



First Quarter Report

Three months ended March 31, 2020

TSX FRU

Results at a Glance

FINANCIAL (\$000s, except as noted)	Three Months Ended March 31		
	2020	2019	Change
Royalty and other revenue	26,284	35,609	-26%
Net income (loss)	(9,022)	(7,079)	-27%
Per share, basic and diluted (\$) ⁽¹⁾	(0.08)	(0.06)	-33%
Funds from operations	20,248	29,348	-31%
Per share, basic (\$) ⁽¹⁾	0.17	0.25	-32%
Acquisitions and related expenditures	5,370	929	478%
Dividends declared	18,685	18,651	-
Per share (\$) ⁽²⁾	0.1575	0.1575	-
Payout ratio ⁽³⁾	92%	64%	44%
Net debt	101,833	77,533	31%
Shares outstanding, period end (000s)	118,664	118,458	-
Average shares outstanding (000s) ⁽¹⁾	118,623	118,403	-
OPERATING			
Royalty production (boe/d) ⁽⁴⁾	10,618	10,139	5%
Light and medium oil (bbl/d)	3,863	3,734	3%
Heavy oil (bbl/d)	1,238	911	36%
NGL (bbl/d)	872	912	-4%
Total liquids (bbl/d)	5,973	5,557	7%
Natural gas (Mcf/d)	27,870	27,492	1%
Total production (boe/d) ⁽⁴⁾	11,026	10,627	4%
Oil and NGL (%)	56	55	2%
Average price realizations (\$/boe) ⁽⁴⁾	25.69	36.29	-29%
Cash costs (\$/boe) ⁽³⁾⁽⁴⁾	5.74	6.39	-10%
Operating netback (\$/boe) ⁽³⁾⁽⁴⁾	25.22	36.22	-30%

(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

Operationally, Q1-2020 was a strong quarter as royalty production of 10,618 boe/d was 5% greater than the same period last year and a 3% increase versus Q4-2019. Q1-2020 average royalty production is at the highest level in the last two years. Drilling on our royalty lands totaled 175 gross (6.2 net) wells during the quarter, up 19% on a gross measure and down 15% on a net measure compared to Q1-2019, outpacing the broader Western Canadian Sedimentary Basin, which has seen activity levels decline by greater than 25% over the same period. Our top drillers maintain strong balance sheets and we expect that they will recommit capital as commodity prices improve.

With the advancement of novel coronavirus (COVID-19) however, our outlook from Q1-2020 has changed materially. Under the current backdrop, crude oil demand has been reduced by greater than 30% globally. Combining this drop-off in demand with a subsequent price war involving Russia and the Organization of Petroleum Exporting Countries ("OPEC") and the resulting flooding of oil supply into the market, North American commodity prices have hit multi-decade lows. With West Texas Intermediate ("WTI") prices at approximately US\$20/bbl and Canadian light and heavy blends trading at significant discounts to these levels, the business environment has changed dramatically. While we expect crude oil fundamentals to improve through the second half of 2020 and into 2021, prices are forecast to recover slowly.

Proactively, Freehold reduced its dividend from \$0.0525 per share to \$0.015 per share, effective with the May 15, 2020 monthly dividend payment. With the revised payout, we feel better positioned to operate within the new commodity price environment and the associated likelihood of reduced production volumes on our lands during this period. Given the uncertainty of our payors near-term spending programs and production levels, we have also withdrawn our 2020 guidance, with the expectation to revisit our forward-looking estimates when the operating environment becomes less volatile.

The COVID-19 pandemic has prompted the Government of Alberta to declare a state of public health emergency. Alongside government and public health officials, we are actively monitoring COVID-19 updates and we are following the latest guidance. As the COVID-19 pandemic continues to evolve, we are prioritizing the health and safety of our workforce by directing employees to work remotely from home. All employees have been working from home since we implemented our business continuity plan in March 2020. This preparation, along with a dedicated team, has led to a smooth transition. We appreciate the continued efforts of our staff during this time and we want to thank our shareholders for their ongoing support.

Looking forward, we expect the next three to six months to represent a challenging period for the North American exploration and production industry. Setting ourselves apart from the broader industry, Freehold provides investors with diversification, as royalties represent a higher margin business, as we do not pay typical costs associated with oil and gas operations and reclamation, enabling more returns to be transferred to our shareholders.

Tom Mullane
President and CEO

First Quarter Highlights

- Dividends declared for Q1-2020 totaled \$0.1575 per share, unchanged from Q1-2019 and Q4-2019. Our payout ratio totaled 92% for the quarter, versus 64% during the same period last year. We continue to position Freehold's dividend within our guided payout thresholds of 60%-80% of annualized funds flow.
- Freehold's royalty production averaged 10,618 boe/d during Q1-2020. This represented a 5% improvement versus the same period last year and 3% growth when compared to the previous quarter. Royalty liquids production averaged 5,973 boe/d for Q1-2020, up 7% versus the same period in 2019 and 1% when compared to the previous quarter.
- Production from Freehold's U.S. royalty assets averaged 242 boe/d in Q1-2020, representing a 32% increase from 184 boe/d in Q4-2019.
- Royalty interests accounted for 96% of total production and contributed 100% of operating income⁽¹⁾ in Q1-2020. Oil and natural gas liquids represented 56% of production in Q1-2020, up slightly from 55% in Q1-2019.
- Q1-2020 funds from operations and free cash flow⁽¹⁾ totaled \$20.2 million, or \$0.17 per share over the quarter, compared to \$29.3 million or \$0.25 per share in Q1-2019. Compared to the prior quarter, funds from operations were impacted by the material drop in crude oil prices late in the period, partially offset by growing production volumes.
- Q1-2020 net loss totaled \$9.0 million compared with a \$7.1 million net loss recorded in Q1-2019. The higher net loss reflected lower revenues due to the retreat in oil prices late in the quarter, as well as an impairment loss of \$9.6 million related to Freehold's working interest properties recorded in Q1-2020. This compared with a \$14.1 million impairment loss recorded during Q1-2019 related to the termination of a specific production volume royalty agreement.
- Closing net debt as at March 31, 2020 was \$101.8 million, an increase of \$7.2 million versus the previous quarter. The increase quarter-over-quarter reflects the decline in oil prices as well as acquisition activity, a planned decommissioning liability disposition, and the dividend payout.
- Freehold closed two acquisitions in Q1-2020 for total consideration of \$3.2 million (US\$2.4 million) on certain royalty assets located in North Dakota. Production from the acquired assets in Q1-2020 was approximately 20 boe/d. These transactions were completed at attractive rates of return.
- Wells drilled on our royalty lands totaled 175 (6.2 net) in the quarter, compared to 186 (4.5 net) in Q4-2019 and 147 (7.3 net) royalty wells drilled in Q1-2019. During the first quarter, drilling activity was focused primarily on the Viking light oil plays in western Saskatchewan and east central Alberta, as well as the Mississippian subcrop and Cantuar light oil plays in south Saskatchewan.
- In Q1-2020, Freehold issued 12 new lease agreements with six companies, compared to 20 leases issued in Q1-2019 and 24 leases issued in Q4-2019.
- Cash costs⁽¹⁾ for the quarter totaled \$5.74/boe, down from \$6.39/boe in Q1-2019. The decrease in costs year-over-year reflects reduced general and administrative (G&A) charges, deferred payment of stock-based compensation and increased production volumes. The first quarter typically represents a period of higher G&A for Freehold based on the seasonal nature of these expenditures.

(1) See Non-GAAP Financial Measures.

Subsequent Event

On April 9, 2020, Freehold announced that reflecting sustained weakness in crude oil prices due the COVID-19 pandemic, its Board of Directors (the “Board”) had declared a dividend of \$0.015 per common share to be paid on May 15, 2020 to shareholders of record on April 30, 2020. This reflected a reduction from the previous monthly dividend level of \$0.0525 per common share. At the revised dividend level, Freehold’s funds from operations are forecast to exceed dividend outflows for the remainder of 2020 and remain positioned at or below the low end of our payout range of 60%-80%. Adjusting the dividend at this time preserves the strength of our balance sheet and enhances optionality to pursue value enhancing acquisitions as they are presented.

On April 30, 2020, Freehold disposed of certain working interest properties with an estimated production of 265 boe/d. As part of the transaction, the purchaser has agreed to assume decommissioning liabilities of approximately \$3.7 million on those properties. Freehold has agreed to pay \$1.7 million into escrow that will be released to the purchaser once the legal interests in the assets are satisfactorily transferred. An additional \$0.3 million will also be deposited on behalf of the purchaser with various regulators as security deposits.

Management Discussion and Analysis

The following Management’s Discussion and Analysis (MD&A) was prepared as of May 5, 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 months ended March 31, 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 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 months ended March 31, 2020 and 2019, and all dollar amounts are expressed in Canadian currency, unless otherwise noted. References to “US\$” are to United States (U.S.) dollars. This MD&A should be read in conjunction with the December 31, 2019 audited financial statements and notes.

This MD&A contains the following non-GAAP financial measures: **operating income, operating netback, payout ratio, free cash flow** and **cash costs**. These are useful supplemental measures to analyze operating performance, financial leverage, and liquidity, among others. However, these terms do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities. In addition, this MD&A contains forward-looking statements that are intended to help readers better understand our business and prospects. Readers are cautioned that the MD&A should be read in conjunction with our disclosure under “Non-GAAP Financial Measures” and “Forward-Looking Statements” included at the end of this MD&A.

Business Overview

Freehold is a dividend-paying corporation incorporated under the laws of the Province of Alberta and trades on the Toronto Stock Exchange under the symbol FRU. We receive revenue from oil and natural gas properties as reserves

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

The Royalty Advantage

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

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

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

Our Strategy

As a leading royalty company, Freehold's objective is to deliver growth and lower risk attractive returns to shareholders over the long term. Freehold accomplishes this by:

- **Creating Value**
 - Drive oil and gas development on our lands through our lease out program
 - Acquire royalty assets with acceptable risk profiles and long economic life
 - Generate gross overriding royalties for revenue growth
- **Enhancing value**
 - Maximize our royalty interests through a comprehensive audit program
 - Manage our debt prudently with a target below 1.5 times net debt to funds from operations
- **Delivering value**
 - Target a dividend with a payout ratio of 60%-80%

Outlook

Business Environment

The current outlook for oil prices remains challenged and uncertain. The COVID health crisis was declared a global pandemic by the World Health Organization in early March. In total, there are now greater than 3.5 million cases worldwide and more than 60,000 cases in Canada. As the number of outbreaks has increased, we have seen global

coordination amongst governments and populations to curb the spread. The result of these actions has curtailed global crude oil demand by approximately 30%-40%. Furthering volatility, OPEC plus Russia's inability to agree on a production cut in March followed by a production cut the following month that did not match weakened demand, position crude oil prices at multi-decade lows. Additionally, in North America, there remains concern associated with near-term storage as major refining centers are at near capacity. This has put further downward prices on regional prices and differentials.

Overall, WTI prices averaged US\$45.65/bbl for Q1-2020, down 17% year-over-year and 20% versus the previous quarter. Looking forward, COVID-19 and its spread continues to dominate the macro environment. Easing of infection numbers are expected to be the key driver behind the resumption of a more normal demand environment and improved prices. We expect most regions to manage the pace of return to normal economic activities in a gradual and measured fashion over several months; however, there remains concerns over a second wave of infections after the resumption of normal economic activity, which could once again result in further restrictions on economic activity. As a result, it is very uncertain as to when economic activity will be able to fully resume to pre-pandemic levels, but it is likely weaker oil prices will continue into 2021 until inventory levels are normalized.

Within Canada, prices mirrored global benchmarks as Edmonton Light Sweet oil price averaged \$51.77/bbl, down 24% versus the previous quarter while declining 22% versus the same period last year. Western Canadian Select (WCS) prices averaged \$34.02/bbl. This marked a 37% decline versus the previous quarter and a 40% retreat when compared to the same period last year. Similarly, the Canadian macro price environment has been impacted by a lack of storage and egress alternatives, which has caused differentials to increase to levels not seen historically, particularly for light oil.

Canadian natural gas prices were unable to differentiate from the weakness realized in crude oil over the quarter with AECO prices averaging \$2.04/mcf, down 22% versus the same period last year and a 17% reduction when compared to the previous quarter. The near-term outlook for natural gas remains mixed with considerable associated gas likely to be shut-in with crude oil volumes; however Canadian demand for natural gas is likely to be negatively impacted by a slowdown in the oil sands production as oil sands operators require significant natural gas for their operations.

Looking forward, we expect production and revenue to temporally decline due to uncertainty associated with production shut-ins, drilling activity and potential curtailments on our royalty lands. Freehold maintains a diversified portfolio of production (56% oil and liquids, 44% natural gas), and industry payors (300 industry payors with no material concentration risk). However, many of our royalty payors are still evaluating economics associated with their respective asset bases and we expect to see reductions in our production base over the next few months as some of these decisions are made, or as the current demand/supply environment for crude oil persists. 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

Drilling activity in Q1-2020 was strong, with 175 gross (6.2 net) wells drilled on our royalty lands over the period. This compares to 186 (4.5 net) in Q4-2019 and 147 (7.3 net) royalty wells drilled in Q1-2019. Drilling continues to be dominated by activity in Saskatchewan and Manitoba, which together represent 64% of the gross Q1-2020 drilling

(75% on a net basis). Drilling continues to be focused on oil prospects throughout the Western Canadian Sedimentary Basin. The Viking oil play in west central Saskatchewan and east central Alberta continues to be the dominant play for Freehold, with 65 gross (3.3 net) wells in the quarter. The Mississippian subcrop oil play in southeast Saskatchewan and southwest Manitoba saw 29 gross (1.2 net) wells drilled. The various Mannville oil plays across Saskatchewan and Manitoba saw 17 gross (0.8 net) wells drilled, not including 10 gross (0.2 net) wells drilled on recently acquired Sparky royalty lands in central Alberta, and 7 gross (0.3 net) wells on the Clearwater royalty lands in northern Alberta. Nearly 100% of the wells drilled on the royalty lands were horizontal in Q1-2020, 63% of the gross drilling (78% net) was on gross overriding royalty lands, 13% gross on title land (20% net), and 24% of the gross drilling was on unit interests (2% net). Activity continued to be funded by some of the most stable operators in the industry.

Royalty Interest Drilling

	Three Months Ended March 31			
	2020		2019	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾
Total	175	6.2	147	7.3

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

Guidance Update

As part of Freehold's press release dated April 9, 2020, the Company announced that due to uncertainty associated with the underlying business environment, including the potential for voluntary shut-ins of production, regulatory imposed production curtailments, high crude oil inventories and continued price volatility, its previously released 2020 guidance was no longer applicable. As a result, Freehold has withdrawn all previous guidance and forward-looking statements, including the guidance provided in our MD&A for the year ended December 31, 2019 dated March 4, 2020 and the accompanying press release of the same date. We expect to provide a revised guidance update at a time of increased stability associated with the commodity price environment and our royalty payors capital programs.

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

Assuming no significant changes in the current business environment, we expect to maintain the current monthly dividend rate through the next quarter. 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 funds from operations that are currently unforeseen that could require further adjustments to dividend levels. We will continue to evaluate the commodity price environment and adjust the dividend levels as necessary (subject to the quarterly review and approval of our Board - see Dividend Policy).

Quarterly Performance and Trends

	2020	2019				2018		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial (\$000s, except as noted)								
Royalty and other revenue	26,284	36,827	33,068	35,333	35,609	24,837	40,587	39,961
Funds from operations	20,248	30,659	27,996	30,095	29,348	18,463	35,900	34,540
Per share, basic (\$)	0.17	0.26	0.24	0.25	0.25	0.16	0.30	0.29
Net income (loss)	(9,022)	6,113	2,729	3,430	(7,079)	(4,166)	8,389	5,386
Per share, basic and diluted (\$)	(0.08)	0.05	0.02	0.03	(0.06)	(0.04)	0.07	0.05
Dividends declared	18,685	18,683	18,669	18,660	18,651	18,643	18,634	18,625
Per share (\$) ⁽¹⁾	0.1575	0.1575	0.1575	0.1575	0.1575	0.1575	0.1575	0.1575
Payout ratio (%) ⁽²⁾	92	61	67	62	64	101	52	54
Operating Income ⁽²⁾	25,296	35,758	32,175	34,315	34,644	23,452	39,225	38,331
Operating income from royalties (%)	100	100	100	100	99	102	99	100
Acquisitions and related expenditures	5,370	2,727	15,060	30,313	929	11,071	18,750	3,516
Working interest dispositions	(73)	36	8	52	(30)	581	1	7
Long term debt	103,000	109,000	116,000	111,000	90,000	90,000	91,308	91,000
Shares outstanding								
Weighted average, basic (000s)	118,623	118,568	118,513	118,458	118,403	118,348	118,293	118,238
At quarter end (000s)	118,664	118,623	118,568	118,513	118,458	118,403	118,348	118,293
Operating (\$/boe, except as noted)								
Royalty production (boe/d) ⁽³⁾	10,618	10,315	10,149	10,311	10,139	10,312	10,322	11,052
Light and medium oil (bbls/d)	3,863	4,024	3,771	3,727	3,734	3,934	3,649	3,872
Heavy oil (bbls/d)	1,238	1,089	1,148	983	911	929	1,095	1,180
NGL (bbls/d)	872	799	740	962	912	955	864	903
Total liquids (bbls/d)	5,973	5,912	5,659	5,672	5,557	5,818	5,608	5,955
Natural gas (Mcf/d)	27,870	26,416	26,938	27,834	27,492	26,962	28,284	30,581
Total production (boe/d) ⁽³⁾	11,026	10,740	10,482	10,664	10,627	10,929	11,002	11,721
Royalty interest (%)	96	96	97	97	95	94	94	94
Average selling price	25.69	37.04	33.87	35.88	36.29	23.40	38.95	36.96
Operating netback ⁽²⁾	25.22	36.19	33.36	35.36	36.22	23.33	38.74	35.94
Operating expenses	0.98	1.08	0.93	1.05	1.01	1.38	1.35	1.53
General and administrative expenses ⁽⁴⁾	3.73	2.97	2.59	2.67	4.22	2.74	2.06	2.36
Benchmark Prices								
West Texas Intermediate crude oil (US\$/bbl)	45.65	56.99	56.36	59.79	54.82	58.81	69.50	67.88
Exchange rate (Cdn\$/US\$)	0.74	0.76	0.76	0.75	0.75	0.76	0.77	0.77
Edmonton Light Sweet crude oil (Cdn\$/bbl)	51.77	68.12	70.27	73.84	66.02	42.78	81.62	80.47
Western Canadian Select crude oil (Cdn\$/bbl)	34.02	54.16	58.12	65.66	56.77	25.13	61.81	62.82
AECO monthly contract natural gas (Cdn\$/Mcf)	2.13	2.34	1.04	1.17	1.94	1.90	1.35	1.03
AECO daily average natural gas (Cdn\$/Mcf)	2.04	2.47	0.91	1.04	2.60	1.56	1.19	1.18

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

(2) See Non-GAAP Financial Measures

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

(4) Excludes share based and other compensation

Quarterly variances in revenues, and funds from operations are caused mainly by fluctuations in commodity prices and production volumes. Crude oil prices are generally determined by global supply and demand factors, and the variances do not have seasonal predictability. However, under the current restrictions of the COVID-19 pandemic, crude oil supply/demand fundamentals remain out of balance, with crude prices trading at multi-decade lows. Natural gas is a typically seasonal, weather-dependent fuel; demand is generally higher during the winter (for heating) and summer (for cooling), and lower during the spring and fall. Over most of the past eight quarters, this seasonality has been muted by ample supply. Royalty production volumes are affected by continued acquisition activity, exploration and development activity by third parties, and natural declines. Net income (loss) are affected by revenues, depletion, general and administrative as well as other expenses.

Revenues

Production

Freehold's royalty production averaged 10,618 boe/d and contributed 96% of total production during Q1-2020. This represents a 5% increase over Q1-2019 and a 3% improvement versus the previous quarter. Increased volumes quarter-over-quarter were reflective of robust third-party drilling additions, strong production performance associated with recent acquisitions and significant prior period adjustments, partially relating to our audit function.

Working interest production, representing 4% of total production, decreased to 408 boe/d, or by 16%, in Q1-2020 versus the same period last year and by 4% from the previous quarter. Reduced volumes were associated with lower development expenditures and natural declines. Working Interest production is expected to decrease further in Q2-2020 based on the sale of certain properties referenced on April 30 - see Subsequent Event

Total production in the quarter averaged 11,026 boe/d. Our production mix through the first three months of 2020 was 35% light and medium oil, 12% heavy oil, 8% NGL and 45% natural gas.

Production Summary

(boe/d)	Three Months Ended March 31		
	2020	2019	Change
Royalty interest	10,618	10,139	5%
Working interest	408	488	-16%
Total	11,026	10,627	4%

Average Daily Production by Product Type

	Three Months Ended March 31		
	2020	2019	Change
Royalty interest			
Light and medium oil (bbl/d)	3,910	3,734	5%
Heavy oil (bbl/d)	1,191	911	31%
NGL (bbl/d)	872	912	-4%
Natural gas (Mcf/d)	27,870	27,492	1%
Oil equivalent (boe/d)	10,618	10,139	5%
Working interest			
Light and medium oil (bbl/d)	26	49	-47%
Heavy oil (bbl/d)	109	163	-33%
NGL (bbl/d)	24	35	-31%
Natural gas (Mcf/d)	1,491	1,446	3%
Oil equivalent (boe/d)	408	488	-16%
Total			
Light and medium oil (bbl/d)	3,936	3,783	4%
Heavy oil (bbl/d)	1,300	1,074	21%
NGL (bbl/d)	896	947	-5%
Natural gas (Mcf/d)	29,361	28,938	1%
Oil equivalent (boe/d)	11,026	10,627	4%
Number of days in period (days)	91	90	
Total volumes during period (Mboe)	1,003	956	5%

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\$45.65/bbl in Q1-2020, 17% lower versus the same period last year as the decline in price occurred relatively late in the quarter. Edmonton Light Sweet averaged \$51.77/bbl, 22% lower versus the same period in 2019. WCS prices averaged \$34.02/bbl, 40% lower versus the same period in 2019. AECO daily average natural gas prices averaged \$2.04/mcf, 22% lower versus the same period in 2019.

Average Benchmark Prices and Exchange Rates

	Three Months Ended March 31		
	2020	2019	Change
West Texas Intermediate crude oil (US\$/bbl)	45.65	54.82	-17%
Exchange rate (Cdn\$/US\$)	0.74	0.75	-1%
Edmonton Light Sweet crude oil (Cdn\$/bbl)	51.77	66.02	-22%
Western Canadian Select crude oil (Cdn\$/bbl)	34.02	56.77	-40%
AECO monthly contract natural gas (Cdn\$/Mcf)	2.13	1.94	10%
AECO daily average natural gas (Cdn\$/Mcf)	2.04	2.60	-22%

Our average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price was \$25.69/boe in Q1-2020, 29% lower than the same period last year.

Natural gas prices were down 34% relative to the prior year, averaging \$1.44/mcf in Q1-2020. 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 March 31		
	2020	2019	Change
Oil (\$/bbl)	41.39	59.26	-30%
NGL (\$/bbl)	27.07	36.76	-26%
Oil and NGL (\$/bbl)	39.30	55.59	-29%
Natural gas (\$/Mcf)	1.44	2.18	-34%
Oil equivalent (\$/boe)	25.69	36.29	-29%

Marketing and Hedging

Our production remained unhedged in Q1-2020. Our hedging policy is reviewed quarterly with our Board.

Our royalty lands consist of a large number of properties with generally small volumes per property. Many of our leases and royalty agreements allow us to take our share of production in-kind. As part of our risk mitigation program, we carefully monitor our royalty receivables and may choose to take our royalty in-kind if there are benefits in doing so. Currently we take in-kind and market approximately 13% of our total royalty production using 30-day contracts.

With the recent retreat in crude oil prices, we have further increased the scrutiny in which we review potential counterparty risk amongst our payors. Although liquidity challenges for some of our royalty payors are expected due to the COVID-19 pandemic, we remain confident in the collectability of outstanding accounts receivable due to the

strength of the provisions in the applicable royalty agreements and the diligence of our Compliance group in ensuring prompt and complete payment.

Royalty and Other Revenue

Royalty and other revenue of \$26.3 million in Q1-2020 was 26% lower than in Q1-2019, mostly due to lower commodity prices partially offset by production gains. Working interest revenue was down 50% in Q1, reflecting lower commodity prices and natural production decline.

Royalty and Other Revenue

(\$000s)	Three Months Ended March 31		
	2020	2019	Change
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	\$ 25,533	\$ 33,787	-24%
Bonus consideration and lease rentals	288	504	-43%
Total royalty interest revenue	\$ 25,821	\$ 34,291	-25%
Working interest revenue from oil, NGL and natural gas ⁽²⁾	704	1,407	-50%
Royalty expense	(241)	(89)	171%
Total royalty and other revenue	\$ 26,284	\$ 35,609	-26%

(1) Includes potash royalties and other

(2) Includes processing and other

Royalty and Other Revenue by Type

(\$000s)	Three Months Ended March 31		
	2020	2019	Change
Oil	19,723	\$ 25,906	-24%
Natural gas	3,848	5,674	-32%
NGL	2,270	3,133	-30%
Potash	259	410	-37%
Bonus consideration and lease rentals	288	504	-43%
Other	137	71	93%
Total royalty expense	(241)	(89)	171%
Total royalty and other revenue	26,284	\$ 35,609	-26%

Expenses

Operating Expenses

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

Operating expenses were largely flat at \$1.0 million in Q1-2020 and Q1-2019. On a total production per boe basis, operating expenses decreased by 3% to \$0.98/boe in Q1-2020 relative to the same period in 2019.

Operating Expenses ⁽¹⁾

(\$000s, except as noted)	Three Months Ended March 31		
	2020	2019	Change
Total operating expenses	988	\$ 965	2%
Per boe (\$)	0.98	1.01	-3%

(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 Q1-2020, royalty interests accounted for 97% of total royalty and other revenue and contributed 100% of operating income.

Operating Income ⁽¹⁾

(\$000s)	Three months ended March 31, 2020		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	25,821	704	26,525
Royalty expense ⁽³⁾	(235)	(6)	(241)
Net revenue	\$ 25,586	\$ 698	\$ 26,284
Operating expense	-	(988)	(988)
Operating income	\$ 25,586	\$ (290)	\$ 25,296
Percentage by category	100%	0%	100%

(\$000s)	Three months ended March 31, 2019		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	34,291	1,407	35,698
Royalty expense ⁽³⁾	(2)	(87)	(89)
Net revenue	\$ 34,289	\$ 1,320	\$ 35,609
Operating expense	-	(965)	(965)
Operating income	\$ 34,289	\$ 355	\$ 34,644
Percentage by category	99%	1%	100%

(1) See Non-GAAP Financial Measures

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

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

Freehold's operating netback for Q1-2020 decreased 30% to \$25.22/boe versus Q1-2019, reflecting lower realized commodity prices.

Operating Netback ⁽¹⁾

(\$/boe)	Three Months Ended March 31		
	2020	2019	Change
Royalty and other revenue	\$ 26.20	\$ 37.23	-30%
Operating expenses	(0.98)	(1.01)	-3%
Operating netback	\$ 25.22	\$ 36.22	-30%

(1) See Non-GAAP Financial Measures

General and Administrative Expenses

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

In Q1-2020, G&A expenses were down 7% from Q1-2019 to \$3.8 million and down 12% to \$3.73/boe on a boe basis over the same period in the prior year. G&A spend declined from Q1-2019 due to cost saving initiatives. G&A charges are typically higher during the first quarter based on the seasonal nature of these expenditures.

(\$000s, except as noted)	Three Months Ended March 31		
	2020	2019	Change
General and administrative expenses before capitalized and overhead recoveries	\$ 4,273	\$ 4,633	-8%
Less: capitalized and overhead recoveries	(526)	(593)	-11%
General and administrative expenses	\$ 3,747	\$ 4,040	-7%
Per boe (\$)	3.73	4.22	-12%

Management Fee

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

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

The ascribed value associated with the management fee was down 74% compared to Q1-2019, which is based on Freehold's common share price on the last day of the quarter, that was lower at March 31, 2020 relative to March 31, 2019. Freehold can elect to pay the management fee in either cash or common shares.

Management Fees (paid in shares)

	Three Months Ended March 31		
	2020	2019	Change
Shares issued for management fees	41,250	55,000	-25%
Ascribed value (\$000s) ⁽¹⁾	121	463	-74%
Closing share price (\$/share)	2.94	8.41	-65%
Per boe (\$)	0.12	0.48	-75%

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

Share Based Compensation

Long-Term Incentive Plans

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

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

Grants under a previous LTIP plan valued at \$0.2 million were paid out in March 2019. The second one-third of the granted 2017 RSUs and the first one-third of the granted 2018 RSUs vested in March 2019, with the total LTIP payment valued at \$0.3 million paid out in April 2019. One-third of each of the 2017, 2018 and 2019 granted RSUs and the entire 2017 granted PSU vested in March 2020. In April 2020, there were 626,910 RSUs and PSUs granted under the new LTIP (after estimated forfeitures) and Freehold paid \$0.4 million for the amounts that vested in March 2020.

Deferred Share Unit Plan

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

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

As at March 31, 2020, there were 310,935 DSUs outstanding and at May 5, 2020, there were 315,973 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 March 31		
	2020	2019	Change
Long-term incentive plan before capitalized portion	\$ (583)	\$ 245	-338%
Less: capitalized portion	93	(39)	-338%
Long-term incentive plan	(490)	206	-338%
Deferred share unit plan	529	517	2%
Share based compensation	\$ 39	\$ 723	-95%
Per boe (\$)	0.04	0.76	-95%

Finance Expense

Q1-2020 interest and financing expense increased due to higher average debt levels over Q1-2019. The average effective interest rate on advances under our credit facilities in the current quarter was 3.6% (2019 – 3.7%).

(\$000s, except as noted)	Three Months Ended March 31		
	2020	2019	Change
Interest and financing expense	\$ 1,029	\$ 899	14%
Non-cash finance expenses ⁽¹⁾	65	63	3%
Total finance expense	\$ 1,094	\$ 962	14%
Per boe (\$)	1.09	1.01	8%
Per boe - cash expense (\$)	1.03	0.94	10%

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

Depletion and Depreciation

Petroleum and natural gas interests, including the costs of production equipment, future capital costs, estimated decommissioning costs, and directly attributable general and administrative costs, are depleted on the unit-of-production method based on estimated proved plus probable oil and gas reserves. The improved depletion rate per boe is due to increased reserve additions arising from positive technical revisions on Freehold's December 31, 2019 external reserve report.

(\$000s, except as noted)	Three Months Ended March 31		
	2020	2019	Change
Depletion and depreciation	\$ 22,826	\$ 24,097	-5%
Per boe (\$)	22.75	25.19	-10%

Impairment

At March 31, 2020 Freehold tested both the Working Interest and Royalty Interest cash generating units (CGUs) for impairment due to the continued drop in expected future commodity prices as recognized by industry reserve evaluators, as well as, continued declines in Freehold's share price. For the Royalty Interest CGU, Freehold estimated the recoverable amount as the value in use based on discounted future net cash flows of proved plus probable reserves using forecast prices and costs, discounted at pre-tax rates between 8% and 10%. For the Working Interest CGU, 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 at pre-tax rates between 15% and 25%. In determining

the appropriate discount rate, Freehold considered an estimated cost of capital and the resource composition of the assets.

The estimate was based on Freehold's December 31, 2019 externally prepared reserve report adjusted internally for March 31, 2020 third party reserve engineer pricing, and Q1 2020 production, estimated reserve additions, acquisition and disposition, with consideration also given to; operating costs, royalty rates and future development costs, among others. Management recognizes that all assumptions and estimates affecting the value are subject to a high degree of uncertainty. For the Exploration and Evaluation assets, a combination of external and internal valuations were used to determine a fair value at March 31, 2020 including value derived from future drilling locations on the Company's royalty properties.

For the Royalty Income CGU and Exploration and Evaluation assets, there was no impairment provision record as the recoverable amounts for these assets exceeds their carrying values.

There was a non-cash impairment charge on the Working Interest CGU of \$9.6 million as the carrying value exceeded the estimated value in use. The estimated recoverable amount of the Working Interest CGU is \$nil. As future commodity prices continue to fluctuate, additional impairment charges or recoveries could be recorded in future periods.

The following table summarizes key benchmarks used in the impairment estimate:

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

In April 2019, Freehold closed a non-cash royalty asset exchange, terminating a production volume royalty (PVR) agreement in exchange for a new gross overriding royalty on certain related properties. The PVR asset was recorded at the lower of carrying value and management's best estimate of its fair value less costs to sell, resulting in Freehold recording an impairment of \$14.1 million. The royalty asset exchange transaction was not an indicator of impairment within Freehold's Royalty Interest cash generating unit (CGU). The assessment of indicators of impairment is subjective in nature and requires management to make judgements based on the best available information at the tie of issuance of these financial statements.

Income Tax

As a corporation, taxable income is based on revenues (which will vary depending on commodity prices and production volumes) less allowable expenses including claims for both accumulated tax pools and tax pools associated with current year expenditures.

For the three months ended March 31, 2020, there was \$nil in current income tax expense (2019 - \$nil). For the three-months ended March 31, 2020, deferred income tax recovery was \$3.1 million (2019 - \$2.6 million).

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

Freehold will vigorously defend its tax filing position; however, we anticipate that proceedings with CRA could take considerable time to resolve, with COVID-19 further effecting the timeline. If the CRA issues a notice of reassessment (NOR) as described in the Proposal Letter, Freehold may also be reassessed with respect to the deduction of its non-capital losses in all of its tax filings subsequent to December 31, 2015. In such event, Freehold would utilize alternate claims available that would partially offset any tax liability for tax returns filed in periods subsequent to December 31, 2015. Freehold's assessed tax liability for the taxation years 2015 to 2018 would be approximately \$18 million (plus interest) up to the December 31, 2018 filings. In this event, Freehold will be required to pay a deposit of 50% of the assessed tax liability, and it will have 90 days from the date of the NOR to prepare and file a notice of objection. Freehold firmly believes it will be successful defending its position and therefore any amounts paid to CRA should be refunded plus interest. No provisions have been made in the consolidated financial statements relating to the Proposal Letter.

Related Party Transactions

Freehold does not have any employees. Rife Resources Management Ltd. (the Manager) is the manager of Freehold. The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). Rife is 100% owned by the CN Pension Trust Funds (the pension funds for the employees of the Canadian National Railway Company), which in turn is a shareholder of Freehold. Canpar Holdings Ltd. (Canpar) is also managed by Rife and owned 100% by the CN Pension Trust Funds. Two of Rife and Canpar's directors are also directors of Freehold.

a) Rife Resources Management Ltd.

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

For the three months ended March 31, 2020, Freehold issued 41,250 common shares (2019 – 55,000) as payment of the management fee. The ascribed value of \$0.1 million (2019 – \$0.5 million) was based on the closing price of Freehold's common shares on the last trading day of each quarter.

For the three months ended March 31, 2020, the Manager charged \$3.5 million in general and administrative costs (2019 – \$3.6 million). At March 31, 2020, there was \$1.7 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 March 31, 2020, there was \$nil

(December 31, 2019 - \$nil) in accounts receivable relating to these transactions. At March 31, 2020, there was \$0.1 million (December 31, 2019 - \$nil) in accounts payable and accrued liabilities relating to these transactions.

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

c) Canpar Holdings Ltd.

Freehold and Canpar share mineral title ownership in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Freehold is not the legal registered owner of such mineral rights as Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold.

At March 31, 2020, there was \$nil (December 31, 2019 – \$nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

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

Liquidity and Capital Resources

Operating Activities

In Q1-2020 Freehold had a net loss of \$9.0 million compared with a net loss of \$7.1 million in Q1-2019. The higher net loss for Q1-2020 is due to an impairment loss of \$9.6 million (\$14.1 million in Q1-2019) combined with lower revenues due to decreases in oil pricing and partially offset by a lower depletion provision for Q1-2020.

Funds from operations for the current quarter decreased 31% to \$20.2 million and \$0.17/share from \$29.3 million and \$0.25/share in the same quarter last year.

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

Net Income (Loss) and Funds from Operations

(\$000s, except as noted)	Three Months Ended March 31		
	2020	2019	Change
Net income (loss)	\$ (9,022)	\$ (7,079)	27%
Per share, basic and diluted (\$)	(0.08)	(0.06)	33%
Funds from operations	\$ 20,248	\$ 29,348	-31%
Per share (\$)	0.17	0.25	-32%

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.

Q1-2020 working capital of \$1.2 million was down 91% from Q1-2019 mostly due to a decline in accounts receivable and accrued revenue as a result of the oil price decline during March 2020. Also, there are increased current liabilities due to higher decommissioning liabilities. Included in decommissioning liabilities are \$3.7 million for locations that were disposed in April 2020. Offsetting the lower accounts receivable and accrued revenue amounts are lower accounts payable and accrued liabilities.

Components of Working Capital

(\$000s)	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	Jun. 30 2019	Mar. 31 2019
Cash	\$ 2,003	\$ 1,199	\$ 2,045	\$ 83	\$ 931
Accounts receivable and accrued revenue	14,967	24,894	21,798	24,314	23,663
Assets held for sale	-	-	-	-	1,784
Current assets	16,970	26,093	23,843	24,397	26,378
Dividends payable	(6,234)	(6,232)	(6,224)	(6,221)	(6,218)
Accounts payable and accrued liabilities	(4,590)	(3,895)	(3,844)	(3,670)	(5,263)
Current portion of lease obligation	(98)	(49)			
Current portion of share based compensation payable	(415)	(745)	(375)	(299)	(525)
Current portion of decommissioning liability	(4,466)	(806)	(2,900)	(1,517)	(1,905)
Current liabilities	(15,803)	(11,727)	(13,367)	(11,707)	(13,911)
Working capital	\$ 1,167	\$ 14,366	\$ 10,476	\$ 12,690	\$ 12,467

Long-Term Debt

At March 31, 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 March 31, 2020, \$103 million was drawn.

In May 2019, Freehold amended its credit agreement. The current maturity date of the credit facilities is May 31, 2022 and Freehold may annually request an extension to the maturity date. The credit facilities are secured with \$400 million first charge demand debentures over all of Freehold's assets. The credit agreement contains non-financial covenants and two financial covenants. The first financial covenant is that long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion, depreciation and amortization) shall not exceed 3.5 times, for which our calculation was 0.9 times at March 31, 2020. The second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) ratio shall not exceed 55%, for which our calculation was 13% at March 31, 2020.

As oil prices are likely to remain depressed through 2020, we expect our long-term debt to EBITDA ratio to increase through 2020 but remain covenant compliant. The Company's prudent debt strategy of maintaining a long-term debt to cash flow ratio of below 1.5 times and a dividend payout range of 60% to 80% of cash flow provides cushion for volatile prices like those currently being experienced. However, the COVID-19 pandemic has caused significant destruction of demand for oil, volatility in commodity prices and uncertainty regarding the timing for recovery, which has made the preparation of financial forecasts challenging. As a result, there may be adverse changes in cash flows or debt levels that are currently unforeseen.

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's long-term debt to EBITDA on royalty interest properties. At March 31, 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, increased by \$7.2 million from the previous quarter to \$101.8 million in Q1-2020 mainly as a result of acquisition activity, lower crude oil prices and dividend obligations. In comparison to the same period last year, net debt increased from \$77.5 million, due primarily to acquisition activity during 2019. 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)	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	Jun. 30 2019	Mar. 31 2019
Long-term debt	\$ 103,000	\$ 109,000	\$ 116,000	\$ 111,000	\$ 90,000
Working capital	(1,167)	(14,366)	(10,476)	(12,690)	(12,467)
Net debt	\$ 101,833	\$ 94,634	\$ 105,524	\$ 98,310	\$ 77,533

As at March 31, 2020, Freehold's net debt to funds from operations ratio was 0.9 times (Q1-2019 – 0.7 times) and continues to be within our debt management strategy target of below 1.5 times. This ratio is a financial leverage measure that reflects cash available to pay back our debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others. We apply the 1.5 times multiple as a marker to ensure conservatism in our leverage strategy. As we expect to see a reduction in our funds from operations associated with the recent retreat in oil prices, there is potential for this multiple to expand greater than 1.5 times in the near term.

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 March 31, 2020 Freehold's ratio of 12% (Q1-2019 – 9%) reflects its continued low debt levels and resulting low financial risk.

Financial Leverage Ratios ⁽¹⁾

	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	Jun. 30 2019	Mar. 31 2019
Net debt to funds from operations (times)	0.9	0.8	1.0	0.9	0.7
Net debt to capitalization (%)	13	12	13	12	9

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

Shareholders' Capital

As at March 31, 2020 and as of May 5, 2020, there were 118,663,917 shares outstanding. For the three months ended March 31, 2020 Freehold issued 41,250 shares, for payment of the management fee (see Management Fee and Related Party Transactions).

(\$000s, except as noted)	March 31, 2020		December 31, 2019	
	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	41,250	121	220,000	1,743
Balance, end of period	118,663,917	\$ 1,271,884	118,622,667	\$ 1,271,763

For the three months ended March 31, 2020, DSUs were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive.

Shares Outstanding

	Three Months Ended March 31		
	2020	2019	Change
Weighted average			
Basic	118,623,120	118,403,278	-
Diluted	118,623,120	118,403,278	-
At period end	118,663,917	118,457,667	-

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 declared in Q1-2020 totaled \$18.7 million or \$0.1575 per share which was unchanged over Q1-2019. As a result of the COVID-19 pandemic, Freehold announced that it will reduce its monthly dividend to \$0.015 per share effective with the May 15, 2020 dividend payment.

Accumulated Dividends ⁽¹⁾

	Three Months Ended March 31	
	2020	2019
Dividends declared (\$000s)	\$ 18,685	\$ 18,651
Accumulated, beginning of period	1,702,543	1,627,880
Accumulated, end of period	\$ 1,721,228	\$ 1,646,531
Dividends per share (\$) ⁽²⁾	\$ 0.1575	\$ 0.1575
Accumulated, beginning of period	32.3050	31.6750
Accumulated, end of period	\$ 32.4625	\$ 31.8325

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

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

Reconciliation of Funds from Operations and Dividends Declared

(\$000s)	Three Months Ended March 31	
	2020	2019
Funds from operations	\$ 20,248	\$ 29,348
Debt additions (repayments)	(6,000)	-
Acquisitions and related expenditures	(5,370)	(929)
Working interest dispositions	(73)	(30)
Working capital change	9,880	(9,738)
Dividends declared	\$ 18,685	\$ 18,651

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

Our payout ratio for Q1-2020 was 92% versus 64% the same period last year. The higher dividend ratio for Q1-2020 was due to oil price collapse in March 2020 resulting in lower funds from operations for the quarter. Quarterly period payout ratios are within our payout ratio target of 60%-80%. To return to the payout ratio target, Freehold reduced its monthly dividend to \$0.015 cents per share effective with the May 15, 2020 dividend.

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 funds from operations that are currently unforeseen that could require further adjustments to dividend levels to maintain our payout ratio target.

Dividend Analysis

(\$000s)	Three Months Ended March 31		
	2020		2019
Dividends paid in cash ⁽¹⁾	\$ 18,683	\$	18,648
Dividends declared	\$ 18,685	\$	18,651
Funds from operations	\$ 20,248	\$	29,348
Payout ratio ⁽²⁾	92%		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 declared as a percentage of funds from operations (see Non-GAAP Financial Measures)

Investing Activities

In Q1-2020 Freehold had \$5.4 million of acquisition and related expenditures. This included two acquisitions in North Dakota in the United States for US\$2.35 million as well as other smaller acquisitions and other expenditures.

Acquisitions, Dispositions and Related Expenditures

	Three Months Ended March 31		
	2020	2019	Change
Acquisitions and related expenditures	\$ 5,370	\$ 929	478%
Working interest dispositions	73	30	143%
	\$ 5,443	\$ 959	468%

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 March 31, 2020. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, Certification of Interim Filings, which can be found on SEDAR at www.sedar.com.

New Accounting Standards

On January 1, 2020 Freehold adopted the amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to provide additional guidance to determine if a transaction should be recorded as a business combination or an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess if an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. This standard will be applied prospectively. No business combinations were completed during the three months ended March 31, 2020.

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, First Quarter Highlights, Our Strategy, Business Environment, Drilling Activity, Dividend Policy and Analysis, 2020 Guidance and Liquidity and Capital Resources pertaining to the following:

- our expectation of generating lower risk returns to our shareholders by driving oil and gas development on our lands through our lease program, acquiring royalty assets with acceptable risk profiles and long economic life and generating gross overriding royalties for revenue growth.;
- our intent to maintain balance sheet strength (1.5 times or less net debt to funds from operations) and achieve a payout ratio of between 60%-80%;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil and natural gas including the impact of COVID-19 on such factors;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil and natural gas including the impact of COVID-19 on such factors;
- changing economic conditions;
- our strategies and the expectation that those strategies will deliver growth and lower risk attractive returns to shareholders;
- our expectation of providing a revised guidance update at a time of increased stability associated with the commodity price environment and our royalty payors' capital programs;
- our ability to continue to meet the financial covenants under the agreements governing our credit facilities;
- our expectation that our royalty payors will recommit capital as commodity prices improve;
- our expectation that the risk of default on material royalty payments remains low;
- 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. Our payout ratio is calculated as dividends declared 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 March 31		
	2020	2019	Change
Operating expense	\$ 988	\$ 965	2%
General and administrative expenses	3,747	4,040	-7%
Interest expense	1,029	899	14%
Expenditures on share based compensation	-	213	-100%
Total cash costs	\$ 5,764	\$ 6,117	-6%

(\$/boe)	Three Months Ended March 31		
	2020	2019	Change
Operating expense	\$ 0.98	\$ 1.01	-3%
General and administrative expenses	3.73	4.22	-12%
Interest expense	1.03	0.94	10%
Expenditures on share based compensation	-	0.22	-100%
Total cash costs per boe	\$ 5.74	\$ 6.39	-10%

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.