

Results at a Glance

FINANCIAL (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Royalty and other revenue	35,333	39,961	-12%	70,942	79,118	-10%
Net income (loss)	3,430	5,386	-36%	(3,649)	9,809	-137%
Per share, basic and diluted (\$)	0.03	0.05	-40%	(0.03)	0.08	-138%
Funds from operations	30,095	34,540	-13%	59,443	66,924	-11%
Per share, basic (\$)	0.25	0.29	-14%	0.50	0.57	-12%
Acquisitions and related expenditures	30,313	3,516	762%	31,242	35,912	-13%
Dividends declared	18,660	18,625	-	37,311	36,651	2%
Per share (\$) ⁽¹⁾	0.1575	0.1575	-	0.3150	0.3100	2%
Net debt	98,310	77,908	26%	98,310	77,908	26%
Shares outstanding, period end (000s)	118,513	118,293	-	118,513	118,293	-
Average shares outstanding (000s) ⁽²⁾	118,458	118,238	-	118,431	118,211	-
OPERATING						
Royalty production (boe/d) ⁽³⁾	10,311	11,052	-7%	10,226	11,124	-8%
Total production (boe/d) ⁽³⁾	10,664	11,721	-9%	10,646	11,860	-10%
Oil and NGL (%)	55	54	2%	55	54	2%
Average price realizations (\$/boe) ⁽³⁾	35.88	36.96	-3%	36.08	35.73	1%
Operating netback (\$/boe) ^{(3) (4)}	35.36	35.94	-2%	35.79	35.39	1%

(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

The second quarter marked another strong period for Freehold as we were able to provide a sustainable dividend and per share production growth quarter-over-quarter while remaining opportunistic with acquisitions. Royalty production averaged 10,311 boe/d for the quarter, a 2% improvement versus the previous quarter as strong activity through the first half of 2019 drove volume growth. Funds from operations for the quarter totaled \$30.1 million or \$0.25/share, comfortably ahead of current dividend levels of \$0.1575/share and at the low end of our payout range.

Freehold completed \$30.3 million in acquisitions over the quarter. We acquired a diversified royalty package with near-term growth driven by a Canadian intermediate with planned multi-year drilling on the lands. Subsequent to quarter-end, we also completed our first royalty acquisition in the United States which should provide Freehold an additional 200 boe/d in production by year-end 2019.

It is our objective to drive oil and gas development on our lands, generate per share production growth, acquire royalties with acceptable growth and risk profiles and provide a sustainable dividend to our shareholders. During the quarter, we have achieved these mandates.

Tom Mullane
President and CEO

Second Quarter Highlights

- Dividends declared for Q2-2019 totaled \$0.1575 per share, unchanged from Q2-2018 and Q1-2019.
- Our payout ratio ⁽¹⁾ (dividends declared/funds from operations) for Q2-2019 totaled 62%, compared to 64% in the previous quarter and 54% in Q2-2018.
- Freehold's royalty production averaged 10,311 boe/d during Q2-2019. This represents a 7% decrease over Q2-2018 while increasing 2% from the previous quarter. Growth in volumes sequentially was driven by increased third-party drilling.
- Royalty interests accounted for 97% of total production and contributed 100% of operating income ⁽¹⁾ in Q2-2019.
- Q2-2019 funds from operations totaled \$30.1 million, or \$0.25 per share, representing an increase of 3% compared to Q1-2019. Quarter-over-quarter funds from operations was relatively unchanged as the decrease in natural gas pricing was offset by production growth and strength in oil prices.
- Current quarter free cash flow ⁽¹⁾ also equaled \$30.1 million, a decrease of 13% compared to Q2-2018. Using Freehold's closing share price as at June 30, 2019 of \$8.47, this represents an annualized free cash flow yield of 12% based on the average shares outstanding in the quarter.
- Net income for Q2-2019 was \$3.4 million versus \$5.4 million in Q2-2018 and a \$7.1 million net loss in Q1-2019. Earnings in the previous quarter was impacted by a non-recurring impairment charge of \$14.1 million offset by a related deferred tax recovery of \$3.8 million.
- Exited Q2-2019 with net debt totaling \$98.3 million, representing an increase of \$20.8 million from the previous quarter. The increase in leverage quarter-over-quarter reflects acquisitions completed during the quarter.
- On June 28, 2019, Freehold closed a \$30 million acquisition of a gross overriding royalty (GORR), with drilling commitments on the part of the vendor on certain light and medium oil reservoirs in central and northern Alberta and southwest Saskatchewan. At the time of closing, the properties collectively were producing 214 boe/d with 94% of production being liquids. Annualized funds from operations in 2019 under actual and strip pricing associated with the acquired assets is estimated at \$3.8 million.
- Wells drilled on our royalty lands totaled 127 (2.9 net) in the quarter compared to 85 (1.2 net) in Q2-2018. We saw strong activity levels associated with our light oil portfolio, particularly in the Viking in Saskatchewan and Alberta, and Mississippian plays in southeast Saskatchewan.
- In Q2-2019, Freehold issued 16 new lease agreements with 13 companies, compared to 20 leases issued in Q1-2019 and 18 leases issued in Q2-2018.
- Cash costs ⁽¹⁾ for the quarter totaled \$5.05/boe, down from \$6.39/boe in Q1-2019 and proximal to \$4.99/boe in Q2-2018.
- Our inaugural environmental, social, and governance (ESG) report has been published and is available on our website.

(1) See Non-GAAP Financial Measures.

Management Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) was prepared as of August 1, 2019. This MD&A 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 and six months ended June 30, 2019, and previous periods, and the outlook for Freehold based on information available as of August 1, 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 and six months ended June 30, 2019 and June 30, 2018, and all dollar amounts are expressed in Canadian currency, unless otherwise noted. References to "US\$" are to United States (U.S.) dollars.

This discussion should be read in conjunction with the financial statements and accompanying notes for the three months and six months ended June 30, 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 6.8 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 5.6 million acres.

We have interests in more than 45,000 wells (of which over 44,700 are royalty wells including over 23,000 unitized wells). 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 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 (100% in Q2-2019) 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 484,000 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

While exhibiting considerable volatility associated with a variety of drivers including the ongoing trade dispute between China and the U.S., uncertainty around OPEC's supply strategy and continuing geopolitical strife in the Middle East, crude prices showed modest increases through the second quarter. West Texas Intermediate (WTI) prices averaged US\$59.79/bbl, increasing 9% quarter-over-quarter and down 12% versus the same period last year. Prices continue to be driven by prevailing concerns over supply from Venezuela and Iran, offset by a weakened outlook for global demand, primarily stemming from trade disputes.

Within Canada prices displayed a more bullish outlook as Edmonton Light Sweet oil price averaged \$73.84/bbl, up 12% versus the previous quarter and down 8% versus the same period last year. Western Canadian Select (WCS) prices continue to rebound after hitting record lows late in 2018 with prices for the

quarter averaging \$65.66/bbl. This marked an improvement of 16% versus the previous quarter and 5% when compared to the same period last year. The key driver behind outperformance of WCS and light/heavy differentials was significant turnaround activity in the oil sands with an estimated 500 mmbbl/d of downtime at points during the quarter. Looking forward, as the Alberta government rolls back mandatory production curtailments and with the potential sale of its crude by rail exposure to industry expected by year-end, it is forecast that heavy oil differentials will move to more marginal rail economics between US\$18-US\$22/bbl.

On the natural gas front, prices trended downwards over the quarter driven by weak seasonal demand and NGTL maintenance ramping-up into full swing. AECO prices for the quarter averaged \$1.04/mcf, down 60% versus the previous quarter and 12% when compared to the same period last year. The near-term outlook for natural gas within Canada remains challenged as supply/egress issues drive prices lower. Barring a colder than typical winter in North America, the storage outlook is expected to remain challenged which should act as a headwind on prices.

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.

Acquisition Activity, United States Entry and Subsequent Event

On June 28, 2019, Freehold closed a \$30 million acquisition of a gross overriding royalty (GORR), with drilling commitments on the part of the vendor on certain light and medium oil reservoirs in central and northern Alberta and southwest Saskatchewan. At the time of closing, the properties collectively were producing 214 boe/d with 94% of production being liquids. Annualized funds from operations in 2019 under actual and strip pricing associated with the acquired assets is estimated at \$3.8 million.

Subsequent to June 30, 2019, through its newly incorporated subsidiary Freehold Royalties (USA) Inc., Freehold closed a US\$9.8 million acquisition of certain royalty assets located in North Dakota, United States. As part of this transaction, a US\$0.5 million acquisition deposit was paid in June 2019. Production and funds from operations in 2020 associated with the acquired assets is forecasted to be approximately 200 boe/d and US\$2.3 million, respectively.

We have deliberately and pragmatically developed our U.S. entry strategy, which will initially focus on selective royalty opportunities in the Williston basin. We understand the Williston basin geology and play types very well as it is an extension of the Bakken/Three Forks plays on our existing southeast Saskatchewan royalty acreage.

Drilling Activity

In the first six months of 2019, 274 (10.2 net) wells were drilled on our royalty lands. Of these, 127 (2.9 net) wells were drilled in the second quarter of 2019. This represents a 34% improvement on a net measure and a 15% decrease on a gross measure over the same period in 2018. Typically, the second quarter represents a period of slowed drilling activity, however activity on our royalty lands outpaced expectations, particularly when compared to the same period in 2018.

Activity through the first six months of 2019 was evenly distributed across our royalty lands. Saskatchewan and Manitoba activity focused on oil prospects, including the Viking in west central Saskatchewan (71 gross

wells), Mississippian plays in southeast Saskatchewan and southwest Manitoba (47 gross wells), and Cantuar and Shaunavon in southwest Saskatchewan (19 gross wells). Together, Saskatchewan and Manitoba wells represented approximately 51% of our gross drilling in the first half of 2019. Alberta activity has again been concentrated in the Viking in east central Alberta (74 gross wells), as well as the Cardium in west Alberta (25 gross wells). Moderate activity continues for Mannville oil plays throughout the basin (13 gross wells). We continue to see activity emerging in the Duvernay and Clearwater, with 12 gross wells drilled between these two new plays in the first half of 2019. Our top payors continue to represent some of the most well capitalized upstream companies in Canada.

ROYALTY INTEREST DRILLING	Three Months Ended June 30				Six Months Ended June 30			
	2019		2018		2019		2018	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾
Total	127	2.9	85	1.2	274	10.2	324	7.6

(1) Net wells are the equivalent 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 second quarter and expectations for the remainder of the year.

- We are increasing our 2019 average royalty production range to 10,000 boe/d to 10,500 boe/d (previously 9,900 boe/d to 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 lowering our expected oil price assumptions for WTI to US\$57.50/bbl (previously US\$62.50/bbl) and for Edmonton Light Sweet prices to \$66.00/bbl (previously \$71.00/bbl). Our C\$/US\$ currency exchange assumption remains at US\$0.75 per Canadian dollar.
- Our 2019 AECO natural gas price assumption remains 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 60% to 65% (previously 60%).
- 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 revision in our commodity price assumptions and factoring in acquisition activity, we currently estimate year-end net debt to funds from operations to exit 2019 at approximately 0.8 times (up from 0.3 times).

KEY OPERATING ASSUMPTIONS				
2019 Annual Average (Guidance Dated)		Aug. 1, 2019	May 7, 2019	Mar. 7, 2019
Royalty production (excludes working interest production)	boe/d	10,000-10,500	9,900-10,300	9,900-10,300
West Texas Intermediate crude oil	US\$/bbl	57.50	62.50	55.00
Edmonton Light Sweet crude oil	Cdn\$/bbl	66.00	71.00	61.00
AECO natural gas	Cdn\$/Mcf	1.60	1.60	1.60
Exchange rate	Cdn\$/US\$	0.75	0.75	0.76
Operating costs	\$/boe	1.00	1.00	1.00
General and administrative costs	\$/boe	3.00	3.00	3.00
Weighted average shares outstanding	millions	119	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. Transportation bottlenecks created large negative impacts on Western Canadian realized prices in Q4-2018.
- The AECO daily average price for Q1-2019 reflected the highest value in two years and represents 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 most significant 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 \$152 million. In addition, Freehold disposed of \$12 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 and a \$16 million impairment in Q4-2017.

The following 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial (\$000s, except as noted)								
Royalty and other revenue	35,333	35,609	24,837	40,587	39,961	39,157	38,235	33,763
Funds from operations	30,095	29,348	18,463	35,900	34,540	32,384	32,023	27,927
Per share, basic (\$)	0.25	0.25	0.16	0.30	0.29	0.27	0.27	0.24
Net income (loss)	3,430	(7,079)	(4,166)	8,389	5,386	4,423	(8,057)	103
Per share, basic and diluted (\$)	0.03	(0.06)	(0.04)	0.07	0.05	0.04	(0.07)	0.00
Dividends declared	18,660	18,651	18,643	18,634	18,625	18,026	17,722	17,714
Per share (\$) ⁽¹⁾	0.1575	0.1575	0.1575	0.1575	0.1575	0.1525	0.15	0.15
Payout ratio (%) ⁽²⁾	62	64	101	52	54	56	55	63
Operating Income ⁽²⁾	34,315	34,644	23,452	39,225	38,331	37,658	36,149	31,246
Operating income from royalties (%)	100	99	102	99	100	99	97	99
Acquisitions and related expenditures ⁽³⁾	30,313	929	11,071	18,750	3,516	32,396	53,626	1,511
Working interest dispositions	52	(30)	581	1	7	8,130	354	2,969
Net debt	98,310	77,533	89,375	78,657	77,908	89,567	68,621	38,274
Shares outstanding								
Weighted average, basic (000s)	118,458	118,403	118,348	118,293	118,238	118,183	118,128	118,073
At quarter end (000s)	118,513	118,458	118,403	118,348	118,293	118,238	118,183	118,128
Operating (\$/boe, except as noted)								
Royalty production (boe/d) ⁽⁴⁾	10,311	10,139	10,312	10,322	11,052	11,197	10,960	10,919
Total production (boe/d) ⁽⁴⁾	10,664	10,627	10,929	11,002	11,721	12,002	12,032	12,036
Royalty interest (%)	97	95	94	94	94	93	91	91
Average selling price	35.88	36.29	23.40	38.95	36.96	34.52	33.59	29.67
Operating netback ⁽²⁾	35.36	36.22	23.33	38.74	35.94	34.86	32.66	28.22
Operating expenses	1.05	1.01	1.38	1.35	1.53	1.39	1.88	2.27
General and administrative expenses ⁽⁵⁾	2.67	4.22	2.74	2.06	2.36	3.60	2.59	1.88
Benchmark Prices								
West Texas Intermediate crude oil (US\$/bbl)	59.79	54.82	58.81	69.50	67.88	62.87	55.40	48.21
Exchange rate (Cdn\$/US\$)	0.75	0.75	0.76	0.77	0.77	0.79	0.79	0.80
Edmonton Light Sweet crude oil (Cdn\$/bbl)	73.84	66.02	42.78	81.62	80.47	71.88	69.14	56.73
Western Canadian Select crude oil (Cdn\$/bbl)	65.66	56.77	25.13	61.81	62.82	48.77	54.87	47.89
AECO monthly contract natural gas (Cdn\$/Mcf)	1.17	1.94	1.90	1.35	1.03	1.85	1.96	2.04
AECO daily average natural gas (Cdn\$/Mcf)	1.04	2.60	1.56	1.19	1.18	2.08	1.69	1.46
Share Trading Performance								
High (\$)	9.88	9.35	11.58	12.78	14.01	14.85	16.41	15.15
Low (\$)	7.98	8.07	7.68	10.97	11.81	11.71	13.77	12.51
Close (\$)	8.47	8.41	8.27	11.14	12.40	12.35	14.05	14.74
Volume (000s)	16,495	23,940	24,314	17,864	19,975	15,635	13,985	13,428

(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 current presentation.

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

(5) Excludes share based and other compensation.

Production

Freehold's royalty production averaged 10,311 boe/d and 97% of total production during Q2-2019. This represents a 7% decrease over Q2-2018 while increasing 2% from the previous quarter. Growth in volumes quarter-over-quarter was driven mainly by increased third-party drilling.

Working interest production, representing only 3% of total production, decreased to 353 boe/d, or by 47%, in Q2-2019 versus the same period last year and decreased 28% from the previous quarter. Reduced volumes were associated with our continued working interest disposition program and incremental shut-in natural gas production, reflecting weakness in pricing.

Total production in the quarter averaged 10,664 boe/d and 10,646 boe/d for the first half of 2019. Our production mix through the first half of 2019 was 35% light and medium oil, 11% heavy oil, 9% NGL and 45% natural gas.

AVERAGE DAILY PRODUCTION	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Royalty interest						
Oil (bbls/d)	4,710	5,052	-7%	4,678	5,116	-9%
NGL (bbls/d)	962	903	7%	937	882	6%
Natural gas (MMcf/d)	27,834	30,581	-9%	27,664	30,756	-10%
Oil equivalent (boe/d)	10,311	11,052	-7%	10,226	11,124	-8%
Working interest						
Oil (bbls/d)	164	298	-45%	188	331	-43%
NGL (bbls/d)	33	53	-38%	34	57	-40%
Natural gas (Mcf/d)	934	1,907	-51%	1,189	2,089	-43%
Oil equivalent (boe/d)	353	669	-47%	420	736	-43%
Total						
Oil (bbls/d)	4,874	5,350	-9%	4,866	5,447	-11%
NGL (bbls/d)	995	956	4%	971	939	3%
Natural gas (Mcf/d)	28,768	32,488	-11%	28,853	32,845	-12%
Oil equivalent (boe/d)	10,664	11,721	-9%	10,646	11,860	-10%
Number of days in period (days)	91	91	-	181	181	-
Total volumes during period (Mboe)	970	1,067	-9%	1,927	2,147	-10%

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\$59.79/bbl in Q2-2019, 12% lower versus the same quarter last year and Edmonton Light Sweet averaged \$73.84/bbl, 8% lower versus the same period in 2018. WCS prices averaged \$65.66/bbl, 5% higher versus the same period in 2018. AECO daily average natural gas prices averaged C\$1.04/mcf, 12% lower versus the same period in 2018.

AVERAGE BENCHMARK PRICES	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
West Texas Intermediate crude oil (US\$/bbl)	59.79	67.88	-12%	57.30	65.37	-12%
Exchange rate (Cdn\$/US\$)	0.75	0.77	-3%	0.75	0.78	-4%
Edmonton Light Sweet crude oil (Cdn\$/bbl)	73.84	80.47	-8%	69.95	76.18	-8%
Western Canadian Select crude oil (Cdn\$/bbl)	65.66	62.82	5%	61.25	55.80	10%
AECO monthly contract natural gas (Cdn\$/Mcf)	1.17	1.03	14%	1.56	1.44	8%
AECO daily average natural gas (Cdn\$/Mcf)	1.04	1.18	-12%	1.83	1.63	12%

Our average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price was \$35.88/boe in Q2-2019, 3% lower than the same period last year.

Natural gas prices were down 14% relative to the prior year averaging \$0.71/mcf in Q2-2019. 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 June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Oil (\$/bbl)	68.25	67.36	1%	63.79	62.33	2%
NGL (\$/bbl)	29.60	47.85	-38%	33.07	46.73	-29%
Oil and NGL (\$/bbl)	61.70	64.40	-4%	58.68	60.03	-2%
Natural gas (\$/Mcf)	0.71	0.83	-14%	1.44	1.23	17%
Oil equivalent (\$/boe)	35.88	36.96	-3%	36.08	35.73	1%

Marketing and Hedging

Our production remained unhedged in Q2-2019. 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 13% of our total royalty production using 30-day contracts.

Royalty and Other Revenue

Royalty and other revenue of \$35.3 million in Q2-2019 was 12% lower than in Q2-2018, mostly due to production declines, continued working interest dispositions and lower oil and natural gas liquid prices.

For the three months ended June 30, 2019, total royalty interest revenue decreased 10% to \$34.3 million versus the same period last year due to production declines and lower average selling prices for all products. Total working interest revenue also decreased 43% versus Q2-2018 due to production declines, lower average selling prices for all products and the continued efforts to reduce Freehold's working interest portfolio.

ROYALTY AND OTHER REVENUE (\$000s)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	\$ 34,047	\$ 37,796	-10%	\$ 67,832	\$ 73,391	-8%
Bonus consideration and lease rentals	274	438	-37%	779	1,965	-60%
Royalty expense (mineral tax)	(15)	(63)	-76%	(16)	(64)	-75%
Total royalty interest revenue	\$ 34,306	\$ 38,171	-10%	\$ 68,595	\$ 75,292	-9%
Working interest revenue from oil, NGL and natural gas ⁽²⁾	1,118	1,919	-42%	2,524	4,163	-39%
Royalty expense	(91)	(129)	-29%	(177)	(337)	-47%
Total working interest revenue	\$ 1,027	\$ 1,790	-43%	\$ 2,347	\$ 3,826	-39%
Total royalty and other revenue	\$ 35,333	\$ 39,961	-12%	\$ 70,942	\$ 79,118	-10%

(1) Includes potash royalties and other.

(2) Includes processing and other.

ROYALTY AND OTHER REVENUE BY TYPE (\$000s)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Oil	\$ 30,271	\$ 32,792	-8%	\$ 56,177	\$ 61,449	-9%
NGL	2,679	4,162	-36%	5,811	7,945	-27%
Natural gas	1,864	2,459	-24%	7,537	7,309	3%
Potash	338	257	32%	747	780	-4%
Bonus consideration and lease rentals	274	438	-37%	779	1,965	-60%
Other	13	45	-71%	84	71	18%
Total royalty and other revenue by type	\$ 35,439	\$ 40,153	-12%	\$ 71,135	\$ 79,519	-11%
Total royalty expense	(106)	(192)	-45%	(193)	(401)	-52%
Total royalty and other revenue	\$ 35,333	\$ 39,961	-12%	\$ 70,942	\$ 79,118	-10%

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 38% to \$1.0 million in Q2-2019 versus \$1.6 million in Q2-2018. 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 31% to \$1.05/boe in Q2-2019 relative to the same period in 2018.

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Total operating expenses	\$ 1,018	\$ 1,630	-38%	\$ 1,983	\$ 3,129	-37%
Per boe (\$)	1.05	1.53	-31%	1.03	1.46	-29%

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

Netback Analysis

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

In Q2-2019, royalty interests accounted for 97% of total royalty and other revenue and more importantly contributed 100% of operating income. For the six months ended June 30, 2019, royalty interests accounted for 96% of total royalty and other revenue and contributed 99% of operating income.

OPERATING INCOME ⁽¹⁾ (\$000s)	Three months ended June 30, 2019		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	\$ 34,306	\$ 1,027	\$ 35,333
Operating expense	-	(1,018)	(1,018)
Operating income	\$ 34,306	\$ 9	\$ 34,315
Percentage by category	100%	0%	100%

(\$000s)	Three months ended June 30, 2018		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	\$ 38,171	\$ 1,790	\$ 39,961
Operating expense	-	(1,630)	(1,630)
Operating income	\$ 38,171	\$ 160	\$ 38,331
Percentage by category	100%	0%	100%

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

(\$000s)	Six months ended June 30, 2018		
	Royalty Interest	Working Interest	Total
Royalty and other revenue ⁽²⁾	\$ 75,292	\$ 3,826	\$ 79,118
Operating expense	-	(3,129)	(3,129)
Operating income	\$ 75,292	\$ 697	\$ 75,989
Percentage by category	99%	1%	100%

(1) See Non-GAAP Financial Measures.

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

Freehold's operating netback for Q2-2019 decreased 2% to \$35.36/boe relatively unchanged versus Q2-2018.

OPERATING NETBACK ⁽¹⁾ (\$/boe)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Royalty and other revenue	\$ 36.41	\$ 37.47	-3%	\$ 36.82	\$ 36.85	0%
Operating expenses	(1.05)	(1.53)	-31%	(1.03)	(1.46)	-29%
Operating netback	\$ 35.36	\$ 35.94	-2%	\$ 35.79	\$ 35.39	1%

(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 Q2-2019, G&A expenses were up slightly from Q2-2018 to \$2.6 million and up 13% to \$2.67/boe on a boe basis over the same period. For the first half of 2019 relative to the first half of 2018, the G&A increase of 4% is largely due to higher costs associated with Canadian and United States acquisition and Canadian disposition initiatives.

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
General and administrative expenses						
before capitalized and overhead recoveries	\$ 3,005	\$ 2,954	2%	\$ 7,638	\$ 7,391	3%
Less: capitalized and overhead recoveries	(413)	(441)	-6%	(1,006)	(991)	2%
General and administrative expenses	\$ 2,592	\$ 2,513	3%	\$ 6,632	\$ 6,400	4%
Per boe (\$)	2.67	2.36	13%	3.44	2.98	15%

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 Q2-2018 as the ascribed value, which is based on Freehold's common share price on the last day of the quarter, was lower at June 30, 2019 relative to June 30, 2018.

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Shares issued for management fees	55,000	55,000	-	110,000	110,000	-
Ascribed value (\$000s) ⁽¹⁾	465	682	-32%	928	1,361	-32%
Closing share price (\$/share)	8.47	12.40	-32%	8.47	12.40	-32%
Per boe (\$)	0.48	0.64	-25%	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 and, in the case of PSUs, for a performance multiplier. For PSU grants each year from 2017 to 2019, 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. No grants remain outstanding under the old LTIP.

One-third of the granted 2017 RSUs vested in March 2018 and an LTIP payment 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 payment valued at \$0.3 million paid out in April 2019. During 2019, there were 189,820 RSUs and PSUs granted under the new LTIP (after estimated forfeitures).

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 June 30, 2019, there were 226,494 DSUs outstanding and at August 1, 2019, there were 227,914 DSUs outstanding (including notional DSUs granted as a result of dividends paid on our common shares).

SHARE BASED COMPENSATION (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Long-term incentive plan before capitalized portion	\$ 415	\$ 304	37%	\$ 660	\$ 16	4025%
Less: capitalized portion	(66)	(52)	27%	(105)	(3)	3400%
Long-term incentive plan	349	252	38%	555	13	4169%
Deferred share unit plan	36	25	44%	553	531	4%
Share based compensation	\$ 385	\$ 277	39%	\$ 1,108	\$ 544	104%
Per boe (\$)	0.40	0.26	54%	0.58	0.25	132%

Finance Expense

Q2-2019 interest and financing expense decreased due to lower average debt levels over Q2-2018 which offset slightly higher interest rates in the current period. The average effective interest rate on advances under our credit facilities in the current quarter was 3.5% (2018 – 3.3%). Accretion expense decreased due to the continued decrease of our decommissioning liability as a direct result of working interest disposition activity.

(\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Interest and financing expense	\$ 963	\$ 1,169	-18%	\$ 1,862	\$ 1,975	-6%
Accretion of decommissioning liability	52	85	-39%	115	169	-32%
Total finance expense	\$ 1,015	\$ 1,254	-19%	\$ 1,977	\$ 2,144	-8%
Per boe (\$)	1.05	1.18	-11%	1.03	1.00	3%

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 June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Depletion and depreciation	\$ 24,304	\$ 26,226	-7%	\$ 48,401	\$ 52,103	-7%
Per boe (\$)	25.05	24.59	2%	25.12	24.27	4%

Impairment

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. This charge would not have been recorded had the asset exchange transaction not occurred.

This royalty asset exchange transaction is not an indicator of impairment within Freehold's Royalty Interest cash generating unit (CGU). At June 30, 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 and six months ended June 30, 2019, there was no current income tax expense (2018 - \$nil)
For the three month ended June 30, 2019, deferred income tax expense was \$2.1 million (2018 - \$2.0

million). Deferred income tax recovery for the six month ended June 30, 2019 was \$0.5 million (2018 – expense of \$3.6 million). For the three and six months ended June 30, 2019, deferred tax expense included a \$0.6 million charge attributable to the decrease in the future anticipated Alberta provincial tax rates. Alberta's provincial tax rate was reduced to 11% effective July 1, 2019 and will be further reduced by 1% on January 1st of each of the years 2020, 2021 and 2022 reducing the rate down to 8%. Freehold's tax pools at December 31, 2018 were \$905 million.

During the three months ended June 30, 2019, Freehold received a proposal letter (Proposal Letter) from Canada Revenue Agency (CRA) wherein CRA stated that it intends to re-assess and deny Freehold's deduction of certain non-capital losses claimed and carried forward in the tax return filed for the year ended December 31, 2015.

Freehold will vigorously defend its tax filing position, however, it anticipates that proceedings with CRA could take considerable time to resolve. If the CRA issues the notice of reassessment (NOR) described in the Proposal Letter, it may also be reassessed with respect to the deduction of its non-capital losses in all of its tax filings subsequent to December 31, 2015. In such event, Freehold would utilize alternate claims available that would partially offset any tax liability for tax returns filed in periods subsequent to December 31, 2015. Freehold's assessed tax liability for the taxation years 2015 to 2018 would be approximately \$18 million (plus interest). In this event, Freehold will be required to pay a deposit of 50% of the assessed tax liability, and it will have 90 days from the date of the NOR to prepare a 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 June 30, 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 six months ended June 30, 2019, Freehold issued 110,000 common shares (2018 – 110,000) as payment of the management fee with an ascribed value of \$0.9 million (2018 – \$1.4 million).

For the three months ended June 30, 2019, the Manager charged \$2.3 million in general and administrative costs (2018 – \$2.5 million). For the six months ended June 30, 2019, the Manager charged \$5.9 million in general and administrative costs (2018 – \$5.8 million). At June 30, 2019, there was \$0.7 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 June 30, 2019, there was \$0.1 million (December 31, 2018 – \$nil) in accounts receivable relating to these transactions. At June 30, 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 June 30, 2019, Freehold received royalties of approximately \$0.2 million (2018 – \$0.2 million). For the six months ended June 30, 2019, Freehold received royalties of approximately \$0.4 million (2018 – \$0.3 million). At June 30, 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 June 30, 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 Q2-2019 Freehold had net income of \$3.4 million compared to \$5.4 million in Q2-2018. Freehold's Q2-2019 royalty and other revenue was offset slightly by the decrease in operating expense and by lower depletion and depreciation versus the previous year.

For the six months ended June 30, 2019, Freehold's net loss was \$3.6 million compared to net income of \$9.8 million for the same period last year. For the six months ended June 30, 2019, 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 Impairment).

Funds from operations for the current quarter decreased 13% to \$30.1 million and \$0.25/share from \$34.5 million and \$0.29/share in the same quarter last year. On a year-to-date basis, funds from operations decreased 11% to \$59.4 million from \$66.9 million. This decrease is primarily due to production declines and continued working interest dispositions.

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 (\$000s, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Net income (loss)	\$ 3,430	\$ 5,386	-36%	\$ (3,649)	\$ 9,809	-137%
Per share, basic and diluted (\$)	0.03	0.05	-40%	(0.03)	0.08	-138%
Funds from operations	\$ 30,095	\$ 34,540	-13%	\$ 59,443	\$ 66,924	-11%
Per share (\$)	0.25	0.29	-14%	0.50	0.57	-12%

Financing Activities

Working Capital

We retain working capital 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 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.

Q2-2019 working capital of \$12.7 million remained relatively unchanged over Q1-2019 mostly due to a 15% increase in our realized oil sales price quarter-over-quarter offset by 67% decrease in natural gas selling price. In addition, Freehold removed the Q1-2019 assets held for sale of \$1.8 million as the transaction closed in Q2-2019 (see Impairment) which offset a reduction in accounts payable and accrued liabilities.

COMPONENTS OF WORKING CAPITAL					
(\$000s)	Jun. 30 2019	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018	Jun. 30 2018
Cash	\$ 83	\$ 931	\$ 1,262	\$ -	\$ 436
Accounts receivable and accrued revenue	24,314	23,663	12,938	25,616	27,894
Assets held for sale	-	1,784	-	-	-
Current assets	24,397	26,378	14,200	25,616	28,330
Dividends payable	(6,221)	(6,218)	(6,215)	(6,210)	(6,207)
Accounts payable and accrued liabilities	(3,670)	(5,263)	(4,610)	(4,052)	(5,594)
Current portion of share based compensation payable	(299)	(525)	(466)	(860)	(1,559)
Current portion of decommissioning liability	(1,517)	(1,905)	(2,284)	(1,843)	(1,878)
Liabilities related to assets held for sale	-	-	-	-	-
Current liabilities	(11,707)	(13,911)	(13,575)	(12,965)	(15,238)
Working capital	\$ 12,690	\$ 12,467	\$ 625	\$ 12,651	\$ 13,092

Long-Term Debt

At June 30, 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 June 30, 2019, \$111 million was drawn on these facilities.

In May 2019, Freehold amended its credit agreement. The current maturity date of the credit facilities is May 31, 2022 and Freehold may annually request an extension to the maturity date. The credit facilities are not reserve-based but are secured with \$400 million first charge demand debentures over all of Freehold's assets.

The credit agreement contains non-financial covenants and two financial covenants. The first financial covenant is that long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times, for which our calculation was 0.9 times at June 30, 2019. The second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) ratio shall not exceed 55%, for which our calculation was 13% at June 30, 2019. In addition, Freehold has an affirmative covenant that the Company must maintain a minimum of 90% of total EBITDA from royalty interest properties over the previous twelve month period, for which our calculation was 100% at June 30, 2019. Freehold was in compliance with all covenants as at June 30, 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 June 30, 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, increased by \$20.8 million from the previous quarter to \$98.3 million in Q2-2019 mainly as a result of financing increased acquisition activity. In addition, Q2-2019 net debt increased to \$98.3 million from \$77.9 million versus the same period last year. Over and above any period acquisition financing, we use funds from operations in excess of dividends (and the change in working capital mentioned above) to reduce bank debt when possible.

DEBT ANALYSIS	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
(\$000s)	2019	2019	2018	2018	2018
Long-term debt	\$ 111,000	\$ 90,000	\$ 90,000	\$ 91,308	\$ 91,000
Working capital	(12,690)	(12,467)	(625)	(12,651)	(13,092)
Net debt	\$ 98,310	\$ 77,533	\$ 89,375	\$ 78,657	\$ 77,908

As at June 30, 2019, Freehold's net debt to funds from operations ratio was 0.9 times (Q2-2018 – 0.6 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.

Freehold defines capital (and capitalization) as net debt plus shareholders' equity. The net debt to capitalization ratio is a financial leverage measure that shows the portion of capital relating to debt. As at June 30, 2019, Freehold's ratio of 12% (Q2-2018 – 9%) reflects its continued low debt levels and resulting low financial risk.

FINANCIAL LEVERAGE RATIOS	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
	2019	2019	2018	2018	2018
Net debt to funds from operations (times)	0.9	0.7	0.7	0.6	0.6
Net debt to capitalization (%)	12	9	10	9	9

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

Shareholders' Capital

As at June 30, 2019 and as of August 1, 2019, there were 118,512,667 shares outstanding. For the three months and six ended June 30, 2019 Freehold issued 55,000 shares and 110,000 shares, respectively, for payment of the management fee (see Management Fee and Related Party Transactions).

	June 30, 2019		December 31, 2018	
	Shares	Amount	Shares	Amount
(\$000s, except as noted)				
Balance, beginning of period	118,402,667	\$ 1,270,020	118,182,667	\$ 1,267,591
Issued for payment of management fee	110,000	928	220,000	2,429
Balance, end of period	118,512,667	\$ 1,270,948	118,402,667	\$ 1,270,020

For the six months ended June 30, 2019, deferred share units were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive.

SHARES OUTSTANDING	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Weighted average						
Basic	118,458,271	118,238,271	-	118,430,926	118,210,926	-
Diluted	118,682,730	118,392,774	-	118,430,926	118,364,536	-
At period end	118,512,667	118,292,667	-	118,512,667	118,292,667	-

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 Q2-2019 totaled \$18.7 million or \$0.1575 per share which was unchanged over Q2-2018. For the first six months of 2019, dividends declared totaled \$37.3 million or \$0.3150 per share which was relatively unchanged over the first six months of 2018.

ACCUMULATED DIVIDENDS ⁽¹⁾	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Dividends declared (\$000s)	\$ 18,660	\$ 18,625	\$ 37,311	\$ 36,651
Accumulated, beginning of period	1,646,531	1,571,978	1,627,880	1,553,952
Accumulated, end of period	\$ 1,665,191	\$ 1,590,603	\$ 1,665,191	\$ 1,590,603
Dividends per share (\$) ⁽²⁾	\$ 0.1575	\$ 0.1575	\$ 0.3150	\$ 0.3100
Accumulated, beginning of period	31.8325	31.2025	31.6750	31.0500
Accumulated, end of period	\$ 31.9900	\$ 31.3600	\$ 31.9900	\$ 31.3600

(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 (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Funds from operations	\$ 30,095	\$ 34,540	\$ 59,443	\$ 66,924
Debt additions (repayments)	21,000	(7,000)	21,000	1,000
Deposit on acquisition	(660)	-	(660)	-
Acquisitions and related expenditures	(30,313)	(3,516)	(31,242)	(35,912)
Working interest dispositions	(52)	7	(82)	8,137
Working capital change	(1,410)	(5,406)	(11,148)	(3,498)
Dividends declared	\$ 18,660	\$ 18,625	\$ 37,311	\$ 36,651

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 Q2-2019 was 62% versus 54% the same period last year and our payout ratio for the first half of 2019 was 63% compare to 55% versus 2018. Both quarterly and first half period payout ratios are well within our payout ratio target of 60%-80%.

DIVIDEND ANALYSIS (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Dividends paid in cash ⁽¹⁾	\$ 18,674	\$ 18,623	\$ 37,322	\$ 36,443
Dividends declared	\$ 18,660	\$ 18,625	\$ 37,311	\$ 36,651
Funds from operations	\$ 30,095	\$ 34,540	\$ 59,443	\$ 66,924
Payout ratio ⁽²⁾	62%	54%	63%	55%

(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

On June 28, 2019, Freehold closed a \$30 million acquisition of a gross overriding royalty (GORR), with drilling commitments on the part of the vendor on certain light and medium oil reservoirs in central and northern Alberta and southwest Saskatchewan. At the time of closing, the properties collectively were producing 214 boe/d with 94% of production being liquids. In addition, for the six months ended June 30, 2019, Freehold had minor adjustments and other related expenditure of \$1.9 million.

For the six months ended June 30, 2019, Freehold continued the de-emphasis on its working interest properties by closing several minor disposal transactions for net disposal costs of \$0.1 million (2018 - disposal proceeds of \$8.1 million).

ACQUISITIONS, DISPOSITIONS AND RELATED EXPENDITURES (\$000s)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Acquisitions and related expenditures	\$ 30,313	\$ 3,516	762%	\$ 31,242	\$ 35,912	-13%
Working interest dispositions	52	(7)	-843%	82	(8,137)	-101%
	\$ 30,365	\$ 3,509	765%	\$ 31,324	\$ 27,775	13%

Additional Information

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

Internal Controls

Freehold is required to comply with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during the three months ended June 30, 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 June 2019, Freehold entered into a new office lease sharing agreement with Rife Resources Ltd. (See Related Party Transactions). Effective July 1, 2019, under this agreement Freehold will be responsible for its proportional share of the new office lease with an allocation between 40% and 60% based on the allocation of general and administrative costs between Freehold and Rife in accordance with the Management Agreement. The first payment on the new lease will be October 1, 2020 and subsequent to June 30, 2019, Freehold is expecting to recognize an estimated right-of-use asset of \$1.9 million with a corresponding additional lease obligation.

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:

- expected additional production and funds from operations associated with our Canadian and U.S. acquisitions;
- our expected area of focus for future U.S. acquisitions;
- 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;
- 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 \$5.25/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 and our target for our net to funds from operations ratio;
- 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;
- our assessment of risk associated with the CRA Proposal; and
- the expected effect of the new cost sharing agreement and new office lease on our consolidated balance sheet.

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 (\$000s)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Operating expense	\$ 1,018	\$ 1,630	-38%	\$ 1,983	\$ 3,129	-37%
General and administrative expenses	2,592	2,513	3%	6,632	6,400	4%
Interest expense	963	1,169	-18%	1,862	1,975	-6%
Expenditures on share based compensation	331	-	-	544	423	29%
Total cash costs	\$ 4,904	\$ 5,312	-8%	\$ 11,021	\$ 11,927	-8%

TOTAL CASH COSTS (\$/boe)	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
Operating expense	\$ 1.05	\$ 1.53	-31%	\$ 1.03	\$ 1.46	-29%
General and administrative expenses	2.67	2.36	13%	3.44	2.98	15%
Interest expense	0.99	1.10	-10%	0.97	0.92	5%
Expenditures on share based compensation	0.34	-	-	0.28	0.20	40%
Total cash costs per boe	\$ 5.05	\$ 4.99	1%	\$ 5.72	\$ 5.56	3%

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

Condensed Consolidated Balance Sheets

(2019 unaudited) (\$000s)	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash	\$ 83	\$ 1,262
Accounts receivable and accrued revenue	24,314	12,938
	24,397	14,200
Deposit on acquisition (note 2)	660	-
Exploration and evaluation assets (note 3)	88,699	87,453
Petroleum and natural gas interests (note 4)	737,906	770,248
Deferred income tax asset	16,892	16,398
	\$ 868,554	\$ 888,299
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable	\$ 6,221	\$ 6,215
Accounts payable and accrued liabilities	3,670	4,610
Current portion of share based compensation payable (note 5)	299	466
Current portion of decommissioning liability	1,517	2,284
	11,707	13,575
Decommissioning liability	9,958	9,622
Share based compensation payable (note 5)	770	487
Long-term debt (note 7)	111,000	90,000
Shareholders' equity:		
Shareholders' capital (note 8)	1,270,948	1,270,020
Contributed surplus	3,105	2,569
Deficit	(538,934)	(497,974)
	735,119	774,615
	\$ 868,554	\$ 888,299

See accompanying notes to interim condensed consolidated financial statements.

Subsequent event (note 2 and note 6)

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

(unaudited) (\$000s, except per share and weighted average data)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Revenue:				
Royalty and other revenue (note 9)	\$ 35,333	\$ 39,961	\$ 70,942	\$ 79,118
Expenses:				
Operating	1,018	1,630	1,983	3,129
General and administrative	2,592	2,513	6,632	6,400
Share based compensation	385	277	1,108	544
Finance (note 10)	1,015	1,254	1,977	2,144
Depletion and depreciation	24,304	26,226	48,401	52,103
Impairment (note 4)	-	-	14,056	-
Management fee (note 11)	465	682	928	1,361
	29,779	32,582	75,085	65,681
Income (loss) before taxes	5,554	7,379	(4,143)	13,437
Deferred income tax expense (recovery) (note 12)	2,124	1,993	(494)	3,628
Net income (loss) and comprehensive income (loss)	\$ 3,430	\$ 5,386	\$ (3,649)	\$ 9,809
Net income (loss) per share, basic and diluted	\$ 0.03	\$ 0.05	\$ (0.03)	\$ 0.08
Weighted average number of shares:				
Basic	118,458,271	118,238,271	118,430,926	118,210,926
Diluted	118,682,730	118,392,774	118,430,926	118,364,536

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited) (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Operating:				
Net income (loss)	\$ 3,430	\$ 5,386	\$ (3,649)	\$ 9,809
Items not involving cash:				
Depletion and depreciation	24,304	26,226	48,401	52,103
Impairment	-	-	14,056	-
Share based compensation	385	277	1,108	544
Deferred income tax expense (recovery)	2,124	1,993	(494)	3,628
Accretion of decommissioning liability	52	85	115	169
Management fee	465	682	928	1,361
Expenditures on share based compensation	(331)	-	(544)	(423)
Decommissioning expenditures	(334)	(109)	(478)	(267)
Funds from operations	30,095	34,540	59,443	66,924
Changes in non-cash working capital	(2,279)	(5,443)	(12,307)	(2,750)
	27,816	29,097	47,136	64,174
Financing:				
Long-term debt	21,000	(7,000)	21,000	1,000
Dividends paid	(18,674)	(18,623)	(37,322)	(36,443)
	2,326	(25,623)	(16,322)	(35,443)
Investing:				
Deposit on acquisition	(660)	-	(660)	-
Acquisitions and related expenditures	(30,313)	(3,516)	(31,242)	(35,912)
Working interest dispositions	(52)	7	(82)	8,137
Changes in non-cash working capital	35	(449)	(9)	(804)
	(30,990)	(3,958)	(31,993)	(28,579)
Increase (decrease) in cash	(848)	(484)	(1,179)	152
Cash, beginning of period	931	920	1,262	284
Cash, end of period	\$ 83	\$ 436	\$ 83	\$ 436

See accompanying notes to interim condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited) (\$000s)	Six Months Ended June 30	
	2019	2018
Shareholders' capital:		
Balance, beginning of period	\$ 1,270,020	\$ 1,267,591
Shares issued for payment of management fee	928	1,361
Balance, end of period	1,270,948	1,268,952
Contributed surplus:		
Balance, beginning of period	2,569	2,079
Share based compensation	553	531
Other	(17)	(91)
Balance, end of period	3,105	2,519
Deficit:		
Balance, beginning of period	(497,974)	(438,078)
Net income (loss) and comprehensive income (loss)	(3,649)	9,809
Dividends declared	(37,311)	(36,651)
Balance, end of period	(538,934)	(464,920)
Total shareholders' equity	\$ 735,119	\$ 806,551

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

For the three months and six months ended June 30, 2019 and 2018 (unaudited).

1. Basis of Presentation

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

Freehold's principal place of business is located at 400, 144 – 4 Avenue SW, Calgary, Alberta, Canada, T2P 3N4.

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 *Interim Financial Reporting*. These financial statements do not include all the disclosures normally provided in annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2018.

With the exception of the adoption IFRS 16 *Leases* (see note 1c) these financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements and notes for the year ended December 31, 2018.

These financial statements were approved by the Board of Directors on August 1, 2019.

b) Basis of Measurement and Principles of Consolidation

These financial statements have been prepared on a historical cost basis, with the exception of certain fair value measurements, and include the accounts of Freehold and its wholly-owned subsidiaries: 1872348 Alberta Ltd., Freehold Holdings Trust, Freehold Royalties (USA) Inc. (see note 2) and Freehold Royalties Partnership. All inter-entity transactions have been eliminated.

c) New Accounting Standard

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

Freehold's mineral leases are not in scope of IFRS 16. In June 2019, Freehold entered into a new office lease sharing agreement with Rife Resources Ltd. (see note 6).

d) Comparative Balances

Balances related to royalty expense, accretion of decommissioning liability and capital expenditures have been reclassified in 2018 comparative periods to align with current 2019 presentation. On the Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), royalty expense has now been included in royalty and other revenue (see note 9) and accretion on decommissioning liability has now

been included in finance expense (see note 10). In addition, on the Condensed Consolidated Statements of Cash Flows, capital expenditures have been included in acquisitions and other related expenditures.

2. Deposit on Acquisition

Subsequent to June 30, 2019, through its newly incorporated subsidiary Freehold Royalties (USA) Inc., Freehold closed a \$9.8 million United States dollars (US\$) acquisition of certain royalty assets located in North Dakota, United States. As part of this transaction, a US\$0.5 million acquisition deposit was paid prior to June 30, 2019.

3. Exploration and Evaluation Assets

(\$000s)	June 30, 2019	December 31, 2018
Balance, beginning of period	\$ 87,453	\$ 75,776
Acquisitions (note 4)	3,995	16,617
Transfers to petroleum and natural gas interests (note 4)	(2,749)	(4,940)
Balance, end of period	\$ 88,699	\$ 87,453

There were no indicators of impairment or impairment reversal for the period ended June 30, 2019 or December 31, 2018. As a result, no impairment or impairment reversal testing was conducted in this period.

4. Petroleum and Natural Gas Interests

(\$000s)	June 30, 2019	December 31, 2018
Cost		
Balance, beginning of period	\$ 1,434,437	\$ 1,387,283
Acquisitions and related expenditures	27,247	50,990
Capitalized portion of long term incentive plan	105	(159)
Transfers from exploration and evaluation assets (note 3)	2,749	4,940
Decommissioning liability additions and revisions	768	(332)
Working interest dispositions	(4,131)	(8,285)
Balance, end of period	1,461,175	1,434,437
Accumulated depletion and depreciation		
Balance, beginning of period	(664,189)	(568,362)
Depletion and depreciation	(48,401)	(102,042)
Impairment	(14,056)	-
Accumulated depletion and depreciation of working interest dispositions	3,377	6,215
Balance, end of period	(723,269)	(664,189)
Net book value, end of period	\$ 737,906	\$ 770,248

a) Acquisitions and other related expenditures

On June 28, 2019, Freehold closed an acquisition of a newly created gross overriding royalty (GORR) with drilling commitments on the part of the vendor on certain light and medium oil reservoirs in central and northern Alberta and southwest Saskatchewan for \$29.3 million (including undeveloped land valued at \$4.0 million). In addition, for the six months ended June 30, 2019, Freehold had minor adjustments and other related expenditure of \$1.9 million.

b) Working interest dispositions

For the three and six months ended June 30, 2019, Freehold disposed of various minor working interest properties for net disposal costs of \$0.1 million.

c) Impairment and impairment reversal

There were no indicators of impairment or impairment reversal for the period ended June 30, 2019 or December 31, 2018. As a result, no impairment or impairment reversal testing was conducted in this period.

In April 2019, Freehold closed a royalty asset exchange, terminating a production volume royalty (PVR) agreement in exchange for a new gross overriding royalty on certain related properties. The PVR asset was considered an asset held for sale at March 31, 2019 and was recorded at the lower of carrying value and management's best estimate of its fair value less costs to sell, resulting in Freehold recording an impairment of \$14.1 million. This royalty asset exchange transaction was not an indicator of impairment within Freehold's Royalty Interest cash generating unit (CGU). The assessment of indicators of impairment is subjective in nature and requires management to make judgments based on the best available information at the time of issuance of these financial statements.

5. Share Based Compensation

a) 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).

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

SHARE BASED COMPENSATION	June 30,	December 31,
(\$000s)	2019	2018
Balance, beginning of period	\$ 953	\$ 2,373
Increase (decrease) in liability	660	(997)
Cash payout	(544)	(423)
Balance, end of period	\$ 1,069	\$ 953
Current portion of liability	\$ 299	\$ 466
Long-term portion of liability	\$ 770	\$ 487

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

SHARE BASED AWARDS	June 30,	December 31,
	2019	2018
Balance, beginning of period	305,920	253,886
Issued	189,820	114,100
Dividends reinvested	7,999	14,777
Cash payout	(106,598)	(76,843)
Balance, end of period	397,141	305,920

b) 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 June 30, 2019, there were 226,494 DSUs outstanding.

DEFERRED SHARE UNITS	June 30,	December 31,
	2019	2018
Balance, beginning of period	160,192	117,429
Annual grants	58,646	34,519
Additional resulting from dividends	7,656	8,244
Balance, end of period	226,494	160,192

6. Lease Obligation

In June 2019, Freehold entered into a new office lease sharing agreement with Rife Resources Ltd. (related party - see note 11). Effective July 1, 2019, under this agreement Freehold will be responsible for its proportional share of the new office lease with an allocation between 40% and 60% which is governed by the Management Agreement (see note 11). The first payment on the new lease will be October 1, 2020 and subsequent to June 30, 2019, Freehold is expecting to recognize an estimated right-of-use asset of \$1.9 million with a corresponding increase to lease obligation.

7. Long-term Debt

At June 30, 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 June 30, 2019, \$111 million was drawn on these facilities.

In May 2019, Freehold amended its credit agreement. The current maturity date of the credit facilities is May 31, 2022 and Freehold may annually request an extension to the maturity date. The credit facilities are not reserve-based but are secured with \$400 million first charge demand debentures over all of Freehold's assets.

The credit agreement contains non-financial covenants and two financial covenants. The first financial covenant is that long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times, for which our calculation was 0.9 times at June 30, 2019. The second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) ratio shall not exceed 55%, for which our calculation was 13% at June 30, 2019. In addition, Freehold has an affirmative covenant that the Company must maintain a minimum of 90% of total EBITDA from royalty interest properties over the previous twelve month period, for which our calculation was 100%. Freehold was in compliance with all covenants as at June 30, 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 June 30, 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.

8. Shareholders' Capital

SHARES ISSUED AND OUTSTANDING	June 30, 2019		December 31, 2018	
	Shares	Amount (\$000s)	Shares	Amount (\$000s)
Balance, beginning of period	118,402,667	\$ 1,270,020	118,182,667	\$ 1,267,591
Issued for payment of management fee (note 11)	110,000	928	220,000	2,429
Balance, end of period	118,512,667	\$ 1,270,948	118,402,667	\$ 1,270,020

For the six months ended June 30, 2019, deferred share units were excluded from the calculation of diluted net loss per share as their effect was anti-dilutive.

9. Revenue

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

Freehold takes its product in kind (TIK) on certain royalty and working interest properties when deemed beneficial to do so. In this case, Freehold would receive its cash payment on or about the 25th day of the month following production. Typically, if a property is non-TIK then Freehold would receive the cash payment approximately two months following production. Bonus consideration received or

receivable can vary significantly period over period as it is dependent on the specific details of each lease and the number of leases issued.

ROYALTY AND OTHER REVENUE (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Royalty interest revenue from oil, NGL and natural gas ⁽¹⁾	34,047	37,796	\$ 67,832	\$ 73,391
Bonus consideration and lease rentals	274	438	779	1,965
Royalty expense (mineral tax)	(15)	(63)	(16)	(64)
Total royalty interest revenue	34,306	38,171	\$ 68,595	\$ 75,292
Working interest revenue from oil, NGL and natural gas ⁽²⁾	1,118	1,919	2,524	4,163
Royalty expense	(91)	(129)	(177)	(337)
Total working interest revenue	1,027	1,790	\$ 2,347	\$ 3,826
Total royalty and other revenue	35,333	39,961	\$ 70,942	\$ 79,118

(1) Includes potash royalties and other.

(2) Includes processing and other.

ROYALTY AND OTHER REVENUE BY TYPE (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Oil	30,271	32,792	\$ 56,177	\$ 61,449
NGL	2,679	4,162	5,811	7,945
Natural gas	1,864	2,459	7,537	7,309
Potash	338	257	747	780
Bonus consideration and lease rentals	274	438	779	1,965
Other	13	45	84	71
Total royalty and other revenue by type	35,439	40,153	\$ 71,135	\$ 79,519
Total royalty expense	(106)	(192)	(193)	(401)
Total royalty and other revenue	35,333	39,961	\$ 70,942	\$ 79,118

As at June 30, 2019, there was outstanding accounts receivable and accrued revenue of \$22.6 million (December 31, 2018 - \$12.0 million) of accrued royalty and other revenue. For the six months ended June 30, 2019, Freehold had \$1.8 million (2018 - \$2.5 million) positive royalty and other revenue adjustments relating to prior periods. The performance obligations for these adjustments were satisfied in production periods prior to the current year.

10. Finance Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Interest and financing expense	963	1,169	\$ 1,862	\$ 1,975
Accretion of decommissioning liability	52	85	115	169
Total finance expense	1,015	1,254	\$ 1,977	\$ 2,144

Borrowings under the credit facilities bear interest at the bank's prime lending rate, bankers' acceptance or LIBOR rates plus applicable margins and standby fees, dependent on Freehold's long-term debt to EBITDA on royalty interest properties.

For the six months ended June 30, 2019, the average effective interest rate on advances under Freehold's credit facilities was 3.6% (2018 - 3.3%).

11. 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 June 30, 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 six months ended June 30, 2019, Freehold issued 110,000 common shares (2018 – 110,000) as payment of the management fee with an ascribed value of \$0.9 million (2018 – \$1.4 million).

For the three months ended June 30, 2019, the Manager charged \$2.3 million in general and administrative costs (2018 – \$2.5 million). For the six months ended June 30, 2019, the Manager charged \$5.9 million in general and administrative costs (2018 – \$5.8 million). At June 30, 2019, there was \$0.7 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 June 30, 2019, there was \$0.1 million (December 31, 2018 - \$nil) in accounts receivable relating to these transactions. At June 30, 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 June 30, 2019, Freehold received royalties of approximately \$0.2 million (2018 – \$0.2 million). For the six months ended June 30, 2019, Freehold received royalties of approximately \$0.4 million (2018 – \$0.3 million). At June 30, 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 June 30, 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.

12. Income Taxes

During the six months ended June 30, 2019, deferred tax expense included \$0.6 million attributable to the decrease in the Alberta provincial tax rate from 12% to 8%. Alberta's provincial tax rate was reduced to 11% effective July 1, 2019 and will be further reduced by 1% on January 1st of each of the years 2020, 2021 and 2022 reducing the rate down to 8%.

13. Supplemental Disclosure

a) Supplemental cash flow disclosure

CASH EXPENSES (\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Interest	1,012	1,142	1,858	2,019
Taxes	-	-	-	-

b) Net debt

	June 30, 2019	December 31, 2018
(\$000s)		
Long-term debt	111,000	90,000
Working capital	(12,690)	(625)
Net debt	98,310	89,375

14. Contingency

During the three months ended June 30, 2019, Freehold received a proposal letter (Proposal Letter) from Canada Revenue Agency (CRA) wherein CRA stated that it intends to re-assess and deny Freehold's deduction of certain non-capital losses claimed and carried forward in the tax return filed for the year ended December 31, 2015.

Freehold will vigorously defend its tax filing position, however, it anticipates that proceedings with CRA could take considerable time to resolve. If the CRA issues the notice of reassessment (NOR) described in the Proposal Letter, it may also be reassessed with respect to the deduction of its non-capital losses in all of its tax filings subsequent to December 31, 2015. In such event, Freehold would utilize alternate claims available that would partially offset any tax liability for tax returns filed in periods subsequent to December 31, 2015. Freehold's assessed tax liability for the taxation years 2015 to 2018 would be approximately \$18 million (plus interest). In this event, Freehold will be required to pay a deposit of 50% of the assessed tax liability, and it will have 90 days from the date of the NOR to prepare a 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.

Board of Directors

Marvin F. Romanow
Chair of the Board

Gary R. Bugeaud ^{(1) (2)}
Corporate Director

Peter T. Harrison
Manager, Oil and Gas Investments
CN Investment Division

J. Douglas Kay ^{(2) (3)}
Corporate Director

Arthur N. Korpach ^{(1) (2)}
Corporate Director

Susan M. MacKenzie ^{(2) (3)}
Corporate Director

Thomas J. Mullane
President and Chief Executive Officer
Rife Resources Ltd.

Aidan M. Walsh ^{(1) (3)}
Chief Executive Officer
Baccalieu Energy Inc.

(1) Audit Committee

(2) Governance, Nominating and Compensation Committee

(3) Reserves Committee

Officers

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Chair of the Board

Thomas J. Mullane
President and Chief Executive Officer

Alan G. Withey
Interim Vice-President, Finance and Chief Financial Officer

David M. Spyker
Chief Operating Officer

Robert E. Lamond
Vice-President, Asset Development

Michael J. Stone
Vice-President, Land

Karen C. Taylor
Corporate Secretary

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Reserve Evaluators

Trimble Engineering Associates Ltd.

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