

Results at a Glance

FINANCIAL (\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Royalty and other revenue	33,068	40,587	-19%	104,010	119,705	-13%
Net income (loss)	2,729	8,389	-67%	(920)	18,198	-105%
Per share, basic and diluted (\$)	0.02	0.07	-71%	(0.01)	0.15	-107%
Funds from operations ⁽¹⁾	27,996	35,900	-22%	87,439	102,824	-15%
Per share, basic (\$)	0.24	0.30	-20%	0.74	0.87	-15%
Operating income ⁽⁵⁾	32,175	39,225	-18%	101,134	115,214	-12%
Operating income from royalties (%)	100	99	1%	100	99	1%
Acquisitions and related expenditures	15,060	18,750	-20%	46,962	54,662	-14%
Working interest dispositions	8	(1)	-900%	90	(8,138)	-101%
Dividends declared	18,669	18,634	-	55,980	55,285	1%
Per share (\$) ⁽²⁾	0.1575	0.1575	-	0.4725	0.4675	1%
Net debt	105,524	78,657	34%	105,524	78,657	34%
Shares outstanding, period end (000s)	118,568	118,348	-	118,568	118,348	-
Average shares outstanding (000s) ⁽³⁾	118,513	118,293	-	118,459	118,239	-
OPERATING						
Royalty production (boe/d) ⁽⁴⁾	10,149	10,322	-2%	10,200	10,854	-6%
Total production (boe/d) ⁽⁴⁾	10,482	11,002	-5%	10,591	11,572	-8%
Oil and NGL (%)	56	54	4%	55	54	2%
Average price realizations (\$/boe) ⁽⁴⁾	33.87	38.95	-13%	35.35	36.76	-4%
Operating netback (\$/boe) ⁽⁴⁾⁽⁵⁾	33.36	38.75	-14%	34.98	36.47	-4%

(1) Funds from operations is equivalent to free cash flow.

(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).

(5) See Non-GAAP Financial Measures.

President's Message

Royalty production averaged 10,149 boe/d for Q3-2019, essentially flat versus the previous quarter. We are focused on generating per share growth and we expect to achieve this by enhancing third-party drilling on our royalty lands and acquiring quality royalty assets in both Canada and in the U.S.

Our attractive cost structure enabled Freehold to generate significant free cash flow at current commodity price levels (\$0.24 funds from operations per share versus \$0.1575 per share in dividends for Q3-2019), resulting in a payout ratio of 67% for Q3-2019.

We executed on Freehold's U.S. strategy during Q3-2019 by completing our first transaction at accretive multiples, both for production and funds from operations.

Activity levels on our royalty lands continue to meet expectations, with 455 (16.3 net) wells drilled on our lands year-to-date. We expect full year 2019 drilling to achieve our forecast of 20 net wells.

It is our objective to drive oil and gas development on our lands, generate per share production growth, acquire royalties with acceptable growth and risk profiles, and provide a sustainable dividend to our shareholders. During the quarter, we believe we have largely achieved these mandates.

Tom Mullane
President and CEO

Third Quarter Highlights

- Dividends declared for Q3-2019 totaled \$0.1575 per share, unchanged from Q3-2018 and Q2-2019. Our payout ratio totaled 67% for the quarter and 64% for the first nine months of 2019. We continue to position Freehold's dividend within our guided payout thresholds of 60%-80% of annualized funds flow, positioning Freehold as a defensive investment within oil and gas.
- Freehold's royalty production averaged 10,149 boe/d during Q3-2019. This represents a modest 2% decline versus the same period last year, as well as the previous quarter. The third quarter typically represents a period of weaker production as lower activity levels during spring break-up results in declines in production on our lands.
- Royalty oil production averaged 4,919 boe/d for Q3-2019, up 4% versus the same period in 2018 and 4% when compared to the previous quarter. We remain focused on oil weighted acquisition opportunities and most of the third-party drilling on our royalty lands targets oil prospects.
- Royalty interests accounted for 97% of total production and contributed 100% of operating income⁽¹⁾ in Q3-2019. Oil and natural gas liquids amounted to 56% of production in Q3-2019, up from 55% in Q2-2019.
- Q3-2019 funds from operations and free cash flow⁽¹⁾ totaled \$28.0 million, or \$0.24 per share, slightly below the \$0.25 per share level achieved in Q2-2019. Compared to the prior quarter, funds from operations were impacted by modest weakness in commodity prices and a slight decline in production volumes. Using Freehold's closing share price as at September 30, 2019 of \$7.52 and the average shares outstanding in the quarter, this represents an annualized free cash flow⁽¹⁾ yield of 12%.
- Q3-2019 net income totaled \$2.7 million, slightly below the \$3.4 million net income recorded in Q2-2019, reducing the year-to-date net loss to \$0.9 million for the first nine months of 2019. Freehold incurred a non-recurring impairment of \$14.1 million in Q1-2019 which has significantly impacted the year-to-date totals.
- Closing net debt as at September 30, 2019 was \$105.5 million, an increase of \$7.2 million from the previous quarter and reflective of acquisitions completed in Q3-2019, partially offset by free cash flow in excess of our dividend.

- Freehold closed a US\$9.8 million acquisition of certain royalty assets located in North Dakota. Production and funds from operations in 2020 associated with the acquired assets is forecasted to be approximately 200 boe/d and US\$2.3 million respectively. In addition, we completed the acquisition of a further largely undeveloped 230 net mineral acres in North Dakota for total cash consideration of US\$1.3 million. These deals were completed at attractive rates of return, with expected near-term development of the lands.
- Wells drilled on our royalty lands totaled 181 (6.1 net) in the quarter compared to 175 (6.3 net) in Q3-2018. Despite broader weakness in activity within western Canada, our royalty lands continue to attract capital. During the quarter, activity was focused primarily on our light oil play at Dodsland which continues to deliver strong economics. In addition, we saw drilling within our southwest Saskatchewan Shaunavon/Cantuar oil play, heavy oil drilling in Lloydminster from a well-capitalized producer and activity within our key southeast Saskatchewan acreage.
- In Q3-2019, Freehold issued 24 new lease agreements with 10 companies, compared to 16 leases issued in Q2-2019 and 19 leases issued in Q3-2018. For the year, we expect leasing activity to remain consistent with the previous two years at approximately 100 new leases, with most of the focus this year on acreage in southeast Saskatchewan.
- Cash costs ⁽¹⁾ for the quarter totaled \$4.67/boe, down from \$5.05/boe in Q2-2019 and proximal to \$4.22/boe in Q3-2018. The increase in costs year-over-year reflect added general and administrative and interest charges associated with acquisition activity.

(1) See Non-GAAP Financial Measures.

Management Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) was prepared as of November 13, 2019. This MD&A is management's opinion about the consolidated operating and financial results of Freehold Royalties Ltd. and its wholly-owned subsidiaries (collectively, Freehold or the Company) for the three and nine months ended September 30, 2019, and previous periods, and the outlook for Freehold based on information available as of November 13, 2019.

The financial information contained herein is based on information in the interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. All comparative percentages are between the three months and nine months ended September 30, 2019 and September 30, 2018, and all dollar amounts are expressed in Canadian currency, unless otherwise noted. References to "US\$" are to United States (U.S.) dollars.

This discussion should be read in conjunction with the financial statements and accompanying notes for the three months and nine months ended September 30, 2019, Freehold's annual MD&A and audited financial statements for the year ended December 31, 2018, together with the accompanying notes. Information contained in the 2018 annual MD&A that is not discussed in this document remains materially unchanged.

This MD&A contains the following non-GAAP financial measures: **operating income**, **operating netback**, **free cash flow**, **payout ratio**, and **cash costs**. These are useful supplemental measures to analyze operating performance, financial leverage, and liquidity, among others. 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.

In addition, this MD&A contains 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 with current year expansion into the United States. 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 6.7 million gross acres, greater than 98% 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 5.5 million acres.

We have interests in more than 45,000 wells (of which over 44,700 are royalty wells including over 23,000 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 do not pay any of the capital costs to drill and equip the wells for production on our properties, nor do we incur costs to operate the wells, maintain production, and ultimately restore the land to its original state. Generally, all 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 (100% in Q3-2019) 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 491,000 acres of unleased mineral titles.

Our Strategy

As a leading royalty company, Freehold's objective is to deliver growth and lower 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 a payout ratio of 60%-80%.

Outlook

Business Environment

On September 14th 2019, the single largest disruption to global supply on record occurred when approximately 5.7 mmb/d, or 5% of global oil production was disrupted due to terrorist activity on Saudi oil infrastructure. Facilities resumed processing at near fully capacity on October 12th and despite the extent of the attack, prices were impacted minimally with West Texas Intermediate (WTI) prices initially reaching levels greater than US\$62/bbl but retreating quickly and remaining rangebound between US\$50 and US\$60/bbl for most of the quarter. Overall, WTI prices averaged US\$56.36/bbl for Q3-2019, down 19% year-over-year and 6% versus the previous quarter. Looking forward, outside of geopolitical strife seen in Q3-2019, the market continues to be focused on near-term demand weakness associated with Brexit, U.S./China trade disputes offset by slowing U.S. onshore production growth profile along with a constructive OPEC supply policy, which appears to be active on maintaining global oil prices at levels greater than US\$50/bbl.

Within Canada, prices mirrored global benchmarks as Edmonton Light Sweet oil price averaged \$70.27/bbl, down 5% versus the previous quarter while declining 14% versus the same period last year. Western Canadian Select (WCS) prices averaged \$58.12/bbl. This marked an 11% decline versus the previous quarter and a 6% retreat when compared to the same period last year. After the Alberta government set production curtailments earlier in the year, volumes have gradually increased, with the expectation that further production will likely come online through increased crude-by-rail initiatives later this year putting downward pressure on pricing. Curtailments are expected to be removed at year-end 2020, in tandem with the completion of Enbridge's Line-3 expansion.

Canadian natural gas prices continue to exhibit negative momentum during the third quarter, driven by supply/demand imbalance and a lack of material egress options. AECO daily prices averaged \$0.91/mcf for the quarter, down 24% year-over-year and a decline of 13% versus the previous quarter. Price weakness was driven by a lack of near-term western Canadian gas storage resulting from numerous maintenance/expansion projects this summer, increasing volatility in prices.

Activity within the Western Canadian Sedimentary Basin remained constrained within the quarter, reflecting continued cautiousness from operators. The active rig count averaged 143 rigs over the period, a decline of 35% year-over-year, with third quarter activity at the lowest level in over 25 years. In an update to their drilling forecast dated July 31, 2019, The Petroleum Services Association of Canada (PSAC) is forecasting a total of 5,100 wells to be drilled in Canada for 2019, representing a 31% decline from activity levels in 2018. PSAC based its forecast on natural gas prices of C\$1.60/mcf (AECO), a WTI price of US\$57.00/bbl and the Canadian dollar averaging US\$0.76.

Drilling Activity

In the first nine months of 2019, 455 (16.3 net) wells were drilled on our royalty lands. 181 (6.1 net) wells were drilled in the third quarter of 2019. This represents a 3% decline on a net measure and a 3% improvement on a gross measure over the same period in 2018. Despite significant headwinds associated with Canadian energy and broader activity levels in western Canada, Freehold's royalty lands continue to attract capital with activity levels in-line or slightly ahead of expectations year-to-date. We are optimistic in meeting our forecast of approximately 20 net wells drilled on our royalty lands in 2019.

Activity through the end of the third quarter of 2019 has been dominated by drilling in Saskatchewan and Manitoba. Together, Saskatchewan and Manitoba wells represented approximately 60% of our gross drilling in 2019 (77% on a net basis). Activity year-to-date has also been primarily focused on oil prospects. Drilling continues in the Viking in west central Saskatchewan (116 gross wells in 2019, 9.7 net). Mississippian plays in southeast Saskatchewan and southwest Manitoba (69 gross wells, 1.8 net), and Jurassic oil plays in southwest Saskatchewan (36 gross wells, 0.4 net) are also strong contributors through the end of this quarter. In Alberta, activity has been concentrated in the Viking in east central Alberta (81 gross wells, 0.3 net), as well as the Cardium in western Alberta (38 gross wells, 0.9 net). Activity has been growing in Mannville oil plays throughout the basin in the latter part of 2019 (77 gross wells, 2.3 net). The emerging plays in the Duvernay and Clearwater continue to develop, with 17 gross, 0.3 net wells drilled between these two new plays through the end of this quarter.

Our top payors continue to represent some of the most well capitalized upstream companies in Canada.

ROYALTY INTEREST DRILLING	Three Months Ended September 30				Nine Months Ended September 30			
	2019		2018		2019		2018	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾
Total	181	6.1	175	6.3	455	16.3	499	13.9

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

Guidance Update

Below are details of some of the changes made to our key operating assumptions for 2019 based on results for the third quarter and expectations for the remainder of the year. We expect to provide our 2020 operating and financial guidance as part of our fourth quarter results, which we will release in March 2020.

- We are maintaining our 2019 average royalty production range of 10,000 boe/d to 10,500 boe/d. Volumes are expected to be weighted approximately 55% oil and natural gas liquids and 45% natural gas. We continue to maintain our royalty focus with royalty production accounting for 96% of forecasted 2019 production and virtually all of our operating income.
- We are lowering our expected 2019 full year oil price assumptions for WTI to US\$56.50/bbl (previously US\$57.50/bbl) and for Edmonton Light Sweet prices to \$64.50/bbl (previously \$66.00/bbl). Our C\$/US\$ currency exchange assumption remains at US\$0.75 per Canadian dollar.
- Our 2019 AECO natural gas price assumption increases slightly to \$1.70/mcf (previously \$1.60/mcf).
- Based on our current \$0.0525/share monthly dividend level, we expect our 2019 payout ratio (dividends declared/funds from operations) to approximate 65% (previously 60% to 65%).
- General and administrative costs remain at \$3.00/boe reflecting slightly lower costs for the remainder of the year.
- Total cash costs remain at \$5.25/boe primarily as a result of lower general and administrative and operating costs for the remainder of the year.
- Estimated year-end net debt to funds from operations for exit 2019 is unchanged at 0.8 times.

KEY OPERATING ASSUMPTIONS		Nov. 13, 2019	Aug. 1, 2019	May 7, 2019	Mar. 7, 2019
2019 Annual Average (Guidance Dated)					
Royalty production (excludes working interest production)	boe/d	10,000-10,500	10,000-10,500	9,900-10,300	9,900-10,300
West Texas Intermediate crude oil	US\$/bbl	56.50	57.50	62.50	55.00
Edmonton Light Sweet crude oil	Cdn\$/bbl	64.50	66.00	71.00	61.00
AECO natural gas	Cdn\$/Mcf	1.70	1.60	1.60	1.60
Exchange rate	Cdn\$/US\$	0.75	0.75	0.75	0.76
Operating costs	\$/boe	1.00	1.00	1.00	1.00
General and administrative costs	\$/boe	3.00	3.00	3.00	3.00
Weighted average shares outstanding	millions	119	119	119	119

Recognizing the cyclical nature of the oil and gas industry, we continue to closely monitor commodity prices and industry trends for signs of changing market conditions. We caution that it is inherently difficult to predict activity levels on our royalty lands since we have no operational control. As well, significant changes (positive or negative) in commodity prices (including Canadian oil price differentials), foreign exchange rates, or production rates may result in adjustments to the dividend rate.

Based on our current guidance and commodity price assumptions, and assuming no significant changes in the current business environment, we expect to maintain the current monthly dividend rate through the next quarter. We will continue to evaluate the commodity price environment and adjust the dividend levels as necessary (subject to the quarterly review and approval of our Board of Directors - see Dividend Policy).

Quarterly Performance and Trends

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

- Oil prices are impacted significantly by global supply and demand factors, with OPEC decisions and U.S. production growth having significant impact. Transportation bottlenecks created large negative impacts on western Canadian realized prices in Q4-2018.
- In Q1-2019 the Alberta government implemented production curtailments as a method to offset weakness in the price differential between WTI and WCS. The curtailments are extended to December 2020.
- The AECO daily average price for Q1-2019 reflected the highest value in two years and represents an anomalous quarter for natural gas as AECO natural gas price markets have and continue to be depressed and negatively impacted by transportation constraints and supply outstripping demand.
- The most significant 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.
- Production has been affected by drilling activity, curtailments, acquisitions and working interest 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 incurred acquisition and related expenditures of \$166 million. In addition, Freehold disposed of \$9 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) is affected by fluctuations in our revenue and costs but may also be affected by significant non-recurring items in any given period. Freehold recorded a \$14 million impairment in Q1-2019 and a \$16 million impairment in Q4-2017.

The following 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	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial (\$000s, except as noted)								
Royalty and other revenue	33,068	35,333	35,609	24,837	40,587	39,961	39,157	38,235
Funds from operations	27,996	30,095	29,348	18,463	35,900	34,540	32,384	32,023
Per share, basic (\$)	0.24	0.25	0.25	0.16	0.30	0.29	0.27	0.27
Net income (loss)	2,729	3,430	(7,079)	(4,166)	8,389	5,386	4,423	(8,057)
Per share, basic and diluted (\$)	0.02	0.03	(0.06)	(0.04)	0.07	0.05	0.04	(0.07)
Dividends declared	18,669	18,660	18,651	18,643	18,634	18,625	18,026	17,722
Per share (\$) ⁽¹⁾	0.1575	0.1575	0.1575	0.1575	0.1575	0.1575	0.1525	0.15
Payout ratio (%) ⁽²⁾	67	62	64	101	52	54	56	55
Operating Income ⁽²⁾	32,175	34,315	34,644	23,452	39,225	38,331	37,658	36,149
Operating income from royalties (%)	100	100	99	102	99	100	99	97
Acquisitions and related expenditures ⁽³⁾	15,060	30,973	929	11,071	18,750	3,516	32,396	53,626
Working interest dispositions	8	52	(30)	581	1	7	8,130	354
Net debt	105,524	98,310	77,533	89,375	78,657	77,908	89,567	68,621
Shares outstanding								
Weighted average, basic (000s)	118,513	118,458	118,403	118,348	118,293	118,238	118,183	118,128
At quarter end (000s)	118,568	118,513	118,458	118,403	118,348	118,293	118,238	118,183
Operating (\$/boe, except as noted)								
Royalty production (boe/d) ⁽⁴⁾	10,149	10,311	10,139	10,312	10,322	11,052	11,197	10,960
Total production (boe/d) ⁽⁴⁾	10,482	10,664	10,627	10,929	11,002	11,721	12,002	12,032
Royalty interest (%)	97	97	95	94	94	94	93	91
Average selling price	33.87	35.88	36.29	23.40	38.95	36.96	34.52	33.59
Operating netback ⁽²⁾	33.36	35.36	36.22	23.33	38.74	35.94	34.86	32.66
Operating expenses	0.93	1.05	1.01	1.38	1.35	1.53	1.39	1.88
General and administrative expenses ⁽⁵⁾	2.59	2.67	4.22	2.74	2.06	2.36	3.60	2.59
Benchmark Prices								
West Texas Intermediate crude oil (US\$/bbl)	56.36	59.79	54.82	58.81	69.50	67.88	62.87	55.40
Exchange rate (Cdn\$/US\$)	0.76	0.75	0.75	0.76	0.77	0.77	0.79	0.79
Edmonton Light Sweet crude oil (Cdn\$/bbl)	70.27	73.84	66.02	42.78	81.62	80.47	71.88	69.14
Western Canadian Select crude oil (Cdn\$/bbl)	58.12	65.66	56.77	25.13	61.81	62.82	48.77	54.87
AECO monthly contract natural gas (Cdn\$/Mcf)	1.04	1.17	1.94	1.90	1.35	1.03	1.85	1.96
AECO daily average natural gas (Cdn\$/Mcf)	0.91	1.04	2.60	1.56	1.19	1.18	2.08	1.69
Share Trading Performance								
High (\$)	8.58	9.88	9.35	11.58	12.78	14.01	14.85	16.41
Low (\$)	6.90	7.98	8.07	7.68	10.97	11.81	11.71	13.77
Close (\$)	7.52	8.47	8.41	8.27	11.14	12.40	12.35	14.05
Volume (000s)	18,471	16,495	23,940	24,314	17,864	19,975	15,635	13,985

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

(2) See Non-GAAP Financial Measures

(3) Prior period comparative balances have been reclassified to align with current presentation.

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

(5) Excludes share based and other compensation.

Production

Freehold's royalty production averaged 10,149 boe/d and 97% of total production during Q3-2019. This represents a 2% decrease over Q3-2018 as well as from the previous quarter. Slightly reduced volumes quarter-over-quarter were reflective of lower third-party drilling additions as the second quarter represents a period of slowed activity (spring break-up) in western Canada, and as a result production volumes typically decline into the third quarter.

Working interest production, representing only 3% of total production, decreased to 333 boe/d, or by 51%, in Q3-2019 versus the same period last year and decreased 6% from the previous quarter. Reduced volumes were associated with our ongoing working interest disposition program and incremental shut-in of natural gas production, reflecting weakness in pricing.

Total production in the quarter averaged 10,482 boe/d and 10,591 boe/d for the first nine months of 2019. Our production mix through the first nine months of 2019 was 36% light and medium oil, 10% heavy oil, 9% NGL and 45% natural gas.

AVERAGE DAILY PRODUCTION	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Royalty Interest						
Oil (bbls/d)	4,919	4,744	4%	4,759	4,991	-5%
NGL (bbls/d)	740	864	-14%	871	876	-1%
Natural gas (MMcf/d)	26,938	28,284	-5%	27,419	29,923	-8%
Oil equivalent (boe/d)	10,149	10,322	-2%	10,200	10,854	-6%
Working Interest						
Oil (bbls/d)	155	286	-46%	177	316	-44%
NGL (bbls/d)	33	53	-38%	34	56	-39%
Natural gas (Mcf/d)	868	2,047	-58%	1,080	2,075	-48%
Oil equivalent (boe/d)	333	680	-51%	391	718	-46%
Total						
Oil (bbls/d)	5,074	5,030	1%	4,936	5,307	-7%
NGL (bbls/d)	773	917	-16%	905	932	-3%
Natural gas (Mcf/d)	27,806	30,331	-8%	28,499	31,998	-11%
Oil equivalent (boe/d)	10,482	11,002	-5%	10,591	11,572	-8%
Number of days in period (days)	92	92	-	273	273	-
Total volumes during period (Mboe)	964	1,012	-5%	2,891	3,159	-8%

Product Prices

The price we receive for oil is primarily driven by the U.S. dollar price of WTI, adjusted for the value of the Canadian dollar relative to the U.S. dollar. WTI averaged US\$56.36/bbl in Q3-2019, 19% lower versus the same quarter last year and Edmonton Light Sweet averaged \$70.27/bbl, 14% lower versus the same period in 2018. WCS prices averaged \$58.12/bbl, 6% lower versus the same period in 2018. AECO daily average natural gas prices averaged \$0.91/mcf, 24% lower versus the same period in 2018.

AVERAGE BENCHMARK PRICES	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
West Texas Intermediate crude oil (US\$/bbl)	56.36	69.50	-19%	56.99	66.75	-15%
Exchange rate (Cdn\$/US\$)	0.76	0.77	-1%	0.75	0.78	-4%
Edmonton Light Sweet crude oil (Cdn\$/bbl)	70.27	81.62	-14%	70.06	77.99	-10%
Western Canadian Select crude oil (Cdn\$/bbl)	58.12	61.81	-6%	60.21	57.80	4%
AECO monthly contract natural gas (Cdn\$/Mcf)	1.04	1.35	-23%	1.42	1.41	1%
AECO daily average natural gas (Cdn\$/Mcf)	0.91	1.19	-24%	1.52	1.48	3%

Our average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price was \$33.87/boe in Q3-2019, 13% lower than the same period last year.

Natural gas prices were down 14% relative to the prior year averaging \$0.89/mcf in Q3-2019. Our natural gas price realizations are discounted compared to AECO pricing as they include transportation and processing fees netted from certain natural gas royalty payments.

AVERAGE SELLING PRICES	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Oil (\$/bbl)	60.85	70.54	-14%	62.77	64.95	-3%
NGL (\$/bbl)	27.78	46.43	-40%	31.54	46.63	-32%
Oil and NGL (\$/bbl)	56.48	66.82	-15%	57.93	62.21	-7%
Natural gas (\$/Mcf)	0.89	1.03	-14%	1.26	1.16	9%
Oil equivalent (\$/boe)	33.87	38.95	-13%	35.35	36.76	-4%

Marketing and Hedging

Our production remained unhedged in Q3-2019. Our hedging policy is reviewed quarterly with our 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 13% of our total royalty production using 30-day contracts.

Royalty and Other Revenue

Royalty and other revenue of \$33.1 million in Q3-2019 was 19% lower than in Q3-2018, mostly due to lower commodity prices and production declines, including related to continued working interest dispositions. For the nine months ended September 30, 2019 royalty and other revenue of \$104.0 million was 13% lower than in the same period from the prior year, also due to lower commodity prices and production declines year over year.

ROYALTY AND OTHER REVENUE (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	\$ 31,965	\$ 37,733	-15%	\$ 99,797	\$ 111,124	-10%
Bonus consideration and lease rentals	335	1,062	-68%	1,114	3,027	-63%
Royalty expense (mineral tax)	(66)	(1)	6500%	(82)	(65)	26%
Total royalty interest revenue	\$ 32,234	\$ 38,794	-17%	\$ 100,829	\$ 114,086	-12%
Working interest revenue from oil, NGL and natural gas ⁽²⁾	970	2,020	-52%	3,494	6,183	-43%
Royalty expense	(136)	(227)	-40%	(313)	(564)	-45%
Total working interest revenue	\$ 834	\$ 1,793	-53%	\$ 3,181	\$ 5,619	-43%
Total royalty and other revenue	\$ 33,068	\$ 40,587	-19%	\$ 104,010	\$ 119,705	-13%

(1) Includes potash royalties and other.

(2) Includes processing and other.

ROYALTY AND OTHER REVENUE BY TYPE (\$000s)	Three Months Ended September 30			Three Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Oil	\$ 28,412	\$ 32,641	-13%	\$ 84,588	\$ 94,090	-10%
NGL	1,976	3,917	-50%	7,788	11,863	-34%
Natural gas	2,280	2,865	-20%	9,818	10,175	-4%
Potash	212	286	-26%	959	1,066	-10%
Bonus consideration and lease rentals	335	1,062	-68%	1,114	3,027	-63%
Other	55	44	25%	138	113	22%
Total royalty and other revenue by type	\$ 33,270	\$ 40,815	-18%	\$ 104,405	\$ 120,334	-13%
Total royalty expense	(202)	(228)	-11%	(395)	(629)	-37%
Total royalty and other revenue	\$ 33,068	\$ 40,587	-19%	\$ 104,010	\$ 119,705	-13%

Expenses

Operating Expenses

Operating expenses are direct costs incurred and costs allocated among oil, natural gas, and NGL production on our working interest properties. 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 34% to \$0.9 million in Q3-2019 versus \$1.4 million in Q3-2018. The reduction year-over-year was associated with dispositions completed in our working interest portfolio. On a total production per boe basis, operating expenses decreased by 31% to \$0.93/boe in Q3-2019 relative to the same period in 2018.

(\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Total operating expenses	\$ 893	\$ 1,362	-34%	\$ 2,876	\$ 4,491	-36%
Per boe (\$)	0.93	1.35	-31%	0.99	1.42	-30%

(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).

In Q3-2019, royalty interests accounted for 97% of total royalty and other revenue and more importantly contributed 100% of operating income. For the nine months ended September 30, 2019, royalty interests accounted for 97% of total royalty and other revenue and contributed 100% of operating income.

OPERATING INCOME ⁽¹⁾

(\$000s)	Three months ended September 30, 2019		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	\$ 32,234	\$ 834	\$ 33,068
Operating expense	-	(893)	(893)
Operating income	\$ 32,234	\$ (59)	\$ 32,175
Percentage by category	100%	0%	100%

(\$000s)	Three months ended September 30, 2018		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	\$ 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%

(\$000s)	Nine months ended September 30, 2019		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	\$ 100,829	\$ 3,181	\$ 104,010
Operating expense	-	(2,876)	(2,876)
Operating income	\$ 100,829	\$ 305	\$ 101,134
Percentage by category	100%	0%	100%

(\$000s)	Nine months ended September 30, 2018		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	\$ 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 and other revenue include potash royalties, bonus consideration, lease rentals and other, net of royalty expenses.

Freehold's operating netback for Q3-2019 decreased 14% to \$33.36/boe versus Q3-2018, reflecting lower realized commodity prices.

OPERATING NETBACK ⁽¹⁾ (\$/boe)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Royalty and other revenue	\$ 34.29	\$ 40.10	-14%	\$ 35.97	\$ 37.89	-5%
Operating expenses	(0.93)	(1.35)	-31%	(0.99)	(1.42)	-30%
Operating netback	\$ 33.36	\$ 38.75	-14%	\$ 34.98	\$ 36.47	-4%

(1) See Non-GAAP Financial Measures.

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 Q3-2019, G&A expenses were up 20% from Q3-2018 to \$2.5 million and up 26% to \$2.59/boe on a boe basis over the same period in the prior year. For the first nine months of 2019 relative to 2018, the G&A increase of 8% on an absolute measure is largely due to higher costs associated with Canadian and United States acquisition and Canadian working interest disposition initiatives.

(\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
General and administrative expenses before capitalized and overhead recoveries	\$ 2,879	\$ 2,353	22%	\$ 10,517	\$ 9,744	8%
Less: capitalized and overhead recoveries	(382)	(270)	41%	(1,388)	(1,261)	10%
General and administrative expenses Per boe (\$)	\$ 2,497	\$ 2,083	20%	\$ 9,129	\$ 8,483	8%
	2.59	2.06	26%	3.16	2.69	17%

Management Fee

The Manager (see Related Party Transactions) receives a quarterly management fee paid with Freehold common shares issued from treasury. 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 to 2019. In 2020, the management fee will be capped at 41,250 Freehold common shares per quarter with the fee gradually decreasing to 5,500 common shares per quarter.

The management fee was down 32% compared to Q3-2018 as the ascribed value, which is based on Freehold's common share price on the last day of the quarter, was lower at September 30, 2019 relative to September 30, 2018.

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Shares issued for management fees	55,000	55,000	-	165,000	165,000	-
Ascribed value (\$000s) ⁽¹⁾	414	613	-32%	1,342	1,974	-32%
Closing share price (\$/share)	7.52	11.14	-32%	7.52	11.14	-32%
Per boe (\$)	0.43	0.61	-30%	0.46	0.62	-26%

(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 2017, Freehold adopted a long-term incentive plan (LTIP) replacing the old LTIP for the employees of Rife Resources Ltd. (see Related Party Transactions). Both the new and old LTIP are share based and cash settled. The last grants under the old LTIP were made in 2016 and such grants vested and paid out in early 2019.

Freehold's new LTIP consists of grants of performance share units (PSUs) and restricted share units (RSUs). 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 and, in the case of PSUs, for a performance multiplier. For PSU grants each year from 2017 to 2019, 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.

Under both the new and old 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 old LTIP valued at \$0.2 million were paid out in 2018. The 2016 grants under the old LTIP valued at \$0.2 million were paid out in 2019. No grants remain outstanding under the old LTIP.

One-third of the granted 2017 RSUs vested in March 2018 and an LTIP payment valued at \$0.2 million was paid out in March 2018. The second one-third of the granted 2017 RSUs and the first one-third of the granted 2018 RSUs vested in March 2019 with the total LTIP payment valued at \$0.3 million paid out in April 2019. During 2019, there were 189,820 RSUs and PSUs granted under the new LTIP (after estimated forfeitures).

Deferred Share Unit Plan

Pursuant to Freehold's deferred share unit plan, fully-vested deferred share units (DSUs) are granted annually in the first quarter to non-management directors and are redeemable for an equal number of Freehold common shares (less tax withholdings if necessary) after the director's retirement. Dividends declared prior to redemption are assumed to be reinvested in notional share units on the dividend payment date.

On January 1, 2019, Freehold's Board of Directors granted a total of 58,646 DSUs to eligible directors as part of their annual compensation. Each eligible director received 9,069 DSUs and the Chair of the Board received 13,301 DSUs.

As at September 30, 2019, there were 231,051 DSUs outstanding and at November 13, 2019, there were 232,787 DSUs outstanding (including notional DSUs granted as a result of dividends paid on our common shares).

SHARE BASED COMPENSATION (\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Long-term incentive plan before capitalized portion	\$ 197	\$ (633)	-131%	\$ 857	\$ (617)	-239%
Less: capitalized portion	(32)	101	-132%	(137)	98	-240%
Long-term incentive plan	165	(532)	-131%	720	(519)	-239%
Deferred share unit plan	36	25	44%	589	556	6%
Share based compensation	\$ 201	\$ (507)	-140%	\$ 1,309	\$ 37	3438%
Per boe (\$)	0.21	(0.50)	-142%	0.45	0.01	4400%

Finance Expense

Q3-2019 interest and financing expense increased due to higher average debt levels over Q3-2018 in addition to slightly higher interest rates in the current period. The average effective interest rate on advances under our credit facilities in the current quarter was 3.5% (2018 – 3.3%). Non-cash finance expense decreased due to the continued decrease of our decommissioning liability as a direct result of working interest disposition activity.

(\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Interest and financing expense	\$ 1,085	\$ 826	31%	\$ 2,947	\$ 2,801	5%
Non-cash finance expenses ⁽¹⁾	68	80	-15%	183	249	-27%
Total finance expense	\$ 1,153	\$ 906	27%	\$ 3,130	\$ 3,050	3%
Per boe (\$)	1.20	0.90	33%	1.08	0.97	11%
Per boe - cash expense (\$)	1.13	0.82	38%	1.02	0.89	15%

(1) Non-cash finance expenses represent decommissioning liability accretion and lease obligation interest.

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.

(\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Depletion and depreciation	\$ 24,202	\$ 24,638	-2%	\$ 72,603	\$ 76,741	-5%
Per boe (\$)	25.10	24.34	3%	25.11	24.29	3%

Impairment

In April 2019, Freehold closed a non-cash royalty asset exchange, terminating a production volume royalty (PVR) agreement in exchange for a new gross overriding royalty on certain related properties. The PVR 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 \$14.1 million.

This royalty asset exchange transaction is not an indicator of impairment within Freehold's Royalty Interest cash generating unit (CGU). At September 30, 2019, there were no indicators of impairment within any of Freehold's CGUs. As a result, no testing of impairment was conducted. 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.

Income Tax and CRA Proposal

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, 2019, there was \$24,000 in current income tax expense (2018 - \$nil) due to Freehold's activities in the United States. For the three-months ended September 30, 2019, deferred income tax expense was \$1.0 million (2018 - \$3.1 million). Deferred income tax expense for the nine-months ended September 30, 2019 was \$0.5 million (2018 – expense of \$6.7 million). For the nine months ended September 30, 2019, deferred tax expense included a \$0.6 million charge attributable to the decrease in the future anticipated Alberta provincial tax rates. Alberta's provincial tax rate was reduced to 11% effective July 1, 2019 and will be further reduced by 1% on January 1st of each of the years 2020, 2021 and 2022 reducing the rate down to 8%. Freehold's tax pools at December 31, 2018 were \$905 million.

During the nine months ended September 30, 2019, Freehold received a proposal letter (Proposal Letter) from Canada Revenue Agency (CRA) wherein CRA stated that it intends to re-assess and deny Freehold's deduction of certain non-capital losses claimed and carried forward in the tax return filed for the year ended December 31, 2015.

Freehold will vigorously defend its tax filing position; however, we anticipate that proceedings with CRA could take considerable time to resolve. If the CRA issues the notice of reassessment (NOR) described in the Proposal Letter, we may also be reassessed with respect to the deduction of its non-capital losses in all of its tax filings subsequent to December 31, 2015. In such event, Freehold would utilize alternate claims available that would partially offset any tax liability for tax returns filed in periods subsequent to December 31, 2015. Freehold's assessed tax liability for the taxation years 2015 to 2018 would be approximately \$18 million (plus interest). In this event, Freehold will be required to pay a deposit of 50% of the assessed tax liability, and it will have 90 days from the date of the NOR to prepare and file a notice of objection. Freehold firmly believes it will be successful defending its position and therefore any amounts paid to CRA should be refunded plus interest. No provisions have been made in the financial statements relating to the Proposal Letter.

Related Party Transactions

Freehold does not have any employees. Pursuant to the Management Agreement, Freehold is managed by Rife Resources Management Ltd. (Manager), a wholly-owned subsidiary of Rife Resources Ltd. (Rife). In addition, 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. Canpar Holdings Ltd. (Canpar) is also managed by Rife and owned 100% by the CN Pension Trust Funds, and two of the directors of each of Rife and Canpar are also directors of Freehold.

The Manager recovers its general and administrative costs and a portion of its long-term incentive plan costs (provided that under Freehold's new LTIP, Freehold's portion of long-term incentive compensation is issued directly by Freehold instead of the Manager receiving reimbursement for such compensation) and receives a quarterly management fee paid in shares.

a) Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares per quarter, pursuant to the Management Agreement. The Management Agreement capped the management fee at 55,000 Freehold common shares per quarter for 2019.

For the three months ended September 30, 2019, Freehold issued 55,000 common shares (2018 – 55,000) as payment of the management fee. The ascribed value of \$0.4 million (2018 – \$0.6 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter. For the nine months ended September 30, 2019, Freehold issued 165,000 common shares (2018 – 165,000) as payment of the management fee with an ascribed value of \$1.3 million (2018 – \$2.0 million).

For the three months ended September 30, 2019, the Manager charged \$2.2 million in general and administrative costs (2018 – \$2.0 million). For the nine months ended September 30, 2019, the Manager charged \$8.1 million in general and administrative costs (2018 – \$7.8 million). At September 30, 2019, there was \$0.8 million (December 31, 2018 – \$0.7 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, 2019, there was \$nil (December 31, 2018 - \$nil) in accounts receivable relating to these transactions. At September 30, 2019, there was \$0.1 million (December 31, 2018 - \$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, 2019, Freehold received royalties of approximately \$0.2 million (2018 – \$0.2 million). For the nine months ended September 30, 2019, Freehold received royalties of approximately \$0.6 million (2018 – \$0.5 million). At September 30, 2019, there was \$0.1 million (December 31, 2018 - \$nil) 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, 2019, there was \$nil (December 31, 2018 – \$nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

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

Liquidity and Capital Resources

Operating Activities

In Q3-2019 Freehold had net income of \$2.7 million compared to \$8.4 million in Q3-2018. Freehold's Q3-2019 royalty and other revenue reduction was partially offset by the decrease in deferred income tax expense, related to the decrease in the Alberta provincial tax rate from 12% to 8%.

For the nine months ended September 30, 2019, Freehold's net loss was \$0.9 million compared to net income of \$18.2 million for the same period last year. For the nine months ended September 30, 2019, Freehold had a non-recurring current period impairment expense of \$14.1 million (offset by a related \$3.8 million deferred tax recovery) due to a PVR conversion (see Impairment).

Funds from operations for the current quarter decreased 22% to \$28.0 million and \$0.24/share from \$35.9 million and \$0.30/share in the same quarter last year. Year-to-date, funds from operations decreased 15% to \$87.4 million from \$102.8 million. This decrease is primarily due to lower commodity prices.

We consider funds from operations from our Consolidated Statement of Cash Flows 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. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income (loss) per share.

NET INCOME (LOSS) AND FUNDS FROM OPERATIONS (\$000s, except as noted)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Net income (loss)	\$ 2,729	\$ 8,389	-67%	\$ (920)	\$ 18,198	-105%
Per share, basic and diluted (\$)	0.02	0.07	-71%	(0.01)	0.15	-107%
Funds from operations	\$ 27,996	\$ 35,900	-22%	\$ 87,439	\$ 102,824	-15%
Per share (\$)	0.24	0.30	-20%	0.74	0.87	-15%

Financing Activities

Working Capital

We retain working capital primarily to fund acquisitions and related expenditures 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 between period ends.

Q3-2019 working capital of \$11.0 million was down 13% from Q2-2019 mostly due to a 55% increase in our decommissioning liability and lower accounts receivable, primarily due to reduced commodity prices.

COMPONENTS OF WORKING CAPITAL	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
(\$000s)	2019	2019	2019	2018	2018
Cash	\$ 2,045	\$ 83	\$ 931	\$ 1,262	\$ -
Accounts receivable and accrued revenue	21,798	24,314	23,663	12,938	25,616
Assets held for sale	-	-	1,784	-	-
Current assets	23,843	24,397	26,378	14,200	25,616
Dividends payable	(6,224)	(6,221)	(6,218)	(6,215)	(6,210)
Accounts payable and accrued liabilities	(3,844)	(3,670)	(5,263)	(4,610)	(4,052)
Current taxes payable	(24)				
Current portion of share based compensation payable	(375)	(299)	(525)	(466)	(860)
Current portion of decommissioning liability	(2,900)	(1,517)	(1,905)	(2,284)	(1,843)
Liabilities related to assets held for sale	-	-	-	-	-
Current liabilities	(13,367)	(11,707)	(13,911)	(13,575)	(12,965)
Working capital	\$ 10,476	\$ 12,690	\$ 12,467	\$ 625	\$ 12,651

Long-Term Debt

At September 30, 2019, Freehold had a committed \$165 million secured revolving credit facility with a syndicate of four Canadian chartered banks. In addition, Freehold had available a \$15 million senior secured operating facility. At September 30, 2019, \$116 million was drawn on these facilities.

In May 2019, Freehold amended its credit agreement. The current maturity date of the credit facilities is May 31, 2022 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 non-financial covenants and two financial covenants. The first financial covenant is that long-term 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, for which our calculation was 1.0 times at September 30, 2019. The second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) ratio shall not exceed 55%, for which our calculation was 14% at September 30, 2019. In addition, Freehold has an affirmative covenant that the Company must maintain a minimum of 90% of total EBITDA from royalty interest properties over the previous twelve-month period, for which our calculation was 100% at September 30, 2019. Freehold was in compliance with all covenants as at September 30, 2019.

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's long-term debt to EBITDA on royalty interest properties. At September 30, 2019 and December 31, 2018, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market rates.

Net Debt and Ratios

Net debt, as disclosed in our financial statements, increased by \$7.2 million from the previous quarter to \$105.5 million in Q3-2019 mainly as a result of financing increased acquisition activity. In addition, Q3-2019 net debt increased to \$105.5 million from \$78.7 million versus the same period last year. Over and above any period acquisition financing, we use funds from operations in excess of dividends (and the change in working capital mentioned above) to reduce bank debt when possible.

DEBT ANALYSIS	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
(\$000s)	2019	2019	2019	2018	2018
Long-term debt	\$ 116,000	\$ 111,000	\$ 90,000	\$ 90,000	\$ 91,308
Working capital	(10,476)	(12,690)	(12,467)	(625)	(12,651)
Net debt	\$ 105,524	\$ 98,310	\$ 77,533	\$ 89,375	\$ 78,657

As at September 30, 2019, Freehold's net debt to funds from operations ratio was 1.0 times (Q3-2018 – 0.6 times) and continues to be well within our debt management strategy target of below 1.5 times. This ratio is a financial leverage measure that reflects cash available to pay back our debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions.

Freehold defines capital (and capitalization) as net debt plus shareholders' equity. The net debt to capitalization ratio is a financial leverage measure that shows the portion of capital relating to debt. As at September 30, 2019, Freehold's ratio of 13% (Q3-2018 – 9%) reflects its continued low debt levels and resulting low financial risk.

FINANCIAL LEVERAGE RATIOS	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
	2019	2019	2019	2018	2018
Net debt to funds from operations (times)	1.0	0.9	0.7	0.7	0.6
Net debt to capitalization (%)	13	12	9	10	9

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

Shareholders' Capital

As at September 30, 2019 and as of November 13, 2019, there were 118,567,667 shares outstanding. For the three months and nine months ended September 30, 2019 Freehold issued 55,000 shares and 165,000 shares, respectively, for payment of the management fee (see Management Fee and Related Party Transactions).

(\$000s, except as noted)	September 30, 2019		December 31, 2018	
	Shares	Amount	Shares	Amount
Balance, beginning of period	118,402,667	\$ 1,270,020	118,182,667	\$ 1,267,591
Issued for payment of management fee	165,000	1,342	220,000	2,429
Balance, end of period	118,567,667	\$ 1,271,362	118,402,667	\$ 1,270,020

For the nine months ended September 30, 2019, DSUs were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive.

SHARES OUTSTANDING	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Weighted average						
Basic	118,513,265	118,293,265	-	118,458,674	118,238,674	-
Diluted	118,742,042	118,449,730	-	118,458,674	118,393,246	-
At period end	118,567,667	118,347,667	-	118,567,667	118,347,667	-

Dividend Policy and Analysis

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, among others. 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 and flexible balance sheet to take advantage of acquisition opportunities and withstand potential short-term 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 Q3-2019 totaled \$18.7 million or \$0.1575 per share which was unchanged over Q3-2018. For the first nine months of 2019, dividends declared totaled \$56.0 million or \$0.4725 per share which was up slightly over the first nine months of 2018.

ACCUMULATED DIVIDENDS ⁽¹⁾	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Dividends declared (\$000s)	\$ 18,669	\$ 18,634	\$ 55,980	\$ 55,285
Accumulated, beginning of period	1,665,191	1,590,603	1,627,880	1,553,952
Accumulated, end of period	\$ 1,683,860	\$ 1,609,237	\$ 1,683,860	\$ 1,609,237
Dividends per share (\$) ⁽²⁾	\$ 0.1575	\$ 0.1575	\$ 0.4725	\$ 0.4675
Accumulated, beginning of period	31.9900	31.3600	31.6750	31.0500
Accumulated, end of period	\$ 32.1475	\$ 31.5175	\$ 32.1475	\$ 31.5175

(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:

RECONCILIATION OF DIVIDENDS DECLARED	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
(\$000s)				
Funds from operations	\$ 27,996	\$ 35,900	\$ 87,439	\$ 102,824
Debt additions (repayments)	5,000	308	26,000	1,308
Acquisitions and related expenditures	(15,060)	(18,750)	(46,962)	(54,662)
Working interest dispositions	(8)	1	(90)	8,138
Working capital change	741	1,175	(10,407)	(2,323)
Dividends declared	\$ 18,669	\$ 18,634	\$ 55,980	\$ 55,285

Payout ratios, which are considered non-GAAP financial measures, are often used for dividend paying companies in the oil and gas industry to identify dividend levels in relation to the funds a company receives and uses in its capital and operational activities. Freehold's payout ratio is calculated as dividends declared as a percentage of funds from operations.

Our payout ratio for Q3-2019 was 67% versus 52% the same period last year and our payout ratio for the first nine months of 2019 was 64% compare to 54% versus 2018. Both quarterly and first nine months period payout ratios are well within our payout ratio target of 60%-80%.

DIVIDEND ANALYSIS (\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Dividends paid in cash ⁽¹⁾	\$ 18,666	\$ 18,631	\$ 55,988	\$ 55,074
Dividends declared	\$ 18,669	\$ 18,634	\$ 55,980	\$ 55,285
Funds from operations	\$ 27,996	\$ 35,900	\$ 87,439	\$ 102,824
Payout ratio ⁽²⁾	67%	52%	64%	54%

(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).

Investing Activities

In Q3-2019 Freehold closed a US\$9.8 million acquisition of certain royalty assets located in North Dakota, United States. Production and funds from operations in 2020 associated with the acquired assets is forecasted to be approximately 200 boe/d and US\$2.3 million respectively. Additionally, Freehold closed the acquisition of a further 230 net mineral acres in North Dakota for total cash consideration of US\$1.3 million. These deals were completed at attractive rates of return, with expected near-term development of the lands.

ACQUISITIONS, DISPOSITIONS AND RELATED EXPENDITURES (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Acquisitions and related expenditures	\$ 15,060	\$ 18,750	-20%	\$ 46,962	\$ 54,662	-14%
Working interest dispositions	8	(1)	-900%	90	(8,138)	-101%
	\$ 15,068	\$ 18,749	-20%	\$ 47,052	\$ 46,524	1%

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, 2019. The Chief Executive Officer and Interim 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

On January 1, 2019, Freehold adopted IFRS 16 *Leases* with no material transitional impact on the financial statements. 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. In June 2019, Freehold entered into a new office lease sharing agreement with Rife (See Related Party Transactions). Effective July 1, 2019, under this agreement Freehold is responsible for its proportional share of the new office lease with an allocation between 40% and 60% based on the allocation of general and administrative costs between Freehold and Rife in accordance with the Management Agreement. The first payment on the new lease will be October 1, 2020 and as at September 30, 2019, Freehold has recognized an estimated right-of-use asset of \$1.9 million with a corresponding additional lease obligation.

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, 2019 Highlights, Our Strategy, Business Environment, Drilling Activity, Dividend Policy and Analysis and 2019 Guidance pertaining to the following:

- our expectation of generating per share growth by enhancing third-party drilling on our royalty lands and by acquiring quality royalty assets in both Canada and in the U.S.;
- our intent to maintain balance sheet strength (1.5 times net debt to funds from operations) and achieve a sustainable payout ratio;
- our expected area of focus for future U.S. acquisitions;
- our intent to advance drilling and furthering development on our land base and to add high quality royalties that enhance our sustainability;
- our expectation of near-term development of our recently acquired lands in the U.S.;
- our forecast of approximately 20 net wells drilled on our royalty lands in 2019;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil, and natural gas;
- light/heavy oil price differentials;
- changing economic conditions;
- expected drilling activity in Canada;
- our intention to allocate free cash flow towards a combination of debt repayment, value enhancing acquisitions and our dividend, with the goal of maximizing returns for our shareholders;
- 2019 general and administrative and total cash costs forecasted at approximately \$3.00 and \$5.25/boe respectively;

- our strategies and the expectation that those strategies will deliver growth and low risk attractive returns to our shareholders;
- foreign exchange rates;
- forecast 2019 average royalty production, including product mix and percentage of total production and operating income from royalties;
- forecast 2019 payout ratio;
- forecast 2019 year end net debt to funds from operations and our target for our net debt to funds from operations ratio;
- key operating assumptions including forecast operating costs and general and administrative costs;
- our dividend policy and expectations for future dividends;
- treatment under governmental regulatory regimes and tax laws;
- our assessment of risk associated with the CRA Proposal; and
- the expected effect of the new cost sharing agreement and new office lease on our consolidated balance sheet.

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;
- the Alberta government's handling of oil curtailments;
- changes or rulings regarding 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, 2018 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 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 Outlook 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, free cash flow, payout ratio, and cash costs are useful supplemental measures for management and investors to analyze operating performance, financial leverage, and liquidity, and we use these terms to facilitate the understanding and comparability of our results of operations and financial position. However, these terms do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

Operating income is calculated as royalty and other revenue less operating expenses. It shows the profitability of our revenue streams as it provides the cash margin for product sold after directly related expenses. Operating netback, which is calculated as average unit sales price less operating expenses, represents the cash margin for product sold, calculated on a per boe basis (See our Netback Analysis section for calculations).

Free cash flow is calculated by subtracting capital expenditures from funds from operations. In periods where Freehold has no capital expenditures, this figure is interchangeable with funds from operations. Free cash flow is a measure often used by dividend paying companies to determine cash available for the payment of dividends, reducing debt or available for investment.

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. Our payout ratio is calculated as dividends declared as a percentage of funds from operations (See our Dividend Policy section for calculations).

Cash costs is a total of all recurring costs in the statement of income deducted in determining funds from operations. For Freehold, cash costs are identified as operating expense, general and administrative expense, interest expense and share based compensation payments. It is key to funds from operations, representing the ability to sustain dividends and/or repay debt.

TOTAL CASH COSTS (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Operating expense	\$ 893	\$ 1,362	-34%	\$ 2,876	\$ 4,491	-36%
General and administrative expenses	2,497	2,083	20%	9,129	8,483	8%
Interest expense	1,085	826	31%	2,947	2,801	5%
Current income tax expense	24	-	0%	24	-	0%
Expenditures on share based compensation	-	-	-	544	423	29%
Total cash costs	\$ 4,499	\$ 4,271	5%	\$ 15,520	\$ 16,198	-4%

TOTAL CASH COSTS (\$/boe)	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	Change	2019	2018	Change
Operating expense	\$ 0.93	\$ 1.35	-31%	\$ 0.99	\$ 1.42	-30%
General and administrative expenses	2.59	2.06	26%	3.16	2.69	17%
Interest expense	1.13	0.82	38%	1.02	0.89	15%
Current income tax expense	0.02	-	0%	0.01	-	0%
Expenditures on share based compensation	-	-	-	0.19	0.13	46%
Total cash costs per boe	\$ 4.67	\$ 4.23	10%	\$ 5.37	\$ 5.13	5%

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

(unaudited) (\$000s)	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash	\$ 2,045	\$ 1,262
Accounts receivable and accrued revenue	21,798	12,938
	23,843	14,200
Exploration and evaluation assets (note 2)	87,274	87,453
Petroleum and natural gas interests (note 3)	733,382	770,248
Deferred income tax asset	15,937	16,398
	\$ 860,436	\$ 888,299
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable	\$ 6,224	\$ 6,215
Accounts payable and accrued liabilities	3,844	4,610
Current taxes payable	24	-
Current portion of share based compensation payable (note 4)	375	466
Current portion of decommissioning liability	2,900	2,284
	13,367	13,575
Lease obligation (note 5)	1,905	-
Decommissioning liability	8,658	9,622
Share based compensation payable (note 4)	891	487
Long-term debt (note 6)	116,000	90,000
Shareholders' equity:		
Shareholders' capital (note 7)	1,271,362	1,270,020
Accumulated other comprehensive income (loss)	(14)	-
Contributed surplus	3,141	2,569
Deficit	(554,874)	(497,974)
	719,615	774,615
	\$ 860,436	\$ 888,299

Contingency (note 13)

See accompanying notes to interim condensed consolidated financial statements.

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

(unaudited) (\$000s, except per share and weighted average data)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenue:				
Royalty and other revenue (note 8)	\$ 33,068	\$ 40,587	\$ 104,010	\$ 119,705
Expenses:				
Operating	893	1,362	2,876	4,491
General and administrative	2,497	2,083	9,129	8,483
Share based compensation	201	(507)	1,309	37
Finance (note 9)	1,153	906	3,130	3,050
Depletion and depreciation (note 3)	24,202	24,638	72,603	76,741
Impairment (note 3)	-	-	14,056	-
Management fee (note 10)	414	613	1,342	1,974
	29,360	29,095	104,445	94,776
Income (loss) before taxes	3,708	11,492	(435)	24,929
Current income tax expense	24	-	24	-
Deferred income tax expense (note 11)	955	3,103	461	6,731
	979	3,103	485	6,731
Net income (loss)	2,729	8,389	(920)	18,198
Other comprehensive income (loss)				
Foreign currency translation of foreign operations	(14)	-	(14)	-
Comprehensive income (loss)	\$ 2,715	\$ 8,389	\$ (934)	\$ 18,198
Net income (loss) per share, basic and diluted	\$ 0.02	\$ 0.07	\$ (0.01)	\$ 0.15
Weighted average number of shares:				
Basic	118,513,265	118,293,265	118,458,674	118,238,674
Diluted	118,742,042	118,449,730	118,458,674	118,393,246

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited) (\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Operating:				
Net income (loss)	\$ 2,729	\$ 8,389	\$ (920)	\$ 18,198
Items not involving cash:				
Depletion and depreciation	24,202	24,638	72,603	76,741
Impairment	-	-	14,056	-
Share based compensation	201	(507)	1,309	37
Deferred income tax expense	955	3,103	461	6,731
Non-cash finance expenses	68	80	183	249
Management fee	414	613	1,342	1,974
Expenditures on share based compensation	-	-	(544)	(423)
Decommissioning expenditures	(573)	(416)	(1,051)	(683)
Funds from operations	27,996	35,900	87,439	102,824
Changes in non-cash working capital	2,715	1,666	(9,592)	(1,084)
	30,711	37,566	77,847	101,740
Financing:				
Long-term debt	5,000	308	26,000	1,308
Dividends paid	(18,666)	(18,631)	(55,988)	(55,074)
	(13,666)	(18,323)	(29,988)	(53,766)
Investing:				
Acquisitions and related expenditures	(15,060)	(18,750)	(46,962)	(54,662)
Working interest dispositions	(8)	1	(90)	8,138
Changes in non-cash working capital	(1)	(930)	(10)	(1,734)
	(15,069)	(19,679)	(47,062)	(48,258)
Increase (decrease) in cash	1,976	(436)	797	(284)
Impact of foreign currency on cash balance	(14)	-	(14)	-
Cash, beginning of period	83	436	1,262	284
Cash, end of period	\$ 2,045	\$ -	\$ 2,045	\$ -

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited) (\$000s)	Nine Months Ended September 30	
	2019	2018
Shareholders' capital:		
Balance, beginning of period	\$ 1,270,020	\$ 1,267,591
Shares issued for payment of management fee	1,342	1,974
Balance, end of period	1,271,362	1,269,565
Accumulated other comprehensive income (loss):		
Balance, beginning of period	-	-
Other comprehensive income (loss)	(14)	-
Balance, end of period	(14)	-
Contributed surplus:		
Balance, beginning of period	2,569	2,079
Share based compensation	589	556
Other	(17)	(91)
Balance, end of period	3,141	2,544
Deficit:		
Balance, beginning of period	(497,974)	(438,078)
Net income (loss)	(920)	18,198
Dividends declared	(55,980)	(55,285)
Balance, end of period	(554,874)	(475,165)
Total shareholders' equity	\$ 719,615	\$ 796,944

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

For the three months and nine months ended September 30, 2019 and 2018 (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 1000, 517 – 10 Avenue SW, Calgary, Alberta, Canada, T2R 0A8.

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 the disclosures normally provided in annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2018.

With the exception of the adoption IFRS 16 *Leases* (see note 1c) 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, 2018.

These financial statements were approved by the Board of Directors on November 13, 2019.

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, Freehold Royalties (USA) Inc. and Freehold Royalties Partnership. All inter-entity transactions have been eliminated.

c) New Accounting Standard

On January 1, 2019, Freehold adopted IFRS 16 *Leases* with no material transitional impact on the financial statements. 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. In June 2019, Freehold entered into a new office lease sharing agreement with Rife Resources Ltd. (see note 5).

d) Foreign Currency Translation

Foreign transactions

Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated to functional currency at the period-end exchange rate. Revenue and expenses are

translated to functional currency using the average exchange rate for the period. Realized and unrealized gains and losses resulting from the settlement or translation of foreign currency transactions are included in net income or loss.

Foreign operations

The functional currency of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Certain subsidiaries of the Company operate and transact primarily in currencies other than the Canadian dollar. The designation of a subsidiary's functional currency is a management judgment based on the currency of the primary economic environment in which the subsidiary operates. The financial statements of each entity are translated into Canadian dollars in preparation of the Company's consolidated financial statements. The assets and liabilities of a foreign operation are translated to Canadian dollars at the period-end exchange rate. Revenues and expenses of foreign operations are translated to Canadian dollars using the average exchange rate for the period. Foreign exchange differences are recognized in other comprehensive income or loss.

e) Comparative Balances

Balances related to royalty expense, accretion of decommissioning liability and capital expenditures have been reclassified in 2018 comparative periods to align with current 2019 presentation. On the Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), royalty expense has now been included in royalty and other revenue (see note 8) and accretion on decommissioning liability has now been included in finance expense (see note 9). In addition, on the Condensed Consolidated Statements of Cash Flows, capital expenditures have been included in acquisitions and other related expenditures.

2. Exploration and Evaluation Assets

(\$000s)	September 30, 2019	December 31, 2018
Balance, beginning of period	\$ 87,453	\$ 75,776
Acquisitions (note 3)	3,995	16,617
Transfers to petroleum and natural gas interests (note 3)	(4,174)	(4,940)
Balance, end of period	\$ 87,274	\$ 87,453

There were no indicators of impairment or impairment reversal for the period ended September 30, 2019 or December 31, 2018. As a result, no impairment or impairment reversal testing was conducted in this period.

3. Petroleum and Natural Gas Interests

(\$000s)	September 30, 2019	December 31, 2018
Cost		
Balance, beginning of period	\$ 1,434,437	\$ 1,387,283
Acquisitions and related expenditures	42,967	50,990
Capitalized portion of long term incentive plan	137	(159)
Increase in right-of-use asset (note 5)	1,888	-
Transfers from exploration and evaluation assets (note 2)	4,174	4,940
Decommissioning liability additions and revisions	1,381	(332)
Working interest dispositions	(4,131)	(8,285)
Balance, end of period	1,480,853	1,434,437
Accumulated depletion and depreciation		
Balance, beginning of period	(664,189)	(568,362)
Depletion and depreciation	(72,603)	(102,042)
Impairment	(14,056)	-
Accumulated depletion and depreciation of working interest dispositions	3,377	6,215
Balance, end of period	(747,471)	(664,189)
Net book value, end of period	\$ 733,382	\$ 770,248

a) Acquisitions and other related expenditures

On June 28, 2019, Freehold closed an acquisition of a newly created gross overriding royalty (GORR) with drilling commitments on the part of the vendor on certain light and medium oil reservoirs in central and northern Alberta and southwest Saskatchewan for \$29.3 million (including undeveloped land valued at \$4.0 million). Also, during the nine months ended September 30, 2019, Freehold closed several acquisitions on certain royalty assets for \$11.0 million United States dollars (US\$) through its subsidiary Freehold Royalties (USA) Inc. In addition, for the nine months ended September 30, 2019, Freehold had minor adjustments and other related expenditures of \$3.2 million.

b) Working interest dispositions

For the three and nine months ended September 30, 2019, Freehold disposed of various minor working interest properties for net disposal costs of \$0.1 million.

c) Impairment and impairment reversal

There were no indicators of impairment or impairment reversal for the period ended September 30, 2019 or December 31, 2018. As a result, no impairment or impairment reversal testing was conducted in this period.

In April 2019, Freehold closed a royalty asset exchange, terminating a production volume royalty (PVR) agreement in exchange for a new gross overriding royalty on certain related properties. The PVR asset was considered an asset held for sale at March 31, 2019 and 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 \$14.1 million. This royalty asset exchange transaction was not an indicator of impairment within Freehold's Royalty Interest cash generating unit (CGU). 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.

4. Share Based Compensation

a) Long-term Incentive Plans

In 2017, Freehold adopted a long-term incentive plan (LTIP) replacing the old LTIP for the employees of Rife Resources Ltd. (see Related Party Transactions). Both the new and old LTIP are share based and cash settled. The last grants under the old LTIP were made in 2016 and such grants vested and paid out in early 2019.

Freehold's new LTIP consists of grants of performance share units (PSUs) and restricted share units (RSUs). 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 each year from 2017 to 2019 for the 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.

Under both the new and old 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 old LTIP valued at \$0.2 million were paid out in 2018. The 2016 grants under the old LTIP valued at \$0.2 million were paid out in 2019.

One-third of the granted 2017 RSUs vested in March 2018 and LTIP valued at \$0.2 million was paid out in March 2018. The second one-third of the granted 2017 RSUs and the first one-third of the granted 2018 RSUs vested in March 2019 with the total LTIP valued at \$0.3 million paid out in April 2019. During 2019, there were 189,820 RSUs and PSUs granted under the new LTIP (after estimated forfeitures).

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

SHARE BASED COMPENSATION	September 30,	December 31,
(\$000s)	2019	2018
Balance, beginning of period	\$ 953	\$ 2,373
Increase (decrease) in liability	857	(997)
Cash payout	(544)	(423)
Balance, end of period	\$ 1,266	\$ 953
Current portion of liability	\$ 375	\$ 466
Long-term portion of liability	\$ 891	\$ 487

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

SHARE BASED AWARDS	September 30,	December 31,
	2019	2018
Balance, beginning of period	305,920	253,886
Issued	189,820	114,100
Dividends reinvested	12,949	14,777
Cash payout	(106,598)	(76,843)
Balance, end of period	402,091	305,920

b) Deferred Share Unit Plan

Pursuant to Freehold's deferred share unit plan, fully-vested deferred share units (DSUs) are granted annually in the first quarter to non-management directors and are redeemable for an equal number of Freehold common shares (less tax withholdings if necessary) after the director's retirement. Dividends declared prior to redemption are assumed to be reinvested in notional share units on the dividend payment date.

On January 1, 2019, Freehold's Board of Directors granted a total of 58,646 DSUs to eligible directors as part of their annual compensation. Each eligible director received 9,069 DSUs and the Chair of the Board received 13,301 DSUs. As at September 30, 2019, there were 231,051 DSUs outstanding.

DEFERRED SHARE UNITS	September 30,	December 31,
	2019	2018
Balance, beginning of period	160,192	117,429
Annual grants	58,646	34,519
Additional resulting from dividends	12,213	8,244
Balance, end of period	231,051	160,192

5. Lease Obligation

In June 2019, Freehold entered into a new office lease sharing agreement with Rife Resources Ltd. (related party - see note 10). Effective July 1, 2019, under this agreement Freehold is responsible for its proportional share of the new office lease with an allocation between 40% and 60% which is governed by the Management Agreement (see note 10). The first payment on the new lease will be October 1, 2020.

Freehold has recognized a right of use asset of \$1.9 million. The asset was measured at amounts equal to the present value of the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was 5%. Freehold has the following future commitment for its lease:

	September 30,	December 31,
(\$000s)	2019	2018
Less than 1 year	\$ -	\$ -
1-3 years	341	-
4-5 years	414	-
After 5 years	1,985	-
Total estimated lease payments	\$ 2,740	\$ -
Estimated interest over term of lease	(835)	-
Present value of net estimated lease payments	1,905	-
Current portion of liability	\$ -	\$ -
Long-term portion of liability	\$ 1,905	\$ -

6. Long-term Debt

At September 30, 2019, Freehold had a committed \$165 million secured revolving credit facility with a syndicate of four Canadian chartered banks. In addition, Freehold had available a \$15 million senior secured operating facility. At September 30, 2019, \$116 million was drawn on these facilities.

In May 2019, Freehold amended its credit agreement. The current maturity date of the credit facilities is May 31, 2022 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 non-financial covenants and two financial covenants. The first financial covenant is that long-term 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, for which our calculation was 1.0 times at September 30, 2019. The second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) ratio shall not exceed 55%, for which our calculation

was 14% at September 30, 2019. In addition, Freehold has an affirmative covenant that the Company must maintain a minimum of 90% of total EBITDA from royalty interest properties over the previous twelve-month period, for which our calculation was 100%. Freehold was in compliance with all covenants as at September 30, 2019.

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's long-term debt to EBITDA on royalty interest properties. At September 30, 2019 and December 31, 2018, 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, 2019		December 31, 2018	
	Shares	Amount (\$000s)	Shares	Amount (\$000s)
Balance, beginning of period	118,402,667	\$ 1,270,020	118,182,667	\$ 1,267,591
Issued for payment of management fee (note 10)	165,000	1,342	220,000	2,429
Balance, end of period	118,567,667	\$ 1,271,362	118,402,667	\$ 1,270,020

For the nine months ended September 30, 2019, deferred share units were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive.

8. Revenue

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 received or receivable can vary significantly period over period as it is dependent on the specific details of each lease and the number of leases issued.

ROYALTY AND OTHER REVENUE (\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	31,965	37,732	\$ 99,797	\$ 111,124
Bonus consideration and lease rentals	335	1,062	1,114	3,027
Royalty expense (mineral tax)	(66)	(1)	(82)	(65)
Total royalty interest revenue	32,234	38,793	\$ 100,829	\$ 114,086
Working interest revenue from oil, NGL and natural gas ⁽²⁾	970	2,020	3,494	6,183
Royalty expense	(136)	(226)	(313)	(564)
Total working interest revenue	834	1,794	\$ 3,181	\$ 5,619
Total royalty and other revenue	33,068	40,587	\$ 104,010	\$ 119,705

(1) Includes potash royalties and other.

(2) Includes processing and other.

ROYALTY AND OTHER REVENUE BY TYPE (\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Oil	28,412	32,641	\$ 84,588	\$ 94,090
NGL	1,976	3,917	7,788	11,863
Natural gas	2,280	2,865	9,818	10,175
Potash	212	286	959	1,066
Bonus consideration and lease rentals	335	1,062	1,114	3,027
Other	55	43	138	113
Total royalty and other revenue by type	33,270	40,814	\$ 104,405	\$ 120,334
Total royalty expense	(202)	(227)	(395)	(629)
Total royalty and other revenue	33,068	40,587	\$ 104,010	\$ 119,705

As at September 30, 2019, there were outstanding accounts receivable and accrued revenue of \$21.0 million (December 31, 2018 - \$12.0 million) comprised of accrued royalty and other revenue. For the nine months ended September 30, 2019, Freehold had positive royalty and other revenue adjustments of \$1.9 million (2018 - \$3.0 million) relating to periods prior to 2019 that increased total revenue this year. The performance obligations for these adjustments were satisfied in production periods prior to the current year.

9. Finance Expense

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Interest and financing expense	1,085	826	\$ 2,947	\$ 2,801
Accretion of decommissioning liability	51	80	166	249
Interest on lease obligations	17	-	17	-
Total finance expense	1,153	906	\$ 3,130	\$ 3,050

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's long-term debt to EBITDA on royalty interest properties.

For the nine months ended September 30, 2019, the average effective interest rate on advances under Freehold's credit facilities was 3.5% (2018 - 3.3%).

10. Related Party Transactions

Freehold does not have any employees. Pursuant to an amended and restated management agreement dated November 9, 2015 (the Management Agreement), Freehold is managed by Rife Resources Management Ltd. (Manager), a wholly-owned subsidiary of Rife Resources Ltd. (Rife). In addition, 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. Canpar Holdings Ltd. (Canpar) is also managed by Rife and owned 100% by the CN Pension Trust Funds, and two of the directors of each of Rife and Canpar are also directors of Freehold.

The Manager recovers its general and administrative costs and a portion of its long-term incentive plan costs (provided that under Freehold's new LTIP, Freehold's portion of long-term incentive compensation is issued directly by Freehold instead of the Manager receiving reimbursement for such compensation) and receives a quarterly management fee paid in shares.

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 2019.

For the three months ended September 30, 2019, Freehold issued 55,000 common shares (2018 – 55,000) as payment of the management fee. The ascribed value of \$0.4 million (2018 – \$0.6 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter. For the nine months ended September 30, 2019, Freehold issued 165,000 common shares (2018 – 165,000) as payment of the management fee with an ascribed value of \$1.3 million (2018 – \$2.0 million).

For the three months ended September 30, 2019, the Manager charged \$2.2 million in general and administrative costs (2018 – \$2.0 million). For the nine months ended September 30, 2019, the Manager charged \$8.1 million in general and administrative costs (2018 – \$7.8 million). At September 30, 2019, there was \$0.8 million (December 31, 2018 – \$0.7 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, 2019, there was \$nil (December 31, 2018 - \$nil) in accounts receivable relating to these transactions. At September 30, 2019, there was \$0.1 million (December 31, 2018 - \$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, 2019, Freehold received royalties of approximately \$0.2 million (2018 – \$0.2 million). For the nine months ended September 30, 2019, Freehold received royalties of approximately \$0.6 million (2018 – \$0.5 million). At September 30, 2019, there was \$0.1 million (December 31, 2018 - \$nil) 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, 2019, there was \$nil (December 31, 2018 – \$nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

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

11. Income Taxes

During the nine months ended September 30, 2019, deferred tax expense included \$0.6 million attributable to the decrease in the Alberta provincial tax rate from 12% to 8%. Alberta's provincial tax rate was reduced to 11% effective July 1, 2019 and will be further reduced by 1% on January 1st of each of the years 2020, 2021 and 2022 reducing the rate down to 8%.

12. Supplemental Disclosure

a) Supplemental cash flow disclosure

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Interest paid	1,078	793	2,936	2,812
Taxes paid	-	-	-	-

b) Net debt

(\$000s)	September 30,	December 31,
	2019	2018
Long-term debt	116,000	90,000
Working capital	(10,476)	(625)
Net debt	105,524	89,375

13. Contingency

During the nine months ended September 30, 2019, Freehold received a proposal letter (Proposal Letter) from Canada Revenue Agency (CRA) wherein CRA stated that it intends to re-assess and deny Freehold's deduction of certain non-capital losses claimed and carried forward in the tax return filed for the year ended December 31, 2015.

Freehold will vigorously defend its tax filing position, however, it anticipates that proceedings with CRA could take considerable time to resolve. If the CRA issues the notice of reassessment (NOR) described in the Proposal Letter, it may also be reassessed with respect to the deduction of its non-capital losses in all of its tax filings subsequent to December 31, 2015. In such event, Freehold would utilize alternate claims available that would partially offset any tax liability for tax returns filed in periods subsequent to December 31, 2015. Freehold's assessed tax liability for the taxation years 2015 to 2018 would be approximately \$18 million (plus interest). In this event, Freehold will be required to pay a deposit of 50% of the assessed tax liability, and it will have 90 days from the date of the NOR to prepare and file a notice of objection. Freehold firmly believes it will be successful defending its position and therefore any amounts paid to CRA should be refunded plus interest. No provisions have been made in the financial statements relating to the Proposal Letter.

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

Alan G. Withey
Interim Vice-President, Finance and Chief Financial Officer

David M. Spyker
Chief Operating Officer

Robert E. Lamond
Vice-President, Asset Development

Michael J. Stone
Vice-President, Land

Karen C. Taylor
Corporate Secretary

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Bankers

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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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