



Second Quarter Report

Three and six months ended June 30, 2020

TSX FRU

Results at a Glance

FINANCIAL (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Royalty and other revenue	14,758	35,333	-58%	41,042	70,942	-42%
Net income (loss)	(5,421)	3,430	-258%	(14,443)	(3,649)	-296%
Per share, basic and diluted (\$) ⁽¹⁾	(0.05)	0.03	-267%	(0.12)	(0.03)	-300%
Cash flows from operations	13,144	27,816	-53%	44,027	47,136	-7%
Funds from operations	10,622	30,095	-65%	30,870	59,443	-48%
Per share, basic (\$) ⁽¹⁾	0.09	0.25	-64%	0.26	0.50	-48%
Acquisitions and related expenditures	981	30,973	-97%	6,421	31,902	-80%
Dividends paid	9,790	18,674	-48%	28,473	37,322	-24%
Per share (\$) ⁽²⁾	0.0825	0.1575	-48%	0.2400	0.3150	-24%
Dividends declared	5,341	18,660	-71%	24,026	37,311	-36%
Per share (\$) ⁽²⁾	0.0450	0.1575	-71%	0.2025	0.3150	-36%
Payout ratio ⁽³⁾	92%	62%	48%	92%	63%	46%
Net debt	96,071	98,310	-2%	96,071	98,310	-2%
Shares outstanding, period end (000s)	118,705	118,513	-	118,705	118,513	-
Average shares outstanding (000s) ⁽¹⁾	118,664	118,458	-	118,644	118,431	-
OPERATING						
Royalty production (boe/d) ⁽⁴⁾	9,150	10,311	-11%	9,884	10,226	-3%
Light and medium oil (bbl/d)	3,313	3,727	-11%	3,588	3,731	-4%
Heavy oil (bbl/d)	872	983	-11%	1,055	947	11%
NGL (bbl/d)	772	962	-20%	822	937	-12%
Total liquids (bbl/d)	4,957	5,672	-13%	5,465	5,615	-3%
Natural gas (Mcf/d)	25,156	27,834	-10%	26,513	27,664	-4%
Total production (boe/d) ⁽⁴⁾	9,285	10,664	-13%	10,155	10,646	-5%
Oil and NGL (%)	54	55	-2%	55	55	0%
Average price realizations (\$/boe) ⁽⁴⁾	17.08	35.88	-52%	21.75	36.08	-40%
Cash costs (\$/boe) ⁽³⁾⁽⁴⁾	4.79	5.05	-5%	5.30	5.72	-7%
Operating netback (\$/boe) ⁽³⁾⁽⁴⁾	16.86	35.36	-52%	21.40	35.79	-40%

(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)

President's Message

The focus through Q2-2020 was on stabilizing our business in a very dynamic environment. Early in the quarter, we announced a 71% reduction in our monthly dividend and reduced our general and administrative (G&A) expenses by 15%. These changes were necessary to maintain the sustainability of our business during the sharp drop in oil prices. Our balance sheet remains strong including a reduction of net debt by \$5.7 million compared to Q1-

2020 despite volatile commodity pricing and as further supported by the expectation that our debt to funds from operations will remain below 1.5 times through 2020.

In addition, we successfully disposed of a large percentage of our remaining working interest production. This disposition will improve our corporate netbacks and profitability margins while reducing our asset retirement liability.

Operationally, Q2-2020 royalty production averaged 9,150 boe/d, down 11% versus the same period last year. The reduction in volumes were primarily associated with shut-in volumes as a result of producer response to low oil pricing. These shut-in volumes represented 11% of production, with much of this production now expected to come back on-line through the third quarter. These relatively low shut-in volumes are a testament to the quality and resiliency of Freehold's royalty portfolio. Given the seasonal nature of drilling in western Canada (Q2 generally has less activity given operating conditions) combined with the uncertainty associated with COVID-19, drilling was muted on our royalty lands over the period. Since quarter-end however, we have had indications that our top industry partners are looking to restart drilling operations in the latter part of 2020, which should aid production volumes into 2021.

In the initial phase of the COVID-19 pandemic we prioritized the health and safety of our workforce by directing all employees to work remotely from home. As Alberta public health measures were relaxed in June, our Return to Office Task Force worked diligently to develop office safety protocols in alignment with government and public health guidelines. With this preparation we were able to reopen our office in July with a reduced staff complement. We will continue to monitor COVID-19 updates and follow the latest guidance to move to our next phase of return. We appreciate the continued efforts of our staff during this time and we want to thank our shareholders for their ongoing support.

Looking forward, we expect the next three to six months to be a challenging period for the North American exploration and production industry. There remains considerable uncertainty associated with the ultimate impact of COVID-19 as it pertains to supply/demand fundamentals surrounding oil prices. Setting ourselves apart from the broader industry, Freehold has continued to provide investors some level of dividend throughout the different business cycles, as royalties represent a high margin business, enabling more returns to be transferred to our shareholders. Over our history, Freehold has been able to pay out greater than \$32.50/share in cumulative dividends to its shareholders through varying cycles of the commodity. Moving forward, we expect to revisit our payout on a quarterly basis with the expectation that dividend levels will increase as cash flows improve.

Tom Mullane
President and CEO

Second Quarter Highlights

- Our payout ratio⁽¹⁾ totaled 92% for the quarter, versus 64% during the same period last year. Dividends paid for Q2-2020 totaled \$0.0825 per share, down from Q2-2019 and Q1-2020 when dividends paid totaled \$0.1575 per share. The increased payout reflected April's paid dividends of \$0.0525 per share. To position Freehold's dividend within the guided payout thresholds of 60%-80% of annualized funds flow, the dividend paid in May and June was lowered to \$0.015 per share. Previously, Freehold reported its payout ratio on a dividend declared basis that for Q2-2020 totaled \$0.045 per share or 50% relative to funds from operations.
- Through an unprecedented Q2-2020, where we observed depressed crude oil benchmark pricing caused by demand destruction due to geopolitical forces and the COVID-19 pandemic, Freehold demonstrated its superior performance and relatively low risk profile compared to other investments in the petroleum and natural gas industry through continued dividend payouts and the generation of funds from operations.
- Q2-2020 funds from operations totaled \$10.6 million, or \$0.09 per share over the quarter, compared to \$30.1 million or \$0.25 per share in Q2-2019. The reduction in funds from operations from the same period in 2019 and the previous quarter reflected continued weakness in commodity prices along with reduced production volumes associated with shut-in volumes and no third-party drilling. Based on Freehold's share price at quarter-end of \$3.52/share and annualizing Q2-2020 funds from operations, Freehold offers investors a 10% free cash flow yield, a strong return particularly given the volatility associated with Q2-2020.
- Freehold's royalty production averaged 9,150 boe/d during Q2-2020. This represented a 11% decline versus the same period last year and a 14% reduction when compared to the previous quarter. Royalty liquids production averaged 4,957 boe/d for Q2-2020, down 13% versus the same period in 2019 and 17% when compared to Q1-2020. The decline in liquids and overall volumes reflected price driven shut-in volumes during the quarter along with reduced third-party drilling on our royalty lands.
- Production from Freehold's U.S. royalty assets averaged 74 boe/d in Q2-2020, representing a 69% reduction from 242 boe/d in Q1-2020, as a result of the temporary shut-in of production due to price declines. This is expected to recover in Q3-2020.
- Overall, 11% of payor's production was shut-in during Q2-2020, given historically low crude oil benchmark pricing observed starting in March and lasting through to May.
- Oil and natural gas liquids represented 54% of production in Q2-2020, down slightly from 55% in Q2-2019 as shut-in production was oil weighted.
- Q2-2020 net loss totaled \$5.4 million compared with \$3.4 million in net income in Q2-2019. Despite Q2-2020 funds flow of \$10.6 million, the higher net loss reflected lower revenues due to the retreat in oil prices and lower production volumes relative to a higher non-cash depletion rate.
- Closing net debt as at June 30, 2020 was \$96.1 million, a decrease of \$5.7 million versus the previous quarter. The decrease quarter-over-quarter reflects continued positive funds from operations despite lower realized commodity pricing and a reduction to our monthly dividend obligations.
- Cash costs⁽¹⁾ for the quarter totaled \$4.79/boe, down from \$5.05/boe in Q2-2019 and \$5.74/boe in Q1-2020. The decrease in costs year-over-year reflects lower operating costs associated with our completed disposition over the quarter, reduced interest charges reflecting lower absolute debt levels and reduced G&A charges.

(1) See Non-GAAP Financial Measures.

Management Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) was prepared as of August 12, 2020 and is management's opinion about the consolidated operating and financial results of Freehold Royalties Ltd. and its wholly-owned subsidiaries (collectively, Freehold or the Company) for the three and six months ended June 30, 2020 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 condensed 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 three and six months ended June 30, 2020 and 2019, 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 December 31, 2019 audited financial statements and notes.

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

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 economic life of the properties. Our primary focus is acquiring and managing oil and natural gas royalties.

The Royalty Advantage

We manage one of the largest non-government portfolios of oil and natural gas royalties in Canada. Our total land holdings encompass approximately 6.7 million gross acres, greater than 98% of which are royalty lands. Our mineral title lands (including royalty assumption lands), which we own in perpetuity, cover approximately 1.1 million acres (over 500,000 acres are unleased) and we have gross overriding royalty and other interests in approximately 5.6 million acres.

We have royalty interests in more than 11,000 producing wells and receive royalty income from approximately 300 industry operators. Royalty rates vary from less than 1.0% (for some gross overriding royalties) to 22.5% (for some lessor royalties). This diversity lowers our risk, and as a royalty owner, we benefit from the drilling activity of others on our lands.

As a royalty interest owner, we do not pay any of the capital costs to drill and equip the wells for production on our properties, nor do we incur costs to operate the wells, maintain production, and ultimately restore the land to its original state. 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 a payout ratio of 60%-80%

Outlook

Business Environment

After undergoing one of the worst three-month periods in distant memory as it relates to commodity pricing, the current outlook for oil prices presents a much more constructive tone driven by supply management amongst global producers. OPEC has for the most part remained in compliance at revised production quotas with the expectation any increases in supply will be offset by gains in forecasted demand. Outside of OPEC, we have seen numerous producing nations shut-in production until economics justify bringing these volumes back onstream. We expect depressed activity levels by oil and gas producers in OPEC and non-OPEC countries over the period of COVID-19 to have lasting impacts on the supply outlook through the 2020/2021 timeframe.

On the demand front, consensus forecasts are calling for a slow and steady rebound through year-end and into 2021. This outlook maintains considerable risk however, primarily associated with the longevity and ultimate impact of COVID-19 on day to day activities (ie. potential for returning lockdowns, permanent demand destruction). We expect the next few months to provide further data points that will provide a clearer picture on the duration and expected impact of COVID-19 and how it relates to the outlook for commodity prices globally.

Overall, WTI prices averaged US\$27.81/bbl for Q2-2020, down 53% year-over-year and down 39% versus the previous quarter. The key driver behind the price collapse over the period, which saw WTI price levels fall into negative territory was continued concerns relating both to supply and demand associated with COVID-19. While there remain, considerable uncertainty associated with the ultimate impact associated with the pandemic, WTI prices stabilized late in April and showed a steady trend upwards up to US\$40/bbl late in the second quarter.

Within Canada, prices underwent much of the same weakness realized by global benchmarks as the price of Edmonton Light Sweet oil averaged \$29.79/bbl, down 42% versus the previous quarter while declining 60% versus the same period last year. Western Canadian Select (WCS) prices averaged \$22.37/bbl. This marked a 34% decline versus the previous quarter and a 66% decline when compared to the same period last year. Overall, prices in Canada fared better than initial expectations as Canadian producers were active in shutting-in production, mitigating the potential for a lack of storage and egress alternatives to have a much larger impact.

For the first time in many years, Canadian natural gas prices were the highlight of the quarter with daily AECO prices averaging \$1.99/mcf, up 91% versus the same period last year but down 2% when compared to Q1-2020. In the near-term, we have seen some improvements in infrastructure within Canada that are expected to mitigate extreme volatility through the summer months, which has typically plagued prices in previous years. In the medium to long-term however, the outlook for natural gas remains neutral to slightly challenged with overall supply reduced through lower oil volumes and associated natural gas production in North America, offset by lower forecasted demand within the Canadian oil sands. The evolution of some U.S. natural gas shale plays is also expected to be a driver for how Canadian natural gas producers supply major demand centers into the future.

Looking forward, we expect production and revenue for Freehold to stabilize over the short-term. As prices show reduced volatility, we expect third-party capital to increase on our royalty lands through further drilling, however we have yet to see this occur. Freehold maintains a diversified portfolio of production (56% oil and liquids, 44% natural gas), and industry payors (300 industry payors with no material concentration risk). However, many of our royalty payors are still evaluating economics associated with their respective asset bases. As we acquire a better understanding on the impact on our production profile through the remainder of 2020 and into 2021, we expect to update the market through our disclosure documents.

Drilling Activity

With crude prices trading at multi-decade lows during Q2-2020 largely caused by geopolitical forces combined with demand destruction due to the COVID-19 pandemic, producers chose to preserve capital through a cessation of drilling activities. As a result, there was no drilling activity for this quarter other than previous period adjustments of 54 (0.4 net) wells drilled. This lag in reporting is largely due to the addition of unit wells that take longer to be made publicly available. This compares to 175 (6.2 net) in Q1-2020 and 127 (2.9 net) royalty wells drilled in Q2-2019. In dialogue with some of our major operators on our royalty lands, we believe that with continued stability in commodity prices, that activity levels will increase through Q3-2020 and year-end on our royalty lands.

Royalty Interest Drilling

	Three Months Ended June 30				Six Months Ended June 30			
	2020		2019		2020		2019	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾
Total	54	0.4	127	2.9	229	6.6	274	10.2

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

Quarterly Performance and Trends

	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial (\$000s, except as noted)								
Royalty and other revenue	14,758	26,284	36,827	33,068	35,333	35,609	24,837	40,587
Funds from operations	10,622	20,248	30,659	27,996	30,095	29,348	18,463	35,900
Per share, basic (\$)	0.09	0.17	0.26	0.24	0.25	0.25	0.16	0.30
Net income (loss)	(5,421)	(9,022)	6,113	2,729	3,430	(7,079)	(4,166)	8,389
Per share, basic and diluted (\$)	(0.05)	(0.08)	0.05	0.02	0.03	(0.06)	(0.04)	0.07
Dividends declared	5,341	18,685	18,683	18,669	18,660	18,651	18,643	18,634
Per share (\$) ⁽¹⁾	0.0450	0.1575	0.1575	0.1575	0.1575	0.1575	0.1575	0.1575
Payout ratio (%) ⁽²⁾	92	92	61	67	62	64	101	52
Operating Income ⁽²⁾	14,244	25,296	35,758	32,175	34,315	34,644	23,452	39,225
Operating income from royalties (%)	103	100	100	100	100	99	102	99
Acquisitions and related expenditures	981	5,370	2,727	15,060	30,313	929	11,071	18,750
Working interest dispositions paid (received)	2,294	(73)	36	8	52	(30)	581	1
Long term debt	102,000	103,000	109,000	116,000	111,000	90,000	90,000	91,308
Shares outstanding								
Weighted average, basic (000s)	118,664	118,623	118,568	118,513	118,458	118,403	118,348	118,293
At quarter end (000s)	118,705	118,664	118,623	118,568	118,513	118,458	118,403	118,348
Operating (\$/boe, except as noted)								
Royalty production (boe/d) ⁽³⁾	9,150	10,618	10,315	10,149	10,311	10,139	10,312	10,322
Light and medium oil (bbls/d)	3,313	3,863	4,024	3,771	3,727	3,734	3,934	3,649
Heavy oil (bbls/d)	872	1,238	1,089	1,148	983	911	929	1,095
NGL (bbls/d)	772	872	799	740	962	912	955	864
Total liquids (bbls/d)	4,957	5,973	5,912	5,659	5,672	5,557	5,818	5,608
Natural gas (Mcf/d)	25,156	27,870	26,416	26,938	27,834	27,492	26,962	28,284
Total production (boe/d) ⁽³⁾	9,285	11,026	10,740	10,482	10,664	10,627	10,929	11,002
Royalty interest (%)	99	96	96	97	97	95	94	94
Average selling price	17.08	25.69	37.04	33.87	35.88	36.29	23.40	38.95
Operating netback ⁽²⁾	16.86	25.22	36.19	33.36	35.36	36.22	23.33	38.74
Operating expenses	0.61	0.98	1.08	0.93	1.05	1.01	1.38	1.35
General and administrative expenses ⁽⁴⁾	2.92	3.73	2.97	2.59	2.67	4.22	2.74	2.06
Benchmark Prices								
West Texas Intermediate crude oil (US\$/bbl)	27.81	45.65	56.99	56.36	59.79	54.82	58.81	69.50
Exchange rate (Cdn\$/US\$)	0.72	0.74	0.76	0.76	0.75	0.75	0.76	0.77
Edmonton Light Sweet crude oil (Cdn\$/bbl)	29.79	51.77	68.12	70.27	73.84	66.02	42.78	81.62
Western Canadian Select crude oil (Cdn\$/bbl)	22.37	34.02	54.16	58.12	65.66	56.77	25.13	61.81
AECO monthly contract natural gas (Cdn\$/Mcf)	1.85	2.13	2.34	1.04	1.17	1.94	1.90	1.35

- (1) Based on the number of shares issued and outstanding at each record date
(2) See Non-GAAP Financial Measures
(3) Reported production for a period may include adjustments from previous production periods
(4) Excludes share based and other compensation

Quarterly variances in revenues, 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. However, under the current restrictions of the COVID-19 pandemic, crude oil supply/demand fundamentals remain out of balance, with crude prices trading at multi-decade lows. 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. Royalty production volumes are affected by continued acquisition activity, exploration and development activity by third parties, and natural declines. Net income (loss) are affected by revenues, depletion, general and administrative as well as other expenses.

Revenues

Production

Freehold's royalty production averaged 9,150 boe/d and contributed 99% of total production during Q2-2020. This represents a 11% decrease over Q2-2019 and a 14% reduction versus the previous quarter. Reduced volumes quarter-over-quarter and year-over-year were reflective of shut-in volumes (11% overall) and no third-party drilling on our royalty lands, reflecting the material reduction in crude oil prices during the quarter.

Working interest production, representing 1% of total production, decreased to 135 boe/d, or by 62%, in Q2-2020 versus the same period last year and by 67% from the previous quarter. On April 30, 2020, Freehold disposed of certain working interest properties with an estimated production of 265 boe/d. As part of the transaction, Freehold paid \$2.3 million, whereas the purchaser agreed to assume decommissioning liabilities of approximately \$3.6 million on those properties.

Total production in the quarter averaged 9,285 boe/d. Our production mix through the first six months of 2020 was 36% light and medium oil, 10% heavy oil, 8% NGL and 46% natural gas.

Production Summary

(boe/d)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Royalty interest	9,150	10,311	-11%	9,884	10,226	-3%
Working interest	135	353	-62%	271	420	-35%
Total	9,285	10,664	-13%	10,155	10,646	-5%

Average Daily Production by Product Type

	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Royalty interest						
Light and medium oil (bbl/d)	3,313	3,727	-11%	3,588	3,731	-4%
Heavy oil (bbl/d)	872	983	-11%	1,055	947	11%
NGL (bbl/d)	772	962	-20%	822	937	-12%
Natural gas (Mcf/d)	25,156	27,834	-10%	26,513	27,664	-4%
Oil equivalent (boe/d)	9,150	10,311	-11%	9,884	10,226	-3%
Working interest						
Light and medium oil (bbl/d)	1	21	-95%	7	46	-85%
Heavy oil (bbl/d)	48	143	-66%	85	142	-40%
NGL (bbl/d)	16	33	-52%	20	34	-41%
Natural gas (Mcf/d)	420	934	-55%	955	1,189	-20%
Oil equivalent (boe/d)	135	353	-62%	271	420	-35%
Total						
Light and medium oil (bbl/d)	3,314	3,748	-12%	3,595	3,777	-5%
Heavy oil (bbl/d)	920	1,126	-18%	1,140	1,089	5%
NGL (bbl/d)	788	995	-21%	842	971	-13%
Natural gas (Mcf/d)	25,576	28,768	-11%	27,468	28,853	-5%
Oil equivalent (boe/d)	9,285	10,664	-13%	10,155	10,646	-5%
Number of days in period (days)	91	91		182	181	
Total volumes during period (Mboe)	845	970	-13%	1,848	1,927	-4%

Product Prices

The price we receive for oil is primarily driven by the U.S. dollar price of WTI, adjusted for the value of the Canadian dollar relative to the U.S. dollar. WTI averaged US\$27.81/bbl in Q2-2020, 53% lower versus the same period last year. Edmonton Light Sweet averaged \$29.79/bbl, 60% lower versus the same period in 2019. WCS prices averaged \$22.37/bbl, 66% lower versus the same period in 2019. The AECO monthly contract natural gas price averaged \$1.85/mcf, 58% higher versus the same period in 2019.

Average Benchmark Prices and Exchange Rates

	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
West Texas Intermediate crude oil (US\$/bbl)	27.81	59.79	-53%	36.78	57.30	-36%
Exchange rate (Cdn\$/US\$)	0.72	0.75	-4%	0.73	0.75	-3%
Edmonton Light Sweet crude oil (Cdn\$/bbl)	29.79	73.84	-60%	40.89	69.95	-42%
Western Canadian Select crude oil (Cdn\$/bbl)	22.37	65.66	-66%	28.25	61.25	-54%
AECO monthly contract natural gas (Cdn\$/Mcf)	1.85	1.17	58%	2.00	1.56	28%

Our average liquids selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price was \$24.32/boe in Q2-2020, 61% lower than the same period last year.

Realized natural gas prices were up 100% relative to the prior year, averaging \$1.42/mcf in Q2-2020. Our natural gas price realizations are discounted compared to AECO pricing as they include transportation and processing fees netted from certain natural gas royalty payments.

Average Realized Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Oil (\$/bbl)	26.01	68.25	-62%	34.52	63.79	-46%
NGL (\$/bbl)	15.24	29.60	-49%	21.53	33.07	-35%
Oil and NGL (\$/bbl)	24.32	61.70	-61%	32.55	58.68	-45%
Natural gas (\$/Mcf)	1.42	0.71	100%	1.43	1.44	-1%
Oil equivalent (\$/boe)	17.08	35.88	-52%	21.75	36.08	-40%

Marketing and Hedging

Our production remained unhedged in Q2-2020. Our hedging policy is reviewed quarterly with our 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 production in-kind. As part of our risk mitigation program, we carefully monitor our royalty receivables and may choose to take our royalty in-kind if there are benefits in doing so. Currently we take in-kind and market approximately 13% of our total royalty production using 30-day contracts.

Credit Risk

With the retreat in crude oil prices, Freehold has further increased its scrutiny in its review of potential counterparty risk amongst its payors. Although liquidity challenges for some of Freehold's royalty payors should be expected as a result of lower crude oil pricing, historically Freehold has not experienced significant collection issues. This is because of the quality of Freehold's more substantial royalty payors in addition to diversification through a broad number of remaining royalty payors that individually represent an insignificant amount of Freehold's outstanding accounts

receivable. To further mitigate credit risk, Freehold takes certain of its production in-kind and has a dedicated Compliance group that pursues collections.

Royalty and Other Revenue

Royalty and other revenue of \$14.8 million in Q2-2020 was 58% lower than in Q2-2019, due to lower commodity prices and reduced production volumes. For the first six months of 2020, royalty and other revenue totaled \$41.0 million, down 42% versus the same period in 2019.

Royalty and Other Revenue

(\$000s)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	\$ 14,676	\$ 34,034	-57%	\$ 39,874	\$ 67,748	-41%
Bonus consideration, lease rentals, and other	98	287	-66%	585	863	-32%
Total royalty interest revenue	\$ 14,774	\$ 34,321	-57%	\$ 40,459	\$ 68,611	-41%
Working interest revenue from oil, NGL and natural gas ⁽²⁾	73	1,118	-93%	777	2,524	-69%
Royalty expense	(89)	(106)	-16%	(194)	(193)	1%
Total royalty and other revenue	\$ 14,758	\$ 35,333	-58%	\$ 41,042	\$ 70,942	-42%

(1) Includes potash royalties and other

(2) Includes processing and other

Royalty and Other Revenue by Type

(\$000s)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Oil	\$ 10,007	\$ 30,271	-67%	\$ 29,594	\$ 56,177	-47%
Natural gas	3,315	1,864	78%	7,163	7,537	-5%
NGL	1,093	2,679	-59%	3,301	5,811	-43%
Potash	334	338	-1%	593	747	-21%
Bonus consideration, lease rentals, and other	98	287	-66%	585	863	-32%
	14,847	\$ 35,439	-58%	41,236	\$ 71,135	-42%
Total royalty expense	(89)	(106)	-16%	(194)	(193)	1%
Total royalty and other revenue	\$ 14,758	\$ 35,333	-58%	\$ 41,042	\$ 70,942	-42%

Expenses

Operating Expenses

Operating expenses are comprised of direct costs incurred and costs allocated to oil, natural gas, and NGL working interest 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.

Operating expenses were down totaling \$0.5 million in Q2-2020. On a total production per boe basis, operating expenses decreased by 42% to \$0.61/boe in Q2-2020 relative to the same period in 2019. For the first six months of 2020, operating expenses on a per boe measure totaled \$0.81/boe, down 21% versus the first two quarters of 2019. The decrease in absolute and per boe measures reflected disposition activity completed during Q2-2020.

Operating Expenses ⁽¹⁾

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Total operating expenses	514	\$ 1,018	-50%	1,502	\$ 1,983	-24%
Per boe (\$)	0.61	1.05	-42%	0.81	1.03	-21%

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

Netback Analysis

As a royalty owner, we share in production revenue without incurring the operational costs, risks, and responsibilities typically associated with oil and natural gas operations. The following tables demonstrate the advantage of our royalty lands, which have no operating or royalty expenses (other than minor freehold mineral taxes).

In Q2-2020, royalty interests accounted for 100% of total royalty and other revenue and contributed 103% of operating income. For the first six months of 2020, royalty interests accounted for 99% of total royalty and other revenue and contributed 102% of operating income.

Operating Income ⁽¹⁾

(\$000s)	Three months ended June 30, 2020		
	Royalty Interest	Working Interest	Total
Net revenue	\$ 14,749	\$ 9	\$ 14,758
Operating expense	-	(514)	(514)
Operating income	\$ 14,749	\$ (505)	\$ 14,244
Percentage by category	103%	-3%	100%

(\$000s)	Three months ended June 30, 2019		
	Royalty Interest	Working Interest	Total
Net revenue	\$ 34,306	\$ 1,027	\$ 35,333
Operating expense	-	(1,018)	(1,018)
Operating income	\$ 34,306	\$ 9	\$ 34,315
Percentage by category	100%	0%	100%

(\$000s)	Six months ended June 30, 2020		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	\$ 40,335	\$ 707	\$ 41,042
Operating expense	-	(1,502)	(1,502)
Operating income	\$ 40,335	\$ (795)	\$ 39,540
Percentage by category	102%	-2%	100%

(\$000s)	Six months ended June 30, 2019		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	\$ 68,595	\$ 2,347	\$ 70,942
Operating expense	-	(1,983)	(1,983)
Operating income	\$ 68,595	\$ 364	\$ 68,959
Percentage by category	99%	1%	100%

(1) See Non-GAAP Financial Measures

(2) Royalty and other revenue include potash royalties, bonus consideration, lease rentals and other r, net of royalty expenses

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

Freehold's operating netback for Q2-2020 decreased 52% to \$16.86/boe versus Q2-2019, reflecting lower realized commodity prices. For the first two quarters of 2020, Freehold's operating netback totaled \$21.40/boe, down 40% when compared to the same period in 2019.

Operating Netback ⁽¹⁾

(\$/boe)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Royalty and other revenue	\$ 17.47	\$ 36.41	-52%	\$ 22.21	\$ 36.82	-40%
Operating expenses	(0.61)	(1.05)	-42%	(0.81)	(1.03)	-21%
Operating netback	\$ 16.86	\$ 35.36	-52%	\$ 21.40	\$ 35.79	-40%

(1) See Non-GAAP Financial Measures

General and Administrative Expenses

We have significant land administration, accounting and auditing activities 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 Q2-2020, G&A expenses were down 5% from Q2-2019 to \$2.5 million but up 9% to \$2.92/boe on a boe basis over the same period in the prior year. G&A expenses declined from Q2-2019 due to cost saving initiatives in an attempt to mitigate the impact of weakness in commodity prices and Freehold's revenues during the quarter that included reductions in compensation to both the Board of Directors and employees in addition to software and office cost reductions. G&A charges increased on a per boe measure reflecting reduced production volumes during the quarter. For the first six months of 2020, G&A expenses totaled \$6.2 million, down 6% from the previous year reflecting the aforementioned cost saving initiatives but also including reduced professional and corporate costs.

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
General and administrative expenses before capitalized and overhead recoveries	\$ 2,910	\$ 3,005	-3%	\$ 7,183	\$ 7,638	-6%
Less: capitalized and overhead recoveries	(446)	(413)	8%	(972)	(1,006)	-3%
General and administrative expenses	\$ 2,464	\$ 2,592	-5%	\$ 6,211	\$ 6,632	-6%
Per boe (\$)	2.92	2.67	9%	3.36	3.44	-2%

Management Fee

The Manager (see Related Party Transactions) receives a quarterly management fee paid with Freehold common shares. The amended and restated management agreement dated November 9, 2015 (the Management Agreement) capped the management fee at 55,000 Freehold common shares per quarter for 2017 to 2019. In 2020, the management fee is capped at the equivalent of 41,250 Freehold common shares per quarter, with the fee gradually decreasing to the equivalent of 5,500 common shares per quarter by 2023 as per the table below:

	2020	2021	2022	2023
Quarterly share payment	41,250	27,500	13,750	5,500

The ascribed value associated with the management fee declined 69% compared to Q2-2019, which is based on Freehold's common share price on the last day of the quarter, that was lower at June 30, 2020 relative to June 30, 2019. Freehold can elect to pay the management fee in either cash or common shares.

Management Fees (paid in shares)

	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Shares issued for management fees	41,250	55,000	-25%	82,500	110,000	-25%
Ascribed value (\$000s) ⁽¹⁾	145	465	-69%	266	928	-71%
Closing share price (\$/share)	3.52	8.47	-58%	3.52	8.47	-58%
Per boe (\$)	0.17	0.48	-65%	0.14	0.48	-71%

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

Share Based Compensation

Long-Term Incentive Plans

Freehold's long-term award plan (Freehold Award Plan) is share based and cash settled. Freehold's long-term incentive compensation consists of grants of performance share units (PSUs) and restricted share units (RSUs) under the Freehold Award Plan.

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.

During the six months ended June 30, 2020 Freehold paid \$0.4 million (2019 - \$0.5 million) under these plans. In April 2020, there were 626,910 RSUs and PSUs granted under the LTIP.

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.

On January 1, 2020, Freehold's Board granted a total of 66,529 DSUs to eligible directors as part of their annual compensation. Each eligible director received 10,288 DSUs and the Chair of the Board received 15,089 DSUs.

As at June 30, 2020, there were 318,711 DSUs outstanding and at August 12, 2020, there were 320,028 DSUs outstanding (including notional DSUs granted as a result of dividends paid on our common shares).

Shared Based Compensation

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Long-term incentive plan before capitalized portion	\$ 295	\$ 415	-29%	\$ (288)	\$ 660	-144%
Less: capitalized portion	(74)	(66)	12%	19	(105)	-118%
Long-term incentive plan	221	349	-37%	(269)	555	-148%
Deferred share unit plan	26	36	-28%	555	553	0%
Share based compensation	\$ 247	\$ 385	-36%	\$ 286	\$ 1,108	-74%
Per boe (\$)	0.29	0.40	-28%	0.15	0.58	-74%

Finance Expense

Q2-2020 interest and financing expense decreased due to lower lending rates and slightly lower average debt levels over Q2-2019. The average effective interest rate on advances under our credit facilities in the current quarter and for the year to date was 2.3% and 3.0%, respectively (2019 – 3.5% and 3.6%, respectively). For Q2-2020, the average interest and financing expense totaled \$0.80/boe, down 19% versus the same period in 2019.

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Interest and financing expense	\$ 676	\$ 963	-30%	\$ 1,705	\$ 1,862	-8%
Non-cash finance expenses ⁽¹⁾	52	52	0%	117	115	2%
Total finance expense	\$ 728	\$ 1,015	-28%	\$ 1,822	\$ 1,977	-8%
Per boe (\$)	0.86	1.05	-18%	0.99	1.03	-4%
Per boe - cash expense (\$)	0.80	0.99	-19%	0.92	0.97	-5%

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

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. The improved depletion rate per boe is due to reserve additions arising from positive technical revisions on Freehold's December 31, 2019 externally prepared reserve report.

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Depletion and depreciation	\$ 17,942	\$ 24,304	-26%	\$ 40,768	\$ 48,401	-16%
Per boe (\$)	21.24	25.05	-15%	22.06	25.12	-12%

Impairment

At the June 30, 2020 measurement period for petroleum and natural gas interests, Freehold did not observe any additional evidence as not already discussed below that would indicate further impairment in the carrying values of these assets nor was there additional evidence indicating an impairment reversal.

Freehold previously tested both the Working Interest and Royalty Interest cash generating units (CGUs) carrying values as at March 31, 2020 for impairment due to that period's decrease in expected future commodity prices. In determining if there was impairment for the Royalty and Working Interest CGUs, Freehold estimated the recoverable amount as the value in use based on discounted future net cash flows of proved plus probable reserves using forecast prices and costs, discounted at pre-tax rates between 8% to 10% and 15% and 25%, respectively.

These CGUs' value in use estimates as at March 31, 2020 were based on Freehold's December 31, 2019 externally prepared reserve report internally adjusted for forward pricing, production, estimated reserve additions resulting from acquisition activities. As previously reported, there was an impairment charged against the Working Interest CGU as at March 31, 2020 of \$9.6 million as its carrying value exceeded its estimated value in use. This resulted in the estimated recoverable amount of the Working Interest CGU to \$nil.

The following table summarizes forward commodity benchmarks as at April 1, 2020 used in the determination of recoverable values as at March 31, 2020:

	WTI US\$/bbl	WCS Cdn\$/bbl	AECO Cdn\$/Mcf	Exchange rate Cdn\$/US\$
2020	29.17	19.21	1.74	0.70
2021	40.45	34.65	2.20	0.73
2022	49.17	46.34	2.38	0.75
2023	53.28	51.25	2.45	0.75
2024	55.66	54.28	2.53	0.75
2025	56.87	55.72	2.60	0.75
Average annual increase, thereafter	2.0%	2.0%	2.0%	-

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.

For the three and six months ended June 30, 2020, there was \$nil in current income tax expense (2019 - \$nil). For the three months ended June 30, 2020, deferred income tax recovery was \$1.9 million (2019 - \$2.1 million expense). For the six months ended June 30, 2020, deferred income tax recovery was \$5.0 million (2019 - \$0.5 million). No adjustments were made to any of these reported tax measures due to the recently received CRA reassessments as discussed below.

CRA Reassessments

Freehold's corporate income tax filings for 2015 and 2018 were reassessed by the Canada Revenue Agency (CRA) in June 2020 (the Reassessments). Pursuant to the Reassessments, the deduction of \$70.1 million of non-capital losses (NCLs) by Freehold was denied, resulting in reassessed taxes interest, and penalties totaling \$23.0 million in addition to a denial of \$152.4 million of carried forward NCLs.

In order to appeal these Reassessments, Freehold is required to make a payment of 50% of the reassessed amounts (\$11.5 million) as a deposit to the CRA prior to September 1, 2020. On the same basis, it is further possible that Freehold's 2019 tax filings may be reassessed which could result in the denial of \$22.5 million of deducted NCLs resulting in \$6.3 million of taxes and interest. The carrying value of the remaining carried forward NCLs of \$129.9 million as at January 1, 2020 are also at risk of reassessment should Freehold be unsuccessful in defending its position.

Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, management remains of the opinion that all tax filings to date were filed correctly and that it will be successful in its objection of these Reassessments and therefore any future deposit paid to the CRA would be refunded, plus interest. Freehold anticipates that proceedings through the CRA could take up to a year or more to resolve. Further, the payment of any deposits does not impact Freehold's earnings or funds from operations. Freehold is currently in the process of filing its objection of the Reassessments.

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.

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.

a. Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares per quarter, pursuant to the Management Agreement. The Management Agreement capped the management fee at 41,250 Freehold common shares per quarter for 2020.

During Q2-2020 and the year to date Freehold issued 41,250 and 82,500 common shares, respectively, (2019 – 55,000 and 110,000) as payment of the management fee pursuant to the Management Agreement. The respective ascribed values of \$0.1 million and \$0.3 million (2019 – \$0.5 million and \$0.9 million) were based on the closing price of Freehold's common shares on the last trading day of each quarter.

During Q2-2020 and the year to date the Manager charged \$2.2 million and \$5.7 million in general and administrative costs, respectively (2019 – \$2.3 million and \$5.9 million, respectively). At June 30, 2020, there was \$0.9 million (December 31, 2019 – \$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 June 30, 2020, there was \$nil (December 31, 2019 - \$nil) in accounts receivable relating to these transactions. At June 30, 2020, there was \$nil (December 31, 2019 - \$nil) in accounts payable and accrued liabilities relating to these transactions.

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the three months ended June 30, 2020, Freehold received royalties of approximately \$nil from Rife (2019 – \$0.2 million). At June 30, 2020, there was \$nil (December 31, 2019 - \$0.1 million) 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. Freehold is not the legal registered owner of such mineral rights as Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. At June 30, 2020, there was \$nil (December 31, 2019 – \$nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

Liquidity and Capital Resources

Operating Activities

In Q2-2020 Freehold had a net loss of \$5.4 million compared with net income of \$3.4 million in Q2-2019. The higher net loss for Q2-2020 is due to lower commodity prices realized during the quarter, combined with reduced production volumes as third-party operators shut-in volumes and no drilling on our lands during the period, reflecting weaker pricing.

Funds from operations for the current quarter decreased approximately 65% to \$10.6 million and \$0.09/share from \$30.1 million and \$0.25/share in the same quarter last year.

We consider funds from operations from our condensed consolidated statement of cash flows to be a key measure of operating performance as it demonstrates Freehold's ability to generate the necessary funds to support acquisitions, sustain dividends, and repay debt. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income (loss) per share.

Net Income (Loss) and Funds from Operations

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Net income (loss)	\$ (5,421)	\$ 3,430	-258%	\$ (14,443)	\$ (3,649)	296%
Per share, basic and diluted (\$)	(0.05)	0.03	-267%	(0.12)	(0.03)	300%
Funds from operations	\$ 10,622	\$ 30,095	-65%	\$ 30,870	\$ 59,443	-48%
Per share (\$)	0.09	0.25	-64%	0.26	0.50	-48%

Financing Activities

Working Capital

We retain working capital (calculated as current assets less current liabilities) primarily to fund acquisitions and related expenditures and reduce bank indebtedness. In the oil and gas industry, accounts receivable from industry partners are typically settled in the following month. However, due to 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.

Q2-2020 working capital of \$5.9 million was down 53% from Q2-2019 mostly due to a decline in accounts receivable and accrued revenue as a result of lower crude oil pricing and volumes. Partially offsetting the lower working capital was a lower dividends payable amount.

Components of Working Capital

(\$000s)	Jun. 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	Jun. 30 2019
Cash	\$ 1,089	\$ 2,003	\$ 1,199	\$ 2,045	\$ 83
Accounts receivable and accrued revenue	11,036	14,967	24,894	21,798	24,314
Current assets	12,125	16,970	26,093	23,843	24,397
Dividends payable	(1,785)	(6,234)	(6,232)	(6,224)	(6,221)
Accounts payable and accrued liabilities	(3,251)	(4,590)	(3,895)	(3,844)	(3,670)
Current portion of lease obligation	(146)	(98)	(49)		
Current portion of share based compensation payable	(358)	(415)	(745)	(375)	(299)
Current portion of decommissioning liability	(656)	(4,466)	(806)	(2,900)	(1,517)
Current liabilities	(6,196)	(15,803)	(11,727)	(13,367)	(11,707)
Working capital	\$ 5,929	\$ 1,167	\$ 14,366	\$ 10,476	\$ 12,690

Long-Term Debt

At June 30, 2020, 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 June 30, 2020, \$102 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, depreciation and amortization) shall not exceed 3.5 times. The actual ratio was 1.1 times at June 30, 2020. The second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) percentage shall not exceed 55%. The actual percentage was 13% at June 30, 2020.

The Company's prudent debt strategy of maintaining a long-term debt to cash flow ratio of below 1.5 times and a dividend payout range of 60% to 80% of cash flow provides cushion for volatile prices like those currently being experienced. However, the COVID-19 pandemic has caused significant destruction of demand for oil, volatility in commodity prices and uncertainty regarding the timing for recovery, which has made the preparation of financial forecasts challenging. As a result, there may be adverse changes in cash flows or debt levels that are currently unforeseen.

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 June 30, 2020 and December 31, 2019, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market rates.

Net Debt and Ratios

Net debt, as disclosed in our financial statements, decreased by \$5.7 million from the previous quarter to \$96.1 million in Q2-2020 mainly as a result of a lower payout ratio. Over and above any period acquisition financing, we

use funds from operations in excess of dividends (and the change in working capital mentioned above) to reduce bank debt when possible.

Debt Analysis

	Jun. 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	Jun. 30 2019
(\$000s)					
Long-term debt	\$ 102,000	\$ 103,000	\$ 109,000	\$ 116,000	\$ 111,000
Working capital	(5,929)	(1,167)	(14,366)	(10,476)	(12,690)
Net debt	\$ 96,071	\$ 101,833	\$ 94,634	\$ 105,524	\$ 98,310

As at June 30, 2020, Freehold's net debt to funds from operations ratio was 1.1 times (Q2-2019 – 0.9 times) and continues to be within our debt management strategy target of below 1.5 times. This ratio is a financial leverage measure that reflects cash available to pay back our debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others. We apply the 1.5 times multiple as a marker to ensure conservatism in our leverage strategy.

Freehold defines capital (and capitalization) as net debt plus shareholders' equity. The net debt to capitalization ratio is a financial leverage measure that shows the portion of capital relating to debt. As at June 30, 2020 Freehold's ratio of 13% (Q2-2019 – 12%) reflects its continued low debt levels and resulting low financial risk.

Financial Leverage Ratios ⁽¹⁾

	Jun. 30 2020	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	Jun. 30 2019
Net debt to funds from operations (times)	1.1	0.9	0.8	1.0	0.9
Net debt to capitalization (%)	13	13	12	13	12

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

Shareholders' Capital

As at June 30, 2020 and as of August 12, 2020, there were 118,705,167 shares outstanding respectively. For Q2-2020 and the year to date Freehold issued 41,250 shares and 82,500 shares, respectively, for payment of the management fee (see Management Fee and Related Party Transactions).

	June 30, 2020		December 31, 2019	
	Shares	Amount	Shares	Amount
(\$000s, except as noted)				
Balance, beginning of period	118,622,667	\$ 1,271,763	118,402,667	\$ 1,270,020
Issued for payment of management fee	82,500	266	220,000	1,743
Balance, end of period	118,705,167	\$ 1,272,029	118,622,667	\$ 1,271,763

For Q2-2020 and the year to date in addition to the comparative period's year to date, DSUs were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive. For the comparative quarter, dilutive DSUs of 224,459 were included in the weighted average diluted shares outstanding.

Shares Outstanding

	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Weighted average						
Basic	118,664,370	118,458,271	-	118,643,745	118,430,926	-
Diluted	118,664,370	118,682,730	-	118,643,745	118,430,926	-
At period end	118,705,167	118,512,667	-	118,705,167	118,512,667	-

Dividend Policy and Analysis

Freehold's 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, among others. The dividend rate is established with the intent of absorbing short-term market volatility over several months. It also recognizes our intention to maintain a strong and flexible balance sheet to take advantage of acquisition opportunities and withstand potential short-term commodity price declines.

Freehold's dividends are designated as eligible dividends for Canadian income tax purposes. We are restricted from declaring dividends if we do not satisfy the liquidity and solvency tests under the *Business Corporations Act* (Alberta).

Dividends paid for Q2-2020 totaled \$0.0825 per share, down from Q2-2019 and Q1-2020 when dividends paid totaled \$0.1575 per share. As a result of lower crude oil pricing due to geopolitical forces combined with demand destruction caused by the COVID-19 pandemic, Freehold announced a reduction to its monthly dividend to \$0.015 per share effective with the May 15, 2020 dividend payment. For the same reasons, dividends declared in Q2-2020 totaled \$5.3 million or \$0.045 per share which was down from \$0.1575 in Q2-2019.

Accumulated Dividends ⁽¹⁾

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Dividends declared (\$000s)	\$ 5,341	\$ 18,660	\$ 24,026	\$ 37,311
Accumulated, beginning of period	1,721,228	1,646,531	1,702,543	1,627,880
Accumulated, end of period	\$ 1,726,569	\$ 1,665,191	\$ 1,726,569	\$ 1,665,191
Dividends per share (\$) ⁽²⁾	\$ 0.0450	\$ 0.1575	\$ 0.2025	\$ 0.3150
Accumulated, beginning of period	32.4625	31.8325	32.3050	31.6750
Accumulated, end of period	\$ 32.5075	\$ 31.9900	\$ 32.5075	\$ 31.9900

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

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

Reconciliation of Funds from Operations and Dividends Declared

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Funds from operations	\$ 10,622	\$ 30,095	\$ 30,870	\$ 59,443
Debt additions (repayments)	(1,000)	21,000	(7,000)	21,000
Acquisitions and related expenditures	(981)	(30,973)	(6,421)	(31,902)
Working interest dispositions	(2,294)	(52)	(2,297)	(82)
Working capital change	(1,006)	(1,410)	8,874	(11,148)
Dividends declared	\$ 5,341	\$ 18,660	\$ 24,026	\$ 37,311

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

Freehold's payout ratio for Q2-2020 was 92% versus 62% the same period last year. As previously discussed, Freehold reduced its monthly dividend paid in April of \$0.0525 per share to \$0.015 per share paid in May and June. By the April payment date, the COVID-19 pandemic caused significant demand destruction for oil resulting in volatile commodity pricing and uncertainty regarding the timing for recovery, which has made the preparation of financial forecasts challenging including maintaining the payout ratio within the targeted range of 60%-80% of annualized funds flow. The higher April dividend paid relative to lower Q2-2020 funds from operations of \$10.6 million resulted in a payout ratio in excess of our targeted range.

Previously, Freehold reported its payout ratio on a dividends declared basis. For Q2-2020 Freehold paid out a total of \$9.8 million in dividends relative to \$10.6 million of funds from operations. Despite this payout corresponding to Freehold's funds from operations, the payout ratio on a dividends declared basis totaled only 50% for the quarter, versus 64% during the same period last year. As previously discussed, dividends declared for Q2-2020 totaled \$0.045 per share, down from Q2-2019 and Q1-2020 when dividends declared totaled \$0.1575 per share. The reduction in our Q2-2020 payout levels on a declared basis reflects announcing lower monthly dividends in anticipation of lower funds from operations which began recovering during June alongside higher crude oil benchmark pricing. Despite the unprecedented Q2-2020 where we observed depressed benchmark pricing, over Freehold's long history we have never suspended paying a dividend.

Dividend Analysis

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Dividends paid in cash ⁽¹⁾	\$ 9,790	\$ 18,674	\$ 28,473	\$ 37,322
Dividends declared	\$ 5,341	\$ 18,660	\$ 24,026	\$ 37,311
Funds from operations	\$ 10,622	\$ 30,095	\$ 30,870	\$ 59,443
Payout ratio ⁽²⁾	92%	62%	92%	63%

(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 paid as a percentage of funds from operations (see Non-GAAP Financial Measures)

Investing Activities

In Q2-2020 Freehold capitalized \$0.9 million of expenditures related to G&A and freehold mineral taxes. For the year to date, acquisition and related expenditures totaled \$6.4 million. This included two mineral acquisitions in North Dakota in the United States for \$3.3 million and other expenditures including costs for its Canadian royalty interests totaling \$2.2 million.

During April 2020, Freehold disposed of certain working interest properties whereby the purchaser agreed to assume decommissioning liabilities of \$3.6 million associated with these properties in exchange for Freehold paying \$2.3 million.

Acquisitions, Dispositions and Related Expenditures

	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Acquisitions and related expenditures	\$ 981	\$ 30,973	-97%	\$ 6,421	\$ 31,902	-80%
Working interest dispositions paid	2,294	52	4312%	2,297	82	2701%
	\$ 3,275	\$ 31,025	-89%	\$ 8,718	\$ 31,984	-73%

Additional Information

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

Internal Controls

Freehold is required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during the three months ended June 30, 2020. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, Certification of Interim Filings, which can be found on SEDAR at www.sedar.com.

New Accounting Standards

On January 1, 2020 Freehold adopted the amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to provide additional guidance to determine if a transaction should be recorded as a business combination or an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess if an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. This standard will be applied prospectively. No business combinations were completed during Q2-2020 and the current year to date.

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, Second Quarter Highlights, Our Strategy, Business Environment, Drilling Activity, Dividend Policy and Analysis and Liquidity and Capital Resources pertaining to the following:

- our expectations of the impact the recent disposition will have on operating netbacks, profitability margins, asset retirement obligations and cash costs;
- our expected timing for certain production to come back on-line;
- our expectation that resumption of drilling operations will add in production volumes in 2021;
- our intent to continue to monitor COVID-19 updates and follow the latest guidance to move to our next phase of return;
- our expectation of our U.S. royalty production recovering in Q3;
- our expectation that with continued stability in commodity prices activity levels will increase through Q3-2020 and year-end on our royalty lands;
- our expectation that our production and revenue will stabilize over the short term;
- our expectation that as prices stabilize further third-party capital will increase on our royalty land;
- our expectation to update the market as we acquire a better understanding on the impact on our production profile for the remainder of 2020 and 2021;
- 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 outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil and natural gas including the impact of COVID-19 on such factors;
- changing economic conditions;
- our strategies and the expectation that those strategies will deliver growth and lower risk attractive returns to shareholders;
- our ability to continue to meet the financial covenants under the agreements governing our credit facilities;
- foreign exchange rates;
- 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:

- the continuing adverse impact of COVID-19 on economic activity and demand for oil and natural gas;
- 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 industry partners and royalty payors to obtain equipment in a timely manner to carry out development activities;
- our ability to market our own 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;
- currency fluctuations;
- the Alberta government's handling of oil curtailments;
- changes or rulings regarding income tax laws or changes in tax laws, regulations, royalties, or incentive programs relating to the oil and gas industry;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- uncertainties or imprecision associated with estimating oil and gas reserves;
- stock market volatility and our ability to access sufficient capital from internal and external sources;
- a significant or prolonged downturn in general economic conditions or industry activity;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- geological, technical, drilling, and processing problems;
- environmental risks and liabilities inherent in oil and gas operations; and
- other factors discussed in Freehold's MD&A, audited financial statements for the year ended December 31, 2019 and our Annual Information Form.

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

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

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

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

To the extent any guidance or forward-looking statements herein constitutes a financial outlook, they are included herein to provide readers with an understanding of management's plans and assumptions for budgeting purposes and readers are cautioned that the information may not be appropriate for other purposes. You are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses.

These estimates may change, having either a positive or negative effect on net income, as further information becomes available and as the economic environment changes.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement and speak only as of the date of this MD&A. Our policy for updating forward-looking statements is to update our key operating assumptions quarterly and, except as required by law, we do not undertake to update any other forward-looking statements.

Conversion of Natural Gas to Barrels of Oil Equivalent (BOE)

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (boe). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 barrel). The 6:1 boe ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

Non-GAAP Financial Measures

Within this MD&A, references are made to terms commonly used as key performance indicators in the oil and gas industry. We believe that operating income, operating netback, 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 operating expenses. It shows the profitability of our revenue streams as it provides the cash margin for product sold after directly related expenses. Operating netback, which is calculated as average unit sales price less operating expenses, represents the cash margin for product sold, calculated on a per boe basis (See our Netback Analysis section for calculations).

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. Freehold's payout ratio is calculated as dividends paid as a percentage of funds from operations (See our Dividend Policy section for calculations).

Free cash flow is calculated by subtracting capital expenditures from funds from operations. 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, general and administrative expense, interest expense and share based compensation payments. It is key to funds from operations, representing the ability to sustain dividends, repay debt and fund capital expenditures.

(\$000s)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Operating expense	\$ 514	\$ 1,018	-50%	\$ 1,502	\$ 1,983	-24%
General and administrative expenses	2,464	2,592	-5%	6,211	6,632	-6%
Interest expense	676	963	-30%	1,705	1,862	-8%
Expenditures on share based compensation	389	331	18%	389	544	-28%
Total cash costs	\$ 4,043	\$ 4,904	-18%	\$ 9,807	\$ 11,021	-11%

(\$/boe)	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	Change	2020	2019	Change
Operating expense	\$ 0.61	\$ 1.05	-42%	\$ 0.81	\$ 1.03	-21%
General and administrative expenses	2.92	2.67	9%	3.36	3.44	-2%
Interest expense	0.80	0.99	-19%	0.92	0.97	-5%
Expenditures on share based compensation	0.46	0.34	35%	0.21	0.28	-25%
Total cash costs per boe	\$ 4.79	\$ 5.05	-5%	\$ 5.30	\$ 5.72	-7%

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

Condensed Consolidated Balance Sheets

(unaudited) (\$000s)	June 30 2020	December 31 2019
Assets		
Current assets:		
Cash	\$ 1,089	\$ 1,199
Accounts receivable and accrued revenue	11,036	24,894
Exploration and evaluation assets (note 2)	12,125	26,093
Petroleum and natural gas interests (note 3)	83,001	85,850
Deferred income tax asset (note 12)	672,813	714,820
	18,100	13,130
	\$ 786,039	\$ 839,893
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable	\$ 1,785	\$ 6,232
Accounts payable and accrued liabilities	3,251	3,895
Current portion of lease obligation	146	49
Current portion of share based compensation payable (note 4)	358	745
Current portion of decommissioning liability (note 5)	656	806
Lease obligation	6,196	11,727
Decommissioning liability (note 5)	1,818	1,876
Share based compensation payable (note 4)	5,891	9,216
Long-term debt (note 6)	307	597
	102,000	109,000
Shareholders' equity:		
Shareholders' capital (note 7)	1,272,029	1,271,763
Accumulated other comprehensive loss	(19)	(17)
Contributed surplus	3,730	3,175
Deficit	(605,913)	(567,444)
	669,827	707,477
	\$ 786,039	\$ 839,893

See accompanying notes to interim condensed consolidated financial statements.

Contingency (note 12)

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

(unaudited) (\$000s, except per share and weighted average shares)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Revenue:				
Royalty and other revenue (note 8)	\$ 14,758	\$ 35,333	\$ 41,042	\$ 70,942
Expenses:				
Operating	514	1,018	1,502	1,983
General and administrative	2,464	2,592	6,211	6,632
Share based compensation	247	385	286	1,108
Finance (note 9)	728	1,015	1,822	1,977
Depletion, depreciation, and other (note 3)	17,942	24,304	40,768	48,401
Impairment (note 3)	-	-	9,600	14,056
Management fee (note 10)	145	465	266	928
	22,040	29,779	60,455	75,085
Income (loss) before taxes	(7,282)	5,554	(19,413)	(4,143)
Deferred income tax expense (recovery) (note 12)	(1,861)	2,124	(4,970)	(494)
Net income (loss)	\$ (5,421)	\$ 3,430	\$ (14,443)	\$ (3,649)
Other comprehensive income				
Foreign currency translation of foreign operations	\$ (62)	\$ -	\$ (2)	\$ -
Comprehensive income (loss)	\$ (5,483)	\$ 3,430	\$ (14,445)	\$ (3,649)
Net income (loss) per share, basic and diluted	\$ (0.05)	\$ 0.03	\$ (0.12)	\$ (0.03)
Weighted average number of shares (note 11):				
Basic	118,664,370	118,458,271	118,643,745	118,430,926
Diluted	118,664,370	118,682,730	118,643,745	118,430,926

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited) (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Operating:				
Net income (loss)	\$ (5,421)	\$ 3,430	\$ (14,443)	\$ (3,649)
Items not involving cash:				
Depletion, depreciation, and other (note 3)	17,942	24,304	40,768	48,401
Impairment (note 3)	-	-	9,600	14,056
Share based compensation (note 4)	247	385	286	1,108
Deferred income tax recovery	(1,861)	2,124	(4,970)	(494)
Non-cash finance expense (note 9)	52	52	117	115
Management fee (note 10)	145	465	266	928
Expenditures on share based compensation (note 4)	(389)	(331)	(389)	(544)
Decommissioning expenditures (note 5)	(93)	(334)	(365)	(478)
Funds from operations	10,622	30,095	30,870	59,443
Changes in non-cash working capital	2,522	(2,279)	13,157	(12,307)
	13,144	27,816	44,027	47,136
Financing:				
Long-term debt drawing (repayment)	(1,000)	21,000	(7,000)	21,000
Dividends paid	(9,790)	(18,674)	(28,473)	(37,322)
	(10,790)	2,326	(35,473)	(16,322)
Investing:				
Acquisitions and related expenditures	(981)	(30,973)	(6,421)	(31,902)
Working interest dispositions (note 3)	(2,294)	(52)	(2,297)	(82)
Changes in non-cash working capital	66	35	78	(9)
	(3,209)	(30,990)	(8,640)	(31,993)
Decrease in cash	(855)	(848)	(86)	(1,179)
Impact of foreign currency on cash balance	(59)	-	(24)	-
Cash, beginning of period	2,003	931	1,199	1,262
Cash, end of period	\$ 1,089	\$ 83	\$ 1,089	\$ 83

See accompanying notes to interim condensed consolidated financial statements.
Supplemental disclosures (note 11)

Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited) (\$000s)	Six Months Ended June 30	
	2020	2019
Shareholders' capital:		
Balance, beginning of period	\$ 1,271,763	\$ 1,270,020
Shares issued for payment of management fee	266	928
Balance, end of period	1,272,029	1,270,948
Accumulated other comprehensive loss:		
Balance, beginning of period	(17)	-
Other comprehensive loss	(2)	-
Balance, end of period	(19)	-
Contributed surplus:		
Balance, beginning of period	3,175	2,569
Share based compensation	555	553
Balance, end of period	3,730	3,105
Deficit:		
Balance, beginning of period	(567,444)	(497,974)
Net loss	(14,443)	(3,649)
Dividends declared	(24,026)	(37,311)
Balance, end of period	(605,913)	(538,934)
Total shareholders' equity	\$ 669,827	\$ 735,119

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

For the three months and six months ended June 30, 2020 and 2019 (unaudited).

1. Basis of Presentation

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

Freehold's principal place of business is located at 1000, 517 – 10 Avenue SW, Calgary, Alberta, Canada, T2R 0A8.

a) Statement of Compliance

These interim condensed consolidated financial statements, the "financial statements", have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 Interim Financial Reporting. These financial statements do not include all the disclosures normally provided in annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2019.

These financial statements were approved by the Board of Directors on August 12, 2020.

b) Basis of Measurement and Principles of Consolidation

These financial statements have been prepared on a historical cost basis, with the exception of certain fair value measurements, and include the accounts of Freehold and its wholly-owned subsidiaries: Freehold Royalties (USA) Inc., 1872348 Alberta Ltd., Freehold Holdings Trust and Freehold Royalties Partnership. All inter-entity transactions have been eliminated.

c) New Accounting Standard

On January 1, 2020 Freehold adopted the amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to provide additional guidance to determine if a transaction should be recorded as a business combination or an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess if an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. This standard will be applied prospectively. No business combinations were completed during the six months ended June 30, 2020.

d) Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the COVID-19 outbreak to be a pandemic. Governments have taken significant steps to contain the spread of the virus, which have led to significant disruption of business operations and a significant increase in economic uncertainty, volatility in foreign currency exchange rates, and a decline in long-term interest rates. Although during June 2020 crude oil benchmark pricing began to recover for the three months ended June 30, 2020, in comparison to previously reported fiscal quarters, crude oil prices have

declined dramatically as a result of, amongst other things, a significant decline in demand. The result of this economic downturn and the resulting direct and indirect impact on Freehold continue to be evaluated by management and could have a prospective material impact on its operations, cash flows and liquidity.

Credit risk has increased throughout the crude oil and natural gas industry because of liquidity challenges faced by our royalty payers due to demand destruction caused by COVID-19 and the associated effect of record low crude oil pricing. Collection of accounts receivable is a priority for Freehold however its credit risk is relatively low because of the quality of Freehold's more substantial royalty payors in addition to diversification through a broad number of remaining royalty payors that individually represent an insignificant amount of Freehold's outstanding accounts receivable. To further mitigate credit risk, Freehold takes certain of its production in-kind and has a dedicated Compliance group that pursues collections.

2. Exploration and Evaluation Assets

(\$000s)	June 30, 2020	December 31, 2019
Balance, beginning of period	\$ 85,850	\$ 87,453
Acquisitions	-	3,995
Transfers to petroleum and natural gas interests (note 3)	(2,849)	(5,598)
Balance, end of period	\$ 83,001	\$ 85,850

3. Petroleum and Natural Gas Interests

(\$000s)	June 30, 2020	December 31, 2019
Cost		
Balance, beginning of period	\$ 1,484,600	\$ 1,434,437
Acquisitions and related expenditures	6,421	45,694
Capitalized portion of long term incentive plan	(19)	148
Increase in right-of-use asset	-	1,888
Transfers from exploration and evaluation assets (note 2)	2,849	5,598
Decommissioning liability additions and revisions (note 5)	429	929
Working interest dispositions	(2,823)	(4,094)
Balance, end of period	1,491,457	1,484,600
Accumulated depletion and depreciation		
Balance, beginning of period	(769,780)	(664,189)
Depletion and depreciation	(42,087)	(94,912)
Impairment	(9,600)	(14,056)
Accumulated depletion, and depreciation of working interest dispositions	2,823	3,377
Balance, end of period	(818,644)	(769,780)
Net book value, end of period	\$ 672,813	\$ 714,820

a. Acquisitions and other related expenditures

For the six months ended June 30, 2020, Freehold completed two acquisition transactions for certain U.S. royalty assets for \$3.3 million. Freehold also recorded capitalized administrative costs of \$0.9 million and other expenditures including costs for its Canadian royalty interests totaling \$2.2 million.

b. Dispositions

During April 2020, Freehold disposed of certain working interest properties whereby the purchaser agreed to assume decommissioning liabilities of \$3.6 million associated with these properties in exchange for Freehold paying \$2.3 million. There was no net carrying value of petroleum and natural gas working interest associated with this disposition.

c. Impairment and impairment reversal

At the June 30, 2020 measurement period for petroleum and natural gas interests, Freehold did not observe any additional evidence as not already discussed below that would indicate further impairment in the carrying values of these assets nor was there additional evidence indicating an impairment reversal.

Freehold previously tested both the Working Interest and Royalty Interest cash generating units (CGUs) carrying values as at March 31, 2020 for impairment due to that period's decrease in expected future commodity prices. In determining if there was impairment for the Royalty and Working Interest CGUs, Freehold estimated the recoverable amount as the value in use based on discounted future net cash flows of proved plus probable reserves using forecast prices and costs, discounted at pre-tax rates between 8% to 10% and 15% and 25%, respectively.

These CGUs' value in use estimates as at March 31, 2020 were based on Freehold's December 31, 2019 externally prepared reserve report internally adjusted for forward pricing, production and estimated reserve additions resulting from acquisition activities. As previously reported, there was an impairment charged against the Working Interest CGU as at March 31, 2020 of \$9.6 million as its carrying value exceeded its estimated value in use. This resulted in the estimated recoverable amount of the Working Interest CGU to \$nil.

The following table summarizes forward commodity benchmarks as at April 1, 2020 used in the determination of recoverable values as at March 31, 2020:

	WTI US\$/bbl	WCS Cdn\$/bbl	AECO Cdn\$/Mcf	Exchange rate Cdn\$/US\$
2020	29.17	19.21	1.74	0.70
2021	40.45	34.65	2.20	0.73
2022	49.17	46.34	2.38	0.75
2023	53.28	51.25	2.45	0.75
2024	55.66	54.28	2.53	0.75
2025	56.87	55.72	2.60	0.75
Average annual increase, thereafter	2.0%	2.0%	2.0%	-

4. Share Based Compensation

a. Long-term Incentive Plans

Freehold's long-term award plan (Freehold Award Plan) is share based and cash settled. Freehold's long-term incentive compensation consists of grants of performance share units (PSUs) and restricted share units (RSUs) under the Freehold Award Plan.

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.

During the six months ended June 30, 2020 Freehold paid \$0.4 million (2019 - \$0.5 million) under these plans. In April 2020, there were 626,910 RSUs and PSUs granted under the LTIP.

The following table reconciles the change during the six months ended June 30, 2020 in share-based incentive compensation:

SHARE BASED COMPENSATION (\$000s)	June 30, 2020	December 31, 2019
Balance, beginning of period	\$ 1,342	\$ 953
Increase (decrease) in liability	(288)	933
Cash payout	(389)	(544)
Balance, end of period	\$ 665	\$ 1,342
Current portion of liability	\$ 358	\$ 745
Long-term portion of liability	\$ 307	\$ 597

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

SHARE BASED AWARDS (Number of Units)	June 30, 2020	December 31, 2019
Balance, beginning of period	407,176	305,920
Units issued	626,910	189,820
Estimated forfeitures	(12,106)	-
Dividends reinvested	16,012	18,034
Cash payout	(117,563)	(106,598)
Balance, end of period	920,429	407,176

b. 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.

DEFERRED SHARE UNITS	June 30, 2020	December 31, 2019
Balance, beginning of period	236,311	160,192
Annual grants	66,529	58,646
Additional resulting from dividends	15,871	17,473
Balance, end of period	318,711	236,311

5. Decommissioning Liabilities

Freehold's decommissioning liability results from its responsibility to abandon and reclaim its net share of all working interest properties. As a result of an April, 2020 working interest disposition (note 3), the undiscounted value of Freehold's total decommissioning liability decreased as estimated at \$6.5 million (2019 - \$10.4 million) at June 30, 2020. Payments to settle the obligations are expected to occur over the next 28 years, with the majority being

settled within 6 years. At June 30, 2020, risk-free and inflation rates of 1% (2019 – 2% and 1%, respectively) were used to calculate the fair value.

(\$000s)	June 30, 2020	December 31, 2019
Balance, beginning of period	\$ 10,022	\$ 11,906
Liabilities incurred	-	207
Liabilities settled	(365)	(2,185)
Revision in estimates (note 3)	429	722
Accretion expense	77	211
Liabilities disposed (note 3)	(3,616)	(839)
Balance, end of period	\$ 6,547	\$ 10,022
Current portion of liability	\$ 656	\$ 806
Long-term portion of liability	\$ 5,891	\$ 9,216

6. Long-term Debt

At June 30, 2020, 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 June 30, 2020, \$102 million was drawn on these facilities.

In May 2019, Freehold amended its credit agreement. The current maturity date of the credit facilities is May 31, 2022 and Freehold may annually request an extension to the maturity date. The credit facilities are not reserve-based but are secured with \$400 million first charge demand debentures over all of Freehold's assets. The credit agreement contains non-financial covenants and two financial covenants. The first financial covenant is that long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times. The actual ratio was 1.1 times at June 30, 2020. The second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) percentage shall not exceed 55%. The actual percentage was 13% at June 30, 2020. In addition, Freehold has an affirmative covenant that it must maintain a minimum of 90% of total EBITDA from royalty interest properties over the previous twelve-month period. The actual percentage was 100% at June 30, 2020. Freehold was in compliance with all covenants as at June 30, 2020. In addition, Freehold forecasts to be in compliance with all covenants on a quarterly basis for at least the next 12 months based on Freehold's current best estimate of results from operations. As a result of significant uncertainties that exist around the economic impact of COVID-19, actual operating results may vary from Freehold's current best estimate.

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's long-term debt to EBITDA on royalty interest properties. For the three and six months ended June 30, 2020, the average effective interest rate on advances under Freehold's credit facilities was 2.3% and 3.0% (2019 – 3.5% and 3.6%, respectively).

At June 30, 2020 and December 31, 2019, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market rates.

7. Shareholders' Capital

SHARES ISSUED AND OUTSTANDING	June 30, 2020		December 31, 2019	
	Shares	Amount (\$000s)	Shares	Amount (\$000s)
Balance, beginning of period	118,622,667	\$ 1,271,763	118,402,667	\$ 1,270,020
Issued for payment of management fee (note 10)	82,500	266	220,000	1,743
Balance, end of period	118,705,167	\$ 1,272,029	118,622,667	\$ 1,271,763

8. Revenue

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

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

ROYALTY AND OTHER REVENUE (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	14,676	34,034	\$ 39,874	\$ 67,748
Bonus consideration, lease rentals, and other	98	287	585	863
Total royalty interest revenue	14,774	34,321	\$ 40,459	\$ 68,611
Working interest revenue from oil, NGL and natural gas ⁽²⁾	73	1,118	777	2,524
Total royalty and extraction tax expense	(89)	(106)	(194)	(193)
Total royalty and other revenue	14,758	35,333	\$ 41,042	\$ 70,942

ROYALTY AND OTHER REVENUE BY TYPE (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Oil	10,007	30,271	\$ 29,594	\$ 56,177
Natural gas	3,315	1,864	7,163	7,537
NGL	1,093	2,679	3,301	5,811
Potash	334	338	593	747
Bonus consideration, lease rentals, and other	98	287	585	863
Total royalty and other revenue by type	14,847	35,439	\$ 41,236	\$ 71,135
Total royalty and extraction tax expense	(89)	(106)	(194)	(193)
Total royalty and other revenue	14,758	35,333	\$ 41,042	\$ 70,942

(1) Includes potash royalties and other.

(2) Includes processing and other.

As at June 30, 2020, there was outstanding accounts receivable and accrued revenue of \$10.1 million (December 31, 2019 - \$23.9 million) of accrued royalty and other revenue. For the six months ended June 30, 2020, Freehold had \$1.2 million (2019 - \$1.8 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.

9. Finance Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Interest and financing expense	\$ 676	\$ 963	\$ 1,705	\$ 1,862
Accretion of decommissioning liabilities	33	52	77	115
Interest on lease obligations	19	-	40	-
Total finance expense	\$ 728	\$ 1,015	\$ 1,822	\$ 1,977

10. 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.

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.

d. Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares per quarter, pursuant to the Management Agreement. The Management Agreement capped the management fee at 41,250 Freehold common shares per quarter for 2020.

For the three and six months ended June 30, 2020, Freehold issued 41,250 and 82,500 common shares, respectively, (2019 – 55,000 and 110,000, respectively) as payment of the management fee pursuant to the Management Agreement. The respective ascribed values of \$0.1 million and \$0.3 million (2019 – \$0.5 million and \$0.9 million) were based on the closing price of Freehold's common shares on the last trading day of each quarter.

For the three and six months ended June 30, 2020, the Manager charged \$2.2 million and \$5.7 million in general and administrative costs, respectively (2019 – \$2.3 million and \$5.9 million, respectively). At June 30, 2020, there was \$0.9 million (December 31, 2019 – \$0.7 million) in accounts payable and accrued liabilities relating to these costs.

e. 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 June 30, 2020, there was \$nil (December 31, 2019 - \$nil) in accounts receivable relating to these transactions. At June 30, 2020, there was \$nil (December 31, 2019 - \$nil) in accounts payable and accrued liabilities relating to these transactions.

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the three months ended June 30, 2020, Freehold received royalties of approximately \$nil from Rife (2019 – \$0.2 million). At June 30, 2020, there was \$nil (December 31, 2019 - \$0.1 million) in accounts receivable relating to these transactions.

f. 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. Freehold is not the legal registered owner of such mineral rights as Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. At June 30, 2020, there was \$nil (December 31, 2019 – \$nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

11. Supplemental Disclosure

a. Supplemental cash flow disclosure

CASH EXPENSES (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Interest	628	1,012	1,657	1,858
Taxes	-	-	-	-

b. Net debt

(\$000s)	June 30,	December 31,
	2020	2019
Long-term debt	102,000	109,000
Working capital	(5,929)	(14,366)
Net debt	96,071	94,634

c. Weighted average number of shares

For the three and the six months ended June 30, 2020 and for the six months ended June 30, 2019, Deferred Share Units were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive. For the three months ended June 30, 2019, dilutive DSUs of 224,459 were included in the weighted average diluted shares.

12. Contingency

Freehold's corporate income tax filings for 2015 and 2018 were reassessed by the Canada Revenue Agency (CRA) in June 2020 (the Reassessments). Pursuant to the Reassessments, the deduction of \$70.1 million of non-capital losses (NCLs) by Freehold was denied, resulting in reassessed taxes interest, and penalties totaling \$23.0 million in addition to a denial of \$152.4 million of carried forward NCLs.

In order to appeal these Reassessments, Freehold is required to make a payment of 50% of the reassessed amounts (\$11.5 million) as a deposit to the CRA prior to September 1, 2020. On the same basis, it is further possible that Freehold's 2019 tax filings may be reassessed which could result in the denial of \$22.5 million of deducted NCLs resulting in \$6.3 million of taxes prior to interest and penalties. The carrying value of the remaining carried forward NCLs of \$129.9 million as at January 1, 2020 are also at risk of reassessment should Freehold be unsuccessful in defending its position.

Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, management remains of the opinion that all tax filings to date were filed correctly and that it will be successful in its objection of these

Reassessments and therefore any future deposit paid to the CRA would be refunded, plus interest. Further, the payment of any deposits does not impact Freehold's earnings or funds from operations. Freehold is currently in the process of filing its objection of the Reassessment.

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)}
Corporate Director

(1) Audit Committee

(2) Governance, Nominating and Compensation Committee

(3) Reserves Committee

Officers

Marvin F. Romanow
Chair of the Board

Thomas J. Mullane
President and Chief Executive Officer

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

Karen C. Taylor
Corporate Secretary

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Royal Bank of Canada
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Burnet, Duckworth & Palmer LLP

Reserve Evaluators

Trimble Engineering Associates Ltd.

Stock Exchange and Trading Symbol

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