Results at a Glance

	Three Months Ended March 31		
FINANCIAL ($000s, except as noted)	**2019**	2018	Change
Royalty and other revenue	**35,609**	39,157	-9%
Net income (loss)	**(7,079)**	4,423	-260%
Per share, basic and diluted ($)	**(0.06)**	0.04	-250%
Funds from operations	**29,348**	32,384	-9%
Per share, basic ($)	**0.25**	0.27	-7%
Acquisitions and related expenditures	**929**	32,396	-97%
Dividends declared	**18,651**	18,026	3%
Per share ($) (1)	**0.1575**	0.1525	3%
Net debt	**77,533**	89,567	-13%
Shares outstanding, period end (000s)	**118,458**	118,238	-
Average shares outstanding (000s) (2)	**118,403**	118,183	-
OPERATING			
Royalty production (boe/d) (3)	**10,139**	11,197	-9%
Total production (boe/d) (3)	**10,627**	12,002	-11%
Oil and NGL (%)	**55**	54	2%
Average price realizations ($/boe) (3)	**36.29**	34.52	5%
Operating netback ($/boe) (3) (4)	**36.22**	34.86	4%

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

President's Message

An improved commodity environment relative to Q4-2018 helped Freehold generate strong funds from operations in Q1-2019 of $29.3 million or $0.25 per share, comfortably above current dividend levels of $0.1575 per share and allowing Freehold to pay down approximately $12 million in net debt quarter-over-quarter. Based on Freehold's closing share price on March 31, 2019, our free cash flow yield of 12% positions Freehold as an attractive oil and gas investment. As we look forward, we will continue to allocate our free cash flow towards a combination of debt repayment, value enhancing acquisitions and our dividend, with the goal of maximizing returns for our shareholders.

On the operations front, royalty production for the quarter averaged 10,139 boe/d, above the midpoint of our 2019 production guidance. Volumes were impacted by a combination of cold weather and lower additions from our audit function. Activity outpaced expectations in the quarter with 147 (7.3 net) locations drilled on our royalty lands with the majority of third party drilling centered on our light oil portfolio.

It is our objective to drive oil and gas development on our lands and to acquire royalties with acceptable growth and risk profiles. During the quarter, development on our lands exceeded industry trends, demonstrating the strength of our asset base.

Tom Mullane
President and CEO

First Quarter Highlights

- Freehold's royalty production averaged 10,139 boe/d during Q1-2019, down 9% versus Q1-2018 and 2% when compared to Q4-2018. Reduced volumes quarter-over-quarter were associated with lower third-party production additions on our royalty lands and weather related shut-ins.
- Royalty interests accounted for 95% of total production and contributed 99% of operating income(1) in Q1-2019.
- Funds from operations totaled $29.3 million, or $0.25 per share, a decrease of 9% compared to Q1-2018. Funds from operations were $10.9 million, or 59%, higher than the previous quarter. The improvement in funds from operations quarter-over-quarter was a result of improved natural gas commodity prices and stronger Canadian oil pricing due to reduced discounts to West Texas Intermediate (WTI).
- In the first quarter, free cash flow(1) in the quarter also equaled $29.3 million, a decrease of 9% compared to Q1-2018. Using Freehold's closing share price as at March 31, 2019 of $8.41, this represents an annualized free cash flow yield of 12%.
- Income in Q1-2019 was reduced by a non-recurring impairment charge of $14.1 million offset by a related deferred tax recovery of $3.8 million.
- Wells drilled on our royalty lands totaled 147 (7.3 net) in the quarter compared to 239 (6.4 net) in Q1-2018 and 220 (7.4 net) in the previous quarter. We saw strong activity levels associated with our light oil portfolio, particularly in southwest Saskatchewan Viking.
- In Q1-2019, Freehold issued 20 new lease agreements with 10 companies, compared to 26 issued in Q4-2018 and 42 leases in Q1-2018.
- Cash costs (1) for the quarter totaled $6.39/boe, up from $6.13/boe in Q1-2018. Cash costs are typically higher in the first quarter of the year associated with certain annual general and administrative charges that occur early in the year. For the full year 2019, we are forecasting cash costs of approximately $5.00/boe (2018 - $5.10/boe).
- Dividends declared for Q1-2019 totaled $0.1575 per share, similar to the previous year.
- Our payout ratio (1) (dividends declared/funds from operations) for Q1-2019 totaled 64%, compared to 101% in the previous quarter and 56% in Q1-2018.

(1) See Non-GAAP Financial Measures.

Management Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) was prepared as of May 7, 2019 and is management's opinion about the consolidated operating and financial results of Freehold Royalties Ltd. and its wholly-owned subsidiaries (collectively, Freehold) for the three months ended March 31, 2019, and previous periods, and the outlook for Freehold based on information available as of May 7, 2019.

The financial information contained herein is based on information in the interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. All comparative percentages are between the three months ended March 31, 2019 and March 31, 2018, and all dollar amounts are expressed in Canadian currency, unless otherwise noted. This discussion should be read in conjunction with the financial statements and accompanying notes for the three months ended March 31, 2019, Freehold's annual MD&A and audited financial statements for the year ended December 31, 2018, together with the accompanying notes. Information contained in the 2018 annual MD&A that is not discussed in this document remains materially unchanged.

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

Business Overview

Freehold is a dividend-paying corporation incorporated under the laws of the Province of Alberta and trades on the Toronto Stock Exchange under the symbol FRU. Freehold is directly and indirectly involved in the development and production of oil and natural gas, predominantly in western Canada. 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 98% of which are royalty lands. Our mineral title lands (including royalty assumption lands), which we own in perpetuity, cover approximately 1.1 million acres and we have gross overriding royalty interests in approximately 5.1 million acres.

We have interests in more than 44,000 wells (of which over 43,500 are royalty wells including over 23,000 unitized wells). We receive royalty income from approximately 300 industry operators. Royalty rates vary from less than 1.0% (for some gross overriding royalties) to 22.5% (for some lessor royalties). This diversity lowers our risk, and as a royalty owner, we benefit from the drilling activity of others on our lands.

As a royalty interest owner, we generally do not pay any of the capital costs to drill and equip the wells for production on most of our properties, nor do we incur costs to operate the wells, maintain production, and ultimately restore the land to its original state. Generally, all these costs are paid by others. On the majority of our production, we receive royalty income from gross production revenue (revenue before any royalty expenses and operating costs are deducted). Our high percentage of operating income from royalties (99% in Q1-2019) results in strong netbacks.

When Freehold was formed in 1996, all of our royalty lands were leased to third parties and producing. Over the years, our unleased mineral title acreage has grown – through acquisitions, lease expiries, surrenders, and defaults. We now have approximately 460,000 acres of unleased mineral titles.

Our Strategy

As a leading royalty company, Freehold's objective is to deliver growth and low 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

Commodity prices increased significantly for Canadian producers in the first quarter following a number of initiatives enacted by government most notably production curtailments and improved egress initiatives. For the quarter, Edmonton Light Sweet oil price averaged $66.02/bbl representing a decrease of 8% from Q1-2018 and an increase of 54% from Q4-2018. Similarly, Western Canadian Select prices averaged $56.77/bbl for the quarter, increasing 16% year-over-year and higher by 126% from Q4-2018. Light heavy differentials averaged US$6.95/bbl versus US$18.28/bbl during the same period last year and US$13.36/bbl during the previous quarter. Globally, WTI prices averaged US$54.82/bbl, down 13% versus the same period last year and down 7% versus the previous quarter. Production curtailments have had little to no effect on Freehold’s production volumes.

Canadian daily average natural gas prices were $2.60/mcf, the highest quarterly average in two years and 25% higher versus the same period last year and 67% higher than the previous quarter. Subsequent to March 31, 2019, natural gas prices are anticipated to decline significantly from Q1-2019 levels for the duration of the summer months.

In addition, subsequent to March 31, 2019, pricing for oil and natural gas liquids based on the futures markets for the balance of 2019 has increased from prices realized in the first quarter. Approximately 89% of Freehold's 2019 revenue is expected to be derived from oil and natural gas liquids.

In an update to their drilling forecast dated May 1, 2019, The Petroleum Services Association of Canada (PSAC) is forecasting a total of 5,300 wells to be drilled in Canada for 2019, significantly lower than comparable activity in 2018. PSAC based its forecast on natural gas prices of C$1.65/mcf (AECO), a WTI price of US$57.00/bbl and the Canadian dollar averaging US$0.75.

Drilling Activity

For the first three months of 2019, 147 (7.3 net) wells were drilled on our royalty lands, down 38% on a gross measure but up 14% on a net measure versus the same period in 2018. When compared to Q4-2018, net well activity was relatively flat. The net well drilling numbers are a testament to the quality of our underlying royalty portfolio, especially given broader drilling activity weakness within the Western Canadian Sedimentary Basin.

Activity through the first three months of 2019 was primarily focused on Saskatchewan oil prospects, including Viking at Dodsland, Mississippian plays in SE Saskatchewan and Shaunavon in SW Saskatchewan. Over 47 Dodsland Viking wells were drilled on our acreage in the first quarter, individually representing 32% of the total gross wells drilled. Together, Saskatchewan and Manitoba wells represented greater than 56% of our gross drilling in the quarter.

Alberta activity has been concentrated in the Cardium and Viking, with 11 wells drilled on our Pembina Cardium acreage and 25 wells drilled in Alberta Viking. Drilling for Deep Basin Cretaceous oil plays remains active, with four East Shale Basin Duvernay and two Northern Alberta Clearwater Sandstone wells, drilled on our acreage this quarter. Our top payors continue to represent some of the most well capitalized E&P companies in Canada.

ROYALTY INTEREST DRILLING	Three Months Ended March 31			
	2019		2018	
	Gross	Net (1)	Gross	Net (1)
Total	147	7.3	239	6.4

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

Guidance Update

Below are details of some of the changes made to our key operating assumptions for 2019 based on results for the first quarter and expectations for the remainder of the year.

- We are maintaining our 2019 average royalty production range of 9,900 boe/d-10,300 boe/d. Volumes are expected to be weighted approximately 55% oil and natural gas liquids and 45% natural gas. We continue to maintain our royalty focus with royalty production accounting for 96% of forecasted 2019 production and virtually all of our operating income.
- We are revising our oil price assumptions for WTI to US$62.50/bbl (previously US$55.00/bbl) and for Edmonton Light Sweet prices to $71.00/bbl (previously $61.00/bbl) and our C$/US$ currency exchange assumption to US$0.75 per Canadian dollar (previously US$0.76).
- Our full year AECO natural gas price assumption remains unchanged at $1.60/mcf.

- Based on our current $0.0525/share monthly dividend level, we expect our 2019 payout ratio (dividends declared/funds from operations) to be approximately 60% (previously 76%).
- General and administrative costs remain at $3.00/boe reflecting lower costs in the second to fourth quarters versus the first quarter rate.
- Due to the increase in oil price expectations noted above, and without factoring in any acquisition activity, we currently estimate that year-end net debt to funds from operations to exit 2019 at approximately 0.3 times (from 0.7 times).

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

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

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

Quarterly Performance and Trends

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

- Oil prices are impacted significantly by global supply and demand factors, with OPEC decisions and U.S. production growth having significant impact. Most pronounced in Q4-2018, negative effects were realized prices in western Canada due to transportation constraints.
- The AECO daily average price for Q1-2019 reflected the highest value in two years and represent an anomalous quarter for natural gas as AECO natural gas price markets have and continue to be depressed and negatively impacted by transportation constraints and supply outstripping demand.
- The largest effect on setting our dividends is funds from operations, which is mainly a function of revenues and cash expenses; however, the timing of dividend adjustments is dependent on forward projections.

- Production has been affected by drilling activity, curtailments, acquisitions and working interest dispositions, as well as prior period adjustments. We use government reporting databases and past production receipts to estimate revenue accruals. Due to the large number of wells in which we have royalty interests, the nature of royalty interests, the lag in receiving production receipts, and our audit program, our reported royalty volumes usually include both positive and negative adjustments related to prior periods.
- Over the past eight quarters, we have incurred acquisition and related expenditures of $124 million. In addition, Freehold disposed of $41 million of working interest properties over the same period. This activity affects our revenues, operating costs, percentage royalty interests, oil, NGL and natural gas production mix and debt levels, among others.
- Net income (loss) is affected by fluctuations in our revenue and costs but may also be affected by significant non-recurring items in any given period. Freehold recorded a $14 million impairment in Q1-2019, a $16 million impairment in Q4-2017 and a $15 million gain on working interest dispositions in Q2-2017.

The accompanying table illustrates the fluctuations experienced over the past eight quarters and the resulting effect on our financial results. Additional information about our quarterly results is provided in our interim reports, copies of which are available on SEDAR and on our website.

QUARTERLY REVIEW

	2019	2018				2017		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial ($000s, except as noted)								
Royalty and other revenue	**35,609**	24,837	40,587	39,961	39,157	38,235	33,763	38,036
Funds from operations	**29,348**	18,463	35,900	34,540	32,384	32,023	27,927	31,769
Per share, basic ($)	**0.25**	0.16	0.30	0.29	0.27	0.27	0.24	0.27
Net income (loss)	**(7,079)**	(4,166)	8,389	5,386	4,423	(8,057)	103	13,084
Per share, basic and diluted ($)	**(0.06)**	(0.04)	0.07	0.05	0.04	(0.07)	-	0.11
Dividends declared	**18,651**	18,643	18,634	18,625	18,026	17,722	17,714	17,705
Per share ($) [1]	**0.1575**	0.1575	0.1575	0.1575	0.1525	0.15	0.15	0.15
Payout ratio (%) [2]	**64**	101	52	54	56	55	63	56
Operating Income [2]	**34,644**	23,452	39,225	38,331	37,658	36,149	31,246	35,235
Operating income from royalties (%)	**99**	102	99	100	99	97	99	97
Acquisitions and related expenditures [3]	**929**	11,071	18,750	3,516	32,396	53,626	1,511	2,406
Working interest dispositions	**(30)**	581	1	7	8,130	354	2,969	28,808
Net debt	**77,533**	89,375	78,657	77,908	89,567	68,621	38,274	49,819
Shares outstanding								
Weighted average, basic (000s)	**118,403**	118,348	118,293	118,238	118,183	118,128	118,073	118,018
At quarter end (000s)	**118,458**	118,403	118,348	118,293	118,238	118,183	118,128	118,073
Operating ($/boe, except as noted)								
Royalty production (boe/d) [4]	**10,139**	10,312	10,322	11,052	11,197	10,960	10,919	11,270
Total production (boe/d) [4]	**10,627**	10,929	11,002	11,721	12,002	12,032	12,036	12,589
Royalty interest (%)	**95**	94	94	94	93	91	91	90
Average selling price	**36.29**	23.40	38.95	36.96	34.52	33.59	29.67	32.98
Operating netback [2]	**36.22**	23.33	38.74	35.94	34.86	32.66	28.22	30.76
Operating expenses	**1.01**	1.38	1.35	1.53	1.39	1.88	2.27	2.45
General and administrative expenses [5]	**4.22**	2.74	2.06	2.36	3.60	2.59	1.88	2.27
Benchmark Prices								
West Texas Intermediate crude oil (US$/bbl)	**54.82**	58.81	69.50	67.88	62.87	55.40	48.21	48.29
Exchange rate (Cdn$/US$)	**0.75**	0.76	0.77	0.77	0.79	0.79	0.80	0.74
Edmonton Light Sweet crude oil (Cdn$/bbl)	**66.02**	42.78	81.62	80.47	71.88	69.14	56.73	61.84
Western Canadian Select crude oil (Cdn$/bbl)	**56.77**	25.13	61.81	62.82	48.77	54.87	47.89	49.99
AECO monthly contract natural gas (Cdn$/Mcf)	**1.94**	1.90	1.35	1.03	1.85	1.96	2.04	2.77
AECO daily average natural gas (Cdn$/Mcf)	**2.60**	1.56	1.19	1.18	2.08	1.69	1.46	2.79
Share Trading Performance								
High ($)	**9.35**	11.58	12.78	14.01	14.85	16.41	15.15	14.37
Low ($)	**8.07**	7.68	10.97	11.81	11.71	13.77	12.51	11.96
Close ($)	**8.41**	8.27	11.14	12.40	12.35	14.05	14.74	13.05
Volume (000s)	**23,940**	24,314	17,864	19,975	15,635	13,985	13,428	13,890

(1) Based on the number of shares issued and outstanding at each record date.
(2) See Non-GAAP Financial Measures
(3) Prior period comparative balances have been reclassified to align with Q1-2019 presentation.
(4) Reported production for a period may include adjustments from previous production periods.
(5) Excludes share based and other compensation.

Production

Royalty volumes averaged 10,139 boe/d, or 95% of total production, in Q1-2019 and decreased 9% over the same period last year and 2% from the previous quarter. The variance in royalty volumes year-over-year was driven by a combination of natural declines, reduced audit function additions, weather related shut-ins, and lower third-party drilling during the second half of 2018.

Working interest production, representing only 5% of total production, deceased to 488 boe/d, or 39%, in Q1-2019 versus the same period last year and decreased 21% from the previous quarter. Reduced volumes were associated with our continued working interest disposition program and lower capital expenditures.

Total production in the quarter averaged 10,627 boe/d. Our production mix through the first quarter of 2019 was 36% light and medium oil, 10% heavy oil, 9% NGL and 45% natural gas.

AVERAGE DAILY PRODUCTION	Three Months Ended March 31		
	2019	2018	Change
Royalty interest			
Oil (bbls/d)	4,645	5,181	-10%
NGL (bbls/d)	912	860	6%
Natural gas (MMcf/d)	27,492	30,933	-11%
Oil equivalent (boe/d)	10,139	11,197	-9%
Working interest			
Oil (bbls/d)	212	364	-42%
NGL (bbls/d)	35	62	-44%
Natural gas (Mcf/d)	1,446	2,273	-36%
Oil equivalent (boe/d)	488	805	-39%
Total			
Oil (bbls/d)	4,857	5,545	-12%
NGL (bbls/d)	947	922	3%
Natural gas (Mcf/d)	28,938	33,206	-13%
Oil equivalent (boe/d)	10,627	12,002	-11%
Number of days in period (days)	90	90	-
Total volumes during period (Mboe)	956	1,080	-11%

Product Prices

The price we receive for our oil production 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$54.82/bbl in Q1-2019, 13% lower versus the same quarter last year and Edmonton Light Sweet averaged $66.02/bbl, 8% lower versus the same period in 2018. Western Canadian Select prices averaged $56.77/bbl, 16% higher versus the same period in 2018. AECO daily average natural gas prices averaged C$2.60/mcf, 25% higher versus the same period in 2018.

AVERAGE BENCHMARK PRICES	Three Months Ended March 31		
	2019	2018	Change
West Texas Intermediate crude oil (US$/bbl)	54.82	62.87	-13%
Exchange rate (Cdn$/US$)	0.75	0.79	-5%
Edmonton Light Sweet crude oil (Cdn$/bbl)	66.02	71.88	-8%
Western Canadian Select crude oil (Cdn$/bbl)	56.77	48.77	16%
AECO monthly contract natural gas (Cdn$/Mcf)	1.94	1.85	5%
AECO daily average natural gas (Cdn$/Mcf)	2.60	2.08	25%

Our average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price was $36.29/boe in Q1-2019, 5% higher versus the same period last year.

Natural gas prices were up relative to the prior year averaging $2.18/mcf in Q1-2019, improving 35% from last year due to frigid winter weather through western Canada which improved supply/demand fundamentals. Our natural gas price realizations are discounted compared to AECO pricing as they include transportation and processing fees netted from certain natural gas royalty payments.

AVERAGE SELLING PRICES	Three Months Ended March 31		
	2019	2018	Change
Oil ($/bbl)	59.26	57.42	3%
NGL ($/bbl)	36.76	45.56	-19%
Oil and NGL ($/bbl)	55.59	55.73	-
Natural gas ($/Mcf)	2.18	1.62	35%
Oil equivalent ($/boe)	36.29	34.52	5%

Marketing and Hedging

Our production remained unhedged in Q1-2019. Our hedging policy is reviewed quarterly with our Board of Directors. Our royalty lands consist of a large number of properties with generally small volumes per property. Many of our leases and royalty agreements allow us to take our share of oil and natural gas in-kind. As part of our risk mitigation program, we carefully monitor our royalty receivables and may choose to take our royalty in-kind if there are benefits in doing so.

Currently we take in-kind and market approximately 15% of our total royalty production using 30-day contracts.

Royalty and Other Revenue

Royalty and other revenue of $35.6 million in Q1-2019 was 9% lower than in Q1-2018, mostly due to production declines, continued working interest dispositions, and lower oil and natural gas liquid prices partially offset by an increase in natural gas prices.

In Q1-2019 royalty interest revenue decreased 8% whereas working interest revenue decreased 35% versus Q1-2018. In addition, Q1-2019 working interest revenue totaled $1.3 million down 35% versus $2.0 million in Q1-2018 due to fewer working interest producing properties.

ROYALTY AND OTHER REVENUE			
	Three Months Ended March 31		
($000s)	2019	2018	Change
Royalty interest revenue from oil, NGL and natural gas (1)	$ 33,787	$ 35,595	-5%
Bonus consideration and lease rentals	504	1,527	-67%
Royalty expense (mineral tax)	(2)	(1)	100%
Total royalty interest revenue	$ 34,289	$ 37,121	-8%
Working interest revenue from oil, NGL and natural gas (2)	1,407	2,244	-37%
Royalty expense	(87)	(208)	-58%
Total working interest revenue	$ 1,320	$ 2,036	-35%
Total royalty and other revenue	$ 35,609	$ 39,157	-9%

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

ROYALTY AND OTHER REVENUE BY TYPE			
	Three Months Ended March 31		
($000s)	2019	2018	Change
Oil	$ 25,906	$ 28,657	-10%
NGL	3,133	3,783	-17%
Natural gas	5,674	4,850	17%
Potash	410	523	-22%
Bonus consideration and lease rentals	504	1,527	-67%
Other	71	26	173%
Total royalty and other revenue by type	$ 35,698	$ 39,366	-9%
Total royalty expense	(89)	(209)	-57%
Total royalty and other revenue	$ 35,609	$ 39,157	-9%

Expenses

Operating Expenses

Operating expenses are direct costs incurred and costs allocated among oil, natural gas, and NGL production on our working interest properties. Overhead recoveries associated with operated properties are included in operating expenses and accounted for as a reduction to general and administrative (G&A) expenses. Approximately half of operating expenses are fixed and, as such, per boe operating expenses are highly variable to production volumes.

Operating expenses decreased 36% to $1.0 million in Q1-2019 versus $1.5 million in Q1-2018. The reduction year-over-year was associated with dispositions completed in our working interest portfolio. On a total production per boe basis, operating expenses decreased by 27% to $1.01 per boe in Q1-2019 relative to the same period in 2018.

	Three Months Ended March 31		
($000s, except as noted)	2019	2018	Change
Total operating expenses	$ 965	$ 1,499	-36%
Per boe ($)	1.01	1.39	-27%

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

Netback Analysis

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

Royalty interests accounted for 96% of total royalty and other revenue and contributed 99% of operating income in Q1-2019.

OPERATING INCOME (1)

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

	Three months ended March 31, 2018		
($000s)	Royalty Interest	Working Interest	Total
Royalty and other revenue	$ 37,121	$ 2,036	$ 39,157
Operating expense	-	(1,499)	(1,499)
Operating income	$ 37,121	$ 537	$ 37,658
Percentage by category	99%	1%	100%

(1) See Non-GAAP Financial Measures.

Freehold's operating netback for Q1-2019 increased 4% to $36.22/boe versus Q1-2018 with the improvement driven largely by lower operating expenses.

OPERATING NETBACK (1)

	Three Months Ended March 31		
($/boe)	2019	2018	Change
Royalty and other revenue	$ 37.23	$ 36.25	3%
Operating expenses	(1.01)	(1.39)	-27%
Operating netback	$ 36.22	$ 34.86	4%

(1) See Non-GAAP Financial Measures.

General and Administrative Expenses

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

In Q1-2019, G&A expenses were up 17% to $4.22/boe versus Q1-2018. G&A expenses are typically higher in the first quarter and decline through the remainder of the year, as certain staff expenses are recorded in the first quarter each year. The increase in Q1-2019 versus Q1-2018 is largely due to increased employee costs associated with acquisition and disposition initiatives.

	Three Months Ended March 31		
($000s, except as noted)	2019	2018	Change
General and administrative expenses before capitalized and overhead recoveries	$ 4,633	$ 4,437	4%
Less: capitalized and overhead recoveries	(593)	(550)	8%
General and administrative expenses	$ 4,040	$ 3,887	4%
Per boe ($)	4.22	3.60	17%

Management Fee

The Manager (see Related Party Transactions) receives a quarterly management fee paid with Freehold common shares issued from treasury. The amended and restated management agreement dated November 9, 2015 (the Management Agreement) capped the management fee at 55,000 Freehold common shares per quarter for 2017, 2018 and 2019, with the fee gradually decreasing to 5,500 Freehold common shares per quarter by 2023.

The management fee was down 32% compared to Q1-2018 as the ascribed value, which is based on Freehold's common share price on the last day of the quarter, was lower at the end of the current period.

	Three Months Ended March 31		
	2019	2018	Change
Shares issued for management fees	55,000	55,000	-
Ascribed value ($000s) (1)	463	679	-32%
Closing share price ($/share)	8.41	12.35	-32%
Per boe ($)	0.48	0.63	-24%

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

Share Based Compensation

Long Term Incentive Plans

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

Freehold's new LTIP consists of grants of performance share units (PSUs) and restricted share units (RSUs). Underlying each PSU and RSU is one notional Freehold common share. The notional Freehold common shares are adjusted whenever a dividend is paid by Freehold. For each year from 2017 to 2019 for the PSU grants the performance multiplier target is based 50% on absolute total shareholder return and 50% on relative total shareholder return over a three year performance period.

Under both the new and old LTIP, compensation expense is based on Freehold's share price, the number of share-based awards outstanding at each period end, an estimated performance multiplier, if applicable, and an estimated forfeiture rate. Compensation expense is recognized over the vesting period.

The 2015 grants under the old LTIP valued at $0.2 million were paid out in 2018. The 2016 grants under the old LTIP valued at $0.2 million were paid out in 2019.

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

For the three months ended March 31, 2018, Freehold expensed $0.2 million (2018 – recovered $0.2 million) of share based compensation.

Deferred Share Unit Plan

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

On January 1, 2019, Freehold's Board of Directors granted a total of 58,646 DSUs to eligible directors as part of their annual compensation. Each eligible director received 9,069 DSUs and the Chair of the Board received 13,301 DSUs. As at March 31, 2019, there were 222,472 DSUs outstanding and at May 7, 2019, there were 223,700 DSUs outstanding (including notional DSUs granted as a result of dividends paid on our common shares).

For the three months ended March 31, 2019, Freehold expensed $0.5 million (2018 – $0.5 million) of share based compensation with a corresponding offset to contributed surplus.

SHARE BASED COMPENSATION	Three Months Ended March 31		
($000s, except as noted)	2019	2018	Change
Long-term incentive plan before capitalized portion	$ 245	$ (288)	-185%
Less: capitalized portion	(39)	49	-180%
Long-term incentive plan	206	(239)	-186%
Deferred share unit plan	517	506	2%
Share based compensation	$ 723	$ 267	171%
Per boe ($)	0.76	0.25	204%

Finance Expense

Q1-2019 interest and financing expense increased due to higher period-over-period interest rates as our average debt levels remained relatively unchanged. The average effective interest rate on advances under our credit facilities in the current quarter was 3.7% (2018 – 3.2%). Accretion expense decreased due to the continued decrease of our decommissioning liability as a result of working interest disposal activity.

($000s, except as noted)	Three Months Ended March 31 2019	2018	Change
Interest and financing expense	$ 899	$ 806	12%
Accretion of decommissioning liability	63	84	-25%
Total finance expense	$ 962	$ 890	8%
Per boe ($)	1.01	0.82	23%

Depletion and Depreciation

Oil and gas properties and royalty interests, including the cost of production equipment, future capital costs associated with proved plus probable reserves, and the capitalized portion of the decommissioning liability, are depleted on the unit-of-production method based on estimated proved plus probable oil and gas reserves.

($000s, except as noted)	Three Months Ended March 31 2019	2018	Change
Depletion and depreciation	$ 24,097	$ 25,877	-7%
Per boe ($)	25.19	23.96	5%

Asset Held for Sale and Impairment

At March 31, 2019, and closed subsequent to March 31, 2019, Freehold negotiated 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. At March 31, 2019, the PVR asset was recorded at the lower of carrying value and management's best estimate of its fair value less costs to sell, resulting in Freehold recording an impairment of $14.1 million. This charge would not have been recorded had the asset exchange transaction not occurred. Freehold reclassified its new recoverable estimated net book value of $1.8 million from its Royalty Interest cash generating unit (CGU) in petroleum and natural gas interests to assets held for sale.

This royalty asset exchange transaction is not an indicator of impairment within Freehold's Royalty Interest CGU. At March 31, 2019, there were no indicators of impairment within any of Freehold's CGUs. As a result, no testing of impairment was conducted. The assessment of indicators of impairment is subjective in nature and requires management to make judgments based on the best available information at the time of issuance of these financial statements.

Income Tax and CRA Proposal

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

For the three months ended March 31, 2019, there was no current income tax expense (2018 - $nil) and deferred income tax recovery was $2.6 million (Q1-2018 expense of $1.6 million). Freehold's tax pools at December 31, 2018 were $905 million.

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

Freehold will vigorously defend its tax filing position, however, it anticipates that proceedings with CRA could take considerable time to resolve. If the CRA issues the notice of reassessment (NOR) described in the Proposal Letter, Freehold's assessed tax liability would be approximately $15 million (plus interest). If Freehold is reassessed in accordance with the Proposal Letter, it may also be reassessed with respect to the deduction of its non-capital losses in all of its tax filings subsequent to December 31, 2015. In such event, Freehold would utilize alternate claims available that would fully offset any tax liability for filed tax returns in periods subsequent to December 31, 2015. Freehold will be required to pay a deposit of 50% of the assessed tax liability, and it will have 90 days from the date of the NOR to prepare and file a notice of objection. Freehold firmly believes it will be successful defending its position and therefore any amounts paid to CRA should be refunded plus interest. No provisions have been made in the financial statements relating to the Proposal Letter.

Related Party Transactions

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

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

a) Rife Resources Management Ltd.

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

For the three months ended March 31, 2019, Freehold issued 55,000 common shares (2018 – 55,000) as payment of the management fee. The ascribed value of $0.5 million (2018 – $0.7 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, 2019, the Manager charged $3.6 million in general and administrative costs (2018 – $3.3 million). At March 31, 2019, there was $2.1 million (December 31, 2018 – $0.7 million) in accounts payable and accrued liabilities relating to these costs.

b) Rife Resources Ltd.

Freehold maintains ownership interests in certain oil and gas properties operated by Rife. A portion of net operating revenues and capital expenditures represent joint operations amounts from Rife. At March 31, 2019, there was $0.1 million (December 31, 2018 - $nil) in accounts receivable relating to these transactions. At March 31, 2019, there was $nil (December 31, 2018 - $0.1 million) in accounts payable and accrued liabilities relating to these transactions.

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the three months ended March 31, 2019, Freehold received royalties of approximately $0.2 million (2018 – $0.1 million). At March 31, 2019, there was $0.1 million (December 31, 2018 - $nil) in accounts receivable relating to these transactions.

c) Canpar Holdings Ltd.

Freehold and Canpar share mineral title ownership rights in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Given the nature of the mineral rights, which are dependent upon hydrocarbon pool formation classification as well as third party drilling data which is subject to change and revision, uncertainty can exist with respect to the royalty ownership of wells drilled and completed on lands where both Freehold and Canpar hold the mineral rights. At March 31, 2019, there was $nil (December 31, 2018 – $nil) in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

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

Liquidity and Capital Resources

Operating Activities

In Q1-2019 Freehold had a net loss of $7.1 million compared to net income of $4.4 million in Q1-2018. In addition to lower revenue offset slightly by lower depletion and depreciation versus the previous year, Freehold had a non-recurring current period impairment expense of $14.1 million (offset by a related $3.8 million deferred tax recovery) due to a PVR conversion (See Assets Held for Sale and Impairment).

Funds from operations for the current quarter decreased 9% to $29.3 million from $32.4 million in the same quarter last year, primarily due to production declines and continued working interest dispositions offset slightly by an increase in natural gas prices.

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

NET INCOME (LOSS) AND FUNDS FROM OPERATIONS

	Three Months Ended March 31		
($000s, except as noted)	**2019**	2018	Change
Net income (loss)	**$ (7,079)**	$ 4,423	-260%
Per share, basic and diluted ($)	**(0.06)**	0.04	-250%
Funds from operations	**$ 29,348**	$ 32,384	-9%
Per share ($)	**0.25**	0.27	-7%

Financing Activities

Working Capital

We retain working capital primarily to fund capital expenditures or acquisitions and reduce bank indebtedness. In the oil and gas industry, accounts receivable from industry partners are typically settled in the following month. However, due to administrative complexity, payments to royalty owners are often delayed longer. Also, working capital at each period end can vary due to volume and price changes between period ends.

Working capital increased by $11.8 million in Q1-2019 compared to the previous quarter mostly due to an approximate 70% increase in the realized oil price quarter-over-quarter affecting accounts receivable and accrued revenue. In addition, Freehold had assets held for sale of $1.8 million in Q1-2019 (see Assets Held for Sale and Impairment).

COMPONENTS OF WORKING CAPITAL

($000s)	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018	Jun. 30 2018	Mar. 31 2018
Cash	$ 931	$ 1,262	$ -	$ 436	$ 920
Accounts receivable and accrued revenue	23,663	12,938	25,616	27,894	24,257
Assets held for sale	1,784	-	-	-	-
Current assets	26,378	14,200	25,616	28,330	25,177
Dividends payable	(6,218)	(6,215)	(6,210)	(6,207)	(6,206)
Accounts payable and accrued liabilities	(5,263)	(4,610)	(4,052)	(5,594)	(7,849)
Current portion of share based compensation payable	(525)	(466)	(860)	(1,559)	(1,277)
Current portion of decommissioning liability	(1,905)	(2,284)	(1,843)	(1,878)	(1,412)
Liabilities related to assets held for sale	-	-	-	-	-
Current liabilities	(13,911)	(13,575)	(12,965)	(15,238)	(16,744)
Working capital	$ 12,467	$ 625	$ 12,651	$ 13,092	$ 8,433

Long-Term Debt

At March 31, 2019 Freehold had a committed $165 million secured revolving credit facility with a syndicate of four Canadian chartered banks. In addition, Freehold had available a $15 million senior secured operating facility. At March 31, 2019 $90 million was drawn on these facilities.

In May 2018 Freehold amended its credit agreement. The current maturity date of the credit facilities is May 31, 2021 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. Subsequent to March 31,2019, this facility was extended to mature May 31, 2022.

The credit agreement contains non-financial covenants and two financial covenants. The first financial covenant is that long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times, for which our calculation was 0.7 times at March 31, 2019. The second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) ratio shall not exceed 55%, for which our calculation was 11% at March 31, 2019. Freehold was in compliance with all covenants as at March 31, 2019.

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

Net Debt and Ratios

Net debt, as disclosed in our financial statements, decreased by $11.8 million from the previous quarter to $77.5 million in Q1-2019 as a result of improved natural gas pricing and reduced discounts on oil prices realized in Canada versus Q4-2018.

DEBT ANALYSIS

($000s)	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018	Jun. 30 2018	Mar. 31 2018
Long-term debt	$ 90,000	$ 90,000	$ 91,308	$ 91,000	$ 98,000
Working capital	(12,467)	(625)	(12,651)	(13,092)	(8,433)
Net debt	$ 77,533	$ 89,375	$ 78,657	$ 77,908	$ 89,567

In Q1-2019 net debt decreased to $77.5 million down from $89.6 million a year prior. Our year-over-year net debt reduction was a result of funds from operations in excess of our dividends and the change in working capital mentioned above which we used to reduce bank indebtness.

As at March 31, 2019 Freehold's net debt to funds from operations ratio was 0.7 times (2018 – 0.7 times) and continues to be well within our debt management strategy target of below 1.5 times. This ratio is a financial leverage measure that reflects cash available to pay back our debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others.

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, 2019 Freehold's ratio of 9% (2018 – 10%) reflects its continued low debt levels and resulting low financial risk.

FINANCIAL LEVERAGE RATIOS

	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018	Jun. 30 2018	Mar. 31 2018
Net debt to funds from operations (times)	0.7	0.7	0.6	0.6	0.7
Net debt to capitalization (%)	9	10	9	9	10

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

Shareholders' Capital

As at March 31, 2019 and as of May 7, 2019, there were 118,457,667 shares outstanding. For the three months ended March 31, 2019 Freehold issued 55,000 shares for payment of the management fee (see Management Fee and Related Party Transactions sections of this MD&A).

	March 31, 2019		December 31, 2018	
($000s, except as noted)	Shares	Amount	Shares	Amount
Balance, beginning of period	118,402,667	$ 1,270,020	118,182,667	$ 1,267,591
Issued for payment of management fee	55,000	463	220,000	2,429
Issued for deferred share unit plan redemption	-	-	-	-
Balance, end of period	118,457,667	$ 1,270,483	118,402,667	$ 1,270,020

SHARES OUTSTANDING			
	Three Months Ended March 31		
	2019	2018	Change
Weighted average			
Basic	118,403,278	118,183,278	-
Diluted	118,623,848	118,335,983	-
At period end	118,457,667	118,237,667	-

Dividend Policy and Analysis

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

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

Dividends declared in Q1-2019 totaled $18.7 million or $0.1575 per share which was relatively unchanged over Q1-2018.

ACCUMULATED DIVIDENDS (1)		
	Three Months Ended March 31	
	2019	2018
Dividends declared ($000s)	$ 18,651	$ 18,026
Accumulated, beginning of period	1,627,880	1,553,952
Accumulated, end of period	$ 1,646,531	$ 1,571,978
Dividends per share ($) (2)	$ 0.1575	$ 0.1525
Accumulated, beginning of period	31.6750	31.0500
Accumulated, end of period	$ 31.8325	$ 31.2025

(1) Accumulated dividends reflect distributions paid on trust units of Freehold Royalty Trust (the predecessor of Freehold) from 1996 through 2010 and dividends on common shares of Freehold from 2011 onwards.
(2) Based on the number of shares issued and outstanding at each record date.

The following tables show reconciliations of funds from operations and dividends:

RECONCILIATION OF DIVIDENDS DECLARED		
	Three Months Ended March 31	
($000s)	2019	2018
Funds from operations	$ 29,348	$ 32,384
Debt additions (repayments)	-	8,000
Acquisitions and related expenditures	(929)	(32,396)
Working interest dispositions	(30)	8,130
Working capital change	(9,738)	1,908
Dividends declared	$ 18,651	$ 18,026

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 Q1-2019 was 64% versus 56% one year ago as a result of a dividend increase and a reduction in funds from operations year-over-year.

DIVIDEND ANALYSIS

	Three Months Ended March 31	
($000s)	**2019**	2018
Dividends paid in cash [1]	**$ 18,648**	$ 17,820
Dividends declared	**$ 18,651**	$ 18,026
Funds from operations	**$ 29,348**	$ 32,384
Payout ratio [2]	**64%**	56%

(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

Freehold had very little acquisition activity in Q1-2019, only recording minor adjustments on a previous acquisition and other related expenditure of $0.9 million. In Q1-2018, Freehold closed $30.9 million of several royalty asset acquisitions (including undeveloped land valued at $3.3 million) and $1.5 million of other related expenditures.

Freehold continued the de-emphasis on its working interest properties by closing several minor disposal transactions for net disposal costs of $30,000 (Q1-2018 net disposal proceeds of $8.1 million).

ACQUISITIONS, DISPOSITIONS AND RELATED EXPENDITURES

	Three Months Ended March 31		
($000s)	**2019**	2018	Change
Acquisitions and related expenditures	**$ 929**	$ 32,396	-97%
Working interest dispositions	**30**	(8,130)	-100%
	$ 959	$ 24,266	-96%

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, 2019. The Chief Executive Officer and Interim Chief Financial Officer have signed form 52-109F2, *Certification of Interim Filings*, which can be found on SEDAR at www.sedar.com.

New Accounting Standards

On January 1, 2019, Freehold adopted IFRS 16 *Leases* with no material transitional impact on the financial statements. The standard establishes a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Other areas of the lease accounting model have been impacted, including the definition of a lease.

Freehold's mineral leases are not in scope of IFRS 16. In addition, as Freehold is managed by the Manager and does not have any of its own employees, Freehold does not have an office lease in its own name (see Related Party Transactions).

Forward-looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or our expectations of future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "forecast", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions (including the negatives thereof). These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and, as such, forward-looking statements included in this MD&A should not be unduly relied upon. These forward-looking statements are provided to allow readers to better understand our business and prospects.

In particular, this MD&A contains forward-looking statements under President's Message, 2019 Highlights, Our Strategy, Business Environment, Drilling Activity, Dividend Policy and Analysis and 2019 Guidance pertaining to the following:

- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil, and natural gas;
- light/heavy oil price differentials;
- changing economic conditions;
- our expectation that 89% of Freehold's 2019 revenue is to be derived from oil and natural gas liquids;
- expected drilling activity in Canada;
- our intention to allocate free cash flow towards a combination of debt repayment, value enhancing acquisitions and our dividend, with the goal of maximizing returns for our shareholders;
- 2019 cash costs forecasted at approximately $5.00/boe;
- our strategies and the expectation that those strategies will deliver growth and low risk attractive returns to our shareholders;
- foreign exchange rates;
- forecast 2019 average royalty production, including product mix and percentage of total production and operating income from royalties;
- forecast 2019 payout ratio;
- forecast 2019 year end net debt to funds from operations;
- key operating assumptions including forecast operating costs and general and administrative costs;
- our dividend policy and expectations for future dividends;
- treatment under governmental regulatory regimes and tax laws; and
- our assessment of risk associated with the CRA Proposal.

Our actual results could differ materially from those anticipated in these forward-looking statements because of many factors, the most significant of which are as follows:

- volatility in market prices for crude oil, NGL and natural gas;
- lack of pipeline capacity;
- currency fluctuations;
- the Alberta government's handling of oil curtailments;
- changes or rulings regarding income tax laws or changes in tax laws, regulations, royalties, or incentive programs relating to the oil and gas industry;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- uncertainties or imprecision associated with estimating oil and gas reserves;
- stock market volatility and our ability to access sufficient capital from internal and external sources;
- a significant or prolonged downturn in general economic conditions or industry activity;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- geological, technical, drilling, and processing problems;
- environmental risks and liabilities inherent in oil and gas operations; and
- other factors discussed in Freehold's annual MD&A and audited financial statements for the year ended December 31, 2018 and our Annual Information Form.

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

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

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

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

To the extent any guidance or forward-looking statements herein constitutes a financial outlook, they are included herein to provide readers with an understanding of management's plans and assumptions for budgeting purposes and readers are cautioned that the information may not be appropriate for other purposes. You are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates may change, having either a positive or negative effect on net income, as further information becomes available and as the economic environment changes.

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

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

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

Non-GAAP Financial Measures

Within this MD&A, references are made to terms commonly used as key performance indicators in the oil and gas industry. We believe that operating income, operating netback, free cash flow, payout ratio, and cash costs are useful supplemental measures for management and investors to analyze operating performance, financial leverage, and liquidity, and we use these terms to facilitate the understanding and comparability of our results of operations and financial position. However, these terms do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

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

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

Payout ratios are often used for dividend paying companies in the oil and gas industry to identify its dividend levels in relation to the funds it receives and uses in its capital and operational activities. Our payout ratio is calculated as dividends declared as a percentage of funds from operations (See our Dividend Policy section for calculations).

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

TOTAL CASH COSTS	Three Months Ended March 31		
($000s)	**2019**	2018	Change
Operating expense	**$ 965**	$ 1,499	-36%
General and administrative expenses	**4,040**	3,887	4%
Interest expense	**899**	806	12%
Expenditures on share based compensation	**213**	423	-50%
Total cash costs	**$ 6,117**	$ 6,615	-8%

TOTAL CASH COSTS	Three Months Ended March 31		
($/boe)	**2019**	2018	Change
Operating expense	**$ 1.01**	$ 1.39	-27%
General and administrative expenses	**4.22**	3.60	17%
Interest expense	**0.94**	0.75	25%
Expenditures on share based compensation	**0.22**	0.39	-44%
Total cash costs per boe	**$ 6.39**	$ 6.13	4%

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.