20 22

A RECORD YEAR

Quality Assets | **Sustainable** Dividends

Freehold
ROYALTIES LTD.

ANNUAL REPORT | TSX **FRU**

DATED | **MARCH 1** | 2023

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PRESIDENT'S MESSAGE

David M. Spyker | President & Chief Executive Officer

"2022 was a year of records for Freehold, the result of the significant work done over the last three years to establish the Company as a premier North American energy royalty company.."

2022 was a year of records for Freehold, the result of the significant work done over the last three years to establish the Company as a premier North American energy royalty company. Our expansion and optimization efforts have resulted in a "new look" Freehold, with the scale and asset base that will enable sustainable, long-term value creation for our shareholders. By targeting plays across North America, our asset base, development inventory and revenue generation is underpinned by exceptionally high-quality payors in many of the top tier operating areas across North America. Freehold's fourth quarter and full year 2022 results reflect this quality.

A SNAPSHOT OF OUR 2022 HIGHLIGHTS ARE AS FOLLOWS:

- **$393 million** in revenue
- **$316 million** in funds from operations
- **$142 million** in dividends paid
- **14,101 boe/d** average production
- **1,057 gross wells drilled**
- **$75.14/boe average realized price** ($68.12/boe in Canada and $90.64/boe in the U.S.)

Our record revenue, funds from operations and production performance in 2022 was due in part to the record level of industry activity that occurred on our lands in 2022. Despite commodity prices being lower in the second half of the year, drilling on our lands remained strong, especially within our U.S. acreage, highlighting the quality of both our portfolio and payors. The enhancement to the scale of our business is illustrated by the record level of dividends paid to our shareholders, while maintaining our core strategies of low leverage and sustainability along with patient and opportunistic portfolio reinvestment. In 2022, in the absence of acquisitions, proved reserve replacement was 115%.

2022 represented a very successful year for Freehold as the Company moved forward with a measured advancement of our North American strategy. I would like to thank our employees, shareholders and Board of Directors and all those who have supported Freehold through 2022.

David M. Spyker
President & Chief Executive Officer

2022 HIGHLIGHTS

RECORD
PRODUCTION
14,101
BOE/D

Production averaged 14,101 boe/d for 2022, a record for Freehold and up 19% versus 2021. Growth in volumes was driven by a combination of strong third-party drilling on our royalty lands and portfolio investment as we expanded Freehold's North American footprint.

RECORD FUNDS FROM OPERATIONS

60%
INCREASE

2022 funds from operations totalled $316 million ($2.10/share), up 67% versus 2021. Record funds flow was the result of strength in production and commodity prices as Freehold benefited from growing U.S. production along with higher realized pricing.

RECORD DRILLING

62%
INCREASE

1,057 gross wells were drilled on Freehold's royalty lands in 2022, a 62% increase versus 2021. Overall, Freehold saw increased drilling associated with the expansion of our North American portfolio with broad increases in capital spending and improved efficiencies associated with our royalty payors.

NORTH AMERICAN EXPANSION

OVER
100%
GROWTH

2022 U.S. production increased greater than 100% versus 2021. Growth in volumes was primarily driven by continued strength of our Permian and Eagle Ford assets and portfolio investment completed throughout the year.

HIGHER REALIZED PRICING

33%
HIGHER U.S. REALIZED PRICING

Freehold achieved a record average realized oil and NGL price of $101.58/bbl for 2022, a 47% improvement versus the previous year. Freehold's U.S. production volumes enjoyed a 33% higher realized price ($90.64/boe) compared to Freehold's Canadian volumes ($68.12/boe) over the same time period.

SUSTAINED DIVIDEND GROWTH

128%
INCREASE

In-line with maintaining a payout of approximately 60%, Freehold increased dividends paid by 128% in 2022. In total, Freehold paid out a record $142 million in dividends to its shareholders in 2022.

BALANCE SHEET STRENGTH

0.4X
NET DEBT TO FUNDS FROM OPERATIONS

Freehold exited the year with net debt of $128 million, representing 0.4x net debt to trailing funds from operations. With credit capacity greater than $150 million, Freehold maintains balance sheet flexibility to withstand commodity price volatility or slowdowns in third party activity.

NORTH AMERICA ADVANCEMENT UNDERWAY

40% 60%

BALANCED
~40% / ~60%
FUNDS FLOW/PRODUCTION

Over the past three years, Freehold has grown its North American portfolio enabling a strong balance between both Canada and the U.S. The advancement of our North American strategy provides, better quality of payors, better quality of assets and better pricing, enhancing Freehold's sustainability.

Management Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) was prepared as of March 1, 2023 and is management's opinion about the consolidated operating and financial results of Freehold Royalties Ltd. and its wholly-owned subsidiaries (collectively, Freehold or the Company) for the three and twelve months ended December 31, 2022 and its comparative periods, and the outlook for Freehold based on information available as of the date hereof.

The financial information contained herein was based on information in the consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. All comparative percentages are between the three months (Q4-2022) and twelve months ("current year" or "2022") ended December 31, 2022 (combined the "current reporting periods" in that respective order) and the same period(s) in 2021 (also in that respective order), and all dollar amounts are expressed in Canadian currency, unless otherwise noted. References to "US$" are to United States (U.S.) dollars. This MD&A should be read in conjunction with the December 31, 2022 audited consolidated financial statements and notes.

Additional information about Freehold, including its Annual Information Form for the year ended December 31, 2022 (AIF), is available on SEDAR at www.sedar.com and on Freehold's website at www.freeholdroyalties.com.

This MD&A contains the non-GAAP financial ratios: **net revenue**, **cash costs** and **netback** and supplemental financial measures **dividend payout ratio** and **funds from operations per share**. These are useful supplements 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. This MD&A also contains the capital management measures of working capital, net debt, capitalization and net debt to funds from operations as defined in Note 15 to the December 31, 2022 consolidated financial statements. 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 Ratios and Other Financial Measures" and "Forward-Looking Statements" included at the end of this MD&A.

Business Overview

Freehold is incorporated under the laws of the Province of Alberta and trades on the Toronto Stock Exchange under the symbol FRU. We receive revenue primarily from royalties on crude oil, natural gas, natural gas liquids (NGLs) and potash properties as reserves are produced over the life of the properties located in Canada and the continental U.S. Freehold's primary focus is acquiring and managing royalties.

The Royalty Advantage

Freehold manages one of the largest non-government portfolios of oil and natural gas royalties in Canada with a sizeable land base in the U.S., uniquely positioning Freehold as a leading North American energy royalty company. Our total land holdings encompass approximately 6.4 million gross acres in Canada and includes exposure to approximately 0.9 million gross drilling acres in the U.S., collectively greater than 99% of which are royalty lands. Our Canadian mineral title lands, which we own in perpetuity, cover approximately 1.1 million acres and we also have gross overriding royalty and other interests in approximately 5.2 million acres. Our U.S. acreage is comprised of greater than 75% mineral title lands.

We have royalty interests in more than 18,000 producing wells and 350 units spanning five provinces and eight states and receive royalty income from over 380 industry operators throughout North America. Our revenues also include potash royalties, lease bonus consideration and lease rental streams that diversify our royalty revenue portfolio. Our North American land base lowers Freehold's risk, and as a royalty owner, Freehold benefits from the drilling activity of others without any capital investments.

As a royalty interest owner, Freehold does not pay any of the capital costs to drill, complete and equip the wells for production on its properties, nor does it incur costs to operate the wells, maintain production, and ultimately abandon the wells and restore the land to its original state. All of these costs are paid by our royalty payors. Freehold receives royalty income from gross production revenue (revenue before any royalty expenses and operating costs are deducted) resulting in strong netbacks.

Freehold's Strategy

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

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

Dividend Announcement

Freehold's Board of Directors (the Board) approved a dividend of $0.09 per common share to be paid on April 17, 2023, to shareholders of record on March 31, 2023. This dividend level strikes a balance between a return of funds from operations to shareholders, managing our financial leverage and retaining the optionality for portfolio reinvestment. The dividend is designated as an eligible dividend for Canadian income tax purposes.

Outlook

Business Environment

WTI prices averaged US$94.23/bbl for 2022, representing a 39% improvement versus 2021. There was a material escalation in prices through the first half of 2022 with WTI peaking at US$123.70/bbl in March, settling to average US$82.64/bbl in Q4-2022. For Q4-2022, this represents a 7% increase when compared to the same period in 2021.

Rampant inflation across nearly all major economies led to aggressive rate hikes from many major central banks, causing a deterioration in the general macro-economic outlook. This aggressive monetary policy, alongside the demand weakness in China through 2022, has resulted in multiple negative revisions to oil demand expectations from the IEA, EIA, and OPEC over the second half of 2022. Despite this, overall supply/demand fundamentals for crude remain relatively constructive as global supply growth is expected to be muted. OPEC+ remains a stabilizing force in the market with its compliance to production cuts as they seek to ensure balance in the market. North American producers have continued a focus on capital discipline which has moderated growth expectations in both the U.S. and Canada.

Within Canada, Edmonton Sweet light oil prices averaged $120.03/bbl for 2022, representing a 49% increase versus 2021. For Q4-2022, Edmonton Light Sweet oil prices averaged $109.83/bbl, up from $93.28/bbl during the same period in 2021. Western Canadian Select (WCS) prices averaged $98.42/bbl for 2022, up 43% when compared to 2021; prices for Q4-2022 averaged $77.08/bbl, down 2% versus the same period in 2021. Canadian heavy oil differentials were weak through 2022. The light heavy differential was impacted in early 2022 as heavy OPEC+ barrels began to return to the market and competed with Canadian heavy oil barrels for the limited refining capacity available. Additionally, U.S. Strategic Petroleum Reserve releases focused largely on heavy, sour grades despite the global market being flooded by heavily discounted Russian crude.

Going forward, egress out of the Western Canadian Sedimentary Basin is expected to improve with the anticipated completion of the 590,000 bbl/d Trans Mountain Pipeline expansion project in 2024. The current capacity of the Trans Mountain pipeline is 300,000 bbl/d .

For 2022, AECO 7A Monthly Index and NYMEX natural gas monthly contract prices averaged $5.56/mcf and US$6.40/mcf, respectively, for the current reporting periods, up 59% and 65% versus the same periods in 2021. For Q4-2022, AECO prices were up 13% while NYMEX prices increased 27%, when compared to the same period in 2021.

U.S. natural gas prices throughout much of 2022 were the beneficiary of an uncertain global supply dynamic with significantly reduced flows of Russian gas supplies to Europe. The strength of NYMEX pricing was tested with the outage of the Freeport LNG terminal after the explosion in June, leading to an additional influx of gas into the U.S. market.

2023 Guidance

The following table summarizes our key operating assumptions for 2023, where production is expected to be weighted approximately 64% liquids[1] and 36% natural gas.

2023 Guidance	**March 1 2023**
Production (boe/d) [1]	**14,500 - 15,500**
Funds from operations ($MM)	**$250 - $280**
West Texas Intermediate crude oil (US$/bbl)	**$ 80.00**
AECO natural gas (Cdn$/mcf)	**$ 3.00**
Nymex (US$/mcf)	**$ 3.00**
Exchange rate (US$/Cdn$)	**$ 0.75**

(1) 2023 production is expected to consist of 8% heavy oil, 45% light and medium oil, 11% NGL's and 36% natural gas

U.S. Royalty Acquisitions

During 2022 and 2021, Freehold invested $177.9 million and $368.0 million in U.S. acquisitions. The advancement of our North American strategy was driven by the goal of providing a more sustainable return for our investors through enhancing the diversification of our royalty portfolio to provide exposure to oil and gas basins that will support drilling in a broader range of commodity price cycles, mitigate single country political and regulatory risk and to benefit from stronger realized pricing for our products. We detail the advancement of our North American strategy throughout this MD&A. Cash consideration for 2022 transactions were initially funded from long-term debt whereas 2021 transactions were also initially funded with debt and share issuances related to subscription receipts (see note 4). Freehold's U.S. acquisitions included:

In June 2022, Freehold closed a transaction to acquire U.S. mineral title and overriding royalty interests across approximately 1,100 net royalty acres (220,000 gross acres) in the Midland basin of the Permian for $19.4 million (US$15.1 million), net of customary closing adjustments.

In August 2022, Freehold acquired U.S. mineral title and royalty assets located in the Midland basin of the Permian predominantly in Howard County, Texas across 4,400 net royalty acres (51,000 gross acres) for cash consideration of $125.7 million (US$97.7 million), net of customary closing adjustments.

In August 2022, Freehold acquired U.S. mineral title and royalty assets located in the Eagle Ford basin in Texas on 2,500 net royalty acres (41,000 gross acres) for cash consideration of $32.8 million (US$25.4 million), net of customary closing adjustments.

During 2021, Freehold acquired U.S. royalty properties for a combined cost of $368.0 million (US$290.5 million) through several different transactions, including mineral title and overriding royalty interests, weighted towards the Permian and Eagle Ford basins.

Operating and Financial Results

FINANCIAL ($000s, except as noted)	Three months ended December 31				Year ended December 31			
		2022	2021	Change		**2022**	2021	Change
Royalty and other revenue	**$**	**98,502**	$ 75,202	31%	**$**	**393,020**	$ 208,992	88%
Net income	**$**	**40,744**	$ 31,178	31%	**$**	**209,189**	$ 72,084	190%
Per share, basic ($) (1)	**$**	**0.27**	$ 0.21	29%	**$**	**1.39**	$ 0.53	162%
Cash flows from operations	**$**	**82,675**	$ 59,700	38%	**$**	**327,348**	$ 162,021	102%
Funds from operations	**$**	**79,973**	$ 68,773	16%	**$**	**316,494**	$ 189,649	67%
Per share, basic ($) (1)(3)	**$**	**0.53**	$ 0.46	15%	**$**	**2.10**	$ 1.39	51%
Acquisitions and related expenditures	**$**	**7,160**	$ 67,906	-89%	**$**	**190,794**	$ 377,002	-49%
Dividends paid	**$**	**40,677**	$ 24,094	69%	**$**	**141,597**	$ 61,969	128%
Per share ($) (2)	**$**	**0.27**	$ 0.16	69%	**$**	**0.94**	$ 0.45	109%
Dividends declared	**$**	**40,678**	$ 25,599	59%	**$**	**146,121**	$ 68,628	113%
Per share ($) (2)	**$**	**0.27**	$ 0.17	59%	**$**	**0.97**	$ 0.49	98%
Dividend payout ratio (%) (3)		**51%**	35%	46%		**45%**	33%	36%
Long term debt	**$**	**156,560**	$ 146,000	7%	**$**	**156,560**	$ 146,000	7%
Net debt (4)	**$**	**127,904**	$ 101,229	26%	**$**	**127,904**	$ 101,229	26%
Shares outstanding, period end (000s)		**150,667**	150,612	0%		**150,667**	150,612	0%
Average shares outstanding (000s) (1)		**150,654**	150,585	0%		**150,633**	136,510	10%
OPERATING								
Light and medium oil (bbl/d)		**6,418**	5,401	19%		**5,758**	4,318	33%
Heavy oil (bbl/d)		**1,218**	1,254	-3%		**1,202**	1,208	0%
NGL (bbl/d)		**1,781**	1,564	14%		**1,715**	1,217	41%
Total liquids (bbl/d)		**9,417**	8,219	15%		**8,675**	6,743	29%
Natural gas (Mcf/d)		**33,744**	34,699	-3%		**32,563**	30,608	6%
Total production (boe/d) (5)		**15,041**	14,005	7%		**14,101**	11,844	19%
Oil and NGL (%)		**63%**	59%	4%		**62%**	57%	5%
Petroleum and natural gas realized price ($/boe) (5)	**$**	**69.76**	$ 57.44	21%	**$**	**75.14**	$ 47.73	57%
Cash costs ($/boe) (3)(5)	**$**	**5.17**	$ 3.57	45%	**$**	**5.19**	$ 3.71	40%
Netback ($/boe) (3)(5)	**$**	**63.92**	$ 53.58	19%	**$**	**69.48**	$ 43.99	58%

(1) Weighted average number of shares outstanding during the period, basic
(2) Based on the number of shares issued and outstanding at each record date
(3) See Non-GAAP Financial Ratios and Other Financial Measure
(4) Net debt is a capital management measure
(5) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe)

Q4-2022 Operating and Financial Highlights

- Dividends declared for Q4-2022 totaled $40.7 million ($0.27 per share), up 59% versus the same period in 2021 when Freehold declared dividends of $25.6 million ($0.17 per share). Freehold's dividend payout[2] ratio for Q4-2022 was 51% versus 35% during the same period in 2021.
- Royalty and other revenue totaled $98.5 million in Q4-2022, up 31% from the same period in 2021. This increase was driven by growth in production and an improved commodity price environment.
- Funds from operations in Q4-2022 totaled $80.0 million or $0.53 per share, up 16% from $68.8 million or $0.46 per share in the same period in 2021. Funds from operations continues to benefit from a higher production weighting to more favorably priced U.S. volumes.
- Q4-2022 production averaged 15,041 boe/d, a 7% increase versus the same period in 2021 as volumes added from U.S. transactions and third-party drilling provided production growth.
    - U.S. production averaged 5,264 boe/d for Q4-2022, up 29% versus the same period in 2021. This increase primarily reflects acquisitions completed in 2022 along with third-party drilling, completion activities on our U.S. royalty lands.

- Canadian volumes averaged 9,777 boe/d for Q4-2022, down 2% versus the same period in 2021.

- Long term debt at December 31, 2022 was $156.6 million, an increase of $10.6 million versus December 31, 2021 as Freehold initially utilized its credit facility to fund acquisition activity completed in 2022, and then repaid amounts thereunder with cash flows from operating activities.

2022 Operating and Financial Highlights

- Dividends declared for 2022 totaled $146.1 million ($0.97 per share), up 113% versus 2021 when Freehold declared dividends of $68.6 million ($0.49 per share). Our dividend payout[2] ratio for 2022 was 45% compared to 33% in 2021.
- Royalty and other revenue totaled $393.0 million in 2022, up 88% from the previous year reflecting gains in commodity prices and production growth. Total royalty revenue was weighted 82% to oil and NGL revenue.
- Funds from operations in 2022 totaled $316.5 million or $2.10 per share, up 67% from $189.6 million or $1.39 per share in 2021. This year-over-year increase reflected strength in commodity prices and improved production volumes.
- Freehold completed $190.8 million in North American royalty acquisitions and related expenditures in 2022 which included adding royalty assets in the Permian and Eagle Ford in the U.S. and the Clearwater in Canada. Portfolio reinvestment was funded through a combination of funds from operations and our existing credit facility, with Freehold exiting 2022 at similar leverage ratios as the year previous.
- 2022 production averaged 14,101 boe/d, a 19% increase versus the previous year as increased third-party drilling and acquisition activity drove production growth, with Canadian production stable and U.S. production double the 2021 level.
- Oil and NGL's volumes represented 62% of 2022 royalty production, up from 57% in 2021 as a result of oil focused royalty acquisitions and third-party oil drilling activities, increasing Freehold's liquid production weighting.
- Proved and probable oil and natural gas reserves [3] totaled 54.5 MMboe as at December 31, 2022, up from 49.8 MMboe as at December 31, 2021. This increase reflects U.S. acquisitions, drilling additions and higher forward commodity pricing.

(1) See Non-GAAP Financial Ratios and Other Financial Measures
(2) Dividend payout ratio is a supplemental measure
(3) A detailed review of Freehold's U.S. and Canadian reserve information, including a summary of the evaluation of Freehold's reserves and associated future net revenues as prepared by RSC Group, Inc. and Trimble Engineering Associates Ltd., respectively, Freehold's independent reserve evaluators effective as at December 31, 2022, is provided in the AIF. A copy of the AIF can be found on Freehold's website at www.freeholdroyalties.com or www.sedar.com.

Drilling Activity

In total, 1,057 gross wells were drilled on Freehold's royalty lands in 2022, a 61% increase versus 2021. Overall, Freehold saw increased drilling activity associated with the expansion of its North American portfolio.

In Canada and the U.S. during 2022, approximately 24% of gross wells on Freehold royalty lands targeted prospects in Alberta, 21% in Saskatchewan and 47% in Texas with the balance distributed across other regions. Producers continue to remain focused on oil prospects within Freehold's land base with 94% of wells drilled targeting oil. Of the gross wells drilled in 2022, approximately 34% were drilled on Freehold's gross overriding royalty (GORR) prospects in Canada, 8% targeted mineral title prospects in Canada and 52% were drilled on Freehold's U.S. royalty acreage with the remainder drilled on Unit acreage.

In Q4-2022, Freehold saw 293 gross wells drilled on Freehold royalty lands versus 250 gross locations when compared to the same period in 2021.

Royalty Interest Drilling

	Three Months Ended December 31				Year ended December 31			
	2022		2021		**2022**		2021	
	Gross	**Net** (1)	Gross	Net (1)	**Gross**	**Net** (1)	Gross	Net (1)
Canada	**137**	**6.2**	149	5.2	**503**	**20.1**	440	16.3
United States	**156**	**0.9**	101	0.5	**554**	**2.9**	215	1.2
Total	**293**	**7.1**	250	5.7	**1057**	**23.0**	655	17.5

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

Canada

During 2022, Freehold saw drilling in oil weighted areas such as the Viking, Clearwater, and Cardium in addition to liquids rich gas weighted targets in the Deep Basin and Spirit River.

In Q4-2022, Freehold had 137 gross locations drilled within our Canadian portfolio compared to 149 gross locations during the same period in 2021, however net wells drilled increased 19% to 6.2. For 2022, 503 gross locations were drilled on Freehold’s Canadian land, a 14% increase over the 440 gross locations in 2021.

U.S.

In the U.S., operators focused drilling on light oil prospects in the Permian and Eagle Ford with 90% of activity within these basins. Development of Freehold’s U.S. lands was led by a diverse group of disciplined investment grade public companies and growth oriented public and private operators.

Although Freehold’s U.S. net well additions were lower than in Canada, U.S. wells are significantly more prolific as they generally come on production at approximately ten times that of an average Canadian well in our portfolio. We also note that we are seeing upwards of nine to twelve months from initial license to first production within our U.S. royalty assets (compared to three to four months in Canada, on average).

Overall, 156 gross wells were drilled on our U.S. royalty lands during Q4-2022, which compares to 101 gross wells during the same period in 2021, this increase is due to late 2021 and mid-year 2022 royalty acquisitions, in addition to strong industry activity. For 2022, 554 gross locations were drilled on Freehold’s U.S. lands, a 158% increase over the 215 gross locations in 2021.

Production

Freehold's total production averaged 15,041 boe/d and 14,101 boe/d during the current reporting periods, 7% and 19% increases over the same periods in 2021. These increases reflect acquisition activity completed over the year and increased third-party drilling and completion activities on Freehold’s lands. The yearly increase also reflects a full year of production from royalty income properties acquired throughout 2021.

Freehold’s production mix shifted further towards liquids in the current reporting periods, reflecting U.S. acquisitions, increasing by more than 4% compared to the same periods in 2021. The current production mix is comprised of 43% light and medium oil, 8% heavy oil, 12% NGL and 37% natural gas.

Working interest production for 2022 averaged 102 boe/d, slightly up from 86 boe/d in 2021.

Production Summary

(boe/d)	Three months ended December 31 2022	2021	Change	Year ended December 31 2022	2021	Change
Canada	**9,777**	9,930	-2%	**9,706**	9,675	0%
United States	**5,264**	4,075	29%	**4,395**	2,169	103%
Total	**15,041**	14,005	7%	**14,101**	11,844	19%

Average Daily Production by Product Type

	Three months ended December 31 2022	2021	Change	Year ended December 31 2022	2021	Change
Light and medium oil (bbl/d)	**6,418**	5,401	19%	**5,758**	4,318	33%
Heavy oil (bbl/d)	**1,218**	1,254	-3%	**1,202**	1,208	0%
NGL (bbl/d)	**1,781**	1,564	14%	**1,715**	1,217	41%
Natural gas (Mcf/d)	**33,744**	34,699	-3%	**32,563**	30,608	6%
Total production (boe/d)	**15,041**	14,005	7%	**14,101**	11,844	19%
Number of days in period (days)	**92**	92	-	**365**	365	-
Total volumes during period (Mboe)	**1,384**	1,288	7%	**5,147**	4,323	19%

Canada

Canadian production averaged 9,777 boe/d during Q4-2022, comprised of approximately 54% oil and NGL’s and 46% natural gas. Production volumes for 2022 were flat versus 2021, reflecting third-party drilling offsetting portfolio declines.

Canadian Average Daily Production by Product Type

	Three months ended December 31 2022	2021	Change	Year ended December 31 2022	2021	Change
Light and medium oil (bbl/d)	**3,118**	3,213	-3%	**3,160**	3,201	-1%
Heavy oil (bbl/d)	**1,218**	1,254	-3%	**1,202**	1,208	0%
NGL (bbl/d)	**925**	790	17%	**893**	865	3%
Natural gas (Mcf/d)	**27,096**	28,028	-3%	**26,710**	26,408	1%
Canadian production (boe/d)	**9,777**	9,930	-2%	**9,706**	9,675	0%

U.S.

U.S. production, representing 35% of total volumes, averaged 5,264 boe/d during Q4-2022, up 29% versus the same period in 2021. Production for 2022 averaged 4,395 boe/d, up 103% versus the same period in 2021. Increased U.S. volumes reflect acquisitions and associated drilling on the acquired lands which were completed in 2021 and 2022.

U.S. Average Daily Production by Product Type

	Three months ended December 31 2022	2021	Change	Year ended December 31 2022	2021	Change
Light and medium oil (bbl/d)	**3,300**	2,188	51%	**2,598**	1,117	133%
NGL (bbl/d)	**856**	774	11%	**821**	352	133%
Natural gas (Mcf/d)	**6,648**	6,672	0%	**5,853**	4,200	39%
United States production (boe/d)	**5,264**	4,075	29%	**4,395**	2,169	103%

Product Prices

The price received by Freehold for produced oil is primarily driven by the U.S. dollar price of WTI, with the realized Canadian price adjusted for the value of the Canadian dollar relative to the U.S. dollar. WTI averaged US$82.64/bbl and US$94.23/bbl in the current reporting periods, 7% and 39% higher versus the same periods in 2021.

In Canada, Edmonton Light Sweet prices averaged $109.83/bbl and $120.03/bbl during the current reporting periods, 18% and 49% higher versus the same periods in 2021. WCS prices averaged $77.08/bbl and $98.42/bbl during the current reporting periods, 2% lower in Q4-2022 versus Q4-2021 but 43% higher in 2022 versus 2021.

Lower WCS pricing in Q4-2022 was due to a wider WCS discount relative to WTI. These Canadian oil benchmarks benefitted from a weaker Canadian dollar relative to the U.S. dollar in 2022 as compared to 2021.

For natural gas, AECO 7A and NYMEX averaged $5.58/mcf and US$6.03/mcf respectively in Q4-2022, 13% and 27% higher versus the same period in 2021. These same natural gas benchmarks averaged $5.56/mcf and US$6.40/mcf respectively for 2022, 59% and 65% higher than the same period in 2021.

Average Benchmark Prices

	Three months ended December 31			Year ended December 31		
	2022	2021	Change	**2022**	2021	Change
West Texas Intermediate crude oil (US$/bbl)	**$ 82.64**	$ 77.19	7%	**$ 94.23**	$ 67.92	39%
Exchange rate (US$/Cdn$)	**$ 0.74**	$ 0.79	-6%	**$ 0.77**	$ 0.80	-4%
Edmonton Light Sweet crude oil (Cdn$/bbl)	**$ 109.83**	$ 93.28	18%	**$ 120.03**	$ 80.43	49%
Western Canadian Select crude oil (Cdn$/bbl)	**$ 77.08**	$ 78.71	-2%	**$ 98.42**	$ 68.73	43%
Nymex natural gas (US$/Mcf)	**$ 6.03**	$ 4.75	27%	**$ 6.40**	$ 3.89	65%
AECO 7A Monthly Index (Cdn$/Mcf)	**$ 5.58**	$ 4.93	13%	**$ 5.56**	$ 3.50	59%

As Freehold has increased its U.S. royalty exposure, its overall realized price has significantly improved as U.S. volumes realize prices closer to WTI and NYMEX natural gas benchmarks versus discounted pricing for Canadian production associated with certain egress constraints, transportation costs to markets and oil quality differentials. U.S. realized pricing in 2022 was 33% higher than Canadian realized pricing. On a boe basis, our average selling price was $69.76/boe and $75.14/boe in the current reporting periods, up from $57.44/boe and $47.73/boe in the same periods in 2021.

Average Realized Prices Summary

	Three months ended December 31			Year ended December 31		
	2022	2021	Change	**2022**	2021	Change
Oil ($/bbl)	**$ 103.27**	$ 87.02	19%	**$ 113.47**	$ 74.81	52%
NGL ($/bbl)	**$ 46.33**	$ 48.72	-5%	**$ 53.31**	$ 43.07	24%
Oil and NGL ($/bbl)	**$ 92.51**	$ 79.73	16%	**$ 101.58**	$ 69.08	47%
Natural gas ($/Mcf)	**$ 5.28**	$ 4.30	23%	**$ 5.48**	$ 3.25	69%
Oil equivalent ($/boe)	**$ 69.76**	$ 57.44	21%	**$ 75.14**	$ 47.73	57%

Canada

On a barrel of oil equivalent basis, Freehold's average selling price realized in Canada was $59.85/boe and $68.12/boe during the current reporting periods, up 13% and 51% versus the same periods in 2021. For these same periods, oil and NGL pricing averaged $85.99/bbl and $100.30/bbl, up 10% and 49%, whereas the average realized natural gas price was $4.90/mcf and $5.02/mcf, up 18% and 63% when compared to the same periods in 2021.

Canadian Average Realized Prices

	Three months ended December 31			Year ended December 31		
	2022	2021	Change	**2022**	2021	Change
Oil ($/bbl)	**$ 92.85**	$ 82.37	13%	**$ 107.83**	$ 71.61	51%
NGL ($/bbl)	**$ 53.84**	$ 55.28	-3%	**$ 63.53**	$ 45.61	39%
Oil and NGL ($/bbl)	**$ 85.99**	$ 78.30	10%	**$ 100.30**	$ 67.35	49%
Natural gas ($/Mcf)	**$ 4.90**	$ 4.14	18%	**$ 5.02**	$ 3.09	63%
Oil equivalent ($/boe)	**$ 59.85**	$ 53.14	13%	**$ 68.12**	$ 45.14	51%

U.S.

On a barrel of oil equivalent basis, Freehold's average selling price realized in the U.S. was $88.17/boe and $90.64/boe during the current reporting periods, up 30% and 53% versus the same periods in 2021. The current reporting periods include realized oil pricing in the U.S. that averaged $116.97/bbl and $122.95/bbl, both up 21%

and 41% respectively when compared to the same periods in 2021. Freehold's average realized U.S. natural gas price was $6.83/mcf and $7.57/mcf, up 37% and 78% when compared to the same periods in 2021.

U.S. Average Realized Prices (in Canadian Dollars)

	Three months ended December 31			Year ended December 31		
	2022	2021	Change	**2022**	2021	Change
Oil ($/bbl)	**$ 116.97**	$ 96.50	21%	**$ 122.95**	$ 87.44	41%
NGL ($/bbl)	**$ 38.22**	$ 42.04	-9%	**$ 42.19**	$ 36.83	15%
Oil and NGL ($/bbl)	**$ 100.75**	$ 82.27	22%	**$ 103.55**	$ 75.31	37%
Natural gas ($/Mcf)	**$ 6.83**	$ 4.98	37%	**$ 7.57**	$ 4.26	78%
Oil equivalent ($/boe)	**$ 88.17**	$ 67.97	30%	**$ 90.64**	$ 59.35	53%

Credit Risk Management

Freehold's royalty lands consist of a large number of properties with generally small volumes per property. Many of Freehold's leases and royalty agreements allow it to take its share of oil and natural gas in-kind. Taking product in-kind allows us to take ownership of the product as it is produced and thus sell it directly ourselves rather than having the royalty payor sell the product on our behalf and pass along proceeds from the sale in subsequent months. For 2022, Freehold marketed approximately 2% of its total royalty production that was taken-in-kind using 30-day contracts, a decrease from 3% during 2021. As part of Freehold's credit risk mitigation program, Freehold's dedicated Compliance Group carefully monitors its royalty receivables and may choose to take its royalty in-kind if there are benefits in doing so.

Royalty and Other Revenue

Royalty and other revenue of $98.5 million and $393.0 million in the current reporting periods was 31% and 88% higher when compared to the same periods in 2021. Freehold's royalty and other revenue benefited from strong crude oil and natural gas prices, alongside increased production volumes primarily driven by U.S. royalty acquisitions and increased drilling activity on our royalty lands. Oil and NGL's represented approximately 81% and 82% respectively of royalty and other revenue for both current reporting periods, up slightly versus the same periods in 2021.

Included in the current reporting periods for royalty and other revenue is $0.9 million and $3.2 million in potash royalty revenues, increases of 54% and 113% over the same periods in 2021. Potash revenue benefitted from improved pricing and a 2021 potash royalty acquisition. Bonus consideration and lease rentals revenue was $1.1 million and $3.1 million in the current reporting periods, both increasing over the same period in 2021 as North American leasing activity improved. During Q4-2022, Freehold entered into 19 new leases with 13 counterparties. For 2022, new leasing totaled 80, which compared to 42 leases in 2021.

Royalty and Other Revenue Summary

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2022**	2021	Change	**2022**	2021	Change
Canada	**$ 55,345**	$ 49,691	11%	**$ 246,689**	$ 161,878	52%
United States	**43,157**	25,511	69%	**146,331**	47,114	211%
Royalty and other revenue	**$ 98,502**	$ 75,202	31%	**$ 393,020**	$ 208,992	88%
Per boe ($)	**$ 71.17**	$ 58.36	22%	**$ 76.36**	$ 48.34	58%

Royalty and Other Revenue by Category

	Three months ended December 31			Year ended December 31		
($000s)	**2022**	2021	Change	**2022**	2021	Change
Royalty interest	**$ 97,438**	$ 74,597	31%	**$ 389,891**	$ 207,810	88%
Bonus consideration and lease rentals	**1,064**	605	76%	**3,129**	1,182	165%
Royalty and other revenue	**$ 98,502**	$ 75,202	31%	**$ 393,020**	$ 208,992	88%

Royalty and Other Revenue by Type

	Three months ended December 31			Year ended December 31		
($000s)	**2022**	2021	Change	**2022**	2021	Change
Oil	**$ 72,556**	$ 53,280	36%	**$ 288,245**	$ 150,898	91%
Natural gas	**16,391**	13,721	19%	**65,109**	36,293	79%
Natural gas liquids	**7,590**	7,012	8%	**33,367**	19,129	74%
Potash	**901**	585	54%	**3,170**	1,490	113%
Bonus consideration and lease rentals	**1,064**	605	76%	**3,129**	1,182	165%
Royalty and other revenue	**$ 98,502**	$ 75,202	31%	**$ 393,020**	$ 208,992	88%

General and Administrative

Freehold has a business development group solely dedicated to the acquisition and development of Freehold's future and existing assets and a newly created diversified royalties' team who are evaluating non-hydrocarbon energy and minerals based royalty opportunities. Freehold also has dedicated resources in land administration, accounting, and audit to administer and collect royalty payments and to track development activity on its royalty lands. General and administrative (G&A) expense includes directly billed costs in addition to costs incurred by the Manager (as defined below) and allocated to Freehold (see Related Party Transactions).

In the current reporting periods, G&A expenses totaling $4.3 million and $14.0 million were up 26% and 30% versus the same periods in 2021. These increases relate to additional skill sets required to manage Freehold's expanding North American asset base, overall inflationary pressures, a weakening Canadian dollar increasing the reported cost of Freehold's U.S. dollar denominated software applications and a newly created diversified royalties team.

On a per boe basis, the current reporting periods G&A expenses of $3.08/boe and $2.72/boe increased by 17% and 10% versus the same periods in 2021, as higher production partially offset the rise in costs.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2022**	2021	Change	**2022**	2021	Change
General and administrative expenses before capitalized and overhead recoveries	**$ 4,857**	$ 4,064	20%	**$ 16,931**	$ 12,773	33%
Less: capitalized and overhead recoveries	**(600)**	(674)	11%	**(2,953)**	(2,031)	-45%
General and administrative expenses	**$ 4,257**	$ 3,390	26%	**$ 13,978**	$ 10,742	30%
Per boe ($)	**$ 3.08**	$ 2.63	17%	**$ 2.72**	$ 2.48	10%

Production and Ad Valorem Taxes

Production and ad valorem taxes are incurred in the U.S. at the state level and are derived from production and property values. With Freehold's expansion into the U.S., the expenses of $2.9 million and $8.7 million during the current reporting periods were 85% and 210% higher than the same periods in 2021. The increases on a per boe measure reflects Freehold's U.S. expansion into states, largely Texas, which do not charge corporate income taxes but do assess flat tax rates on commodity revenues in addition to property tax assessments.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2022**	2021	Change	**2022**	2021	Change
Production and ad valorem taxes	**$ 2,882**	$ 1,560	85%	**$ 8,687**	$ 2,801	210%
Per boe ($)	**$ 2.08**	$ 1.21	72%	**$ 1.69**	$ 0.64	164%

Operating Expenses

Operating expenses consist of expenses associated with Freehold's minor Canadian working interest assets. Freehold does not incur operating expenses on production from its royalty lands.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2022**	2021	Change	**2022**	2021	Change
Operating expenses	**$ 253**	$ 209	21%	**$ 957**	$ 633	51%
Per boe ($)	**$ 0.18**	$ 0.16	13%	**$ 0.19**	$ 0.15	27%

Interest and Financing

Interest on long term debt in the current reporting periods has increased compared to the same periods in 2021, due to higher interest rates and higher average debt levels associated with acquisitions completed throughout 2022.

The current reporting period average effective financing rates on advances from Freehold's committed credit facility was 5.3% and 4.3% (2021 – 2.0% and 2.2%).

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	2022	2021	Change	**2022**	2021	Change
Interest on long term debt and financing fees	**$ 2,646**	$ 1,004	164%	**$ 5,934**	$ 3,285	81%
Non-cash interest expense (1)	**47**	45	5%	**186**	205	-9%
Interest and finance expense	**$ 2,693**	$ 1,049	157%	**$ 6,120**	$ 3,490	75%
Per boe - cash expense ($)	**$ 1.91**	$ 0.78	145%	**$ 1.15**	$ 0.76	51%

(1) Non-cash interest expense represents accretion of Freehold's decommissioning liability and lease obligation

Share-Based Compensation

Share-based compensation expense, reflecting Freehold's award plans were $2.0 million and $8.3 million during the current reporting periods, 2% and 18% increases compared to the same periods of 2021. The current year includes a non-cash charge of $3.3 million to adjust the carrying amount of deferred share units (DSUs) to their market value at December 31, 2022 to prospectively account for this plan as cash settled. Previously this plan was primarily accounted for as equity settled. The current reporting periods' share-based compensation reflects increases in Freehold's share price in addition to 2022 now including the prospective adjustment for the DSU plan, as detailed above.

Associated with the award plans, during 2022, Freehold paid to its employees and a retiring non-management director $5.8 million, an increase from the $1.4 million paid to its employees in the same period in 2021. This increase was due to a higher Freehold share price at the time of payout, a higher number of vested award plan units and the payout of redeemed DSUs to a retiring director.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2022**	2021	Change	**2022**	2021	Change
Share-based compensation	**$ 2,028**	$ 1,988	2%	**$ 8,336**	$ 7,073	18%
Cash payout on share based compensation	**$ -**	$ -	0%	**$ 5,838**	$ 1,371	326%
Per boe ($)	**$ -**	$ -	0%	**$ 1.13**	$ 0.32	253%

Freehold's award plans are share based and cash settled and consists of grants of performance share units (PSUs), restricted share units (RSUs) and DSUs (combined the Award Plans). Pursuant to an amended and restated deferred and a restricted share unit plan for non-management directors, as amended November 2022, a new award called non-management directors' restricted share units (Directors' RSUs) were also available for grant.

During 2022, Freehold granted a total of 238,616 PSUs and RSUs resulting in 864,642 PSUs and RSUs, in total, outstanding at December 31, 2022 and March 1, 2023. During 2022, there were total grants of 113,012 DSUs, resulting in 481,359 outstanding at December 31, 2022, whereas subsequent to December 31, 2022, there were grants of DSUs and Directors' RSUs totaling 62,539, resulting in a total of 549,620 DSUs and Directors' RSU outstanding at March 1, 2023.

Netback and Cash Costs

The netback[(1)] allows Freehold to benchmark how changes in commodity pricing and our cash-based cost structure compare against prior periods. Freehold's netback[(1)] totaled $63.92/boe and $69.48/boe during the current reporting periods, 19% and 58% increases versus the same periods in 2021. These increases include significantly improved realized commodity pricing partially offset by increased cash costs[(1)].

Cash costs[(1)] during the current reporting periods were up 45% and 40%, on a boe basis, compared to the same periods in 2021. These increases were largely driven by higher interest expenses and general and administrative costs. In addition, 2022 includes the annual cash payout on share-based compensation, including redeemed DSU's from a retiring director.

	Three months ended December 31			Year ended December 31		
($/boe)	**2022**	2021	Change	**2022**	2021	Change
Royalty and other revenue	**$ 71.17**	$ 58.36	22%	**$ 76.36**	$ 48.34	58%
Production and ad valorem taxes	**(2.08)**	(1.21)	72%	**(1.69)**	(0.64)	164%
Net revenue [(1)]	**$ 69.09**	$ 57.15	21%	**$ 74.67**	$ 47.70	57%
Less:						
General and administrative	**(3.08)**	(2.63)	17%	**(2.72)**	(2.48)	10%
Operating expense	**(0.18)**	(0.16)	13%	**(0.19)**	(0.15)	27%
Interest and financing cash expense	**(1.91)**	(0.78)	145%	**(1.15)**	(0.76)	51%
Cash payout on share based compensation	**-**	-	0%	**(1.13)**	(0.32)	253%
Cash costs [(1)]	**(5.17)**	(3.57)	45%	**(5.19)**	(3.71)	40%
Netback [(1)]	**$ 63.92**	$ 53.58	19%	**$ 69.48**	$ 43.99	58%

(1) See Non-GAAP Financial Ratios and Other Financial Measures

Depletion, Depreciation and Other

Petroleum and natural gas interests, including acquisitions costs, future development costs (if any) and directly attributable G&A costs, are depleted on the unit-of-production method based on estimated proved and probable petroleum and natural gas reserves.

The depletion rates per boe of $19.39/boe and $19.56/boe in the current reporting periods, were up 2% and down 4% during the same periods in 2021. The annual decrease is due largely to a 9% increase in Freehold's proved and probable reserves. However, this lower annual rate combined with increased production associated with acquisitions, resulted in an increase of 17% in expensed depletion, depreciation and other during 2022 compared to the same period in 2021.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2022**	2021	Change	**2022**	2021	Change
Depreciation and other	**$ 1,456**	$ (388)	nm	**$ 1,946**	$ (263)	nm
Depletion	**26,839**	24,473	10%	**100,667**	88,288	14%
	$ 28,295	$ 24,085	17%	**$ 102,613**	$ 88,025	17%
Depletion per boe ($)	**$ 19.39**	$ 18.99	2%	**$ 19.56**	$ 20.42	-4%

(nm) not meaningful

Unrealized Foreign Exchange

Unrealized foreign exchange results from intercompany balances between Freehold's Canadian parent and its U.S. subsidiary partially offset by changes in the Canadian dollar reported amount of a portion of Freehold's long-term debt denominated in U.S. dollars, which was US$61.4 million ($83.2 million) at December 31, 2022. Contributing to the 2022 foreign exchange gain, compared to the same period of 2021, was the strengthening of the U.S. dollar from either the beginning of the year, or draw date, to year-end. The U.S./Canadian exchange rate exited 2022 at US$0.74/CDN, down 7% versus where it opened the year.

Intercompany balances have increased during 2022 as a result of U.S. royalty property acquisitions primarily in the latter half of 2021 and most recently in Q3-2022. Although these balances eliminate on consolidation, the intercompany balance held by the Canadian parent was recognized as unrealized foreign exchange whereas revaluation by the U.S. subsidiary was recognized within other comprehensive income due to different functional currencies between the parent and the U.S. subsidiary. These intercompany positions are revalued at the relevant foreign exchange rate at each period end. During 2022, the strengthening U.S. dollar relative to the Canadian dollar combined with recent U.S. acquisitions increased the reported intercompany note, causing increases in unrealized foreign exchange gains.

Freehold drew U.S. dollar denominated long term debt in 2022, exiting the year at US$61.4 million, to finance two U.S. transactions for combined proceeds of US$123.1 million.

	Three months ended December 31			Year ended December 31		
($000s)	**2022**	2021	Change	**2022**	2021	Change
Unrealized foreign exchange (gain) loss on:						
Intercompany note	**$ 6,684**	$ 1,359	-392%	**$ (24,332)**	$ 341	nm
Long term debt	**(1,590)**	-	nm	**6,850**	-	nm
	$ 5,094	$ 1,359	-275%	**$ (17,482)**	$ 341	5227%

(nm) not meaningful

Management Fee

The Manager (as defined below) receives a quarterly management fee paid with Freehold common shares. In 2022, the management fee is capped at the equivalent of 13,750 Freehold common shares per quarter, with the fee decreasing to 5,500 common shares per quarter in 2023 and thereafter.

The ascribed value attributable to management fees during the current reporting periods of $0.2 million and $0.8 million were decreases of 32% and 27% compared to the same periods of 2021. These decreases reflect the lower number of shares issued for management fees, partially offset by increases in Freehold's share price.

	Three months ended December 31			Year ended December 31		
	2022	2021	Change	**2022**	2021	Change
Shares issued for management fees	**13,750**	27,500	-50%	**55,000**	110,000	-50%
Ascribed value ($000s) (1)	**$ 217**	$ 320	-32%	**$ 787**	$ 1,074	-27%
Closing share price ($/share)	**$ 15.83**	$ 11.65	36%	**$ 15.83**	$ 11.65	36%

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

Impairment

At December 31, 2022 and 2021, there were no indicators of impairment on Freehold's U.S. and Canadian royalty cash generating units nor on its exploration and evaluation assets. As a result, no impairment testing was conducted.

Income Taxes

Freehold's taxable income is based on revenues less deductible expenses, including tax pool deductions. For 2022, Freehold estimates current income tax expenses in Canada and the U.S. of $29.4 million and $10.7 million, driven by strong commodity pricing and increased U.S. production volumes. The determination of Canadian current income taxes is reduced for non-capital losses, despite these losses being denied by the Canada Revenue Agency (CRA), as the Company has received legal advice that they are deductible (see "CRA Assessments").

In the current reporting periods, Freehold had deferred tax expenses of $3.7 million and $19.8 million.

	Three months ended December 31			Year ended December 31		
($000s)	**2022**	2021	Change	**2022**	2021	Change
Current income tax expense	**$ 8,328**	-	nm	**$ 40,074**	$ -	nm
Deferred income tax expense	**3,711**	10,064	-63%	**19,761**	22,729	-13%
Income taxes	**$ 12,039**	$ 10,064	20%	**$ 59,835**	$ 22,729	163%

nm – not meaningful

CRA Assessments

Freehold's Canadian income tax filings for its 2015, 2018, 2019 and 2021 tax years have been assessed by the CRA to deny the deduction of up to $222 million in non-capital losses that were acquired in a 2015 business combination (the "Assessments"). Freehold has deducted $171 million of the disputed non-capital losses in its income tax returns to date on the basis of legal advice received. Pursuant to the Assessments, the deductions have been denied resulting in taxes, interest, and penalties totaling $48.7 million. The CRA is also expected to deny the deduction of $51 million of non-capital losses when Freehold files its 2022 income tax returns.

Freehold has objected to the Assessments, has provided deposits totaling $21.9 million at December 31, 2022 (December 31, 2021 - $14.7 million) and expects to pay the remainder of its required deposit of $2.5 million within the permitted time, bringing the total deposits to $24.4 million.

Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, expects to be successful on its appeal. A CRA appeals' officer was assigned in late 2021, with no new developments since the assignment.

Tax Pools

Freehold is entitled to claim certain tax pool deductions available to all owners of oil and gas properties. Freehold's tax pools increased to $1,011 million at the end 2022 (from $972.4 million at the end of 2021). The tax pools below are deductible at various jurisdiction tax rates:

	Year ended December 31		
($000s)	**2022**	2021	Change
Canada			
Oil and gas property expense	**$ 496,859**	$ 543,211	-9%
Development expense	**7,755**	10,769	-28%
Capital cost allowance	**3,365**	4,137	-19%
Share issue costs	**5,686**	7,581	nm
Non-capital losses	**-**	49,702	-100%
United States			
Depletion	**496,913**	356,975	39%
Total	**$ 1,010,578**	$ 972,375	4%

nm – not meaningful

Net Income and Comprehensive Income

In the current reporting periods, Freehold had net income of $40.7 million and $209.2 million compared to $31.2 million and $72.1 million in the same periods in 2021. The increased net income resulted from increased production volumes, higher commodity prices supplemented by a shift to stronger U.S. based pricing, which was partially offset by an increase in current income taxes and depletion, depreciation and other.

	Three months ended December 31			Year ended December 31		
($000s, except per share)	**2022**	2021	Change	**2022**	2021	Change
Net income	**$ 40,744**	$ 31,178	31%	**$ 209,189**	$ 72,084	190%
Per share, basic and diluted ($)	**$ 0.27**	$ 0.21	29%	**$ 1.39**	$ 0.53	162%
Comprehensive income	**$ 39,497**	$ 30,904	28%	**$ 219,230**	$ 72,250	203%

Liquidity and Capital Resources

We define capital (and capitalization) as long-term debt, shareholders' equity and working capital. We retain working capital primarily to fund capital expenditures or acquisitions, pay dividends and reduce bank indebtedness. We manage our capital structure taking into account operating activities, debt levels, debt covenants, acquisitions, dividend levels, foreign exchange rates and taxes, among others. We also consider changes in economic conditions and commodity prices as well as the risk characteristics of our assets. Ongoing acquisitions and third-party development activities are necessary to replace production and extend reserve life. From time to time, we may issue shares to manage current and projected debt levels or finance acquisitions.

Operating Activities

Cash Flow from Operating Activities and Funds from Operations

We consider funds from operations to be a key measure of operating performance as it demonstrates Freehold's ability to pay dividends, fund acquisitions and repay debt. We believe that such a measure provides a useful assessment of Freehold's operations on a continuing basis by eliminating certain non-cash charges. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share.

Funds from operations for the current reporting periods increased by 16% to $80.0 million ($0.53/share) and $316.5 million ($2.10/share) from $68.8 million ($0.46/share) and $189.6 million ($1.39/share) in the same periods of 2021. These increases were due to higher production from Freehold's U.S. royalty acquisitions, higher third-party drilling activities, higher commodity pricing and a weighted average shift to stronger U.S. based pricing.

Cash flow from operations of $82.7 million and $327.3 million during the current reporting periods were 38% and 102% higher than the same periods of 2021, consistent with the increases in funds from operations.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2022**	2021	Change	**2022**	2021	Change
Cash flow from operations	**$ 82,675**	$ 59,700	38%	**$ 327,348**	$ 162,021	102%
Funds from operations	**$ 79,973**	$ 68,773	16%	**$ 316,494**	$ 189,649	67%
Per share - basic ($)(1) (2)	**$ 0.53**	$ 0.46	15%	**$ 2.10**	$ 1.39	51%

(1) Weighted average number of shares outstanding during the period, basic

(2) Funds from operations per share is a supplemental measure

Working Capital

We retain working capital (calculated as current assets, less current liabilities) primarily to fund acquisitions and related expenditures and/or reduce bank indebtedness. In the oil and gas industry, accounts receivable from industry partners are typically settled in the following month. However, due to royalty administration, payments to royalty owners are often delayed longer. Also, working capital can fluctuate significantly due to volume and price changes at each period end and asset and liability reclassifications.

Working capital on December 31, 2022 was $28.7 million, 36% lower when compared to December 31, 2021. This decrease reflects a combined $33.8 million increase in accrued current income taxes and dividends payable. Working capital at December 31, 2022 includes $21.9 million of deposits provided to the CRA upon Freehold filing its objection to 2015, 2018, 2019 and 2021 Assessments (see CRA Assessments), an increase of $7.2 million during 2022. Subsequent to 2022, Freehold expects to pay the remainder of the required deposits, within the permitted time, to the Alberta Treasury Board & Finance for $2.5 million, bringing total deposits to $24.4 million.

($000s)	At December 31 **2022**	At December 31 2021	Change
Working capital [1]	**$ 28,656**	$ 44,771	-36%

(1) Working capital is a capital management measures

Financing Activities

Long-Term Debt

On October 21, 2022, Freehold signed the fourth amendment to its credit facility agreement with a syndicate of four Canadian banks extending the term of the agreement and adding a larger permitted increase. The amended credit facility agreement has a committed revolving facility availability of $285 million and an operating facility availability of $15 million, where either facility can be drawn in Canadian or U.S. dollars. The amended credit facility agreement includes a permitted increase in the revolving facility to $435 million, an increase from $360 million, subject to lenders' consent. Both the committed revolving and operating facilities mature October 21, 2025. At December 31, 2022, $156.6 million was drawn on the committed revolving facility (December 31, 2021 - $146 million), consisting of Canadian dollar and U.S. dollar denominated borrowings of $73.4 million and US$61.4 million ($83.2 million), respectively. There were no drawings against the operating facility. The credit facilities are secured with a $400 million first charge demand debenture over all of Freehold's Canadian royalty income assets and fixed charge mortgage securities on U.S. royalty income assets with associated proved developed producing reserves.

The amended credit agreement contains two financial covenants: (i) long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times (the actual ratio was 0.4 times at December 31, 2022) and (ii) long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) percentage shall not exceed 55% (the actual percentage was 14% at December 31, 2022). Freehold forecasts to be in compliance with all covenants on a quarterly basis for at least the next year based on Freehold's current best estimate of results from operations.

Outstanding borrowings under the amended credit facilities bear interest on U.S. and Canadian denominated drawings at London Interest Borrowing Overnight Rates (LIBOR) and Banker's Acceptance (BA) rates, respectively, or at the lender's prime lending rate plus applicable margins and standby fees, dependent on ratios of Freehold's long-term debt to EBITDA on royalty interest properties. Both LIBOR and BA rates are to cease in the future, with the amended credit facility agreement transitioning these rates, respectively, to Secured Overnight Financing Rates

(SOFR) or Canadian Overnight Repo Rate Average rates (CORRA). Freehold does not expect this transition will cause a significant difference on the cost of its borrowings under the credit facility agreement.

At December 31, 2022 and December 31, 2021, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market and foreign exchange rates.

Net Debt

During 2022, net debt increased by $26.7 million, or 26%, to $127.9 million from $101.2 million at December 31, 2021, resulting from U.S. acquisition activity financed partially by long-term debt. The working capital component of net debt decreased $16.1 million during 2022 due largely to higher current taxes payable on Canadian 2022 taxable income not due until 2023. Additionally, net debt at December 31, 2022 includes $21.9 million of deposits provided to the CRA upon Freehold filing its objection to 2015, 2018, 2019 and 2021 Assessments (see CRA Assessments), a $7.2 million increase compared to December 31, 2021.

Freehold's net debt to trailing funds from operations ratio of 0.4 times at December 31, 2022 was down 20% from 0.5 times at December 31, 2021 well within our net debt strategy target of below 1.5 times. This ratio is a financial leverage measure. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others. However, the calculation of net debt to funds from operations excludes funds from operations from U.S. assets acquired during 2022 for the periods prior to closing of such acquisitions that, if included, would benefit this measure.

Freehold uses the capital management measure capitalization which is defined as net debt plus shareholders' equity. The associated capital management measure net debt to capitalization ratio is a financial leverage measure that shows the portion of capital relating to debt. Freehold's low net debt to capitalization ratio of 12% at December 31, 2022, a slight increase from the 10% at December 31, 2021, reflects both long-term debt partially used to finance acquisitions and a decrease in working capital, caused by current income taxes payable.

Debt Analysis

	At December 31	At December 31	
($000s)	**2022**	2021	Change
Long-term debt	**$ 156,560**	$ 146,000	7%
Working capital [1]	**(28,656)**	(44,771)	-36%
Net debt [1]	**$ 127,904**	$ 101,229	26%

(1) Working capital and net debt are capital management measures

Financial Leverage Ratios [1]

	At December 31	At December 31	
	2022	2021	Change
Net debt to funds from operations (times)	**0.4**	0.5	-20%
Net debt to capitalization	**12%**	10%	2%

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

Shareholders' Capital

During 2022, Freehold issued 55,000 common shares for payment of the management fee. At December 31, 2022 and March 1, 2023, there were 150,667,334 common shares outstanding.

Pursuant to two short form prospectuses, during 2021 the Company exchanged 31,714,667 of subscription receipts for the equivalent number of Freehold common shares, raising gross proceeds of $233.3 million before combined costs of $9.5 million ($7.2 million net of deferred income tax).

Shareholders' Capital

($000s, except as noted)	December 31, 2022 Shares		December 31, 2022 Amount	December 31, 2021 Shares		December 31, 2021 Amount
Balance, beginning of year	**150,612,334**	**$**	**1,499,544**	118,787,667	$	1,272,397
Share issuances related to subscription receipts	-		-	31,714,667		233,265
Share issue costs, net of tax effect	-		-	-		(7,192)
Issued for payment of management fee	**55,000**		**787**	110,000		1,074
Balance, end of year	**150,667,334**	**$**	**1,500,331**	150,612,334	$	1,499,544

Weighted Average and Year Ending Shares

	Three months ended December 31			Year ended December 31		
	2022	2021	Change	**2022**	2021	Change
Weighted average						
Basic	**150,653,733**	150,585,133	0%	**150,633,203**	136,510,142	10%
Diluted	**151,077,555**	151,025,668	0%	**150,822,910**	136,940,337	10%
At year end	**150,667,334**	150,612,334	0%	**150,667,334**	150,612,334	0%

Dividend Policy and Analysis

The Board reviews and determines the monthly dividend rate on a quarterly basis, or as conditions necessitate, after considering many factors including but not limited to expected commodity prices, foreign exchange rates, economic conditions, production volumes, taxes payable, and Freehold's capacity to finance operating and investing obligations and opportunities. The dividend rate is established with the intent of absorbing short-term market volatility over several months. It also recognizes our intention to fund capital expenditures primarily through funds from operations and to maintain a strong balance sheet to take advantage of acquisition opportunities and withstand potential commodity price declines.

The payment of dividends by a corporation is governed by the liquidity and insolvency tests described in the *Business Corporations Act* (Alberta) (ABCA). Pursuant to the ABCA, after the payment of a dividend, we must be able to pay our liabilities as they become due and the realizable value of our assets must be greater than our liabilities and the legal stated capital of our outstanding securities. At December 31, 2022, our legal stated capital was $361 million.

2022 Dividends Declared

Record Date	Payment Date		Dividend Amount ($/share)
January 31, 2022	February 15, 2022	$	0.06
February 28, 2022	March 15, 2022		0.06
March 31, 2022	April 18, 2022		0.08
April 29, 2022	May 16, 2022		0.08
May 31, 2022	June 15, 2022		0.08
June 30, 2022	July 15, 2022		0.08
July 29, 2022	August 15, 2022		0.08
August 31, 2022	September 15, 2022		0.09
September 30, 2022	October 17, 2022		0.09
October 31, 2022	November 15, 2022		0.09
November 30, 2022	December 15, 2022		0.09
December 30, 2022	January 16, 2023		0.09
		$	0.97

Dividends paid in Q4-2022 totaled $40.7 million ($0.27 per share), higher than the $24.1 million ($0.16 per share) paid in the same period of 2021. For 2022, dividends paid totaled $141.6 million ($0.94 per share) was higher than the $62.0 million ($0.45 per share) in the same period of 2021.

On January 12, 2023, the Board declared a dividend of $0.09 per common share which was paid on February 15, 2023, to common shareholders on record on January 31, 2023.

On February 14, 2023, the Board declared a dividend of $0.09 per common share to be paid on March 15, 2023, to common shareholders on record on February 28, 2023.

On March 1, 2023, the Board declared a dividend of $0.09 per common share to be paid on April 17, 2023, to common shareholders on record on March 31, 2023.

From inception in 1996 through to December 31, 2022, Freehold has distributed $2.0 billion ($34.06 per share) to our shareholders. Freehold's dividends are designated as eligible dividends for Canadian income tax purposes.

Accumulated Dividends (1)

	Three months ended December 31			Year ended December 31		
($000's, except per share)	**2022**	2021	Change	**2022**	2021	Change
Dividends declared	**$ 40,678**	$ 25,599	59%	**$ 146,121**	$ 68,628	113%
Accumulated, beginning of period	**1,911,919**	1,780,878	7%	**1,806,477**	1,737,849	4%
Accumulated, end of period	**$ 1,952,597**	$ 1,806,477	8%	**$ 1,952,598**	$ 1,806,477	8%
Dividends per share ($) (2)	**$ 0.27**	$ 0.17	59%	**$ 0.97**	$ 0.49	98%
Accumulated, beginning of period ($)	**33.79**	32.92	3%	**33.09**	32.60	2%
Accumulated, end of period ($)	**$ 34.06**	$ 33.09	3%	**$ 34.06**	$ 33.09	3%

(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

In the current reporting periods, Freehold's dividend payout(2) ratios were 51% and 45%, with excess funds from operations being used to repay debt and fund acquisitions.

Dividend Payout Ratio (2)

	Three months ended December 31			Year ended December 31		
($000s)	**2022**	2021	Change	**2022**	2021	Change
Dividends paid (1)	**$ 40,677**	$ 24,094	69%	**$ 141,597**	$ 61,969	128%
Funds from operations	**$ 79,973**	$ 68,773	16%	**$ 316,494**	$ 189,649	67%
Dividend payout ratio (2)	**51%**	35%	46%	**45%**	33%	36%

(1) Based on the dividend payment date which is generally on the 15th day of the month following the month it was declared

(2) Dividend payout ratio is a supplemental measure

Dividend payout ratios, a supplemental measure, 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 dividend payout ratio is calculated as dividends declared as a percentage of funds from operations.

Freehold continues to work towards returning the dividend payout ratio to its target of approximately 60% through a measured strategy using long term planning pricing which weighs this return against expected future pricing volatility. With the goal of aligning dividend levels to a stronger and stabilizing business outlook, Freehold has increased its monthly dividend from $0.04/share in May 2021, to $0.05/share in August 2021, to $0.06/share in November 2021, to $0.08/share in March 2022 and to $0.09/share or $1.08/share on an annualized basis in August 2022.

Investing Activities

Acquisitions and Related Expenditures

In 2022, Freehold invested $190.8 million in acquisitions and related expenditures. These transactions were treated as asset acquisitions, using cash consideration as initially funded from long-term debt.

US Acquisitions

See US Royalty Acquisitions

Canadian Acquisitions

Freehold paid $8.8 million during 2022 in exchange for gross overriding royalties in the range of 2% to 5% in the Clearwater play in central Alberta pursuant to two agreements. Freehold's combined remaining commitments per these agreements is $11.7 million at December 31, 2022, with $1.2 million paid subsequent to year-end.

Related Expenditures

For 2022, Freehold recognized capitalized general & administrative costs of $2.9 million and other royalty income asset and miscellaneous expenditures of $1.2 million.

Related Party Transactions

Freehold does not have any employees. Rather, Freehold is managed by Rife Resources Management Ltd. (the Manager) pursuant to a management agreement (the Management Agreement). The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). Rife is 100% owned by the pension funds for the employees of the Canadian National Railway Company (the CN Pension Trust Funds), and both Rife and the CN Pension Trust Funds are shareholders of Freehold. Combined they have a 16.7% ownership in Freehold at December 31, 2022, a decrease from the 19.9% ownership at December 31, 2021, as both Rife and the CN Pension Trust Funds sold to third parties a combined 4,991,667 shares of their investment in Freehold. Canpar Holdings Ltd. (Canpar) is managed by Rife and owned 100% by the CN Pension Trust Funds. Two of the directors of each of Rife and Canpar are also directors of Freehold.

During 2021, Freehold entered into an acquisitions opportunities agreement with Rife, Canpar and the Manager (the Related Parties), that reaffirmed Freehold's priority right to acquire petroleum royalty interest opportunities. During 2022, the acquisitions opportunities agreement was amended to reflect the allocation of costs from a new diversified royalties team, as managed by Rife, with 60% and 40% of these costs charged to Freehold and Rife entities, respectively. The amended acquisitions opportunities agreement provides Freehold the right to participate in potential other mineral royalty interest opportunities including those identified on the lands of the Related Parties.

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

Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares on a quarterly basis. Pursuant to the Management Agreement, the management fee was capped at 13,750 and 27,500 Freehold common shares per quarter for 2022 and 2021, respectively. For 2022 and 2021, respective ascribed values of $0.8 million and $1.1 million were based on the closing price of Freehold's common shares on the last trading day of each quarter.

For 2022 and 2021, the Manager charged $12.2 million and $9.7 million in general and administrative costs, respectively. At December 31, 2022, there was $nil million (December 31, 2021 – $0.5 million) in accounts payable and accrued liabilities relating to these costs.

Rife Resources Ltd. and CN Pension Trust Funds

For 2022 and 2021, Freehold paid $25.8 million and $13.2 million, respectively, in total cash dividends to Rife and the CN Pension Trust Funds for their combined ownership in Freehold's common shares. In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For 2022 and 2021, Freehold received royalties in each year of approximately $0.6 million from Rife. At December 31, 2022, there was $2.4 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared, net of royalties receivable (2021 - $1.4 million).

Pursuant to Freehold's September 2021 short form prospectus, the CN Pension Trust Funds acquired 939,200 subscription receipts at $9.05 per share for proceeds of $8.5 million. The price per subscription receipt paid by the CN Pension Trust Funds was equivalent to the public offering price. No commission was paid in respect of the subscription receipts purchased by the CN Pension Trust Funds. During 2021, these subscription receipts were exchanged for an equivalent number of Freehold's common shares.

Canpar Holdings Ltd.

Freehold and Canpar generally share mineral title ownership in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Where Freehold is not the legal registered owner of such mineral rights, Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. Amounts due from Canpar at December 31, 2022 and 2021 were $0.7 million and $0.2 million, respectively.

Pursuant to the acquisitions opportunities agreement, as then amended, during 2021 Freehold elected to participate in Canpar's acquired mineral royalty interest in a potash mine located in Rocanville, Saskatchewan, for $0.6 million in exchange for 50% of Canpar's royalty interest where these proceeds equal one-half of the acquisition price paid by Canpar to a third party.

Key Management Personnel Compensation

Expenses relating to compensation for key management personnel, considered to be the members of the Board and executive officers, are as follows:

($000s)	Year ended December 31 **2022**	2021
Salaries, directors' fees, and other benefits	**$ 1,787**	$ 1,442
Share based compensation	**$ 6,327**	2,515
Key management compensation	**$ 8,114**	$ 3,957

The current year share-based compensation includes a non-cash charge of $3.3 million to adjust the carrying amount of DSUs to their market value at December 31, 2022 to prospectively account for this plan as cash settled (see Share-Based Compensation).

Select Annual Information

FINANCIAL ($000S, except as noted)	2022	2021	2020
Royalty and other revenue	**$ 393,020**	$ 208,992	$ 82,367
Net income (loss)	**$ 209,189**	$ 72,084	$ (13,931)
Per share, basic and diluted ($)	**1.39**	0.53	(0.12)
Dividends declared	**$ 146,121**	$ 68,628	$ 35,306
Per share ($)	**0.97**	0.45	0.2975
Total assets	**$ 1,212,003**	$ 1,070,507	$ 829,909
Long-term debt	**$ 156,560**	$ 146,000	$ 93,000
Total long-term liabilities	**$ 200,235**	$ 161,109	$ 102,619

Select Quarterly Information

	2022				2021			
Financial ($000s, except as noted)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Royalty and other revenue	**98,502**	98,418	108,495	87,605	75,202	51,423	45,353	37,014
Net income	**40,744**	63,175	66,875	38,395	31,178	22,726	12,545	5,635
Per share, basic ($) [1]	**$ 0.27**	$ 0.42	$ 0.44	$ 0.25	$ 0.21	$ 0.17	$ 0.10	$ 0.04
Cash flows from operations	**82,675**	99,931	75,443	69,300	59,700	43,911	33,420	24,990
Funds from operations	**79,973**	80,783	83,846	71,893	68,773	48,247	40,208	32,421
Per share, basic ($) [1]	**$ 0.53**	$ 0.54	$ 0.56	$ 0.48	$ 0.46	$ 0.36	$ 0.31	$ 0.25
Acquisitions and related expenditures	**7,160**	161,679	20,661	1,294	67,906	228,382	930	79,782
Dividends paid	**40,677**	37,658	36,150	27,112	24,094	17,095	13,147	7,633
Per share ($) [2]	**0.27**	0.25	0.24	0.18	0.16	0.13	0.10	0.06
Dividends declared	**40,678**	39,167	36,151	30,124	25,598	19,364	14,464	9,201
Per share ($) [2]	**$ 0.27**	$ 0.26	$ 0.24	$ 0.20	$ 0.17	$ 0.14	$ 0.11	$ 0.07
Payout ratio (%) [3]	**51%**	47%	43%	38%	35%	35%	33%	24%
Long term debt	**156,560**	196,947	86,000	105,000	146,000	126,000	78,000	96,000
Net debt [4]	**127,904**	159,872	33,095	62,578	101,229	75,278	40,751	64,797
Shares outstanding, period end (000s)	**150,667**	150,654	150,640	150,626	150,612	150,585	131,490	131,463
Average shares outstanding (000s) [1]	**150,654**	150,640	150,626	150,612	150,585	132,941	131,463	130,874
Operating								
Light and medium oil (bbls/d)	**6,418**	5,935	5,378	5,234	5,401	4,025	4,048	3,784
Heavy oil (bbls/d)	**1,218**	1,190	1,239	1,210	1,254	1,249	1,253	1,072
NGL (bbls/d)	**1,781**	1,708	1,613	1,757	1,564	1,125	1,107	1,065
Total liquids (bbls/d)	**9,417**	8,833	8,230	8,201	8,219	6,399	6,408	5,921
Natural gas (Mcf/d)	**33,744**	32,319	31,336	32,845	34,700	29,203	28,376	30,132
Total production (boe/d) [5]	**15,041**	14,219	13,453	13,676	14,005	11,265	11,137	10,944
Oil and NGL (%)	**63%**	62%	61%	60%	59%	57%	58%	54%
Petroleum and natural gas realized price ($/boe)	**69.76**	74.31	87.55	69.71	57.44	49.17	44.22	37.31
Cash costs ($/boe) [3][5]	**5.17**	3.62	8.38	3.70	3.57	2.49	4.48	4.37
Netback ($/boe) [3][5]	**63.92**	69.77	78.80	66.17	53.58	46.60	39.83	32.94
Benchmark Prices								
West Texas Intermediate crude oil (US$/bbl)	**82.64**	91.56	108.41	94.29	77.19	70.55	66.07	57.81
Exchange rate (Cdn$/US$)	**0.74**	0.77	0.78	0.79	0.79	0.79	0.81	0.79
Edmonton Light Sweet crude oil (Cdn$/bbl)	**109.83**	116.85	137.79	115.67	93.28	83.77	77.12	66.76
Western Canadian Select crude oil (Cdn$/bbl)	**77.08**	93.49	122.09	101.02	78.71	71.79	66.90	57.55
Nymex natural gas (US$/mcf)	**6.03**	8.20	7.17	4.64	4.75	4.35	2.95	3.50
AECO 7A Monthly Index (Cdn$/Mcf)	**5.58**	5.50	6.27	4.58	4.93	3.36	2.80	2.92

(1) Weighted average number of shares outstanding during the period, basic
(2) Based on the number of shares issued and outstanding at each record date
(3) See Non-GAAP Financial Ratios and Other Financial Measure
(4) Net debt is a capital management measure
(5) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe)

Business Risks

Our operations are subject to some of the same industry risks and conditions faced by oil and gas companies. The most significant of these include the following:

- volatility in market prices for oil and natural gas;
- the impact of development of alternatives to, and changing demand for, petroleum producers;
- the impact of any changes in the regulatory or royalty regimes in the jurisdictions where the Corporation has assets;
- liabilities inherent in oil and natural gas operations;
- the effects of the Russian/Ukrainian conflict on commodity prices and the world economy;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of royalty reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- risks related to the environment and changing environmental laws, such as, carbon tax and methane emissions regulations;
- the impact of the continuing COVID-19 pandemic;
- risks pertaining to supply chain issues and inflationary pressures;
- geological, technical, drilling, and processing problems; and
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry.

For a more detailed description of risk factors, please see our Annual Information Form, filed on SEDAR.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, state, provincial and local laws and regulations. Environmental legislation provides for, among other things, the initiation and approval of new oil and natural gas projects, restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. New environmental legislation at the federal, provincial and state levels may increase uncertainty among oil and natural gas industry participants as the new laws are implemented, and the effects of the new rules and standards are felt in the oil and natural gas industry.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Additional information on environmental regulations and risks related thereto can be found under the headings "Industry Conditions" and "Risk Factors" in Freehold's Annual Information Form.

Climate Change Risks

Global climate issues continue to attract public and scientific attention. Numerous reports, including reports from the Intergovernmental Panel on Climate Change, have engendered concern about the impacts of human activity, especially hydrocarbon combustion, on global climate issues. In turn, increasing public, government, and investor attention is being paid to global climate issues and to emissions of GHG, including emissions of carbon dioxide and methane from the production and use of oil, liquids and natural gas. The majority of countries across the globe, including Canada and the United States, have agreed to reduce their carbon emissions in accordance with the Paris Agreement. In addition, during the course of the 2021 United Nations Climate Change Conference in Glasgow, Scotland, Canada's Prime Minister Justin Trudeau made several pledges aimed at reducing Canada's GHG emissions and environmental impact.

Transition Risks

Foreign and domestic governments continue to evaluate and implement policy, legislation, and regulations focused on restricting emissions commonly referred to as GHG emissions and promoting adaptation to climate change and the transition to a low-carbon economy. It is not possible to predict what measures foreign and domestic governments may implement in this regard, nor is it possible to predict the requirements that such measures may impose or when such measures may be implemented. However, international multilateral agreements, the obligations adopted thereunder and legal challenges concerning the adequacy of climate-related policy brought against foreign and domestic governments may accelerate the implementation of these measures. Given the evolving nature of climate change policy and the control of GHG emissions and resulting requirements, including carbon taxes and carbon pricing schemes implemented by varying levels of government, it is expected that current and future climate change regulations will have the effect of increasing the operating expenses of some of the Corporation's royalty payors, and, in the long-term, potentially reducing the demand for oil, liquids, natural gas and related products, resulting in a decrease in the Corporation's profitability and a reduction in the value of its assets.

Claims have been made against certain energy companies alleging that GHG emissions from oil and natural gas operations constitute a public nuisance under certain laws or that such energy companies provided misleading disclosure to the public and investors of current or future risks associated with climate change. As a result, individuals, government authorities, or other organizations may make claims against oil and natural gas companies, including the Corporation, for alleged personal injury, property damage, or other potential liabilities. While the Corporation is not a party to any such litigation or proceedings, it could be named in actions making similar allegations. An unfavorable ruling in any such case could adversely affect the demand for and price of securities issued by the Corporation, impact its operations and have an adverse impact on its financial condition.

Given the perceived elevated long-term risks associated with policy development, regulatory changes, public and private legal challenges, or other market developments related to climate change, there have also been efforts in recent years affecting the investment community, including investment advisors, sovereign wealth funds, banks, public pension funds, universities and other institutional investors, promoting direct engagement and dialogue with companies in their portfolios on climate change action (including exercising their voting rights on matters relating to climate change) and increased capital allocation to investments in low-carbon assets and businesses while decreasing the carbon intensity of their portfolios through, among other measures, divestments of companies with high exposure to GHG-intensive operations and products. Certain stakeholders have also pressured insurance providers and commercial and investment banks to reduce or stop financing, and providing insurance coverage to oil and natural gas and related infrastructure businesses and projects. The impact of such efforts require the Corporation's management to dedicate significant time and resources to these climate change-related concerns, may adversely affect the Corporation's operations, the demand for and price of the Corporation's securities and may negatively impact the Corporation's cost of capital and access to the capital markets.

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social, governance and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators published for comment Proposed National Instrument 51-107 – *Disclosure of Climate Related Matters*, intended to introduce climate-related disclosure requirements for reporting issuers in Canada with limited exceptions. If the Corporation is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licences, registrations, approvals, and authorizations from various governmental authorities, and raise capital may be adversely affected.

Additional information on environmental regulations and risks related thereto can be found under the heading "Industry Conditions" in Freehold's Annual Information Form.

Physical Risks

Based on the Corporation's current understanding, the potential physical risks resulting from climate change are long-term in nature and associated with a high degree of uncertainty regarding timing, scope, and severity of potential impacts. Many experts believe global climate change could increase extreme variability in weather patterns such as increased frequency of severe weather, rising mean temperature and sea levels, and long-term changes in precipitation patterns. Extreme hot and cold weather, heavy snowfall, heavy rainfall, and wildfires may restrict the ability of the Corporation's royalty payors to access their properties and cause operational difficulties, including damage to equipment and infrastructure. Extreme weather also increases the risk of personnel injury as a result of dangerous working conditions.

Controls, Accounting and Regulatory Matters

In compliance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), Freehold has filed certificates signed by our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) that, among other things, deal with the matter of disclosure controls and procedures and internal control over financial reporting. While we believe that our disclosure controls and procedures and internal control over financial reporting provide a reasonable level of assurance, we do not expect that the controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

Disclosure Controls

As of December 31, 2022, an internal evaluation was carried out of the effectiveness of Freehold's disclosure controls and procedures. This evaluation was performed under the supervision of, and with the participation of the CEO and the CFO. It took into consideration Freehold's Disclosure, Insider Trading, Code of Business Conduct and Conflict of Interest, and Whistleblower policies, as well as the functioning of the Manager, the officers, the Board and Board Committees. In addition, the evaluation covered the processes, systems and capabilities relating to regulatory filings, public disclosures, and the identification and communication of material information. Based on this evaluation, management has concluded that Freehold's disclosure controls and procedures were effective as at December 31, 2022, in ensuring that material information is made known to management in a timely manner, particularly during the period in which the annual filings were being prepared, and information required to be disclosed by Freehold in its annual filings, interim filings or other reports filed or submitted by Freehold under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Control Over Financial Reporting

Our CEO and CFO are responsible for establishing and maintaining internal control over financial reporting (ICFR). They have caused ICFR to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. The control framework used to design ICFR is the Internal Control – Integrated Framework (2013 COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Under the supervision of the CEO and CFO, Freehold conducted an evaluation of the effectiveness of its ICFR as at December 31, 2022, as structured within the 2013 COSO Framework. Based on this evaluation, the CEO and CFO concluded that, as of December 31, 2022, that ICFR was effective. Our ICFR provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There were no changes in our ICFR during the period beginning on October 1, 2022 and ended on December 31, 2022 that materially affected Freehold’s ICFR.

Use of Estimates and Judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ as a result of using estimates.

Petroleum and natural gas reserves

The amounts recorded for the depletion of petroleum and natural gas interests, the provision for decommissioning liability, business combinations, indicators of impairment or impairment reversal and the amounts used in an impairment calculation are based on estimates of proved and probable petroleum and natural gas reserves. By their nature, these estimates of proved and probable petroleum and natural gas reserves and the related cash flows are subject to uncertainty including significant assumptions related to forecasted royalty production from proved and probable petroleum and natural gas reserves and forecasted oil and gas commodity prices and the impact on the financial statements of future periods could be material. Freehold’s proved and probable petroleum and natural gas reserves have been prepared at December 31, 2022 by the Company’s external independent qualified reserves evaluators. Significant management judgment is required to analyze internal and external indicators of impairment for petroleum and natural gas interests and exploration and evaluation assets with the estimate of proved and probable petroleum and natural gas reserves and the related cash flows being significant to the assessment.

Unbooked future development locations

Unbooked future development locations on royalty lands and the associated future cash flows can also be used in an impairment calculation. These unbooked future development locations are determined from a historical analysis of booking previously undeveloped reserves into the independently prepared reserve reports. By their nature, this estimate and future cash flows are subject to uncertainty including significant assumptions related to future royalty production and forecasted oil and gas commodity prices and timing of third-party development.

Decommissioning liability

The decommissioning liability amounts recorded are based on estimates of inflation rates, risk-free rates, timing of abandonments and future abandonment and reclamation costs, all of which are subject to uncertainty.

Share-based compensation

The recorded amounts for share-based compensation include an estimate of forfeitures and certain management assumptions. Actual results could differ as a result of using estimates.

Income taxes

Deferred income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material. Management reviews the adequacy of these amounts at the end of the reporting period. However, it is possible that at some future date there is a change in the income tax liability or asset resulting from audits by taxing authorities. Where the probable outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the income tax provisions in the period in which such determination is made.

Cash generating units

The determination of a cash generating unit (CGU) is subject to management judgment. The recoverability of petroleum and natural gas interests and exploration and evaluation assets are assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. Freehold currently has two royalty CGUs: the United States and Canada.

Business combination

Each acquisition transaction is reviewed by management and judgment is used when determining if the transaction met the IFRS 3 inputs and processes criteria for business combinations.

United States and Canadian Petroleum and natural gas royalty revenue accruals

Freehold follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of U.S. and Canadian revenues, which are based on significant assumptions related to royalty production and realized commodity pricing for the period being reported, for which actual results have not yet been received. It is expected that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results. Freehold has no operational control over its royalty lands and primarily holds small interests in several thousand wells. Thus, obtaining timely production data from the well operators is extremely difficult. As a result, the Company uses historical production information, new wells on stream and publicly available production data pursuant to the terms of the Company's U.S. and Canadian leases and royalty agreements to determine royalty production. Realized commodity prices are based on publicly available price benchmarks, adjusted for quality, location, allowable deductions, or other factors pursuant to the terms of these leases and royalty agreements. These U.S. and Canadian royalty revenue accrual estimates are revised based on actual royalty production volumes and realized commodity prices received in subsequent periods. The U.S. and Canadian royalty revenue accruals are necessary due to the delay between the timing of oil and gas production and when the Company receives its royalty production and payment, which is typically a time lag of approximately two to three months.

Judgment is required to determine the interests of royalty properties in areas where mineral rights are shared with a related party, Canpar Holdings Ltd. (Canpar). Freehold uses publicly available information on geological formations to apportion revenues between the entities in accordance with the respective party's interests. As new geological information becomes available and as part of its ongoing internal audit activities, Freehold periodically revises these allocations and consideration is transferred to reflect the changes.

Significant Accounting Policies

The most significant of Freehold's accounting policies are as follows:

Exploration and evaluation assets

Exploration and evaluation (E&E) costs are accounted for in accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources. All E&E costs incurred after acquiring the "right to explore" are capitalized into a single cost pool. Upon determination of the technical feasibility and commercial viability of reserves, the associated E&E costs are first assessed for impairment and then the estimated recoverable amount is transferred to petroleum and natural gas interests. All costs incurred prior to acquiring the "right to explore" are expensed as incurred. At each reporting date, E&E costs are reviewed for indicators of impairment using internal and external market and industry data. If circumstances indicate the carrying amount exceeds its recoverable amount, the cost is written down to its recoverable amount and the difference is accounted for as an impairment expense. No depletion or depreciation is charged to E&E.

Impairment

The Company assesses at each reporting date whether there is an indication that its U.S. and Canadian Royalty CGUs of petroleum and natural gas interests may be impaired. Significant management judgment is required to analyze internal and external indicators of impairment for petroleum and natural gas assets with the estimate of proved and probable petroleum and natural gas reserves and the related cash flows being significant to the assessment. In some instances, there is also the potential for inclusion of unbooked future development locations on royalty lands and the related cash flows being significant to the assessment. If any such indication of impairment exists, Freehold makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs of disposal (FVLCTD) and its value in use (VIU). Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down. In assessing VIU, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. FVLCTD is the amount obtainable from the sale of assets in an arm's length transaction less cost of disposal.

Royalty revenue recognition

The vast majority of royalty and other revenue represents the sale of crude oil, natural gas, natural gas liquids and other products. It was determined that Freehold has two different types of revenue streams coming from the sale of these products: royalty revenue and working interest revenue. The Company earns royalty revenue from the sale of crude oil, natural gas, natural gas liquids and other products ("oil and gas") that is recognized as it accrues in accordance with the terms of U.S. and Canadian leases and royalty agreements, which is generally in the month when the product is produced or extracted. The U.S. and Canadian royalty revenue accruals are necessary due to the delay between the timing of oil and gas production and when the Company receives its royalty production and payment, which is typically a time lag of approximately two to three months.

Royalty and other revenue is measured at fair value of the consideration received or receivable per the terms of the various agreements. Freehold estimates royalty production based on historical production information, new wells on stream and publicly available production data and estimates realized commodity prices based on publicly available price benchmarks, adjusted for quality, location, allowable deductions, or other factors pursuant to the terms of the Company's U.S. and Canadian leases and royalty agreements. Actual results could differ as a result of using estimates and any differences are recorded in the period in which actuals are received.

Sustainability Reporting

The International Sustainability Standards Board recently issued exposure drafts "General Requirements for Disclosure of Sustainability-related Financial Information" and "Climate-related Disclosures", with standards expected to be released in 2023. These exposure drafts "sets out the overall requirements for disclosing sustainability-related financial information in order to provide primary users with a complete set of sustainability-related financial disclosures" and "sets out the requirements for identifying, measuring and disclosing climate-related risks and opportunities as part of an entity's general purpose financial reporting." Currently, the exposure drafts do not have an effective date for the adoption of future sustainability standards and accordingly, Freehold, at this time, is not able to determine the impact on future financial statements that may result from these exposure drafts. The Canadian Securities Administrators have also issued a proposed National Instrument ("NI 51-107") "Disclosure of Climate-related Matters". Costs to comply with these developing sustainability disclosures is not quantifiable at this time.

In January 2023, Freehold published its Sustainability Report, in accordance with the Global Reporting Initiative and Sustainability Accounting Standards Board, focusing on the long-term sustainability of its business, including partnering with investment grade operators across North America who share the same view on the importance of sustainability. The report details the historical trends of Freehold's sustainability performance metrics, including its commitment to net zero Scope-1 and Scope-2 emissions and discusses future Environment, Social and Governance goals and targets.

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 the headings Freehold's Strategy,Outlook, 2023 Guidance, Drilling Activity, Income Taxes, Liquidity and Capital Resources, Financing Activities and Dividend Policy and Analysis pertaining to the following:

- our expectation of creating value for our shareholders by driving oil and gas development on our lands through our lease program and royalty optimization, acquiring royalty assets with acceptable risk profiles and long economic life and generating gross overriding royalties for revenue growth;
- our intent to maintain balance sheet strength (1.5 times or less net debt to funds from operations) and achieve a dividend payout ratio of approximately 60%;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil, natural gas liquids and natural gas;
- light/heavy oil price differentials and expectations regarding egress constraints;
- 2023 guidance including average daily production (including commodity weighting) and commodity prices;
- 2023 forecast activity levels;
- that from time to time we may issue shares to manage current and projected debt levels or finance acquisitions;
- our expectation that we will be successful in our objection of the Assessments and the payment of the deposits held by the CRA will be refunded, plus interest, and the denied NCLs will be reinstated;
- our forecast to be in compliance with all covenants under our credit facilities on a quarterly basis for at least the next 12 months based on Freehold's current best estimate of results from operations;
- our dividend policy and expectations for future dividends, including our intention to fund capital expenditures primarily through funds from operations and to maintain a strong balance sheet to take advantage of acquisition opportunities and withstand potential commodity price declines and
- treatment under governmental regulatory regimes and tax laws.

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;
- future capital expenditure levels;
- future production levels;
- inflationary pressures and the impacts thereof;
- 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's 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;

- our ability to add production and reserves through our development and acquisitions activities;
- the impacts of inflation and lack of supply of equipment and services;
- currency fluctuations;
- the continued global volatility in commodity prices;
- changes in 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, 2022 and our AIF.

Key operating assumptions with respect to the forward-looking statements contained in this MD&A are provided in the Outlook section and elsewhere in this MD&A. In addition, with respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, future commodity prices, future capital expenditure levels, future production levels, future exchange rates, future tax rates, future legislation, the cost of developing and producing our assets, our ability and the ability of our lessees to obtain equipment in a timely manner to carry out development activities, our ability to market our oil and gas successfully to current and new customers, our expectation for the consumption of crude oil and natural gas, our expectation for industry drilling levels, our ability to obtain financing on acceptable terms, shut-in production, production additions from our audit function and our ability to add production and reserves through development and acquisition activities and elsewhere in this MD&A.

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.

Non-GAAP Financial Ratios and Other 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 net revenue, netback, dividend payout ratio, funds from operations per share 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.

Net revenue, which is calculated as revenues less ad valorem and production taxes (as incurred in the U.S. at the state level, largely Texas, which do not charge corporate income taxes but do assess flat tax rates on commodity revenues in addition to property tax assessments) details the net amount Freehold receives from its royalty payors, largely after state withholdings.

Netback, which is calculated on a boe basis, as average realized price less production and ad valorem taxes, operating expenses, general and administrative, cash interest charges and share-based payouts, represents the per boe netback amount allowing the Company to benchmark how changes in commodity pricing, net of production and ad valorem taxes, and our cash-based cost structure compare against prior periods.

Dividend payout ratios are often used for dividend paying companies in the oil and gas industry to identify dividend levels in relation to funds from operations that are also used to finance debt repayments and/or acquisition opportunities. Dividend payout ratio is calculated as dividends paid as a percentage of funds from operations.

Funds from operations per share, which is calculated as funds from operations divided by the weighted average shares outstanding, provides direction if changes in commodity prices, cash costs, and/or acquisitions were accretive on a per share basis.

Cash costs, which is also calculated on a boe basis, is comprised of recurring cash based costs, excluding taxes, reported on the statements of operations. For Freehold, cash costs are identified as operating expense, G&A and cash-based interest and financing charges and share-based payouts. Cash costs allow Freehold to benchmark how changes in its manageable cash-based cost structure compare against prior periods.

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.

Management's Report

The accompanying consolidated financial statements and other financial information in this Financial Report have been prepared by management, who is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, Freehold maintains policies, procedures and systems of internal control to ensure that reporting practices and accounting and administrative procedures are appropriate to provide reasonable assurance that the assets are safeguarded, transactions are properly authorized and relevant and reliable financial information is produced.

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Financial Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Independent auditors, KPMG LLP, were appointed by the shareholders to perform an examination of the corporate and accounting records so as to express an opinion on the consolidated financial statements. Their examination included tests and procedures considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with International Financial Reporting Standards.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through its Audit Committee, which is comprised of independent directors. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee both with and without management present to discuss their audit and related findings.

(signed) "*David M. Spyker*"

David M. Spyker
President and Chief Executive Officer

(signed) "*David W. Hendry*"

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

March 1, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Freehold Royalties Ltd.

Opinion

We have audited the consolidated financial statements of Freehold Royalties Ltd. (the "Company"), which comprise:

- the consolidated balance sheets as at December 31, 2022 and December 31, 2021
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of the United States and Canadian royalty revenue accrual

Description of the matter

We draw attention to note 1, note 2 and note 10 to the financial statements. The Company has an accounts receivable and accrued royalty as of December 31, 2022 was $55.9 million, a portion of which relates to United States and Canadian royalty revenue accrual. The Company earns royalty revenue from the sale of crude oil, natural gas, natural gas liquids and other products that is recognized as it accrues in accordance with the terms of the United States and Canadian leases and royalty agreements, which is generally in the month when the oil and gas is produced or extracted. The United States and Canadian royalty revenue accrual is necessary due to the delay between the timing of oil and gas production and when the Company receives its royalty production and payment, which is typically a time lag of approximately two to three months.

The estimate of the United States and Canadian royalty revenue accrual is based upon certain significant assumptions:

- Royalty production
- Realized commodity prices.

Royalty production is based on historical production information, new wells on stream and publicly available production data pursuant to the terms of the Company's United States and Canadian leases and royalty agreements. The realized commodity prices are based on publicly available price benchmarks, adjusted for quality, location, allowable deductions, or other factors pursuant to the terms of the Company's United States and Canadian leases and royalty agreements.

Why the matter is a key audit matter

We identified the assessment of the United States and Canadian royalty revenue accrual as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of the United States and Canadian royalty revenue accrual and the high degree of estimation uncertainty in determining the United States and Canadian royalty revenue accrual. Significant auditor judgment and effort was required to evaluate evidence supporting the Company's royalty production and realized commodity price assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Company's prior year's United States and Canadian royalty revenue accrual to received royalty production and received realized commodity prices to assess the Company's ability to accurately estimate.

We evaluated the reasonableness of the Company's United States and Canadian royalty revenue accrual by:

- Comparing the Company's royalty production assumptions for oil and gas to 2022 received royalty production. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the royalty production assumptions
- Developing an expectation of the realized commodity prices for oil and gas based on publicly available price benchmarks adjusted for quality, location, allowable deductions, or other factors
- Developing an expectation of the United States and Canadian royalty revenue accrual for oil and gas based on the Company's royalty production assumptions and our expectation of the realized commodity price assumptions and comparing the United States and Canadian royalty revenue accrual expectation to the Company's United States and Canadian royalty revenue accrual
- Comparing the United States and Canadian royalty revenue accrual to cash received subsequent to December 31, 2022, for a selection of customers.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2022 Annual Report"

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the 2022 Annual Report as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient audit evidence regarding the financial information of the companies or business activities with the Group Company to express an opinion on the financial statement. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor’s report is Brad William Robertson.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 1, 2023

Consolidated Balance Sheets

($000s)	December 31 2022	December 31 2021
Assets		
Current assets:		
Cash	$ 524	$ 2,189
Accounts receivable	57,650	46,303
Income tax deposits (note 14)	21,909	14,711
	80,083	63,203
Exploration and evaluation assets (note 3)	68,758	74,455
Petroleum and natural gas interests (note 4)	1,063,162	932,849
Total Assets	$ 1,212,003	$ 1,070,507
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable (note 9)	$ 13,560	$ 9,037
Accounts payable and accrued liabilities	4,016	5,163
Current income taxes (note 14)	29,303	-
Current portion of lease obligation (note 5)	195	195
Current portion of decommissioning liability (note 6)	500	750
Current portion of share based compensation payable (note 7)	3,853	3,287
	51,427	18,432
Lease obligation (note 5)	1,520	1,619
Share based compensation payable (notes 2f and 7)	12,167	4,455
Decommissioning liability (note 6)	5,437	4,815
Deferred income tax liability (note 14)	24,551	4,220
Long-term debt (note 8)	156,560	146,000
Shareholders' equity:		
Shareholders' capital (note 9)	1,500,331	1,499,544
Accumulated other comprehensive income	10,167	126
Contributed surplus (note 2f)	-	4,521
Deficit	(550,157)	(613,225)
Total Shareholders' Equity	960,341	890,966
Total Liabilities and Shareholders' Equity	$ 1,212,003	$ 1,070,507

See accompanying notes to consolidated financial statements

Subsequent events (notes 9 and 14)

Approved on behalf of the Board of Directors of Freehold Royalties Ltd.:

(signed) "Marvin F. Romanow"

Marvin F. Romanow

Director

(signed) "Maureen E. Howe"

Maureen E. Howe

Director

Consolidated Statements of Income and Comprehensive Income

($000s, except per share and weighted average shares)	Year ended December 31 2022	2021
Revenue:		
Royalty and other revenue (note 10)	**$ 393,020**	$ 208,992
Expenses:		
General and administrative	**13,978**	10,742
Production and ad valorem taxes	**8,687**	2,801
Operating	**957**	633
Interest and financing (note 11)	**6,120**	3,490
Share based compensation (note 7)	**8,336**	7,073
Depletion, depreciation and other (notes 4 and 6)	**102,613**	88,025
Unrealized foreign exchange loss (gain) (note 13)	**(17,482)**	341
Management fee (note 12)	**787**	1,074
	123,996	114,179
Income before taxes	**269,024**	94,813
Income taxes:		
Current income tax expense (note 14)	**40,074**	-
Deferred income tax expense (note 14)	**19,761**	22,729
	59,835	22,729
Net income	**$ 209,189**	$ 72,084
Other comprehensive income		
Foreign currency translation adjustment	**10,041**	$ 166
Comprehensive income	**$ 219,230**	$ 72,250
Net income per share, basic and diluted	**$ 1.39**	$ 0.53
Weighted average number of shares:		
Basic	**150,633,203**	136,510,142
Diluted	**150,822,910**	136,940,337

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

($000s)	Year ended December 31 2022	2021
Operating:		
Net income	$ **209,189**	$ 72,084
Adjustments:		
Depletion, depreciation and other (notes 4 and 6)	**102,613**	88,025
Unrealized foreign exchange loss (gain) (note 13)	**(17,482)**	341
Deferred income tax expense (note 14)	**19,761**	22,729
Share based compensation (note 7)	**8,336**	7,073
Management fee (note 12)	**787**	1,074
Accretion of decommissioning liabilities and lease obligation	**186**	205
Payout on share based compensation (note 7)	**(5,838)**	(1,371)
Decommissioning expenditures (note 6)	**(1,058)**	(511)
Funds from operations	**316,494**	189,649
Changes in non-cash working capital (note 18)	**10,854**	(27,628)
	327,348	162,021
Financing:		
Long-term debt net draw	**3,710**	53,000
Dividends paid (note 9)	**(141,597)**	(61,969)
Lease obligation paid	**(195)**	(195)
Share issuance related to subscription receipts, net of costs (note 9)	**-**	223,789
Changes in non-cash working capital (note 18)	**-**	1,156
	(138,082)	215,781
Investing:		
Acquisitions and related expenditures (note 4)	**(190,794)**	(377,002)
Changes in non-cash working capital (note 18)	**(385)**	389
	(191,179)	(376,613)
Increase (decrease) in cash	**(1,913)**	1,189
Impact of foreign currency on cash balance	**248**	(26)
Cash, beginning of year	**2,189**	1,026
Cash, end of year	$ **524**	$ 2,189

See accompanying notes to consolidated financial statements

Supplemental cash flow disclosures (note 18)

Consolidated Statements of Changes in Shareholders' Equity

($000s)	Year ended December 31 2022	2021
Shareholders' capital:		
Balance, beginning of year	**$ 1,499,544**	$ 1,272,397
Shares issued for payment of management fee (note 12)	**787**	1,074
Share issuance related to subscription receipts (note 9)	**-**	233,265
Share issue costs, net of tax effect (note 9)	**-**	(7,192)
Balance, end of year	**1,500,331**	1,499,544
Accumulated other comprehensive income (loss):		
Balance, beginning of year	**126**	(40)
Foreign currency translation adjustment	**10,041**	166
Balance, end of year	**10,167**	126
Contributed surplus:		
Balance, beginning of year	**4,521**	3,763
Share based compensation	**-**	758
Reclassification to share based compensation payable (note 2f)	**(4,521)**	-
Balance, end of year	**-**	4,521
Deficit:		
Balance, beginning of year	**(613,225)**	(616,681)
Net income	**209,189**	72,084
Dividends declared (note 9)	**(146,121)**	(68,628)
Balance, end of year	**(550,157)**	(613,225)
Total shareholders' equity	**$ 960,341**	$ 890,966

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years ended December 31, 2022 and 2021

1. Basis of Presentation

Freehold Royalties Ltd. (Freehold) is incorporated under the laws of the Province of Alberta. Freehold's primary focus is acquiring and managing royalties.

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

a) Statement of Compliance

These consolidated financial statements, the "financial statements", have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. A summary of Freehold's significant accounting policies under IFRS are presented in note 2. Certain comparative period disclosures have been revised to conform to the current period's presentation.

These financial statements were approved by the Board of Directors on March 1, 2023.

b) Basis of Measurement and Principles of Consolidation

The financial statements have been prepared on a historical cost basis with the exception of certain financial instruments, which when recognized, are measured at fair value with the changes in their fair values recorded in net income (loss) and include the accounts of Freehold and its wholly-owned subsidiaries: Freehold Royalties (USA) Inc., 1872348 Alberta Ltd., Freehold Holdings Trust and Freehold Royalties Partnership. All intercompany balances and transactions have been eliminated in preparing the financial statements.

c) Use of Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the current reporting period. Among other uncertainties, the Company continues to monitor the direct and indirect impacts on its operations, cash flows and liquidity of global economic and commodity pricing volatility which may be caused by recessionary fears, on-going regionalized COVID-19 lockdowns and Russia's invasion of Ukraine.

Petroleum and natural gas reserves

The amounts recorded for the depletion of petroleum and natural gas interests, the provision for decommissioning liability, business combinations, indicators of impairment or impairment reversal and the amounts used in an impairment calculation are based on estimates of proved and probable petroleum and natural gas reserves. By their nature, these estimates of proved and probable petroleum and natural gas reserves and the related cash flows are subject to uncertainty including significant assumptions related to forecasted royalty production from proved and probable petroleum and natural gas reserves and forecasted oil and gas commodity prices and the impact on the financial statements of future periods could be material. Freehold's proved and probable petroleum and natural gas reserves have been prepared at December 31, 2022 by the Company's external independent qualified reserves evaluators. Significant management judgment is required to analyze internal and external indicators of impairment for petroleum and natural gas interests and exploration and evaluation assets with the estimate of proved and probable petroleum and natural gas reserves and the related cash flows being significant to the assessment.

Unbooked future development locations

Unbooked future development locations on royalty lands and the associated future cash flows can also be used in an impairment calculation. These unbooked future development locations are determined from a historical analysis of booking previously undeveloped reserves into the independently prepared reserve reports. By their nature, this estimate and future cash flows are subject to uncertainty including significant assumptions related to future royalty production and forecasted oil and gas commodity prices and timing of third-party development.

Decommissioning liability

The decommissioning liability amounts recorded are based on estimates of inflation rates, risk-free rates, timing of abandonments and future abandonment and reclamation costs, all of which are subject to uncertainty.

Share-based compensation

The recorded amounts for share-based compensation include an estimate of forfeitures and certain management assumptions. Actual results could differ as a result of using estimates.

Income taxes

Deferred income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material. Management reviews the adequacy of these amounts at the end of the reporting period. However, it is possible that at some future date there is a change in the income tax liability or asset resulting from audits by taxing authorities. Where the probable outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the income tax provisions in the period in which such determination is made.

Cash generating units

The determination of a cash generating unit (CGU) is subject to management judgment. The recoverability of petroleum and natural gas interests and exploration and evaluation assets are assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. Freehold currently has two royalty CGUs: the United States and Canada.

Business combination

Each acquisition transaction is reviewed by management and judgment is used when determining if the transaction met the IFRS 3 inputs and processes criteria for business combinations.

United States and Canadian Petroleum and natural gas royalty revenue accruals

Freehold follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of United States (U.S.) and Canadian revenues, which are based on significant assumptions related to royalty production, realized commodity pricing and, where applicable, permitted source deductions for the period being reported, for which actual results have not yet been received. It is expected that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results. Freehold has no operational control over its royalty lands and primarily holds small interests in several thousand wells. Thus, obtaining timely production data from the well operators is extremely difficult. As a result, the Company uses historical production information, new wells on stream and publicly available production data pursuant to the terms of the Company's U.S. and Canadian leases and royalty agreements to determine royalty production. Realized commodity prices are based on publicly available price benchmarks, adjusted for quality, location, allowable deductions, or other factors pursuant to the terms of these leases and royalty agreements. These U.S. and Canadian royalty revenue accrual estimates are revised based on actual royalty production volumes and realized commodity prices received in subsequent periods. The U.S. and Canadian royalty revenue accruals are necessary due to the delay between the timing of oil and gas production and when the Company receives its royalty production and payment, which is typically a time lag of approximately two to three months.

Judgment is required to determine the interests of royalty properties in areas where mineral rights are shared with a related party, Canpar Holdings Ltd. (Canpar). Freehold uses publicly available information on geological formations to apportion revenues between the entities in accordance with the respective party's interests. As new geological information becomes available and as part of its ongoing internal audit activities, Freehold periodically revises these allocations and consideration is transferred to reflect the changes.

2. Significant Accounting Policies

a. Jointly Controlled Operations and Jointly Controlled Assets

Some of Freehold's oil and gas activities involve jointly controlled assets. These consolidated financial statements include only Freehold's share of the jointly controlled assets and a proportionate share of the relevant revenue and related costs.

b. Exploration and Evaluation Assets

Exploration and evaluation (E&E) costs are accounted for in accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources. All E&E costs incurred after acquiring the "right to explore" are capitalized into a single cost pool. Upon determination of the technical feasibility and commercial viability of reserves, the associated E&E costs are first assessed for impairment and then the estimated recoverable amount is transferred to petroleum and natural gas interests. All costs incurred prior to acquiring the "right to explore" are expensed as incurred. At each reporting date, E&E costs are reviewed for indicators of impairment using internal and external market and industry data. If circumstances indicate the carrying amount exceeds its recoverable amount, the cost is written down to its recoverable amount and the difference is accounted for as an impairment expense. No depletion or depreciation is charged to E&E.

c. Petroleum and Natural Gas Interests

Petroleum and natural gas interests

Petroleum and natural gas interests are classified under International Accounting Standard (IAS) 16 as Property, Plant and Equipment and include both working and royalty interests, stated at cost, less accumulated depletion and accumulated impairment losses. All costs incurred after determining technical feasibility and commercial viability of reserves are capitalized. Subsequent expenditures are capitalized only where they enhance the economic benefits of the asset. A gain or loss on disposal of a petroleum and natural gas interest is recognized to the extent that the net proceeds exceed or are less than the appropriate portion of the capitalized costs of the asset.

Depletion

Petroleum and natural gas interests, including acquisition costs, future development costs (if any) and directly attributable general and administrative costs, are depleted on the unit-of-production method based on estimated proved plus probable petroleum and natural gas reserves as determined by independent reserves engineering firms. Reserves are converted to equivalent units on the basis of relative energy content.

Impairment and impairment reversals

The Company assesses at each reporting date whether there is an indication that its U.S. and Canadian Royalty CGUs of petroleum and natural gas interests may be impaired. Significant management judgment is required to analyze internal and external indicators of impairment for petroleum and natural gas assets with the estimate of proved and probable petroleum and natural gas reserves and the related cash flows being significant to the assessment. In some instances, there is also the potential for inclusion of unbooked future development locations on royalty lands and the related cash flows being significant to the assessment. If any such indication of impairment exists, Freehold makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to dispose (FVLCTD) and its value in use (VIU). Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down. In assessing VIU, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. FVLCTD is the amount obtainable from the sale of assets in an arm's length transaction less cost to dispose.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized for the CGU in prior periods. Such a reversal is recognized in profit or loss. After such a reversal, the depletion charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

d. Decommissioning Liability

Freehold has no decommissioning liability on its royalty interest properties. Freehold's decommissioning liability results from its responsibility to abandon and reclaim its net share of its working interest properties. Freehold measures the decommissioning liability, recorded as both a short and long-term liability, as the present value of management's best estimate of the expenditure required to settle the legal or constructive obligation at the reporting date using a risk-free discount rate. At each reporting date, the passage of time and changes to estimates results in liability changes, and the amount of accretion and estimate changes are included in the determination of the current period's income.

e. Income Tax

Income tax expense comprises current and deferred tax.

Current income tax

Current income tax is expected taxes on the taxable income for the year earned in Canada and the U.S., using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax

Deferred income tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

f. Share Based Compensation Plans

Freehold's award plans consists of grants of performance share units (PSUs), restricted share units (RSUs), director restricted share units (Directors' RSUs) and deferred share units (DSUs). Underlying each PSU, RSU, Directors' RSU and DSU is one notional Freehold common share. The notional units are adjusted whenever a dividend is paid by Freehold.

Employee Award Plan

The employee award plan consist of RSUs and PSUs, where holders can include officers, employees and consultants.

I. RSUs

Upon vesting of the RSUs the holder is entitled to an amount equal in value to the notional Freehold common shares (as adjusted for dividends paid) underlying such RSUs. The value of the notional Freehold common shares is based on the volume weighted average trading price of Freehold common shares on the TSX for the five trading days prior to the settlement date of such RSUs. Generally, one-third of the granted RSUs will vest on each of the first, second and third anniversaries of the date of grant.

II. PSUs

For PSUs, the notional Freehold common shares and value are calculated in the same manner as the RSUs, but with the additional application of a performance multiplier. The metrics used for determining the performance multiplier (which can range from 0 to 2 times) are at the discretion of Freehold's Board of Directors at the time of grant. Generally, all of the granted PSUs will vest on the third anniversary of the date of grant.

Since holders of RSUs and PSUs receive a cash payment on a fixed vesting date, a liability is determined and recognized as services are rendered based on the fair value of the total rights at each period end until settled. The valuation incorporates the consideration of the Freehold common share price, the number of notional Freehold common shares outstanding at each period end, an estimated performance multiplier, if applicable, and an estimated forfeiture rate. Compensation expense is recognized over the vesting period.

Non-management Directors' Award Plan

Non-management Directors' award plan consists of Directors' RSUs and DSUs, granted pursuant to an amended and restated deferred and restricted share unit plan for directors, as amended November 2022.

I. Directors' Restricted Share Units

Directors' RSU are identical in form to RSUs, as previously discussed, except that cash payouts occur on redemption of Directors' RSUs at the earlier of a fixed vesting date or when a non-management director retires, whereby the payout reduces share-based compensation payable. Freehold has assumed that the earlier of the two options for payouts is the vesting date, and as a result accounts for Directors' RSUs using the same approach as it does for RSUs, by recognizing a charge as services are rendered based on the fair value of the total rights at each period end until settled. However, should a director of the board retire, then the difference between the cash payout and the amount previously recognized, is immediately expensed in the period of redemption as charged to share-based compensation.

II. DSUs

Effective April 1, 2022 (the effective date), DSUs are prospectively accounted as cash settled. Previously the DSU plan was accounted as equity settled as it was then the intention of the Company to settle DSUs with equity and there was no history of cash settlement. For all future year ends, including December 31, 2022, outstanding DSUs are measured to the market value of Freehold's share price. The equivalent Freehold dividend per share paid prior to redemption of each DSU is then reinvested on behalf of the non-management directors in additional DSUs. Cash payouts occur on redemption of DSUs when a non-management director retires, whereby the payout reduces share-based compensation payable. Although DSUs are prospectively accounted for as cash-settled from the effective date, the Board retains the right to settle DSUs through the issuance of equity.

Prior to the effective date, compensation expense was recognized at the market value of Freehold's common shares at the time of grant or dividend, with a corresponding increase to contributed surplus.

g. Net Income Per Share

Basic net income per share is calculated using the weighted average number of shares outstanding for each period. Diluted net income per share is calculated using the weighted average number of diluted shares outstanding for each period. Diluted shares outstanding starts with the weighted average number of shares outstanding in addition to the weighted average outstanding DSUs for the period, as the Board retains the right to settle DSUs through the issuance of equity. The measure of share-based compensation associated with outstanding DSUs is assumed to buy back shares at the average market price for the period, provided that such effect on net income is dilutive.

h. Revenue Recognition

The Company earns royalty and other revenue from the sale of crude oil, natural gas, natural gas liquids, potash and other products that is recognized as it accrues in accordance with the terms of U.S. and Canadian leases and royalty agreements, which is generally in the month when the product is produced or extracted. The U.S. and Canadian royalty revenue accruals are necessary due to the delay between the timing of production and when the Company receives its royalty production and payment, which is typically a time lag of approximately two to three months.

Royalty and other revenue also includes bonus consideration and lease rentals which have different performance obligations. When a new mineral lease is executed, Freehold gives the third-party exclusive access to specifically identified lands for a certain time period and typically receives a lump sum non-refundable payment (bonus consideration). As the payment is non-refundable and access to land is granted, the performance obligation is met, and revenue is recognized when the lease is executed. Lease rental revenue is recognized annually on the anniversary date of the lease execution when the payment is due and received.

Royalty and other revenue is measured at fair value of the consideration received or receivable per the terms of the various agreements. Freehold estimates royalty production based on historical production information, new wells on stream and publicly available production data and estimates realized commodity prices based on publicly available price benchmarks, adjusted for quality, location, allowable deductions, or other factors pursuant to the terms of the Company's U.S. and Canadian leases and royalty agreements. Actual results could differ as a result of using estimates and any differences are recorded in the period in which actuals are received.

i. Financial Instruments

All financial instruments are recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets is measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL). Subsequent measurement of all financial liabilities is measured at amortized cost or, optionally, FVTPL.

All cash, accounts receivable, income tax deposits, dividends payable, accounts payables and accrued liabilities, current income taxes, lease obligation and long-term debt are measured at amortized cost using the effective interest rate method. No financial instruments have been classified as FVOCI or FVTPL.

j. Foreign Currency translations

Foreign transactions

Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated to functional currency at the period-end exchange rate. Revenue and expenses are translated to functional currency using the average exchange rate for the period. Foreign exchange gains and losses resulting from the settlement or translation of foreign currency transactions are included in net income.

Foreign operations

The functional currency of Freehold's subsidiaries is the currency of the primary economic environment in which the entity operates. Freehold's U.S. subsidiary, Freehold Royalties (USA) Inc. operates and transacts primarily in U.S. dollars and is considered to have a U.S. dollar based functional currency. Freehold's Canadian subsidiaries have a functional currency of Canadian dollars. The designation of a subsidiary's functional currency is a management judgment based on the currency of the primary economic environment in which the subsidiary operates. The financial statements of each entity are translated into Canadian dollars in preparation of the Company's consolidated financial statements. The assets and liabilities of a foreign operation are translated to Canadian dollars at the period-end exchange rate. Revenues and expenses of foreign operations are translated to Canadian dollars using the average exchange rate for the period. Foreign exchange differences are recognized in other comprehensive income or loss.

k. Related Party Transactions

Monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of business. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount.

3. Exploration and Evaluation Assets

($000s)	**December 31 2022**	December 31 2021
Balance, beginning of year	**$ 74,455**	$ 80,152
Transfers to petroleum and natural gas interests (note 4)	**(5,697)**	(5,697)
Balance, end of year	**$ 68,758**	$ 74,455

There was no impairment recorded on the transfer of Exploration and Evaluation assets to Petroleum and Natural Gas Interests during the years ended December 31, 2022 and 2021.

There were no indicators of impairment on Freehold’s exploration and evaluation assets for the years ended December 31, 2022 and 2021.

4. Petroleum and Natural Gas Interests

($000s)	December 31 2022	December 31 2021
Balance, beginning of year	**$ 1,879,457**	$ 1,496,062
Acquisitions and related expenditures	**190,794**	377,002
Capitalized portion of long term incentive plan	**1,260**	1,163
Transfers from exploration and evaluation assets (note 3)	**5,697**	5,697
Foreign exchange translation	**36,133**	(467)
Balance, end of year	**2,113,341**	1,879,457
Balance, beginning of year	**(946,608)**	(857,665)
Depletion and depreciation	**(101,277)**	(88,984)
Foreign exchange translation	**(2,294)**	41
Balance, end of year	**(1,050,179)**	(946,608)
Net book value, end of year	**$ 1,063,162**	$ 932,849

a. Acquisitions and related expenditures

For the year ended December 31, 2022, Freehold invested $190.8 million in acquisitions and related expenditures (2021 - $377.0 million). All transactions for the year ended December 31, 2022 and 2021 were treated as asset acquisitions. Cash consideration for 2022 transactions were initially funded from long-term debt whereas 2021 transactions were initially funded with a combination of long-term debt and share issuances related to subscription receipts (note 9).

US Acquisitions

On June 28, 2022, Freehold acquired U.S. mineral title and overriding royalty interests on 220,000 gross acres (1,100 net royalty acres) for $19.4 million (US$15.1 million), net of customary adjustments, in the Midland basin of the Permian.

On August 4, 2022, Freehold acquired U.S. mineral title and royalty assets located in the Midland basin of the Permian predominantly in Howard County, Texas across 51,000 gross acres (4,400 net royalty acres) for $125.7 million (US$97.7 million), net estimated customary closing adjustments.

On August 19, 2022 Freehold acquired U.S. mineral title and royalty assets located in the Eagle Ford basin in Texas on 41,000 gross acres (2,500 net royalty acres) for $32.8 million (US$ 25.4 million), net of estimated customary closing adjustments.

During the year ended December 31, 2021, Freehold acquired U.S. royalty properties for a combined cost of $368.0 million (US$ 290.5 million) through several different transactions, including mineral title and overriding royalty interests, weighted towards the Permian and Eagle Ford s across multiple states.

Canadian Acquisitions

Freehold paid $8.8 million during the year ended December 31, 2022 in exchange for gross overriding royalties in the range of 2% to 5% in the Clearwater play in central Alberta pursuant to two agreements. Freehold’s combined commitments per these agreements is $26.3 million, of which $14.6 million has been paid to date (2021 - $5.8 million).

In November 2021, Freehold acquired a mineral royalty interest in a potash mine located in Rocanville, Saskatchewan for $0.6 million (see note 12).

Related Expenditures

For the year ended December 31, 2022, Freehold recognized capitalized general & administrative costs of $2.9 million (2021 - $2.0 million) and other royalty income asset and miscellaneous expenditures of $1.2 million (2021 - $0.6 million).

b. Depletion, depreciation and other

For the year ended December 31, 2022, depletion and depreciation of $102.6 million (2021 - $88.0 million) was reported including a $1.5 million estimate increase in asset retirement obligations (2021 – decrease of $0.7 million) but net of the government assistance for reclamations of $0.2 million (2021- $0.3 million)

There are no future development costs associated with the Company's proved and probable petroleum and natural gas reserves as at December 31, 2022 and 2021 which could have been included in its depletion calculation.

c. Impairment

At December 31, 2022 and 2021, there were no indicators of impairment on Freehold's US and Canadian Royalty Cash Generating Units.

5. Lease Obligation

Freehold has a head office lease sharing agreement with Rife Resources Ltd. (related party - see note 12) that the Company considers a lease obligation. The weighted average incremental borrowing rate used to determine this lease obligation was 5%, which was Freehold's estimate of the applicable incremental borrowing rate at the time it entered into this lease sharing agreement. Under this lease sharing agreement, Freehold is responsible for its proportional share of the new office lease with a floating allocation estimated between 40% to 60% of the total lease payments.

($000s)	**December 31 2022**	December 31 2021
Current portion of liability	**$ 195**	$ 195
Long-term portion of liability	**1,520**	1,619
	$ 1,715	$ 1,814

6. Decommissioning Liability

($000s)	December 31 2022	December 31 2021
Balance, beginning of year	**$ 5,565**	$ 6,926
Decommissioning expenditures	**(1,058)**	(511)
Government assistance	**(203)**	(263)
Change in estimates	**1,543**	(696)
Accretion expense	**90**	109
Balance, end of year	**$ 5,937**	$ 5,565
Current portion of liability	**$ 500**	$ 750
Long-term portion of liability	**$ 5,437**	$ 4,815

Freehold has no decommissioning liability on its royalty interest properties, rather Freehold's decommissioning liability results from its responsibility to abandon and reclaim its net share of its working interest properties. The undiscounted value of Freehold's total decommissioning liability is estimated to be $6.5 million (2021 – $5.5 million). Increases in estimated facility abandonment costs resulted in a change in estimate of $1.5 million, charged to depletion, depreciation and other for the year ended December 31, 2022 (2021 – $0.7 million recovered against depletion, depreciation and other). Payments to settle the obligations are expected to occur over the next 40 years, with the majority being settled within 10 years. At December 31, 2022, a risk-free rate of 3.3% (2021 – 1.7%) and an inflation rate of 2.1% (2021 – 1.8%) were used to calculate the present value.

During the years ended December 31, 2022 and 2021, Freehold benefited from a federal government funded site rehabilitation program administered by the Alberta government. This program allows oil and gas producers to nominate inactive well sites or suspended pipelines across any stage of the abandonment and reclamation process for partial or full government funding. After approval but upon completion of either the abandonment or reclamation work, the provincial government directly pays the service provider at which time Freehold credited depletion, depreciation and other, for the years ended December 31, 2022 and 2021, by $0.2 million and $0.3 million, respectively, as offset through a reduction in the decommissioning liability.

7. Share Based Compensation

For the years ended December 31, 2022 and 2021, expensed share based compensation associated with Freehold's combined Award Plans was $8.3 million and $7.1 million, where the year ended December 31, 2022 includes a charge of $3.3 million to adjust the carrying amount of DSUs previously accounted for as equity settled to their market value on reclassification from contributed surplus to share-based compensation payable. Freehold further capitalized $1.3 million of Award Plan costs (see note 4) for the year ended December 31, 2022, included in the share-based compensation liability (2021 - $1.2 million).

Associated with the award and DSU plans, during the year ended December 31, 2022, Freehold paid to its employees and a non-management director $5.8 million (2021 - $1.4 million paid to its employees).

The following table reconciles the change in share-based compensation payable:

($000s)	December 31 2022	December 31 2021
Balance, beginning of year	**$ 7,742**	$ 1,633
Reclassification from Contributed Surplus (note 2f)	**4,521**	-
Increase in liability	**9,595**	7,480
Payout	**(5,838)**	(1,371)
Balance, end of year	**$ 16,020**	$ 7,742
Current portion of liability	**$ 3,853**	$ 3,287
Long-term portion of liability	**$ 12,167**	$ 4,455

a. Long-term Incentive Plans

Freehold's Award Plan is share based and cash settled and consists of grants of performance share units (PSUs) and restricted share units (RSUs). For the PSUs there is a performance multiplier of 0 to 2 times, 50% of which is determined from absolute total shareholder return and 50% of which is determined from relative total shareholder return over a three-year period.

The following table reconciles the outstanding number of combined RSUs and PSUs:

	December 31 2022	December 31 2021
Balance, beginning of year	**926,922**	686,792
Units issued	**238,616**	429,454
Forfeitures	**(59,155)**	(37,244)
Payout	**(241,741)**	(152,080)
Balance, end of year	**864,642**	926,922

b. Deferred Share Unit Plan

While the Board may elect to settle DSUs through issuing common shares, from the effective date outstanding DSUs were prospectively accounted for as cash-settled (see note 2f) due to the Company establishing a precedent of cash settlement. Previously they were accounted for as equity settled. This change in treatment resulted from redeemed DSUs being paid out in cash, as allowed by the DSU plan, during the year ended December 31, 2022. Because the DSU plan's accounting treatment changed from equity to cash-settled, the DSUs' carrying amount of $4.5 million on the effective date was reclassified from contributed surplus to share-based compensation liability as reported on the Consolidated Balance Sheet. On reclassification of those DSUs previously accounted as equity settled, the market value was determined from Freehold's share price with the difference between it and the amount reclassified from contributed surplus of $3.3 million charged to share-based compensation expense for the year ended December 31, 2022.

The following table reconciles the outstanding number of DSUs:

	December 31 2022	December 31 2021
Balance, beginning of year	**447,684**	325,633
Annual grants and grants in lieu of fees	**82,461**	101,597
Additional grants resulting from paid dividends	**30,551**	20,454
Redeemed	**(79,337)**	-
Balance, end of year	**481,359**	447,684

8. Long-term Debt

On October 21, 2022, Freehold signed the fourth amendment to its credit facility agreement with a syndicate of four Canadian banks extending the term of the agreement and adding larger permitted increase. The amended credit facility agreement has a committed revolving facility availability of $285 million and an operating facility availability of $15 million, where either facility can be drawn in Canadian or U.S. dollars. The amended credit facility agreement includes a permitted increase in the revolving facility to $435 million, an increase from $360 million, subject to lenders' consent. Both the committed revolving and operating facilities mature October 21, 2025. At December 31, 2022, $156.6 million was drawn on the committed revolving facility (December 31, 2021 - $146 million), consisting of Canadian dollar and US dollar denominated borrowings of $73.4 million and US$61.4 million ($83.2 million), respectively. There were no drawings against the operating facility. The credit facilities are secured with a $400 million first charge demand debenture over all of Freehold's Canadian royalty income assets and fixed charge mortgage securities on certain US royalty income assets with associated proved developed producing reserves.

The amended credit agreement contains two financial covenants: (i) long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times (the actual ratio was 0.4 times at December 31, 2022) and (ii) long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) percentage shall not exceed 55% (the actual percentage was 14% at December 31, 2022). Freehold forecasts to be in compliance with all covenants on a quarterly basis for at least the next year based on Freehold's current best estimate of results from operations.

Outstanding borrowings under the amended credit facilities bear interest on US and Canadian denominated drawings at London Interest Borrowing Overnight Rates (LIBOR) and Banker's Acceptance (BA) rates, respectively, or at the lender's prime lending rate plus applicable margins and standby fees, dependent on ratios of Freehold's long-term debt to EBITDA on royalty interest properties. Both LIBOR and BA rates are to cease in the future, with the amended credit facility agreement transitioning these rates, respectively, to Secured Overnight Financing Rates (SOFR) or Canadian Overnight Repo Rate Average rates (CORRA). Freehold does not expect this transition will cause a significant difference on the cost of its borrowings under the credit facility agreement.

For the year ended December 31, 2022, the average effective interest rates on advances from Freehold's committed credit facility was 4.3% (2021 – 2.2%).

At December 31, 2022 and 2021, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market and foreign exchange rates.

9. Shareholders' Capital

Freehold has authorized an unlimited number of common shares, without stated par value. Freehold has authorized 10,000,000 preferred shares, without stated par value, of which none have been issued.

a. Shares Issued and Outstanding

($000s, except shares)	December 31, 2022 Shares		December 31, 2022 Amount	December 31, 2021 Shares		December 31, 2021 Amount
Balance, beginning of year	**150,612,334**	**$**	**1,499,544**	118,787,667	$	1,272,397
Share issuances related to subscription receipts	**-**		**-**	31,714,667		233,265
Share issue costs, net of tax effect	**-**		**-**	-		(7,192)
Issued for payment of management fee (note 12a)	**55,000**		**787**	110,000		1,074
Balance, end of year	**150,667,334**	**$**	**1,500,331**	150,612,334	$	1,499,544

b. Share Issuances Related to Subscription Receipts

Pursuant to two short form prospectuses, during 2021 the Company exchanged 31,714,667 of subscription receipts for the equivalent number of Freehold common shares, raising gross proceeds of $233.3 million before combined costs of $9.5 million ($7.2 million net of deferred income tax).

c. Dividends

During the years ended December 31, 2022 and 2021, Freehold respectively declared dividends of $146.1 million and $68.6 million or $0.97 and $0.49 per common share, respectively. During these same years, Freehold respectively paid dividends of $141.6 million and $62.0 million or $0.94 and $0.45 per common share, respectively.

On December 14, 2022, the Board declared a dividend of $0.09 per common share or $13.6 million which was paid on January 16, 2023 to common shareholders on record on December 31, 2022 (December 31, 2021 - $9.0 million). On January 12, 2023, the Board declared a dividend of $0.09 per common share which was paid on February 15, 2023, to common shareholders on record on January 31, 2023. On February 14, 2023, the Board declared a dividend of $0.09 per common share to be paid on March 15, 2023, to common shareholders on record on February 28, 2023. On March 1, 2023, the Board declared a dividend of $0.09 per common share to be paid on April 17, 2023, to common shareholders on record on March 31, 2023.

10. 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 realized commodity price received or receivable is based on publicly available benchmarks adjusted for quality, location, allowable deductions or other factors pursuant to the terms of the Company's US and Canadian leases and royalty agreements.

Typically, Freehold receives the cash payment generally up to three months following production. Bonus consideration received or receivable can significantly vary period over period as it is dependent on the specific details of each lease and the number of leases issued.

a. Royalty and Other Revenue by Commodity Type

($000s)	Year ended December 31 2022	2021
Oil	$ 288,245	$ 150,898
Natural gas	65,109	36,293
NGL	33,367	19,129
Potash	3,170	1,490
Bonus consideration and lease rentals	3,129	1,182
Royalty and other revenue	**$ 393,020**	$ 208,992

b. Royalty and Other Revenue by Category

($000s)	Year ended December 31 2022	2021
Royalty interest revenue	$ 389,891	$ 207,810
Bonus consideration and lease rentals	3,129	1,182
Royalty and other revenue	**$ 393,020**	$ 208,992

As at December 31, 2022, there was outstanding accounts receivable and accrued revenue of $55.9 million (December 31, 2021 - $44.6 million) associated with U.S. and Canadian royalty and other revenues. For the years ended December 31, 2022 and 2021 there were no significant royalty and other revenue adjustments relating to prior periods.

11. Interest and Financing

($000s)	Year ended December 31 2022	2021
Interest on long term debt and financing expense	$ 5,934	$ 3,285
Accretion of decommissioning obligation	90	109
Accretion of lease obligation	96	96
Interest and financing	**$ 6,120**	$ 3,490

12. Related Party Transactions

Freehold does not have any employees. Rather, Freehold is managed by Rife Resources Management Ltd. (the Manager) pursuant to a management agreement (the Management Agreement). The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). Rife is 100% owned by the pension funds for the employees of the Canadian National Railway Company (the CN Pension Trust Funds), and both Rife and the CN Pension Trust Funds are shareholders of Freehold. Combined they have a 16.7% ownership in Freehold at December 31, 2022, a decrease from the 19.9% ownership at December 31, 2021, as both Rife and the CN Pension Trust Funds sold to third parties a combined 4,991,667 shares of their investment in Freehold. Canpar Holdings Ltd. is managed by Rife and owned 100% by the CN Pension Trust Funds. Two of the directors of each of Rife and Canpar are also directors of Freehold.

During 2021, Freehold entered into an acquisitions opportunities agreement with Rife, Canpar and the Manager (the Related Parties), that reaffirmed Freehold's priority right to acquire petroleum royalty interest opportunities. During 2022, the acquisitions opportunities agreement was amended to reflect the allocation of costs from a new

Diversified Royalties Team, as managed by Rife, with 60% and 40% of these costs charged to Freehold and Canpar entities, respectively. The amended acquisitions opportunities agreement provides Freehold the right to participate in potential other mineral royalty interest opportunities including those identified on the lands of the Related Parties.

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

a. Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares on a quarterly basis. Pursuant to the Management Agreement, the management fee was capped at 13,750 and 27,500 Freehold common shares per quarter for 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, respective ascribed values of $0.8 million and $1.1 million were based on the closing price of Freehold's common shares on the last trading day of each quarter.

For the years ended December 31, 2022 and 2021, the Manager charged $12.2 million and $9.7 million in general and administrative costs, respectively. At December 31, 2022, there was $nil million (December 31, 2021 – $0.5 million) in accounts payable and accrued liabilities relating to these costs.

b. Rife Resources Ltd. and CN Pension Trust Funds

For the years ended December 31, 2022 and 2021, Freehold paid $25.8 million and $13.2 million, respectively, in total cash dividends to Rife and the CN Pension Trust Funds for their combined ownership in Freehold’s common shares. In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the years ended December 31, 2022 and 2021, Freehold received royalties in each year of approximately $0.6 million from Rife. At December 31, 2022, there was $2.3 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared (2021 - $1.8 million).

Pursuant to Freehold’s September 2021 short form prospectus, the CN Pension Trust Funds acquired 939,200 subscription receipts at $9.05 per share for proceeds of $8.5 million. The price per subscription receipt paid by the CN Pension Trust Funds was equivalent to the public offering price. No commission was paid in respect of the subscription receipts purchased by the CN Pension Trust Funds. During 2021, these subscription receipts were exchanged for an equivalent number of Freehold’s common shares.

c. Canpar Holdings Ltd.

Freehold and Canpar generally share mineral title ownership in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Where Freehold is not the legal registered owner of such mineral rights, Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. Amounts due from Canpar at December 31, 2022 and 2021 were $0.7 million and $0.2 million, respectively.

Pursuant to the amended acquisitions opportunities agreement, during 2021 Freehold elected to participate in Canpar’s acquired mineral royalty interest in a potash mine located in Rocanville, Saskatchewan, for $0.6 million in exchange for 50% of Canpar's royalty interest where these proceeds equal one-half of the acquisition price paid by Canpar to a third party.

d. Key Management

Expenses relating to compensation for key management personnel, considered to be Freehold's Board of Directors and executive officers, are as follows:

($000s)	**December 31 2022**	December 31 2021
Salaries, directors' fees, and other benefits	**$ 1,787**	$ 1,442
Share based compensation	**6,327**	2,515
Key management compensation	**$ 8,114**	$ 3,957

13. Unrealized Foreign Exchange

	Year ended December 31	
($000s)	**2022**	2021
Unrealized foreign exchange loss (gain) on:		
Intercompany note	**$ (24,332)**	$ 341
Long term debt	**6,850**	-
	$ (17,482)	$ 341

Unrealized foreign exchange results from intercompany balances between Freehold's Canadian parent and its U.S. subsidiary partially offset by changes in the Canadian dollar reported amount of a portion of Freehold's long-term debt denominated in U.S. dollars (see note 8). Although the intercompany balances eliminate on consolidation, the balance held by the Canadian parent was recognized as unrealized foreign exchange whereas revaluation by the U.S. subsidiary was recognized within other comprehensive income due to different functional currencies between the parent and the U.S. subsidiary.

14. Income Taxes

Freehold uses the balance sheet method of accounting for income taxes. The provision for taxes in the financial statements differs from the result which would have been obtained by applying the expected tax rate to Freehold's income before taxes. This difference is reconciled as follows:

($000s, except as noted)	**December 31 2022**	December 31 2021
Income before taxes	**$ 269,024**	$ 94,813
Expected income tax rate	**23.9%**	23.9%
Computed expected income tax expense	**$ 64,404**	$ 22,698
Change in income tax resulting from:		
Effect of foreign exchange	**(2,089)**	-
Effect of rates for foreign jurisdictions	**(1,940)**	-
Contributed surplus reclassification	**(455)**	-
Other	**(85)**	31
Total income taxes	**$ 59,835**	$ 22,729

Freehold had $29.3 million of current taxes payable at December 31, 2022 (December 31, 2021 - $-). The components of the deferred income tax asset (liability) are as follows:

($000s)	**December 31 2022**	December 31 2021
Petroleum and natural gas interests	**$ 29,294**	$ 23,087
Lease obligation	**(410)**	(434)
Share issue expense	**(1,359)**	(1,815)
Decommissioning liability	**(1,419)**	(1,332)
Other	**(1,555)**	(2,399)
Non-capital losses	**-**	(12,887)
Deferred income tax liability (asset)	**$ 24,551**	$ 4,220

As at December 31, 2022, Freehold had approximately $1,011 million (2021 - $923 million) of U.S. and Canadian other tax pools that should be available to offset against future taxable profits.

The continuity of deferred income tax liability (asset) for the years ended December 31, 2022 and 2021 are as follows:

($000s)	Balance December 31 2021	Recognized in Profit or Loss	Recognized in Equity	Foreign Currency Translation Adjustment	**Balance December 31 2022**
Petroleum and natural gas interests	$ 23,087	5,637	-	570	**$ 29,294**
Non-capital losses	(12,887)	12,887	-	-	**-**
Decommissioning liability	(1,332)	(87)	-	-	**(1,419)**
Lease obligation	(434)	24	-	-	**(410)**
Share issue expense	(1,815)	456	-	-	**(1,359)**
Share based compensation and other	(2,399)	844	-	-	**(1,555)**
Deferred income tax liability	$ 4,220	19,761	-	570	**$ 24,551**

($000s)	Balance December 31 2020	Recognized in Profit or Loss	Recognized in Equity	Foreign Currency Translation Adjustment	Balance December 31 2021
Non-capital losses	$ (32,796)	19,860	-	49	$ (12,887)
Decommissioning liability	(1,694)	362	-	-	(1,332)
Lease obligation	(461)	27	-	-	(434)
Share issue expense	-	469	(2,284)	-	(1,815)
Petroleum and natural gas interests	19,820	3,267	-	-	23,087
Share based compensation and other	(1,143)	(1,256)	-	-	(2,399)
Deferred income tax liability (asset)	$ (16,274)	22,729	(2,284)	49	$ 4,220

Freehold's deferred tax liability relates to its assets having a higher carrying value relative to the associated tax value.

Freehold's Canadian income tax filings for its 2015, 2018, 2019 and 2021 tax years have been assessed by the CRA to deny the deduction of up to $222 million in non-capital losses that were acquired in a 2015 business combination (the "Assessments"). Freehold has deducted $171 million of the disputed non-capital losses in its income tax returns to date on the basis of legal advice received. Pursuant to the Assessments, the deductions have been denied resulting in taxes, interest, and penalties totaling $48.7 million. The CRA is also expected to deny the deduction of $51 million of non-capital losses when Freehold files its 2022 income tax returns.

Freehold has objected to the Assessments, has provided deposits totaling $21.9 million at December 31, 2022 (December 31, 2021 - $14.7 million) and expects to pay the remainder of its required deposit of $2.5 million within the permitted time, bringing total deposits to $24.4 million.

Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, expects to be successful on its appeal. A CRA appeals' officer was assigned in late 2021, with no new developments since the assignment.

15. Capital Management

Freehold is a publicly traded dividend-paying corporation incorporated under the laws of the Province of Alberta. Its primary focus is acquiring and managing oil and gas royalties. Freehold receives most of its revenue from oil and gas properties as reserves are produced, which is paid to shareholders through dividends on a regular basis over the economic life of the properties. Freehold's objective for managing capital is to maximize long-term shareholder value by distributing to shareholders any cash partially based on what is required for financing operations or capital investment growth opportunities that may offer shareholders better value.

Freehold defines capital (or capitalization) as long-term debt, shareholders' equity and working capital based on the consolidated financial statements. Freehold retains working capital primarily to fund capital expenditures or acquisitions, pay dividends and reduce bank indebtedness. Freehold's capital structure is managed by taking into account operating activities, debt levels, debt covenants, acquisitions, dividend levels and taxes, among others. In addition, changes in economic conditions, commodity prices and the risk characteristics of Freehold's assets are considered. Freehold has a declining asset base, therefore ongoing development activities and acquisitions are necessary to replace production and add additional reserves. From time to time, Freehold may issue shares or adjust capital spending to manage current and projected debt levels or finance acquisitions.

Management of Freehold's capital structure is facilitated through its financial and operating forecasting processes. The forecast of Freehold's future cash flows is based on estimates of production, commodity prices, forecast capital, royalty expenses, operating expenditures, taxes and other investing and financing activities. The forecast is regularly updated based on new commodity prices and other changes that Freehold views as critical in the current environment. Selected forecast information is frequently provided to and approved by the Board of Directors.

Freehold is bound by non-financial covenants and two financial covenants (see note 8) on its credit facilities. The covenants are monitored as part of management's internal review to ensure compliance with requirements. As at December 31, 2022, Freehold was in compliance with all such covenants.

Freehold's 2022 net debt to funds from operations ratio was 0.4 times (2021 – 0.5 times) and within its debt strategy target of below 1.5 times. This ratio is a financial leverage measure that reflects cash available to pay back Freehold's debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others.

a. Working Capital

($000s)	**December 31 2022**	December 31 2021
Cash	**$ 524**	$ 2,189
Accounts receivable	**57,650**	46,303
Income tax deposits	**21,909**	14,711
Dividends payable	**(13,560)**	(9,037)
Accounts payable and accrued liabilities	**(4,016)**	(5,163)
Current income taxes	**(29,303)**	-
Current portion of lease obligation	**(195)**	(195)
Current portion of decommissioning liability	**(500)**	(750)
Current portion of share based compensation payable	**(3,853)**	(3,287)
Working capital (1)	**$ 28,656**	$ 44,771

(1) Working capital is considered a capital management measure.

b. Capitalization and net debt

($000s)	**December 31 2022**	December 31 2021
Shareholders' equity	**$ 960,341**	$ 890,966
Long term debt	**156,560**	146,000
Working capital	**(28,656)**	(44,771)
Net debt (1)	**$ 127,904**	$ 101,229
Capitalization (1)	**$ 1,088,245**	$ 992,195

(1) Capitalization and net debt are considered capital management measures.

c. Net Debt to Funds from Operations

($000s, except as noted)	**December 31 2022**	December 31 2021
Funds from operations	**$ 316,494**	$ 189,649
Net debt to funds from operations (times) (1)	**0.4**	0.5

(1) Net debt to funds from operations is considered a capital management measure.

16. Financial Instrument Risk Management

Freehold has exposure to credit, liquidity and market risks from its use of financial instruments. Management employs the following strategies to mitigate these risks.

a. Credit Risk

Credit risk is the risk of financial loss to Freehold if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Freehold's receivables. A large part of accounts receivable is with Canadian and U.S. oil and gas industry operators, largely as payors of various royalty agreements.

Collection of accounts receivable is a priority for Freehold, however its credit risk is relatively low because of the quality of Freehold's more substantial royalty payors in addition to diversification through a broad number of remaining royalty payors that individually represent an insignificant amount of Freehold's outstanding accounts receivable. To partially mitigate credit risk, Freehold has take-in-kind privileges where it exited 2022 taking approximately 2% of its production in-kind. Freehold also has a dedicated Compliance group that pursues collections.

The carrying amounts of cash, income tax deposits and accounts receivable represent Freehold's maximum credit exposure to financial assets. Cash is held at a reputable financial institution. Freehold did not have an allowance for doubtful accounts as at December 31, 2022 and 2021 and did not identify any significant receivables to write off during the years ended December 31, 2022 and 2021. Freehold considers all material amounts greater than three months to be past due. The income tax deposits are held by the Canadian Government (note 14).

Due to the nature of Freehold's royalty income assets, there are receivable amounts over three months which require significant time and effort to collect. Estimates of amounts owed for various time periods are as follows:

($000s)	Less than 3 months	4-12 months	over 1 year	Total
Accounts receivable	$ 52,890	$ 4,438	$ 322	$ 57,650

b. Liquidity Risk

Liquidity risk is the risk that Freehold will not be able to meet financial obligations as they come due. Management maintains a conservative approach to debt management that aims to provide maximum financial flexibility with respect to acquisitions and development expenditures, while maintaining stable dividend payments. At December 31, 2022, there was $143.4 million of available capacity under the credit facilities. As circumstances warrant, management allocates a portion of funds from operations to debt repayment. Management prepares annual capital expenditure and operating budgets, which are regularly monitored and updated. In addition, dividend levels are monitored and adjusted as necessary, to levels that are supported by Freehold's funds from operations.

Freehold's financial liabilities include its dividends payable, accounts payable and accrued liabilities, current taxes payable, lease obligation and long-term debt. Freehold has no derivative financial liabilities. The following table outlines required cash flows associated with the contractual maturities of Freehold's financial liabilities as at December 31, 2022:

($000s)	Less than 1 Year	1-3 Years	3 Years and beyond	Total
Dividends payable	$ 13,560	$ -	$ -	$ 13,560
Accounts payable and accrued liabilities	4,016	-	-	4,016
Current income taxes	29,303	-	-	29,303
Lease obligation	195	499	1,021	1,715
Long-term debt	-	156,560	-	156,560
Total	$ 47,074	$ 157,059	$ 1,021	$ 205,154

c. Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, commodity prices and interest rates, will affect net income or the value of financial instruments. The Board reviews the potential use of derivative contracts on a quarterly basis. For short-term investments, if any, Freehold selects counterparties based on strong credit ratings and monitors all investments to ensure a stable return.

Foreign currency exchange rate risk

Freehold has royalty assets in the U.S. held by its wholly-owned U.S. subsidiary resulting in foreign currency exchange rate risk associated with these operations. Freehold has drawn U.S. debt to partially finance U.S. acquisitions throughout 2022, resulting in foreign currency exchange rate risk on long-term debt, but contra to the foreign exchange risk from operations. Further, Freehold is exposed to foreign exchange fluctuations as a result of crude oil sales based on U.S. dollar benchmark prices. Freehold's net income, comprehensive loss and cash flows will be affected by fluctuations in foreign exchange. At December 31, 2022, Freehold had no foreign exchange related derivative contracts in place.

Commodity price risk

Commodity price risk is the risk that the fair value of Freehold's financial instruments will fluctuate with changes in commodity prices. Commodity prices for oil and natural gas are influenced by the relationship between the Canadian and U.S. dollar as well as macroeconomic events that dictate the levels of supply and demand. During the years ended December 31, 2022 and 2021, Freehold had no commodity price related derivative contracts in place.

Interest rate risk

Freehold is exposed to interest rate risk on outstanding bank debt, which has a floating interest rate, and fluctuations in interest rates would impact future cash flows. Assuming all other variables held constant at December 31, 2022, a 1% change (plus or minus) in the interest rate could result in a corresponding change to income before taxes of $1.6 million.

17. Segmented Information

Freehold's reportable segments are based on its underlying operations geographic locations:

- Canada includes exploration and evaluation assets and the petroleum and natural gas interests in Western Canada.
- US includes petroleum and natural gas interests primarily held in the Permian (Midland and Delaware), Eagle Ford, Haynesville and Bakken basins largely located in the states of Texas, Louisiana, and North Dakota.

Freehold's royalty and other revenue is reportable by segment whereas all other accounts presented on the condensed consolidated statements of income are either not significant on a segment basis, associated with both segments with any allocation of such accounts not providing meaningful information or pertain to taxes or other measures which the Company does not consider a component of its operating results. The following table presents royalty and other revenue by geographic region:

	Year ended December 31	
($000s)	**2022**	2021
Canada	**$ 246,689**	$ 161,878
United States	**146,331**	47,114
Royalty and other revenue	**$ 393,020**	$ 208,992

The following table presents total assets by geographic region:

($000s)	**December 31 2022**	December 31 2021
Canada	**$ 638,613**	$ 683,190
United States	**573,390**	387,317
Total Assets	**$ 1,212,003**	$ 1,070,507

18. Supplemental Disclosures

Changes in Non-Cash Working Capital

	Year ended December 31	
($000s)	**2022**	2021
Accounts receivable	**$ (10,489)**	$ (29,956)
Income tax deposit	**(7,198)**	-
Accounts payable and accrued liabilities	**(1,147)**	1,250
Current income taxes payable	**29,303**	-
Prepaid	**-**	2,623
	$ 10,469	$ (26,083)
Operating	**$ 10,854**	$ (27,628)
Financing	**-**	1,156
Investing	**(385)**	389
	$ 10,469	$ (26,083)

Cash Expenses

($000s)	Year ended December 31 2022		2021	
Interest on long term debt and financing fees	**$**	**5,934**	$	3,201
Current income taxes	**$**	**10,468**	$	-

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BOARD OF DIRECTORS

Marvin F. Romanow
Chair of the Board

Sylvia K. Barnes (2)
Corporate Director

Gary R. Bugeaud (1)(2)
Corporate Director

Peter T. Harrison
Corporate Director

Maureen E. Howe (1)
Corporate Director

J. Douglas Kay (2)(3)
Corporate Director

Arthur N. Korpach (1)(2)
Corporate Director

Valerie A. Mitchell (3)
Corporate Director

David M. Spyker
President and Chief Executive Officer
Rife Resources Ltd.

Aidan M. Walsh (1)(3)
Corporate Director

(1) Audit Committee
(2) Governance, Nominating and Compensation Committee
(3) Reserves Committee

OFFICERS

David M. Spyker
President and Chief Executive Officer

David W. Hendry
Vice President,
Finance and Chief Financial Officer

Lisa N. Farstad
Vice President, Corporate Services

Brianna E.C. Guenther
General Counsel & Corporate Secretary

Ian C. Hantke
Vice President, Diversified Royalties

Robert A. King
Vice President, Business Development

Robert E. Lamond
Vice President, Asset Development

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Royal Bank of Canada
The Toronto-Dominion Bank

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Burnet, Duckworth & Palmer LLP

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Trimble Engineering Associates Ltd.
RSC Group, Inc.

STOCK EXCHANGE AND TRADING SYMBOL

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Common Shares: **FRU**

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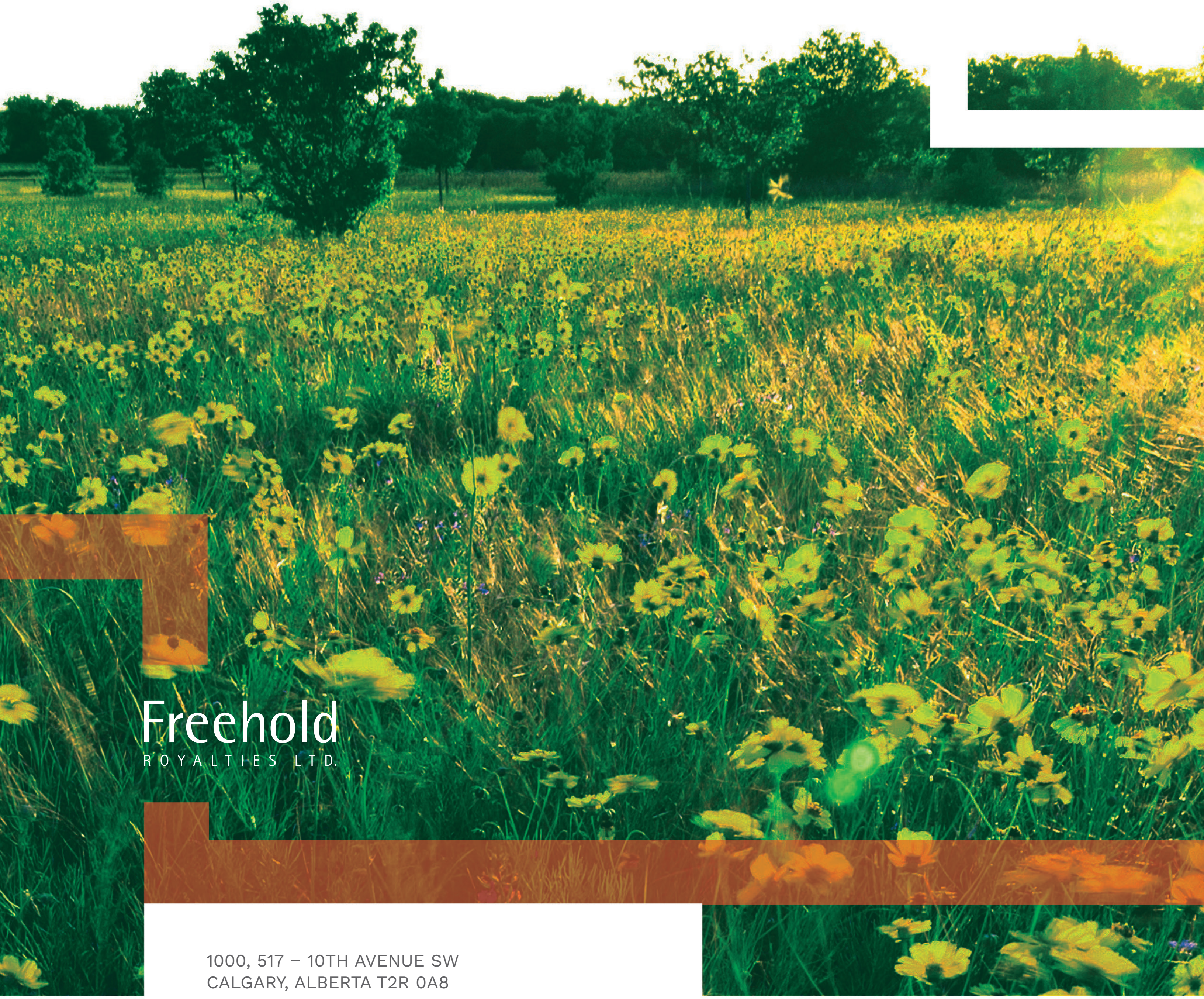

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