Balance, end of period	**274,835**	214,863

(b) Deferred Share Unit Plan

Fully-vested deferred share units (DSUs) are granted annually to non-management directors. As at September 30, 2017, there were 116,240 DSUs outstanding (2016 – 167,097), which are redeemable for an equal number of Freehold common shares (less withholding tax if necessary) after the director's retirement.

On January 1, 2017, Freehold's Board of Directors granted a total of 27,521 DSUs to eligible directors as part of their annual compensation. Each eligible director received 4,234 DSUs and the Chair of the Board received 6,351 DSUs. In addition, during the three months ended March 31, 2017, a retired director redeemed 63,419 DSUs, resulting in the issuance of 44,393 shares from treasury. In payment of withholding tax, 19,026 DSUs were canceled and the cash value of $0.3 million was remitted to the Canada Revenue Agency.

For the three months ended September 30, 2017, Freehold expensed $17,000 (2016 – $11,000 recovered) of share based compensation with a corresponding offset to contributed surplus. The total expensed for the nine months ended September 30, 2017 was $0.4 million (2016 – $0.5 million).

DEFERRED SHARE UNITS

	September 30, 2017	December 31, 2016
Balance, beginning of period	**148,499**	177,012
Annual grants	**27,521**	46,663
Additional resulting from dividends	**3,639**	9,391
Redeemed	**(63,419)**	(84,567)
Balance, end of period	**116,240**	148,499

(c) Retirement Benefit

Freehold participates in its proportionate share of a retirement benefit for certain former employees of Rife through the Manager. For the three months ended September 30, 2017, Freehold expensed $nil (2016 – $nil) with a corresponding offset to the obligation. The total expensed for the nine months ended September 30, 2017 was $nil (2016 – $5,000). This plan is now discontinued with the final payment being made during the three months ended March 31, 2017.

6. Long-term Debt

At September 30, 2017 Freehold had a $165 million extendible revolving term credit facility with a syndicate of four Canadian chartered banks, on which $48 million was drawn. In addition, Freehold has available a $15 million extendible revolving operating facility.

The facilities are secured with $400 million demand debentures over most of Freehold's petroleum and natural gas assets but do not contain any financial covenants. The lenders at any time can request a redetermination of the borrowing base, which may require a repayment to the lenders within 90 days of receiving notice, of an amount that the indebtedness is in excess of the redetermined borrowing base. Freehold's borrowing base is dependent on the lenders review and interpretation of Freehold's reserves and future commodity prices. During the second quarter 2017 the annual review was completed. The next renewal will occur by May 31, 2018. In the event that the lenders do not consent to an extension, the revolving credit facility would revert to a one-year, non-revolving term facility with repayment due at the termination date.

Borrowings under the facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees. At September 30, 2017 and December 31, 2016 the fair values of the long-term debt approximated its carrying value, as the long-term debt carries interest at prevailing market rates. For the nine months ended September 30, 2017, the average effective interest rate on advances under Freehold's credit facilities was 2.9% (2016 – 2.9%).

7. Shareholders' Capital

SHARES ISSUED AND OUTSTANDING

	September 30, 2017		December 31, 2016	
	Shares	**Amount ($000s)**	Shares	Amount ($000s)
Balance, beginning of period	**117,918,274**	**1,263,796**	98,940,152	1,050,494
Issued for dividend reinvestment plan	**-**	-	488,060	4,997
Issued for payment of management fee (note 8)	**165,000**	**2,270**	287,648	3,543
Issued for deferred share unit plan redemption	**44,393**	**752**	59,198	1,066
Cancelled	**-**	-	(17,684)	(214)
Issued for equity offering	**-**	-	18,160,900	209,759
Issue costs, net of tax effect	**-**	-	-	(5,849)
Balance, end of period	**118,127,667**	**1,266,818**	117,918,274	1,263,796

For the three and nine months ended September 30, 2016, deferred share units were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive.

8. Related Party Transactions

Freehold does not have any employees. Rife Resources Management Ltd. (the Manager) is the manager of Freehold. The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife), and two of Rife's directors are also directors of Freehold. Rife is 100% owned by the CN Pension Trust Funds (the pension funds for the employees of the Canadian National Railway Company), which in turn is a shareholder of Freehold. The Manager recovers its general and administrative costs and a portion of its long-term incentive plan costs and retirement benefit costs, and receives a quarterly management fee paid in Freehold common shares. Canpar Holdings Ltd. (Canpar) is also managed by Rife and owned 100% by the CN Pension Trust Funds, and two of Canpar's directors are also directors of Freehold.

(a) Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares per quarter, pursuant to the amended and restated management agreement. The amended and restated management agreement capped the management fee at 55,000 Freehold common shares per quarter for 2017 with the number of Freehold common shares to be issued per quarter as payment of the management fee reducing to 5,500 Freehold common shares by 2022. For the three months ended September 30, 2017, Freehold issued 55,000 common shares (2016 – 71,912) as payment of the management fee. The ascribed value of $0.8 million (2016 – $0.9 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter. The total number of Freehold common shares issued for the nine months ended September 30, 2017 was 165,000 (2016 – 215,736) with an ascribed value of $2.3 million (2016 – $2.5 million).

For the three months ended September 30, 2017, the Manager charged $2.1 million in general and administrative costs (2016 – $1.8 million). For the nine months ended September 30, 2017, the Manager charged $7.6 million in general and administrative costs (2016 – $6.8 million). At September 30, 2017, there was $0.7 million (December 31, 2016 – $0.9 million) in accounts payable and accrued liabilities relating to these costs.

(b) Rife Resources Ltd.

Freehold maintains ownership interests in certain oil and gas properties operated by Rife. A portion of net operating revenues and capital expenditures represent joint operations amounts from Rife. At September 30, 2017, there was $nil (December 31, 2016 - $0.1 million) in accounts receivable relating to these transactions. At September 30, 2017, there was $nil (December 31, 2016 - $nil) in accounts payable and accrued liabilities relating to these transactions.

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the three months ended September 30, 2017, Freehold received royalties of approximately $0.2 million (2016 – $0.2 million). For the nine months ended September 30, 2017, Freehold received royalties of approximately $0.7 million (2016 – $0.6

million). At September 30, 2017, there was $0.1 million (December 31, 2016 - $0.1 million) in accounts receivable relating to these transactions.

(c) Canpar Holdings Ltd.

Freehold and Canpar share mineral title ownership rights in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Given the nature of the mineral rights, which are dependent upon hydrocarbon pool formation classification as well as third party drilling data which is subject to change and revision, uncertainty can exist with respect to the royalty ownership of wells drilled and completed on lands where both Freehold and Canpar hold the mineral rights. At September 30, 2017, there was $nil (December 31, 2016 – $nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

All amounts owing to/from the Manager, Rife, and Canpar are unsecured, non-interesting bearing and due on demand. All transactions were in the normal course of operations and were measured at the amount of consideration established and agreed to by both parties.

9. Supplemental Disclosure

(a) Supplemental cash flow disclosure

CASH EXPENSES

	Three Months ended September 30		Nine Months ended September 30	
($000s)	**2017**	2016	**2017**	2016
Interest	**536**	865	**2,031**	3,498
Taxes	**-**	(73)	**-**	(73)

(b) Royalty and other revenue

	Three Months ended September 30		Nine Months ended September 30	
($000s)	**2017**	2016	**2017**	2016
Royalty interest revenue (1)	**30,929**	26,185	**98,914**	71,526
Working interest revenue (2)	**3,009**	6,738	**14,545**	18,549
	33,938	32,923	**113,459**	90,075

(1) Royalty interest revenue includes potash, sulphur, bonus consideration and lease rentals.
(2) Working interest revenue includes processing fees, interest and other.

(c) Net debt

($000s)	**September 30, 2017**	December 31, 2016
Long-term debt	**48,000**	84,000
Working capital	**(9,726)**	(10,839)
Net debt (1)	**38,274**	73,161

(1) Net debt as presented does not have any standardized meaning prescribed by IFRS; and therefore may not be comparable to a similar measure of other entities.

10.Loss On Settlement

In May 2009, a statement of claim was filed against Freehold for $9 million. The claim involved disputed land interests and royalty obligations. During the third quarter of 2016 Freehold settled the claim with a $0.9 million payment and removed $0.2 million of associated accounts receivable, recognizing a total loss of $1.1 million.

Board of Directors

Marvin F. Romanow
Chair of the Board

Gary R. Bugeaud (1) (2)
Corporate Director

Peter T. Harrison
Manager, Oil and Gas Investments
CN Investment Division

J. Douglas Kay (2) (3)
Corporate Director

Arthur N. Korpach (1) (2)
Corporate Director

Susan M. MacKenzie (2) (3)
Corporate Director

Thomas J. Mullane
President and Chief Executive Officer
Rife Resources Ltd.

Aidan M. Walsh (1) (3)
Chief Executive Officer
Baccalieu Energy Inc.

(1) Audit Committee
(2) Governance, Nominating and Compensation Committee
(3) Reserves Committee

Officers

Marvin F. Romanow
Chair of the Board

Thomas J. Mullane
President and Chief Executive Officer

Darren G. Gunderson
Vice-President, Finance and Chief Financial Officer

Robert E. Lamond
Vice-President, Exploration

David M. Spyker
Vice-President, Production

Michael J. Stone
Vice-President, Land

Michael J. Mogan
Controller

Karen C. Taylor
Corporate Secretary

Head Office

Freehold Royalties Ltd.
400, 144 – 4 Avenue SW
Calgary, AB T2P 3N4
t. 403.221.0802
f. 403.221.0888
w. freeholdroyalties.com

The Manager

Rife Resources Management Ltd.
t. 403.221.0800
w. rife.com

Investor Relations

Matt J. Donohue
Manager, Investor Relations
t. 403.221.0833
tf. 888.257.1873
e. mdonohue@rife.com

Auditors

KPMG LLP

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
The Toronto-Dominion Bank

Legal Counsel

Burnet, Duckworth & Palmer LLP

Reserve Evaluators

Trimble Engineering Associates Ltd.

Stock Exchange and Trading Symbol

Toronto Stock Exchange (TSX)
Common Shares: FRU

Transfer Agent and Registrar

Computershare Trust Company of Canada
600, 530 – 8 Avenue SW
Calgary, AB T2P 3S8
t. 514.982.7555
tf. 800.564.6253
f. 888.453.0330
e. service@computershare.com
w. computershare.com