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Expanding Horizons

Annual Report

Quality Assets. Sustainable Dividends.

TSX **FRU**

Freehold
ROYALTIES LTD.

Corporate Overview

Freehold Royalties Ltd. (Freehold) is a Canadian royalty company that receives oil and natural gas revenue from industry operators that conduct operations on our diverse portfolio of properties in western Canada and North Dakota. Our business model is focused on actively managing our growing portfolio of royalty properties. Freehold's common shares trade on the Toronto Stock Exchange under the symbol FRU.



Our Vision

Our Vision is to be recognized as a leading royalty company.



Our Mission

Our Mission is to effectively manage and grow our assets to consistently deliver attractive returns to our shareholders over the long term.



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 an adjusted payout ratio of 60%-80%

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President's Message



Our Team

Robert A. King
Vice-President,
Business Development

Thomas J. Mullane
President & Chief
Executive Officer

David M. Spyker
Chief Operating
Officer

Lisa N. Farstad
Vice-President,
Corporate Services

Michael J. Stone
Vice-President,
Land

Robert E. Lamond
Vice-President,
Asset Development

David W. Hendry
Vice-President,
Finance & Chief Financial Officer

Our team remains focused on providing a long term value proposition to our shareholders, now and into the future.

Despite challenging headwinds in the Canadian Energy Sector, 2019 was another successful year for Freehold. Our royalty production was flat Q4-2018 to Q4-2019 and our dividend payout of 63% was consistent with our payout ratio target between 60%-80% of forward-looking funds from operations. We grew our reserves and executed our first U.S. royalty transaction. We will continue to add royalties both in the U.S. and Canada with a focus on shareholder return.

Given the near-term outlook for oil and gas pricing, we are maintaining our monthly dividend at \$0.0525 per share. We are forecasting 2020 royalty production to average 9,750-10,250 boe/d. This forecast does not include acquisitions and increases Freehold's royalty oil weighting by 2% year-over-year. Third party capital on our royalty lands is expected to be similar to 2019 with 20 net wells forecast for development. Freehold continues to maintain its position as one of the more defensive oil and gas stocks in Canada with our dividend fully funded at current commodity price levels. As a leading royalty company, Freehold's objective is to deliver lower risk attractive returns to shareholders over the long term.

Thomas J. Mullane
President & Chief Executive Officer

2019 Highlights



U.S. Entry

2019 marked a historic year for Freehold as we completed our first U.S. royalty transaction, acquiring a quality royalty asset in North Dakota for US\$9.8 million. The transaction represents a measured first step into what we view as an attractive opportunity to add value for our shareholders.



Compelling reward/defensive investment

Freehold continues to provide a low risk return for our shareholders through our dividend yield of 9% and sustainable payout ratio of 63%. We feel improvements in our underlying asset base have only further positioned the company as one of the most defensive oil and gas companies in Canada.



Portfolio positioned for success

Through 2019, we saw approximately 90% of all activity on our royalty lands focused on oil targets. With exposure to emerging plays such as the Viking, southeast Saskatchewan and the Clearwater in Canada, along with our growing U.S. royalty position we feel our asset base is positioned now better than any time in our history to deliver growth on the oil side.



Positioning Freehold now & for the future

Freehold released its inaugural environmental, social and governance (ESG) report in 2019 highlighting the collective desire by our team to provide a long-term value proposition to shareholders, now and into the future.

Financial (\$000s, except as noted)	2019	2018	Change
Royalty and other revenue	140,837	144,542	-3%
Net income	5,193	14,032	-63%
Per share, basic and diluted (\$) ⁽¹⁾	0.04	0.12	-67%
Funds from operations	118,098	121,287	-3%
Per share, basic (\$) ⁽¹⁾	1.00	1.03	-3%
Acquisitions and related expenditures	49,869	65,733	-24%
Dividends declared	74,663	73,928	1%
Per share (\$) ⁽²⁾	0.6300	0.6250	1%
Payout ratio ⁽³⁾	63%	61%	3%
Net debt	94,634	89,375	6%
Shares outstanding, period end (000's)	118,623	118,403	-
Average shares outstanding (000s) ⁽¹⁾	118,486	118,266	-
Operating	2019	2018	Change
Royalty production (boe/d) ⁽⁴⁾	10,229	10,718	-5%
Light and medium oil (bbl/d)	3,814	3,843	-1%
Heavy oil (bbl/d)	1,034	1,116	-7%
NGL (bbl/d)	853	896	-5%
Natural gas (Mcf/d)	27,166	29,177	-7%
Total production (boe/d) ⁽⁴⁾	10,628	11,410	-7%
Oil and NGL (%)	56	54	4%
Average price realizations (\$/boe) ⁽⁴⁾	35.78	33.54	7%
Cash costs (\$/boe) ^{(1) (4)}	5.30	5.10	4%
Operating netback (\$/boe) ^{(3) (4)}	35.28	33.30	6%

(1) Weighted average number of shares outstanding during the period, basic.
(2) Based on the number of shares issued and outstanding at each record date.
(3) See Non-GAAP Financial Measures.
(4) See conversion of Natural Gas to Barrels of Oil Equivalent.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) was prepared as of March 4, 2020 and is management's opinion about the consolidated operating and financial results of Freehold Royalties Ltd. and its wholly-owned subsidiaries (collectively, Freehold) for the year-ended December 31, 2019 and previous periods, and the outlook for Freehold based on information available as of the date hereof.

The financial information contained herein was based on information in the consolidated financial statements, which have been 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 years ended December 31, 2019 and 2018, and all dollar amounts are expressed in Canadian currency, unless otherwise noted. References to "US\$" are to United States (U.S.) dollars. This MD&A should be read in conjunction with the audited financial statements and notes.

This MD&A contains the following non-GAAP financial measures: **operating income**, **payout ratio**, **operating netback**, **free cash flow** 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.

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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. We receive revenue from oil and natural gas properties as reserves are produced over the 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 (over 500,000 acres are unleased) and we have gross overriding royalty and other interests in approximately 5.6 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 and greater than 11,000 are producing wells). We receive royalty income from approximately 300 industry operators. Royalty rates vary from less than 1.0% (for some gross overriding royalties) to 22.5% (for some lessor royalties). This diversity lowers our risk, and as a royalty owner, we benefit from the drilling activity of others on our lands.

As a royalty interest owner, we generally do not pay any of the capital costs to drill and equip the wells for production on most of our properties, nor do we incur costs to operate the wells, maintain production, and ultimately restore the land to its original state. Generally, all of these costs are paid by others. On the majority of our production, we receive royalty income from gross production revenue (revenue before any royalty expenses and operating costs are deducted). Our operating income is nearly 100% derived from our royalty properties which results in strong netbacks.

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 an adjusted payout ratio of 60%-80%

2019 Highlights

2019 represented another strong year for Freehold as the company advanced a number of key initiatives, both operationally and financially, further executing our long-term strategy and vision. Freehold continues to maintain the core principles of our identity, providing our shareholders with a lower risk oil and gas investment with upside to commodity prices and third-party drilling activity in western Canada. Freehold also executed its first U.S. royalty transaction in 2019 with the expectation that we will continue to expand our U.S. footprint as we add value enhancing opportunities to our portfolio. Key highlights associated with our 2019 results are outlined below.

Annual Highlights

FINANCIAL (\$000s, except as noted)	2019	2018	2017
Royalty and other revenue	140,837	144,542	150,720
Net income	5,193	14,032	12,218
Per share, basic and diluted (\$) ⁽¹⁾	0.04	0.12	0.10
Funds from operations	118,098	121,287	123,788
Per share (\$) ⁽¹⁾	1.00	1.03	1.05
Total assets	839,893	888,299	956,284
Acquisitions and related expenditures	49,689	65,733	91,607
Long-term debt	109,000	90,000	90,000
Total long-term liabilities	120,689	100,109	106,025
Dividends declared	74,663	73,928	68,479
Per share (\$) ⁽¹⁾	0.630	0.625	0.580
Shares outstanding at year-end (000s)	118,623	118,403	118,183
Average shares outstanding (000s)	118,486	118,266	118,044
OPERATING			
Royalty production (boe/d) ⁽²⁾	10,229	10,718	10,963
Light and medium oil (bbls/d)	3,814	3,843	3,664
Heavy oil (bbls/d)	1,034	1,116	1,381
NGL (bbls/d)	853	896	913
Natural gas (Mcf/d)	27,166	29,177	30,028
Total production (boe/d) ⁽²⁾	10,628	11,410	12,350
Oil and NGL (%)	56	54	55
Average price realizations (\$/boe)	35.78	33.54	32.80
Operating netback (\$/boe) ⁽³⁾	35.28	33.30	31.00

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

(2) Average daily production. See Conversion of Natural Gas to Barrels of Oil Equivalent (boe).

(3) See Non-GAAP Financial Measures.

- Dividends declared for 2019 totaled \$74.7 million (\$0.63 per share), flat versus 2018 when Freehold declared \$73.9 million (\$0.625 per share). Our dividend payout for 2019 totaled 63%, at the lower end of our guided dividend payout range, further reiterating the sustainability of returns to our shareholders.
- 2019 royalty production averaged 10,229 boe/d, a 5% decrease versus 2018 as acquisitions and third-party capital royalty additions did not fully offset natural declines in our volumes. Most of the decline in our volumes year-over-year was associated with natural gas production, which is less impactful to funds from operations, net income and the sustainability of our dividend. Oil and natural gas liquids (NGL) volumes increased to 56% of 2019 royalty production, up from 54% in 2018.

- 2019 light oil and NGL royalty production averaged 5,701 boe/d, down slightly versus 5,855 boe/d last year. Our royalty portfolio continues to see strong oil focused development from southeast Saskatchewan and Viking acreage as well as the emerging Clearwater play.
- 641 (20.8 net) wells were drilled on our royalty lands in 2019, a 2% decrease on a net measure and an 11% decrease on a gross measure versus 2018. Freehold's lands continue to attract capital with activity levels in-line with investment exceeding our forecast of 20 net wells for 2019.
- Royalty revenue totaled \$136.8 million in 2019, down slightly from the previous year. Total royalty revenue was comprised of 88% oil and NGL's.
- Funds from operations totaled \$118.1 million or \$1.00 per share, down slightly from \$121.3 million or \$1.03 per share in 2018. The decrease year-over-year reflected reduced production volumes partially offset by slightly higher realized prices.
- Freehold exited 2019 with net debt of \$94.6 million, implying net debt to trailing funds from operations of 0.8 times. This compares to \$89.4 million in net debt as of year-end 2018. The increase in leverage versus the previous year reflected acquisitions completed through the year, over and above our free cash flow and dividend payments. At year-end, we had \$71.0 million of available capacity within Freehold's credit facility.
- Freehold completed \$46.0 million in royalty acquisitions in 2019. Canadian highlights included a \$30.0 million acquisition of a gross overriding royalty on light and medium oil reservoirs in central and northern Alberta and southwest Saskatchewan.
- Freehold also completed its first U.S. royalty transaction in 2019, acquiring certain royalty assets in North Dakota for US\$9.8 million. In total, Freehold acquired US\$12.5 million in U.S. royalty assets in 2019.
- Freehold unveiled its inaugural environmental, social and governance (ESG) report highlighting the collective intention by our team to provide a long-term value proposition to shareholders and to do so responsibly.
- Proved plus probable net reserves totaled 31.7 MMboe as at December 31, 2019, up from 30.9 MMboe as at December 31, 2018, reflecting the quality of royalty assets acquired over the last three years ⁽¹⁾.
- 2019 proved plus probable royalty interest reserves additions replaced 129% of production.

(1) A detailed review of Freehold's reserve information, including a summary of the evaluation of Freehold's reserves and associated future net revenues as prepared by Trimble Engineering Associates Ltd., Freehold's independent reserves evaluator effective as at December 31, 2019, is provided in the Annual Information Form (AIF). A copy of the AIF can be found on Freehold's website at www.freeholdroyalties.com or www.sedar.com.

Outlook

Business Environment

2019 represented a year of modest improvement in operational momentum for oil and gas producers in western Canada, particularly when compared to the lows realized at year-end 2018. While there remains significant headwinds associated with egress concerns in western Canada, it appears early signs of progress are being made to mitigate some of these issues in the near-term as supported by positive data points associated with the Enbridge Line-3, Trans Mountain Expansion and Keystone XL. As momentum associated with the macroeconomic environment builds, we see potential for increased capital inflows back into Canada and remain optimistic on an improved business environment for the Canadian energy industry into 2020.

We completed our first U.S. royalty transaction in mid-2019 with the expectation that we will continue to expand our U.S. footprint to add value enhancing opportunities to our portfolio. We see the U.S. opportunity set as very attractive but will remain disciplined in adding royalties moving forward.

In 2019, West Texas Intermediate (WTI) prices averaged US\$56.99/bbl, compared to US\$64.77/bbl in the previous year. Global crude oil prices (WTI and Brent) traded rangebound between US\$50-\$70/bbl for most of the year. The price environment was driven by prevailing demand concerns associated with trade disputes, specifically U.S./China and United Kingdom/Brexit, offset by supply constraints in Iran and Venezuela and initial data points indicating that U.S. shale production could be slowing. Geopolitically, Saudi Arabia incurred a major supply disruption during Q3-2019 that temporarily took offline approximately 5% of global oil production, increasing prices to levels greater than US\$60/bbl. However, this price uplift was temporary as volumes came back on-line and supply/demand came back into balance. Looking forward, we are assuming a WTI price assumption of US\$55.00/bbl for 2020, however there remains significant risk associated with the ongoing Coronavirus Covid-19 and its impact on global markets, which could impact demand. Subject to a return to a more normal macroeconomic environment, we believe the price environment will remain in-line with levels realized through 2019.

Within Canada, we realized a slightly more positive price environment for medium/heavy crude oil and natural gas in 2019, with egress improvements and cuts on the supply side driving prices. Western Canadian Select (WCS) prices averaged \$58.70/bbl during the year, representing an 18% improvement over 2018. The increase year-over-year was associated with production curtailments implemented by the Alberta government late in 2018 improving a supply/demand environment that had become bottlenecked through a lack of egress initiatives. Looking into 2020, as more volumes are transported by rail, it is expected that production curtailments will be alleviated, with the stated goal of ending curtailments late in 2020.

On the natural gas front, AECO monthly contract prices averaged \$1.62/mcf for 2019, as compared to \$1.53/mcf for 2018. Prices were positively impacted by a combination of reduced supply and storage in western Canada through the second half of the year. Looking into 2020, we are forecasting a monthly AECO price of \$1.75/mcf with our view that underlying fundamentals have improved, with the expectation for less volatility through the summer injection season primarily associated with the implementation of the Temporary Service Protocol during NGTL downtime and a lighter maintenance schedule.

With commodity prices likely to remain rangebound into 2020, The Petroleum Services Association of Canada (PSAC) is currently projecting 4,500 wells to be drilled in western Canada in 2020, down 10% versus the final revised forecast for 2019. PSAC based its 2020 forecast on an average AECO natural gas prices of \$1.60/mcf, a WTI price of US\$58.00/bbl and the Canadian dollar averaging \$0.76/US\$.

Drilling Activity

641 (20.8 net) wells were drilled on our royalty lands in 2019, a 2% decrease on a net measure and an 11% decrease on a gross measure versus 2018. Despite significant headwinds associated with Canadian energy and broader activity levels in western Canada, Freehold's lands continue to attract capital with activity levels in-line with investment exceeding our forecast of 20 net wells for 2019.

Of the net wells drilled, 22% were drilled on mineral title lands while the remainder were drilled on gross overriding royalty lands. There was a continued shift towards oil investment, with 96% of the drilling focused on oil targets. Activity continues to be driven by well-capitalized operators in the Saskatchewan Viking, southeast Saskatchewan Mississippian carbonates, central Alberta Mannville heavy and light oil plays, and west central Alberta Cardium oil plays. Looking into 2020, we are optimistic that activity levels will remain strong on our royalty lands, with activity levels forecast to be similar to 2019. As part of our 2020 guidance, we are forecasting 20 net wells to be drilled on our royalty lands.

ROYALTY INTEREST DRILLING	Twelve Months Ended December 31			
	2019		2018	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾
Total	641	20.8	719	21.3

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

2020 Guidance

The following table summarizes our key operating assumptions for 2020.

- We are assuming an average royalty production range of 9,750 boe/d to 10,250 boe/d, which is expected to represent approximately 96% of our total production. Income from royalty properties is expected to be 100% of operating income. Royalty volumes are expected to be weighted approximately 58% oil and NGL's and 42% natural gas. Volumes do not include any estimate for acquisitions completed throughout the year.
- Forecasting 20 net wells will be drilled on our lands in 2020, flat compared with 2019.
- We are assuming WTI and Edmonton Light Sweet oil price assumptions of US\$55.00/bbl and \$63.00/bbl respectively, and AECO at \$1.75/mcf.
- Our total cash costs ⁽¹⁾ assumption is forecast between \$5.00/boe and \$5.50/boe.
- With our monthly dividend remaining at \$0.0525 per share, we expect our 2020 payout ratio (dividends paid/funds from operations) to be approximately 70%.
- Based on the above assumptions, we forecast our 2020 year-end net debt will be well below 1.5 times net debt to funds from operations.

(1) See Non-GAAP Financial Measures.

Key Operating Assumptions

2020 Annual Average		Guidance Dated Mar. 4, 2020
Total production	boe/d	9,750 - 10,250
West Texas Intermediate (WTI) crude oil	US\$/bbl	55.00
Edmonton Light Sweet (EDM) crude oil	Cdn\$/bbl	63.00
AECO natural gas	Cdn\$/Mcf	1.75
Exchange rate	Cdn\$/US\$	0.75
Cash costs ⁽¹⁾⁽²⁾	\$/boe	5.00 - 5.50
Weighted average shares outstanding	millions	119

(1) Excludes share based compensation; per share cost is based on estimated total production, which includes working interest production.

(2) See Non-GAAP Financial Measures

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.

A sensitivity analysis of the potential impact of key variables on funds from operations per share is provided below. For the purposes of the sensitivity analysis, the effect of a change in a particular variable is calculated independently of any change in another variable. In reality, changes in one factor will contribute to changes in another, which can magnify or counteract the sensitivities. For instance, trends have shown a correlation between the movement in the foreign exchange rate of the Canadian dollar relative to the U.S. dollar and the benchmark WTI crude oil price.

Variable ⁽¹⁾	Change (+/-)	Estimated Change in Funds from Operations (\$/share)
West Texas Intermediate (WTI) crude oil	US\$1.00/bbl	0.02
Canadian/U.S. dollar exchange rate	US\$0.01	0.02
WTI/WCS differential	US\$1.00/bbl	0.02
AECO natural gas	Cdn\$0.25/Mcf	0.04
Interest rate	1%	0.01
Oil and NGL production	100 bbls/d	0.03
Natural gas production	1,000 Mcf/d	0.02

(1) Calculations are performed independently and may not be indicative of actual results that would occur when multiple variables change at the same time.

Dividend

With volatility in commodity prices and other macroeconomic factors in Canada, Freehold's Board of Directors (the Board) has approved maintaining its monthly dividend at \$0.0525 per share or \$0.63 per share annualized. Accordingly, the Board has declared a dividend of \$0.0525 per common share to be paid on April 15, 2020 to shareholders of record on March 31, 2020. The dividend is designated as an eligible dividend for Canadian income tax purposes.

Current payout ratio levels are in-line with our previously stated dividend policy, which outlines a 60%-80% payout ratio based on forward looking funds from operations. 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 dividend rate through 2020. However, we will continue to evaluate the commodity price environment and adjust the dividend level accordingly.

Quarterly Performance

Fourth Quarter Highlights

FINANCIAL (\$000s, except as noted)	Three Months Ended December 31			Twelve Months Ended December 31		
	2019	2018	Change	2019	2018	Change
Royalty and other revenue	36,827	24,837	48%	140,837	144,542	-3%
Net income	6,113	(4,166)	247%	5,193	14,032	-63%
Per share, basic and diluted (\$) ⁽¹⁾	0.05	(0.04)	225%	0.04	0.12	-67%
Funds from operations	30,659	18,463	66%	118,098	121,287	-3%
Per share, basic (\$) ⁽¹⁾	0.26	0.16	63%	1.00	1.03	-3%
Acquisitions and related expenditures	2,727	11,071	-75%	49,689	65,733	-24%
Dividends declared	18,683	18,643	-	74,663	73,928	1%
Per share (\$) ⁽²⁾	0.1575	0.1575	-	0.6300	0.6250	1%
Payout ratio ⁽³⁾	61%	101%	-40%	63%	61%	3%
Net debt	94,634	89,375	6%	94,634	89,375	6%
Shares outstanding, period end (000's)	118,623	118,403	-	118,623	118,403	-
Average shares outstanding (000s) ⁽¹⁾	118,568	118,348	-	118,486	118,266	-
OPERATING						
Royalty production (boe/d) ⁽⁴⁾	10,315	10,312	0%	10,229	10,718	-5%
Light and medium oil (bbls/d)	4,024	3,934	2%	3,814	3,843	-1%
Heavy oil (bbls/d)	1,089	929	17%	1,034	1,116	-7%
NGL (bbls/d)	799	955	-16%	853	896	-5%
Natural gas (Mcf/d)	26,416	26,962	-2%	27,166	29,177	-7%
Total production (boe/d) ⁽⁴⁾	10,740	10,929	-2%	10,628	11,410	-7%
Oil and NGL (%)	57	56	2%	56	54	4%
Average price realizations (\$/boe)	37.04	23.40	58%	35.78	33.54	7%
Operating netback (\$/boe) ⁽³⁾⁽⁴⁾	36.19	23.33	55%	35.28	33.30	6%

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

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

(3) See Non-GAAP Financial Measures.

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

Freehold continued to execute on its strategy in the fourth quarter of 2019 providing strong returns for its shareholders. Highlights include:

- Dividends declared for Q4-2019 totaled \$0.1575 per share, unchanged from the previous quarter and the same period last year. Our payout ratio totaled 61% for the quarter and 63% for 2019. We continue to set Freehold's dividend within our guided payout ratio thresholds of 60%-80% annualized funds flow, positioning Freehold as one of the most defensive investments in terms of dividend sustainability within the Canadian oil and gas sector.
- Freehold's total royalty production averaged 10,315 boe/d, flat versus the same period in 2018 and up 2% versus Q3-2019.
- Royalty oil production, which has higher operating netbacks and returns, averaged 5,113 boe/d in Q4-2019, increasing 5% when compared to the same period last year and 4% higher than Q3-2019.
- Royalty revenue totaled \$35.7 million in Q4-2019, up from \$24.0 million the previous year. Total royalty revenue comprised of 85% oil and NGL's.

- Operating income ⁽¹⁾ from royalties represented 100% of our total operating income for both the current quarter and the full year. Freehold continues to improve the quality of our assets through the growth of higher netback royalty volumes and ongoing working interest dispositions.
- Q4-2019 royalty and other revenue totaled \$36.8 million, up 48% versus the previous year largely due to higher realized oil prices. Freehold's average realized oil and NGL price in the quarter was \$55.47/boe, compared to \$34.48/boe in Q4-2018.
- Q4-2019 net income totaled \$6.1 million, driven by higher realized oil prices and production growth. This compared to a \$4.2 million net loss in Q4-2018.
- Funds from operations for Q4-2019 totaled \$30.7 million, an increase of 66% versus the same period in 2018. On a per share basis, funds from operations totaled \$0.26 per share in Q4-2019, up from \$0.16 per share in Q4-2018 and \$0.24 per share in Q3-2019.
- At December 31, 2019, net debt totaled \$94.6 million, down from \$105.5 million in Q3-2019, implying a net debt to 12-month trailing funds from operations ratio of 0.8 times. The decrease in net debt over the previous quarter reflected excess free cash flow over and above our dividend in Q4-2019.
- Wells drilled on our royalty lands totaled 186 (4.5 net) in the quarter, down versus 220 (7.4 net) drilled during the same period in 2018. Our royalty assets continue to attract capital despite headwinds associated with Canadian energy development.
- In Q4-2019, Freehold issued 24 leases associated with our unleased mineral title lands; 93 leases were issued in total in 2019, compared to 102 leases in 2018.
- Cash costs for the quarter totaled \$5.09/boe, up from \$4.67/boe in Q3-2019 and \$5.08/boe during the same period last year. The increase in costs from Q3-2019 primarily reflects increased general and administrative charges associated with acquisition initiatives.

(1) See Non-GAAP Financial Measures.

2019 Performance Compared to Guidance

Compared to our original March 2019 and revised November 2019 guidance:

- Royalty production averaged 10,229 boe/d for 2019, at the high end of our original guidance range of 9,700-10,300 boe/d and the midpoint of our revised guidance, forecasting 2019 royalty volumes to average 10,000-10,500 boe/d.
- Average commodity prices for WTI, Edmonton Light Sweet, WCS and AECO were slightly higher when compared to our March 2019 guidance
- Operating costs at \$1.02/boe met our original and revised guidance expectations.
- General and administrative costs at \$3.11/boe were slightly higher than guidance figures due to higher costs related to acquisition activity.
- The 2019 royalty drilling count totaled 20.8 net wells compared to our estimates of 20.0 net wells.
- Our 2019 payout ratio (dividends paid/funds from operations) was 63%, this compared to our original estimate of 76%, largely reflecting better than forecast commodity pricing.
- Net debt to funds from operations ended the 2019 year at 0.8 times, in-line with our original guidance at 0.7 times.

2019 Annual Average		2019 Actual Results	Nov. 13, 2019	Mar. 7, 2019
Royalty production (excludes working interest production)	boe/d	10,229	10,000-10,500	9,900-10,300
West Texas Intermediate crude oil	US\$/bbl	56.99	56.50	55.00
Edmonton Light Sweet crude oil	Cdn\$/bbl	69.58	64.50	61.00
AECO monthly contract natural gas	Cdn\$/Mcf	1.62	1.70	1.60
Exchange rate	Cdn\$/US\$	0.75	0.75	0.76
Operating costs	\$/boe	1.02	1.00	1.00
General and administrative costs ⁽¹⁾	\$/boe	3.11	3.00	3.00
Weighted average shares outstanding	millions	119	119	119

(1) Excludes share based compensation.

Quarterly Performance and Trends

Quarterly variances in revenues, net income (loss) and funds from operations are caused mainly by fluctuations in commodity prices and production volumes. Crude oil prices are generally determined by global supply and demand factors, and the variances do not have seasonal predictability. Natural gas is a typically seasonal, weather-dependent fuel; demand is generally higher during the winter (for heating) and summer (for cooling), and lower during the spring and fall. Over most of the past eight quarters, this seasonality has been muted by ample supply.

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial (\$000s, except as noted)								
Royalty and other revenue	36,827	33,068	35,333	35,609	24,837	40,587	39,961	39,157
Funds from operations	30,659	27,996	30,095	29,348	18,463	35,900	34,540	32,384
Per share, basic (\$)	0.26	0.24	0.25	0.25	0.16	0.30	0.29	0.27
Net income (loss)	6,113	2,729	3,430	(7,079)	(4,166)	8,389	5,386	4,423
Per share, basic and diluted (\$)	0.05	0.02	0.03	(0.06)	(0.04)	0.07	0.05	0.04
Dividends declared	18,683	18,669	18,660	18,651	18,643	18,634	18,625	18,026
Per share (\$) ⁽¹⁾	0.1575	0.1575	0.1575	0.1575	0.1575	0.1575	0.1575	0.1525
Payout ratio (%) ⁽²⁾	61	67	62	64	101	52	54	56
Operating Income ⁽²⁾	35,758	32,175	34,315	34,644	23,452	39,225	38,331	37,658
Operating income from royalties (%)	100	100	100	99	102	99	100	99
Acquisitions and related expenditures	2,727	15,060	30,313	929	11,071	18,750	3,516	32,396
Working interest dispositions	36	8	52	(30)	581	1	7	8,130
Net debt	94,634	105,524	98,310	77,533	89,375	78,657	77,908	89,567
Shares outstanding								
Weighted average, basic (000s)	118,568	118,513	118,458	118,403	118,348	118,293	118,238	118,183
At quarter end (000s)	118,623	118,568	118,513	118,458	118,403	118,348	118,293	118,238
Operating (\$/boe, except as noted)								
Royalty production (boe/d) ⁽³⁾	10,315	10,149	10,311	10,139	10,312	10,322	11,052	11,197
Light and medium oil (bbls/d)	4,024	3,771	3,727	3,734	3,934	3,649	3,872	3,917
Heavy oil (bbls/d)	1,089	1,148	983	911	929	1,095	1,180	1,264
NGL (bbls/d)	799	740	962	912	955	864	903	860
Natural gas (MMcf/d)	26,416	26,938	27,834	27,492	26,962	28,284	30,581	30,933
Total production (boe/d) ⁽³⁾	10,740	10,482	10,664	10,627	10,929	11,002	11,721	12,002
Royalty interest (%)	96	97	97	95	94	94	94	93
Average selling price	37.04	33.87	35.88	36.29	23.40	38.95	36.96	34.52
Operating netback ⁽²⁾	36.19	33.36	35.36	36.22	23.33	38.74	35.94	34.86
Operating expenses	1.08	0.93	1.05	1.01	1.38	1.35	1.53	1.39
General and administrative expenses ⁽⁴⁾	2.97	2.59	2.67	4.22	2.74	2.06	2.36	3.60
Benchmark Prices								
West Texas Intermediate crude oil (US\$/bbl)	56.99	56.36	59.79	54.82	58.81	69.50	67.88	62.87
Exchange rate (Cdn\$/US\$)	0.76	0.76	0.75	0.75	0.76	0.77	0.77	0.79
Edmonton Light Sweet crude oil (Cdn\$/bbl)	68.12	70.27	73.84	66.02	42.78	81.62	80.47	71.88
Western Canadian Select crude oil (Cdn\$/bbl)	54.16	58.12	65.66	56.77	25.13	61.81	62.82	48.77
AECO monthly contract natural gas (Cdn\$/Mcf)	2.34	1.04	1.17	1.94	1.90	1.35	1.03	1.85
AECO daily average natural gas (Cdn\$/Mcf)	2.47	0.91	1.04	2.60	1.56	1.19	1.18	2.08
Share Trading Performance								
High (\$)	7.58	8.58	9.88	9.35	11.58	12.78	14.01	14.85
Low (\$)	6.34	6.90	7.98	8.07	7.68	10.97	11.81	11.71
Close (\$)	7.29	7.52	8.47	8.41	8.27	11.14	12.40	12.35
Volume (000s)	29,487	18,471	16,495	23,940	24,314	17,864	19,975	15,635

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

(2) See Non-GAAP Financial Measures.

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

(4) Excludes share based compensation.

Revenues

Production

As we hold royalty interests in over 44,700 wells operated by over 300 industry partners, directly obtaining timely production data is not feasible. Thus, 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.

Freehold's total production was down 7% in 2019 primarily associated with acquisitions and third-party royalty drilling additions not offsetting natural declines. Production volumes were comprised of 45% natural gas, 36% light and medium oil, 11% heavy oil and 8% NGL's. Year-over-year, we increased our oil weighting by approximately 2%, primarily reflecting growth in light oil volumes and development by third-party operators.

Royalty interests comprised 96% of total production in 2019, up from 94% in 2018. Royalty production volumes averaged 10,229 boe/d, a 5% decrease over the previous year.

Working interest production declined 42% in 2019 versus 2018. The reduction in working interest volumes was largely the result of ongoing working interest dispositions, seasonal market pricing based shut-ins and limited development expenditures.

Production Summary ⁽¹⁾

(boe/d)	2019	2018	Change
Royalty interest	10,229	10,718	-5%
Working interest	399	692	-42%
Total	10,628	11,410	-7%

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

Average Daily Production by Product Type

	2019	2018	Change
Royalty interest ⁽¹⁾			
Light and medium oil (bbls/d)	3,814	3,843	-1%
Heavy oil (bbls/d)	1,034	1,116	-7%
NGL (bbls/d)	853	896	-5%
Natural gas (MMcf/d)	27,166	29,177	-7%
Oil equivalent (boe/d)	10,229	10,718	-5%
Working interest ⁽¹⁾			
Light and medium oil (bbls/d)	39	87	-55%
Heavy oil (bbls/d)	133	217	-39%
NGL (bbls/d)	32	53	-40%
Natural gas (Mcf/d)	1,167	2,009	-42%
Oil equivalent (boe/d)	399	692	-42%
Total			
Light and medium oil (bbls/d)	3,853	3,930	-2%
Heavy oil (bbls/d)	1,167	1,333	-12%
NGL (bbls/d)	885	949	-7%
Natural gas (Mcf/d)	28,333	31,186	-9%
Oil equivalent (boe/d)	10,628	11,410	-7%

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

Product Prices

For 2019, WTI prices averaged US\$56.99/bbl, 12% lower versus the WTI price realized in 2018. Alternatively, WCS prices averaged \$58.70/bbl in 2019, up 18% versus the same period in 2018. Edmonton Light Sweet price averaged \$69.58/bbl during the year, representing a 1% increase versus 2018. On the natural gas front, AECO prices averaged \$1.62/mcf, up 6% versus last year.

Average Benchmark Prices

	2019	2018	Change
West Texas Intermediate crude oil (US\$/bbl)	56.99	64.77	-12%
Exchange rate (Cdn\$/US\$)	0.75	0.77	-3%
Edmonton Light Sweet crude oil (Cdn\$/bbl)	69.58	69.19	1%
Western Canadian Select crude oil (Cdn\$/bbl)	58.70	49.63	18%
AECO monthly contract natural gas (Cdn\$/Mcf)	1.62	1.53	6%

The price we receive for our oil production is primarily driven by the U.S. dollar price of WTI. It is also affected by the US\$/Cdn\$ exchange rate, with a decrease in the value of the Canadian dollar relative to the U.S. dollar increasing the revenue received. Our average realized oil prices also reflect product quality and transportation differences from benchmark prices. Our natural gas price realizations are discounted compared to AECO pricing as they, in some cases, include transportation and processing fees netted from certain natural gas royalty payments. On a boe basis, our total average selling price was 7% higher in 2019, reflecting stronger heavy oil and natural gas prices.

Average Realized Prices

	2019	2018	Change
Oil (\$/bbl)	61.87	57.53	8%
NGL (\$/bbl)	31.33	43.00	-27%
Oil and NGL (\$/bbl)	57.29	55.31	4%
Natural gas (\$/Mcf)	1.48	1.25	18%
Oil equivalent (\$/boe)	35.78	33.54	7%

Marketing and Hedging

Our production remained unhedged in 2019. Our hedging policy is reviewed quarterly with the Board.

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 12% of our total royalty production using 30-day contracts.

Royalty and Other Revenue

Total royalty and other revenue of \$140.8 million in 2019 was down slightly from \$144.5 million or 3% relative to 2018. Total royalty revenue was down 1% largely due to lower production volumes. Bonus consideration and lease rentals at \$1.1 million for 2019 decreased by \$2.8 million or 72% over 2019 as the result of a shift in focus by our leasing team to plays with shorter primary terms, with an emphasis on well commitments rather than significant up-front consideration. Working interest revenues were down 34% versus 2018 largely as a result of continued dispositions and limited spending on the assets over the year.

Royalty and Other Revenue

(\$000s)	2019	2018	Change
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	135,744	134,304	1%
Bonus consideration and lease rentals	1,082	3,851	-72%
Total royalty revenue	136,826	138,155	-1%
Working interest revenue	4,661	7,081	-34%
Royalty expense	(650)	(694)	-6%
Total royalty and other revenue	140,837	144,542	-3%

(1) Includes potash royalties and other.

Royalty and Other Revenue by Product

(\$000s)	2019	2018	Change
Oil	113,379	110,513	3%
Natural gas	15,294	14,248	7%
NGL	10,120	14,895	-32%
Potash	1,173	1,400	-16%
Bonus consideration and lease rentals	1,082	3,851	-72%
Other	439	329	33%
Total royalty and other revenue by type	141,487	145,236	-3%
Total royalty expense	(650)	(694)	-6%
Total royalty and other revenue	140,837	144,542	-3%

The following table demonstrates the net effect of price and volume variances on royalty and other revenue. In summary, the 2019 strength in oil and natural gas prices versus 2018 was more than offset by the effect of reduced production year-over-year primarily on the oil side.

Royalty and Other Revenue Variances

(\$000s)	2019 vs. 2018	2018 vs. 2017
Oil and NGL		
Production decrease	(6,401)	(11,700)
Price increase	4,493	11,564
Net increase (decrease)	(1,908)	(136)
Natural gas		
Production increase (decrease)	(1,541)	(986)
Price increase (decrease)	2,587	(7,060)
Net increase (decrease)	1,046	(8,046)
Other⁽¹⁾	(2,843)	2,004
Gross revenue increase (decrease)	(3,705)	(6,178)

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

Expenses

Operating Expenses

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

The decrease in operating expenses to \$3.9 million from \$5.9 million was largely the result of reduced working interest production volumes from 2018 to 2019.

Operating Expenses⁽¹⁾

(\$000s, except as noted)	2019	2018	Change
Total operating expenses	3,945	5,876	-33%
Per boe (\$)	1.02	1.41	-28%

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

Netback Analysis

As a royalty owner, we share in production revenue without incurring the operational costs, risks, and responsibilities typically associated with oil and natural gas operations. The following tables demonstrate the advantage of our royalty lands, which have no operating or royalty expenses other than minor freehold mineral taxes. Royalty interests accounted for 97% of royalty and other revenue in 2019 and more importantly contributed nearly 100% of operating income. A 6% improvement in the 2019 operating netback to \$35.28/boe is a function of higher oil prices and natural gas prices and an improved cost structure (higher royalty percentage).

2019 Operating Income ⁽¹⁾

(\$000s)	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	136,826	4,661	141,487
Royalty expense ⁽³⁾	(320)	(330)	(650)
Net revenue	136,506	4,331	140,837
Operating expense	-	(3,945)	(3,945)
Operating income	136,506	386	136,892
Percentage by category	99.7%	0.3%	100%

(1) See Non-GAAP Financial Measures.

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

(3) Royalty expense includes both Crown charges and royalty payments to third parties.

2019 Operating Netback ⁽¹⁾

(\$ per boe)	Royalty Interest	Working Interest	Total
Royalty and other revenue	36.65	31.99	36.47
Royalty expense ⁽²⁾	(0.09)	(2.26)	(0.17)
Net revenue	36.56	29.73	36.30
Operating expense	-	(27.07)	(1.02)
Operating netback	36.56	2.66	35.28

(1) See Non-GAAP Financial Measures.

(2) Royalty expense includes both Crown charges and royalty payments to third parties.

2019 vs. 2018 Operating Netback ⁽¹⁾

(\$ per boe)	2019	2018	Change
Royalty interest	36.56	35.30	4%
Working interest	2.66	2.28	17%
Total	35.28	33.30	6%

(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 2019, G&A expenses totaled \$12.1 million. On a per boe basis, costs were up 15% year-over-year to \$3.11/boe mainly due to lower production and increased acquisition expenses primarily associated with the development of our U.S. royalty portfolio.

General and Administrative Expenses

(\$000s, except as noted)	2019	2018	Change
General and administrative expenses, before capitalized and overhead recoveries	13,764	12,846	7%
Less: capitalized and overhead recoveries	(1,701)	(1,608)	6%
General and administrative expenses	12,063	11,238	7%
Per boe (\$)	3.11	2.70	15%

Management Fee

The Manager (see Related Party Transactions) receives a management fee in Freehold common shares. The amended and restated management agreement dated November 9, 2015 (the Management Agreement) capped the management fee at 55,000 Freehold common shares per quarter for 2019. In 2020, the management fee will be capped at 41,250 Freehold common shares per quarter with the fee decreasing to 5,500 shares per quarter by 2023. The ascribed value associated with the management fee was down 28% compared to 2018 reflecting lower Freehold common share prices in 2019.

Management Fees (paid in shares)

	2019	2018	Change
Shares issued in payment of management fees	220,000	220,000	-
Ascribed value (\$000s) ⁽¹⁾	1,743	2,429	-28%
Per boe (\$)	0.45	0.58	-22%

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

Share Based Compensation

Long-Term Incentive Plans

In 2017, Freehold adopted a new long-term award plan (Freehold Award Plan) to replace the previous long-term incentive plan (previous LTIP) for the employees of Rife Resources Ltd. (see Related Party Transactions). Both the new and the previous LTIP are share based and cash settled. Grants will no longer be made under the previous LTIP and all remaining grants under such plan vested and were paid out in early 2019. Freehold's long-term incentive compensation consists of grants of performance share units (PSUs) and restricted share units (RSUs) under the new Freehold Award Plan.

Under both the new and previous LTIP, compensation expense is based on Freehold's share price, the number of share based awards outstanding at each period end, an estimated performance multiplier, if applicable, and an estimated forfeiture rate. Compensation expense is recognized over the vesting period. Also, for the PSUs there is a performance multiplier of 0 to 2 times based upon 50% of an absolute total shareholder return and 50% on a relative total shareholder return over a three-year period.

The 2016 grants under the previous LTIP valued at \$0.2 million vested and were paid out in 2019 (2015 grants vested in 2018 and \$0.3 million was paid out). One-third of both the granted 2017 and 2018 RSUs vested in 2019 and a total of \$0.2 million was paid out upon vesting in 2019. During 2019, there were 189,820 RSUs and PSUs granted under the new Freehold Award Plan (after estimated forfeitures).

The total expensed for the year-ended December 31, 2019 was \$0.8 million (2018 recovered - \$0.8 million), largely the result of the decrease in Freehold's share price in prior years.

Deferred Share Unit Plan

Pursuant to our deferred share unit plan, fully-vested deferred share units (DSUs) are granted annually in the first quarter to non-management directors and are redeemable for an equal number of Freehold common shares (less tax withholdings if necessary) after the director's retirement. Dividends declared prior to redemption are assumed to be reinvested in notional share units on the dividend payment date. In 2019 Freehold expensed \$0.6 million (2018 - \$0.6 million) of share based compensation with a corresponding offset to contributed surplus.

On January 1, 2019 the Board granted 58,646 DSUs to eligible directors and 66,529 DSUs were granted on January 1, 2020. As at December 31, 2019, there were 236,311 DSUs outstanding, and at March 4, 2020, there were 306,642 DSUs outstanding (including notional DSUs granted as a result of dividends paid on our common shares).

Share Based Compensation

(\$000s, except as noted)	2019	2018	Change
Gross LTIP (recovery)	933	(997)	-194%
Less: capitalized portion	(148)	159	-193%
Net LTIP (recovery)	785	(838)	-194%
Deferred share unit plan	623	581	7%
Share based and other compensation (recovery)	1,408	(257)	-648%
Per boe (\$)	0.36	(0.06)	-700%

Related Party Transactions

Freehold does not have any employees. Rife Resources Management Ltd. (the Manager) is the manager of Freehold. The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). 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. Two of Rife and Canpar's directors are also directors of Freehold.

a) Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of shares per quarter, pursuant to the Management Agreement. The Management agreement capped the management fee at 55,000 shares per quarter in 2019. For the year-ended December 31, 2019, Freehold issued 220,000 shares (2018 - 220,000) as payment of the management fee to the Manager pursuant to the Management Agreement. For the year-ended December 31, 2019, the ascribed value of \$1.7 million (2018 - \$2.4 million) was based on the closing price of the shares on the last trading day of each quarter. Effective January 1, 2020, the Management Agreement will limit the management fee at 41,250 shares per quarter to a maximum quarterly fee of \$783,750.

For the year-ended December 31, 2019, the Manager charged \$10.0 million in general and administrative costs (2018 - \$9.8 million). At December 31, 2019, there was \$0.7 million (2018 - \$0.7 million) in accounts payable and accrued liabilities relating to these costs.

b) Rife Resources Ltd.

Freehold maintains ownership 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 December 31, 2019, there was \$nil (2018 - \$nil) in accounts receivable related to these transactions. At December 31, 2019, there was \$nil (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 year-ended December 31, 2019, Freehold received royalties of approximately \$0.7 million (2018 - \$0.6 million). At December 31, 2019, there was \$0.1 million (2018 - \$nil) in accounts receivable relating to these transactions.

c) Canpar Holdings Ltd.

Freehold and Canpar share mineral title ownership 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.

At December 31, 2019, there was \$nil (2018 - \$nil) in accounts receivable relating to transactions with Canpar. At December 31, 2019, there was \$nil (2018 - \$nil) in accounts payable and accrued liabilities relating to transactions with Canpar.

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

Key Management Personnel Compensation

Expenses relating to compensation for key management personnel, considered to be the members of the Board and executive officers, are as follows:

(\$000s)	2019	2018
Short-term benefits (including employee wages and directors fees)	1,659	1,368
Share based compensation	899	320
Total	2,558	1,688

Finance Expense

In 2019, interest and financing expense increased due to higher average debt levels and a slight interest rate increase. The average effective interest rate on advances under our credit facilities during 2019 was 3.5% (2018 - 3.3%).

Interest and Financing

(\$000s, except as noted)	2019	2018	Change
Interest and financing expense	4,002	3,705	8%
Non-cash finance expenses	247	334	-26%
Total finance expense	4,249	4,039	5%
Per boe (\$)	1.10	0.97	13%
Per boe - cash expense (\$)	1.03	0.89	16%

Depletion and Depreciation

Petroleum and natural gas interests, including the costs of production equipment, future capital costs, estimated decommissioning costs, and directly attributable general and administrative costs, are depleted on the unit-of-production method based on estimated proved plus probable oil and gas reserves (see Critical Accounting Estimates). Reserves are independently evaluated at year-end. For December 31, 2019, the estimate of proved plus probable reserves was based on the independent evaluation effective at December 31, 2019.

Depletion and Depreciation

(\$000s, except as noted)	2019	2018	Change
Depletion and depreciation	94,912	102,042	-7%
Per boe (\$)	24.47	24.50	0%

Income Tax

As a corporation, taxable income is based on revenues (which will vary depending on commodity prices and production volumes) less allowable expenses, including claims for both accumulated tax pools and tax pools associated with current year expenditures. In 2019 corporate federal and provincial income tax rates for Freehold were approximately 26.6% (2018 – 27.0%). In 2020, Freehold is expected to be taxable on its United States income, although it was not in 2019.

In 2019, Freehold had no current tax expense (2018 - \$nil) and deferred tax expense was \$3.3 million (2018 - \$5.1 million), as the use of tax pools offset Freehold's taxable income. For the year-ended December 31, 2019, deferred tax expense included a \$1.0 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, eventually reducing the rate down to 8%. At December 31, 2019, Freehold had a deferred income tax asset of \$13.1 million (2018 - \$16.4 million), as a result of accumulated tax pools.

Tax Pools

We are entitled to claim certain tax deductions available to all owners of oil and gas properties. Freehold's tax pools decreased to \$838.4 million at the end 2019 (from \$904.9 million at the end of 2018), as additions through acquisitions did not offset their application against 2019 taxable income. The tax pools below are deductible at various rates.

Tax Pools ⁽¹⁾

(\$000s)	2019	2018	Change
Canadian oil and gas property expense (10% declining balance)	662,562	705,718	-6%
Canadian development expense (30% declining balance)	21,953	31,344	-30%
Capital cost allowance (generally 25%)	8,185	9,900	-17%
Share issue costs	1,602	6,277	-74%
Non-capital losses	128,238	151,668	-15%
United States tax pools	15,893	-	0%
Total	838,433	904,907	-7%

(1) These amounts, subject to review by Canada Revenue Agency, represent Freehold's direct tax pools as well as the tax pools of its subsidiaries.

During the year-ended December 31, 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 consolidated financial statements relating to the Proposal Letter.

Impairment

For both December 31, 2019 and 2018, there were no indicators of impairment or impairment reversal. As a result, no impairment or impairment reversal testing was conducted.

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.

Freehold also completed its first U.S. based royalty transaction in 2019, acquiring certain royalty assets in North Dakota for US\$9.8 million. Freehold subsequently made a series of smaller transactions on early stage assets focused in North Dakota. In total, Freehold has acquired US\$12.5 million in U.S. assets during 2019.

For the year-ended December 31, 2018, Freehold closed the sale of its Pembina Cardium Unit No. 9 working interest property in exchange for cash proceeds of \$8.7 million (including final adjustments) and an acquisition of a new 4% gross overriding royalty on the same property valued at \$1.9 million. At December 31, 2017, this working interest

property was classified as assets held for sale as it was highly probable that its carrying value would be received through a sales transaction rather than continued use. At December 31, 2017, this working interest asset was recorded at the lower of carrying value and management's best estimate of its fair value less costs to sell, resulting in Freehold recording an impairment of \$6.3 million. Freehold reclassified its new recoverable estimated net book value of \$13.8 million from its Other Working Interest cash generating unit (CGU) in petroleum and natural gas interests to assets held for sale. In addition, Freehold reclassified its proportionate share of decommissioning liabilities of \$3.7 million to liabilities related to assets held for sale. These assets and related liabilities held for sale were removed in 2018 when the transaction closed.

Liquidity and Capital Resources

We define capital (and capitalization) as long-term debt, shareholders' equity, and working capital. We manage our capital structure taking into account operating activities, debt levels, debt covenants, acquisitions, capital expenditures, dividend levels, and taxes, among others. We also consider changes in economic conditions and commodity prices as well as the risk characteristics of our assets. We have a depleting asset base, and ongoing development activities and acquisitions are necessary to replace production and extend reserve life. From time to time, we may issue shares or adjust capital spending to manage current and projected debt levels.

Operating Activities

In 2019 Freehold generated net income of \$5.2 million compared to \$14.0 million net income in 2018. The 63% decrease in net income was largely the result of a non-recurring impairment expense of \$14.1 million in Q1-2019 (offset by a related \$3.8 million deferred tax recovery) due to the conversion of a production volume royalty to a gross overriding royalty on one of our assets.

Cashflow from operations in 2019 was \$105.8 million compared with \$133.1 million in 2018. Funds from operations in 2019 decreased 3% to \$118.1 million from \$121.3 million in 2018 as reduced production was partially offset by higher realized prices.

We consider funds from operations to be a key measure of operating performance as it demonstrates Freehold's ability to generate necessary funds to fund capital expenditures, sustain dividends and repay debt. We believe that such a measure provides a useful assessment of Freehold's operations on a continuing basis by eliminating certain non-cash charges. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share.

(\$000s, except as noted)	2019	2018	Change
Net income	5,193	14,032	-63%
Per share, basic and diluted (\$)	0.04	0.12	-67%
Funds from operations	118,098	121,287	-3%
Per share (\$)	1.00	1.03	-3%

Financing Activities

Working Capital

We retain working capital (calculated as current assets less current liabilities) primarily to fund capital expenditures or acquisitions and reduce bank indebtedness. In the oil and gas industry, accounts receivable from industry partners are typically settled in the following month. However, due to royalty administration, payments to royalty owners are often delayed longer. Also, working capital can fluctuate significantly due to volume and price changes at each period end, unpaid capital expenditures and asset and liability reclassifications.

Working capital at December 31, 2019 was \$14.4 million, higher by \$13.8 million from year-end 2018. Accounts receivable increased \$12.0 million due to improved oil prices used to estimate outstanding accounts receivable relating to periods at the end of 2019 as compared with 2018.

Components of Working Capital

(\$000s)	As at December 31		
	2019	2018	Change
Cash	1,199	1,262	-5%
Accounts receivable	24,894	12,938	92%
Current assets	26,093	14,200	84%
Dividends payable	(6,232)	(6,215)	0%
Accounts payable and accrued liabilities	(3,895)	(4,610)	-16%
Current portion of lease obligation	(49)	-	0%
Current portion of share based compensation	(745)	(466)	60%
Current portion of decommissioning liabilities	(806)	(2,284)	-65%
Current liabilities	(11,727)	(13,575)	-14%
Working capital	14,366	625	2199%

Long-Term Debt

At December 31, 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 December 31, 2019 \$109 million was drawn.

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 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, which was 0.9 times at December 31, 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%, which was 13% at December 31, 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 December 31, 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. In 2019, the average effective interest rate on advances under Freehold's credit facilities was 3.5% (2018 – 3.3%).

In 2019 net debt increased to \$94.6 million at year-end from \$89.4 million at year-end 2018. Net debt was affected by our acquisitions, dispositions, free cash flow in excess of our dividends and the change in working capital mentioned above.

Debt Analysis

(\$000s)	2019	2018	Change
Long-term debt	109,000	90,000	21%
Short-term debt (operating line)	-	-	-
Total debt	109,000	90,000	21%
Working capital	(14,366)	(625)	2199%
Net debt	94,634	89,375	6%

Freehold's 2019 net debt to funds from operations ratio was 0.8 times (2018 – 0.7 times) and well within our debt 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, among others. Freehold's long-term debt of \$109 million increased by 21% year-over-year, primarily due to 2019 acquisition activity.

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. Freehold's ratio in 2019 of 12% (2018 – 10%) reflects its low debt levels and resulting low financial risk.

Financial Leverage Ratios

	2019	2018	Change
Net debt to trailing funds from operations (times)	0.8	0.7	14%
Net debt to net debt plus shareholders' equity (%)	12	10	20%

Non-Derivative Financial Liabilities

Freehold's non-derivative financial liabilities include its dividends payable, accounts payable and accrued liabilities, lease obligation, share based compensation payable, decommissioning liability and long-term debt. Freehold has no derivative financial liabilities.

The following table outlines cash flows associated with contractual maturities of Freehold's non-derivative financial liabilities as at December 31, 2019.

(\$000s)	Less than			Total
	1 Year	2-3 Years	over 3 years	
Dividends payable	\$ 6,232	-	-	\$ 6,232
Accounts payable and accrued liabilities	3,895	-	-	3,895
Lease obligation	49	337	1,539	1,925
Share based compensation payable	745	597	-	1,342
Decommissioning liability	806	1,236	7,980	10,022
Long-term debt	-	109,000	-	109,000
Total	\$ 11,727	111,170	9,519	\$ 132,416

Shareholders' Capital

As at December 31, 2019 and March 4, 2020 there were 118,622,667 shares outstanding. During 2019, Freehold issued 220,000 shares (2018–220,000) for payment of the management fee (see Related Party Transactions). During 2019 and 2018 there were no shares issued for the redemption of DSUs (see Share Based Compensation).

Shareholders' Capital

	December 31, 2019		December 31, 2018	
	Shares	Amount (\$000s)	Shares	Amount (\$000s)
Balance, beginning of year	118,402,667	1,270,020	118,182,667	1,267,591
Issued for payment of management fee	220,000	1,743	220,000	2,429
Balance, end of year	118,622,667	1,271,763	118,402,667	1,270,020

Shares Outstanding

	2019	2018	Change
Weighted average			
Basic	118,486,297	118,266,297	-
Diluted	118,713,229	118,421,937	-
At December 31	118,622,667	118,402,667	-

Dividend Policy and Analysis

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

The payment of dividends by a corporation is governed by the liquidity and insolvency tests described in the *Business Corporations Act* (Alberta) (ABCA). Pursuant to the ABCA, after the payment of a dividend, we must be able to pay our liabilities as they become due and the realizable value of our assets must be greater than our liabilities and the legal stated capital of our outstanding securities. As at December 31, 2019 and 2018 our legal stated capital was \$500 million.

2019 Dividends Declared

Record Date	Payment Date	Dividend Amount (\$ per share)
January 31, 2019	February 15, 2019	0.0525
February 28, 2019	March 15, 2019	0.0525
March 31, 2019	April 15, 2019	0.0525
April 30, 2019	May 15, 2019	0.0525
May 31, 2019	June 15, 2019	0.0525
June 30, 2019	July 15, 2019	0.0525
July 31, 2019	August 15, 2019	0.0525
August 30, 2019	September 16, 2019	0.0525
September 30, 2019	October 15, 2019	0.0525
October 31, 2019	November 15, 2019	0.0525
November 30, 2019	December 16, 2019	0.0525
December 31, 2019	January 15, 2020	0.0525
Total		0.6300

Dividends declared in 2019 totaled \$74.7 million (\$0.63 per share), up from \$73.9 million (\$0.63 per share) in 2018. The monthly dividend is currently set at \$0.0525 per share. From inception of Freehold Royalty Trust in 1996 to December 31, 2019, Freehold has distributed \$1.7 billion (\$32.31 per share) to our shareholders. Freehold's dividends are designated as eligible dividends for Canadian income tax purposes.

Accumulated Dividends ⁽¹⁾

	2019	2018	Change
Dividends declared (\$000s)	74,663	73,928	1%
Accumulated, beginning of year	1,627,880	1,553,952	5%
Accumulated, end of year	1,702,543	1,627,880	5%
Dividends per share (\$) ⁽²⁾	0.630	0.625	1%
Accumulated, beginning of year	31.675	31.050	2%
Accumulated, end of year	32.305	31.675	2%

(1) Accumulated dividends reflect distributions paid on trust units of Freehold Royalty Trust (the predecessor of Freehold) from 1996 through 2010 and dividends paid 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. In 2019 Freehold's payout ratio was 63% exhibiting that dividend payments are being made within our means, with excess free cash flow (see Non-GAAP Financial Measures) being used to repay debt and fund acquisitions.

Dividends Analysis

(\$000s)	2019	2018	Change
Total dividends paid ⁽¹⁾	74,663	73,713	1%
Dividends declared	74,663	73,928	1%
Funds from operations	118,098	121,287	-3%
Payout ratio ⁽²⁾	63%	61%	3%

(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).

Reconciliation of Dividends Declared

(\$000s)	2019	2018	Change
Funds from operations	118,098	121,287	-3%
Debt additions	19,000	-	0%
Acquisitions	(49,689)	(65,733)	-24%
Working interest dispositions	(126)	8,719	-101%
Working capital change	(12,620)	9,655	-231%
Dividends declared	74,663	73,928	1%

Investing Activities

Acquisitions

Freehold's acquisition strategy targets individual properties or groups of properties to augment our production, reserves and land, with a focus on royalty interests. The key criteria are:

- quality assets;
- attractive returns;
- acceptable risk profile; and
- long economic life.

Freehold spent a total of \$46.0 million on acquisitions in 2019 with notable transactions as follows:

- In June 2019, Freehold closed a \$30.0 million acquisition of a gross overriding royalty with drilling commitments on certain light and medium oil reservoirs in central and northern Alberta and southwest Saskatchewan.
- In July 2019, Freehold closed a US\$9.8 million acquisition of certain royalty assets located in North Dakota. In addition, Freehold closed the acquisition of a further developed 230 net mineral acres in North Dakota for cash consideration of US\$1.3 million.

For the year-ended December 31, 2018, Freehold had royalty acquisition activity of \$61.7 million.

Working Interest Dispositions

During the year-ended December 31, 2019 Freehold had several small working interest dispositions and related adjustments resulting in cash disbursements of \$0.1 million.

For the year-ended December 31, 2018, Freehold closed the sale of its Pembina Cardium Unit No. 9 working interest property in exchange for cash proceeds of \$8.7 million (including final adjustments) and an acquisition of a new 4% gross overriding royalty on the same property valued at \$1.9 million (see Impairment, Impairment Reversal and Gain on Working Interest Dispositions).

Decommissioning Liability

We have no decommissioning liability on our royalty interest properties. Our decommissioning liability results from our responsibility to abandon and reclaim our net share of our working interest properties. During 2019 we spent \$2.2 million on decommissioning activities (2018 - \$2.0 million) as we continue to address our obligations in a responsible fashion.

The undiscounted value of Freehold's total decommissioning liability is estimated to be \$10.4 million (2018 – \$12.0 million). Payments to settle the obligations are expected to occur over the next 50 years, with the majority being settled within 10-years. At December 31, 2019, a risk-free rate of 1.8% (2018 – 2.2%) and an inflation rate of 1.4% (2018 – 2.0%) were used to calculate the fair value. The fair value of the decommissioning liability at December 31, 2019 was \$10.0 million (2018 - \$11.9 million) with the current portion of the liability being \$0.8 million (2018 - \$2.3 million).

Business Risks and Mitigating Strategies

Our operations are subject to some of the same industry risks and conditions faced by oil and gas companies. The most significant of these include the following:

- fluctuations in commodity prices and quality differentials as a result of weather patterns, world and North American market forces or shifts in the balance between supply and demand for crude oil and gas;
- climate change concerns reducing the demand for crude oil and gas;
- access to pipelines or other transportation methods for bringing oil and natural gas to market;
- variations in currency exchange rates;
- imprecision of reserve estimates and uncertainty of depletion and recoverability of reserves. Our reserves will deplete over time through continued production and we and our industry partners and royalty payors may not be able to replace these reserves on an economic basis;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- industry activity levels and intense competition for land, goods and services, and qualified personnel;
- stock market volatility and the ability to access sufficient capital from internal and external sources;
- risk associated with volatility in global financial markets;
- risk associated with the renegotiation of our credit facility;
- operational or marketing risks resulting in delivery interruptions, delays or unanticipated production declines;
- changes in government regulations, taxation, and royalties; and
- safety and environmental risks.

For a more detailed description of risk factors, please see our Annual Information Form, filed on SEDAR.

We employ the following strategies to mitigate these risks:

- Our diversified revenue stream limits the size of any one property with respect to our total assets.
- We are not liable for abandonment and reclamation costs on our royalty lands.
- Due to our high percentage of royalty lands, we have one of the lowest all-in cost structures of our peer group. In addition, we maintain a focus on controlling direct costs to maximize profitability.
- We negotiate agreements that provide mechanisms to ensure that our interests are protected.
- Systems and processes are in place to identify any unpaid or incorrect revenues.
- We maintain a dedicated compliance function, with a comprehensive auditing program, to ensure that the terms of the various agreements are followed. During 2019, our audit staff issued audit exception queries amounting to

\$2.8 million, bringing the total amount of audit exception queries since 1997 to \$94.2 million, of which we have successfully recovered \$76.5 million.

- We adhere to strict investment criteria for acquisitions, seeking quality royalty properties that have attractive returns, acceptable risk profiles and long economic lives.
- We market our products to a diverse range of buyers or with our diverse range of royalty payors. Currently, we do not have any commodity price, exchange rate, or interest rate hedging programs in place.
- We employ a qualified Manager that has many years of experience and knowledge in managing our assets.
- We maintain levels of liability insurance that meet or exceed industry standards.
- We employ a conservative approach to debt management. As circumstances warrant, we allocate a portion of funds from operations to debt repayment.

Environmental Regulation and Risk

The Canadian crude oil and natural gas industry is currently subject to environmental regulation under a variety of Canadian federal, provincial, territorial and municipal laws and regulations, all of which are subject to governmental review and revision from time to time. These regulations are some of the most stringent and progressive in the world. Such regulations provide for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain crude oil and natural gas industry operations, including the abandonment and reclamation of well, facility and pipeline sites. Further to these specific, known requirements, future changes to environmental legislation, including legislation for air pollution and greenhouse gas emissions, may impose further requirements on operators and other companies in the crude oil and natural gas industry.

Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate measures that are ultimately put in place. Climate change concerns globally may also impact the demand for crude oil and gas. Additional specific risk factors related to the environment and climate change are included in Freehold's Annual Information Form.

Controls and Accounting Matters

In compliance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), Freehold has filed certificates signed by our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) that, among other things, deal with the matter of disclosure controls and procedures and internal control over financial reporting. While we believe that our disclosure controls and procedures and internal control over financial reporting provide a reasonable level of assurance, we do not expect that the controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

Disclosure Controls

As of December 31, 2019, an internal evaluation was carried out of the effectiveness of Freehold's disclosure controls and procedures. This evaluation was performed under the supervision of, and with the participation of the CEO and the CFO. It took into consideration Freehold's Disclosure, Insider Trading, Code of Business Conduct and Conflict of Interest, and Whistleblower policies, as well as the functioning of the Manager, the officers, the Board and Board Committees. In addition, the evaluation covered the processes, systems and capabilities relating to regulatory filings,

public disclosures, and the identification and communication of material information. Based on this evaluation, management has concluded that Freehold's disclosure controls and procedures were effective as at December 31, 2019, in ensuring that material information is made known to management in a timely manner, particularly during the period in which the annual filings were being prepared, and information required to be disclosed by Freehold in its annual filings, interim filings or other reports filed or submitted by Freehold under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Control Over Financial Reporting

Our CEO and CFO are responsible for establishing and maintaining internal control over financial reporting (ICFR). They have caused ICFR to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. The control framework used to design ICFR is the Internal Control – Integrated Framework (2013 COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Under the supervision of the CEO and CFO, Freehold conducted an evaluation of the effectiveness of its ICFR as at December 31, 2019, as structured within the 2013 COSO Framework. Based on this evaluation, the CEO and CFO concluded that, as of December 31, 2019, that ICFR was effective. Our ICFR provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There were no changes in our ICFR during the period beginning on October 1, 2019 and ended on December 31, 2019 that materially affected Freehold's ICFR.

New Accounting Standards Recent Pronouncements

IFRS 16

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., resulting in recognition of a leased asset.

Critical Accounting Estimates

Our financial statements are prepared within a framework of Canadian GAAP (being IFRS) selected by management and approved by our Board. The assets, liabilities, revenues, and expenses reported in our financial statements depend to varying degrees on estimates made by management. These estimates are based on historical experience and reflect certain assumptions about the future that are believed to be both reasonable and conservative. The more significant reporting areas are crude oil and gas reserve estimation, depletion, impairment of assets, oil and gas revenue accruals, oil and gas royalty interests, decommissioning liability and income taxes. Management's judgments and estimates in these areas are based on information available from both internal and external sources, including

engineers, geologists, and historical experience in similar matters. Actual results could differ from the estimates, as additional information becomes known.

An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain, and if different estimates that could have been used would have a material impact. We continually evaluate the estimates and assumptions. In the normal course, changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions and updating of historical information is used to develop the assumptions. Except as discussed in this MD&A, we are not aware of trends, commitments, events, or uncertainties that are expected to materially affect the methodology or assumptions associated with the critical accounting estimates.

Reserve Estimates, Depletion and Impairment Testing

The current estimates of oil and gas reserves and our future capital expenditures are based on an independent evaluation conducted as of December 31, 2019. Reserve estimates are updated once a year (as at December 31) and when a significant acquisition or development is completed. At each interim reporting date, reserves are also adjusted for production. The reserve and recovery information provided are only estimates. The actual production and ultimate reserves may be greater than or less than the estimates and the differences may be material.

Petroleum and natural gas interests, including the cost of production equipment, future capital costs, estimated decommissioning costs and directly attributable general and administrative costs are depleted on the unit-of-production method based on estimated proved plus probable oil and gas reserves. Reserves are converted to equivalent units on the basis of relative energy content. An increase in estimated proved plus probable oil and gas reserves would result in a corresponding reduction in the depletion rate.

At each reporting date, Freehold assesses groups of assets or CGUs for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, Freehold makes an estimate of its recoverable amount. Where the carrying amount of a group of assets exceeds its recoverable amount, the assets are considered impaired and written down. Impairments can be reversed if the impairment indicators have been reversed. Indicators and recoverable amounts are primarily estimates from independent sources. The determination of CGUs is subject to management judgment.

Oil and Gas Revenue Accruals and Royalty Interests

Freehold follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of revenues, royalties, production and other expenses and capital items related to the period being reported, for which actual results have not yet been received. We expect that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results. We have no operational control over our royalty lands, and we primarily hold small interests in several thousand wells. Thus, obtaining timely production data from the well operators is extremely difficult. As a result, we use government reporting databases and past production receipts to estimate revenue accruals.

Judgment is required to determine the interests of royalty properties in areas where mineral rights are shared with Canpar (see Related Party Transactions). We use publicly available information on geological formations to apportion revenues between the entities in accordance with the respective party's interests. As new geological information

becomes available and as part of our ongoing internal audit activities, we periodically revise these allocations and consideration is transferred to reflect the changes.

Decommissioning Liability

Freehold measures decommissioning liability as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date using a risk-free discount rate. This estimate is recognized when a legal or constructive obligation arises and is recorded as both a short and long-term liability, with a corresponding increase in the carrying value of the petroleum and natural gas working interest asset. The capitalized amount is depleted on a unit-of-production method over the life of the reserves. At each reporting date, the passage of time and changes to estimates results in liability changes and the amount of accretion is charged against current period income.

In determining our decommissioning liability, we are required to make a significant number of estimates with respect to activities that will occur in many years to come. In arriving at the recorded amount of the decommissioning liability, numerous assumptions are made with respect to ultimate settlement amounts, inflation factors, risk-free discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. The decommissioning liability also results in an increase to the carrying cost of capital assets. The obligation accretes to a higher amount with the passage of time as it is determined using discounted present values. A change in any one of the assumptions could affect the estimated future obligation and in return, net income. It is difficult to determine the impact of a change in any one of our assumptions. As a result, a reasonable sensitivity analysis cannot be performed.

Income Taxes

We follow the balance sheet method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantially enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material.

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 and 2020 Guidance pertaining to the following:

- our expectation of generating lower risk returns to our shareholders by driving oil and gas development on our lands through our lease program, acquiring royalty assets with acceptable risk profiles and long economic life and generating gross overriding royalties for revenue growth.;
- our intent to maintain balance sheet strength (1.5 times or less net debt to funds from operations) and achieve a payout ratio of between 60%-80%;
- our expectation of continuing to expand our U.S. footprint;
- our forecast of approximately 20 net wells drilled on our royalty lands in 2020;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil and natural gas;
- light/heavy oil price differentials;
- expectations with respect to our ability to transport oil, natural gas, NGLs and factors affecting such transport;
- 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;
- 2020 total cash costs are forecasted between a range of \$5.00/boe and \$5.50/boe.
- our strategies and the expectation that those strategies will deliver growth and lower risk attractive returns to shareholders;
- foreign exchange rates;
- forecast 2020 average royalty production, including product mix and percentage of total production and operating income from royalties;
- forecast 2020 payout ratio;
- forecast 2020 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 operations costs and general and administrative costs;
- our dividend policy and expectations for future dividends;
- treatment under governmental regulatory regimes and tax laws; and
- our assessment of risk associated with the CRA proposal.

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;
- 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;
- our ability to add production and reserves through our development and acquisitions activities.
- lack of pipeline capacity;
- currency fluctuations;
- the Alberta government's handling of oil curtailments;
- changes in income tax laws or changes in tax laws, regulations, royalties, or incentive programs relating to the oil and gas industry;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- uncertainties or imprecision associated with estimating oil and gas reserves;
- stock market volatility and our ability to access sufficient capital from internal and external sources;
- a significant or prolonged downturn in general economic conditions or industry activity;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- geological, technical, drilling, and processing problems;
- environmental risks and liabilities inherent in oil and gas operations; and
- other factors discussed in Freehold's annual MD&A, and audited financial statements for the year-ended December 31, 2019 and our Annual Information Form.

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.

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, payout ratio, free cash flow and cash costs are useful supplemental measures for management and investors to analyze operating performance, financial leverage, and liquidity, and we use these terms to facilitate the understanding and comparability of our results of operations and financial position. However, these terms do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

Operating income is calculated as royalty and other revenue less royalty and 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 royalty and operating expenses, represents the cash margin for product sold, calculated on a per boe basis (see our Netback Analysis section for calculations).

Payout ratios are often used for dividend paying companies in the oil and gas industry to identify its dividend levels in relation to the funds it receives and uses in its capital and operational activities. Payout ratio is calculated as dividends declared as a percentage of funds from operations.

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

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

(\$000s)	2019	2018	Change
Operating expense	3,945	5,876	-33%
General and administrative expenses	12,063	11,238	7%
Interest expense	4,002	3,705	8%
Expenditures on share based compensation	544	423	29%
Total cash costs	20,554	21,242	-3%

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.

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.

Management's Report

The accompanying consolidated financial statements and other financial information in this Financial Report have been prepared by management, who is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, Freehold maintains policies, procedures and systems of internal control to ensure that reporting practices and accounting and administrative procedures are appropriate to provide reasonable assurance that the assets are safeguarded, transactions are properly authorized and relevant and reliable financial information is produced.

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards and, where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Financial Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Independent auditors, KPMG LLP, were appointed by the shareholders to perform an examination of the corporate and accounting records so as to express an opinion on the consolidated financial statements. Their examination included tests and procedures considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with International Financial Reporting Standards.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through its Audit Committee, which is comprised of independent directors. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee both with and without management present to discuss their audit and related findings.

(signed) "Thomas J. Mullane"

Thomas J. Mullane
President and Chief Executive Officer

(signed) "David W. Hendry"

David W. Hendry
Vice-President, Finance and Chief Financial Officer

March 4, 2020

Independent Auditor's Report

To the Shareholders of Freehold Royalties Ltd.

Opinion

We have audited the consolidated financial statements of Freehold Royalties Ltd. (the "Company"), which comprise:

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Brad William Robertson.

(signed) "KPMG LLP"

Calgary, Canada

March 4, 2020

Consolidated Balance Sheets

(\$000s)	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash	\$ 1,199	\$ 1,262
Accounts receivable	24,894	12,938
	26,093	14,200
Exploration and evaluation assets (note 4)	85,850	87,453
Petroleum and natural gas interests (note 5)	714,820	770,248
Deferred income tax asset (note 14)	13,130	16,398
	\$ 839,893	\$ 888,299
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable	\$ 6,232	\$ 6,215
Accounts payable and accrued liabilities	3,895	4,610
Current portion of lease obligation (note 6)	49	-
Current portion of share based compensation payable (note 9)	745	466
Current portion of decommissioning liability (note 7)	806	2,284
	11,727	13,575
Lease obligation (note 6)	1,876	-
Decommissioning liability (note 7)	9,216	9,622
Share based compensation payable (note 9)	597	487
Long-term debt (note 8)	109,000	90,000
Shareholders' equity:		
Shareholders' capital (note 10)	1,271,763	1,270,020
Accumulated other comprehensive loss	(17)	-
Contributed surplus	3,175	2,569
Deficit	(567,444)	(497,974)
	707,477	774,615
Contingency (note 18)	\$ 839,893	\$ 888,299

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors of Freehold Royalties Ltd.:

(signed) "Marvin F. Romanow"

(signed) "Arthur N. Korpach"

Marvin F. Romanow
Director

Arthur N. Korpach
Director

Consolidated Statements of Income and Comprehensive Income

(\$000s, except per share and weighted average data)	Year Ended December 31	
	2019	2018
Revenue:		
Royalty and other revenue (note 12)	\$ 140,837	\$ 144,542
Expenses:		
Operating	3,945	5,876
General and administrative	12,063	11,238
Share based compensation expense (recovery) (note 9)	1,408	(257)
Interest and financing (note 13)	4,249	4,039
Depletion and depreciation (note 5)	94,912	102,042
Impairment (note 5)	14,056	-
Management fee (note 11)	1,743	2,429
	132,376	125,367
Income before taxes	8,461	19,175
Deferred income tax expense (note 14)	3,268	5,143
Net income	5,193	14,032
Other comprehensive loss		
Foreign currency translation of foreign operations	(17)	-
Comprehensive income	\$ 5,176	\$ 14,032
Net income per share, basic and diluted	\$ 0.04	\$ 0.12
Weighted average number of shares:		
Basic	118,486,297	118,266,297
Diluted	118,713,229	118,421,937

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(\$000s)	Year Ended December 31	
	2019	2018
Operating:		
Net income	\$ 5,193	\$ 14,032
Items not involving cash:		
Depletion and depreciation	94,912	102,042
Impairment	14,056	-
Share based compensation expense (recovery)	1,408	(257)
Deferred income tax expense	3,268	5,143
Accretion of decommissioning liability and lease interest	247	334
Management fee	1,743	2,429
Expenditures on share based compensation	(544)	(423)
Decommissioning expenditures	(2,185)	(2,013)
Funds from operations	118,098	121,287
Changes in non-cash working capital (note 17)	(12,297)	11,837
Cashflow from operations	105,801	133,124
Financing:		
Long-term debt	19,000	-
Dividends paid	(74,663)	(73,713)
	(55,663)	(73,713)
Investing:		
Acquisitions and related expenditures	(49,689)	(65,733)
Working interest dispositions	(126)	8,719
Changes in non-cash working capital (note 17)	(379)	(1,419)
	(50,194)	(58,433)
Increase (decrease) in cash	(56)	978
Impact of foreign currency on cash balance	(7)	-
Cash, beginning of year	1,262	284
Cash, end of year	\$ 1,199	\$ 1,262

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(\$000s)	Year Ended December 31	
	2019	2018
Shareholders' capital:		
Balance, beginning of year	\$ 1,270,020	\$ 1,267,591
Shares issued for payment of management fee	1,743	2,429
Balance, end of year	1,271,763	1,270,020
Accumulated other comprehensive loss:		
Balance, beginning of year	-	-
Other comprehensive loss	(17)	-
Balance, end of year	(17)	-
Contributed surplus:		
Balance, beginning of year	2,569	2,079
Share based compensation	623	581
Deferred share unit plan redemption	(17)	(91)
Balance, end of year	3,175	2,569
Deficit:		
Balance, beginning of year	(497,974)	(438,078)
Net income and comprehensive income	5,193	14,032
Dividends declared	(74,663)	(73,928)
Balance, end of year	(567,444)	(497,974)
	\$ 707,477	\$ 774,615

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). A summary of Freehold's significant accounting policies under IFRS are presented in note 3.

These consolidated financial statements were approved by the Board of Directors on March 4, 2020.

b. Basis of measurement and principles of consolidation

These consolidated financial statements have been prepared on a historical cost basis, with the exception of certain fair value measurements noted in Significant Accounting Policies and include the accounts of Freehold and its wholly-owned subsidiaries: Freehold Royalties (USA) Inc., 1872348 Alberta Ltd., Freehold Holdings Trust and Freehold Royalties Partnership. All inter-entity transactions have been eliminated. These consolidated financial statements are presented in Canadian dollars which is the presentation currency of Freehold.

c. Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ as a result of using estimates.

The amounts recorded for the depletion of petroleum and natural gas properties, the provision for decommissioning liability and the amounts used in the impairment calculations are based on estimates of petroleum and natural gas reserves and future costs to develop those reserves. By their nature, these estimates of reserves, costs and related future cash flows are subject to uncertainty, and the impact on the financial statements of future periods could be material.

The decommissioning liability amounts recorded are based on estimates of inflation rates, risk-free rates, timing of abandonments and future abandonment costs, all of which are subject to uncertainty. The long-term incentive plan amounts recorded include an estimate of forfeitures and certain management assumptions. Actual results could differ as a result of using estimates.

Income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities

and assets is recognized in income in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material.

The determination of a cash generating unit (CGU) and whether an acquisition transaction constitutes a business combination is subject to management judgments. The recoverability of petroleum and natural gas interests and exploration and evaluation assets are assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. Each acquisition transaction is reviewed by management and judgment is used when determining if the transaction met the IFRS 3 inputs and processes criteria for business combinations.

Freehold follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of revenues, royalties, production and other expenses and capital items related to the period being reported, for which actual results have not yet been received. It is expected that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results. Freehold has no operational control over its royalty lands and primarily holds small interests in several thousand wells. Thus, obtaining timely production data from the well operators is extremely difficult. As a result, Freehold uses government reporting databases and past production receipts to estimate revenue accruals.

Judgment is required to determine the interests of royalty properties in areas where mineral rights are shared with a related party, Canpar Holdings Ltd. (Canpar). Freehold uses publicly available information on geological formations to apportion revenues between the entities in accordance with the respective party's interests. As new geological information becomes available and as part of its ongoing internal audit activities, Freehold periodically revises these allocations and consideration is transferred to reflect the changes.

d. 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 Consolidated Statements of Income and Comprehensive Income, royalty expense has now been included in royalty and other revenue (see note 12) and accretion on decommissioning liability has now been included in finance expense (see note 13). In addition, on the Consolidated Statements of Cash Flows, capital expenditures have been included in acquisitions and other related expenditures.

2. New Accounting Standards

a. IFRS 16

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 the scope of IFRS 16. In June 2019, Freehold entered into a new office lease sharing agreement with Rife Resources Ltd. (see note 6).

3. Significant Accounting Policies

a. Jointly controlled operations and jointly controlled assets

Some of Freehold's oil and gas activities involve jointly controlled assets. These consolidated financial statements include only Freehold's share of the jointly controlled assets and a proportionate share of the relevant revenue and related costs.

b. Exploration and evaluation assets

Exploration and evaluation (E&E) costs are accounted for in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. All E&E costs incurred after acquiring the "right to explore" are capitalized into a single cost pool. Upon determination of the technical feasibility and commercial viability of reserves, the associated E&E costs are assessed for impairment and the estimated recoverable amount is transferred to petroleum and natural gas interests. All costs incurred prior to acquiring the "right to explore" are expensed as incurred. At each reporting date, E&E costs are reviewed for indicators of impairment. If circumstances indicate the carrying amount exceeds its recoverable amount, the cost is written down to its recoverable amount and the difference is accounted for as an impairment expense. No depletion or depreciation is charged to E&E.

c. Petroleum and natural gas interests

Petroleum and natural gas interests

Petroleum and natural gas interests are classified under International Accounting Standard (IAS) 16 as Property, Plant and Equipment and include both working and royalty interests, stated at cost, less accumulated depletion and accumulated impairment losses. All costs incurred after determining technical feasibility and commercial viability of reserves are capitalized. Subsequent expenditures are capitalized only where they enhance the economic benefits of the asset. A gain or loss on disposal of a petroleum and natural gas interest is recognized to the extent that the net proceeds exceed or are less than the appropriate portion of the capitalized costs of the asset.

Depletion

Petroleum and natural gas interests, including the costs of production equipment, future capital costs, estimated decommissioning liability costs, and directly attributable general and administrative costs, are depleted on the unit-of-production method based on estimated proved plus probable oil and gas reserves. Reserves are converted to equivalent units on the basis of relative energy content.

Impairment

At each reporting date, Freehold assesses groups of assets or CGUs, for impairment whenever events or changes in circumstances indicate that the carrying value of the CGU may not be recoverable. If any such indication of impairment exists, Freehold makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs of disposal (FVLCTD) and its value in use (VIU). Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down. In assessing VIU, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. FVLCTD is the amount obtainable from the sale of assets in an arm's length transaction less cost of disposal.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized for the CGU in prior periods. Such a reversal is recognized in profit or loss. After such a reversal, the depletion charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

d. Decommissioning liability

Freehold measures the decommissioning liability as the present value of management's best estimate of the expenditure required to settle the liability at the reporting date using a risk-free discount rate. This estimate is recognized when a legal or constructive obligation arises and is recorded as both a short and long-term liability, with a corresponding increase in the carrying value of the petroleum and natural gas working interest asset. The capitalized amount is depleted on a unit-of-production method over the life of the reserves. At each reporting date, the passage of time and changes to estimates results in liability changes, and the amount of accretion is charged against current period income.

e. Income tax

Income tax expense comprises current and deferred tax.

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f. Share based compensation plans

Long-term incentive plan

In 2017, Freehold adopted a new long-term incentive plan (Freehold Award Plan) to replace the previous long-term incentive plan (previous LTIP) for the employees of Rife Resources Ltd. (Rife) through the Manager of Freehold, Rife Resources Management Ltd. (see Related Party note 11). Grants will no longer be made under the previous LTIP but pre-existing grants will continue until vesting and payout occurs. The final payment under the previous plan was made during 2019.

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

For PSUs, the notional Freehold common shares and value are calculated in the same manner as the RSUs, but with the additional application of a performance multiplier. The metrics used for determining the performance multiplier (which can range from 0 to 2 times) are at the discretion of Freehold's Board of Directors at the time of grant. Generally, all of the granted PSUs will vest on the third anniversary of the date of grant.

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

The previous LTIP used a combination of the value of phantom Rife shares and Freehold shares as the basis for rights, which were granted annually at the discretion of the directors of Rife and vested at the end of a three-year period. Dividends to shareholders paid by Freehold during the vesting period were assumed to be reinvested in notional rights on the dividend payment date. Since participants in the previous LTIP received a cash payment on a fixed vesting date, a liability was determined and recognized as services were rendered based on the fair value of the rights at each period end. The valuation incorporated the consideration of the share price, the number of rights outstanding at each period end, an estimated performance multiplier (0.25 to 1.5 times the market value) and an estimated forfeiture rate. Compensation expense was recognized over the vesting period. Freehold was responsible for funding its proportionate share of this plan.

Deferred share unit plan

A deferred share unit (DSU) plan was established for the non-management directors of Freehold whereby fully-vested DSUs are granted annually. Under this plan, dividends to shareholders declared prior to redemption are assumed to be reinvested on behalf of the directors in notional share units on the dividend payment date. Compensation expense is recognized at the market value of Freehold's common shares at the time of grant or dividend, with a corresponding

increase to contributed surplus. Upon redemption of the DSUs for Freehold's common shares, the amount previously recognized in contributed surplus is recorded as an increase to shareholders' capital.

g. Net income per share

Basic net income per share is calculated using the weighted average number of shares outstanding for each period. Diluted net income per share is calculated using the weighted average number of diluted shares outstanding for each period. Diluted shares outstanding are calculated assuming that any proceeds received from options with a market value in excess of option price would be used to buy back shares at the average market price for the period.

h. Revenue recognition

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

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

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

i. Financial instruments

All financial instruments are recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets is measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL). Subsequent measurement of all financial liabilities is measured at amortized cost or, optionally, FVTPL.

All cash, accounts receivable, dividends payable, accounts payables and accrued liabilities, lease obligation, and long-term debt are measured at amortized cost using the effective interest rate method. No financial instruments have been classified as FVOCI or FVTPL.

j. Foreign currency translations

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 Freehold's subsidiaries is the currency of the primary economic environment in which the entity operates. Freehold's United States subsidiary, Freehold Royalties (USA) Inc. operates and transacts primarily in US dollars, and is considered to have a US dollar based functional currency. Freehold's Canadian subsidiaries have a functional currency of Canadian dollars. 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.

4. Exploration and Evaluation Assets

(\$000s)	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 87,453	\$ 75,776
Acquisitions (note 5)	3,995	16,617
Transfers to petroleum and natural gas interests (note 5)	(5,598)	(4,940)
Balance, end of year	\$ 85,850	\$ 87,453

There were no indicators of impairment or impairment reversal for the year ended December 31, 2019 or December 31, 2018. As a result, no impairment or impairment reversal testing was conducted.

There was no impairment recorded as a result of the mandatory impairment assessment on the transfer of Exploration and Evaluation assets to Petroleum and Natural Gas Interests during the years ended December 31, 2019 or December 31, 2018.

5. Petroleum and Natural Gas Interests

(\$000s)	December 31, 2019	December 31, 2018
Cost		
Balance, beginning of year	\$ 1,434,437	\$ 1,387,283
Acquisitions and related expenditures	45,694	50,990
Increase in right-of-use asset (note 6)	1,888	-
Capitalized (reduced) portion of long term incentive plan	148	(159)
Transfers from exploration and evaluation assets (note 4)	5,598	4,940
Decommissioning liability additions and revisions (note 7)	929	(332)
Working interest dispositions	(4,094)	(8,285)
Balance, end of year	1,484,600	1,434,437
Accumulated depletion and depreciation		
Balance, beginning of year	(664,189)	(568,362)
Depletion and depreciation	(94,912)	(102,042)
Impairment	(14,056)	-
Accumulated depletion and depreciation of working interest dispositions	3,377	6,215
Balance, end of year	(769,780)	(664,189)
Net book value, end of year	\$ 714,820	\$ 770,248

The depletion calculation included \$5.2 million (2018 - \$7.2 million) for estimated future development costs associated with proved plus probable undeveloped reserves.

For the year ended December 31, 2019, Freehold capitalized \$1.6 million (2018 - \$1.5 million) of administrative costs and \$0.1 million (2018 – reduced \$0.2 million) of LTIP costs directly related to development activities.

Acquisitions

In June 2019, Freehold closed a \$29.4 million royalty acquisition in Alberta and Saskatchewan including undeveloped land valued at \$4.0 million. In July 2019, Freehold, through its subsidiary Freehold Royalties (USA) Inc., closed an acquisition of oil royalties in North Dakota for \$12.0 million. There were additional acquisitions within North Dakota for \$4.2 million during 2019. In addition, for the year ended December 31, 2019, Freehold had minor acquisitions and adjustments on previous acquisitions resulting in reduction of \$0.4 million to petroleum and natural gas interests.

For the year ended December 31, 2018, Freehold had royalty acquisition activity of \$61.7 million including \$16.6 million of undeveloped land classified as an exploration and evaluation asset.

Working Interest Dispositions

During the year ended December 31, 2019, Freehold disposed of various minor working interest properties for negative proceeds of \$0.1 million (including associated decommissioning liabilities).

For the year ended December 31, 2018, Freehold closed the sale of its Pembina Cardium Unit No. 9 working interest property in exchange for cash proceeds of \$8.7 million (including final adjustments) and an acquisition of a new 4% gross overriding royalty on the same property valued at \$1.9 million.

Year-end Impairment

At December 31, 2019 and 2018, there were no indicators of impairment or impairment reversal. As a result no impairment or impairment reversal testing was conducted.

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.

6. Lease Obligation

In June 2019, Freehold entered into a new office lease sharing agreement with Rife Resources Ltd. (related party - see note 11). 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 11). 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%, which is Freehold's estimate of the applicable incremental borrowing rate. Freehold has the following future commitment for its lease:

(\$000s)	December 31, 2019	December 31, 2018
Less than 1 year	\$ 49	\$ -
1-3 years	593	-
4-5 years	499	-
After 5 years	1,600	-
Total estimated lease payments	2,741	-
Estimated interest over term of lease	(816)	-
Present value of net estimated lease payments	\$ 1,925	\$ -
Current portion of liability	49	-
Long-term portion of liability	\$ 1,876	\$ -

7. Decommissioning Liability

(\$000s)	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 11,906	\$ 15,495
Liabilities incurred	207	-
Liabilities settled	(2,185)	(2,013)
Revision in estimates	722	(332)
Accretion expense	211	334
Liabilities disposed (note 5)	(839)	(1,578)
Balance, end of year	\$ 10,022	\$ 11,906
Current portion of liability	806	2,284
Long-term portion of liability	\$ 9,216	\$ 9,622

Freehold has no decommissioning liability on its royalty interest properties. Freehold's decommissioning liability results from its responsibility to abandon and reclaim its net share of all working interest properties. The undiscounted

value of Freehold's total decommissioning liability is estimated to be \$10.4 million (2018 – \$12.0 million). Payments to settle the obligations are expected to occur over the next 50 years, with the majority being settled within 10 years. At December 31, 2019, a risk-free rate of 1.76% (2018 – 2.2%) and an inflation rate of 1.35% (2018 – 2%) were used to calculate the fair value.

8. Long-Term Debt

At December 31, 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 December 31, 2019 \$109 million was drawn.

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 0.9 times at December 31, 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 13% at December 31, 2019. Freehold is in compliance with all covenants.

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's long-term debt to EBITDA on royalty interest properties. At December 31, 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. In 2019, the average effective interest rate on advances under Freehold's credit facilities was 3.5% (2018 – 3.3%).

9. Share Based Compensation

a. Long-term incentive plan

Freehold currently had two different share based and cash settled long-term incentive plans (Freehold Award Plan and the previous LTIP) for employees of Rife through the Manager, as described in note 3f. For both plans, share based compensation expense was based on the consideration of the share price, the number of share based awards outstanding at each period end, an estimated performance multiplier (if applicable) and an estimated forfeiture rate. Under the Freehold Award Plan, the 2017, 2018, and 2019 PSU grants, the performance multiplier of 0 to 2 times is based 50% on an absolute total shareholder return and 50% on a relative total shareholder return over a three year performance period.

One-third of both the granted 2017 and 2018 RSUs vested in 2019 and LTIP valued at \$0.3 million was paid out in 2019. The 2016 grants under the previous LTIP valued at \$0.2 million were also paid out in 2019. There will be no additional payments under the previous LTIP. Under the Freehold Award Plan, one-third of the granted 2017 RSUs vested in 2018 and LTIP valued at \$0.2 million was paid out in 2018. During 2019, there were 189,820 RSUs and PSUs granted under the Freehold Award Plan (after estimated forfeitures).

The total expense for the year ended December 31, 2019 was \$0.8 million (2018 recovered - \$0.8 million). For the year ended December 31, 2019, Freehold capitalized petroleum and natural gas interests of \$0.1 million (2018 – reduced \$0.2 million) of LTIP costs directly related to development activities.

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

(\$000s)	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 953	\$ 2,373
Increase (decrease) in liability	933	(997)
Cash payout	(544)	(423)
Balance, end of year	\$ 1,342	\$ 953
Current portion of liability	745	466
Long-term portion of liability	\$ 597	\$ 487

The following table reconciles the incentive plan activity:

Share Based Awards

	December 31, 2019	December 31, 2018
Balance, beginning of year ⁽¹⁾	305,920	253,886
Issued	189,820	114,100
Dividends reinvested ⁽¹⁾	18,034	14,777
Cash payout	(106,598)	(76,843)
Balance, end of year	407,176	305,920

(1) Balances as at December 31, 2018 have been adjusted for revised estimates.

b. Deferred share unit plan

Freehold has a deferred share unit (DSU) plan for non-management directors as described in note 3f. As at December 31, 2019, there were 236,311 DSUs outstanding (2018 – 160,192), which are redeemable for an equal number of Freehold common shares (less withholding tax if necessary) after the director's retirement.

On January 1, 2019, Freehold's Board of Directors granted a total of 58,646 (2018 – 34,519) DSUs to eligible directors as part of their annual compensation. Each eligible director received 9,069 (2018 – 5,338) DSUs and the Chair of the Board received 13,301 (2018 – 7,829) DSUs.

Deferred Share Units

	December 31, 2019	December 31, 2018
Balance, beginning of year	160,192	117,429
Annual grants	58,646	34,519
Additional resulting from dividends	17,473	8,244
Balance, end of year	236,311	160,192

For the year ended December 31, 2019, Freehold expensed \$0.6 million (2018- \$0.6 million) of share based compensation with a corresponding offset to contributed surplus.

10. Shareholders' Capital

Freehold has authorized an unlimited number of common shares, without stated par value. Freehold has authorized 10,000,000 preferred shares, without stated par value, of which none have been issued.

Shares Issued and Outstanding

	December 31, 2019		December 31, 2018	
	Shares	Amount (\$000s)	Shares	Amount (\$000s)
Balance, beginning of year	118,402,667	\$ 1,270,020	118,182,667	\$ 1,267,591
Issued for payment of management fee	220,000	1,743	220,000	2,429
Balance, end of year	118,622,667	\$ 1,271,763	118,402,667	\$ 1,270,020

At December 31, 2019, a balance of 1,987,307 shares was reserved for the dividend reinvestment plan (DRIP) which has been currently suspended, and a further 368,467 shares for the management fee (note 11) and 467,344 shares for the deferred share unit plan (note 9).

11. Related Party Transactions

Freehold does not have any employees. Rife Resources Management Ltd. (the Manager) is the manager of Freehold. The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). 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 Rife and Canpar's directors are also directors of Freehold.

The Manager recovers its general and administrative costs and a portion of its long-term incentive plan costs (to the end of 2019) 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 shares per quarter, pursuant to the amended and restated Management Agreement. The Management Agreement capped the management fee at 55,000 shares per quarter for 2019. For the year ended December 31, 2019, Freehold issued 220,000 shares (2018 – 220,000) as payment of the management fee to the Manager pursuant to the Management Agreement. For the year ended December 31, 2019, the ascribed value of \$1.7 million (2018 – \$2.4 million) was based on the closing price of the shares on the last trading day of each quarter. Effective January 1, 2020, the Management Agreement will limit the management fee at 41,250 shares per quarter.

For the year ended December 31, 2019, the Manager charged \$10.0 million in general and administrative costs (2018 – \$9.8 million). At December 31, 2019, there was \$0.7 million (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 December 31, 2019, there was \$nil (2018 - \$nil) in accounts receivable related to these transactions. At December 31, 2019, there was \$nil (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 year ended December 31, 2019, Freehold received royalties of approximately \$0.7 million (2018 – \$0.6 million). At December 31, 2019, there was \$0.1 million (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.

At December 31, 2019, there was \$nil (2018 – \$nil) in accounts receivable relating to transactions with Canpar. At December 31, 2019, there was \$nil (2018 – \$nil) in accounts payable and accrued liabilities relating to transactions with Canpar.

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

Expenses relating to compensation for key management personnel, considered to be Freehold’s Board of Directors and executive officers, are as follows:

(\$000s)	December 31, 2019	December 31, 2018
Short-term benefits (including employee wages and directors fees)	\$ 1,803	\$ 1,368
Share based compensation	899	320
Total	\$ 2,702	\$ 1,688

12. Revenues

As per note 3h, royalty and other revenue is measured at fair value of the consideration received or receivable, per the terms of various agreements. The transaction price used for crude oil, natural gas, natural gas liquids and other products is based on the commodity price in the month of production specific to the property or interest. The commodity price received or receivable is based on market benchmarks adjusted for quality, location, allowable deductions, if any, and other factors.

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

Revenue and other revenue by product

(\$000s)	December 31, 2019	December 31, 2018
Oil	\$ 113,379	\$ 110,513
Natural gas	15,294	14,248
NGL	10,120	14,895
Potash	1,173	1,400
Bonus consideration and lease rentals	1,082	3,851
Other	439	329
Total royalty and other revenue by type	141,487	145,236
Total royalty expense	(650)	(694)
Total royalty and other revenue	\$ 140,837	\$ 144,542

Revenue and other revenue by classification

(\$000s)	December 31, 2019	December 31, 2018
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	\$ 135,744	\$ 134,304
Bonus consideration and lease rentals	1,082	3,851
Total royalty revenue	136,826	138,155
Working interest revenue	4,661	7,081
Royalty expense	(650)	(694)
Total royalty and other revenue	\$ 140,837	\$ 144,542

(1) Includes potash royalties and other

As at December 31, 2019, there was outstanding accounts receivable of \$23.9 million (2018 - \$12.0 million) of accrued royalty and other revenue. For the year ended December 31, 2019, Freehold had \$2.3 million (2018 - \$3.5 million) positive royalty and other revenue adjustments relating to prior periods. The performance obligations for these adjustments were satisfied in production periods prior to the current year.

13. Interest and Financing

(\$000s)	December 31, 2019	December 31, 2018
Interest and financing expense	\$ 4,002	\$ 3,705
Accretion of decommissioning liabilities	211	334
Interest on lease obligations	36	-
Total finance expense	\$ 4,249	\$ 4,039

14. Income Taxes

Freehold uses the balance sheet method of accounting for income taxes, as described in note 3e. The provision for taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial effective tax rate to Freehold's income before taxes. This difference is reconciled as follows:

(\$000s, except as noted)	December 31, 2019	December 31, 2018
Income before taxes	\$ 8,461	\$ 19,175
Combined federal and provincial tax rate	26.6%	27.0%
Computed expected income tax expense	2,251	5,177
Increase (decrease) in income tax resulting from:		
True up of tax pools	-	(63)
Effect of rate change	1,008	-
Miscellaneous	9	29
Total income taxes	\$ 3,268	\$ 5,143

The components of deferred income tax are as follows:

(\$000s)	December 31, 2019	December 31, 2018
Deferred income tax assets:		
Non-capital losses	\$ 31,361	\$ 40,561
Decommissioning liability	2,455	3,215
Lease obligation	471	-
Share issue expense	410	1,695
Deferred income tax liabilities:		
Petroleum and natural gas interests	(22,560)	(29,901)
Other	993	828
Net deferred income tax asset	\$ 13,130	\$ 16,398

As at December 31, 2019, Freehold had approximately \$128 million (2018 - \$152 million) of carry-forward non-capital tax losses and approximately \$710 million (2018 - \$753 million) of tax pools that would be available to offset against future taxable profit. The carry-forward non-capital losses will expire between the years 2031 and 2036. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized.

The continuity of deferred income tax is as follows:

(\$000s)	Balance December 31, 2018	Recognized in Profit or Loss	Recognized in Equity	Balance December 31, 2019
Non-capital losses	\$ 40,561	(9,200)	-	\$ 31,361
Decommissioning liability	3,215	(760)	-	2,455
Lease obligation	-	471	-	471
Share issue expense	1,695	(1,285)	-	410
Petroleum and natural gas interests	(29,901)	7,341	-	(22,560)
Other	828	165	-	993
Total	\$ 16,398	(3,268)	-	\$ 13,130

Freehold's deferred tax liability relates to its assets having a higher carrying value relative to the associated tax value. Freehold's deferred tax asset primarily relates to the non-capital losses. When combined there is an overall net deferred tax asset.

15. Capital Management

Freehold is a publicly traded dividend-paying corporation incorporated under the laws of the Province of Alberta. Its primary focus is acquiring and managing oil and gas royalties. Freehold receives revenue from oil and gas properties as reserves are produced, which is paid to shareholders through dividends on a regular basis over the economic life of the properties. Freehold's objective for managing capital is to maximize long-term shareholder value by distributing to shareholders any cash partially based on what is required for financing operations or capital investment growth opportunities that may offer shareholders better value.

Freehold defines capital (or capitalization) as long-term debt, shareholders' equity and working capital based on the consolidated financial statements. Freehold's capital structure is managed by taking into account operating activities, debt levels, debt covenants, capital expenditures, dividend levels and taxes, among others. In addition, changes in economic conditions, commodity prices and the risk characteristics of Freehold's assets are considered. Freehold has a declining asset base, therefore ongoing development activities and acquisitions are necessary to replace production and add additional reserves. From time to time, Freehold may issue shares or adjust capital spending to manage current and projected debt levels.

Freehold retains working capital primarily to fund capital expenditures or acquisitions, pay dividends and reduce bank indebtedness. Historically, Freehold has chosen to issue its DRIP out of treasury, which increases its flexibility with the use of working capital. Effective with the August 31, 2016 dividend the Board approved the suspension of the DRIP pending further notice.

Management of Freehold's capital structure is facilitated through its financial and operating forecasting processes. The forecast of Freehold's future cash flows is based on estimates of production, commodity prices, forecast capital, royalty expenses, operating expenditures, taxes and other investing and financing activities. The forecast is regularly updated based on new commodity prices and other changes that Freehold views as critical in the current environment. Selected forecast information is frequently provided to and approved by the Board of Directors.

Freehold is bound by non-financial covenants and two financial covenants (see note 8) on its credit facilities. The covenants are monitored as part of management's internal review to ensure compliance with requirements. As at December 31, 2019, Freehold was in compliance with all such covenants.

Freehold's 2019 net debt to funds from operations ratio was 0.8 times (2018 – 0.7 times) and well within our debt 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, among others.

Capitalization

(\$000s, except as noted)	December 31, 2019	December 31, 2018
Shareholders' equity	\$ 707,477	\$ 774,615
Long term debt	109,000	90,000
Working capital	(14,366)	(625)
Net debt ⁽¹⁾	94,634	89,375
Capitalization	\$ 802,111	\$ 863,990

Cash provided by operating activities for last 12 months	\$ 105,801	\$ 133,124
Change in non-cash operating working capital	12,297	(11,837)
Trailing 12 months funds from operations	\$ 118,098	\$ 121,287
Net debt to trailing 12 month funds from operations (times)	0.8	0.7

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

16. Financial Instrument Risk Management

Freehold has exposure to credit, liquidity and market risks from its use of financial instruments. Management employs the following strategies to mitigate these risks.

a. Credit risk

Credit risk is the risk of financial loss to Freehold if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Freehold's receivables. A large part of accounts receivable is with oil and gas industry operators, either as joint venture partners or as payors of various royalty agreements. These agreements provide mechanisms to ensure that Freehold's interests are protected. There are also systems and processes in place to identify any unpaid or incorrect revenues. Freehold's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables. Freehold also has processes and systems in place to monitor the financial capabilities of its counterparties. Many agreements allow Freehold to take the commodity in-kind and sell directly to a purchaser rather than have Freehold's commodity flow through the operator or the royalty payor.

Freehold maintains a dedicated compliance function, with a comprehensive auditing program, to ensure that the terms of the various agreements are followed, including that royalties are paid correctly on production from Freehold's lands in accordance with the prices obtained by the royalty payor and that unwarranted or excessive deductions are not being taken. Freehold also audits its working interest properties to ensure that capital costs, operating expenses and production volumes are properly allocated.

The carrying amounts of accounts receivable and cash represent Freehold's maximum credit exposure. Freehold did not have an allowance for doubtful accounts as at December 31, 2019 or 2018, and did not provide for any doubtful accounts and was not required to write off any significant receivables during the years ended December 31, 2019 or 2018. Freehold considers all material amounts greater than three months to be past due. Due to the nature of Freehold's royalty income assets, there are amounts over three months which require significant time and effort to collect. Estimates of amounts owed for various time periods are as follows:

(\$000s)	Less than			Total
	3 months	4-12 months	over 1 year	
Accounts receivable	\$ 23,952	636	306	\$ 24,894

Freehold markets approximately 80% of its total production along with the operator or royalty payor under the terms of a diverse number of agreements. Freehold takes a portion of its total production in kind (approximately 20%) and sells to three primary purchasers.

b. Liquidity risk

Liquidity risk is the risk that Freehold will not be able to meet financial obligations as they come due. Management maintains a conservative approach to debt management that aims to provide maximum financial flexibility with respect to acquisitions and development expenditures, while maintaining stable dividend payments. At December 31, 2019, there was \$71 million of available capacity under the credit facilities. As circumstances warrant, management allocates a portion of funds from operations to debt repayment. Management prepares annual capital expenditure and operating budgets, which are regularly monitored and updated. In addition, dividend levels are monitored and adjusted as necessary, to levels that are supported by Freehold's funds from operations.

Freehold's non-derivative financial liabilities include its dividends payable, accounts payable and accrued liabilities, lease obligation, share based compensation payable, decommissioning liability and long-term debt. Freehold has no derivative financial liabilities. The following table outlines cash flows associated with the contractual maturities of Freehold's non-derivative financial liabilities as at December 31, 2019:

(\$000s)	Less than			Total
	1 Year	2-3 Years	over 3 years	
Dividends payable	\$ 6,232	-	-	\$ 6,232
Accounts payable and accrued liabilities	3,895	-	-	3,895
Lease obligation	49	337	1,539	1,925
Share based compensation payable	745	597	-	1,342
Decommissioning liability	806	1,236	7,980	10,022
Long-term debt	-	109,000	-	109,000
Total	\$ 11,727	111,170	9,519	\$ 132,416

c. Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, commodity prices and interest rates, will affect net income or the value of financial instruments. The Board reviews the potential use of derivative contracts on a quarterly basis. For short-term investments, if any, Freehold selects counterparties based on strong credit ratings and monitors all investments to ensure a stable return.

Foreign currency exchange rate risk

Freehold is exposed to foreign exchange fluctuations as a result of crude oil sales based on U.S. dollar benchmark prices. Freehold's net income, comprehensive income and cash flows will be affected by fluctuations in foreign exchange. During the years ended December 31, 2019 and 2018, Freehold had no foreign exchange related derivative contracts in place. Assuming all other variables held constant, a \$0.01 change (plus or minus) in the U.S./Canadian dollar exchange rate for the year ended December 31, 2019, would have resulted in a corresponding change to income before taxes of approximately \$1.6 million (2018 - \$1.6 million).

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate with changes in commodity prices. Commodity prices for oil and natural gas are influenced by the relationship between the Canadian and U.S. dollar as well as macroeconomic events that dictate the levels of supply and demand. During the years ended December 31, 2019 and 2018, Freehold had no commodity price related derivative contracts in place. Assuming all other variables held constant, a US\$1.00 change (plus or minus) in the West Texas Intermediate crude oil price for the year ended December 31, 2019, would have resulted in a corresponding change to income before taxes of approximately \$2.2 million (2018 - \$1.9 million). A \$0.25 change (plus or minus) in the AECO natural gas price would have resulted in a corresponding change to income before taxes of approximately \$2.4 million (2018 - \$2.3 million).

Interest rate risk

Freehold is exposed to interest rate risk on outstanding bank debt, which has a floating interest rate, and fluctuations in interest rates would impact future cash flows. Assuming all other variables held constant, a 1% change (plus or minus) in the interest rate for the year ended December 31, 2019 would have resulted in a corresponding change to income before taxes of approximately \$1.1 million (2018 - \$0.9 million).

17. Supplemental Disclosure

a. Statements of income and comprehensive income presentation

Freehold's consolidated statements of income and comprehensive income are prepared by nature of expense.

b. Supplemental cash flow disclosure

Changes in Non-Cash Working Capital Balance

(\$000s)	December 31, 2019	December 31, 2018
Accounts receivable	\$ (11,961)	\$ 13,014
Accounts payable and accrued liabilities	(715)	(2,596)
	\$ (12,676)	\$ 10,418

Operating	\$ (12,297)	\$ 11,837
Investing	(379)	(1,419)
	\$ (12,676)	\$ 10,418

Cash Expenses

(\$000s)	December 31, 2019	December 31, 2018
Interest	\$ 3,981	\$ 3,761
Taxes	-	-

c. Net debt

(\$000s)	December 31, 2019	December 31, 2018
Long-term debt	\$ 109,000	\$ 90,000
Working capital	(14,366)	(625)
Net debt ⁽¹⁾	\$ 94,634	\$ 89,375

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

18. Contingency

During the year ended December 31, 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 consolidated financial statements relating to the Proposal Letter.

TEN-YEAR REVIEW

(unaudited)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Financial (\$millions, except as noted)⁽¹⁾										
Royalty and other revenue	140.8	145.2	151.9	130.0	135.7	199.9	181.6	168.1	157.9	138.2
Net income (loss) ⁽¹⁾	5.2	14.0	12.2	(11.2)	(4.1)	66.4	57.9	46.3	55.3	49.3
Per share (\$) ⁽²⁾	0.04	0.12	0.10	(0.10)	(0.05)	0.94	0.86	0.71	0.92	0.85
Funds from operations	118.1	121.3	123.8	94.2	103.8	138.4	119.4	103.9	128.2	107.0
Per share (\$) ⁽²⁾	1.00	1.03	1.05	0.85	1.15	1.95	1.79	1.60	2.14	1.83
Dividends declared	74.7	73.9	68.5	59.5	90.1	119.8	112.5	109.6	101.0	98.1
Per share (\$) ^{(2) (3)}	0.63	0.63	0.58	0.54	1.00	1.68	1.68	1.68	1.68	1.68
Acquisitions and related expenditures	49.7	65.7	91.6	167.8	433.7	282.0	39.4	97.6	33.1	56.7
Working interest dispositions	0.1	8.7	32.4	-	-	-	-	-	-	-
Long-term debt	109.0	90.0	90.0	84.0	152.0	139.0	49.0	18.0	48.0	65.0
Operating										
Production (boe/d)	10,628	11,410	12,350	12,219	10,945	9,180	8,913	8,850	7,476	7,615
Royalty Interest (%)	96	94	89	81	76	74	70	71	75	73
Oil and NGL (%)	14	54	55	58	62	63	64	64	63	62
Land (gross acres, millions)	6.7	6.4	5.9	6.1	3.7	3.2	3.1	3.0	2.7	2.8
Net reserves (Mmboe) ⁽⁴⁾	31.7	30.9	35.3	38.3	36.1	29.7	23.1	24.4	22.2	23.6
Reserve life index (years)	9.4	9.0	9.6	10.1	9.9	9.0	8.5	8.5	9.1	9.5
Share Data										
High (\$)	9.88	14.85	16.41	15.16	20.62	28.15	24.88	22.45	23.28	21.14
Low (\$)	6.34	7.68	11.96	8.29	8.73	17.02	21.00	17.25	14.51	15.08
Close (\$)	7.29	8.27	14.05	14.17	10.86	19.12	22.11	22.40	19.41	20.49
Volume (millions)	88.4	77.8	58.4	79.6	75.3	43.6	25.8	28.6	28.1	25.8
Outstanding (millions)										
At period end	118.6	118.4	118.2	117.9	98.9	74.9	67.7	66.3	61.1	59.2
Weighted average	118.5	118.3	118.0	110.4	90.5	71.2	66.9	64.9	60.0	58.3

(1) Freehold's IFRS transition date was January 1, 2010 and reflects adjustments due to IFRS.

(2) Prior to conversion to a corporation on December 31, 2010, Freehold had trust units outstanding instead of shares.

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

(4) Net proved plus probable reserves.

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

Thomas J. Mullane

President and Chief Executive Officer

David W. Hendry

Vice-President,
Finance and Chief Financial Officer

David M. Spyker

Chief Operating Officer

Lisa N. Farstad

Vice-President, Corporate Services

Robert A. King

Vice-President, Business Development

Robert E. Lamond

Vice-President, Asset Development

Michael J. Stone

Vice-President, Land

Karen C. Taylor

Corporate Secretary

Investor Relations

Matt J. Donohue

Manager, Investor Relations and Capital Markets

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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

Toronto Stock Exchange (TSX)

Common Shares: **FRU**

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