Management Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) was prepared as of November 8, 2022 and is management's opinion about the consolidated operating and financial results of Freehold Royalties Ltd. and its wholly-owned subsidiaries (collectively, Freehold or the Company) for the three and nine months ended September 30, 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 condensed 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 (Q3-2022) and nine (first nine months) months ended September 30, 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 (US) dollars. This MD&A should be read in conjunction with the September 30, 2022 unaudited condensed financial statements (the interim financial statements) and the December 31, 2021 audited consolidated financial statements and notes (the audited financial statements).

Additional information about Freehold, including its Annual Information Form for the year ended December 31, 2021 (AIF), can be found on SEDAR at www.sedar.com and on its website at www.freeholdroyalties.com.

This MD&A contains the non-GAAP financial ratios: **cash costs** and **netback** and a supplemental financial measure **payout ratio**. 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 12 to the September 30, 2022 unaudited condensed 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 Measure" 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 US. 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 an expanding land base in the US, uniquely positioning Freehold as a leading North American 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 US, collectively greater than 99% of which are royalty lands. Our Canadian mineral title lands (including royalty assumption lands), which we own in perpetuity, cover approximately

1.1 million acres and we also have gross overriding royalty and other interests in approximately 5.3 million acres. Our US acreage is comprised of greater than 75% mineral title lands.

We have royalty interests in more than 15,000 producing wells and 350 units spanning five provinces and eight states and receive royalty income from over 350 industry operators throughout North America. Our revenues also include potash, bonus consideration and lease rental streams that diversify our royalty revenue portfolio. Our diversified 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 and equip the wells for production on its properties, nor does it incur costs to operate the wells, maintain production, and ultimately restore the land to its original state. All of these costs are paid by others. 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 December 15, 2022, to shareholders of record on November 30, 2022. This dividend level strikes a balance between a return 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

For the first quarter in over two years, global crude oil prices exhibited a downward trend during Q3-2022. Overall, the price for West Texas Intermediate (WTI) averaged US$91.56/bbl over the quarter, down 15% versus the previous quarter, but up 30% versus the same period in 2021.

On the demand front, the economic outlook globally continues to be impacted by aggressive monetary policy tightening in an effort to mitigate inflation. In addition, prevailing concerns over the potential for continued economic weakness associated with China has led to downward revisions in demand forecasts from the International Energy Agency, OPEC and Energy Information Administration.

In October, OPEC agreed to reduce its production quota by 2.0 mmbbl/d, citing a degradation of demand and concerns of a global recession. In addition, North American E&Ps continue to message capital discipline within their capital programs, prioritizing capital returned to shareholders through share buybacks and dividend increases over volume growth.

Within Canada, crude oil pricing has followed the downward trend set by WTI and Brent benchmarks with Edmonton Sweet light oil prices averaging $116.85/bbl and $123.43/bbl for the current reporting periods, down 15% from the previous quarter, but up 39% and 63% versus the same periods in 2021.

Western Canadian Select (WCS) prices averaged $93.49/bbl and $105.53/bbl, up 30% and 61% when compared to the same periods in 2021. Heavy differentials averaged greater than US$20/bbl for Q3-2022. Wider price differentials were driven by the ramp-up of oil sands production, refinery outages (planned and unplanned) which has limited demand, increased competition for incremental barrels as OPEC barrels return to the market and higher natural gas prices, which has increased processing costs for heavy and sour barrels within the marketplace.

AECO 7A Monthly Index and NYMEX natural gas monthly contract prices averaged $5.50/mcf and US$8.20/mcf for Q3-2022, respectively up 64% and 89% versus the same period in 2021. For the first nine months of 2022, AECO and NYMEX prices are up 74% and 85%, respectively, when compared to the same period in 2021. Despite relative strength in the US, Canadian prices were weak during Q3-2022 due to a combination of headwinds including pipeline maintenance, construction delays and strong production growth.

Outside of commodities, a key theme for the quarter was the relative appreciation of the US versus the Canadian dollar. The US to Canadian dollar exchange rate for Q3-2022 averaged US$0.77/CDN, down 3% versus the same period in 2021, closing the quarter at US$0.73/CDN.

2022 Guidance

After realizing actual results for the first nine months of 2022, we have not made any updates to our 2022 guidance as last reported on August 9, 2022. The following table summarizes our key operating assumptions for 2022, where production is expected to be weighted approximately 62% liquids and 38% natural gas. We plan to release our 2023 operating and commodity assumptions as part of our Q4-2022 results in March 2023. This timing ensures we have added information around the capital programs of our top royalty payors.

2022 Average	August 9 2022
Production (boe/d) [1]	13,750 - 14,750
Funds from operations ($MM)	$300 - 320
West Texas Intermediate crude oil (US$/bbl)	$ 97.00
Edmonton Light Sweet crude oil (Cdn$/bbl)	$ 120.00
AECO natural gas (Cdn$/mcf)	$ 5.00
Nymex (US$/mcf)	$ 5.00
Exchange rate (US$/Cdn$)	$ 0.79

Operating and Financial Results

FINANCIAL ($000s, except as noted)	Three months ended September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Royalty and other revenue	$ 98,418	$ 51,423	91%	$ 294,518	$ 133,790	120%
Net income	$ 63,175	$ 22,726	178%	$ 168,445	$ 40,906	312%
Per share, basic ($) (1)	$ 0.42	$ 0.17	147%	$ 1.12	$ 0.31	256%
Cash flows from operations	$ 99,931	$ 43,911	128%	$ 244,673	$ 102,321	139%
Funds from operations	$ 80,783	$ 48,247	67%	$ 236,522	$ 120,876	96%
Per share, basic ($) (1)	$ 0.54	$ 0.36	50%	$ 1.57	$ 0.92	71%
Acquisitions and related expenditures	$ 161,679	$ 228,382	-29%	$ 183,634	$ 309,094	-41%
Dividends paid	$ 37,658	$ 17,095	120%	$ 100,920	$ 37,875	166%
Per share ($) (2)	$ 0.25	$ 0.13	92%	$ 0.67	$ 0.29	131%
Dividends declared	$ 39,167	$ 19,364	102%	$ 105,442	$ 43,029	145%
Per share ($) (2)	$ 0.26	$ 0.14	86%	$ 0.70	$ 0.32	119%
Payout ratio (%) (3)	47%	35%	34%	43%	31%	39%
Long term debt	$ 196,947	$ 126,000	56%	$ 196,947	$ 126,000	56%
Net debt (4)	$ 159,872	$ 75,278	112%	$ 159,872	$ 75,278	112%
Shares outstanding, period end (000s)	150,654	150,585	0%	150,654	150,585	0%
Average shares outstanding (000s) (1)	150,640	132,941	13%	150,626	131,767	14%
OPERATING						
Light and medium oil (bbl/d)	5,935	4,025	47%	5,535	3,955	40%
Heavy oil (bbl/d)	1,190	1,249	-5%	1,197	1,191	1%
NGL (bbl/d)	1,708	1,125	52%	1,692	1,100	54%
Total liquids (bbl/d)	8,833	6,399	38%	8,425	6,246	35%
Natural gas (Mcf/d)	32,319	29,203	11%	32,165	29,229	10%
Total production (boe/d) (5)	14,219	11,265	26%	13,784	11,118	24%
Oil and NGL (%)	62%	57%	5%	61%	56%	5%
Petroleum and natural gas realized price ($/boe) (5)	$ 74.31	$ 49.17	51%	$ 77.11	$ 44.01	75%
Cash costs ($/boe) (3)(5)	$ 3.62	$ 2.49	45%	$ 5.19	$ 3.76	38%
Netback ($/boe) (3)(5)	$ 69.77	$ 46.60	50%	$ 71.54	$ 39.92	79%

nm – not meaningful

(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)

Q3-2022 Operating and Financial Highlights

- Dividends declared for Q3-2022 totaled $39.2 million ($0.26 per share), up 102% versus the same period in 2021 when Freehold declared dividends of $19.4 million ($0.14 per share). Freehold's dividend payout[2] ratio for Q3-2022 was 47% versus 35% during the same period in 2021.
- Royalty and other revenue totaled $98.4 million in Q3-2022, up 91% from the same period in 2021. This increase was driven by an improved commodity price environment, growth in production associated with third-party drilling on Freehold's royalty lands and acquisitions completed late in 2021 and mid-2022.
- Funds from operations in Q3-2022 totaled $80.8 million or $0.54 per share, up 50% in total from $48.2 million or $0.36 per share in the same period in 2021. Funds from operations continue to benefit from US acquisitions, with the Company also benefiting from strong realized pricing within the US over Q3-2022.
- Q3-2022 production averaged 14,219 boe/d, a 26% increase versus the same period in 2021 as volumes added from US transactions and third-party drilling drove production growth versus the same period in 2021.
    - Canadian volumes averaged 9,566 boe/d for Q3-2022, up 1% versus the same period in 2021, driven by third-party drilling on our royalty lands.

    - US production averaged 4,653 boe/d for Q3-2022, up 166% versus the same period in 2021. This increase primarily reflects acquisitions completed over the trailing 12-months along-side third-party drilling and subsequently, completion activities on our royalty lands.
- On August 4, 2022, Freehold acquired US mineral title and royalty assets located in the Midland basin predominantly in Howard County, Texas across 51,000 gross acres for cash consideration of $125.7 million (US$97.7 million), net of customary closing adjustments.
- On August 19, 2022, Freehold acquired US mineral title and royalty assets located in the Eagle Ford basin in Texas for cash consideration of $32.8 million (US$25.4 million), net of customary closing adjustments.
- On August 30, 2022, Freehold closed a royalty transaction prospective for Clearwater oil in Canada for up to $18.4 million. This deal includes a drilling commitment and adds greater than 300,000 gross acres to our Clearwater land position.
- Long term debt at September 30, 2022 was $197.0 million, an increase of $111.0 million versus June 30, 2022 as Freehold utilized its credit facility to partially fund US acquisition activity completed over Q3-2022.

Drilling Activity

Drilling activities on Freehold's royalty lands was one of the most active quarters in the Company's history. In total, 304 gross wells were drilled on Freehold's royalty lands in Q3-2022, a 45% increase versus the same period in 2021. For the first nine months of 2022, 764 gross wells were drilled on Freehold's land, this compares to 375 gross wells for the same period in 2021. These significant increases in drilling activity aligns with the recovery of commodity prices combined with recent US acquisitions.

Of the total wells drilled in Q3-2022, approximately 48% of gross wells on Freehold royalty lands targeted prospects in Texas, 25% in Alberta, and 22% in Saskatchewan with the balance spread across other regions. In Q3-2022 approximately 77% of wells drilled on Freehold's Canadian lands were on gross overriding royalty (GORR) prospects with the remaining 23% targeting mineral title prospects, and on Freehold's US lands, approximately 17% of wells drilled were on GORR prospects and 83% targeting mineral title prospects. In aggregate, 93% of new wells drilled targeted oil or liquids prospects.

Canada

During Q3-2022, Freehold saw drilling in oil weighted areas such as the Viking, Sparky, and Clearwater in addition to gas weighted targets in the Deep Basin.

In Q3-2022, we had 147 gross locations drilled within our Canadian portfolio compared to 145 gross locations during the same period in 2021. For the first nine months of 2022, 366 gross locations were drilled on Freehold's Canadian land, a 26% increase over 291 gross locations in the same period in 2021. At current commodity pricing and third-party capital spending levels, Freehold anticipates 2022 to represent one of the most active drilling activity years in its history.

US

In the US, operators focused drilling on light oil prospects in the Permian and Eagle Ford basins. Development of Freehold's US lands were driven by a diverse group of disciplined investment grade public companies; however, we have also seen an increase in the share of activity coming from a more active group of private operators.

Although Freehold's US net well additions were lower than in Canada, US 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 six to twelve months from initial license to first production within our US royalty assets (compared to three to four months in Canada, on average). Overall, 157 gross wells were drilled on our US royalty lands during Q3-2022, which compares to 34 gross wells during the same period in 2021, this increase is due to late 2021 and mid-year 2022 royalty acquisitions in addition to industry activity increases from improved commodity pricing.

Royalty Interest Drilling

	Three Months Ended September 30				Nine months ended September 30			
	2022		2021		2022		2021	
	Gross	Net (1)	Gross	Net (1)	Gross	Net (1)	Gross	Net (1)
Canada	**147**	**5.77**	145	5.80	**366**	**13.89**	291	11.30
United States	**157**	**0.91**	34	0.20	**398**	**2.02**	84	0.50
Total	**304**	**6.68**	179	6.00	**764**	**15.91**	375	11.80

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

Production

Freehold's total production averaged 14,219 boe/d and 13,784 boe/d during the current reporting periods, 26% and 24% 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.

Freehold’s production mix through Q3-2022 was comprised of 42% light and medium oil, 8% heavy oil, 12% NGL and 38% natural gas. This compares to the first nine months of 2022 where the mix was comprised of 40% light and medium oil, 9% heavy oil, 12% NGL and 39% natural gas. Working interest production for Q3-2022 averaged 105 boe/d, unchanged from the same period of 2021.

Production Summary

	Three months ended September 30			Nine months ended September 30		
(boe/d)	2022	2021	Change	2022	2021	Change
Canada	**9,566**	9,517	1%	**9,682**	9,591	1%
United States	**4,653**	1,748	166%	**4,102**	1,527	169%
Total	**14,219**	11,265	26%	**13,784**	11,118	24%

Average Daily Production by Product Type

	Three months ended September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Light and medium oil (bbl/d)	**5,935**	4,025	47%	**5,535**	3,955	40%
Heavy oil (bbl/d)	**1,190**	1,249	-5%	**1,197**	1,191	1%
NGL (bbl/d)	**1,708**	1,125	52%	**1,692**	1,100	54%
Natural gas (Mcf/d)	**32,319**	29,203	11%	**32,165**	29,229	10%
Total production (boe/d)	**14,219**	11,265	26%	**13,784**	11,118	24%
Number of days in period (days)	**92**	92	-	**273**	273	-
Total volumes during period (Mboe)	**1,308**	1,035	26%	**3,763**	3,035	24%

Canada

Canadian production averaged 9,566 boe/d and 9,682 boe/d during the current reporting periods, comprised of approximately 53% oil and NGL’s. Volumes for the current reporting periods increased by 1% versus the same periods in 2021, reflecting third-party drilling offsetting portfolio declines.

Canadian Average Daily Production by Product Type

	Three months ended September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Light and medium oil (bbl/d)	3,118	3,133	0%	3,174	3,199	-1%
Heavy oil (bbl/d)	1,190	1,249	-5%	1,197	1,191	1%
NGL (bbl/d)	783	846	-7%	883	890	-1%
Natural gas (Mcf/d)	26,843	25,737	4%	26,579	25,862	3%
Canadian production (boe/d)	9,566	9,517	1%	9,682	9,591	1%

US

US production represented 33% of total volumes in Q3-2022, an increase from the 16% in the same period of 2021. US production averaged 4,653 boe/d and 4,102 boe/d during the current reporting periods, up 166% and 169% versus the same periods in 2021, reflecting acquisition activity and production additions from recently completed wells. In the US, there are extended cycle times from drilling to generating sales production, as well completion activities usually occur several months subsequent to the drilling of the well.

US Average Daily Production by Product Type

	Three months ended September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Light and medium oil (bbl/d)	2,817	892	216%	2,361	756	212%
NGL (bbl/d)	924	278	232%	809	210	286%
Natural gas (Mcf/d)	5,476	3,466	58%	5,585	3,367	66%
United States production (boe/d)	4,653	1,748	166%	4,102	1,527	169%

Product Prices

The price received by Freehold for produced oil is primarily driven by the US dollar price of WTI, with the realized Canadian price adjusted for the value of the Canadian dollar relative to the US dollar. WTI averaged US$91.56/bbl and US$98.09/bbl in the current reporting periods, 30% and 51% higher versus the same periods in 2021.

In Canada, Edmonton Light Sweet prices averaged $116.85/bbl and $123.43/bbl during the current reporting periods, 39% and 63% higher versus the same periods in 2021. WCS prices averaged $93.49/bbl and $105.53/bbl during the current reporting periods, 30% and 61% higher versus the same periods in 2021. These Canadian oil benchmark increases also reflect a weakening Canadian dollar relative to the US dollar.

For natural gas, AECO 7A and NYMEX averaged $5.50/mcf and US$8.20/mcf respectively in Q3-2022, 64% and 89% higher versus the same period in 2021. These same natural gas benchmarks averaged $5.27/mcf and US$6.67/mcf respectively for the first nine months of 2022, 74% and 85% higher than the same period in 2021.

Average Benchmark Prices

	Three months ended September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
West Texas Intermediate crude oil (US$/bbl)	$ 91.56	$ 70.55	30%	$ 98.09	$ 64.81	51%
Exchange rate (US$/Cdn$)	$ 0.77	$ 0.79	-3%	$ 0.78	$ 0.80	-3%
Edmonton Light Sweet crude oil (Cdn$/bbl)	$ 116.85	$ 83.77	39%	$ 123.43	$ 75.90	63%
Western Canadian Select crude oil (Cdn$/bbl)	$ 93.49	$ 71.79	30%	$ 105.53	$ 65.42	61%
Nymex natural gas (US$/Mcf)	$ 8.20	$ 4.35	89%	$ 6.67	$ 3.61	85%
AECO 7A Monthly Index (Cdn$/Mcf)	$ 5.50	$ 3.36	64%	$ 5.27	$ 3.03	74%

As Freehold has increased its US royalty exposure, its overall realized price has improved as US 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. NGL realized pricing trailed oil benchmark increases, as Freehold’s commodity portfolio ratio shifted more to the US where NGL pricing is lower than in Canada. On a boe basis, our average selling price was $74.31/boe and $77.11/boe in the current reporting periods, up from $49.17/boe and $44.01/boe in the same periods in 2021.

Average Realized Prices Summary

	Three months ended September 30					Nine months ended September 30			
	2022		2021	Change		2022		2021	Change
Oil ($/bbl)	$ 111.66	$	77.48	44%		$ 117.37	$	69.67	68%
NGL ($/bbl)	$ 48.67	$	43.88	11%		$ 55.79	$	41.15	36%
Oil and NGL ($/bbl)	$ 99.50	$	71.57	39%		$ 105.00	$	64.65	62%
Natural gas ($/Mcf)	$ 5.51	$	3.28	68%		$ 5.55	$	2.92	90%
Oil equivalent ($/boe)	$ 74.31	$	49.17	51%		$ 77.11	$	44.01	75%

Canada

On a barrel of oil equivalent basis, Freehold's average selling price realized in Canada was $65.63/boe and $70.93/boe during the current reporting periods, up 38% and 67% versus the same periods in 2021. For these same periods, oil and NGL pricing averaged $98.36/bbl and $105.13/bbl, up 38% and 65%, whereas the average realized natural gas price was $4.73/mcf and $5.06/mcf, up 48% and 91% when compared to the same periods in 2021.

Canadian Average Realized Prices

	Three months ended September 30					Nine months ended September 30			
	2022		2021	Change		2022		2021	Change
Oil ($/bbl)	$ 105.35	$	75.70	39%		$ 112.84	$	68.22	65%
NGL ($/bbl)	$ 59.95	$	47.82	25%		$ 66.96	$	42.61	57%
Oil and NGL ($/bbl)	$ 98.36	$	71.19	38%		$ 105.13	$	63.90	65%
Natural gas ($/Mcf)	$ 4.73	$	3.20	48%		$ 5.06	$	2.66	91%
Oil equivalent ($/boe)	$ 65.63	$	47.57	38%		$ 70.93	$	42.35	67%

US

On a barrel of oil equivalent basis, Freehold's average selling price realized in the US was $92.15/boe and $91.71/boe during the current reporting periods, up 58% and 78% versus the same periods in 2021. The current reporting periods include realized oil pricing in the US that averaged $121.31/bbl and $125.76/bbl, both up 41% and 60% respectively when compared to the same periods in 2021. Freehold's average realized US natural gas price was $9.31/mcf and $7.86/mcf, up 99% and 104% when compared to the same periods in 2021.

US Average Realized Prices (in Canadian Dollars)

	Three months ended September 30					Nine months ended September 30			
	2022		2021	Change		2022		2021	Change
Oil ($/bbl)	$ 121.31	$	86.20	41%		$ 125.76	$	78.60	60%
NGL ($/bbl)	$ 39.10	$	31.84	23%		$ 43.61	$	30.37	44%
Oil and NGL ($/bbl)	$ 101.00	$	73.27	38%		$ 104.79	$	68.13	54%
Natural gas ($/Mcf)	$ 9.31	$	4.68	99%		$ 7.86	$	3.86	104%
Oil equivalent ($/boe)	$ 92.15	$	58.34	58%		$ 91.71	$	51.61	78%

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. 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.

For Q3-2022, Freehold marketed approximately 2% of its total royalty production that was taken-in-kind using 30-day contracts, a decrease from 14% during the same period in 2021. This decrease is attributed to higher US production where mineral title claims have priority and we have not needed to take-in-kind in addition to improved commodity prices resulting in more robust funds flow amongst Freehold's Canadian payors, further mitigating credit risk. Historically Freehold has not experienced significant collection issues.

Royalty and Other Revenue

Royalty and other revenue of $98.4 million and $294.5 million in the current reporting periods was 91% and 120% higher when compared to the same periods in 2021. Freehold's royalty and other revenue benefited from the higher crude oil and natural gas prices, alongside increased production volumes primarily driven by US royalty acquisitions and increased activity on our royalty lands. Oil and NGL's represented approximately 82% of royalty and other revenue for both current reporting periods, in-line with the same periods in 2021.

Freehold also received $0.6 million for potash revenues and $0.6 million for bonus consideration and lease rentals, in Q3-2022, both increasing over the same period in 2021 as potash pricing and North American leasing activity improved. During Q3-2022, Freehold entered into 14 new leases with 10 counterparties. For the first nine months of 2022, new leasing has already surpassed full year 2021 levels.

Royalty and Other Revenue Summary

	Three months ended September 30			Nine months ended September 30		
($000s, except as noted)	2022	2021	Change	2022	2021	Change
Canada	$ 58,854	$ 42,039	40%	$ 191,344	$ 112,254	70%
United States	39,564	9,384	322%	103,174	21,536	379%
Royalty and other revenue	$ 98,418	$ 51,423	91%	$ 294,518	$ 133,790	120%
Per boe ($)	$ 75.24	$ 49.62	52%	$ 78.27	$ 44.08	78%

Royalty and Other Revenue by Category

	Three months ended September 30			Nine months ended September 30		
($000s)	2022	2021	Change	2022	2021	Change
Royalty interest	$ 97,795	$ 51,207	91%	$ 292,453	$ 133,213	120%
Bonus consideration and lease rentals	623	216	188%	2,065	577	258%
Royalty and other revenue	$ 98,418	$ 51,423	91%	$ 294,518	$ 133,790	120%

Royalty and Other Revenue by Type

	Three months ended September 30			Nine months ended September 30		
($000s)	2022	2021	Change	2022	2021	Change
Oil	$ 73,191	$ 37,595	95%	$ 215,689	$ 97,619	121%
Natural gas	16,375	8,815	86%	48,718	22,573	116%
Natural gas liquids	7,646	4,539	68%	25,777	12,116	113%
Potash	583	258	126%	2,269	905	151%
Bonus consideration and lease rentals	623	216	188%	2,065	577	258%
Royalty and other revenue	$ 98,418	$ 51,423	91%	$ 294,518	$ 133,790	120%

General and Administrative

Freehold has a business development group dedicated to the acquisition and development of its future and existing assets and a newly created diversified royalties' team who are evaluating non-hydrocarbon and alternative royalty opportunities in addition to land administration, accounting, and auditing expertise to administer and collect royalty payments, including systems to track development activity on its royalty lands. General and administrative (G&A) expense include 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 $2.8 million and $9.7 million were up 50% and 32% versus the same periods in 2021. These increases partially relate to Freehold's expansion into the US, including increased staff and compensation costs, a weakening Canadian dollar increasing the reported cost of Freehold's US dollar denominated software applications and a newly created diversified royalties team.

On a per boe basis, the current reporting periods G&A expenses of $2.17/boe and $2.58/boe increased by 19% and 7% versus the same periods in 2021. These increases were also due to Freehold's expansion into the US but partially offset by the increase in production volumes.

	Three months ended September 30			Nine months ended September 30		
($000s, except as noted)	2022	2021	Change	2022	2021	Change
General and administrative expenses before capitalized and overhead recoveries	$ 3,918	$ 2,276	72%	$ 12,074	$ 8,709	39%
Less: capitalized and overhead recoveries	(1,078)	(380)	-184%	(2,353)	(1,357)	-73%
General and administrative expenses	$ 2,840	$ 1,896	50%	$ 9,721	$ 7,352	32%
Per boe ($)	$ 2.17	$ 1.83	19%	$ 2.58	$ 2.42	7%

Production and Ad Valorem Taxes

Production and ad valorem taxes are incurred in the US at the state level derived from production and property values. With Freehold's expansion into the US, the expenses of $2.4 million and $5.8 million during the current reporting periods were 344% and 368% higher than the same periods in 2021. The increases on a per boe measure reflects Freehold's US expansion into states, largely Texas, that do not charge corporate income taxes but do assess flat tax rates on commodity revenues in addition to property tax assessments.

	Three months ended September 30			Nine months ended September 30		
($000s, except as noted)	2022	2021	Change	2022	2021	Change
Production and ad valorem taxes	$ 2,418	$ 544	344%	$ 5,805	$ 1,241	368%
Per boe ($)	$ 1.85	$ 0.53	249%	$ 1.54	$ 0.40	285%

Operating Expenses

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

	Three months ended September 30			Nine months ended September 30		
($000s, except as noted)	2022	2021	Change	2022	2021	Change
Operating expenses	$ 198	$ 20	890%	$ 704	$ 424	66%
Per boe ($)	$ 0.15	$ 0.02	650%	$ 0.19	$ 0.14	36%

Interest and Financing

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

The Q3-2022 average effective rate on US dollar advances from Freehold's committed credit facility was 4.3%. Previously, Freehold had not drawn US dollar advances. For the current reporting periods, the average effective rates on Canadian dollar advances was 4.2% and 2.7%, respectively (2021 – 2.4% and 2.3%, respectively).

($000s, except as noted)	Three months ended September 30 2022	2021	Change	Nine months ended September 30 2022	2021	Change
Interest on long term debt and financing fees	$ 1,702	$ 665	156%	$ 3,288	$ 2,281	44%
Non-cash interest expense [1]	47	45	5%	139	160	-13%
Interest and finance expense	$ 1,749	$ 710	146%	$ 3,427	$ 2,441	40%
Per boe - cash expense ($)	$ 1.30	$ 0.64	103%	$ 0.87	$ 0.75	16%

(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 and deferred share unit (DSU) plans were $2.2 million and $6.3 million during the current reporting periods versus $1.6 million and $5.1 million in the same periods of 2021. The first nine months of 2022 includes a non-cash charge of $2.3 million to adjust the carrying amount of DSUs to their market value at September 30, 2022 to prospectively account for this plan as cash settled (see Change in DSU Accounting). Previously this plan was mostly accounted for as equity settled. The current reporting periods' share-based compensation reflects increases in Freehold's share price in addition to the first nine months of 2022 including the prospective adjustment for the DSU plan.

Associated with the award and DSU plans, during the first nine months of 2022, Freehold paid to its employees and a non-management director $5.8 million, an increase from the $1.4 million paid to its employees in the same periods 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.

($000s, except as noted)	Three months ended September 30 2022	2021	Change	Nine months ended September 30 2022	2021	Change
Share-based compensation	$ 2,153	$ 1,602	34%	$ 6,308	$ 5,085	24%
Cash payout on share based compensation	$ -	$ -	0%	$ 5,838	$ 1,371	326%
Per boe ($)	$ -	$ -	0%	$ 1.55	$ 0.45	244%

Award Plan

Freehold's award plan is share based and cash settled and consists of grants of performance share units (PSUs) and restricted share units (RSUs).

Share-based compensation expense is based on Freehold's share price, the number of PSUs and RSUs outstanding at each period end, a notional adjustment for paid dividends and an estimated forfeiture rate. Compensation expense is recognized over the vesting period. For the PSUs there is also a performance multiplier of 0 to 2 times, 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.

During the first nine months of 2022, there were 237,234 PSUs and RSUs granted under Freehold's award plan. Net of forfeitures and payouts, this resulted in a total of 885,806 PSUs and RSUs outstanding at September 30 and November 8, 2022 (December 31, 2021 – 926,922).

Deferred Share Unit Plan

Pursuant to our deferred share unit plan, fully-vested DSUs are granted annually in the first quarter to non-management members (the Board). At the Board's discretion, outstanding DSUs are redeemable for either an equal number of Freehold common shares or cash in lieu of the equivalent fair value of such shares upon the member's retirement. Dividends paid on Freehold's common shares prior to redemption of DSUs are equated to a fair value which is then reinvested on behalf of the member in additional DSU's.

While the Board may elect to settle DSUs through issuing common shares, effective April 1, 2022, outstanding DSUs are prospectively accounted for as cash-settled (see Change in DSU Accounting) due to Freehold establishing a precedent of cash settlement. Previously DSUs were accounted for as equity settled.

During the first nine months of 2022, Freehold granted a total of 75,548 DSUs to members of the Board largely as part of their annual compensation resulting in 471,204 outstanding DSUs at September 30, 2022 (December 31, 2021 – 447,684). Since Q3-2022, additional grants compensating for paid share dividends resulted in 473,872 outstanding DSUs at November 8, 2022.

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 $69.77/boe and $71.54/boe during the current reporting periods, 50% and 79% 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 38%, on a boe basis, compared to the same periods in 2021. These increases were largely driven by a higher interest expenses and general and administrative costs in addition, the first nine months of 2022 includes the annual cash payout on share-based compensation, including redeemed DSU's from a retiring director.

	Three months ended September 30			Nine months ended September 30		
($/boe)	2022	2021	Change	2022	2021	Change
Royalty and other revenue	$ 75.24	$ 49.62	52%	$ 78.27	$ 44.08	78%
Production and ad valorem taxes	(1.85)	(0.53)	249%	(1.54)	(0.40)	285%
Net revenue	$ 73.39	$ 49.09	50%	$ 76.73	$ 43.68	76%
Less:						
General and administrative	(2.17)	(1.83)	19%	(2.58)	(2.42)	7%
Operating expense	(0.15)	(0.02)	650%	(0.19)	(0.14)	36%
Interest and financing cash expense	(1.30)	(0.64)	103%	(0.87)	(0.75)	16%
Cash payout on share based compensation	-	-	0%	(1.55)	(0.45)	244%
Cash costs [1]	(3.62)	(2.49)	45%	(5.19)	(3.76)	38%
Netback [1]	$ 69.77	$ 46.60	50%	$ 71.54	$ 39.92	79%

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

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 $20.51/boe and $19.75 /boe in the current reporting periods, were down 4% and 6% during the same periods in 2021, due largely to Freehold's 2021 and 2022 US royalty income asset acquisitions lowering the overall rate. However, this lower rate was offset by increased production associated with acquisitions, resulting in an increase of 21% and 16% in expensed depletion, depreciation and other during the current reporting periods compared to the same periods in 2021.

	Three months ended September 30			Nine months ended September 30		
($000s, except as noted)	2022	2021	Change	2022	2021	Change
Depletion, depreciation and other	$ 26,828	$ 22,144	21%	$ 74,318	$ 63,940	16%
Per boe ($)	$ 20.51	$ 21.37	-4%	$ 19.75	$ 21.07	-6%

Unrealized Foreign Exchange

Unrealized foreign exchange results from intercompany balances between Freehold's Canadian parent and its US subsidiary partially offset by changes in the Canadian dollar reported amount of a portion of Freehold's long-term debt as denominated in US dollars. Contributing to the current reporting periods foreign exchange gains, compared to the same periods of 2021, was the strengthening of the US dollar from draw date to the period end. The US, Canadian exchange rate for Q3-2022 averaged US$0.77/CDN, down 3% versus the same period in 2021, closing the quarter at US$0.73/CDN.

Intercompany balances have increased as a result of US 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 US subsidiary was recognized within other comprehensive income due to different functional currencies between the parent and the US subsidiary. These intercompany positions are revalued at the relevant foreign exchange rate at each period end. During the current reporting periods, the strengthening US dollar relative to the Canadian dollar combined with recent US acquisitions increased the reported intercompany note causing increases in unrealized foreign exchange gains.

Freehold drew US dollar denominated long term debt in Q3-2022 of US$69.0 million to finance two US transactions for combined proceeds of US$123.1 million.

	Three months ended September 30			Nine months ended September 30		
($000s)	2022	2021	Change	2022	2021	Change
Unrealized foreign exchange gain on:						
Intercompany note	$ (26,587)	$ (4,342)	-512%	$ (31,016)	$ (1,018)	-2948%
Long term debt	8,440	-	nm	8,440	-	nm
	$ (18,147)	$ (4,342)	-318%	$ (22,576)	$ (1,018)	-2118%

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 $0.4 million were decreases of 31% and 24% 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 September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Shares issued for management fees	13,750	27,500	-50%	41,250	82,500	-50%
Ascribed value ($000s) (1)	$ 199	$ 286	-30%	$ 570	$ 754	-24%
Closing share price ($/share)	$ 14.38	$ 10.40	38%	$ 14.38	$ 10.40	38%

(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 September 30, 2022, there were no indicators of impairment on Freehold's US 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 Q3-2022, Freehold estimates current income tax expenses in Canada and the US of $10.4 million and $31.8 million for the current reporting periods respectively, driven by strong commodity pricing and increased US 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 Reassessments").

In the current reporting periods, Freehold had deferred tax expenses of $6.6 million and $16.1 million.

	Three months ended September 30			Nine months ended September 30		
($000s)	2022	2021	Change	2022	2021	Change
Current income tax expense	$ 10,382	-	nm	$ 31,746	$ -	nm
Deferred income tax expense	6,623	5,837	13%	16,050	12,665	27%
Income taxes	$ 17,005	$ 5,837	191%	$ 47,796	$ 12,665	277%

nm – not meaningful

CRA Reassessments

During Q3-2022, Freehold's 2021 Canadian corporate income tax return was reassessed by the CRA. As previously reported, Freehold's Canadian corporate income tax filings for 2015, 2018 and 2019 were reassessed by the CRA (combined with the 2021 reassessment, the Reassessments). Pursuant to the Reassessments, deductions of $171.1 million of non-capital losses (NCLs) by Freehold were denied, resulting in expected reassessed taxes, interest, and penalties totaling $48.7 million, in addition to a denial of $50.6 million of carried forward NCLs. Freehold has filed its Notices of Objection for the 2015, 2018 and 2019 reassessments which required deposits totaling $14.7 million at September 30, 2022 and is in the process of filing its objection for the 2021 reassessment that is expected to require additional deposits totaling $10 million to be paid prior to this year-end or thereabouts.

Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, expects to be successful on its appeal and payment of these deposits held by the CRA should be refunded, plus interest, and the denied NCLs should be reinstated. A CRA appeals' officer was assigned in late 2021, with no new developments since the assignment.

Net Income and Comprehensive Income

In the current reporting periods, Freehold had net income of $63.2 million and $168.4 million compared to $22.7 million and $40.9 million in the same periods in 2021. These increases were due to higher commodity pricing reflecting an improvement in crude oil and natural gas benchmark pricing combined with a weighted average shift to stronger US based pricing and higher volumes resulting from 2021 and 2022 US royalty property acquisitions, slightly offset by current income taxes.

	Three months ended September 30			Nine months ended September 30		
($000s, except per share)	2022	2021	Change	2022	2021	Change
Net income	$ 63,175	$ 22,726	178%	$ 168,445	$ 40,906	312%
Per share, basic and diluted ($)	$ 0.42	$ 0.17	147%	$ 1.12	$ 0.31	256%
Comprehensive income	$ 72,467	$ 23,288	211%	$ 179,733	$ 41,346	335%

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 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 67% to $80.8 million ($0.54/share) and $236.5 million ($1.57/share) from $48.3 million ($0.36/share) and $120.9 million ($0.92/share) in the same periods of 2021. These increases were due to higher production from Freehold's US royalty acquisitions, higher third-party drilling activities, higher commodity pricing and a weighted average shift to stronger US based pricing.

Cash flow from operations of $99.9 million and $244.7 million during the current reporting periods were 128% and 139% higher than the same periods of 2021, consistent with the increases in funds from operations.

	Three months ended September 30			Nine months ended September 30		
($000s, except as noted)	2022	2021	Change	2022	2021	Change
Cash flow from operations	$ 99,931	$ 43,911	128%	$ 244,673	$ 102,321	139%
Funds from operations	$ 80,783	$ 48,247	67%	$ 236,522	$ 120,876	96%
Per share - basic ($)(1)	$ 0.54	$ 0.36	50%	$ 1.57	$ 0.92	71%

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

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 September 30, 2022 was $37.1 million, 17% lower when compared to December 31, 2021. This decrease reflects a combined $27.5 million increase in accrued current income taxes and dividends payable. Working capital at September 30, 2022 and December 31, 2021 includes $14.7 million of deposits provided to the CRA upon Freehold filing its objection to 2015, 2018 and 2019 reassessments (see CRA Reassessments).

	At September 30	At December 31	
($000s)	2022	2021	Change
Working capital (1)	$ 37,075	$ 44,771	-17%

(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 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. 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 September 30, 2022, $196.9 million was drawn on the committed revolving facility (December 31, 2021 - $146 million), consisting of Canadian dollar and US dollar denominated borrowings of $69.0 million and US$93.3 million ($127.9 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 US royalty income assets with associated proved developed producing reserves.

The amended credit agreement contains two financial covenants: (i) the first financial covenant is that long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times (the actual ratio was 0.55 times at September 30, 2022) and (ii) the second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) percentage shall not exceed 55% (the actual percentage was 17% at September 30, 2022). In addition, Freehold forecasts to be in compliance with all covenants on a quarterly basis for at least the next 12 months based on Freehold's current best estimate of results from operations.

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.

At September 30, 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 the nine months of 2022, net debt increased by $58.6 million, or 58%, to $159.9 million from $101.2 million at December 31, 2021, resulting from recent US acquisition activity financed by long-term debt. The working capital component of net debt decreased $7.7 million during the first nine months of 2022 due largely to higher current taxes payable on Canadian taxable income not due until 2023. Additionally, net debt at September 30, 2022 and December 31, 2021, includes $14.7 million of deposits provided to the CRA upon Freehold filing its objection to 2015, 2018 and 2019 reassessments (see CRA Reassessments).

Freehold's net debt to trailing funds from operations ratio at September 30, 2022 was unchanged from December 31, 2021 at 0.5 times and 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 largely excludes funds from operations from US 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 14% at September 30, 2022, an increase from the 5% at December 31, 2022, reflects $42.5 million long term debt net draws to fund recent US acquisitions combined with an $8.4 million unrealized foreign exchanges loss to revalue US dollar denominated debt to the weakening reported Canadian dollar.

Debt Analysis

	At September 30	At December 31	
($000s)	2022	2021	Change
Long-term debt	$ 196,947	$ 146,000	35%
Working capital (1)	(37,075)	(44,771)	-17%
Net debt (1)	$ 159,872	$ 101,229	58%

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

Financial Leverage Ratios (1)

	At September 30	At December 31	
	2022	2021	Change
Net debt to funds from operations (times)	0.5	0.5	0%
Net debt to capitalization	14%	5%	9%

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

Shareholders' Capital

During the first nine months of 2022, Freehold issued 41,250 shares for payment of the management fee.

At September 30, 2022 and November 8, 2022, there were 150,653,584 shares outstanding.

Shareholders' Capital

	September 30, 2022		December 31, 2021	
($000s, except as noted)	Shares	Amount	Shares	Amount
Balance, beginning of period	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	41,250	570	110,000	1,074
Balance, end of period	150,653,584	$ 1,500,114	150,612,334	$ 1,499,544

Weighted Average and Period Ending Shares

	Three months ended September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Weighted average						
Basic	150,639,983	132,941,383	13%	150,626,285	131,766,921	14%
Diluted	151,101,167	133,373,926	13%	151,112,540	132,193,632	14%
At period end	150,653,584	150,584,834	0%	150,653,584	150,584,834	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 September 30, 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
		$ 0.70

Dividends paid in Q3-2022 totaled $37.7 million ($0.25 per share), higher than the $17.1 million ($0.13 per share) paid in the same period of 2021. For the first nine months of 2022, dividends paid totaled $100.9 ($0.67 per share) was higher than the $37.9 million ($0.29 per share) in the same period of 2021.

On October 13, 2022, the Board declared a dividend of $0.09 per common share to be paid on November 15, 2022, to common shareholders on record on October 31, 2022.

On November 8, 2022, the Board declared a dividend of $0.09 per common share to be paid on December 15, 2022, to common shareholders on record on November 30, 2022.

From inception in 1996 through to September 30, 2022, Freehold has distributed $1.9 billion ($33.79 per share) to our shareholders. Freehold's dividends are designated as eligible dividends for Canadian income tax purposes.

Accumulated Dividends (1)

	Three months ended September 30			Nine months ended September 30		
($000's, except per share)	2022	2021	Change	2022	2021	Change
Dividends declared	$ 39,167	$ 19,364	102%	$ 105,442	$ 43,029	145%
Accumulated, beginning of period	1,872,752	1,761,514	6%	1,806,477	1,737,849	4%
Accumulated, end of period	$ 1,911,919	$ 1,780,878	7%	$ 1,911,919	$ 1,780,878	7%
Dividends per share ($) (2)	$ 0.26	$ 0.1400	86%	$ 0.70	$ 0.3200	119%
Accumulated, beginning of period ($)	33.5325	32.7825	2%	33.0925	32.6025	2%
Accumulated, end of period ($)	$ 33.7925	$ 32.9225	3%	$ 33.7925	$ 32.9225	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 payout[2] ratios were 47% and 43%, with excess funds from operations being used to repay debt and fund US acquisitions.

Payout Ratio (2)

	Three months ended September 30				Nine months ended September 30		
($000s)	2022	2021	Change		2022	2021	Change
Dividends paid (1)	$ 37,658	$ 17,095	120%		$ 100,920	$ 37,875	166%
Funds from operations	$ 80,783	$ 48,247	67%		$ 236,522	$ 120,876	96%
Payout ratio (2)	47%	35%	34%		43%	31%	39%

(1) Based on the dividend payment date which is generally on the 15th day of the month following the month it was declared
(2) Payout ratio is a supplemental measure

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 payout ratio is calculated as dividends declared as a percentage of funds from operations.

Freehold continues to work towards returning the 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 the first nine months of 2022, Freehold invested $183.6 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

On June 28, 2022, Freehold acquired US 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 located in Texas.

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

On August 19, 2022 Freehold acquired US mineral title and royalty assets located in the Eagle Ford basin in Texas for $32.8 million (US$ 25.4 million), net of customary closing adjustments.

Canadian Acquisitions

Freehold paid $2.4 million during the first nine months of 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. These two Canadian royalty agreements were transacted in 2021 and during Q3-2022, respectively. Freehold's combined commitments per these agreements is $26.3 million, of which $8.3 million has been paid to date.

Related Expenditures

For the first nine months of 2022, Freehold recognized capitalized general & administrative costs of $2.4 million and other royalty income asset and miscellaneous expenditures of $1.0 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 18.1% ownership in Freehold at September 30, 2022, a decrease from the 19.9% ownership at December 31, 2021, as Rife sold 2.8 million shares of its investment in Freehold in January 2022. 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.

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 the current reporting periods, the ascribed values of $0.2 million and $0.6 million were based on the closing price of Freehold's common shares on the last trading day of each quarter (same periods in 2021 - $0.3 million and $0.8 million).

During the current reporting periods, the Manager charged $2.1 million and $8.0 million in G&A costs (same periods in 2021 - $2.0 million and $7.1 million). At September 30, 2022, there was $0.6 million (December 31, 2021 – $0.5 million) in accounts payable and accrued liabilities relating to these types of costs.

Rife Resources Ltd. and CN Pension Trust Funds

During the current reporting periods, Freehold paid $6.8 million and $18.4 million in cash dividends to Rife and the CN Pension Trust Funds for their combined ownership in Freehold’s common shares (same periods in 2021 - $3.8 million and $8.4 million).

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. During the current reporting periods, Freehold reported royalties of approximately $0.2 million and $0.5 million from Rife (same periods in 2021 - $0.3 million and $0.6 million).

At September 30, 2022, there was $2.5 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared, net of royalties’ receivable (December 31, 2021 - $1.8 million).

Canpar Holdings Ltd.

Freehold and Canpar generally share mineral title ownership in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Where Freehold is not the legal registered owner of such mineral rights, Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. At September, 2022, and December 31, 2021, there were no amounts due from Canpar.

Select Quarterly Information

Financial ($000s, except as noted)	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4
Royalty and other revenue	**98,418**	108,495	87,605	75,202	51,423	45,353	37,014	25,882
Net income	**63,175**	66,875	38,395	31,178	22,726	12,545	5,635	373
Per share, basic ($) (1)	**$ 0.42**	$ 0.44	$ 0.25	$ 0.21	$ 0.17	$ 0.10	$ 0.04	$ -
Cash flows from operations	**99,931**	75,443	69,300	59,700	43,911	33,420	24,990	20,610
Funds from operations	**80,783**	83,846	71,893	68,773	48,247	40,208	32,421	22,129
Per share, basic ($) (1)	**$ 0.54**	$ 0.56	$ 0.48	$ 0.46	$ 0.36	$ 0.31	$ 0.25	$ 0.19
Acquisitions and related expenditures	**161,679**	20,661	1,294	67,906	228,382	930	79,782	222
Dividends paid	**37,658**	36,150	27,112	24,094	17,095	13,147	7,633	5,342
Per share ($) (2)	**0.25**	0.24	0.18	0.16	0.13	0.10	0.06	0.045
Dividends declared	**39,167**	36,151	30,124	25,598	19,364	14,464	9,201	5,938
Per share ($) (2)	**$ 0.26**	$ 0.24	$ 0.20	$ 0.17	$ 0.14	$ 0.11	$ 0.07	$ 0.0500
Payout ratio (%) (3)	**47%**	43%	38%	35%	35%	33%	24%	24%
Long term debt	**196,947**	86,000	105,000	146,000	126,000	78,000	96,000	93,000
Net debt (4)	**159,872**	33,095	62,578	101,229	75,278	40,751	64,797	65,765
Shares outstanding, period end (000s)	**150,654**	150,640	150,626	150,612	150,585	131,490	131,463	118,788
Average shares outstanding (000s) (1)	**150,640**	150,626	150,612	150,585	132,941	131,463	130,874	118,747
Operating								
Light and medium oil (bbls/d)	**5,935**	5,378	5,234	5,401	4,025	4,048	3,784	3,325
Heavy oil (bbls/d)	**1,190**	1,239	1,210	1,254	1,249	1,253	1,072	1,087
NGL (bbls/d)	**1,708**	1,613	1,757	1,564	1,125	1,107	1,065	824
Total liquids (bbls/d)	**8,833**	8,230	8,201	8,219	6,399	6,408	5,921	5,236
Natural gas (Mcf/d)	**32,319**	31,336	32,845	34,700	29,203	28,376	30,132	26,671
Total production (boe/d) (5)	**14,219**	13,453	13,676	14,005	11,265	11,137	10,944	9,681
Oil and NGL (%)	**62%**	61%	60%	59%	57%	58%	54%	54%
Petroleum and natural gas realized price ($/boe)	**74.31**	87.55	69.71	57.44	49.17	44.22	37.31	28.16
Cash costs ($/boe) (3)(5)	**3.62**	8.38	3.70	3.57	2.49	4.48	4.37	4.03
Netback ($/boe) (3)(5)	**69.77**	78.80	66.17	53.58	46.60	39.83	32.94	24.85
Benchmark Prices								
West Texas Intermediate crude oil (US$/bbl)	**91.56**	108.41	94.29	77.19	70.55	66.07	57.81	42.47
Exchange rate (Cdn$/US$)	**0.77**	0.78	0.79	0.79	0.79	0.81	0.79	0.77
Edmonton Light Sweet crude oil (Cdn$/bbl)	**116.85**	137.79	115.67	93.28	83.77	77.12	66.76	50.45
Western Canadian Select crude oil (Cdn$/bbl)	**93.49**	122.09	101.02	78.71	71.79	66.90	57.55	43.56
Nymex natural gas (US$/mcf)	**8.20**	7.17	4.64	4.75	4.35	2.95	3.50	2.26
AECO 7A Monthly Index (Cdn$/Mcf)	**5.50**	6.27	4.58	4.93	3.36	2.80	2.92	2.76

(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)

Internal Control Over Financial Reporting

Freehold is required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during Q3-2022. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, Certification of Interim Filings, which can be found on SEDAR at www.sedar.com.

Change in DSU Accounting

The accounting policies used in the preparation of the audited financial statements have been applied in the preparation of the interim financial statements, except for the accounting treatment for the DSU plan. 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 Freehold to settle DSUs with equity and there was no history of cash settlement. This change in treatment resulted from redeemed DSUs being paid out in cash, as allowed by the DSU plan, during the first nine months of 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. 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 $2.3 million charged to share-based compensation expense for the first nine months of 2022. For all future period ends, including September 30, 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.

Sustainability Reporting

The ISSB recently issued exposure drafts "General Requirements for Disclosure of Sustainability-related Financial Information" and "Climate-related Disclosures". 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.

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, Dividend Announcement, Outlook, 2022 Guidance, Q3-2022 Operating and Financial Highlights, CRA Reassessments and Liquidity and Capital Resources pertaining to the following:

- our expectation of generating lower risk returns to our shareholders by driving oil and gas development on our lands through our lease program, acquiring royalty assets with acceptable risk profiles and long economic life and generating gross overriding royalties for revenue growth;
- our intent to maintain balance sheet strength (1.5 times or less net debt to funds from operations) and achieve a payout ratio of approximately 60%;
- our dividend policy and expectations for future dividends;
- 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;
- 2022 second half guidance including average royalty production (including commodity weighting), funds from operations and commodity prices;
- Freehold's expectations regarding its taxability and the deductibility of certain loses;
- our expectation regarding the additional deposits required in respect of the 2021 reassessments, including the timing and amount thereof;
- our expectation that we will be successful in our objection of the Reassessments 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;
- 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;
- the impacts of the Russian-Ukraine war and associated sanctions on the global economy and commodity prices
- the impacts of inflation and supply chain shortages on the operations of our industry partners and royalty payors; as well as on demand and commodity prices;
- future capital expenditure levels;
- future production levels;
- future exchange rates;
- future tax rates;
- future legislation;
- the cost of developing and expanding our assets;
- our ability and the ability of our industry partners and royalty payors to obtain equipment in a timely manner to carry out development activities;
- our ability to market our product successfully to current and new customers;
- our expectation for the consumption of crude oil, NGL'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.
- lack of pipeline capacity;
- currency fluctuations;
- our and our counsel's interpretation of tax laws, regulations, royalties, or incentive programs relative to the interpretation and enforcement of thereof by governmental authorities;
- 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, 2021 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, assumptions as to expected performance of current and future wells drilled by our royalty payors, 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.

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 Measure

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

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 pay outs, represents the per unit cash flow 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.

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. Payout ratio is calculated as dividends paid as a percentage of funds from operations.

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 pay outs. 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.

Condensed Consolidated Balance Sheets

(unaudited) ($000s)	September 30 2022	December 31 2021
Assets		
Current assets:		
Cash	**$ 1,154**	$ 2,189
Accounts receivable	**65,594**	46,303
Income tax deposits (note 2)	**14,711**	14,711
	81,459	63,203
Exploration and evaluation assets (note 3)	**70,182**	74,455
Petroleum and natural gas interests (note 4)	**1,087,941**	932,849
Total Assets	**$ 1,239,582**	$ 1,070,507
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable (note 7)	**$ 13,559**	$ 9,037
Accounts payable and accrued liabilities	**3,372**	5,163
Current income taxes	**22,998**	-
Current portion of lease obligation	**195**	195
Current portion of decommissioning liability	**500**	750
Current portion of share based compensation payable (note 5)	**3,760**	3,287
	44,384	18,432
Lease obligation	**1,544**	1,619
Share based compensation payable (notes 1d and 5)	**9,955**	4,455
Decommissioning liability	**4,459**	4,815
Deferred income tax liability	**20,987**	4,220
Long-term debt (note 6)	**196,947**	146,000
Shareholders' equity:		
Shareholders' capital (note 7)	**1,500,114**	1,499,544
Accumulated other comprehensive income	**11,414**	126
Contributed surplus (note 1d)	**-**	4,521
Deficit	**(550,222)**	(613,225)
Total Shareholders' Equity	**961,306**	890,966
Total Liabilities and Shareholders' Equity	**$ 1,239,582**	$ 1,070,507

See accompanying notes to interim condensed consolidated financial statements

Subsequent events (note 6 and 7b)

Condensed Consolidated Statements of Income and Comprehensive Income

(unaudited)	Three months ended September 30		Nine months ended September 30	
($000s, except per share and weighted average shares)	**2022**	2021	**2022**	2021
Revenue:				
Royalty and other revenue (note 8)	**$ 98,418**	$ 51,423	**$ 294,518**	$ 133,790
Expenses:				
General and administrative	**2,840**	1,896	**9,721**	7,352
Production and ad valorem taxes	**2,418**	544	**5,805**	1,241
Operating	**198**	20	**704**	424
Interest and financing (note 9)	**1,749**	710	**3,427**	2,441
Share based compensation (note 5)	**2,153**	1,602	**6,308**	5,085
Depletion, depreciation and other	**26,828**	22,144	**74,318**	63,940
Unrealized foreign exchange gain (note 11)	**(18,147)**	(4,342)	**(22,576)**	(1,018)
Management fee (note 10)	**199**	286	**570**	754
	18,238	**22,860**	**78,277**	80,219
Income before taxes	**80,180**	28,563	**216,241**	53,571
Income taxes:				
Current income tax expense	**10,382**	-	**31,746**	-
Deferred income tax expense	**6,623**	5,837	**16,050**	12,665
	17,005	5,837	**47,796**	12,665
Net income	**$ 63,175**	$ 22,726	**$ 168,445**	$ 40,906
Other comprehensive loss				
Foreign currency translation adjustment	**$ 9,292**	$ 562	**11,288**	$ 440
Comprehensive income	**$ 72,467**	$ 23,288	**$ 179,733**	$ 41,346
Net income per share, basic and diluted	**$ 0.42**	$ 0.17	**$ 1.12**	$ 0.31
Weighted average number of shares:				
Basic	**150,639,983**	132,941,383	**150,626,285**	131,766,921
Diluted	**151,101,167**	133,373,926	**151,112,540**	132,193,632

See accompanying notes to interim condensed consolidated financial statements

Condensed Consolidated Statements of Cash Flows

(unaudited)	Three months ended September 30		Nine months ended September 30	
($000s)	**2022**	2021	**2022**	2021
Operating:				
Net income	**$ 63,175**	$ 22,726	**$ 168,445**	$ 40,906
Adjustments:				
Depletion, depreciation and other	**26,828**	22,144	**74,318**	63,940
Unrealized foreign exchange gain (note 11)	**(18,147)**	(4,342)	**(22,576)**	(1,018)
Deferred income tax expense	**6,623**	5,837	**16,050**	12,665
Share based compensation expense (note 5)	**2,153**	1,602	**6,308**	5,085
Management fee (note 10)	**199**	286	**570**	754
Accretion of decommissioning liabilities and lease obligation	**47**	45	**139**	160
Cash payout on share based compensation (note 5)	**-**	-	**(5,838)**	(1,371)
Decommissioning expenditures	**(95)**	(51)	**(894)**	(245)
Funds from operations	**80,783**	48,247	**236,522**	120,876
Changes in non-cash working capital (note 14)	**19,148**	(4,336)	**8,151**	(18,555)
	99,931	43,911	**244,673**	102,321
Financing:				
Long-term debt net draw	**102,507**	48,000	**42,507**	33,000
Dividends paid (note 7)	**(37,658)**	(17,095)	**(100,920)**	(37,875)
Lease obligation paid	**(48)**	(48)	**(146)**	(146)
Share issuance related to subscription receipts, net of costs	**-**	165,393	**-**	223,789
Changes in non-cash working capital (note 14)	**-**	585	**-**	1,741
	64,801	196,835	**(58,559)**	220,509
Investing:				
Acquisitions and related expenditures (note 4)	**(161,679)**	(228,382)	**(183,634)**	(309,094)
Changes in non-cash working capital (note 14)	**(3,539)**	(13,067)	**(3,767)**	(12,582)
	(165,218)	(241,449)	**(187,401)**	(321,676)
Increase (decrease) in cash	**(486)**	(703)	**(1,287)**	1,154
Impact of foreign currency on cash balance	**18**	(6)	**252**	(66)
Cash, beginning of period	**1,622**	2,823	**2,189**	1,026
Cash, end of period	**$ 1,154**	$ 2,114	**$ 1,154**	$ 2,114

See accompanying notes to interim condensed consolidated financial statements

Supplemental cash flow disclosures (note 14)

Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited)	Nine months ended September 30	
($000s)	**2022**	2021
Shareholders' capital:		
Balance, beginning of period	**$ 1,499,544**	$ 1,272,397
Shares issued for payment of management fee (note 10)	**570**	754
Share issuance related to subscription receipts	**-**	233,265
Share issue costs, net of tax effect	**-**	(7,154)
Balance, end of period	**1,500,114**	1,499,262
Accumulated other comprehensive income (loss):		
Balance, beginning of period	**126**	(40)
Foreign currency translation adjustment	**11,288**	440
Balance, end of period	**11,414**	400
Contributed surplus:		
Balance, beginning of period	**4,521**	3,763
Share based compensation	**-**	667
Reclassification to share based compensation payable (note 1d)	**(4,521)**	-
Balance, end of period	**-**	4,430
Deficit:		
Balance, beginning of period	**(613,225)**	(616,681)
Net income	**168,445**	40,906
Dividends declared (note 7)	**(105,442)**	(43,029)
Balance, end of period	**(550,222)**	(618,804)
Total shareholders' equity	**$ 961,306**	$ 885,288

See accompanying notes to interim condensed consolidated financial statements

Notes to Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021 (unaudited)

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 interim condensed consolidated financial statements, the "financial statements", have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standard 34 Interim Financial Reporting. These financial statements do not include all the disclosures normally provided in annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2021. Certain comparative period disclosures have been revised to conform to the current periods' presentation including production and ad valorem taxes, which are incurred in the US at the state level derived from production and property values, as expensed on the condensed consolidated statements of income.

These financial statements were approved by the Board of Directors on November 8, 2022.

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 caused by both on-going COVID-19 regionalized lockdowns and economic sanctions against Russia.

d) Change in Deferred Share Unit Accounting

The accounting policies used in the preparation of the audited consolidated financial statements and notes for the year ended December 31, 2021, have been applied in the preparation of these financial statements, except for the accounting treatment for the deferred share unit (DSU) plan. 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. This change in treatment resulted from redeemed DSUs being paid out in cash, as allowed by the DSU plan, during the nine months ended September 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 Condensed 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 $2.3 million charged to share-based compensation expense for the nine months ended September 30, 2022. For all future period ends, including September 30, 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.

2. Income Tax Deposits

During the three months ended September 30, 2022, Freehold's 2021 Canadian corporate income tax return was reassessed by the Canada Revenue Agency (CRA). As previously reported, Freehold's Canadian corporate income tax filings for 2015, 2018 and 2019 were reassessed by CRA (combined with the 2021 reassessment, the Reassessments). Pursuant to the Reassessments, deductions of $171.1 million of non-capital losses (NCLs) by Freehold were denied, resulting in expected reassessed taxes, interest, and penalties totaling $48.7 million, in addition to a denial of $50.6 million of carried forward NCLs. Freehold has filed its Notices of Objection for the 2015, 2018 and 2019 reassessments which required deposits totaling $14.7 million at September 30, 2022 and is in the process of filing its objection for the 2021 reassessment that is expected to require additional deposits totaling $10 million to be paid prior to year-end 2022 or thereabouts.

Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, expects to be successful on its appeal and payment of these deposits held by the CRA should be refunded, plus interest, and the denied NCLs should be reinstated. A CRA appeals' officer was assigned in late 2021, with no new developments since the assignment.

3. Exploration and Evaluation Assets

	September 30 2022	December 31 2021
Balance, beginning of period	**$ 74,455**	$ 80,152
Transfers to petroleum and natural gas interests (note 4)	**(4,273)**	(5,697)
Balance, end of period	**$ 70,182**	$ 74,455

There was no impairment recorded on the transfer of Exploration and Evaluation assets to Petroleum and Natural Gas Interests during the three and nine months ended September 30, 2022.

There were no indicators of impairment on Freehold's exploration and evaluation assets as at September 30, 2022.

4. Petroleum and Natural Gas Interests

($000s)	September 30 2022	December 31 2021
Balance, beginning of period	**$ 1,878,761**	$ 1,496,062
Acquisitions and related expenditures	**183,634**	377,002
Capitalized portion of long term incentive plan	**983**	1,163
Transfers from exploration and evaluation assets (note 3)	**4,273**	5,697
Foreign exchange translation	**43,121**	(467)
Decommissioning liability additions and revisions	**341**	(696)
Balance, end of period	**2,111,113**	1,878,761
Balance, beginning of period	**(945,912)**	(857,665)
Depletion and depreciation	**(74,440)**	(88,288)
Foreign exchange translation	**(2,820)**	41
Balance, end of period	**(1,023,172)**	(945,912)
Net book value, end of period	**$ 1,087,941**	$ 932,849

a. Acquisitions and related expenditures

All transactions for the three and nine months ended September 30, 2022 were treated as asset acquisitions, using cash consideration as initially funded from long-term debt.

US Acquisitions

On June 28, 2022, Freehold acquired US 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 located in Texas.

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

On August 19, 2022 Freehold acquired US mineral title and royalty assets located in the Eagle Ford basin in Texas for $32.8 million (US$ 25.4 million), net of estimated customary closing adjustments.

Canadian Acquisitions

Freehold paid $2.4 million during the nine months ended September 30, 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. These two Canadian royalty agreements were transacted in 2021 and during the three months ended September 30, 2022, respectively. Freehold’s combined commitments per these agreements is $26.3 million, of which $8.3 million has been paid to date.

Related Expenditures

For the nine months ended September 30, 2022, Freehold recognized capitalized general & administrative costs of $2.4 million and other royalty income asset and miscellaneous expenditures of $1.0 million.

b. Impairment

At September 30, 2022, there were no indicators of impairment on Freehold's US and Canadian Royalty Cash Generating Units.

5. Share Based Compensation

For the three and nine months ended September 30, 2022, expensed share based compensation associated with Freehold's combined award and DSU plans was $2.2 million and $6.3 million, respectively (three and nine months ended September 30, 2021 - $1.6 and $5.1 million, respectively), where the nine months ended September 30, 2022 includes a charge of $2.3 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 (see note 1d). Freehold further capitalized $1.0 million of award plan costs (see note 4) for the nine months ended September 30, 2022, included in the share-based compensation liability (2021 - $1.1 million).

Associated with the award and DSU plans, during the three and nine months ended September 30, 2022, Freehold paid to its employees and a non-management director $5.8 million (three and nine months ended September 30, 2021 - $1.4 million paid to its employees).

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

($000s)	**September 30 2022**	December 31 2021
Balance, beginning of period	**$ 7,742**	$ 1,633
Reclassification from Contributed Surplus (note 1d)	**4,521**	-
Increase in liability	**7,290**	7,480
Cash payout	**(5,838)**	(1,371)
Balance, end of period	**$ 13,715**	$ 7,742
Current portion of liability	**$ 3,760**	$ 3,287
Long-term portion of liability	**$ 9,955**	$ 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).

Share based compensation expense is based on Freehold's share price, the number of PSUs and RSUs outstanding at each period end, a notional adjustment for paid dividends and an estimated forfeiture rate. Compensation expense is recognized over the vesting period. Also, for the PSUs there is a performance multiplier of 0 to 2 times, 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:

	September 30 2022	December 31 2021
Balance, beginning of period	**926,922**	686,792
Units issued	**237,234**	429,454
Forfeitures	**(36,609)**	(37,244)
Cash payout	**(241,741)**	(152,080)
Balance, end of period	**885,806**	926,922

b. Deferred Share Unit Plan

Pursuant to our DSU plan, fully-vested DSUs are granted annually in the first quarter to non-management members (the Board). At the Board's discretion, outstanding DSUs are redeemable for either an equal number of Freehold common shares or cash in lieu of the equivalent fair value of such shares upon the member's retirement. Dividends paid on Freehold's common shares prior to redemption of DSUs are equated to a fair value which is then reinvested on behalf of the member in additional DSUs.

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 1d) due to the Company establishing a precedent of cash settlement. Previously they were accounted for as equity settled.

The following table reconciles the outstanding number of DSUs:

	September 30 2022	December 31 2021
Balance, beginning of period	**447,684**	325,633
Annual grants and grants in lieu of fees	**80,142**	101,597
Additional grants resulting from paid dividends	**22,715**	20,454
Redeemed	**(79,337)**	-
Balance, end of period	**471,204**	447,684

6. 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 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. 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 September 30, 2022, $196.9 million was drawn on the committed revolving facility (December 31, 2021 - $146 million), consisting of Canadian dollar and US dollar denominated borrowings of $69.0 million and US$93.3 million ($127.9 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 US royalty income assets with associated proved developed producing reserves.

The amended credit agreement contains two financial covenants: (i) the first financial covenant is that long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times (the actual ratio was 0.55 times at September 30, 2022) and (ii) the second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) percentage shall not exceed 55% (the actual percentage was 17% at September 30, 2022). In addition, Freehold forecasts to be in compliance with all covenants on a quarterly basis for at least the next 12 months based on Freehold's current best estimate of results from operations.

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 three and nine months ended September 30, 2022, the average effective LIBOR rate on US dollar advances from Freehold's committed credit facility was 4.3%. For the three and nine months ended September 30, 2022, the average effective BA rates on Canadian dollar advances from Freehold's committed credit facility was 4.2% and 2.7%, respectively (three months ended September 30, 2021 – 2.4% and 2.3%).

At September 30, 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.

7. 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

	September 30, 2022		December 31, 2021	
($000s)	**Shares**	**Amount**	Shares	Amount
Balance, beginning of period	**150,612,334**	**$ 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	**41,250**	**570**	110,000	1,074
Balance, end of period	**150,653,584**	**$ 1,500,114**	150,612,334	$ 1,499,544

b. Dividends

During the three and nine months ended September 30, 2022, Freehold declared dividends of $39.2 million and $105.4 million (three and nine months ended September 30, 2021 - $19.4 million and $43.0 million) or $0.26 and $0.70 per common share, respectively (three and nine months ended September 30, 2021 - $0.14 and $0.32 per common share). During this same period, Freehold paid dividends of $37.7 million and $100.9 million (three and nine months ended September 30, 2021 - $17.1 million and $37.9 million) or $0.25 and $0.67 per common share (three and six months ended September 30, 2021 - $0.13 and $0.29 per common share).

On September 14, 2022, the Board declared a dividend of $0.09 per common share or $13.6 million which was paid on October 17, 2022 to common shareholders on record on September 30, 2022 (December 31, 2021 – dividend of $0.06 per common share or $9.0 million). On October 13, 2022, the Board declared a dividend of $0.09 per common share to be paid on November 15, 2022, to common shareholders on record on October 31, 2022. On November 8, 2022, the Board declared a dividend of $0.09 per common share to be paid on December 15, 2022, to common shareholders on record on November 30, 2022.

8. 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.

Resulting from Freehold's 2021 US acquisitions, "production taxes" were reclassified from net revenue, as then presented in 2021, to the "production and ad valorem taxes" expense line item captured in the condensed consolidated statements of income.

a. Royalty and Other Revenue by Commodity Type

	Three months ended September 30		Nine months ended September 30	
($000s)	**2022**	2021	**2022**	2021
Oil	**$ 73,191**	$ 37,595	**$ 215,689**	$ 97,619
Natural gas	**16,375**	8,815	**48,718**	22,573
NGL	**7,646**	4,539	**25,777**	12,116
Potash	**583**	258	**2,269**	905
Bonus consideration and lease rentals	**623**	216	**2,065**	577
Royalty and other revenue	**$ 98,418**	$ 51,423	**$ 294,518**	$ 133,790

b. Royalty and Other Revenue by Category

	Three months ended September 30		Nine months ended September 30	
($000s)	**2022**	2021	**2022**	2021
Royalty interest revenue	**$ 97,795**	$ 51,207	**$ 292,453**	$ 133,213
Bonus consideration and lease rentals	**623**	216	**2,065**	577
Royalty and other revenue	**$ 98,418**	$ 51,423	**$ 294,518**	$ 133,790

As at September 30, 2022, there was outstanding accounts receivable and accrued revenue of $59.4 million (December 31, 2021 - $44.6 million) associated with US and Canadian royalty and other revenues. For the three and nine months ended September 30, 2022 and 2021 there were no significant royalty and other revenue adjustments relating to prior periods.

9. Interest and Financing

	Three months ended September 30		Nine months ended September 30	
($000s)	**2022**	2021	**2022**	2021
Interest on long term debt and financing expense	**$ 1,702**	$ 665	**$ 3,288**	$ 2,281
Accretion of decommissioning obligation	**23**	21	**67**	88
Accretion of lease obligation	**24**	24	**72**	72
Interest and financing	**$ 1,749**	$ 710	**$ 3,427**	$ 2,441

10. 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 18.1% ownership in Freehold at September 30, 2022, a decrease from the 19.9% ownership at December 31, 2021, as Rife sold 2,791,667 shares of its investment in Freehold in January 2022. 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.

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 both the three and nine months ended September 30, 2022, ascribed values of $0.2 million and $0.6 million were based on the closing price of Freehold's common shares on the last trading day of each quarter (three and nine months ended September 30, 2021 - $0.3 million and $0.8 million, respectively).

For the three and nine months ended September 30, 2022, the Manager charged $2.1 million and $8.0 million (three and nine months ended September 30, 2021 - $2.0 million and $7.1 million) in general and administrative costs. At September 30, 2022, there was $0.6 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 three and nine months ended September 30, 2022, Freehold paid $6.8 million and $18.4 million (three and nine months ended September 30, 2021 - $3.8 million and $8.4 million) in 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 three and nine months ended September 30, 2022, Freehold reported royalties of approximately $0.2 million and $0.5 million from Rife (three and nine months ended September 30, 2021 - $0.3 million and $0.6 million).

At September 30, 2022, there was $2.5 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared, net of royalties receivable (December 31, 2021 - $1.8 million).

c. Canpar Holdings Ltd.

Freehold and Canpar generally share mineral title ownership in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Where Freehold is not the legal registered owner of such mineral rights, Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. At September 30, 2022 and December 31, 2021 there was $nil in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

11. Unrealized Foreign Exchange

	Three months ended September 30				Nine months ended September 30			
($000s)		**2022**		2021		**2022**		2021
Unrealized foreign exchange loss (gain) on:								
Intercompany note	**$**	**(26,587)**	$	(4,342)	**$**	**(31,016)**	$	(1,018)
Long term debt		**8,440**		-		**8,440**		-
	$	**(18,147)**	$	(4,342)	**$**	**(22,576)**	$	(1,018)

12. 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 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 cash to shareholders based on what is required for financing operations or capital investment growth opportunities, among other things, 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, post income tax deposits 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 6) on its credit facilities. The covenants are monitored as part of management's internal review to ensure compliance with requirements. As at September 30, 2022, Freehold was in compliance with all such covenants.

Freehold's September 30, 2022 and December 31, 2021 net debt to funds from operations ratio was 0.5 times and within its 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.

a. Working Capital

($000s)	September 30 2022	December 31 2021
Cash	$ 1,154	$ 2,189
Accounts receivable	65,594	46,303
Income tax deposits	14,711	14,711
Dividends payable	(13,559)	(9,037)
Accounts payable and accrued liabilities	(3,372)	(5,163)
Current income taxes	(22,998)	-
Current portion of lease obligation	(195)	(195)
Current portion of decommissioning liability	(500)	(750)
Current portion of share based compensation payable	(3,760)	(3,287)
Working capital[(1)]	$ 37,075	$ 44,771

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

b. Capitalization and net debt

($000s)	September 30 2022	December 31 2021
Shareholders' equity	$ 961,306	$ 890,966
Long term debt	196,947	146,000
Working capital	(37,075)	(44,771)
Net debt [(1)]	$ 159,872	$ 101,229
Capitalization[(1)]	$ 1,121,177	$ 992,195

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

c. Net Debt to Funds from Operations

($000s)	September 30 2022	September 30 2021
Cash provided by operating activities for last 12 months	$ 304,373	$ 122,931
Change in operating non-cash working capital	921	20,073
Funds from operations for the last 12 months	$ 305,295	$ 143,004
Net debt to funds from operations (times)[(1)]	0.5	0.5

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

13. 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:

($000s)	Three months ended September 30 2022		2021		Nine months ended September 30 2022		2021
Canada	**$**	**58,854**	$	42,039	**$**	**191,344**	$	112,254
United States		**39,564**		9,384		**103,174**		21,536
Royalty and other revenue	**$**	**98,418**	$	51,423	**$**	**294,518**	$	133,790

The following table presents total assets by geographic region:

($000s)		**September 30 2022**		December 31 2021
Canada	**$**	**641,525**	$	683,190
United States		**598,057**		387,317
Total Assets	**$**	**1,239,582**	$	1,070,507

14. Supplemental Disclosures

Changes in Non-Cash Working Capital

($000s)		Three months ended September 30 **2022**		2021		Nine months ended September 30 **2022**		2021
Accounts receivable	**$**	**7,442**	$	(11,098)	**$**	**(16,823)**	$	(25,221)
Accounts payable and accrued liabilities		**795**		793		**(1,791)**		(285)
Current income taxes payable		**7,372**		(6,513)		**22,998**		(6,513)
Prepaid		**-**		-		**-**		2,623
	$	**15,609**	$	(16,818)	**$**	**4,384**	$	(29,396)
Operating	**$**	**19,148**	$	(4,336)	**$**	**8,151**	$	(18,555)
Financing		**-**		585		**-**		1,741
Investing		**(3,539)**		(13,067)		**(3,767)**		(12,582)
	$	**15,609**	$	(16,818)	**$**	**4,384**	$	(29,396)

Cash Expenses

($000s)		Three months ended September 30 **2022**		2021		Nine months ended September 30 **2022**		2021
Interest on long term debt and financing fees	**$**	**1,702**	$	665	**$**	**3,288**	$	2,281
Current income taxes	**$**	**3,169**	$	-	**$**	**9,384**	$	-

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 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

Head Office

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The Manager

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w. rife.com

Investor Relations

Matt J. Donohue
Manager, Investor Relations and Capital Markets
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tf. 888.257.1873
e. mdonohue@rife.com

Auditors

KPMG LLP

Bankers

Canadian Imperial Bank of Commerce
Royal Bank of Canada
The Toronto-Dominion Bank
ATB Financial

Legal Counsel

Burnet, Duckworth & Palmer LLP

Reserve Evaluators

Trimble Engineering Associates Ltd.
RSC Group, Inc.

Stock Exchange and Trading Symbol

Toronto Stock Exchange (TSX)
Common Shares: FRU

Transfer Agent and Registrar

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