
# Third Quarter Report

Three and nine months ended September 30, 2020

TSX **FRU**

## Results at a Glance

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| **FINANCIAL** ($000s, except as noted) | **2020** | 2019 | Change | **2020** | 2019 | Change |
| Royalty and other revenue | **23,123** | 33,068 | -30% | **64,165** | 104,010 | -38% |
| Net income (loss) | **139** | 2,729 | -95% | **(14,304)** | (920) | -1455% |
| Per share, basic and diluted ($) (1) | **-** | 0.02 | -100% | **(0.12)** | (0.01) | -1100% |
| Cash flows from operations | **1,130** | 30,711 | -96% | **45,157** | 77,847 | -42% |
| Funds from operations | **19,893** | 27,996 | -29% | **50,763** | 87,439 | -42% |
| Per share, basic ($) (1) | **0.17** | 0.24 | -29% | **0.43** | 0.74 | -42% |
| Acquisitions and related expenditures | **415** | 15,060 | -97% | **6,836** | 46,962 | -85% |
| Dividends paid | **5,342** | 18,666 | -71% | **33,815** | 55,988 | -40% |
| Per share ($) (2) | **0.0450** | 0.1575 | -71% | **0.2850** | 0.4725 | -40% |
| Dividends declared | **5,342** | 18,669 | -71% | **29,368** | 55,980 | -48% |
| Per share ($) (2) | **0.0450** | 0.1575 | -71% | **0.2475** | 0.4725 | -48% |
| Payout ratio (3) | **27%** | 67% | -40% | **67%** | 64% | 3% |
| Net debt | **81,678** | 105,524 | -23% | **81,678** | 105,524 | -23% |
| Shares outstanding, period end (000s) | **118,746** | 118,568 | - | **118,746** | 118,568 | - |
| Average shares outstanding (000s) (1) | **118,706** | 118,513 | - | **118,665** | 118,459 | - |
| **OPERATING** | | | | | | |
| Royalty production (boe/d) (4) | **9,096** | 10,149 | -10% | **9,620** | 10,200 | -6% |
| Light and medium oil (bbl/d) | **3,383** | 3,771 | -10% | **3,520** | 3,744 | -6% |
| Heavy oil (bbl/d) | **791** | 1,148 | -31% | **966** | 1,015 | -5% |
| NGL (bbl/d) | **848** | 740 | 15% | **831** | 871 | -5% |
| Total liquids (bbl/d) | **5,022** | 5,659 | -11% | **5,317** | 5,630 | -6% |
| Natural gas (Mcf/d) | **24,446** | 26,938 | -9% | **25,819** | 27,419 | -6% |
| Total production (boe/d) (4) | **9,143** | 10,482 | -13% | **9,816** | 10,591 | -7% |
| Oil and NGL (%) | **55** | 56 | -1% | **55** | 55 | 0% |
| Average price realizations ($/boe) (4) | **26.93** | 33.87 | -20% | **23.37** | 35.35 | -34% |
| Cash costs ($/boe) (3)(4) | **3.70** | 4.67 | -21% | **4.80** | 5.37 | -11% |
| Operating netback ($/boe) (3) (4) | **27.20** | 33.36 | -18% | **23.21** | 34.98 | -34% |

(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 third quarter results highlight the simplicity and resiliency of our business model as production stabilized and was flat quarter over quarter at 9,096 boe/d and royalty revenue was up materially at $23.1 million with the rebound in oil price. We saw a return to drilling in the latter part of the quarter with 32 (2.1 net) wells being drilled in the light oil and liquids rich plays within our portfolio.

Our funds from operations was $19.9 million, highlighting the strong margins associated with royalty production. The year to date (YTD) dividend payout is now at 67% after being greater than 90% in the first half of the year. As the necessary early steps were taken to position our company to successfully weather the challenges facing our industry earlier in the year, we can now provide a dividend increase that is aligned with our strategy of targeting a payout ratio in the 60%-80% range while maintaining balance sheet health and flexibility.

The recent strategies to position our company “in front of the drill bit” with key asset acquisitions in Canada and the U.S., along with our drive to reduce cash costs are leading to a continued strengthening of our business. In Q3-2020, our cash costs of $3.70/BOE, were the lowest in our history. We have strong leadership in place, an engaged and idea rich workforce, and a supportive and constructive Board of Directors.

Earlier this year, we prioritized the health and safety of our workforce by directing all employees to work remotely from home while our company remained fully operational. Over the summer months our Return to Office Task Force worked diligently to develop office safety protocols in alignment with government and public health guidelines which allowed us to successfully re-open our office with a reduced staff complement. We continue to closely monitor the COVID-19 situation and will not compromise on the health and safety of our workforce. We appreciate the unwavering efforts of all our staff during this time and we want to thank our shareholders for their ongoing support.

Despite considerable uncertainty associated with the ultimate impact of COVID-19 as it pertains to supply and demand fundamentals surrounding commodity oil pricing, Freehold has continued to deliver attractive operating margins, which in turn provides a steady source of income to our shareholders.

**David M. Spyker**
**Interim President and CEO**

# Dividend Announcement

The Board has declared a dividend of $0.015 per share to be paid on December 15, 2020 to shareholders of record on November 30, 2020, in-line with the previous dividend level set for 2020. The dividend is designated as an eligible dividend for Canadian income tax purposes.

With decreasing volatility in oil prices and strength in operations, Freehold's Board has approved a 33% increase to the monthly dividend to $0.02 per share (annualized $0.24 per share) where the first increased dividend is expected to be paid on January 15, 2021 to shareholders of record on December 31, 2020. While our strategy remains a 60%-80% payout, we are mindful of future events such as the upcoming OPEC meeting and the overall supply and demand market fundamentals from the continuing impact of COVID-19 as well as potential acquisition opportunities that may arise. Based on current commodity price assumptions, and assuming no significant changes to the current business environment, we expect to maintain the revised monthly dividend rate through the next quarter. We will continue to evaluate the commodity price environment and adjust the dividend levels as necessary (subject to review and approval of our Board).

# Third Quarter Highlights

- Our payout ratio(1) totaled 27% for the quarter, versus 67% during the same period last year. Dividends paid for Q3-2020 totaled $0.0450 per share, down from Q3-2019 when dividends paid totaled $0.1575 per share. The decreased payout reflected a dividend reduction made by the Board during Q2-2020 in response to a weaker crude oil price outlook driven by a supply/demand imbalance associated with COVID-19. As oil prices appear sustainable at current levels and the business environment has stabilized, the Board is comfortable adjusting the dividend upward, starting with the January 2021 dividend payment.
- Q3-2020 funds from operations totaling $19.9 million, or $0.17 per share over the quarter, is almost double the $10.6 million reported in Q2-2020, but down compared to $28.0 million or $0.24 per share in Q3-2019. The reduction in funds from operations from the same period in 2019 reflected weakness in oil prices along with reduced production volumes associated with shut-in production and lower levels of third-party drilling. Based on Freehold's share price at quarter-end of $3.69/share and annualizing Q3-2020 funds from operations, Freehold offers investors a 18% free cash flow(1) yield, a strong return given its low risk profile.
- Freehold's royalty production averaged 9,096 boe/d during Q3-2020, essentially unchanged from Q2-2020, as volumes were brought back on-stream from the price induced shut-ins that occurred during Q2-2020. Q3-2020 royalty production represents a 10% decline versus the same quarter of last year due to lower levels of third-party drilling and shut-in production. Royalty liquids production averaged 5,022 boe/d for Q3-2020, down 11% versus the same period in 2019 but up 1% when compared to Q2-2020. On an exit to exit measure, Freehold was able to increase its oil and liquids volumes by 8% versus Q2-2020, as production trended up throughout the quarter.

- Overall, only 5% of payor's production remained shut-in in Q3-2020, 3% as we exited the quarter, a significant recovery from the 9% that was shut-in during Q2-2020.
- Production from Freehold's U.S. royalty assets averaged 148 boe/d in Q3-2020, doubling from Q2-2020 levels of 74 boe/d, as previously shut-in wells were reactivated late in the quarter. As we exited the quarter, production had recovered to 240 boe/d, back to the levels achieved in early 2020.
- Oil and natural gas liquids represented 55% of production in Q3-2020, down slightly from 56% in Q3-2019 as production shut-in during 2020 was primarily oil focused.
- Cash costs(1) for the quarter totaled $3.70/boe, a record low for Freehold, down from $4.67/boe in Q3-2019 and $4.79/boe in Q2-2020. The decrease in costs year over year reflects lower operating costs and reduced interest charges reflecting a decline in prime lending rates.
- Closing net debt as at September 30, 2020 was $81.7 million, a decrease of $14.4 million versus the previous quarter. The decrease quarter over quarter reflects continued positive funds from operations relative to costs and dividend obligations. Long term debt ended the quarter at $107.0 million, reflecting the previously announced deposit made to the Canada Revenue Agency (CRA).
- Q3-2020 net income totaled $0.1 million this quarter compared to $2.7 million in net income in Q3-2019. Despite Q3-2020 funds from operations of $19.9 million buoyed by lower cash costs, the lower net income reflected lower revenues due to the retreat in oil prices and lower production volumes.

(1) See Non-GAAP Financial Measures.

# Management Discussion and Analysis

*The following Management's Discussion and Analysis (MD&A) was prepared as of November 10, 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 nine months ended September 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 nine months ended September 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 September 30, 2020 condensed consolidated financial statements in addition to the December 31, 2019 audited consolidated 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 6.4 million gross acres, greater than 99% 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 5.3 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 without any capital investments.

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 where we choose not to take in kind, 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 and royalty optimization
    - 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 total annual dividend with a payout ratio of 60%-80%

# Outlook

## Business Environment

Following an unprecedented period where we saw demand destruction and a concurrent supply war between OPEC and Russia, the price environment for crude oil has remained relatively stable over the last several months with West Texas Intermediate (WTI) levels averaging US$40.91/bbl in Q3-2020, up 47% from the previous quarter but down 27% versus the same quarter in 2019. While consumption has improved from the lows, demand still remains approximately 5-7 mmbbl/d below levels realized one year ago. Demand recovery remains uncertain as there has been a resurgence in the COVID-19 virus in certain geographic regions and this continues to negatively impact the pace of oil price recovery.

On the supply side, coordinated cuts by OPEC and a general theme towards seemingly disciplined capital spending programs amongst global energy producers has contributed to a general downward trend in global inventories. OPEC curtailments are currently set for 7.7 mmbbl/d for the remainder of the year. The group is set to meet on December 1st, with plans to further ease cuts to 5.8 mmbbl/d beginning in January 2021 through to April 2022. However, with the weakened demand outlook there is potential for the group to maintain the currently set cuts into 2021. The effect of this economic uncertainty and the resulting direct and indirect impacts on Freehold continue to be evaluated by management and could have a material impact on its future operations, cash flows and liquidity of Freehold.

Within Canada, the price of Edmonton Light Sweet oil averaged $49.81/bbl during the period, up 67% versus Q2-2020 while declining 29% versus the same period last year. Western Canadian Select (WCS) prices averaged $42.55/bbl. This marked a 90% improvement versus Q2-2020 but a 27% decline when compared to the same period last year. Overall, western Canadian fundamentals remain constructive with the majority of the 1.0-1.2 mmbbl/d of curtailed volumes back online. Increased pipeline throughput (4.0 mmbbl/d) along with crude by rail volumes of 125 mbbl/d (up from nil) has helped lower storage levels. In Alberta, provincial curtailments are set to expire at the end of the year. Looking further out, three new export lines (L3R, TMX and KXL) continue to advance, albeit with material political risk. Of the three, L3R is expected to be first in service with timing anticipated around Q1-2022.

Natural gas fundamentals continue to improve with daily AECO prices averaging $2.14/mcf for the quarter. This represented a 106% improvement versus the same period last year and a 16% improvement when compared to Q2-2020. The AECO market remains well supported primarily associated with a more functional tolling and transportation system. There is growing consensus for a more resilient price environment for natural gas through the upcoming winter months, driven by under supply through the peak winter heating season.

Looking forward, we expect production and revenue for Freehold to continue to stabilize over the short-term. As prices have displayed reduced volatility, third-party capital has increased on our royalty lands through further drilling. Freehold maintains a diversified portfolio of production (55% oil and liquids, 45% natural gas) and industry payors (300 industry payors that diversifies our credit 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

In Q2-2020, producers chose to preserve capital through a cessation of drilling activities in response to crude prices trading at multi-decade lows. We are now observing the beginning of a return to drilling activity. Although lower than the same quarter of 2019, there were 32 (2.1 net) wells drilled on our royalty lands. This compares to 181 (6.1 net) royalty wells drilled in Q3-2019. In dialogue with some of the major operators on our royalty lands, we believe that with continued stability in commodity prices, activity levels will increase through Q4-2020 and into 2021.

Royalty Interest Drilling

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | 2019 | | **2020** | | 2019 | |
| | **Gross** | **Net** (1) | Gross | Net (1) | **Gross** | **Net** (1) | Gross | Net (1) |
| Total | **32** | **2.1** | 181 | 6.1 | **261** | **8.7** | 455 | 16.3 |

(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 |
|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| **Financial** ($000s, except as noted) | | | | | | | | |
| Royalty and other revenue | **23,123** | 14,758 | 26,284 | 36,827 | 33,068 | 35,333 | 35,609 | 24,837 |
| Funds from operations | **19,893** | 10,622 | 20,248 | 30,659 | 27,996 | 30,095 | 29,348 | 18,463 |
| Per share, basic ($) | **0.17** | 0.09 | 0.17 | 0.26 | 0.24 | 0.25 | 0.25 | 0.16 |
| Net income (loss) | **139** | (5,421) | (9,022) | 6,113 | 2,729 | 3,430 | (7,079) | (4,166) |
| Per share, basic and diluted ($) | **0.00** | (0.05) | (0.08) | 0.05 | 0.02 | 0.03 | (0.06) | (0.04) |
| Dividends declared | **5,342** | 5,341 | 18,685 | 18,683 | 18,669 | 18,660 | 18,651 | 18,643 |
| Per share ($) (1) | **0.0450** | 0.0450 | 0.1575 | 0.1575 | 0.1575 | 0.1575 | 0.1575 | 0.1575 |
| Payout ratio (%) (2) | **27** | 92 | 92 | 61 | 67 | 62 | 64 | 101 |
| Operating Income (2) | **22,877** | 14,244 | 25,296 | 35,758 | 32,175 | 34,315 | 34,644 | 23,452 |
| Operating income from royalties (%) | **100** | 103 | 100 | 100 | 100 | 100 | 99 | 102 |
| Acquisitions and related expenditures | **485** | 981 | 5,370 | 2,727 | 15,060 | 30,313 | 929 | 11,071 |
| Working interest dispositions paid (received) | **7** | 2,294 | (73) | 36 | 8 | 52 | (30) | 581 |
| Long term debt | **107,000** | 102,000 | 103,000 | 109,000 | 116,000 | 111,000 | 90,000 | 90,000 |
| **Shares outstanding** | | | | | | | | |
| Weighted average, basic (000s) | **118,706** | 118,664 | 118,623 | 118,568 | 118,513 | 118,458 | 118,403 | 118,348 |
| At quarter end (000s) | **118,746** | 118,705 | 118,664 | 118,623 | 118,568 | 118,513 | 118,458 | 118,403 |
| **Operating** ($/boe, except as noted) | | | | | | | | |
| Royalty production (boe/d) (3) | **9,096** | 9,150 | 10,618 | 10,315 | 10,149 | 10,311 | 10,139 | 10,312 |
| Light and medium oil (bbls/d) | **3,383** | 3,313 | 3,863 | 4,024 | 3,771 | 3,727 | 3,734 | 3,934 |
| Heavy oil (bbls/d) | **791** | 872 | 1,238 | 1,089 | 1,148 | 983 | 911 | 929 |
| NGL (bbls/d) | **848** | 772 | 872 | 799 | 740 | 962 | 912 | 955 |
| Total liquids (bbls/d) | **5,022** | 4,957 | 5,973 | 5,912 | 5,659 | 5,672 | 5,557 | 5,818 |
| Natural gas (Mcf/d) | **24,446** | 25,156 | 27,870 | 26,416 | 26,938 | 27,834 | 27,492 | 26,962 |
| Total production (boe/d) (3) | **9,143** | 9,285 | 11,026 | 10,740 | 10,482 | 10,664 | 10,627 | 10,929 |
| Royalty interest (%) | **99** | 99 | 96 | 96 | 97 | 97 | 95 | 94 |
| Average selling price | **26.93** | 17.08 | 25.69 | 37.04 | 33.87 | 35.88 | 36.29 | 23.40 |
| Operating netback (2) | **27.20** | 16.86 | 25.22 | 36.19 | 33.36 | 35.36 | 36.22 | 23.33 |
| Operating expenses | **0.29** | 0.61 | 0.98 | 1.08 | 0.93 | 1.05 | 1.01 | 1.38 |
| General and administrative expenses (4) | **2.71** | 2.92 | 3.73 | 2.97 | 2.59 | 2.67 | 4.22 | 2.74 |
| **Benchmark Prices** | | | | | | | | |
| West Texas Intermediate crude oil (US$/bbl) | **40.91** | 27.81 | 45.65 | 56.99 | 56.36 | 59.79 | 54.82 | 58.81 |
| Exchange rate (Cdn$/US$) | **0.75** | 0.72 | 0.74 | 0.76 | 0.76 | 0.75 | 0.75 | 0.76 |
| Edmonton Light Sweet crude oil (Cdn$/bbl) | **49.81** | 29.79 | 51.77 | 68.12 | 70.27 | 73.84 | 66.02 | 42.78 |
| Western Canadian Select crude oil (Cdn$/bbl) | **42.55** | 22.37 | 34.02 | 54.16 | 58.12 | 65.66 | 56.77 | 25.13 |
| AECO monthly contract natural gas (Cdn$/Mcf) | **2.14** | 1.85 | 2.13 | 2.34 | 1.04 | 1.17 | 1.94 | 1.90 |

(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. 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 the past four quarters, previous egress constraints have been mitigated resulting in higher observed natural gas pricing. Royalty production volumes are affected by our acquisition activity, exploration and development activity by third parties, and natural declines. Net income (loss) is affected by revenues, depletion, general and administrative as well as other expenses.

# Revenues

## Production

Freehold's royalty production averaged 9,096 boe/d and contributed 99% of total production during Q3-2020. This represents a 10% decrease over Q3-2019 and flat versus Q2-2020. Reduced volumes year over year were affected by shut-in volumes and reduced third-party drilling on our royalty lands, reflecting the material reduction in crude oil prices during the first nine months of 2020.

Working interest production, representing 1% of total production, decreased to 47 boe/d, or by 86%, in Q3-2020 versus the same period last year and by 65% from the previous quarter. During Q2-2020, Freehold disposed of certain working interest properties with estimated production of 265 boe/d, impacting volumes quarter over quarter.

Total production in the quarter averaged 9,143 boe/d. Our production mix through the first nine months of 2020 was 36% light and medium oil, 10% heavy oil, 9% NGL and 45% natural gas.

Production Summary

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| (boe/d) | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Royalty interest | 9,096 | 10,149 | -10% | 9,620 | 10,200 | -6% |
| Working interest | 47 | 333 | -86% | 196 | 391 | -50% |
| Total | 9,143 | 10,482 | -13% | 9,816 | 10,591 | -7% |

Average Daily Production by Product Type

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Royalty interest | | | | | | |
| Light and medium oil (bbl/d) | 3,383 | 3,770 | -10% | 3,520 | 3,744 | -6% |
| Heavy oil (bbl/d) | 791 | 1,149 | -31% | 966 | 1,015 | -5% |
| NGL (bbl/d) | 848 | 740 | 15% | 831 | 871 | -5% |
| Natural gas (Mcf/d) | 24,446 | 26,938 | -9% | 25,819 | 27,419 | -6% |
| Oil equivalent (boe/d) | 9,096 | 10,149 | -10% | 9,620 | 10,200 | -6% |
| Working interest | | | | | | |
| Light and medium oil (bbl/d) | 1 | 40 | -98% | 2 | 44 | -95% |
| Heavy oil (bbl/d) | - | 115 | -100% | 59 | 133 | -56% |
| NGL (bbl/d) | 11 | 33 | -67% | 17 | 34 | -50% |
| Natural gas (Mcf/d) | 210 | 868 | -76% | 705 | 1,080 | -35% |
| Oil equivalent (boe/d) | 47 | 333 | -86% | 196 | 391 | -50% |
| Total | | | | | | |
| Light and medium oil (bbl/d) | 3,384 | 3,810 | -11% | 3,522 | 3,788 | -7% |
| Heavy oil (bbl/d) | 791 | 1,264 | -37% | 1,025 | 1,148 | -11% |
| NGL (bbl/d) | 859 | 773 | 11% | 848 | 905 | -6% |
| Natural gas (Mcf/d) | 24,656 | 27,806 | -11% | 26,524 | 28,499 | -7% |
| Oil equivalent (boe/d) | 9,143 | 10,482 | -13% | 9,816 | 10,591 | -7% |
| Number of days in period (days) | 92 | 92 | | 274 | 273 | |
| Total volumes during period (Mboe) | 841 | 964 | -13% | 2,690 | 2,891 | -7% |

## 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$40.91/bbl in Q3-2020, 27% lower versus Q3-

2019. Edmonton Light Sweet averaged $49.81/bbl, 29% lower versus Q3-2019. WCS prices averaged $42.55/bbl, 27% lower versus Q3-2019. The quarter also saw light/heavy differentials contract during the period as storage drew down and egress became available. The AECO monthly contract natural gas price averaged $2.14/mcf, 106% higher versus the same period in 2019.

Average Benchmark Prices and Exchange Rates

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| West Texas Intermediate crude oil (US$/bbl) | 40.91 | 56.36 | -27% | 38.15 | 56.99 | -33% |
| Exchange rate (Cdn$/US$) | 0.75 | 0.76 | -1% | 0.74 | 0.75 | -1% |
| Edmonton Light Sweet crude oil (Cdn$/bbl) | 49.81 | 70.27 | -29% | 43.86 | 70.06 | -37% |
| Western Canadian Select crude oil (Cdn$/bbl) | 42.55 | 58.12 | -27% | 33.00 | 60.21 | -45% |
| AECO monthly contract natural gas (Cdn$/Mcf) | 2.14 | 1.04 | 106% | 2.05 | 1.42 | 44% |

Our average liquids' selling price, that reflects product quality and transportation differences from benchmark prices, was $40.31/bbl in Q3-2020, 29% lower than Q3-2019. For the first nine months of 2020, this price averaged $34.98/bbl, down 40% versus the same period last year.

Realized natural gas prices were up 98% relative to Q3-2019, averaging $1.76/mcf in Q3-2020. 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 September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Oil ($/bbl) | 44.24 | 60.85 | -27% | 37.51 | 62.77 | -40% |
| NGL ($/bbl) | 21.23 | 27.78 | -24% | 21.43 | 31.54 | -32% |
| Oil and NGL ($/bbl) | 40.31 | 56.48 | -29% | 34.98 | 57.93 | -40% |
| Natural gas ($/Mcf) | 1.76 | 0.89 | 98% | 1.53 | 1.26 | 21% |
| Oil equivalent ($/boe) | 26.93 | 33.87 | -20% | 23.37 | 35.35 | -34% |

## Marketing and Hedging

Our production remained unhedged in Q3-2020 and year to date. 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 credit 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 14% (Q3-2019 – 13%) of our total royalty production using 30-day contracts.

## Credit Risk

As the business environment has become more challenged with COVID-19, 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 the broad number of remaining royalty payors that individually represent a relatively small 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 $23.1 million in Q3-2020 was 30% lower than in Q3-2019, due to lower commodity prices and reduced production volumes. For the first nine months of 2020, royalty and other revenue totaled $64.2 million, down 38% versus the same period in 2019.

### Royalty and Other Revenue

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| ($000s) | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Royalty interest revenue from oil, NGL and natural gas (1) | $ 22,819 | $ 31,910 | -28% | $ 62,695 | $ 99,659 | -37% |
| Bonus consideration, lease rentals, and other | 245 | 390 | -37% | 827 | 1,252 | -34% |
| Total royalty interest revenue | $ 23,064 | $ 32,300 | -29% | $ 63,522 | $ 100,911 | -37% |
| Working interest revenue from oil, NGL and natural gas (2) | 92 | 970 | -91% | 870 | 3,494 | -75% |
| Royalty expense | (33) | (202) | -84% | (227) | (395) | -43% |
| Total royalty and other revenue | $ 23,123 | $ 33,068 | -30% | $ 64,165 | $ 104,010 | -38% |

(1) Includes potash royalties and other
(2) Includes processing and other

### Royalty and Other Revenue by Type

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| ($000s) | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Oil | $ 17,013 | $ 28,412 | -40% | $ 46,609 | $ 84,588 | -45% |
| Natural gas | 3,983 | 2,280 | 75% | 11,146 | 9,818 | 14% |
| NGL | 1,678 | 1,976 | -15% | 4,980 | 7,788 | -36% |
| Potash | 237 | 212 | 12% | 830 | 959 | -13% |
| Bonus consideration, lease rentals, and other | 245 | 390 | -37% | 827 | 1,252 | -34% |
| | 23,156 | $ 33,270 | -30% | 64,392 | $ 104,405 | -38% |
| Total royalty expense | (33) | (202) | -84% | (227) | (395) | -43% |
| Total royalty and other revenue | $ 23,123 | $ 33,068 | -30% | $ 64,165 | $ 104,010 | -38% |

# Expenses

## Operating Expenses

Operating expenses are comprised of costs incurred on our working interest production activities. Operating expenses totaling $0.2 million were down in Q3-2020. On a total production per boe basis, operating expenses decreased by 69% to $0.29/boe in Q3-2020 relative to Q3-2019. For the first nine months of 2020, operating expenses on a per boe measure totaled $0.65/boe, down 34% versus the first three quarters of 2019. The decrease in absolute and per boe measures are a result of disposition activity primarily transacted earlier in the year.

### Operating Expenses (1)

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| ($000s, except as noted) | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Total operating expenses | 246 | $ 893 | -72% | 1,748 | $ 2,876 | -39% |
| Per boe ($) | 0.29 | 0.93 | -69% | 0.65 | 0.99 | -34% |

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

## Netback Analysis

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

In Q3-2020, royalty interests accounted for substantially all of Freehold's royalty and other revenue and contributed all of its operating income. For the first nine months of 2020, royalty interests accounted for 102% of Freehold's operating income.

### Operating Income (1)

| | Three months ended September 30, 2020 | | |
|---|---|---|---|
| ($000s) | Royalty Interest | Working Interest | Total |
| Total royalty and other revenue (2) | $ 23,025 | $ 98 | $ 23,123 |
| Operating expense | - | (246) | (246) |
| Operating income | $ 23,025 | $ (148) | $ 22,877 |
| Percentage by category | 100% | 0% | 100% |

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

| | Nine months ended September 30, 2020 | | |
|---|---|---|---|
| ($000s) | Royalty Interest | Working Interest | Total |
| Total royalty and other revenue (2) | $ 63,360 | $ 805 | $ 64,165 |
| Operating expense | - | (1,748) | (1,748) |
| Operating income | $ 63,360 | $ (943) | $ 62,417 |
| Percentage by category | 102% | -2% | 100% |

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

(1) See Non-GAAP Financial Measures
(2) Royalty and other revenue include potash royalties, bonus consideration, lease rentals and other, net of royalty expenses
(3) Royalty expense includes both Crown charges and royalty payments to third parties

Freehold's operating netback for Q3-2020 decreased 18% to $27.20/boe versus Q3-2019, reflecting lower realized commodity prices but partially offset with lower operating costs. For the first three quarters of 2020, Freehold's operating netback totaled $23.21/boe, down 34% when compared to the same period in 2019.

Operating Netback (1)

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| ($/boe) | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Royalty and other revenue | $ 27.49 | $ 34.29 | -20% | $ 23.86 | $ 35.97 | -34% |
| Operating expenses | (0.29) | (0.93) | -69% | (0.65) | (0.99) | -34% |
| Operating netback | $ 27.20 | $ 33.36 | -18% | $ 23.21 | $ 34.98 | -34% |

(1) See Non-GAAP Financial Measures

## General and Administrative Expenses

We have significant land administration, accounting and auditing functions to administer and collect royalty payments, including systems to track development activity on our royalty lands. General and administrative (G&A) expenses include direct costs and reimbursement of G&A expenses incurred by Rife Resources Management Ltd. (the Manager) on behalf of Freehold (see Related Party Transactions).

In Q3-2020, G&A expenses were down 9% from Q3-2019 to $2.3 million but up 5% to $2.71/boe on a boe basis over the same period in the prior year. Despite incurring severance costs associated with recent staff reductions, G&A expenses declined from Q3-2019 due to cost saving initiatives as part of efforts undertaken to mitigate the impact of weakened commodity prices and associated impact on Freehold's revenues during the quarter. These initiatives included reductions in compensation to both the Board and employees in addition to office cost reductions. Our lower G&A expenses in the current reporting periods include higher legal costs associated with our continued defense of recently reassessed CRA denied non-capital losses (see CRA Reassessments). For the first nine months of 2020, G&A expenses totaled $8.5 million, down 7% from the previous year.

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| ($000s, except as noted) | 2020 | 2019 | Change | 2020 | 2019 | Change |
| General and administrative expenses before capitalized and overhead recoveries | $ 2,682 | $ 2,879 | -7% | $ 9,865 | $ 10,517 | -6% |
| Less: capitalized and overhead recoveries | (404) | (382) | 6% | (1,376) | (1,388) | -1% |
| General and administrative expenses | $ 2,278 | $ 2,497 | -9% | $ 8,489 | $ 9,129 | -7% |
| Per boe ($) | 2.71 | 2.59 | 5% | 3.16 | 3.16 | 0% |

## Management Fee

The Manager receives a quarterly management fee paid with Freehold common shares (see Related Party Transactions). The amended and restated management agreement dated November 9, 2015 (the Management Agreement) capped the management fee at 55,000 Freehold common shares per quarter for 2019. In 2020, the management fee is capped at 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 63% compared to Q3-2019, partially due to the lower compensation structure associated with the reduced share issuance for payment, but also to Freehold's common share price trading lower on the last day of Q3-2020.

Management Fees (paid in shares)

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Shares issued for management fees | 41,250 | 55,000 | -25% | 123,750 | 165,000 | -25% |
| Ascribed value ($000s) (1) | 153 | 414 | -63% | 419 | 1,342 | -69% |
| Closing share price ($/share) | 3.69 | 7.52 | -51% | 3.69 | 7.52 | -51% |
| Per boe ($) | 0.18 | 0.43 | -58% | 0.16 | 0.46 | -65% |

(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. For the PSUs there is also 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 nine months ended September 30, 2020 Freehold paid $0.4 million (2019 - $0.5 million) under these plans. In November 2020, there were a total of 829,735 RSUs and PSUs outstanding under the Freehold Award Plan.

### 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 all non-management directors as part of their annual compensation. Each non-management director received 10,288 DSUs and the Chair of the Board received 15,089 DSUs.

As at September 30, 2020, there were 322,345 DSUs outstanding and at November 10, 2020, there were 323,673 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 September 30 2020 | 2019 | Change | Nine Months Ended September 30 2020 | 2019 | Change |
|---|---|---|---|---|---|---|
| Long-term incentive plan before capitalized portion | $ 217 | $ 197 | 10% | $ (71) | $ 857 | -108% |
| Less: capitalized portion | (18) | (32) | -44% | 1 | (137) | -101% |
| Long-term incentive plan | 199 | 165 | 21% | (70) | 720 | -110% |
| Deferred share unit plan | 15 | 36 | -58% | 570 | 589 | -3% |
| Share based compensation | $ 214 | $ 201 | 6% | $ 500 | $ 1,309 | -62% |
| Per boe ($) | 0.25 | 0.21 | 19% | 0.19 | 0.45 | -58% |

## Finance Expense

Q3-2020 interest and financing expense decreased largely due to lower lending rates. The average effective interest rate on advances under our credit facilities in the current quarter and for the year to date was 2.1% and 2.6%, respectively (2019 – 3.5% and 3.5%, respectively). For Q3-2020, the average interest and financing expense totaled $0.73/boe, down 39% versus the same period in 2019.

| ($000s, except as noted) | Three Months Ended September 30 2020 | 2019 | Change | Nine Months Ended September 30 2020 | 2019 | Change |
|---|---|---|---|---|---|---|
| Interest and financing expense | $ 585 | $ 1,085 | -46% | $ 2,290 | $ 2,947 | -22% |
| Non-cash finance expenes (1) | 28 | 68 | -59% | 145 | 183 | -21% |
| Total finance expense | $ 613 | $ 1,153 | -47% | $ 2,435 | $ 3,130 | -22% |
| Per boe ($) | 0.73 | 1.20 | -39% | 0.91 | 1.08 | -16% |
| Per boe - cash expense ($) | 0.70 | 1.13 | -38% | 0.85 | 1.02 | -17% |

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

## Depletion, Depreciation and Other

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 in the current reporting periods in comparison to the same periods in 2019 is due largely 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 September 30 2020 | 2019 | Change | Nine Months Ended September 30 2020 | 2019 | Change |
|---|---|---|---|---|---|---|
| Depletion depreciation and other | $ 19,431 | $ 24,202 | -20% | $ 60,199 | $ 72,603 | -17% |
| Per boe ($) | 23.10 | 25.10 | -8% | 22.38 | 25.11 | -11% |

## Impairment

At the September 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. 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 for its Royalty and Working Interest CGUs discounted at pre-tax rates of 8% to 10% 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<br>US$/bbl | WCS<br>Cdn$/bbl | AECO<br>Cdn$/Mcf | Exchange rate<br>Cdn$/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.

During Q3-2020, there was $nil in current income tax expense (2019 - $24 thousand) while deferred income tax expense was $49 thousand (2019 - $1.0 million).

## CRA Reassessments

Freehold's corporate income tax filings for 2015, 2018, and 2019 were reassessed by the Canada Revenue Agency (CRA) in 2020 (the Reassessments). Pursuant to the Reassessments, deductions of $92.6 million of non-capital losses (NCLs) by Freehold were denied, resulting in reassessed taxes, interest, and penalties totaling $29.3 million in addition to a denial of $129.9 million of carried forward NCLs. Freehold has filed its objection of the Reassessments which required deposits totaling $14.7 million that have been provided to the CRA.

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 expects to be successful in its objection of these Reassessments and therefore the payment of these deposits held by the CRA should be refunded, plus interest, and the denied NCLs should be reinstated.

## Related Party Transactions

Freehold does not have any employees. Rather the manager of Freehold is a wholly-owned subsidiary of Rife Resources Ltd. (Rife) (the Manager). 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. One of Rife and Canpar's directors is also a director 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 a Management Agreement. The Management Agreement capped the management fee at 41,250 Freehold common shares per quarter for 2020.

For the three and nine months ended September 30, 2020, Freehold issued 41,250 and 123,750 common shares, respectively, (2019 – 55,000 and 165,000, respectively) as payment of the management fee pursuant to the Management Agreement. The respective ascribed values of $0.2 million and $0.4 million (2019 – $0.4 million and $1.3 million) were based on the closing price of Freehold's common shares on the last trading day of each quarter.

For the three and nine months ended September 30, 2020, the Manager charged $2.2 million and $7.9 million in general and administrative costs, respectively (2019 – $2.2 million and $8.1 million, respectively). At September 30, 2020, there was $1.1 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 September 30, 2020, there was $nil (December 31, 2019 - $nil) in accounts receivable relating to these transactions.

At September 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 and nine months ended September 30, 2020, Freehold received royalties of approximately $nil and $0.1 million, respectively, from Rife (2019 – $0.1 million and $0.6 million). At September 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 generally 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. Where Freehold is not the legal registered owner of such mineral rights,  Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. At September 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 Q3-2020 Freehold had a net income of $0.1 million compared with net income of $2.7 million in Q3-2019. The lower net income for Q3-2020 is due to lower commodity prices realized during the quarter, combined with reduced production volumes as third-party operators reduced drilling on our lands during the period, offset by lower depletion for the current quarter.

Funds from operations for the current quarter decreased approximately 29% to $19.9 million and $0.17/share from $28.0 million and $0.24/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

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| ($000s, except as noted) | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Net income (loss) | $ 139 | $ 2,729 | -95% | $ (14,304) | $ (920) | 1455% |
| Per share, basic and diluted ($) | - | 0.02 | -100% | (0.12) | (0.01) | 1100% |
| Funds from operations | $ 19,893 | $ 27,996 | -29% | $ 50,763 | $ 87,439 | -42% |
| Per share ($) | 0.17 | 0.24 | -29% | 0.43 | 0.74 | -42% |

## 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.

Q3-2020 working capital of $25.3 million was up $19.4 from Q2-2020 mostly reflecting the $14.7 million deposit made to the CRA.

Components of Working Capital

| ($000s) | Sep. 30 2020 | Jun. 30 2020 | Mar. 31 2020 | Dec. 31 2019 | Sep. 30 2019 |
|---|---|---|---|---|---|
| Cash | $ 1,307 | $ 1,089 | $ 2,003 | $ 1,199 | $ 2,045 |
| Accounts receivable and accrued revenue | 15,441 | 11,036 | 14,967 | 24,894 | 21,798 |
| Income tax deposits | 14,711 | - | - | - | - |
| Current assets | 31,459 | 12,125 | 16,970 | 26,093 | 23,843 |
| Dividends payable | (1,781) | (1,785) | (6,234) | (6,232) | (6,224) |
| Accounts payable and accrued liabilities | (3,529) | (3,251) | (4,590) | (3,895) | (3,844) |
| Current portion of lease obligation | (195) | (146) | (98) | (49) | |
| Current portion of share based compensation payable | (421) | (358) | (415) | (745) | (375) |
| Current portion of decommissioning liability | (211) | (656) | (4,466) | (806) | (2,900) |
| Current liabilities | (6,137) | (6,196) | (15,803) | (11,727) | (13,367) |
| Working capital | $ 25,322 | $ 5,929 | $ 1,167 | $ 14,366 | $ 10,476 |

## Long-Term Debt

At September 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 September 30, 2020, $107 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 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 1.2 times at September 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 14% at September 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 total annual 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 September 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 $14.4 million from the previous quarter to $81.7 million in Q2-2020 mainly due to the $14.7 million income tax deposit paid during the current quarter. 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

| ($000s) | Sep. 30 2020 | Jun. 30 2020 | Mar. 31 2020 | Dec. 31 2019 | Sep. 30 2019 |
|---|---|---|---|---|---|
| Long-term debt | $ 107,000 | $ 102,000 | $ 103,000 | $ 109,000 | $ 116,000 |
| Working capital | (25,322) | (5,929) | (1,167) | (14,366) | (10,476) |
| Net debt | $ 81,678 | $ 96,071 | $ 101,833 | $ 94,634 | $ 105,524 |

As at September 30, 2020, Freehold's net debt to funds from operations ratio was 1.0 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 in our leverage strategy as a marker to provide us flexibility to absorb volatile oil pricing.

Freehold defines capital (and capitalization) as net debt plus shareholders' equity. The net debt to capitalization ratio is a financial leverage measure that shows the portion of capital relating to debt. As at September 30, 2020 Freehold's ratio of 11% reflects its continued low debt levels and resulting low financial risk.

Financial Leverage Ratios (1)

| | Sep. 30 2020 | Jun. 30 2020 | Mar. 31 2020 | Dec. 31 2019 | Sep. 30 2019 |
|---|---|---|---|---|---|
| Net debt to funds from operations (times) | 1.0 | 1.1 | 0.9 | 0.8 | 1.0 |
| Net debt to capitalization (%) | 11 | 13 | 13 | 12 | 13 |

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

**Shareholders' Capital**

As at September 30, 2020 and as of November 10, 2020, there were 118,746,417 shares outstanding respectively. For Q3-2020 and the year to date Freehold issued 41,250 shares and 123,750 shares, respectively, for payment of the management fee (see Management Fee and Related Party Transactions).

| | September 30 2020 | | December 31 2019 | |
|---|---|---|---|---|
| ($000s, except as noted) | Shares | Amount | Shares | Amount |
| Balance, beginning of period | 118,622,667 | $ 1,271,763 | 118,402,667 | $ 1,270,020 |
| Issued for payment of management fee | 123,750 | 419 | 220,000 | 1,743 |
| Balance, end of period | 118,746,417 | $ 1,272,182 | 118,622,667 | $ 1,271,763 |

For Q3-2020 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 228,777 were included in the weighted average diluted shares outstanding.

Shares Outstanding

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | Change | **2020** | 2019 | Change |
| Weighted average | | | | | | |
| Basic | **118,705,615** | 118,513,265 | - | **118,664,519** | 118,458,674 | - |
| Diluted | **119,026,811** | 118,742,042 | - | **118,664,519** | 118,458,674 | - |
| At period end | **118,746,417** | 118,567,667 | - | **118,746,417** | 118,567,667 | - |

## 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 Q3-2020 totaled $0.045 per share, down from Q3-2019 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. Dividends declared in Q3-2020 totaled $5.3 million or $0.045 per share which was down from $0.1575 in Q3-2019.

With decreasing volatility in oil prices and strength in operations, Freehold's Board has approved a 33% increase to the monthly dividend to $0.02 per share (annualized $0.24 per share) where the first increased dividend is expected to be paid on January 15, 2021 to shareholders of record on December 31, 2020. While our strategy remains a 60%-80% payout, we are mindful of future events such as the upcoming OPEC meeting and the overall supply and demand market fundamentals from the continuing impact of COVID-19 as well as potential acquisition opportunities that exist in the present market. Based on current commodity price assumptions, and assuming no significant changes to the current business environment, we expect to maintain the revised monthly dividend rate through the next quarter. We will continue to evaluate the commodity price environment and adjust the dividend levels as necessary (subject to review and approval of our Board).

### Accumulated Dividends [1]

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Dividends declared** ($000s) | $ 5,342 | $ 18,669 | $ 29,368 | $ 55,980 |
| Accumulated, beginning of period | 1,726,569 | 1,665,191 | 1,702,543 | 1,627,880 |
| Accumulated, end of period | $ 1,731,911 | $ 1,683,860 | $ 1,731,911 | $ 1,683,860 |
| **Dividends per share** ($) [2] | $ 0.0450 | $ 0.1575 | $ 0.2475 | $ 0.4725 |
| Accumulated, beginning of period | 32.5075 | 31.9900 | 32.3050 | 31.6750 |
| Accumulated, end of period | $ 32.5525 | $ 32.1475 | $ 32.5525 | $ 32.1475 |

(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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($000s) | 2020 | 2019 | 2020 | 2019 |
| Funds from operations | $ 19,893 | $ 27,996 | $ 50,763 | $ 87,439 |
| Debt additions (repayments) | 5,000 | 5,000 | (2,000) | 26,000 |
| Acquisitions and related expenditures | (485) | (15,060) | (6,836) | (46,962) |
| Working interest dispositions | (7) | (8) | (2,374) | (90) |
| Working capital change | (19,059) | 741 | (10,185) | (10,407) |
| Dividends declared | $ 5,342 | $ 18,669 | $ 29,368 | $ 55,980 |

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 Q3-2020 was 27% versus 67% the same period last year. Freehold reduced its monthly dividend in Q2-2020, reflecting the COVID-19 pandemic and the significant demand destruction for oil resulting in volatile commodity pricing and uncertainty regarding the timing for recovery. After seeing oil prices stabilize since the end of Q2-2020, we continue to target a 60%-80% payout range for our dividend in 2020.

Dividends declared for Q3-2020 totaled $0.045 per share, down from Q3-2019 when dividends declared totaled $0.1575 per share.

### Dividend Analysis

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($000s) | 2020 | 2019 | 2020 | 2019 |
| Dividends paid in cash [1] | $ 5,346 | $ 18,666 | $ 33,819 | $ 55,988 |
| Dividends declared | $ 5,342 | $ 18,669 | $ 29,368 | $ 55,980 |
| Funds from operations | $ 19,893 | $ 27,996 | $ 50,763 | $ 87,439 |
| Payout ratio [2] | 27% | 67% | 67% | 64% |

(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 Q3-2020 and YTD, Freehold capitalized $0.4 million and $1.3 million, respectively of expenditures related to G&A. For the year to date, excluding capitalized G&A, acquisition and related expenditures totaled $5.5 million. This included two mineral acquisitions in North Dakota in the United States for $3.3 million and other expenditures including costs for its royalty interests totaling $2.2 million.

Acquisitions, Dispositions and Related Expenditures

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Acquisitions and related expenditures | $ 485 | $ 15,060 | -97% | $ 6,836 | $ 46,962 | -85% |
| Working interest dispositions paid | 7 | 8 | -13% | 2,374 | 90 | 2538% |
| | $ 492 | $ 15,068 | -97% | $ 9,210 | $ 47,052 | -80% |

# Additional Information

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

## Internal Controls

Freehold is required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during the three months ended September 30, 2020. The Interim 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 Q3-2020 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, Third Quarter Highlights, Our Strategy, Business Environment, Drilling Activity, Dividend Policy and Analysis and Liquidity and Capital Resources pertaining to the following:

- our expectations regarding increases in activity in certain jurisdictions;
- our expectation that Freehold will continue to pay down debt levels over and above its dividend with free cash flow potentially available to fund transactions and that such transactions may be value enhancing;
- our expectation that we will continue to maintain the revised monthly dividend rate through the next quarter and will continue to monitor our dividend rate;
- our expected timing for certain production to come back on-line and that certain production will remain shut-in;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil and natural gas including anticipated actions at and outcomes of the upcoming OPEC meeting and the impact of COVID-19 on such factors;
- anticipated economic uncertainty and our expectation that its direct and indirect impacts could have a prospective material impact on Freehold's operations, cash flows and liquidity;
- our expectations regarding L3R, including its anticipated in service date;
- our expectation that our production and revenue will stabilize over the short term;
- our expectation to update the market on our production profile, including the timing thereof;
- our expectation that with continued stability in commodity prices activity levels will increase through Q4-2020 and year-end on our royalty lands;
- 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%;

- 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 September 30 2020 | 2019 | Change | Nine Months Ended September 30 2020 | 2019 | Change |
|---|---|---|---|---|---|---|
| Operating expense | $ 246 | $ 893 | -72% | $ 1,748 | $ 2,876 | -39% |
| General and administrative expenses | 2,278 | 2,497 | -9% | 8,489 | 9,129 | -7% |
| Interest expense | 585 | 1,085 | -46% | 2,290 | 2,947 | -22% |
| Current income tax expense | - | 24 | -100% | - | 24 | -100% |
| Expenditures on share based compensation | - | - | 0% | 389 | 544 | -28% |
| Total cash costs | $ 3,109 | $ 4,499 | -31% | $ 12,916 | $ 15,520 | -17% |

| ($/boe) | Three Months Ended September 30 2020 | 2019 | Change | Nine Months Ended September 30 2020 | 2019 | Change |
|---|---|---|---|---|---|---|
| Operating expense | $ 0.29 | $ 0.93 | -69% | $ 0.65 | $ 0.99 | -34% |
| General and administrative expenses | 2.71 | 2.59 | 5% | 3.16 | 3.16 | 0% |
| Interest expense | 0.70 | 1.13 | -38% | 0.85 | 1.02 | -17% |
| Current income tax expense | - | 0.02 | -100% | - | 0.01 | -100% |
| Expenditures on share based compensation | - | - | 0% | 0.14 | 0.19 | -26% |
| Total cash costs per boe | $ 3.70 | $ 4.67 | -21% | $ 4.80 | $ 5.37 | -11% |

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)<br>($000s) | September 30<br>2020 | December 31<br>2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ **1,307** | $ 1,199 |
| Accounts receivable and accrued revenue | **15,441** | 24,894 |
| Income tax deposits (note 2) | **14,711** | - |
| | **31,459** | 26,093 |
| Exploration and evaluation assets (note 3) | **81,577** | 85,850 |
| Petroleum and natural gas interests (note 4) | **654,979** | 714,820 |
| Deferred income tax asset | **18,051** | 13,130 |
| | $ **786,066** | $ 839,893 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Dividends payable | $ **1,781** | $ 6,232 |
| Accounts payable and accrued liabilities | **3,529** | 3,895 |
| Current portion of lease obligation | **195** | 49 |
| Current portion of share based compensation payable (note 5) | **421** | 745 |
| Current portion of decommissioning liability (note 6) | **211** | 806 |
| | **6,137** | 11,727 |
| Lease obligation | **1,780** | 1,876 |
| Share based compensation payable (note 5) | **462** | 597 |
| Decommissioning liability (note 6) | **5,894** | 9,216 |
| Long-term debt (note 7) | **107,000** | 109,000 |
| Shareholders' equity: | | |
| Shareholders' capital (note 8) | **1,272,182** | 1,271,763 |
| Accumulated other comprehensive loss | **(18)** | (17) |
| Contributed surplus | **3,745** | 3,175 |
| Deficit | **(611,116)** | (567,444) |
| | **664,793** | 707,477 |
| | $ **786,066** | $ 839,893 |

See accompanying notes to interim condensed consolidated financial statements.

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

| (unaudited) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($000s, except per share and weighted average shares) | **2020** | 2019 | **2020** | 2019 |
| Revenue: | | | | |
| Royalty and other revenue (note 9) | **$ 23,123** | $ 33,068 | **$ 64,165** | $ 104,010 |
| Expenses: | | | | |
| Operating | **246** | 893 | **1,748** | 2,876 |
| General and administrative | **2,278** | 2,497 | **8,489** | 9,129 |
| Share based compensation | **214** | 201 | **500** | 1,309 |
| Finance (note 10) | **613** | 1,153 | **2,435** | 3,130 |
| Depletion depreciation and other | **19,431** | 24,202 | **60,199** | 72,603 |
| Impairment (note 4) | **-** | - | **9,600** | 14,056 |
| Management fee (note 11) | **153** | 414 | **419** | 1,342 |
| | **22,935** | 29,360 | **83,390** | 104,445 |
| Income (loss) before taxes | **188** | 3,708 | **(19,225)** | (435) |
| Current income tax expense | - | 24 | - | 24 |
| Deferred income tax expense (recovery) | **49** | 955 | **(4,921)** | 461 |
| | **49** | 979 | **(4,921)** | 485 |
| Net income (loss) | **$ 139** | $ 2,729 | **$ (14,304)** | $ (920) |
| Other comprehensive income | | | | |
| Foreign currency translation gain (loss) of foreign operations | **$ 1** | $ (14) | **$ (1)** | $ (14) |
| Comprehensive income (loss) | **$ 140** | $ 2,715 | **$ (14,305)** | $ (934) |
| Net income (loss) per share, basic and diluted | **$ -** | $ 0.02 | **$ (0.12)** | $ (0.01) |
| Weighted average number of shares (note 12): | | | | |
| Basic | **118,705,615** | 118,513,265 | **118,664,519** | 118,458,674 |
| Diluted | **119,026,811** | 118,742,042 | **118,664,519** | 118,458,674 |

See accompanying notes to interim condensed consolidated financial statements.

# Condensed Consolidated Statements of Cash Flows

| (unaudited) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($000s) | **2020** | 2019 | **2020** | 2019 |
| Operating: | | | | |
| Net income (loss) | **$ 139** | $ 2,729 | **$ (14,304)** | $ (920) |
| Items not involving cash: | | | | |
| Depletion depreciation and other | **19,431** | 24,202 | **60,199** | 72,603 |
| Impairment (note 4) | **-** | - | **9,600** | 14,056 |
| Share based compensation | **214** | 201 | **500** | 1,309 |
| Deferred income tax expense (recovery) | **49** | 955 | **(4,921)** | 461 |
| Non-cash finance expense | **28** | 68 | **145** | 183 |
| Management fee (note 11) | **153** | 414 | **419** | 1,342 |
| Cash payout on share based compensation | **-** | - | **(389)** | (544) |
| Decommissioning expenditures | **(121)** | (573) | **(486)** | (1,051) |
| Funds from operations | **19,893** | 27,996 | **50,763** | 87,439 |
| Changes in non-cash working capital | **(18,763)** | 2,715 | **(5,606)** | (9,592) |
| | **1,130** | 30,711 | **45,157** | 77,847 |
| Financing: | | | | |
| Long-term debt drawing (repayment) | **5,000** | 5,000 | **(2,000)** | 26,000 |
| Dividends paid | **(5,342)** | (18,666) | **(33,815)** | (55,988) |
| | **(342)** | (13,666) | **(35,815)** | (29,988) |
| Investing: | | | | |
| Acquisitions and related expenditures | **(415)** | (15,060) | **(6,836)** | (46,962) |
| Working interest dispositions (note 4) | **(77)** | (8) | **(2,374)** | (90) |
| Changes in non-cash working capital | **(78)** | (1) | **-** | (10) |
| | **(570)** | (15,069) | **(9,210)** | (47,062) |
| Increase in cash | **218** | 1,976 | **132** | 797 |
| Impact of foreign currency on cash balance | **-** | (14) | **(24)** | (14) |
| Cash, beginning of period | **1,089** | 83 | **1,199** | 1,262 |
| Cash, end of period | **$ 1,307** | $ 2,045 | **$ 1,307** | $ 2,045 |

See accompanying notes to interim condensed consolidated financial statements.

Supplemental disclosures (note 12)

# Condensed Consolidated Statements of Changes in Shareholders' Equity

| (unaudited) | Nine Months Ended September 30 | |
|---|---|---|
| ($000s) | **2020** | 2019 |
| Shareholders' capital: | | |
| Balance, beginning of period | **$ 1,271,763** | $ 1,270,020 |
| Shares issued for payment of management fee | **419** | 1,342 |
| Balance, end of period | **1,272,182** | 1,271,362 |
| Accumulated other comprehensive loss: | | |
| Balance, beginning of period | **(17)** | - |
| Other comprehensive loss | **(1)** | (14) |
| Balance, end of period | **(18)** | (14) |
| Contributed surplus: | | |
| Balance, beginning of period | **3,175** | 2,569 |
| Share based compensation | **570** | 589 |
| Other | **-** | (17) |
| Balance, end of period | **3,745** | 3,141 |
| Deficit: | | |
| Balance, beginning of period | **(567,444)** | (497,974) |
| Net loss | **(14,304)** | (920) |
| Dividends declared | **(29,368)** | (55,980) |
| Balance, end of period | **(611,116)** | (554,874) |
| Total shareholders' equity | **$ 664,793** | $ 719,615 |

See accompanying notes to interim condensed consolidated financial statements.

# Notes to Interim Condensed Consolidated Financial Statements

For the three months and nine months ended September 30, 2020 and 2019 (unaudited).

## 1. Basis of Presentation

Freehold Royalties Ltd. (Freehold) is a dividend-paying company 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 November 10, 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 nine months ended September 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 crude oil benchmark pricing has recovered and begun to stabilize from the low prices observed during April 2020, in comparison to previously reported fiscal quarters, world demand still remains below last year's level. Demand recovery remains uncertain as there has been a resurgence in the COVID-

19 virus in certain geographic regions and this continues to negatively impact the pace of oil price recovery. The result of this economic uncertainty 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 lower 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. Income Tax Deposits

Freehold's corporate income tax filings for 2015, 2018, and 2019 were reassessed by the Canada Revenue Agency (CRA) in 2020 (the Reassessments). Pursuant to the Reassessments, deductions of $92.6 million of non-capital losses (NCLs) by Freehold were denied, resulting in reassessed taxes, interest, and penalties totaling $29.3 million, in addition to a denial of $129.9 million of carried forward NCLs. Freehold has filed its objection of the Reassessments which required deposits totaling $14.7 million that have been provided to the CRA.

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 expects to be successful in its objection of these Reassessments and therefore the payment of these deposits held by the CRA should be refunded, plus interest, and the denied NCLs should be reinstated.

## 3. Exploration and Evaluation Assets

| ($000s) | **September 30 2020** | December 31 2019 |
|---|---|---|
| Balance, beginning of period | **$ 85,850** | $ 87,453 |
| Acquisitions | **-** | 3,995 |
| Transfers to petroleum and natural gas interests (note 4) | **(4,273)** | (5,598) |
| Balance, end of period | **$ 81,577** | $ 85,850 |

## 4. Petroleum and Natural Gas Interests

| ($000s) | September 30 2020 | December 31 2019 |
|---|---|---|
| **Cost** | | |
| Balance, beginning of period | **$ 1,484,600** | $ 1,434,437 |
| Acquisitions and related expenditures | **6,836** | 45,694 |
| Capitalized portion of long term incentive plan | **(1)** | 148 |
| Increase in right-of-use asset | **-** | 1,888 |
| Transfers from exploration and evaluation assets (note 3) | **4,273** | 5,598 |
| Decommissioning liability revision in estimates (note 6) | **429** | 929 |
| Working interest dispositions | **(2,823)** | (4,094) |
| Balance, end of period | **1,493,314** | 1,484,600 |
| **Accumulated depletion and depreciation** | | |
| Balance, beginning of period | **(769,780)** | (664,189) |
| Depletion and depreciation | **(61,778)** | (94,912) |
| Impairment | **(9,600)** | (14,056) |
| Accumulated depletion, and depreciation of working interest dispositions | **2,823** | 3,377 |
| Balance, end of period | **(838,335)** | (769,780) |
| **Net book value, end of period** | **$ 654,979** | $ 714,820 |

### a. Acquisitions and other related expenditures

For the nine months ended September 30, 2020, Freehold completed two acquisition transactions for certain U.S. royalty assets for $3.3 million. Freehold also recorded capitalized administrative costs of $1.3 million and other expenditures including costs for its royalty interests totaling $2.2 million.

### b. Dispositions

During the nine months ended September 30, 2020, Freehold disposed of certain working interest properties whereby the purchasers agreed to assume decommissioning liabilities of $3.8 million associated with these properties in exchange for Freehold paying $2.4 million. There was no net carrying value of petroleum and natural gas working interest associated with these dispositions.

### c. Impairment and impairment reversal

At the September 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. 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 for its Royalty and Working Interest CGUs discounted at pre-tax rates of 8% to 10% 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 being measured at $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<br>US$/bbl | WCS<br>Cdn$/bbl | AECO<br>Cdn$/Mcf | Exchange rate<br>Cdn$/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% | - |

## 5. 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 and an estimated forfeiture rate. Compensation expense is recognized over the vesting period. Also, for the PSUs there is a performance multiplier of 0 to 2 times based upon 50% of an absolute total shareholder return and 50% on a relative total shareholder return over a three-year period.

The following table reconciles the change during the nine months ended September 30, 2020 in share-based incentive compensation payable:

### SHARE BASED COMPENSATION

| ($000s) | **September 30 2020** | December 31 2019 |
|---|---|---|
| Balance, beginning of period | **$ 1,342** | $ 953 |
| Share based compensation expense (recovery) and capitalized | **(70)** | 933 |
| Cash payout | **(389)** | (544) |
| Balance, end of period | **$ 883** | $ 1,342 |
| Current portion of liability | **$ 421** | $ 745 |
| Long-term portion of liability | **$ 462** | $ 597 |

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

## SHARE BASED AWARDS

| (Number of Units) | September 30 2020 | December 31 2019 |
|---|---|---|
| Balance, beginning of period | **407,176** | 305,920 |
| Units issued | **626,910** | 189,820 |
| Estimated and actual forfeitures | **(107,733)** | - |
| Dividends reinvested | **20,945** | 18,034 |
| Paid out | **(117,563)** | (106,598) |
| Balance, end of period | **829,735** | 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

| (Number of units) | September 30 2020 | December 31 2019 |
|---|---|---|
| Balance, beginning of period | **236,311** | 160,192 |
| Annual grants | **66,529** | 58,646 |
| Additional resulting from dividends | **19,505** | 17,473 |
| Balance, end of period | **322,345** | 236,311 |

## 6. 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 various working interest dispositions (note 4), the undiscounted value of Freehold's total decommissioning liability decreased as estimated at $6.4 million (2019 - $10.4 million) at September 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 September 30, 2020, risk-free and inflation rates of 1% (2019 – 2% and 1%, respectively) were used to calculate the fair value.

| ($000s) | September 30 2020 | December 31 2019 |
|---|---|---|
| Balance, beginning of period | **$ 10,022** | $ 11,906 |
| Liabilities incurred | **-** | 207 |
| Liabilities settled | **(486)** | (2,185) |
| Government assistance for reclamations | **(174)** | - |
| Revision in estimates (note 4) | **429** | 722 |
| Accretion expense | **94** | 211 |
| Liabilities disposed (note 4) | **(3,780)** | (839) |
| Balance, end of period | **$ 6,105** | $ 10,022 |
| Current portion of liability | **$ 211** | $ 806 |
| Long-term portion of liability | **$ 5,894** | $ 9,216 |

## 7. Long-term Debt

At September 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 September 30, 2020, $107 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 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 1.2 times at September 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 14% at September 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 September 30, 2020. Freehold was in compliance with all covenants as at September 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 nine months ended September 30, 2020, the average effective interest rate on advances under Freehold's credit facilities was 2.1% and 2.6% (three and nine months ended September 30, 2019 – 3.5%).

At September 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.

## 8. Shareholders' Capital

### SHARES ISSUED AND OUTSTANDING

| ($000s) | September 30, 2020 Shares | September 30, 2020 Amount | December 31, 2019 Shares | December 31, 2019 Amount |
|---|---|---|---|---|
| Balance, beginning of period | **118,622,667** | **$ 1,271,763** | 118,402,667 | $ 1,270,020 |
| Issued for payment of management fee (note 11) | **123,750** | **419** | 220,000 | 1,743 |
| Balance, end of period | **118,746,417** | **$ 1,272,182** | 118,622,667 | $ 1,271,763 |

## 9. 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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($000s) | **2020** | 2019 | **2020** | 2019 |
| Royalty interest revenue from oil, NGL and natural gas (1) | **$ 22,819** | $ 31,910 | **$ 62,695** | $ 99,659 |
| Bonus consideration, lease rentals, and other | **245** | 390 | **827** | 1,252 |
| Total royalty interest revenue | **$ 23,064** | $ 32,300 | **$ 63,522** | $ 100,911 |
| Working interest revenue from oil, NGL and natural gas (2) | **92** | 970 | **870** | 3,494 |
| Total royalty and extraction tax expense | **(33)** | (202) | **(227)** | (395) |
| Total royalty and other revenue | **$ 23,123** | $ 33,068 | **$ 64,165** | $ 104,010 |

(1) Includes potash royalties and other.
(2) Includes processing and other.

### ROYALTY AND OTHER REVENUE BY TYPE

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($000s) | **2020** | 2019 | **2020** | 2019 |
| Oil | **$ 17,013** | $ 28,412 | **$ 46,609** | $ 84,588 |
| Natural gas | **3,983** | 2,280 | **11,146** | 9,818 |
| NGL | **1,678** | 1,976 | **4,980** | 7,788 |
| Potash | **237** | 212 | **830** | 959 |
| Bonus consideration, lease rentals, and other | **245** | 390 | **827** | 1,252 |
| Total royalty and other revenue by type | **23,156** | 33,270 | **$ 64,392** | $ 104,405 |
| Total royalty and extraction tax expense | **(33)** | (202) | **(227)** | (395) |
| Total royalty and other revenue | **$ 23,123** | $ 33,068 | **$ 64,165** | $ 104,010 |

As at September 30, 2020, there was outstanding accounts receivable and accrued revenue of $14.5 million (December 31, 2019 - $23.9 million) associated with royalty and other revenues. For the nine months ended September 30, 2020, Freehold had $1.4 million (2019 - $1.9 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 but were reported in the current year once collection risk was mitigated.

## 10. Finance Expense

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($000s) | **2020** | 2019 | **2020** | 2019 |
| Interest and financing expense | **$ 585** | $ 1,085 | **$ 2,290** | $ 2,947 |
| Accretion of decommissioning liabilities | **17** | 51 | **94** | 166 |
| Interest on lease obligation | **11** | 17 | **51** | 17 |
| Total finance expense | **$ 613** | $ 1,153 | **$ 2,435** | $ 3,130 |

## 11. Related Party Transactions

Freehold does not have any employees. Rather, the Manager of Freehold 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. One of Rife and Canpar's directors is also a director 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 the 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 an amended and restated management agreement (the Management Agreement). The Management Agreement capped the management fee at 41,250 Freehold common shares per quarter for 2020.

For the three and nine months ended September 30, 2020, Freehold issued 41,250 and 123,750 common shares, respectively, (2019 – 55,000 and 165,000, respectively) as payment of the management fee pursuant to the Management Agreement. The respective ascribed values of $0.2 million and $0.4 million (2019 – $0.4 million and $1.3 million) were based on the closing price of Freehold's common shares on the last trading day of each quarter.

For the three and nine months ended September 30, 2020, the Manager charged $2.2 million and $7.9 million in general and administrative costs, respectively (2019 – $2.2 million and $8.1 million, respectively). At September 30, 2020, there was $1.1 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 September 30, 2020, there was $nil (December 31, 2019 - $nil) in accounts receivable relating to these transactions. At September 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 and nine months ended September 30, 2020, Freehold received royalties of approximately $nil and $0.1 million from Rife (2019 – $0.1 million and $0.6 million). At September 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 generally 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. Where Freehold is not the legal registered owner of such mineral rights, Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. At September 30, 2020, there was $nil (December 31, 2019 – $nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

## 12. Supplemental Disclosure

### a. Supplemental cash flow disclosure

CASH EXPENSES

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($000s) | **2020** | 2019 | **2020** | 2019 |
| Interest | **585** | 1,078 | **2,242** | 2,936 |

### b. Net debt

| ($000s) | **September 30 2020** | December 31 2019 |
|---|---|---|
| Long-term debt | **107,000** | 109,000 |
| Working capital | **(25,322)** | (14,366) |
| Net debt | **81,678** | 94,634 |

### c. Weighted average number of shares

For the nine months ended September 30, 2020 and 2019, Deferred Share Units were excluded from the calculations of diluted net loss per share as their effect was anti-dilutive. For the three months ended September 30, 2020 and 2019, dilutive DSUs of 321,196 and 228,777, respectively, were included in the weighted average diluted shares.

# 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

**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

**David M. Spyker**
Interim President and Chief Executive Officer

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

## Head Office

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## Investor Relations

**Matt J. Donohue**
Manager, Investor Relations and Capital Markets
**t.** 403.221.0833
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**e.** mdonohue@rife.com

## Auditors

**KPMG LLP**

## Bankers

**Canadian Imperial Bank of Commerce**
**Bank of Montreal**
**Royal Bank of Canada**
**The Toronto-Dominion Bank**

## Legal Counsel

**Burnet, Duckworth & Palmer LLP**

## Reserve Evaluators

**Trimble Engineering Associates Ltd.**

## Stock Exchange and Trading Symbol

**Toronto Stock Exchange (TSX)**
**Common Shares: FRU**

## Transfer Agent and Registrar

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