Freehold
ROYALTIES LTD.

THIRD QUARTER REPORT 2018

three and nine months ended September 30, 2018

Results at a Glance

	Three Months Ended September 30			Nine Months Ended September 30		
FINANCIAL ($000s, except as noted)	**2018**	2017	Change	**2018**	2017	Change
Royalty and other revenue	**40,815**	33,938	20%	**120,334**	113,459	6%
Net income	**8,389**	103	-	**18,198**	20,275	-10%
Per share, basic and diluted ($)	**0.07**	-	-	**0.15**	0.17	-12%
Funds from operations	**35,900**	27,927	29%	**102,824**	91,765	12%
Per share, basic ($)	**0.30**	0.24	25%	**0.87**	0.78	12%
Operating income (1)	**39,225**	31,246	26%	**115,214**	103,565	11%
Operating income from royalties (%)	**99**	99	-	**99**	95	4%
Acquisitions	**17,915**	(146)	-	**51,493**	34,473	49%
Working interest dispositions	**1**	2,969	-	**8,138**	32,065	-75%
Dividends declared	**18,634**	17,714	5%	**55,285**	50,757	9%
Per share ($) (2)	**0.1575**	0.15	5%	**0.47**	0.43	9%
Net debt	**78,657**	38,274	106%	**78,657**	38,274	106%
Shares outstanding, period end (000s)	**118,348**	118,128	-	**118,348**	118,128	-
Average shares outstanding (000s) (3)	**118,293**	118,073	-	**118,239**	118,016	-
OPERATING						
Royalty production (boe/d) (4)	**10,322**	10,919	-5%	**10,854**	10,964	-1%
Total production (boe/d) (4)	**11,002**	12,036	-9%	**11,572**	12,456	-7%
Oil and NGL (%)	**54**	56	-4%	**54**	56	-4%
Average price realizations ($/boe) (4)	**38.95**	29.67	31%	**36.76**	32.54	13%
Operating netback ($/boe) (1) (4)	**38.74**	28.22	37%	**36.47**	30.46	20%

(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

Stronger crude prices and lower cash costs drove third quarter growth in Freehold's funds from operations. Reflecting lower volumes year to date, we are revising our 2018 production guidance by 4% to a range of 11,250-11,500 boe/d. Reduced volumes are associated with lower third-party production additions, natural gas and heavy oil curtailments and fewer audit recoveries. We will continue to monitor industry activity and will provide 2019 guidance as part of our fourth quarter results.

Looking forward, we anticipate some near-term headwinds associated with Canadian energy, however, many of our prospects are light oil opportunities in Saskatchewan where pricing is better. As we saw in Q3-2018, we see more industry drilling occurring where there are lighter oil opportunities and the economics are superior.

As we have for the past 22 years, we will continue to strive to preserve our balance sheet and maintain an attractive dividend, thus providing investors with a lower risk oil and gas investment.

Tom Mullane
President and CEO

Third Quarter Highlights

- Funds from operations totaled $35.9 million, an increase of 29% compared to Q3-2017 and 4% versus the previous quarter. Higher funds from operations was largely driven by better oil and natural gas liquids (NGL) prices. On a per share basis, funds from operations was $0.30/share in Q3-2018 up from $0.24/share in Q3-2017 and $0.29/share in Q2-2018.
- Freehold's royalty production averaged 10,322 boe/d, down 5% versus Q3-2017 and 7% when compared to Q2-2018. Reduced volumes are associated with lower third-party production additions, natural gas and heavy oil curtailments and fewer audit recoveries (75 boe/d in Q3-2018 versus 700 boe/d in Q3-2017). Historically, we have seen a slight drop in royalty production from Q2 to Q3 with a rebound in Q4.
- Royalty interests accounted for 94% of total production and contributed 99% of operating income in Q3-2018.
- Working interest production declined 39% to 680 boe/d in Q3-2018 relative to Q3-2017 largely due to dispositions, in-line with our strategy.
- Wells drilled on our royalty lands totaled 175 (6.3 net) in the quarter compared to 144 (6.4 net) in Q3-2017. Approximately 80% of non-unit activity was focused on our gross overriding royalty lands (GORR) lands while approximately 20% targeted prospects on our mineral title land. For the first nine months of 2018, 499 gross (13.9 net) wells have been drilled, compared to 352 gross (16.6 net) during the same period last year.
- Freehold generated $16.4 million in free cash flow [(1)], over and above our dividend, which we applied to acquisitions completed during the quarter. At September 30, 2018, net debt totaled $78.7 million resulting in a net debt to funds from operations ratio of 0.6 times.
- Freehold allocated $17.9 million towards acquisition activities in Q3-2018. In August, Freehold closed the purchase of 64,000 acres of royalty lands with approximately 90 boe/d of production (one-third oil and NGL) across central Alberta and the Deep Basin for $5.9 million and the assignment of certain minor working interest assets. In September, Freehold closed the purchase of a GORR across 109,000 acres of land with prospectivity for the Clearwater formation in the Jarvie and Nipisi areas of Alberta for $12 million.
- In Q3-2018, Freehold issued 19 new lease agreements with 13 companies, compared to 18 issued in Q2-2018 and 30 leases in Q3-2017, highlighting the success of our leasing team. To September 30th in 2018 (YTD) we have completed 95 new lease agreements on our royalty lands. Since the inception of our leasing team in January 2017 we have completed 195 new lease agreements.
- Cash costs [(1)] for the quarter totaled $4.46/boe, down from $4.80/boe in Q3-2017. For 2018, we are forecasting cash costs of approximately $5.00/boe.
- Dividends declared for Q3-2018 totaled $0.1575 per share, up 5% versus the previous year. In March 2018, Freehold announced an increase to its monthly dividend from $0.05 to $0.0525 per share commencing in April 2018.
- Basic payout ratio [(1)] (dividends declared/funds from operations) for Q3-2018 totaled 52% while the adjusted payout ratio [(1)] ((cash dividends plus capital expenditures)/funds from operations) for the same period was 54%.

(1) See Non-GAAP Financial Measures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) was prepared as of November 14, 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 and nine months ended September 30, 2018, and previous periods, and the outlook for Freehold based on information available as of November 14, 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 and nine months ended September 30, 2018 and September 30, 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 6.4 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 1.1 million acres and we have gross overriding royalty interests in approximately 5.1 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 Q3-2018) 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 below 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

Crude oil prices continued their strength over the quarter as strong fundamentals and heightened geopolitical risks supported prices. Within North America, West Texas Intermediate (WTI) oil price averaged US$69.50/bbl over the quarter, up 44% and 2% respectively versus the same period in 2017 and the previous quarter. Edmonton Light Sweet oil had similar increases to WTI with the price averaging $81.62/bbl for the current quarter. The theme over the quarter and the remainder of 2018 however is Canadian oil price differentials, as they have reached unprecedented levels. WTI/Western Canadian Select (WCS) price differentials averaged US$22.23/bbl for Q3-2018 compared to US$9.94/bbl during Q3-2017 and subsequent to Q3-2018 these differentials have reached levels above $US45.00/bbl, reflecting increasing production levels and limited takeaway capacity. Light oil prices have also been adversely affected with differentials to WTI reaching levels above $US25.00/bbl subsequent to Q3-2018.

Looking forward, we expect near-term oil supply/demand fundamentals to remain challenged. Increased rail volumes and pipeline capacity are two near-term drivers for better oil pricing.

Canadian natural gas prices continue to remain depressed, reflecting a combination of weak supply/demand dynamics and egress issues. Over the quarter, AECO prices averaged $1.35/mcf, down 34% versus the same period but up 31% versus the previous quarter.

The Petroleum Services Association of Canada (PSAC) is currently forecasting a total of 6,980 wells to be drilled in Canada for 2018, representing a decrease from the April 2018 forecast which called for 7,400 wells. On November 1st, PSAC unveiled its 2019 drilling forecast and is estimating 6,600 wells to be drilled in Canada, representing a 5% decline versus its latest forecast for 2018, based on average natural gas prices of $1.45/mcf AECO, a WTI price of US$69.00/bbl, a WTI/WCS differential of US$24.50/bbl and the Canadian dollar averaging $0.80/US$. The reduction in forecasted activity reflects approximately $1.8 billion in reduced spending by E&P companies within Canada.

Drilling Activity

Including drilling associated with acquisitions and unit wells, 499 (13.9 net) wells were drilled on our royalty lands during the first nine months of 2018. This represents an increase of 42% on a gross basis and a 16% decline on a net measure versus the same period in 2017. As typical in the third quarter, we saw a rebound in activity on our royalty lands relative to Q2-2018.

Activity through the first nine months of 2018 was primarily focused on Saskatchewan oil projects. Drilling in the Viking at Dodsland and Mississippian carbonates in southeast Saskatchewan continue to lead activity in Saskatchewan. In Alberta, Cardium oil drilling continues to drive activity, with a recent uptick in Viking Oil development. In Q3-2018 19 gross Alberta Viking oil wells were drilled on our lands compared with six in the entire first half of 2018. Industry drilled 131 gross wells on our non-unit lands in Q3-2018 (299 YTD) and 44 wells on our unit lands (200 YTD). 27 of those non-unit drills were on title land and 104 were on GORR lands. Our top payors continue to represent some of the most well capitalized E&P companies in Canada.

ROYALTY INTEREST DRILLING

	Three Months Ended September 30				Nine Months Ended September 30			
	2018		2017		**2018**		2017	
		Equivalent		Equivalent		**Equivalent**		Equivalent
	Gross	**Net** (1)	Gross	Net (1)	**Gross**	**Net** (1)	Gross	Net (1)
Non-unitized wells	**131**	**6.1**	121	6.3	**299**	**13.1**	296	16.3
Unitized wells (2)	**44**	**0.2**	23	0.1	**200**	**0.8**	56	0.3
Total	**175**	**6.3**	144	6.4	**499**	**13.9**	352	16.6

(1) Equivalent net wells are the aggregate of the numbers obtained by multiplying each gross well by our royalty interest percentage.
(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 nine months of the year and expectations for the remainder of the year.

- We are revising our 2018 average production range downwards by 4% to 11,250-11,500 boe/d (previously 11,750-12,250 boe/d). There has been lower than expected production from royalty drilling, lower than typical additions from our audit function and production curtailment associated with weakness in natural gas and heavy oil pricing. Volumes are expected to be weighted approximately 54% oil and NGL and 46% natural gas. We continue to maintain our royalty focus with royalty production accounting for 94% of forecasted 2018 production and 99% of operating income.
- We are maintaining our 2018 drilling forecast of 20 net wells.
- We are maintaining our WTI oil price assumption ofUS$65.00/bbl. However, we have reduced our WCS price assumption to $50.00/bbl (previously $55.00/bbl) and our Edmonton Light Sweet price assumption to $70.00/bbl (previously $76.00/bbl), reflecting higher differentials caused by increasing Canadian production levels and limited takeaway capacity.
- We have reduced our AECO natural gas price assumption to $1.55/mcf (previously $1.75/mcf) reflecting lower than expected prices to date.
- 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 64% (previously 55%).
- General and administrative costs remain at $2.50/boe.
- We have increased our forecast year-end net debt to funds from operations to approximately 0.8 times due to acquisitions completed and revisions to our production and pricing guidance.

KEY OPERATING ASSUMPTIONS

		Guidance Date			
2018 Annual Average		**Nov. 14, 2018**	Aug. 2, 2018	May 9, 2018	Mar. 8, 2018
Total daily production	boe/d	**11,250-11,500**	11,750-12,250	11,750-12,250	11,750-12,250
West Texas Intermediate crude oil	US$/bbl	**65.00**	65.00	65.00	60.00
Edmonton Light Sweet crude oil	Cdn$/bbl	**70.00**	76.00	76.00	N/A
Western Canadian Select crude oil	Cdn$/bbl	**50.00**	55.00	53.00	45.00
AECO natural gas	Cdn$/Mcf	**1.55**	1.75	1.75	2.00
Exchange rate	Cdn$/US$	**0.77**	0.77	0.79	0.80
Operating costs	$/boe	**1.45**	1.45	1.45	1.45
General and administrative costs (1)	$/boe	**2.50**	2.50	2.50	2.50
Weighted average shares outstanding	millions	**118**	118	118	118

(1) Excludes share based compensation.

Recognizing the cyclical nature of the oil and gas industry, we continue to closely monitor commodity prices and industry trends for signs of 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).

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 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 late 2017 and early 2018 had a negative effect on our oil price realizations.
- AECO natural gas prices continue to be negatively impacted by supply outstripping demand. In Western Canada there are added transportation constraints further discounting our prices.
- The largest effect on setting our dividends is 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 $138 million of royalty assets in Alberta and Saskatchewan. Freehold also disposed of $41 million of working interest properties over the same period. This activity affects our revenues, operating costs, percentage royalty interests, oil, NGL and natural gas production mix and debt levels, among others.
- Net income (loss) may be affected by large unique items in any given period. Freehold had 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial ($000s, except as noted)								
Revenue, net of royalty expense	40,587	39,961	39,157	38,235	33,763	38,036	40,686	39,439
Funds from operations	35,900	34,540	32,384	32,023	27,927	31,769	32,069	30,421
Per share, basic ($)	0.30	0.29	0.27	0.27	0.24	0.27	0.27	0.26
Net income (loss)	8,389	5,386	4,423	(8,057)	103	13,084	7,088	1,638
Per share, basic and diluted ($)	0.07	0.05	0.04	(0.07)	-	0.11	0.06	0.01
Dividends declared	18,634	18,625	18,026	17,722	17,714	17,705	15,338	14,144
Per share ($) (1)	0.1575	0.1575	0.1525	0.15	0.15	0.15	0.13	0.12
Basic payout ratio (%) (2)	52	54	56	55	63	56	48	46
Operating Income (2)	39,225	38,331	37,658	36,149	31,246	35,235	37,084	34,487
Operating income from royalties (%)	99	100	99	97	99	97	91	93
Acquisitions	17,915	2,697	30,881	52,270	(146)	1,267	33,352	92
Working interest dispositions	1	7	8,130	354	2,969	28,808	288	-
Net debt	78,657	77,908	89,567	68,621	38,274	49,819	76,030	73,161
Shares outstanding								
Weighted average, basic (000s)	118,293	118,238	118,183	118,128	118,073	118,018	117,956	117,847
At quarter end (000s)	118,348	118,293	118,238	118,183	118,128	118,073	118,018	117,918
Operating ($/boe, except as noted)								
Royalty production (boe/d) (3)	10,322	11,052	11,197	10,960	10,919	11,270	10,701	10,351
Total production (boe/d) (3)	11,002	11,721	12,002	12,032	12,036	12,589	12,753	12,579
Royalty interest (%)	94	94	93	91	91	90	84	82
Average selling price	38.95	36.96	34.52	33.59	29.67	32.98	34.88	33.72
Operating netback (2)	38.74	35.94	34.86	32.66	28.22	30.76	32.31	29.80
Operating expenses	1.35	1.53	1.39	1.88	2.27	2.45	3.14	4.28
General and administrative expenses (4)	2.06	2.36	3.60	2.59	1.88	2.27	3.01	2.33
Benchmark Prices								
West Texas Intermediate crude oil (US$/bbl)	69.50	67.88	62.87	55.40	48.21	48.29	51.91	49.29
Exchange rate (Cdn$/US$)	0.77	0.77	0.79	0.79	0.80	0.74	0.76	0.75
Edmonton Light Sweet crude oil (Cdn$/bbl)	81.62	80.47	71.88	69.14	56.73	61.84	64.00	61.54
Western Canadian Select crude oil (Cdn$/bbl)	61.81	62.82	48.77	54.87	47.89	49.99	49.38	46.63
AECO natural gas (Cdn$/Mcf)	1.35	1.03	1.85	1.96	2.04	2.77	2.94	2.81
Share Trading Performance								
High ($)	12.78	14.01	14.85	16.41	15.15	14.37	14.75	15.16
Low ($)	10.97	11.81	11.71	13.77	12.51	11.96	12.22	11.68
Close ($)	11.14	12.40	12.35	14.05	14.74	13.05	13.48	14.17
Volume (000s)	17,864	19,975	15,635	13,985	13,428	13,890	17,059	15,440

(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 11,002 boe/d, down 9% versus the same period last year. This decrease was largely caused by working interest dispositions, lower third party production additions, natural gas and heavy oil curtaiments and fewer audit recoveries (75 boe/d in Q3-2018 versus 700 boe/d in Q3-2017). Over this period acquisitions and royalty drilling have added production that has partially offset natural declines.

Royalty volumes averaged 10,322 boe/d, down 5% versus the same period last year and comprised 94% of total production in Q3-2018.

Working interest production declined 39% to 680 boe/d in Q3-2018 relative to Q3-2017 largely due to dispositions. We continue to look after our decommissioning obligations on our remaining working interest properties and have expended $0.7 million YTD with $1.8 million budgeted for the full year.

Our production mix through the first nine months of 2018 was 34% light and medium oil, 12% heavy oil, 8% NGL and 46% natural gas.

AVERAGE DAILY PRODUCTION

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	**2018**	2017	Change
Royalty interest (1)						
Oil (bbls/d)	**4,744**	5,190	-9%	**4,991**	5,090	-2%
NGL (bbls/d)	**864**	962	-10%	**876**	918	-5%
Natural gas (Mcf/d)	**28,284**	28,603	-1%	**29,923**	29,736	1%
Oil equivalent (boe/d)	**10,322**	10,919	-5%	**10,854**	10,964	-1%
Working interest (1)						
Oil (bbls/d)	**286**	530	-46%	**316**	775	-59%
NGL (bbls/d)	**53**	94	-44%	**56**	137	-59%
Natural gas (Mcf/d)	**2,047**	2,958	-31%	**2,075**	3,481	-40%
Oil equivalent (boe/d)	**680**	1,117	-39%	**718**	1,492	-52%
Total						
Oil (bbls/d)	**5,030**	5,720	-12%	**5,307**	5,865	-10%
NGL (bbls/d)	**917**	1,056	-13%	**932**	1,055	-12%
Natural gas (Mcf/d)	**30,331**	31,561	-4%	**31,998**	33,217	-4%
Oil equivalent (boe/d)	**11,002**	12,036	-9%	**11,572**	12,456	-7%
Number of days in period (days)	**92**	92	-	**273**	273	-
Total volumes during period (Mboe)	**1,012**	1,107	-9%	**3,159**	3,401	-7%

(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 and by Canadian differentials which are influenced by production and takeaway capacity. WTI averaged US$69.50/bbl in Q3-2018, up 44% over the same quarter last year. An improving crude oil environment was also aided by a slight decline in the Cdn$/US$ exchange rate, which averaged $0.77 Cdn$/US$ in Q3-2018, down from $0.80 Cdn$/US$ during the same period last year. Edmonton Light Sweet prices averaged $81.62/bbl, up 44% versus Q3-2017, and WCS prices averaged $61.81/bbl, up 29% versus Q3-2017, however differentials to WTI expanded significantly late in the quarter and into Q4-2018. AECO prices continue to display negative momentum averaging $1.35/mcf, down 34% from $2.04/mcf in Q3-2017.

AVERAGE BENCHMARK PRICES

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
West Texas Intermediate crude oil (US$/bbl)	69.50	48.21	44%	66.75	49.47	35%
Exchange rate (Cdn$/US$)	0.77	0.80	-4%	0.78	0.77	1%
Edmonton Light Sweet crude oil (Cdn$/bbl)	81.62	56.73	44%	77.99	60.86	28%
Western Canadian Select crude oil (Cdn$/bbl)	61.81	47.89	29%	57.80	49.08	18%
AECO natural gas (Cdn$/Mcf)	1.35	2.04	-34%	1.41	2.58	-45%

Our average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price at $38.95/boe was 31% higher in Q3-2018 versus the same period last year. As the key driver behind an increase in Freehold's overall cash flows, liquids pricing improved from 2017 with a realized oil and NGL price of $66.82/bbl, up 43% versus the third quarter of last year.

Natural gas price was down 22% relative to the prior year averaging $1.03/mcf in Q3-2018 due to ongoing supply and transportation issues. Our natural gas price realizations are discounted compared to AECO pricing as they include transportation and processing fees netted from some natural gas royalty payments.

AVERAGE SELLING PRICES

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Oil ($/bbl)	70.54	49.35	43%	64.95	51.83	25%
NGL ($/bbl)	46.43	31.55	47%	46.63	34.79	34%
Oil and NGL ($/bbl)	66.82	46.58	43%	62.21	49.23	26%
Natural gas ($/Mcf)	1.03	1.32	-22%	1.16	1.95	-41%
Oil equivalent ($/boe)	38.95	29.67	31%	36.76	32.54	13%

Marketing and Hedging

Our production remained unhedged in Q3-2018. 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 $40.8 million in Q3-2018 was 20% higher than in Q3-2017 and $120.3 million for YTD-2018 was up 6% compared to the same period in 2017, with oil and NGL pricing improvements more than offsetting weakness in natural gas pricing and lower production volumes. In Q3-2018 royalty interest revenue increased by 25% whereas working interest revenue was down 33% versus Q3-2017 due to dispositions. Bonus consideration and lease rentals was $1.1 million in Q3-2018 versus $0.9 million in the prior year.

ROYALTY AND OTHER REVENUE

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	2018	2017	Change	2018	2017	Change
Royalty interest revenue from oil, NGL and natural gas (1)	37,733	30,066	26%	111,124	97,151	14%
Bonus consideration and lease rentals	1,062	863	23%	3,027	1,763	72%
Total royalty interest revenue	38,795	30,929	25%	114,151	98,914	15%
Working interest revenue	2,020	3,009	-33%	6,183	14,545	-57%
Total royalty and other revenue	40,815	33,938	20%	120,334	113,459	6%

(1) Includes potash royalties and other.

ROYALTY AND OTHER REVENUE BY PRODUCT

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	2018	2017	Change	2018	2017	Change
Oil	32,641	25,971	26%	94,090	82,984	13%
NGL	3,918	3,065	28%	11,863	10,016	18%
Natural gas	2,866	3,820	-25%	10,175	17,659	-42%
Potash	286	114	151%	1,066	776	37%
Bonus consideration and lease rentals	1,062	863	23%	3,027	1,763	72%
Other	42	105	-60%	113	261	-57%
	40,815	33,938	20%	120,334	113,459	6%

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

ROYALTY AND OTHER REVENUE VARIANCES

	Three Months Ended September 30		Nine Months Ended September 30	
($000s)	**2018 vs. 2017**	2017 vs. 2016	**2018 vs. 2017**	2017 vs. 2016
Oil and NGL				
Production decrease	**(5,096)**	(82)	**(11,575)**	(3,545)
Price increase	**12,619**	2,671	**24,528**	21,344
Net increase	**7,523**	2,589	**12,953**	17,799
Natural gas				
Production increase (decrease)	**(117)**	(165)	**(386)**	1,841
Price increase (decrease)	**(837)**	(1,979)	**(7,098)**	3,173
Net increase (decrease)	**(954)**	(2,144)	**(7,484)**	5,014
Other (1)	**308**	570	**1,406**	571
Royalty and other revenue increase	**6,877**	1,015	**6,875**	23,384

(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 increased by 30% from Q3-2017 to Q3-2018 due to the effects of prior period adjustments but decreased by 35% YTD-2017 to YTD-2018, as a result of the 2017 and 2018 working interest dispositions.

ROYALTY EXPENSE (1)

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2018**	2017	Change	**2018**	2017	Change
Total royalty expense	**228**	175	30%	**629**	974	-35%
Per boe ($)	**0.23**	0.16	44%	**0.20**	0.29	-31%

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

Operating Expenses

Operating expenses, which occur only on our working interest properties, 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 46% to $1.4 million in Q3-2018 versus $2.5 million in Q3-2017 and decreased 50% to $4.5 million in YTD-2018 versus $8.9 million in YTD-2017 due to the 2017 and 2018 working interest dispositions. On a total production per boe basis, operating expenses decreased by 41% to $1.35 per boe in Q3-2018 relative to the same period in 2017.

OPERATING EXPENSES (1)

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2018**	2017	Change	**2018**	2017	Change
Total operating expenses	**1,362**	2,517	-46%	**4,491**	8,920	-50%
Per boe ($)	**1.35**	2.27	-41%	**1.42**	2.62	-46%

(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 95% of gross revenue YTD-2018 and more importantly contributed 99% of operating income. Freehold's operating netback for the third quarter increased 37% to $38.74/boe versus Q3-2017 with improvement driven largely by higher oil and NGL prices and lower operating expenses.

OPERATING INCOME (1)

	Three months ended September 30, 2018		
($000s)	Royalty Interest	Working Interest	**Total**
Royalty and other revenue (2)	38,795	2,020	**40,815**
Royalty expense (3)	(1)	(227)	**(228)**
Net revenue	38,794	1,793	**40,587**
Operating expense	-	(1,362)	**(1,362)**
Operating income	38,794	431	**39,225**
Percentage by category	99%	1%	**100%**

	Nine months ended September 30, 2018		
($000s)	Royalty Interest	Working Interest	Total
Royalty and other revenue (2)	114,151	6,183	120,334
Royalty expense (3)	(65)	(564)	(629)
Net revenue	114,086	5,619	119,705
Operating expense	-	(4,491)	(4,491)
Operating income	114,086	1,128	115,214
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)

	Three Months Ended September 30			Nine Months Ended September 30		
($/boe)	2018	2017	Change	2018	2017	Change
Royalty and other revenue	40.32	30.65	32%	38.09	33.37	14%
Royalty expense (2)	(0.23)	(0.16)	44%	(0.20)	(0.29)	-31%
Operating expenses	(1.35)	(2.27)	-41%	(1.42)	(2.62)	-46%
Operating netback	38.74	28.22	37%	36.47	30.46	20%

(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 Q3-2018 G&A expenses were relatively unchanged to Q3-2017 at $2.1 million but up 10% to $2.06 on a boe basis over the same period as a result of lower production. On a YTD basis there was an increase to $8.5 million this year from $8.1 million last year and (up 12% to $2.69/boe) largely due to increased employee costs.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	2018	2017	Change	2018	2017	Change
General and administrative expenses						
before capitalized and overhead recoveries	2,353	2,469	-5%	9,744	9,479	3%
Less: capitalized and overhead recoveries	(270)	(383)	-30%	(1,261)	(1,330)	-5%
General and administrative expenses	2,083	2,086	-	8,483	8,149	4%
Per boe ($)	2.06	1.88	10%	2.69	2.40	12%

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 24% in Q3-2018 compared to Q3-2017 and down 13% on a YTD basis. The ascribed value is based on Freehold's common share price on the last day of the quarter which was lower in 2018 than 2017.

MANAGEMENT FEE (PAID IN SHARES)

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	**2018**	2017	Change
Shares issued for management fees	**55,000**	55,000	-	**165,000**	165,000	-
Ascribed value ($000s) (1)	**613**	811	-24%	**1,974**	2,270	-13%
Per boe ($)	**0.61**	0.73	-16%	**0.62**	0.67	-7%

(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 the first nine months of 2018, there were 114,100 RSUs and PSUs granted under the new LTIP (after estimated forfeitures) and in the first nine months of 2017, there were 90,026 RSUs and PSUs granted under the new LTIP (after estimated forfeitures). In Q3-2018 share based compensation had a recovery of $0.5 million (Q3-2017 – expensed $0.6 million) and YTD-2018 a recovery of $0.5 million (YTD-2017 – expensed $1.1 million). The largest effect on the expense is from the price of Freehold's common shares.

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 third quarter of 2018, Freehold expensed $25,000 (Q3-2017 - $17,000) and YTD-2018 $0.6 million (YTD-2017 - $0.4 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 September 30, 2018, there were 157,500 DSUs outstanding and at November 14, 2018, there were 158,281 DSUs outstanding (including notional DSUs granted as a result of dividends paid on our common shares).

SHARE BASED COMPENSATION

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2018**	2017	Change	**2018**	2017	Change
Long-term incentive plan before capitalized portion	**(633)**	780	-181%	**(617)**	1,299	-147%
Less: capitalized portion	**101**	(140)	-172%	**98**	(233)	-142%
Long-term incentive plan	**(532)**	640	-183%	**(519)**	1,066	-149%
Deferred share unit plan	**25**	17	47%	**556**	373	49%
Share based compensation	**(507)**	657	-177%	**37**	1,439	-97%
Per boe ($)	**(0.50)**	0.59	-185%	**0.01**	0.42	-98%

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 September 30, 2018, Freehold issued 55,000 common shares (2017 – 55,000) as payment of the management fee. The ascribed value of $0.6 million (2017 – $0.8 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter. The total number of Freehold common shares issued for the nine months ended September 30, 2018 was 165,000 (2017 – 165,000) with an ascribed value of $2.0 million (2017 – $2.3 million).

For the three months ended September 30, 2018, the Manager charged $2.0 million in general and administrative costs (2017 – $2.1 million). The total charged for the nine months ended September 30, 2018 was $7.8 million (2017 – $7.6 million). At September 30, 2018, there was $0.7 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 September 30, 2018, there was $nil (December 31, 2017 - $nil) in accounts receivable relating to these transactions. At September 30, 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 September 30, 2018, Freehold received royalties of approximately $0.2 million (2017 – $0.2 million). The total received for the nine months ended September 30, 2018 was $0.5 million (2017 – $0.7 million). At September 30, 2018, there was $0.1 million (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 September 30, 2018, there was $nil (December 31, 2017 – $nil) in accounts receivable relating to transactions with Canpar. At September 30, 2018, there was $0.1 million (December 31, 2017 – $nil) in 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 Q3-2018 interest and financing expense increased to $0.8 million from $0.5 million in Q3-2017 and for YTD-2018 increased to $2.8 million from $2.1 million in YTD-2017 largely due to higher average debt levels. The average effective interest rate on advances under our credit facilities for the nine months ended September 30, 2018 was 3.3% (2017 – 2.9%).

INTEREST AND FINANCING

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2018**	2017	Change	**2018**	2017	Change
Interest and financing expense	**826**	538	54%	**2,801**	2,075	35%
Per boe ($)	**0.82**	0.49	67%	**0.89**	0.61	46%

Depletion and Depreciation

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

DEPLETION AND DEPRECIATION

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2018**	2017	Change	**2018**	2017	Change
Depletion and depreciation	**24,638**	26,910	-8%	**76,741**	81,814	-6%
Per boe ($)	**24.34**	24.30	-	**24.29**	24.06	1%

Working Interest Dispositions

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% 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.

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. When the transactions closed in the second quarter of 2017 ($28.9 million, including adjustments), Freehold recognized a gain on working interest dispositions of $14.7 million.

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 and nine months ended September 30, 2018 and 2017, there was no current income tax expense. Deferred income tax expense was $3.1 million in the third quarter (Q3-2017 - $39,000) and $6.7 million for YTD-2018 (YTD-2017 - $7.5 million). Freehold's tax pools at December 31, 2017 were $966 million.

Liquidity and Capital Resources

Operating Activities

Q3-2018 net income was $8.4 million which compared to net income in Q3-2017 of $0.1 million. The largest factor affecting this increase was higher revenue, with smaller positive effects from lower operating costs, lower depletion and depreciation and lower share based compensation expense. The positives were offset slightly by the effect of higher deferred income tax expense.

YTD-2018 net income was $18.2 million compared to $20.3 million YTD-2017. Similar to the current quarter, higher revenue, lower operating expense, lower depletion and depreciation and lower share based compensation expense had positive effects. In addition, the 2017 YTD period was significantly affected by a $14.7 million gain on working interest dispositions and a $5.6 million impairment reversal.

Funds from operations for the current quarter was up 29% to $35.9 million from $27.9 million in the same quarter last year and for the YTD period was up 12% to $102.8 million from $91.8 million in 2017, higher revenues and lower operating costs drove the outperformance.

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 per share.

NET INCOME AND FUNDS FROM OPERATIONS

	Three Months Ended September 30			Nine Months Ended September 30		
($000s, except as noted)	**2018**	2017	Change	**2018**	2017	Change
Net income	**8,389**	103	-	**18,198**	20,275	-10%
Per share, basic and diluted ($)	**0.07**	-	-	**0.15**	0.17	-12%
Funds from operations	**35,900**	27,927	29%	**102,824**	91,765	12%
Per share ($)	**0.30**	0.24	25%	**0.87**	0.78	12%

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 at $12.7 million was similar to the previous quarter with lower accounts receivable offset by a reduction in accounts payable and accrued liabilities and the current portion of share based compensation payable.

COMPONENTS OF WORKING CAPITAL

($000s)	Sep. 30 2018	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017
Cash	-	436	920	284	712
Accounts receivable	25,616	27,894	24,257	25,952	21,064
Assets held for sale	-	-	-	13,810	-
Current assets	25,616	28,330	25,177	40,046	21,776
Dividends payable	(6,210)	(6,207)	(6,206)	(5,908)	(5,905)
Accounts payable and accrued liabilities	(4,052)	(5,594)	(7,849)	(7,206)	(5,779)
Current portion of share based compensation payable	(860)	(1,559)	(1,277)	(399)	(366)
Current portion of decommissioning liability	(1,843)	(1,878)	(1,412)	(1,444)	-
Liabilities related to assets held for sale	-	-	-	(3,710)	-
Current liabilities	(12,965)	(15,238)	(16,744)	(18,667)	(12,050)
Working capital	12,651	13,092	8,433	21,379	9,726

Net debt increased slightly by $0.7 million from the previous quarter to $78.7 million at September 30, 2018, with acquisition activity offset by our excess free cash flow over and above our dividends.

DEBT ANALYSIS

($000s)	Sep. 30 2018	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017
Long-term debt	91,308	91,000	98,000	90,000	48,000
Working capital	(12,651)	(13,092)	(8,433)	(21,379)	(9,726)
Net debt	78,657	77,908	89,567	68,621	38,274

At September 30, 2018 Freehold had a committed three year $165 million secured revolving credit facility with a syndicate of four Canadian chartered banks. In addition, Freehold had available a three year $15 million senior secured operating facility. At September 30, 2018 $91.3 million was drawn on these facilities.

In May 2018 Freehold amended our credit agreement. The current maturity date of the credit facilities is May 31, 2021 and Freehold may annually request an extension to the maturity date. The credit facilities are not reserve-based but are 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 ratio 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 Freeholds debt to EBITDA on royalty interest properties. For the nine months ended September 30, 2018, the average effective interest rate on advances under Freehold's credit facilities was 3.3% (2017 – 2.9%).

At September 30, 2018, net debt was 0.6 times 12-months trailing funds from operations and net debt obligations were 9% of total capitalization.

FINANCIAL LEVERAGE AND COVERAGE RATIOS

	Sep. 30 2018	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017
Net debt to funds from operations (times) (1)	0.6	0.6	0.7	0.6	0.3
Net debt to dividends (times) (1)	1.1	1.1	1.3	1.0	0.6
Dividends to interest expense (times) (1)	22	24	28	26	22
Net debt to net debt plus equity (%)	9	9	10	8	4

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

SHAREHOLDERS' CAPITAL

	September 30, 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	165,000	1,974	220,000	3,043
Issued for deferred share unit plan redemption	-	-	44,393	752
Balance, end of period	118,347,667	1,269,565	118,182,667	1,267,591

SHARES OUTSTANDING

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Weighted average						
Basic	118,293,265	118,073,265	-	118,238,674	118,016,235	-
Diluted	118,449,730	118,188,903	-	118,393,246	118,134,126	-
At period end	118,347,667	118,127,667	-	118,347,667	118,127,667	-

As at September 30, 2018 and as of November 14, 2018, there were 118,347,667 shares outstanding.

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 Q3-2018 totaled $18.6 million or $0.1575 per share which is a 5% improvement over 2017 on a per share basis. For the 2018 YTD period dividends were $55.3 million or $0.47 per share, a 9% increase over the first nine months of 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 September 30		Nine Months Ended September 30	
	2018	2017	**2018**	2017
Dividends declared ($000s)	**18,634**	17,714	**55,285**	50,757
Accumulated, beginning of period	**1,590,603**	1,518,516	**1,553,952**	1,485,473
Accumulated, end of period	**1,609,237**	1,536,230	**1,609,237**	1,536,230
Dividends per share ($) (2)	**0.1575**	0.15	**0.47**	0.43
Accumulated, beginning of period	**31.3600**	30.75	**31.05**	30.47
Accumulated, end of period	**31.5175**	30.90	**31.52**	30.90

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

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

The following tables show reconciliations of funds from operations and dividends. Our basic payout ratio for Q3-2018 was 52% versus 63% one year ago and for YTD-2018 was 54% compared to 55% in 2017.

RECONCILIATION OF DIVIDENDS DECLARED

	Three Months Ended September 30		Nine Months Ended September 30	
($000s)	**2018**	2017	**2018**	2017
Funds from operations	**35,900**	27,927	**102,824**	91,765
Debt additions (repayments)	**308**	(13,000)	**1,308**	(36,000)
Acquisitions	**(17,915)**	146	**(51,493)**	(34,473)
Capital expenditures	**(835)**	(1,657)	**(3,169)**	(3,508)
Working interest dispositions	**1**	2,969	**8,138**	32,065
Working capital change	**1,175**	1,329	**(2,323)**	908
Dividends declared	**18,634**	17,714	**55,285**	50,757

DIVIDENDS ANALYSIS

	Three Months Ended September 30		Nine Months Ended September 30	
($000s)	**2018**	2017	**2018**	2017
Dividends paid in cash (1)	**18,631**	17,711	**55,074**	49,589
Dividends declared	**18,634**	17,714	**55,285**	50,757
Funds from operations	**35,900**	27,927	**102,824**	91,765
Capital expenditures	**835**	1,657	**3,169**	3,508
Basic payout ratio (2)	**52%**	63%	**54%**	55%
Adjusted payout ratio (3)	**54%**	69%	**57%**	58%

(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 $17.9 million towards acquisition activity in Q3-2018. In August, Freehold closed the purchase of royalty properties across central Alberta and the Deep Basin for $5.9 million and the assignment of certain working interest assets. In September, Freehold closed the purchase of a GORR across 109,000 acres of land with prospectivity for the Clearwater formation in the Jarvie and Nipisi areas of Alberta for $12 million.

In Q2-2018 Freehold purchased a GORR interest on the Mitsue Gilwood Sand Unit No. 1 for $2.7 million. In Q1-2018 Freehold closed a $7.0 million royalty acquisition in Alberta which included undeveloped land valued at $3.3 million and an acquisition of oil royalties on the Weyburn Unit and Mitsue Gilwood Sand Unit No. 1 in Saskatchewan for $24.1 million and the assignment of certain minor working interest assets.

All transactions were funded through Freehold's existing credit facilities. YTD-2018 there has also been $0.2 million of minor reductions to previous acquisition costs.

In the first nine months ended September 30, 2018 Freehold recorded $8.1 million of working interest dispositions (2017 - $32.1 million), as we continue the de-emphasis of our working interest properties (see Working Interest Dispositions).

ACQUISITIONS, DISPOSITIONS AND CAPITAL EXPENDITURES

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	**2018**	2017	Change	**2018**	2017	Change
Acquisitions	**17,915**	(146)	-	**51,493**	34,473	49%
Capital expenditures	**835**	1,657	-50%	**3,169**	3,508	-10%
Working interest dispositions	**(1)**	(2,969)	-100%	**(8,138)**	(32,065)	-75%
	18,749	(1,458)	-	**46,524**	5,916	686%

Additional Information

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

Internal Controls

Freehold is required to comply with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during the three months ended September 30, 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. 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.

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 payment is received. 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. 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 including a review of lease agreements 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, Third Quarter Highlights, Our Strategy, Business Environment, Guidance Update, Production 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;
- widening crude oil differentials;
- changing economic conditions;
- cash costs forecasted at approximately $5.00/boe;
- continuing to monitor industry activity and our plan to provide 2019 guidance as part of our fourth quarter results;
- anticipating near-term headwinds associated with Canadian energy;
- many of our prospects being light oil opportunities in Saskatchewan where pricing is better;
- seeing more industry drilling occurring where there are lighter oil opportunities and the economics are superior;
- continuing to strive to preserve our balance sheet and maintain an attractive dividend, thus providing investors with a lower risk oil and gas investment;
- expecting the near-term outlook for supply/demand fundamentals remaining challenged with the ability to ramp-up rail volumes and increase pipeline capacity representing the near-term drivers behind better oil pricing;
- the reduction in forecasted activity reflecting approximately $1.8 billion in reduced spending by E&P companies within Canada and being reflective of what Freehold is expecting to see from producers on its royalty lands;
- prospectivity for the Clearwater formation in our Q3-2018 $12 million acquisition;
- our strategies and the expectation that those strategies will deliver growth and low risk attractive returns to our shareholders;
- expected revenue from oil, natural gas 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, including our estimate of 2018 net royalty wells at 20;
- 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;
- 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.

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	2018	2017	Change	2018	2017	Change
Funds from operations	35,900	27,927	29%	102,824	91,765	12%
Capital expenditures	(835)	(1,657)	-50%	(3,169)	(3,508)	-10%
Free cash flow	35,065	26,270	33%	99,655	88,257	13%

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.

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	2018	2017	Change	2018	2017	Change
Royalty expense	228	175	30%	629	974	-35%
Operating expense	1,362	2,517	-46%	4,491	8,920	-50%
General and administrative expenses	2,083	2,086	-	8,483	8,149	4%
Interest expense	826	538	54%	2,801	2,075	35%
Expenditures on share based compensation	-	-	-	423	442	-4%
Total cash costs	4,499	5,316	-15%	16,827	20,560	-18%

We refer to various per boe figures which provide meaningful information on our operational performance. We derive per boe figures by dividing the relevant revenue or cost figures by the total volume of oil, NGL and natural gas production during the period, with natural gas converted to equivalent barrels of oil as described above.

Condensed Consolidated Balance Sheets

($000s) (2018 unaudited)	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash	**$ -**	$ 284
Accounts receivable	**25,616**	25,952
Assets held for sale (note 4)	**-**	13,810
	25,616	40,046
Exploration and evaluation assets (note 3)	**87,503**	75,776
Petroleum and natural gas interests (note 4)	**785,825**	818,921
Deferred income tax asset	**14,810**	21,541
	$ 913,754	$ 956,284
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable	**$ 6,210**	$ 5,908
Accounts payable and accrued liabilities	**4,052**	7,206
Current portion of share based compensation payable (note 5)	**860**	399
Current portion of decommissioning liability	**1,843**	1,444
Liabilities related to assets held for sale (note 4)	**-**	3,710
	12,965	18,667
Decommissioning liability	**12,064**	14,051
Share based compensation payable (note 5)	**473**	1,974
Long-term debt (note 6)	**91,308**	90,000
Shareholders' equity:		
Shareholders' capital (note 7)	**1,269,565**	1,267,591
Contributed surplus	**2,544**	2,079
Deficit	**(475,165)**	(438,078)
	796,944	831,592
	$ 913,754	$ 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 September 30 2018	 2017	Nine Months Ended September 30 2018	 2017
Revenue:				
Royalty and other revenue (note 9)	$ 40,815	$ 33,938	$ 120,334	$ 113,459
Royalty expense	(228)	(175)	(629)	(974)
	40,587	33,763	119,705	112,485
Gain on working interest dispositions (note 4)	-	-	-	14,679
Expenses:				
Operating	1,362	2,517	4,491	8,920
General and administrative	2,083	2,086	8,483	8,149
Share based compensation (note 5)	(507)	657	37	1,439
Interest and financing	826	538	2,801	2,075
Depletion and depreciation (note 4)	24,638	26,910	76,741	81,814
Impairment reversal (note 4)	-	-	-	(5,625)
Accretion of decommissioning liability	80	102	249	347
Management fee (note 8)	613	811	1,974	2,270
	29,095	33,621	94,776	99,389
Income before taxes	11,492	142	24,929	27,775
Deferred income tax expense	3,103	39	6,731	7,500
Net income and comprehensive income	$ 8,389	$ 103	$ 18,198	$ 20,275
Net income per share, basic and diluted	$ 0.07	$ -	$ 0.15	$ 0.17
Weighted average number of shares:				
Basic	118,293,265	118,073,265	118,238,674	118,016,235
Diluted	118,449,730	118,188,903	118,393,246	118,134,126

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended September 30		Nine Months Ended September 30	
($000s) (unaudited)	**2018**	2017	**2018**	2017
Operating:				
Net income	**$ 8,389**	$ 103	**$ 18,198**	$ 20,275
Items not involving cash:				
Depletion and depreciation	**24,638**	26,910	**76,741**	81,814
Gain on working interest dispositions	**-**	-	**-**	(14,679)
Impairment reversal	**-**	-	**-**	(5,625)
Share based compensation	**(507)**	657	**37**	1,439
Deferred income tax expense	**3,103**	39	**6,731**	7,500
Accretion of decommissioning liability	**80**	102	**249**	347
Management fee	**613**	811	**1,974**	2,270
Expenditures on share based compensation	**-**	-	**(423)**	(442)
Decommissioning expenditures	**(416)**	(695)	**(683)**	(1,134)
Funds from operations	**35,900**	27,927	**102,824**	91,765
Changes in non-cash working capital	**1,666**	445	**(1,084)**	(283)
	37,566	28,372	**101,740**	91,482
Financing:				
Long-term debt	**308**	(13,000)	**1,308**	(36,000)
Dividends paid	**(18,631)**	(17,711)	**(55,074)**	(49,589)
	(18,323)	(30,711)	**(53,766)**	(85,589)
Investing:				
Acquisitions	**(17,915)**	146	**(51,493)**	(34,473)
Capital expenditures	**(835)**	(1,657)	**(3,169)**	(3,508)
Working interest dispositions	**1**	2,969	**8,138**	32,065
Changes in non-cash working capital	**(930)**	878	**(1,734)**	(157)
	(19,679)	2,336	**(48,258)**	(6,073)
Decrease in cash	**(436)**	(3)	**(284)**	(180)
Cash, beginning of period	**436**	715	**284**	892
Cash, end of period	**$ -**	$ 712	**$ -**	$ 712

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

($000s) (unaudited)	Nine Months Ended September 30 2018	2017
Shareholders' capital:		
Balance, beginning of period	**$ 1,267,591**	$ 1,263,796
Shares issued for payment of management fee	**1,974**	2,270
Shares issued for deferred share unit plan redemption	**-**	752
Balance, end of period	**1,269,565**	1,266,818
Contributed surplus:		
Balance, beginning of period	**2,079**	2,717
Share based compensation	**556**	373
Deferred share unit plan redemption and other	**(91)**	(1,028)
Balance, end of period	**2,544**	2,062
Deficit:		
Balance, beginning of period	**(438,078)**	(381,817)
Net income and comprehensive income	**18,198**	20,275
Dividends declared	**(55,285)**	(50,757)
Balance, end of period	**(475,165)**	(412,299)
Total shareholders' equity	**$ 796,944**	$ 856,581

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 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 November 14, 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 including a review of lease agreements 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.

<u>New revenue recognition policy:</u>

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 payment is received. 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)	**September 30, 2018**	December 31, 2017
Balance, beginning of period	**75,776**	64,019
Acquisitions (note 4)	**15,309**	15,900
Transfers to petroleum and natural gas interests (note 4)	**(3,582)**	(3,876)
Working interest dispositions	**-**	(267)
Balance, end of period	**87,503**	75,776

In February 2018, Freehold closed a $7.0 million (including adjustments) royalty acquisition in Alberta including undeveloped land valued at $3.3 million. In September 2018, Freehold closed an undeveloped land royalty acquisition in central Alberta for $12.0 million with funds held in escrow until certain drilling milestones are met.

4. Petroleum and Natural Gas Interests

($000s)	**September 30, 2018**	December 31, 2017
Cost		
Balance, beginning of period	**1,387,283**	1,420,836
Acquisitions	**38,101**	70,843
Capital expenditures	**3,169**	4,864
Capitalized portion of long term incentive plan	**(98)**	246
Transfers from exploration and evaluation assets (note 3)	**3,582**	3,876
Decommissioning liability additions and revisions	**(45)**	3,225
Transfer to assets held for sale	**-**	(19,534)
Working interest dispositions	**(4,820)**	(97,073)
Balance, end of period	**1,427,172**	1,387,283
Accumulated depletion and depreciation		
Balance, beginning of period	**(568,362)**	(528,716)
Depletion and depreciation	**(76,741)**	(108,227)
Impairment	**-**	(10,609)
Transfer to assets held for sale	**-**	5,724
Accumulated depletion and depreciation of working interest dispositions	**3,756**	73,466
Balance, end of period	**(641,347)**	(568,362)
Net book value, end of period	**785,825**	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 March 2018, Freehold closed an acquisition of oil royalties on the Weyburn Unit and Mitsue Gilwood Sand Unit No. 1 in Saskatchewan for $24.1 million (including adjustments) and the assignment of certain minor working interest assets. In May 2018, Freehold closed an additional oil royalty acquisition in Saskatchewan on the Mitsue Gilwood Sand Unit No. 1 for $2.7 million (including adjustments). In August 2018, Freehold closed a royalty acquisition in Alberta and the Deep Basin for $5.9 million (including adjustments) and the assignment of certain minor working interest assets.

All transactions were funded through Freehold's existing credit facilities.

For the nine months ended September 30, 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% 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 April 2017 Freehold closed a sale of working interest properties in its Southeast Saskatchewan Working Interest CGU for proceeds of $28.9 million (including adjustments). For the nine months ended September 30, 2017 Freehold recognized a gain on working interest dispositions of $14.7 million relating to these transactions.

(c) Impairment and impairment reversal

At September 30, 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 nine months ended September 30, 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 September 30, 2018, Freehold recovered $0.5 million (2017 – expensed $0.6 million) of share based compensation. The total recovered for the nine months ended September 30, 2018 was $0.5 million (2017 – expensed $1.1 million).

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

($000s)	**September 30, 2018**	December 31, 2017
Balance, beginning of period	**2,373**	1,065
Increase (decrease) in liability	**(617)**	1,446
Cash payout	**(423)**	(138)
Balance, end of period	**1,333**	2,373
Current portion of liability	**860**	399
Long-term portion of liability	**473**	1,974

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

SHARE BASED AWARDS

	September 30, 2018	December 31, 2017
Balance, beginning of period	**269,549**	207,250
Issued	**114,100**	90,026
Dividends reinvested	**10,460**	10,571
Cash payout	**(76,843)**	(38,298)
Balance, end of period	**317,266**	269,549

(b) Deferred Share Unit Plan

Fully-vested deferred share units (DSUs) are granted annually to non-management directors. As at September 30, 2018, there were 157,500 DSUs outstanding (2017 – 116,240), 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 September 30, 2018, Freehold expensed $25,000 (2017 – $17,000) of share based compensation with a corresponding offset to contributed surplus. The total expensed for the nine months ended September 30, 2018 was $0.6 million (2017 – $0.4 million).

DEFERRED SHARE UNITS

	September 30, 2018	December 31, 2017
Balance, beginning of period	**117,429**	148,499
Annual grants	**34,519**	27,521
Additional resulting from dividends	**5,552**	4,828
Redeemed	**-**	(63,419)
Balance, end of period	**157,500**	117,429

6. Long-term Debt

At September 30, 2018 Freehold had a committed three year $165 million secured revolving credit facility with a syndicate of four Canadian chartered banks. In addition, Freehold had available a three year $15 million senior secured operating facility. At September 30, 2018 $91.3 million was drawn on these facilities.

In May 2018 Freehold amended its credit agreement. The current maturity date of the credit facilities is May 31, 2021 and Freehold may annually request an extension to the maturity date. The credit facilities are not reserve-based but are 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 ratio shall not exceed 55%. At September 30, 2018 Freehold was in compliance with all of its covenants.

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 Freeholds debt to EBITDA on royalty interest properties. For the nine months ended September 30, 2018, the average effective interest rate on advances under Freehold's credit facilities was 3.3% (2017 – 2.9%). At September 30, 2018 and December 31, 2017, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market rates.

7. Shareholders' Capital

SHARES ISSUED AND OUTSTANDING

	September 30, 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)	**165,000**	**1,974**	220,000	3,043
Issued for deferred share unit plan redemption	**-**	**-**	44,393	752
Balance, end of period	**118,347,667**	**1,269,565**	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 nine months ended September 30, 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 September 30, 2018, Freehold issued 55,000 common shares (2017 – 55,000) as payment of the management fee. The ascribed value of $0.6 million (2017 – $0.8 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter. The total number of Freehold common shares issued for the nine months ended September 30, 2018 was 165,000 (2017 – 165,000) with an ascribed value of $2.0 million (2017 – $2.3 million).

For the three months ended September 30, 2018, the Manager charged $2.0 million in general and administrative costs (2017 – $2.1 million). The total charged for the nine months ended September 30, 2018 was $7.8 million (2017 – $7.6 million). At September 30, 2018, there was $0.7 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 September 30, 2018, there was $nil (December 31, 2017 - $nil) in accounts receivable relating to these transactions. At September 30, 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 September 30, 2018, Freehold received royalties of approximately $0.2 million (2017 – $0.2 million). The total received for the nine months ended September 30, 2018 was $0.5 million (2017 – $0.7 million). At September 30, 2018, there was $0.1 million (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 September 30, 2018, there was $nil (December 31, 2017 – $nil) in accounts receivable relating to transactions with Canpar. At September 30, 2018, there was $0.1 million (December 31, 2017 – $nil) in 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 day of the month following production. Typically if a property is non-TIK then Freehold would receive the cash payment approximately two months following production. Bonus consideration 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

	Three Months ended September 30		Nine Months ended September 30	
($000s)	**2018**	2017	**2018**	2017
Oil	**32,641**	25,971	**94,090**	82,984
NGL	**3,918**	3,065	**11,863**	10,016
Natural gas	**2,866**	3,820	**10,175**	17,659
Potash	**286**	114	**1,066**	776
Bonus consideration and lease rentals	**1,062**	863	**3,027**	1,763
Other	**42**	105	**113**	261
Total royalty and other revenue	**40,815**	33,938	**120,334**	113,459

ROYALTY AND OTHER REVENUE BY CLASSIFICATION

	Three Months ended September 30		Nine Months ended September 30	
($000s)	**2018**	2017	**2018**	2017
Royalty interest revenue from oil, NGL and natural gas (1)	**37,733**	30,066	**111,124**	97,151
Bonus consideration and lease rentals	**1,062**	863	**3,027**	1,763
Total royalty revenue	**38,795**	30,929	**114,151**	98,914
Working interest revenue	**2,020**	3,009	**6,183**	14,545
Total royalty and other revenue	**40,815**	33,938	**120,334**	113,459

(1) Includes potash royalties and other.

For the nine months ended September 30, 2018, Freehold had $3.0 million (2017 - $5.5 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 the current year.

10. Supplemental Disclosure

(a) Supplemental cash flow disclosure

CASH EXPENSES

	Three Months ended September 30		Nine Months ended September 30	
($000s)	**2018**	2017	**2018**	2017
Interest	**793**	536	**2,812**	2,031
Taxes	**-**	-	**-**	-

(b) Net debt

($000s)	**September 30, 2018**	December 31, 2017
Long-term debt	**91,308**	90,000
Working capital	**(12,651)**	(21,379)
Net debt (1)	**78,657**	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

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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

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Common Shares: FRU

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