

Results at a Glance

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

(1) See Non-GAAP Financial Measures.

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

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

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

President's Message

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

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

As a leading royalty company, Freehold's objective is to deliver growth and low risk attractive returns to shareholders over the long term which we have continued to provide in this reporting period.

Tom Mullane
President and CEO

First Quarter Highlights

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

- Basic payout ratio ⁽¹⁾ (dividends declared/funds from operations) for Q1-2018 totaled 56% while the adjusted payout ratio ⁽¹⁾ ((cash dividends plus capital expenditures)/funds from operations) for the same period was 60%.

(1) See Non-GAAP Financial Measures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) was prepared as of May 9, 2018, 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 months ended March 31, 2018, and previous periods, and the outlook for Freehold based on information available as of May 9, 2018.

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 months ended March 31, 2018 and March 31, 2017, and all dollar amounts are expressed in Canadian currency, unless otherwise noted. This discussion should be read in conjunction with Freehold's annual MD&A and audited financial statements for the year ended December 31, 2017, together with the accompanying notes. Information contained in the 2017 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 6.2 million gross acres, greater than 97% 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 5.0 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 approximately 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 Q1-2018) 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 430,000 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 program.
 - 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

WTI oil price displayed strong upward momentum in Q1-2018 averaging US\$62.87/bbl, up 21% versus the same period in 2017. Similarly Edmonton Light Sweet oil price averaged \$71.88/bbl, increasing 12% when compared to Q1-2017. Offsetting positive momentum in light oil prices, WCS oil price averaged \$48.77/bbl, down 1% year-over-year with the light/heavy differentials averaging US\$23.11/bbl versus US\$14.62/bbl during the same period

last year. Canadian natural gas prices were down 37% versus the same period last year, averaging \$1.85/mcf for the quarter.

Overall, strong supply/demand fundamentals globally continue to drive upward price momentum associated with light oil. Within Canada however, we continue to deal with infrastructure/egress limitations for both heavy oil and natural gas which may generate headwinds for prices in the near-term. Approximately 88% of Freehold's 2018 revenue is expected to be derived from oil and natural gas liquids.

The Petroleum Services Association of Canada (PSAC) is currently forecasting a total of 7,400 wells to be drilled in Canada for 2018, representing a small decrease in activity over 2017 activity levels. PSAC based its forecast on average natural gas prices of \$1.75/mcf AECO, a WTI price of US\$61.45/bbl and the Canadian dollar averaging \$0.79/US\$.

Drilling Activity

Including drilling associated with acquisitions, 239 (6.4 net) wells were drilled on our royalty lands during the first three months of 2018, up 59% on a gross measure but down 26% on a net measure versus the same period in 2017. When compared to Q4-2017 activity increased 113% and 12% on a gross and net measure respectively.

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

ROYALTY INTEREST DRILLING

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

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

(2) 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 2018 based on results for the first quarter and expectations for the remainder of the year.

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

KEY OPERATING ASSUMPTIONS

2018 Annual Average		Guidance Date	
		May 9, 2018	Mar. 8, 2018
Total daily production	boe/d	11,750-12,250	11,750-12,250
West Texas Intermediate crude oil	US\$/bbl	65.00	60.00
Edmonton Light Sweet crude oil	Cdn\$/bbl	76.00	N/A
Western Canadian Select crude oil	Cdn\$/bbl	53.00	45.00
AECO natural gas	Cdn\$/Mcf	1.75	2.00
Exchange rate	Cdn\$/US\$	0.79	0.80
Operating costs	\$/boe	1.45	1.45
General and administrative costs ⁽¹⁾	\$/boe	2.50	2.50
Weighted average shares outstanding	millions	118	118

(1) Excludes share based compensation.

Recognizing the cyclical nature of the oil and gas industry, we continue to closely monitor commodity prices and industry trends for signs of changing 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. In 2018 there has been negative effects on realized prices in western Canada due to transportation constraints.
- Fluctuations in the U.S./Canadian exchange rate affects 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. The higher value of the Canadian dollar in recent quarters had a negative effect on our oil price realizations.
- AECO natural gas prices continue to be negatively impacted by supply outstripping demand. In addition, in Western Canada there are added transportation constraints further discounting our prices.
- 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. Improvement in oil prices led to the dividend increases in 2017 and 2018.
- Production has been affected by drilling activity, acquisitions and dispositions, 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 \$280.0 million of royalty assets in Alberta and Saskatchewan. Freehold also disposed of \$32.4 million of our working interest properties in 2017 and \$8.1 million in 2018. This activity affects our revenues, operating costs, percentage royalty interests, oil, NGL and natural gas production mix, debt levels and shares outstanding, among others.
- Net income (loss) may be affected by large unique items in any given period. Freehold had a \$1.1 million loss on settlement of certain legal proceedings in Q3-2016, a \$5.6 million impairment reversal in Q1-2017, a \$14.7 million gain on working interest dispositions in Q2-2017 and a \$16.2 million impairment in Q4-2017.

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

	2018	2017				2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial (\$000s, except as noted)								
Revenue, net of royalty expense	39,157	38,235	33,763	38,036	40,686	39,439	32,639	31,903
Funds from operations	32,384	32,023	27,927	31,769	32,069	30,421	24,148	24,142
Per share, basic (\$)	0.27	0.27	0.24	0.27	0.27	0.26	0.21	0.23
Net income (loss)	4,423	(8,057)	103	13,084	7,088	1,638	(1,962)	(2,249)
Per share, basic and diluted (\$)	0.04	(0.07)	-	0.11	0.06	0.01	(0.02)	(0.02)
Dividends declared	18,026	17,722	17,714	17,705	15,338	14,144	14,133	13,380
Per share (\$) ⁽¹⁾	0.1525	0.15	0.15	0.15	0.13	0.12	0.12	0.12
Basic payout ratio (%) ⁽²⁾	56	55	63	56	48	46	59	55
Operating Income ⁽²⁾	37,658	36,149	31,246	35,235	37,084	34,487	28,231	28,011
Operating income from royalties (%)	99	97	99	97	91	93	93	91
Acquisitions	30,881	52,270	(146)	1,267	33,352	92	68	162,211
Working interest dispositions	8,130	354	2,969	28,808	288	-	-	-
Net debt	89,567	68,621	38,274	49,819	76,030	73,161	87,301	98,191
Shares outstanding								
Weighted average, basic (000s)	118,183	118,128	118,073	118,018	117,956	117,847	117,726	106,736
At quarter end (000s)	118,238	118,183	118,128	118,073	118,018	117,918	117,850	117,652
Operating (\$/boe, except as noted)								
Royalty production (boe/d) ⁽³⁾	11,197	10,960	10,919	11,270	10,701	10,351	10,169	9,725
Total production (boe/d) ⁽³⁾	12,002	12,032	12,036	12,589	12,753	12,579	12,281	12,041
Royalty interest (%)	93	91	91	90	84	82	83	81
Average selling price	34.52	33.59	29.67	32.98	34.88	33.72	28.69	28.48
Operating netback ⁽²⁾	34.86	32.66	28.22	30.76	32.31	29.80	24.99	25.57
Operating expenses	1.39	1.88	2.27	2.45	3.14	4.28	3.90	3.55
General and administrative expenses ⁽⁴⁾	3.60	2.59	1.88	2.27	3.01	2.33	1.71	2.04
Benchmark Prices								
West Texas Intermediate crude oil (US\$/bbl)	62.87	55.40	48.21	48.29	51.91	49.29	44.94	45.59
Exchange rate (Cdn\$/US\$)	0.79	0.79	0.80	0.74	0.76	0.75	0.77	0.78
Edmonton Light Sweet crude oil (Cdn\$/bbl)	71.88	69.14	56.73	61.84	64.00	61.54	54.85	54.70
Western Canadian Select crude oil (Cdn\$/bbl)	48.77	54.87	47.89	49.99	49.38	46.63	41.02	41.62
AECO natural gas (Cdn\$/Mcf)	1.85	1.96	2.04	2.77	2.94	2.81	2.20	1.25
Share Trading Performance								
High (\$)	14.85	16.41	15.15	14.37	14.75	15.16	13.09	13.00
Low (\$)	11.71	13.77	12.51	11.96	12.22	11.68	10.61	9.66
Close (\$)	12.35	14.05	14.74	13.05	13.48	14.17	12.65	11.91
Volume (000s)	15,635	13,985	13,428	13,890	17,059	15,440	20,873	23,559

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

(2) See Non-GAAP Financial Measures

(3) Reported production for a period may include adjustments from previous production periods.

(4) Excludes share based and other compensation.

Production

Our production in the quarter averaged 12,002 boe/d, down 6% versus the same period last year. The decline was largely the result of our working interest dispositions completed during 2017.

Royalty volumes averaged 11,197 boe/d up 5% versus the same period last year and comprised 93% of total production in Q1-2018, up from 84% in Q1-2017. The royalty acquisitions made in December 2017 and Q1-2018 positively affected our results, in addition to drilling activity on our royalty lands and the strength of our audit function (approximately 550 boe/d of prior period adjustments for 2017).

Working interest production fell 61% to 805 boe/d in Q1-2018 relative to Q1-2017 largely due to lower capital expenditures and the previously mentioned dispositions.

Our production mix through the first quarter of 2017 was 34% light and medium oil, 12% heavy oil, 8% NGL and 46% natural gas.

AVERAGE DAILY PRODUCTION

	Three Months Ended		
	March 31		
	2018	2017	Change
Royalty interest ⁽¹⁾			
Oil (bbls/d)	5,181	4,962	4%
NGL (bbls/d)	860	859	-
Natural gas (Mcf/d)	30,933	29,282	6%
Oil equivalent (boe/d)	11,197	10,701	5%
Working interest ⁽¹⁾			
Oil (bbls/d)	364	1,155	-68%
NGL (bbls/d)	62	211	-71%
Natural gas (Mcf/d)	2,273	4,113	-45%
Oil equivalent (boe/d)	805	2,052	-61%
Total			
Oil (bbls/d)	5,545	6,117	-9%
NGL (bbls/d)	922	1,070	-14%
Natural gas (Mcf/d)	33,206	33,395	-1%
Oil equivalent (boe/d)	12,002	12,753	-6%
Number of days in period (days)	90	90	-
Total volumes during period (Mboe)	1,080	1,148	-6%

(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\$62.87/bbl in Q1-2018, up 21% over the same quarter last year and Edmonton Light Sweet averaged \$71.88/bbl, up 12% versus the same period in 2017. The increase happened despite a slight improvement in the US\$/Cdn\$ exchange rate, which has a negative effect on realized Canadian oil prices. Heavy oil lagged some of the positive momentum associated with light oil prices as

WCS averaged \$48.77/bbl for the quarter, down 1% versus Q1-2017. AECO natural gas price averaged \$1.85/mcf, down 37% from \$2.94/mcf in Q1-2017. Both heavy oil and natural gas suffered from infrastructure/egress limitations in Western Canada.

AVERAGE BENCHMARK PRICES

	Three Months Ended		
	March 31		
	2018	2017	Change
West Texas Intermediate crude oil (US\$/bbl)	62.87	51.91	21%
Exchange rate (Cdn\$/US\$)	0.79	0.76	4%
Edmonton Light Sweet crude oil (Cdn\$/bbl)	71.88	64.00	12%
Western Canadian Select crude oil (Cdn\$/bbl)	48.77	49.38	-1%
AECO natural gas (Cdn\$/Mcf)	1.85	2.94	-37%

Our average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price at \$34.52/boe was 1% lower in Q1-2018 versus the same period last year. As the key driver behind an increase in overall cash flows, liquids improved from 2017 with a realized oil and NGL price of \$55.73/bbl, up 9% versus the first quarter of last year.

Natural gas prices were down significantly relative to the prior year averaging \$1.62/mcf in Q1-2018, decreasing 29% 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		
	March 31		
	2018	2017	Change
Oil (\$/bbl)	57.42	53.63	7%
NGL (\$/bbl)	45.56	38.24	19%
Oil and NGL (\$/bbl)	55.73	51.34	9%
Natural gas (\$/Mcf)	1.62	2.27	-29%
Oil equivalent (\$/boe)	34.52	34.88	-1%

Marketing and Hedging

Our production remained unhedged in Q1-2018. 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 \$39.4 million in Q1-2018 was 4% lower than in Q1-2017, with oil and NGL pricing improvements offset by the reduction in working interest revenue resulting from the 2017 dispositions. In the first quarter royalty interest revenue increased by 11% whereas working interest revenue was down 70% versus Q1-2017, due to the above mentioned dispositions. Bonus consideration and lease rentals was \$1.5 million in the first quarter of 2018 versus \$0.6 million in the prior year due to an increase in leases issued.

ROYALTY AND OTHER REVENUE

(\$000s)	Three Months Ended		
	March 31		
	2018	2017	Change
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	35,595	32,975	8%
Bonus consideration and lease rentals	1,527	594	157%
Total royalty interest revenue	37,122	33,569	11%
Working interest revenue	2,244	7,522	-70%
Total royalty and other revenue	39,366	41,091	-4%

(1) Includes potash royalties and other.

ROYALTY AND OTHER REVENUE BY PRODUCT

(\$000s)	Three Months Ended		
	March 31		
	2018	2017	Change
Oil	28,657	29,521	-3%
NGL	3,783	3,681	3%
Natural gas	4,850	6,826	-29%
Potash	523	335	56%
Bonus consideration and lease rentals	1,527	594	157%
Other	26	134	-81%
	39,366	41,091	-4%

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

ROYALTY AND OTHER REVENUE VARIANCES

(\$000s)	Three Months Ended	
	March 31	
	2018 vs. 2017	2017 vs. 2016
Oil and NGL		
Production decrease	(3,601)	(2,043)
Price increase	2,839	14,794
Net increase (decrease)	(762)	12,751
Natural gas		
Production increase (decrease)	(28)	1,334
Price increase (decrease)	(1,948)	1,718
Net increase (decrease)	(1,976)	3,052
Other ⁽¹⁾	1,013	355
Royalty and other revenue increase (decrease)	(1,725)	16,158

(1) Other includes potash royalties, bonus consideration, lease rentals 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 decreased by 48% from Q1-2017 to Q1-2018 largely as a result of the 2017 working interest dispositions.

ROYALTY EXPENSE⁽¹⁾

(\$000s, except as noted)	Three Months Ended		
	March 31		
	2018	2017	Change
Total royalty expense	209	405	-48%
Per boe (\$)	0.19	0.35	-46%

(1) Royalty expense includes both Crown charges (including minor freehold mineral tax) and royalty payments to third parties.

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. Approximately half of operating expenses are fixed and, as such, per boe operating expenses are highly variable to production volumes.

Operating expenses decreased 58% to \$1.5 million in Q1-2018 versus \$3.6 million in Q1-2017 due to the 2017 working interest dispositions. On a total production per boe basis, operating expenses decreased by 56% to \$1.39 per boe/d in Q1-2018 relative to the same period in 2017.

OPERATING EXPENSES ⁽¹⁾

(\$000s, except as noted)	Three Months Ended		
	March 31		
	2018	2017	Change
Total operating expenses	1,499	3,602	-58%
Per boe (\$)	1.39	3.14	-56%

(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 94% of gross revenue in Q1-2018 and more importantly contributed 99% of operating income. Freehold's operating netback for the first quarter increased 8% to \$34.86/boe versus Q1-2017 with improvement driven largely by higher oil and NGL prices and lower operating expenses. As a result of the netback calculation including revenue from bonus consideration, potash and lease rentals, and with the high bonus consideration in Q1-2018, our netback price of \$34.86 per boe exceeded our realized price of \$34.52 per boe.

OPERATING INCOME ⁽¹⁾

(\$000s)	Three months ended March 31, 2018		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	37,122	2,244	39,366
Royalty expense ⁽³⁾	(1)	(208)	(209)
Net revenue	37,121	2,036	39,157
Operating expense	-	(1,499)	(1,499)
Operating income	37,121	537	37,658
Percentage by category	99%	1%	100%

(1) See Non-GAAP Financial Measures.

(2) Royalty interest revenue includes potash royalties, bonus consideration, lease rentals and other.

(3) Royalty expense includes both Crown charges (including minor freehold mineral tax) and royalty payments to third parties.

OPERATING NETBACK ⁽¹⁾

(\$/boe)	Three Months Ended		
	March 31		
	2018	2017	Change
Royalty and other revenue	36.44	35.80	2%
Royalty expense ⁽²⁾	(0.19)	(0.35)	-46%
Operating expenses	(1.39)	(3.14)	-56%
Operating netback	34.86	32.31	8%

(1) See Non-GAAP Financial Measures.

(2) Royalty expense includes both Crown charges (including minor freehold mineral tax) 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 our 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 Q1-2018, G&A expenses were up 20% to \$3.60/boe from Q1-2017. G&A expenses are typically higher in the first quarter and decline through the remainder of the year, as a number of annual expenses occur early in the year. The increase in Q1-2018 versus Q1-2017 is largely due to increased employee costs.

GENERAL AND ADMINISTRATIVE EXPENSES

(\$000s, except as noted)	Three Months Ended		
	March 31		
	2018	2017	Change
General and administrative expenses before capitalized and overhead recoveries	4,437	3,971	12%
Less: capitalized and overhead recoveries	(550)	(511)	8%
General and administrative expenses	3,887	3,460	12%
Per boe (\$)	3.60	3.01	20%

Management Fee

The Manager (see Related Party Transactions) receives a management fee in Freehold common shares. The amended and restated management agreement dated November 9, 2015 (the Management Agreement) capped the management fee at 55,000 Freehold common shares per quarter for 2017 and 2018, with the fee gradually decreasing to 5,500 Freehold common shares per quarter by 2023. The management fee was down 8% compared to Q1-2017 as the ascribed value, which is based on Freehold's common share price on the last day of the quarter, was lower at the end of the current period.

MANAGEMENT FEE (PAID IN SHARES)

	Three Months Ended		
	March 31		
	2018	2017	Change
Shares issued for management fees	55,000	55,000	-
Ascribed value (\$000s) ⁽¹⁾	679	741	-8%
Per boe (\$)	0.63	0.65	-3%

(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

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 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. Freehold's

long-term incentive compensation consists of grants of performance share units (PSUs) and restricted share units (RSUs) under the new LTIP.

Under both the new and previous LTIP, compensation expense is based on Freehold's share price, the number of share based awards outstanding at each period end, an estimated performance multiplier, if applicable, and an estimated forfeiture rate. Compensation expense is recognized over the vesting period.

The 2015 grants under the previous LTIP valued at \$0.2 million vested and were paid out in 2018 (2014 grants vested in 2017 and \$0.1 million was paid out). One-third of the granted 2017 RSUs vested in March 2018 and the total paid out on vesting of such RSUs was \$0.2 million. In March 2018, there were 114,100 RSUs and PSUs granted under the new LTIP (after estimated forfeitures). In March 2017, there were 90,026 RSUs and PSUs granted under the new LTIP (after estimated forfeitures). In Q1-2018 there was a \$0.2 million recovery for the LTIP (2017-expensed \$0.1 million).

DEFERRED SHARE UNIT PLAN

Pursuant to our deferred share unit plan, fully-vested deferred share units (DSUs) are granted annually in the first quarter of the year 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. Dividends declared prior to redemption are assumed to be reinvested in notional share units on the dividend payment date. In the first quarter of 2018, Freehold expensed \$0.5 million (2017-\$0.3 million) of share based compensation with a corresponding offset to contributed surplus.

On January 1, 2018 our Board of Directors granted 34,519 DSUs to eligible directors as part of their annual compensation. As at March 31, 2018, there were 153,566 DSUs outstanding and at May 9, 2018, there were 154,169 DSUs outstanding (including notional DSUs granted as a result of dividends paid on our common shares).

SHARE BASED COMPENSATION

(\$000s, except as noted)	Three Months Ended		
	March 31		
	2018	2017	Change
Long-term incentive plan before capitalized portion	(288)	180	-260%
Less: capitalized portion	49	(32)	-253%
Long-term incentive plan	(239)	148	-261%
Deferred share unit plan	506	339	49%
Share based compensation	267	487	-45%
Per boe (\$)	0.25	0.42	-40%

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 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 Management Agreement. The Management Agreement caps the management fee at 55,000 Freehold common shares per quarter for 2018 and the fee decreases gradually to a level of 5,500 Freehold common shares per quarter by 2023. For the three months ended March 31, 2018, Freehold issued 55,000 common shares (2017 – 55,000) as payment of the management fee. The ascribed value of \$0.7 million (2017 – \$0.7 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter.

For the three months ended March 31, 2018, the Manager charged \$3.3 million in general and administrative costs (2017 – \$3.1 million). At March 31, 2018, there was \$1.8 million (December 31, 2017 – \$0.6 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 March 31, 2018, there was \$nil (December 31, 2017 - \$nil) in accounts receivable relating to these transactions. At March 31, 2018, there was \$nil (December 31, 2017 - \$0.1 million) 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 March 31, 2018, Freehold received royalties of approximately \$0.1 million (2017 – \$0.3 million). At March 31, 2018, there was \$nil (December 31, 2017 - \$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 March 31, 2018, there was \$nil (December 31, 2017 – \$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-interest 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 Q1-2018 interest and financing expense decreased due to slightly lower average debt levels. The average effective interest rate on advances under our credit facilities in the current quarter was 3.2% (2017 – 2.9%).

INTEREST AND FINANCING

(\$000s, except as noted)	Three Months Ended		
	March 31		
	2018	2017	Change
Interest and financing expense	806	886	-9%
Per boe (\$)	0.75	0.77	-3%

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

(\$000s, except as noted)	Three Months Ended		
	March 31		
	2018	2017	Change
Depletion and depreciation	25,877	27,287	-5%
Per boe (\$)	23.96	23.78	1%

Working Interest Disposition

In the first quarter of 2018 Freehold closed the sale of its Pembina Cardium Unit No. 9 working interest property in exchange for cash proceeds of \$8.1 million (including adjustments) and an acquisition of a new 4% gross overriding royalty (GORR) on the same property valued at \$1.9 million (including adjustments). At December 31, 2017, this working interest property was classified as assets held for sale as it was highly probable that its carrying value would be received through a sales transaction rather than continued use.

At December 31, 2017, this working interest asset was recorded at the lower of carrying value and management's best estimate of its fair value less costs to sell, resulting in Freehold recording an impairment of \$6.3 million. Freehold reclassified its new recoverable estimated net book value of \$13.8 million from its Other Working Interest cash generating unit (CGU) in petroleum and natural gas interests to assets held for sale. In addition, Freehold reclassified its proportionate share of decommissioning liabilities of \$3.7 million to liabilities related to assets held for sale. These assets and related liabilities held for sale were removed when the transaction closed.

During the first quarter of 2017 Freehold recorded an impairment reversal of \$5.6 million on its Southeast Saskatchewan Working Interest CGU based on anticipated sale proceeds of the assets that were sold in April 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 March 31, 2018, there was no current income tax expense (2017 - \$nil) and deferred income tax expense was \$1.6 million (Q1-2017 \$2.6 million). Freehold's tax pools at December 31, 2017 were \$966 million.

Liquidity and Capital Resources

Operating Activities

Q1-2018 net income was \$4.4 million which compared to net income in Q1-2017 of \$7.1 million. The largest factor affecting this decrease was the \$5.6 million impairment reversal that occurred in the first quarter of 2017. Other factors affecting the change in net income in Q1-2018 versus the previous year included lower revenue which was more than offset by lower operating costs and depletion and depreciation.

Funds from operations for the current quarter was up 1% to \$32.4 million from \$32.1 million in the same quarter last year, as lower operating costs more than offset the slight decline in revenue. 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

(\$000s, except as noted)	Three Months Ended		
	March 31		
	2018	2017	Change
Net income	4,423	7,088	38%
Per share, basic and diluted (\$)	0.04	0.06	33%
Funds from operations	32,384	32,069	1%
Per share (\$)	0.27	0.27	0%

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 \$12.9 million in the first quarter of 2018 compared to the previous quarter. The biggest impact on the reduction in working capital was the removal of the assets held for sale and liabilities related to assets held for sale. The disposition of our interest in Pembina Cardium Unit No. 9 resulted in these amounts being recorded at December 31, 2017 but they were removed upon closing of the transaction in Q1-2018.

COMPONENTS OF WORKING CAPITAL

	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
(\$000s)	2018	2017	2017	2017	2017
Cash	920	284	712	715	829
Accounts receivable	24,257	25,952	21,064	24,014	23,645
Assets held for sale	-	13,810	-	-	18,940
Current assets	25,177	40,046	21,776	24,729	43,414
Dividends payable	(6,206)	(5,908)	(5,905)	(5,902)	(5,900)
Accounts payable and accrued liabilities	(7,849)	(7,206)	(5,779)	(7,406)	(7,619)
Current portion of share based compensation payable	(1,277)	(399)	(366)	(240)	(165)
Current portion of decommissioning liability	(1,412)	(1,444)	-	-	-
Liabilities related to assets held for sale	-	(3,710)	-	-	(4,760)
Current liabilities	(16,744)	(18,667)	(12,050)	(13,548)	(18,444)
Working capital	8,433	21,379	9,726	11,181	24,970

Net debt increased by \$20.9 million from the previous quarter to \$89.6 million in Q1-2018. The increase was a result of \$30.9 million of royalty acquisitions that were made in the quarter. Net debt was reduced by proceeds from the disposition and the application of funds from operations in excess of dividends offset by the decrease in working capital.

DEBT ANALYSIS

	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
(\$000s)	2018	2017	2017	2017	2017
Long-term debt	98,000	90,000	48,000	61,000	101,000
Working capital	(8,433)	(21,379)	(9,726)	(11,181)	(24,970)
Net debt	89,567	68,621	38,274	49,819	76,030

At March 31, 2018 Freehold had a \$165 million extendible revolving term credit facility with a syndicate of four Canadian chartered banks, on which \$98 million was drawn. In addition, Freehold had available a \$15 million revolving operating facility. The facilities in place at March 31, 2018 were secured with \$400 million first charge demand debentures over all of Freehold's assets and did not contain any financial covenants.

On May 9, 2018, Freehold amended our credit agreement to covenant-based credit facilities consisting of a committed three year \$165 million senior secured revolving credit facility with a syndicate of four Canadian chartered banks and a three year \$15 million senior secured operating credit facility. The current maturity date of the credit facilities is May 31, 2021 and Freehold may annually request an extension to the maturity date. The amended credit facilities are no longer reserve-based but remain secured with \$400 million first charge demand

debentures over all of Freehold's assets. The credit agreement contains two financial covenants as follows: debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times and debt to capitalization shall not exceed 55%.

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's debt to EBITDA on royalty interest properties. For the three months ended March 31, 2018, the average effective interest rate on advances under Freehold's credit facilities was 3.2% (2017 – 2.9%).

At March 31, 2018, net debt was 0.7 times 12-months trailing funds from operations and net debt obligations were 10% of total capitalization.

FINANCIAL LEVERAGE AND COVERAGE RATIOS

	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017	Jun. 30 2017	Mar. 31 2017
Net debt to funds from operations (times) ⁽¹⁾	0.7	0.6	0.3	0.4	0.7
Net debt to dividends (times) ⁽¹⁾	1.3	1.0	0.6	0.8	1.3
Dividends to interest expense (times) ⁽¹⁾	28	26	22	18	13
Net debt to net debt plus equity (%)	10	8	4	5	8

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

As at March 31, 2018 and as of May 9, 2018, there were 118,237,667 shares outstanding.

SHAREHOLDERS CAPITAL

	March 31, 2018		December 31, 2017	
	Shares	Amount (\$000s)	Shares	Amount (\$000s)
Balance, beginning of period	118,182,667	1,267,591	117,918,274	1,263,796
Issued for payment of management fee	55,000	679	220,000	3,043
Issued for deferred share unit plan redemption	-	-	44,393	752
Balance, end of period	118,237,667	1,268,270	118,182,667	1,267,591

SHARES OUTSTANDING

	Three Months Ended March 31		
	2018	2017	Change
Weighted average			
Basic	118,183,278	117,955,879	-
Diluted	118,335,983	118,079,649	-
At period end	118,237,667	118,017,667	-

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 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. We are restricted from declaring dividends if we do not satisfy the liquidity and solvency tests under the *Business Corporations Act* (Alberta).

Dividends declared in Q1-2018 totaled \$18.0 million or \$0.1525 per share which is a 17% improvement over 2017 on a per share basis. Freehold increased our monthly dividend from \$0.05 to \$0.0525, for the dividend declared in March 2018 and paid in April 2018.

ACCUMULATED DIVIDENDS ⁽¹⁾

	Three Months Ended March 31	
	2018	2017
Dividends declared (\$000s)	18,026	15,338
Accumulated, beginning of period	1,553,952	1,485,473
Accumulated, end of period	1,571,978	1,500,811
Dividends per share (\$) ⁽²⁾	0.15	0.13
Accumulated, beginning of period	31.05	30.47
Accumulated, end of period	31.20	30.60

(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 Q1-2018 was 56% versus 48% one year ago as our increase in dividends was higher than our increase in funds from operations.

RECONCILIATION OF DIVIDENDS DECLARED

(\$000s)	Three Months Ended	
	March 31	
	2018	2017
Funds from operations	32,384	32,069
Debt additions	8,000	17,000
Acquisitions	(30,881)	(33,352)
Capital expenditures	(1,515)	(712)
Working interest dispositions	8,130	288
Working capital change	1,908	45
Dividends declared	18,026	15,338

DIVIDENDS ANALYSIS

(\$000s)	Three Months Ended	
	March 31	
	2018	2017
Dividends paid in cash ⁽¹⁾	17,820	14,175
Dividends declared	18,026	15,338
Funds from operations	32,384	32,069
Capital expenditures	1,515	712
Basic payout ratio ⁽²⁾	56%	48%
Adjusted payout ratio ⁽³⁾	60%	46%

(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).

Investing Activities

Freehold allocated \$30.9 million towards acquisition activity in Q1-2018 (2017-\$33.4 million). In February 2018, Freehold closed a \$7.0 million (including adjustments) royalty acquisition in Alberta including undeveloped land valued at \$3.3 million. In addition, in March 2018, Freehold closed an acquisition of oil royalties on the Weyburn Unit and Mitsue Gilwood Sand Unit #1 in Saskatchewan for \$24.1 million (including adjustments) and the assignment of certain minor working interest assets. Both transactions were funded through Freehold's existing credit facilities. In addition, for the three months ended March 31, 2018, Freehold had \$0.2 million of minor adjustments on previous acquisitions.

Freehold recorded \$8.1 million of working interest dispositions in the first quarter of 2018 (2017 - \$0.3 million), as we continue the de-emphasis of our working interest properties (see Working Interest Disposition).

ACQUISITIONS, DISPOSITIONS AND CAPITAL EXPENDITURES

(\$000s)	Three Months Ended		
	March 31		
	2018	2017	Change
Acquisitions	30,881	33,352	-7%
Capital expenditures	1,515	712	113%
Working interest dispositions	(8,130)	(288)	-
	24,266	33,776	-28%

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 March 31, 2018. 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

(a) IFRS 9

On January 1, 2018 Freehold adopted IFRS 9 *Financial Instruments* with no material transitional impact on the financial statements. IFRS 9 contains three classifications for financial assets: amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The new classifications are based on an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The previous IAS 39 *Financial Instruments: Recognition and Measurement* classifications of held-to-maturity, loans and receivables and available-for-sale have been eliminated. In addition, IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" impairment model that applies to financial assets measured at amortized cost. Under IFRS 9, credit losses, if any, may be recognized earlier than under IAS 39. All of Freehold's financial assets (cash and accounts receivable) are measured at amortized cost and the adoption of IFRS 9 did not result in any adjustment to the carrying amount of the related assets.

There was no change to the classification of accounts payable and accrued liabilities, dividends payable and long-term debt which are classified as "other financial liabilities" and are measured at amortized cost. No financial instruments have been classified as FVOCI or FVTPL. Presently and historically, Freehold has not entered into any transactions in which hedge accounting could be applied.

(b) IFRS 15

On January 1, 2018, Freehold adopted IFRS 15 *Revenue from Contracts with Customers*. Using IFRS 15's five step model, which includes the identification of performance obligations, Freehold reviewed its various royalty and other revenue streams and underlying contracts with customers. It was concluded that IFRS 15 will not have a material effect on its financial statements with the exception of certain new disclosures.

Royalty and other revenue is made up of royalty, working interest and other revenue earned during the period. The vast majority of royalty and other revenue represents the sale of crude oil, natural gas, natural gas liquids and other products. It was determined that Freehold has two different types of revenue streams coming from the sale of these products: royalty interest revenue and working interest revenue. These types of revenue are each recognized when the performance obligation is satisfied, which is typically on a monthly basis when the product is extracted from the lands and control of the product is transferred from Freehold, or the operator of Freehold's properties, to its customers.

Royalty and other revenue also includes bonus consideration and lease rentals which have different performance obligations. When a new mineral lease is executed Freehold gives the third party exclusive access to specifically identified lands for a certain time period and typically receives a lump sum non-refundable payment (bonus consideration). As the payment is non-refundable and access to land is granted, the performance obligation is met and revenue is recognized when the lease is executed and cash is received or receivable. Lease rental revenue is recognized when payment is received.

Royalty and other revenue is measured at fair value of the consideration received or receivable per the terms of the various agreements. Freehold uses government reporting databases, past production receipts, historical trends and current market prices to estimate revenue accruals. Actual results could differ as a result of using estimates and any differences are recorded in the period in which actuals are received.

Recent Pronouncements

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. Freehold's mineral leases are not in scope of IFRS 16. The effective date for adopting IFRS 16 in its entirety is January 1, 2019. Freehold's assessment of IFRS 16 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, First Quarter Highlights, 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;
- the Asset Book inventory further validating our long term value proposition;
- the assets of the \$7 million royalty acquisition having multiple years of development planned;
- cash costs forecasted at approximately \$5.00/boe;
- our strategies and the expectation that those strategies will deliver growth and low risk attractive returns to our shareholders;
- expectations for infrastructure/egress limitations for both heavy oil and natural gas generating headwinds for prices in the near-term;
- expected revenue from oil and natural gas liquids;
- our acquisition criteria and the intent that such criteria will result in acquisitions being accretive to shareholders;
- foreign exchange rates;
- industry drilling and development activity on our royalty lands;
- development of our working interest properties;
- estimated capital budget and expenditures and the timing thereof;
- Freehold’s decommissioning liability and timing of payment thereof;
- forecast 2018 average production, including product mix and percentage from royalties;
- forecast 2018 percentage of operating income from royalties;
- forecast 2018 adjusted payout ratio;
- forecast 2018 year end net debt to funds from operations;

- key operating assumptions including operating costs and general and administrative costs;
- 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; and
- our assessment of litigation risk.

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, NGL 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, 2017 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, NGL 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, NGL 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, 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.

(\$000s)	Three Months Ended		
	March 31		
	2018	2017	Change
Funds from operations	32,384	32,069	1%
Capital expenditures	(1,515)	(712)	113%
Free cash flow	30,869	31,357	-2%

Cash costs is a total of all recurring costs in the statement of income deducted in determining funds from operations. For Freehold cash costs are identified as 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.

(\$000s)	Three Months Ended		
	March 31		
	2018	2017	Change
Royalty expense	209	405	-48%
Operating expense	1,499	3,602	-58%
General and administrative expenses	3,887	3,460	12%
Interest expense	806	886	-9%
Expenditures on share based compensation	423	442	-4%
Total cash costs	6,824	8,795	-22%

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) (2018 unaudited)	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$ 920	\$ 284
Accounts receivable	24,257	25,952
Assets held for sale (note 4)	-	13,810
	25,177	40,046
Exploration and evaluation assets (note 3)	77,893	75,776
Petroleum and natural gas interests (note 4)	824,880	818,921
Deferred income tax asset	19,906	21,541
	\$ 947,856	\$ 956,284
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable	\$ 6,206	\$ 5,908
Accounts payable and accrued liabilities	7,849	7,206
Current portion of share based compensation payable (note 5)	1,277	399
Current portion of decommissioning liability	1,412	1,444
Liabilities related to assets held for sale (note 4)	-	3,710
	16,744	18,667
Decommissioning liability	13,644	14,051
Share based compensation payable (note 5)	385	1,974
Long-term debt (note 6)	98,000	90,000
Shareholders' equity:		
Shareholders' capital (note 7)	1,268,270	1,267,591
Contributed surplus	2,494	2,079
Deficit	(451,681)	(438,078)
	819,083	831,592
	\$ 947,856	\$ 956,284

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Income and Comprehensive Income

(unaudited) (\$000s, except per share and weighted average data)	Three Months Ended	
	March 31	
	2018	2017
Revenue:		
Royalty and other revenue (note 9)	\$ 39,366	\$ 41,091
Royalty expense	(209)	(405)
	39,157	40,686
Expenses:		
Operating	1,499	3,602
General and administrative	3,887	3,460
Share based compensation (note 5)	267	487
Interest and financing	806	886
Depletion and depreciation (note 4)	25,877	27,287
Impairment reversal (note 4)	-	(5,625)
Accretion of decommissioning liability	84	137
Management fee (note 8)	679	741
	33,099	30,975
Income before taxes	6,058	9,711
Deferred income tax expense	1,635	2,623
Net income and comprehensive income	\$ 4,423	\$ 7,088
Net income per share, basic and diluted	\$ 0.04	\$ 0.06
Weighted average number of shares:		
Basic	118,183,278	117,955,879
Diluted	118,335,983	118,079,649

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(\$000s) (unaudited)	Three Months Ended	
	March 31	
	2018	2017
Operating:		
Net income	\$ 4,423	\$ 7,088
Items not involving cash:		
Depletion and depreciation	25,877	27,287
Impairment reversal	-	(5,625)
Share based compensation	267	487
Deferred income tax expense	1,635	2,623
Accretion of decommissioning liability	84	137
Management fee	679	741
Expenditures on share based compensation	(423)	(442)
Decommissioning expenditures	(158)	(227)
Funds from operations	32,384	32,069
Changes in non-cash working capital	2,693	(195)
	35,077	31,874
Financing:		
Long-term debt	8,000	17,000
Dividends paid	(17,820)	(14,175)
	(9,820)	2,825
Investing:		
Acquisitions	(30,881)	(33,352)
Capital expenditures	(1,515)	(712)
Working interest dispositions	8,130	288
Changes in non-cash working capital	(355)	(986)
	(24,621)	(34,762)
Increase (decrease) in cash	636	(63)
Cash, beginning of period	284	892
Cash, end of period	\$ 920	\$ 829

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(\$000s) (unaudited)	Three Months Ended	
	March 31	
	2018	2017
Shareholders' capital:		
Balance, beginning of period	\$ 1,267,591	\$ 1,263,796
Shares issued for payment of management fee	679	741
Shares issued for deferred share unit plan redemption	-	752
Balance, end of period	1,268,270	1,265,289
Contributed surplus:		
Balance, beginning of period	2,079	2,717
Share based compensation expense	506	339
Deferred share unit plan redemption and other	(91)	(1,028)
Balance, end of period	2,494	2,028
Deficit:		
Balance, beginning of period	(438,078)	(381,817)
Net income and comprehensive income	4,423	7,088
Dividends declared	(18,026)	(15,338)
Balance, end of period	(451,681)	(390,067)
Total shareholders' equity	\$ 819,083	\$ 877,250

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2018 and 2017 (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 financial statements do not include all of the disclosures normally provided in annual financial statements. With the exception of the adoption IFRS 9 and IFRS 15 (see note 2), these 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, 2017 and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2017.

These financial statements were approved by the Board of Directors on May 9, 2018.

b) Basis of Measurement and Principles of Consolidation

These financial statements have been prepared on a historical cost basis, with the exception of certain fair value measurements, 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 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. Freehold's mineral leases are not in scope of IFRS 16. Transitional provisions have been provided. The effective date for adopting IFRS 16 in its entirety is January 1, 2019.

Freehold's assessment of IFRS 16 is ongoing and the impact, if any, on the consolidated financial statements and additional disclosure requirements is yet to be fully determined.

2. New Accounting Standards

(a) IFRS 9

On January 1, 2018 Freehold adopted IFRS 9 *Financial Instruments* with no material transitional impact on the financial statements. IFRS 9 contains three classifications for financial assets: amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The new classifications are based on an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The previous IAS 39 *Financial Instruments: Recognition and Measurement* classifications of held-to-maturity, loans and receivables and available-for-sale have been eliminated. In addition, IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" impairment model that applies to financial assets measured at amortized cost. Under IFRS 9, credit losses, if any, may be recognized earlier than under IAS 39. All of Freehold's financial assets (cash and accounts receivable) are measured at amortized cost and the adoption of IFRS 9 did not result in any adjustment to the carrying amount of the related assets.

There was no change to the classification of accounts payable and accrued liabilities, dividends payable and long-term debt which are classified as "other financial liabilities" and are measured at amortized cost. No financial instruments have been classified as FVOCI or FVTPL. Presently and historically, Freehold has not entered into any transactions in which hedge accounting could be applied.

(b) IFRS 15

On January 1, 2018, Freehold adopted IFRS 15 *Revenue from Contracts with Customers*. Using IFRS 15's five step model, which includes the identification of performance obligations, Freehold reviewed its various royalty and other revenue streams and underlying contracts with customers. IFRS 15 did not have a material effect on Freehold's financial statements with the exception of certain new disclosures noted below and in note 9.

New revenue recognition policy:

Royalty and other revenue is made up of royalty, working interest and other revenue earned during the period. The vast majority of royalty and other revenue represents the sale of crude oil, natural gas, natural gas liquids and other products. It was determined that Freehold has two different types of revenue streams coming from the sale of these products: royalty interest revenue and working interest revenue. These types of revenue are each recognized when the performance obligation is satisfied, which is typically on a monthly basis when the product is extracted from the lands and control of the product is transferred from Freehold, or the operator of Freehold's properties, to its customers.

Royalty and other revenue also includes bonus consideration and lease rentals which have different performance obligations. When a new mineral lease is executed Freehold gives the third party exclusive access to specifically identified lands for a certain time period and typically receives a lump sum non-refundable payment (bonus consideration). As the payment is non-refundable and access to land is granted, the performance obligation is met and revenue is recognized when the lease is executed and cash is received or receivable. Lease rental revenue is recognized when payment is received.

Royalty and other revenue is measured at fair value of the consideration received or receivable per the terms of the various agreements. Freehold uses government reporting databases, past production receipts, historical trends and current market prices to estimate revenue accruals. Actual results could differ as a result of using estimates and any differences are recorded in the period in which actuals are received.

3. Exploration and Evaluation Assets

(\$000s)	March 31, 2018	December 31, 2017
Balance, beginning of period	75,776	64,019
Acquisitions (note 4)	3,284	15,900
Transfers to petroleum and natural gas interests (note 4)	(1,167)	(3,876)
Working interest dispositions	-	(267)
Balance, end of period	77,893	75,776

4. Petroleum and Natural Gas Interests

(\$000s)	March 31, 2018	December 31, 2017
Cost		
Balance, beginning of period	1,387,283	1,420,836
Acquisitions	29,514	70,843
Capital expenditures	1,515	4,864
Capitalized portion of long term incentive plan	(49)	246
Transfers from exploration and evaluation assets (note 3)	1,167	3,876
Decommissioning liability additions and revisions	(213)	3,225
Transfer to assets held for sale	-	(19,534)
Working interest dispositions	(449)	(97,073)
Balance, end of period	1,418,768	1,387,283
Accumulated depletion and depreciation		
Balance, beginning of period	(568,362)	(528,716)
Depletion and depreciation	(25,877)	(108,227)
Impairment	-	(10,609)
Transfer to assets held for sale	-	5,724
Accumulated depletion and depreciation of working interest dispositions	351	73,466
Balance, end of period	(593,888)	(568,362)
Net book value, end of period	824,880	818,921

(a) Acquisitions

In February 2018, Freehold closed a \$7.0 million (including adjustments) royalty acquisition in Alberta including undeveloped land valued at \$3.3 million. In addition, in March 2018, Freehold closed an acquisition of oil royalties on the Weyburn Unit and Mitsue Gilwood Sand Unit #1 in Saskatchewan for \$24.1 million (including adjustments) and the assignment of certain minor working interest assets. Both transactions were funded through Freehold's existing credit facilities.

In addition, for the three months ended March 31, 2018, Freehold had \$0.2 million of minor adjustments on previous acquisitions, which reduced the acquisitions value.

(b) Working interest dispositions

In February 2018 Freehold closed the sale of its Pembina Cardium Unit No. 9 working interest property in exchange for cash proceeds of \$8.1 million (including adjustments) and an acquisition of a new 4% gross overriding royalty (GORR) on the same property valued at \$1.9 million (including adjustments). At December 31, 2017, this working interest property was classified as assets held for sale as it was highly probable that its carrying value would be received through a sales transaction rather than continued use. At December 31, 2017, this working interest asset was recorded at the lower of carrying value and management's best estimate of its fair value less costs to sell, resulting in Freehold recording an impairment of \$6.3 million. Freehold reclassified its new recoverable estimated net book value of \$13.8 million from its Other Working Interest cash generating unit (CGU) in petroleum and natural gas interests to assets held for sale. In addition, Freehold reclassified its proportionate share of decommissioning liabilities of \$3.7 million to liabilities related to assets held for sale. These assets and related liabilities held for sale were removed when the transaction closed.

In addition, for the three months ended March 31, 2018, Freehold had \$0.1 million of minor adjustments on previous dispositions.

(c) Impairment and impairment reversal

At March 31, 2018 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 these financial statements.

During the three months ended March 31, 2017, Freehold recorded an impairment reversal of \$5.6 million relating to a sale of Freehold's working interest properties in its Southeast Saskatchewan Working Interest CGU that closed in April 2017.

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.

Freehold's long-term incentive compensation consists 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. For 2017 and 2018 PSU 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.

The 2014 grants under the previous LTIP valued at \$0.1 million were paid out in 2017. The 2015 grants under the previous LTIP valued at \$0.2 million were paid out in 2018. One-third of the granted 2017 RSUs vested in March 2018 and LTIP valued at \$0.2 million was paid out in March 2018. During 2018, there were 114,100 RSUs and PSUs granted under the new LTIP (after estimated forfeitures).

For the three months ended March 31, 2018, Freehold recovered \$0.2 million (2017 – expensed \$0.1 million) of share based compensation.

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

(\$000s)	March 31, 2018	December 31, 2017
Balance, beginning of period	2,373	1,065
Increase (decrease) in liability	(288)	1,446
Cash payout	(423)	(138)
Balance, end of period	1,662	2,373
Current portion of liability	1,277	399
Long-term portion of liability	385	1,974

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

SHARE BASED AWARDS

	March 31, 2018	December 31, 2017
Balance, beginning of period	269,549	207,250
Issued	114,100	90,026
Dividends reinvested	2,444	10,571
Cash payout	(76,843)	(38,298)
Balance, end of period	309,250	269,549

(b) Deferred Share Unit Plan

Fully-vested deferred share units (DSUs) are granted annually to non-management directors. As at March 31, 2018, there were 153,566 DSUs outstanding (2017 – 113,713), which are redeemable for an equal number of Freehold common shares (less withholding tax if necessary) after the director's retirement. On January 1, 2018, Freehold's Board of Directors granted a total of 34,519 DSUs to eligible directors as part of their annual compensation. Each eligible director received 5,338 DSUs and the Chair of the Board received 7,829 DSUs.

For the three months ended March 31, 2018, Freehold expensed \$0.5 million (2017 – \$0.3 million) of share based compensation with a corresponding offset to contributed surplus.

DEFERRED SHARE UNITS

	March 31, 2018	December 31, 2017
Balance, beginning of period	117,429	148,499
Annual grants	34,519	27,521
Additional resulting from dividends	1,618	4,828
Redeemed	-	(63,419)
Balance, end of period	153,566	117,429

6. Long-term Debt

At March 31, 2018 Freehold had a \$165 million extendible revolving term credit facility with a syndicate of four Canadian chartered banks, on which \$98 million was drawn. In addition, Freehold had available a \$15 million revolving operating facility. The facilities in place at March 31, 2018 were secured with \$400 million first charge demand debentures over all of Freehold's assets and did not contain any financial covenants.

On May 9, 2018, Freehold amended our credit agreement to covenant-based credit facilities consisting of a committed three year \$165 million senior secured revolving credit facility with a syndicate of four Canadian chartered banks and a three year \$15 million senior secured operating credit facility. The current maturity date of the credit facilities is May 31, 2021 and Freehold may annually request an extension to the maturity date. The amended credit facilities are no longer reserve-based but remain secured with \$400 million first charge demand debentures over all of Freehold's assets. The credit agreement contains two financial covenants as follows: debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times and debt to capitalization shall not exceed 55%.

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's debt to EBITDA on royalty interest properties. For the three months ended March 31, 2018, the average effective interest rate on advances under Freehold's credit facilities was 3.2% (2017 – 2.9%). At March 31, 2018 and December 31, 2017 the fair values of the long-term debt approximated its carrying value, as the long-term debt carries interest at prevailing market rates.

7. Shareholders' Capital**SHARES ISSUED AND OUTSTANDING**

	March 31, 2018		December 31, 2017	
	Shares	Amount (\$000s)	Shares	Amount (\$000s)
Balance, beginning of period	118,182,667	1,267,591	117,918,274	1,263,796
Issued for payment of management fee (note 8)	55,000	679	220,000	3,043
Issued for deferred share unit plan redemption	-	-	44,393	752
Balance, end of period	118,237,667	1,268,270	118,182,667	1,267,591

On November 30, 2016, the rights of holders of trust units of Freehold Royalty Trust not deposited on or prior to this date have been terminated. During the three months ended March 31, 2018, a payment of \$0.1 million was made to a former unitholder of Freehold Royalty Trust. The amount paid represents the estimated value of the trust units and any accumulated unpaid dividends up to November 30, 2016.

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 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 2018. For the three months ended March 31, 2018, Freehold issued 55,000 common shares (2017 – 55,000) as payment of the management fee. The ascribed value of \$0.7 million (2017 – \$0.7 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter.

For the three months ended March 31, 2018, the Manager charged \$3.3 million in general and administrative costs (2017 – \$3.1 million). At March 31, 2018, there was \$1.8 million (December 31, 2017 – \$0.6 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 March 31, 2018, there was \$nil (December 31, 2017 - \$nil) in accounts receivable relating to these transactions. At March 31, 2018, there was \$nil (December 31, 2017 - \$0.1 million) 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 March 31, 2018, Freehold received royalties of approximately \$0.1 million (2017 – \$0.3 million). At March 31, 2018, there was \$nil (December 31, 2017 - \$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 March 31, 2018, there was \$nil (December 31, 2017 – \$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-interest 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. REVENUES

As per note 2(b) royalty and other revenue is measured at fair value of the consideration received or receivable, per the terms of various agreements. The transaction price used for crude oil, natural gas, natural gas liquids and other products is based on the commodity price in the month of production specific to the property or interest. The commodity price received or receivable is based on market benchmarks adjusted for quality, location, allowable deductions, if any, and other factors.

Freehold takes its product in kind (TIK) on certain royalty and working interest properties when deemed beneficial to do so. In this case, Freehold would receive its cash payment on or about the 25th month following production. Typically if a property is non-TIK then Freehold would receive the cash payment approximately two months following production. Bonus consideration received or receivable can vary significantly period over period as it is dependent on the specific details of each lease and the number of leases issued.

ROYALTY AND OTHER REVENUE BY PRODUCT

(\$000s)	Three Months ended	
	March 31	
	2018	2017
Oil	28,657	29,521
NGL	3,783	3,681
Natural gas	4,850	6,826
Potash	523	335
Bonus consideration and lease rentals	1,527	594
Other	26	134
Total royalty and other revenue	39,366	41,091

ROYALTY AND OTHER REVENUE BY CLASSIFICATION

(\$000s)	Three Months ended	
	March 31	
	2018	2017
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	35,595	32,975
Bonus consideration and lease rentals	1,527	594
Total royalty revenue	37,122	33,569
Working interest revenue	2,244	7,522
Total royalty and other revenue	39,366	41,091

(1) Includes potash royalties and other.

For the three months ended March 31, 2018, Freehold had \$2.1 million (2017 - \$1.6 million) positive royalty and other revenue adjustments relating to prior periods. The performance obligations for these prior period adjustments were satisfied in production periods prior to this year.

10. Supplemental Disclosure**(a) Supplemental cash flow disclosure****CASH EXPENSES**

(\$000s)	Three Months ended	
	March 31	
	2018	2017
Interest	877	851
Taxes	-	-

(b) Net debt

(\$000s)	March 31, 2018	December 31, 2017
Long-term debt	98,000	90,000
Working capital	(8,433)	(21,379)
Net debt ⁽¹⁾	89,567	68,621

(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

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

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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

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