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Annual Report

Dated | **March 2** | **2022**

Quality Assets. Sustainable Dividends.

Freehold
ROYALTIES LTD.

TSX **FRU**

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> *We have **strengthened** Freehold's asset base, balance sheet, and the long-term sustainability of our business.*

David M. Spyker
President & Chief Executive Officer

2021 was a very active year for Freehold – a year in which we added to and established royalty positions in some of the best oil and gas basins across North America, with our fourth quarter results showcasing the acquisition work completed largely in the second half of the year. Through our efforts, we have strengthened Freehold's asset base, balance sheet, and the long-term sustainability of our business.

2021 Highlights

Achieved record average production levels in Q4-2021 of 14,005 boe/d. This was driven by strong activity levels and acquisitions completed throughout our North American portfolio.

Canadian oil and gas royalty volumes grew 4% Q3-2021 to Q4-2021, averaging 9,930 boe/d. Growth in the portfolio was driven by focused royalty optimization activities, compliance initiatives and increased third-party drilling.

U.S. oil and gas royalty production averaged 4,074 boe/d in Q4-2021, up from 257 boe/d in Q4-2020. Increased volumes were the result of acquisitions completed throughout the year and strong third-party activity levels.

76% increase in gross wells drilled on Freehold's royalty lands in 2021 versus 2020. In total, Freehold had 655 gross (17.5 net) wells drilled in 2021, with the expectation to see continued strong momentum in activity into 2022.

Recorded an operating netback of $53.58/boe in Q4-2021, showcasing the quality of assets in the portfolio, particularly the U.S. portfolio which benefits from Gulf Coast pricing premiums for both oil and natural gas.

Funds from operations in Q4-2021 of $68.8 million ($0.46/share) is the highest total amount in our 25-year history.

Increased our monthly dividend every quarter in 2021. With our Q4-2021 results, the monthly dividend will be increased to $0.08/share ($0.96 annualized), the ***highest dividend level since late 2015.***

Net debt of $101.2 million at year end 2021, representing 0.5 times trailing funds from operations.

2021 proved plus probable reserves growth of 69% and 34% on a per share measure.

The new look Freehold is well positioned to participate in a higher commodity price environment. Based on the mid point of production guidance and US$75.00/bbl West Texas Intermediate and US$4.00/NYMEX, 2022 funds from operations expected to range between $230-$250 million. Enhanced business strength within the portfolio provides significant optionality for Freehold to: (i) reduce Company net debt to zero by year end 2022 (in the absence of further acquisition work); (ii) continue our measured pace of dividend growth toward a 60% payout ratio; and (iii) continued disciplined acquisition work to grow our Company ahead of the drill bit across North America.

Our team is energized and are looking forward to 2022. I would like to thank our shareholders for their support in our repositioning and restructuring initiatives over the past year and thank our Board and employees for the contribution of ideas and inspiration as we continue to build this great company.

David M. Spyker
President & Chief Executive Officer

Management Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) was prepared as of March 2, 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 twelve months ended December 31, 2021 and comparative periods, and the outlook for Freehold based on information available as of the date hereof.

The financial information contained herein was based on information in the consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. All comparative percentages are between the three ("Q4-2021") and twelve months ("current year" or "2021") ended December 31, 2021 (combined the "current reporting periods" in that respective order) and the same period(s) in 2020 (also in that respective order), and all dollar amounts are expressed in Canadian currency, unless otherwise noted. References to "US$" are to United States (U.S.) dollars. This MD&A should be read in conjunction with the December 31, 2021 audited consolidated financial statements and notes.

Additional information about Freehold, including its Annual Information Form for the year ended December 31, 2021 (AIF), once filed, 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 14 to the 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 U.S. Freehold's primary focus is acquiring and managing royalties.

The Royalty Advantage

Freehold manages one of the largest non-government portfolios of oil and natural gas royalties in Canada with an expanding land base in the United States, uniquely positioning Freehold as a North American royalty company. Our total land holdings encompass approximately 6.2 million gross acres in Canada and includes exposure to approximately 0.8 million gross drilling acres in the U.S., 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 5.1 million acres. Our U.S. acreage is comprised of more than 80% 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 60%-80%

Dividend Announcement

Freehold's Board of Directors (the Board) has approved increasing the monthly dividend from $0.06 to $0.08 per share, or $0.96 per share annualized. The $0.08 per share dividend will commence April 18, 2022 and will be paid to shareholders on record on March 31, 2022. The dividend is designated as an eligible dividend for Canadian income tax purposes. The dividend increase announced today strikes a balance between managing our financial leverage, continuing to enhance our portfolio through acquisitions and returning the value created by this work to our shareholders at an appropriate pace.

Outlook

Business Environment

WTI oil prices rebounded in 2021 relative to the previous year, as COVID-19 vaccination programs were rolled out, setting the stage for a quicker demand recovery. While there were numerous speed bumps as part of this recovery, including multiple COVID-19 variants, OPEC has remained a stabilizing force on the supply side as it slowly brought barrels to balance the market through incremental production increases. Overall WTI prices averaged US$67.92/bbl for 2021, representing a 73% improvement versus 2020. For Q4-2021, prices exited near highs for 2021 with prices averaging US$77.19/bbl, an 82% increase when compared to the same period in 2020.

Crude oil supply/demand fundamentals are currently constructive, driven by encouraging data points associated with declining case counts associated with the Omicron variant and the expectation OPEC will remain committed to its planned production hikes. Similarly, publicly traded oil and gas companies continue to message that they will moderate upstream capital investment amid shareholder and environmental, social and governance (ESG) related pressures including climate change initiatives. Given the current backdrop for supply, coupled with a demand outlook that appears poised to reach pre-pandemic levels, near and medium-term fundamentals remain constructive for higher global crude oil prices.

Within Canada, crude oil pricing has maintained the momentum set by global benchmarks with Edmonton Sweet light oil prices averaging $80.43/bbl for 2021, this represented a 77% increase versus 2020. For Q4-2021, Edmonton Light Sweet oil prices averaged $93.28/bbl, up from $50.45/bbl during the same period in 2020. Western Canadian Select (WCS) prices averaged $68.73/bbl for 2021, up 93% when compared to 2020; prices for Q4-2021 averaged $78.71/bbl, representing a 81% increase for the same period in 2020. Canadian WCS differentials expanded late in 2021 as increased production out of Canada coupled with heavier OPEC+ barrels returning to the market were bottlenecked by a lack of Gulf Coast refining associated with hurricane Ida.

The Western Canadian Sedimentary Basin egress capacity continues to improve with Line-3 now in operations (+370 mbbl/d) and construction continuing to progress on TMX (+590 mbbl/d).

For 2021, AECO and NYMEX natural gas monthly contract prices averaged $3.89/mcf and US$3.50/mcf, respectively, for the current reporting periods, up 92% and 57% versus the same periods in 2020. For Q4-2021, AECO prices were up 88% while NYMEX prices increased 79%, when compared to the same period in 2020, reflecting continued tightness in the supply/demand fundamentals.

The backdrop for natural gas prices is currently constructive with undersupply entrenched in the market as a result of underinvestment in supply and strength in exports. Through 2021, the Lower 48 rig count was down approximately 30% versus historical levels, with production trending down 4 bcf/d from pre-pandemic levels and exports at 10 bcf/d, two times above historical levels. Given the current market imbalance and the expectation for continued exports into global undersupply, storage deficits may expand into 2022. Similar to the supply side on oil, U.S. producer response is expected to remain disciplined, further bolstered by a strong egress picture.

In Canada, AECO prices are currently driven by demand/storage levels. A cold snap through Western Canada early in 2022 had Western Canadian demand exceeding 10 bcf/d. Cold weather has led to an overall tightening of the AECO market, with production freeze-offs and reduced gas exports to the U.S. impacting supply dynamics. Given the level of storage draws year-to-date, AECO fundamentals are currently expected to be well supported through the balance of winter.

2022 Guidance Update

With Freehold's most recent acquisitions combined with improved forward commodity benchmark pricing, we are updating 2022 guidance in addition to introducing 2022 guidance on funds from operations. The following table summarizes our key assumptions for 2022 with production expected to be weighted approximately 60% oil and NGL's and 40% natural gas:

2022 Average	March 2, 2022
Production (boe/d) (1)(2)	13,750 - 14,750
Funds from operations ($MM)	230 - 250
West Texas Intermediate crude oil (US$/bbl)	$ 75.00
Edmonton Light Sweet crude oil (Cdn$/bbl)	$ 88.00
AECO natural gas (Cdn$/mcf)	$ 4.00
Nymex (US$/mcf)	$ 4.00
Exchange rate (US$/Cdn$)	$ 0.80

(1) Previously, Freehold provided full year 2022 guidance of 13,750-14,750 boe/d on November 10, 2021
(2) 2022 guidance is expected to consist of 8% heavy oil, 41% light and medium oil, 11% NGL's and 40% natural gas

2021 U.S. Royalty Acquisitions

In January 2021, Freehold acquired U.S. royalty properties for US$58.1 million ($74.1 million) after customary adjustments. This acquisition included exposure to approximately 0.4 million gross drilling unit acres of mineral title and overriding royalty interests across 12 basins in eight states; predominantly weighted towards the Permian and Eagle Ford basins.

In July 2021, Freehold closed the acquisition of certain U.S. royalty properties for U.S.$15.7 million ($19.5 million). This acquisition includes exposure to the Eagle Ford, Delaware and Midland basins in Texas; expanding Freehold's North American royalty footprint.

In September 2021, Freehold closed its transaction to acquire a U.S. royalty asset located in the Eagle Ford oil basin in Texas for US$159.7 million after customary adjustments ($202.0 million) (the Eagle Ford Royalty Transaction).

In October 2021, Freehold closed its acquisition of concentrated U.S. royalty assets located in the Midland oil basin in Texas for US$53.3 million ($67.5 million) (the Midland Assets) after customary adjustments.

Freehold also closed three additional U.S. royalty transactions in 2021, further complementing our positions in the Bakken and Permian basins. Total consideration associated with these transactions was approximately US$3.7 million ($4.9 million).

As a result of these 2021 U.S. acquisitions, and nominal working interest production, Freehold evaluated its reportable segments and determined them based on the underlying operations' geographic locations:

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

As a result, segmented disclosure by geographical location is presented throughout this MD&A.

Operating and Financial Results

FINANCIAL ($000s, except as noted)	Three Months Ended December 31 2021	2020	Change	Year Ended December 31 2021	2020	Change
Royalty and other revenue	$ 73,642	$ 25,793	186%	$ 206,191	$ 89,958	129%
Net income (loss)	$ 31,178	$ 373	nm	$ 72,084	$ (13,931)	nm
Per share, basic ($) (1)	$ 0.21	$ -	nm	$ 0.53	$ (0.12)	nm
Cash flows from operations	$ 59,700	$ 20,610	190%	$ 162,021	$ 65,767	146%
Funds from operations	$ 68,773	$ 22,129	211%	$ 189,649	$ 72,891	160%
Per share, basic ($) (1)	$ 0.46	$ 0.19	142%	$ 1.39	$ 0.61	128%
Acquisitions and related expenditures	$ 67,906	$ 222	nm	$ 377,002	$ 7,058	nm
Dividends paid	$ 24,094	$ 5,343	351%	$ 61,969	$ 39,158	58%
Per share ($) (2)	$ 0.16	$ 0.045	256%	$ 0.45	$ 0.33	36%
Dividends declared	$ 25,599	$ 5,938	331%	$ 68,628	$ 35,306	94%
Per share ($) (2)	$ 0.17	$ 0.05	240%	$ 0.49	$ 0.2975	65%
Payout ratio (%) (3)	35%	24%	11%	33%	54%	-21%
Long term debt	$ 146,000	$ 93,000	57%	$ 146,000	$ 93,000	57%
Net debt	$ 101,229	$ 65,765	54%	$ 101,229	$ 65,765	54%
Shares outstanding, period end (000s)	150,612	118,788	27%	150,612	118,788	27%
Average shares outstanding (000s) (1)	150,585	118,747	27%	136,510	118,685	15%
OPERATING						
Light and medium oil (bbl/d)	5,401	3,280	65%	4,342	3,449	26%
Heavy oil (bbl/d)	1,254	1,132	11%	1,184	1,063	11%
NGL (bbl/d)	1,564	827	89%	1,217	843	44%
Total liquids (bbl/d)	8,219	5,239	57%	6,743	5,355	26%
Natural gas (Mcf/d)	34,700	26,656	30%	30,608	26,558	15%
Total production (boe/d) (4)	14,005	9,681	45%	11,844	9,781	21%
Oil and NGL (%)	59%	54%	5%	57%	55%	2%
Petroleum and natural gas realized price ($/boe) (4)	$ 57.44	$ 28.16	104%	$ 47.73	$ 24.56	94%
Cash costs ($/boe) (3)(4)	$ 3.57	$ 4.03	-11%	$ 3.71	$ 4.60	-19%
Netback ($/boe) (3) (4)	$ 53.58	$ 24.93	115%	$ 43.99	$ 20.53	114%

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) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe)

Q4-2021 Operating and Financial Highlights

- Dividends declared for Q4-2021 totaled $25.6 million ($0.17 per share), up 331% in total versus the same period in 2020 when Freehold declared dividends of $5.9 million ($0.05 per share). Our dividend payout(2) ratio for Q4-2021 was 35% versus 24% during the same period in 2020. As commodity prices and production volumes on our royalty lands have improved, so has funds from operations, outpacing our dividend increases resulting in a payout ratio below our targeted 60% floor.
- Royalty and other revenue totaled $73.6 million in Q4-2021, up 186% from the same period in 2020. This was driven by positive momentum in crude oil prices, acquisition activity and growth in Freehold's royalty portfolio through third parties' drilling additions. Royalty and other revenue was comprised of 82% oil and NGL's, an increase from 79% in the same period of 2020, driven by increases in crude oil pricing and a modest weighted average shift in Freehold's total production towards liquids as third parties' drilling activities and U.S. royalty acquisitions were primarily oil focused over the period.
- Funds from operations in Q4-2021 totaled $68.8 million or $0.46 per share (Freehold's highest reported measure for funds from operations), up 211% in total from $22.1 million or $0.19 per share in the same period in 2020. This increase reflects broad gains across commodity prices, higher production volumes and a reduction in cash costs(1).

- Freehold closed the acquisition of U.S. royalty properties, the Midland Assets, for US$53.3 million ($67.5 million) after customary adjustments.
- Q4-2021 production averaged 14,005 boe/d, a 45% increase versus the same period in 2020 as volumes added from U.S. acquisitions and third-parties' royalty drilling activities drove production growth versus the same period in 2020. Production volumes for the quarter compared to previous production guidance of 13,500-13,750 boe/d.
- U.S. production averaged 4,075 boe/d for Q4-2021, up significantly versus the same period in 2020. This increase versus the same period last year primarily reflects acquisitions completed throughout the year, as Freehold completed $368.5 million in U.S. royalty transactions in 2021. Canadian volumes averaged 9,930 boe/d for Q4-2021, up 5% versus the same period in 2020, as third-party royalty drilling drove organic growth in the portfolio.
- Wells drilled on our royalty lands, including acquired lands, totaled 250 (5.7 net) in Q4-2021, compared to 111 (4.9 net) in the same period in 2020. Drilling was comprised of 149 gross wells in Canada and 101 gross wells in the U.S.
- Activity in Canada was focused primarily in the Viking, Clearwater, Cardium and Sparky as strengthening oil prices over the quarter incentivizing producers to put drilling capital to work.
- In the U.S. activity was driven by a well-diversified group of public and private exploration and production operators with oil drilling focused primarily within the Eagle Ford and Permian (Delaware/Midland) basins, along with natural gas drilling targeting the Haynesville. Freehold's U.S. royalty assets saw three times the level of activity versus the previous quarter, highlighting some of the acquisition work completed earlier in the year.
- Closing long term debt at December 31, 2021 was $146 million, an increase of $53 million versus December 31, 2020 as we partially funded our North American acquisition activity by utilizing our $300 million credit facility.

2021 Results Highlights:

- Dividends declared for 2021 totaled $68.6 million ($0.49 per share), up 94% in total versus 2020 when Freehold declared dividends of $35.3 million ($0.2975 per share). Our dividend payout[2] ratio for 2021 totaled 33%, below the low end of our guided dividend payout range of 60%-80%.
- Royalty and other revenue totaled $206.2 million in 2021, up 129% from the previous year as gains in commodity prices and production growth drove the increase versus the previous year. Total royalty revenue was comprised of 82% oil and NGL's as Freehold maintained the company's crude oil and liquids focus over the period.
- Funds from operations in 2021 totaled $189.6 million or $1.39 per share, up 160% in total from $72.9 million or $0.61 per share in 2020. This year-over-year increase reflected strength in commodity prices and improved production volumes.
- Freehold completed $377.0 million in North American royalty acquisitions in 2021 which included adding royalty assets in the Eagle Ford, Permian and Haynesville U.S. basins and the Clearwater formation in Canada.
- 2021 production averaged 11,844 boe/d, a 21% increase versus the previous year as increased third-party drilling and acquisition activity drove production growth.
- Oil and NGL's volumes represented 57% of 2021 royalty production, up slightly from 55% in 2020 as a result of oil focused royalty acquisitions and third-party oil drilling activities drove gains in Freehold's production weighting.

- Freehold completed a bought deal equity financing, issuing 19.1 million subscription receipts at a price of $9.05 per subscription receipt for gross proceeds of $172.6 million, which included the full exercise of the over-allotment option granted to the underwriters. The subscription receipts were exchanged for an equivalent number of Freehold common shares upon the September 24, 2021 closing of the Eagle Ford Royalty Transaction. Preceding this financing, in Q1-2021 Freehold exchanged 12.6 million subscription receipts for an equivalent number of its common shares for gross proceeds of $60.7 million upon closing of a certain U.S. royalty acquisition.
- Concurrently with the closing of the September Eagle Ford Royalty Transaction, Freehold amended its credit facility agreement with a syndicate of four Canadian banks increasing the committed revolving facility to $285 million and maintaining the operating facility at $15 million. The amended credit facility agreement includes a permitted increase in the committed revolving facility of up to $360 million, subject to lenders' consent. Both the committed revolving and operating facilities mature September 28, 2024.
- Proved and probable oil and natural gas reserves [3] totaled 49.8 MMboe as at December 31, 2021, up from 29.4 MMboe as at December 31, 2020. This increase reflects U.S. acquisitions, drilling additions and higher forward commodity pricing.

(1) See Non-GAAP Financial Ratios and Other Financial Measure
(2) Payout ratio is a supplemental measure
(3) A detailed review of Freehold's U.S. and Canadian reserve information, including a summary of the evaluation of Freehold's reserves and associated future net revenues as prepared by RSC Group, Inc. and Trimble Engineering Associates Ltd., respectively, Freehold's independent reserve evaluators effective as at December 31, 2021, is provided in the Annual Information Form (AIF). A copy of the AIF can be found on Freehold's website at www.freeholdroyalties.com or www.sedar.com.

Drilling Activity

In total, 655 gross wells were drilled on Freehold's royalty lands in 2021, a 76% increase versus 2020. Overall, Freehold saw increased drilling activity associated with broad improvements in capital spending associated with its royalty payors. Freehold estimates that approximately $800 million in third-party capital was spent in 2021 drilling and completing wells on Freehold's royalty lands, up from approximately $685 million in 2020.

In Canada and the U.S. during 2021, approximately 36% of gross wells on Freehold royalty lands targeted prospects in Alberta, 29% in Saskatchewan and 29% in Texas with the balance spread across other regions. Producers continue to remain focused on oil prospects within Freehold's land base with 93% of wells drilled targeting oil and NGLs. Of the gross wells drilled in 2021, approximately 49% were drilled on Freehold's gross overriding royalty (GORR) prospects, 17% targeted mineral title prospects in Canada and 33% were drilled on Freehold's U.S. royalty acreage. The Viking in southwest Saskatchewan, Clearwater and Cardium in central Alberta, Eagle Ford and Permian in Texas along with additional drilling in North Dakota continue to be the areas of focus within Freehold's portfolio.

In Q4-2021, Freehold saw 250 gross wells drilled on Freehold royalty lands which was more than double Q4-2020 activity. Looking forward, Freehold believes in the quality of both its Canadian and U.S. portfolios and that is expected to drive strong third-party production additions into 2022. The acquisition of additional U.S royalty production and royalty lands in late 2021 is expected to further diversify and enhance Freehold's asset base.

Canada

Throughout 2021, Freehold has seen consistent drilling activity in oil plays including the Viking, Mississippian, Clearwater and Cardium. We are also seeing a strong increase in drilling in the Deep Basin as natural gas and natural gas liquid prices drove increased drilling activity.

U.S.

In the U.S., activity levels on Freehold's royalty lands exceeded expectations with the majority of the focus on light oil prospects targeting the Permian and Eagle Ford basins. Although U.S. net wells are lower than in Canada, U.S. wells are significantly more prolific as they generally produce more than a Canadian well. Overall, 101 gross wells were drilled on our U.S. royalty lands over Q4-2021.

Royalty Interest Drilling (2)

	Three Months Ended December 31				Year ended Ended December 31			
	2021		2020		2021		2020	
	Gross	Net (1)	Gross	Net (1)	Gross	Net (1)	Gross	Net (1)
Canada	149	5.2	111	4.9	440	16.3	372	13.6
United States	101	0.5	-	-	215	1.2	-	-
Total	250	5.7	111	4.9	655	17.5	372	13.6

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

(2) Drilling includes acquisition activity from the effective date of each transaction

Production

Freehold's total production averaged 14,005 boe/d during Q4-2021, a 45% increase over the same period in 2020. The increase reflects acquisition activity and higher third-party drilling additions on Freehold's U.S. and Canadian lands during the period. Production volumes for 2021 averaged 11,844 boe/d, up 21% versus the same period in 2020.

Our production mix through 2021 was 37% light and medium oil, 10% heavy oil, 10% NGL and 43% natural gas. Working interest production for 2021 was 86 boe/d, a decrease from 176 boe/d during 2020 reflecting the comparative year's disposition activities.

Production Summary

	Three Months Ended December 31			Year Ended December 31		
(boe/d)	2021	2020	Change	2021	2020	Change
Canada	9,930	9,424	5%	9,675	9,609	1%
United States	4,075	257	nm	2,169	172	nm
Total	14,005	9,681	45%	11,844	9,781	21%

nm – not meaningful

Average Daily Production by Product Type

	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	2021	2020	Change
Light and medium oil (bbl/d)	5,401	3,280	65%	4,342	3,449	26%
Heavy oil (bbl/d)	1,254	1,132	11%	1,184	1,063	11%
NGL (bbl/d)	1,564	827	89%	1,217	843	44%
Natural gas (Mcf/d)	34,700	26,656	30%	30,608	26,558	15%
Total production (boe/d)	14,005	9,681	45%	11,844	9,781	21%
Number of days in period (days)	92	92	-	365	366	-
Total volumes during period (Mboe)	1,288	891	45%	4,323	3,580	21%

Canada

Canadian production averaged 9,930 boe/d during Q4-2021, comprised of 53% oil and NGL's. Volumes in Q4-2021 were up 5% compared to the same period in 2020, driven organically by production additions from third-parties drilling on our royalty lands. Production volumes for 2021 averaged 9,675 boe/d, up 1% versus 2020 reflecting a sign of recovery in the Canadian oil and natural gas industry since the beginning of the COVID-19 pandemic.

Canadian Average Daily Production by Product Type

	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	2021	2020	Change
Light and medium oil (bbl/d)	3,213	3,088	4%	3,225	3,315	-3%
Heavy oil (bbl/d)	1,254	1,132	11%	1,184	1,063	11%
NGL (bbl/d)	790	822	-4%	865	841	3%
Natural gas (Mcf/d)	28,028	26,296	7%	26,408	26,344	0%
Canadian production (boe/d)	9,930	9,424	5%	9,675	9,609	1%

U.S.

U.S. production, representing 29% of total volumes, averaged 4,075 boe/d during Q4-2021, up significantly versus the same period in 2020. Production for 2021 averaged 2,169 boe/d, up from 172 boe/d in 2020. Increased volumes reflect U.S. royalty acquisitions completed in 2021 and strong drilling and production additions within Freehold's U.S. royalty portfolio. The material per day production increase during Q4-2021 compared to the current year reflects the first full quarter of reported production from the Eagle Ford Royalty Transaction and Midland Assets.

U.S. Average Daily Production by Product Type

	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	2021	2020	Change
Light and medium oil (bbl/d)	2,188	192	nm	1,117	134	nm
NGL (bbl/d)	774	5	nm	352	2	nm
Natural gas (Mcf/d)	6,672	360	nm	4,200	214	nm
United States production (boe/d)	4,075	257	nm	2,169	172	nm

nm – not meaningful

Product Prices

The price received by Freehold for produced oil is primarily driven by the U.S. dollar price of WTI, with the realized Canadian price adjusted for the value of the Canadian dollar relative to the U.S. dollar. WTI averaged US.$77.19/bbl and US$67.92/bbl in the current reporting periods, 82% and 73% higher versus the same periods in 2020.

In Canada, Edmonton Light Sweet prices averaged $93.28/bbl and $80.43/bbl during the current reporting periods, 85% and 77% higher versus the same periods in 2020. WCS prices averaged $78.71/bbl and $68.73/bbl during the current reporting periods, 81% and 93% higher versus the same periods in 2020. These Canadian oil benchmarks increases reflect improved supply/demand fundamentals.

For natural gas, the AECO daily averaged $4.93/mcf and $3.50/mcf in the current reporting periods, 79% and 57% higher versus the same periods in 2020. For the same periods, NYMEX natural gas prices averaged US$4.75/mcf and US$3.89/mcf, up 88% and 92%.

As the Company has increased its U.S. royalty exposure, Freehold's overall realized price has improved, as U.S. volumes realize prices closer to WTI and NYMEX natural gas benchmarks versus discounted pricing for Canadian production.

Average Benchmark Prices

	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	2021	2020	Change
West Texas Intermediate crude oil (US$/bbl)	$ 77.19	$ 42.47	82%	$ 67.92	$ 39.23	73%
Exchange rate (US$/Cdn$)	$ 0.79	$ 0.77	3%	$ 0.80	$ 0.75	7%
Edmonton Light Sweet crude oil (Cdn$/bbl)	$ 93.28	$ 50.45	85%	$ 80.43	$ 45.51	77%
Western Canadian Select crude oil (Cdn$/bbl)	$ 78.71	$ 43.56	81%	$ 68.73	$ 35.64	93%
Nymex natural gas (US$/Mcf)	$ 4.75	$ 2.52	88%	$ 3.89	$ 2.03	92%
AECO monthly contract natural gas (Cdn$/Mcf)	$ 4.93	$ 2.76	79%	$ 3.50	$ 2.23	57%

Freehold's average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price was $57.44/boe and $47.73/boe in the current reporting periods, significantly higher than the same periods in 2020.

Average Realized Prices Summary

	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	**2021**	2020	Change
Oil ($/bbl)	**$ 87.02**	$ 44.18	97%	**$ 74.81**	$ 39.15	91%
NGL ($/bbl)	**$ 48.72**	$ 26.80	82%	**$ 43.07**	$ 22.75	89%
Oil and NGL ($/bbl)	**$ 79.73**	$ 41.43	92%	**$ 69.08**	$ 36.57	89%
Natural gas ($/Mcf)	**$ 4.30**	$ 2.09	106%	**$ 3.25**	$ 1.67	95%
Oil equivalent ($/boe)	**$ 57.44**	$ 28.16	104%	**$ 47.73**	$ 24.56	94%

Canada

Freehold's average selling price realized in Canada was $53.14/boe and $45.14/boe during the current reporting periods, up 91% and 86% versus the same periods in 2020. For these same periods, Oil and NGL's pricing averaged $78.30/bbl and $67.35/bbl, up 90% and 86%. Also, for the same periods, the average realized Canadian natural gas price was $4.14/mcf and $3.09/mcf, up 100% and 85%.

Canadian Average Realized Prices

	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	**2021**	2020	Change
Oil ($/bbl)	**$ 82.37**	$ 44.00	87%	**$ 71.61**	$ 38.84	84%
NGL ($/bbl)	**$ 55.28**	$ 26.87	106%	**$ 45.61**	$ 22.79	100%
Oil and NGL ($/bbl)	**$ 78.30**	$ 41.21	90%	**$ 67.35**	$ 36.25	86%
Natural gas ($/Mcf)	**$ 4.14**	$ 2.07	100%	**$ 3.09**	$ 1.67	85%
Oil equivalent ($/boe)	**$ 53.14**	$ 27.82	91%	**$ 45.14**	$ 24.25	86%

U.S.

Freehold's average selling price realized in the U.S. was $67.97/boe and $59.35/boe during the current reporting periods, up 97% and 58% versus the same periods in 2020. The current reporting periods include realized oil and NGL's pricing in the U.S. that averaged $82.27/bbl and $75.31/bbl, up 112% and 75% when compared to the same periods in 2020. Freehold's average realized U.S. natural gas price was $4.98/mcf and $4.26/mcf, both up significantly when compared to the same periods in 2020.

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

	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	**2021**	2020	Change
Oil ($/bbl)	**$ 96.50**	$ 39.47	144%	**$ 87.44**	$ 43.67	100%
NGL ($/bbl)	**$ 42.04**	$ 14.14	197%	**$ 36.83**	$ 12.18	202%
Oil and NGL ($/bbl)	**$ 82.27**	$ 38.88	112%	**$ 75.31**	$ 43.10	75%
Natural gas ($/Mcf)	**$ 4.98**	$ 3.41	46%	**$ 4.26**	$ 2.65	61%
Oil equivalent ($/boe)	**$ 67.97**	$ 34.58	97%	**$ 59.35**	$ 37.47	58%

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. 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. Exiting 2021, Freehold took-in-kind and marketed approximately 3% of its total royalty production using 30-day contracts, a decrease from 16% in the comparative year as we elected to rescind several take-in-kind privileges to accompany perceived reductions in evaluated payor risk due to improved benchmark pricing and increases in U.S. production where we have yet to elect to take-in-kind. Historically Freehold has not experienced significant collection issues.

Royalty and Other Revenue

Royalty and other revenue of $73.6 million and $206.2 million in the current reporting periods was 186% and 129% higher when compared to the same periods in 2020. Freehold's royalty and other revenue has benefited from strong upward momentum in crude oil and natural gas benchmarks, while growing production volumes mostly from recent U.S. royalty property acquisitions. Oil and NGL's represented approximately 80% and 81% of royalty and other revenue for the current reporting periods.

Freehold deducts production taxes that represents state taxes paid on revenues earned in the U.S. and withheld at source, from its royalty and other revenue. The increase in production taxes in the current reporting periods, as compared to the same periods in 2020, reflects Freehold's 2021 U.S. royalty property acquisitions and higher U.S. realized commodity pricing.

Royalty and Other Revenue Summary

	Three Months Ended December 31			Year Ended December 31		
($000s, except as noted)	2021	2020	Change	2021	2020	Change
Canada	$ 49,691	$ 25,053	98%	$ 161,878	$ 87,819	84%
United States	23,951	740	nm	44,313	2,139	nm
Royalty and other revenue	$ 73,642	$ 25,793	186%	$ 206,191	$ 89,958	129%
Per boe ($)	$ 57.15	$ 28.96	97%	$ 47.70	$ 25.13	90%

nm – not meaningful

Royalty and Other Revenue by Category

	Three Months Ended December 31			Year Ended December 31		
($000s)	2021	2020	Change	2021	2020	Change
Royalty revenue	$ 74,597	$ 25,144	197%	$ 207,810	$ 88,709	134%
Bonus consideration, lease rentals, and other	605	738	-18%	1,182	1,565	-24%
	$ 75,202	$ 25,882	191%	$ 208,992	$ 90,274	132%
Production taxes	(1,560)	(89)	1653%	(2,801)	(316)	786%
Royalty and other revenue	$ 73,642	$ 25,793	186%	$ 206,191	$ 89,958	129%

Royalty and Other Revenue by Type

	Three Months Ended December 31			Year Ended December 31		
($000s)	2021	2020	Change	2021	2020	Change
Oil	$ 53,280	$ 17,777	200%	$ 150,898	$ 64,386	134%
Natural gas	13,721	5,118	168%	36,293	16,264	123%
Natural gas liquids	7,012	2,037	244%	19,129	7,017	173%
Potash	585	212	176%	1,490	1,042	43%
Bonus consideration, lease rentals, and other	605	738	-18%	1,182	1,565	-24%
	$ 75,202	$ 25,882	191%	$ 208,992	$ 90,274	132%
Production taxes	(1,560)	(89)	1653%	(2,801)	(316)	786%
Royalty and other revenue	$ 73,642	$ 25,793	186%	$ 206,191	$ 89,958	129%

Operating Expenses

Operating expenses consists of expenses associated with Freehold's Canadian working interest production activities which were largely sold in 2020. Freehold does not incur operating expenses on production from its royalty lands.

Operating expenses decreased 26% and 50% on a total and per boe basis in Q4-2021 when compared to the same period in 2020. During 2021, operating expenses of $0.6 million was down 69% and 74% on a total and per boe basis compared to 2020.

($000s, except as noted)	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	2021	2020	Change
Operating expenses	$ 209	$ 284	-26%	$ 633	$ 2,032	-69%
Per boe ($)	$ 0.16	$ 0.32	-50%	$ 0.15	$ 0.57	-74%

General and Administrative

Freehold has a business development group dedicated to the acquisition and development of its future and existing assets 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 2021, G&A expenses totaling $10.7 million were down 2% compared to 2020. This decrease was due in part to staffing level reductions throughout 2020 in response to weakening crude oil pricing associated with the COVID-19 pandemic despite significant royalty production increases from our recent U.S. property acquisitions. This effort is demonstrated on a per boe basis, where in the current reporting periods G&A expenses of $2.63/boe and $2.48/boe represent decreases of 4% and 19% versus the same periods in 2020. Q4-2021 G&A expenses increased by 39% to $3.4 million in total, compared to the same period in 2020, in support of our expanded U.S. operations.

($000s, except as noted)	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	2021	2020	Change
General and administrative expenses before capitalized and overhead recoveries	$ 4,064	$ 3,196	27%	$ 12,773	$ 13,061	-2%
Less: capitalized and overhead recoveries	(674)	(755)	11%	(2,031)	(2,131)	5%
General and administrative expenses	$ 3,390	$ 2,441	39%	$ 10,742	$ 10,930	-2%
Per boe ($)	$ 2.63	$ 2.74	-4%	$ 2.48	$ 3.05	-19%

Share-Based Compensation

Share-based compensation expenses associated with Freehold's award and deferred share unit plans were $2.0 million and $7.1 million in the current reporting periods versus $0.6 million and $1.1 million during the same periods in 2020. These increases were due to a higher number of outstanding awards and improved Freehold share pricing as demonstrated by prices of $11.65/share and $5.21/share exiting 2021 and 2020, respectively.

Associated with the award plan, Freehold paid to its employees $1.4 million during 2021, an increase from the $0.4 million paid in 2020. This increase was due to more vested awards and a higher Freehold share price at the time of payout.

($000s, except as noted)	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	2021	2020	Change
Share-based compensation	$ 1,988	$ 571	248%	$ 7,073	$ 1,071	560%
Per boe ($)	$ 1.54	$ 0.64	141%	$ 1.64	$ 0.30	447%
Cash payout on share based compensation	$ -	$ -	0%	$ 1,371	$ 389	252%
Per boe ($)	$ -	$ -	0%	$ 0.32	$ 0.11	191%

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 share-based awards 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 based upon 50% of an absolute total shareholder return and 50% on a relative total shareholder return over a three-year period.

For 2021 there were 429,454 units granted under Freehold's award plan. Net of forfeitures and payouts, this resulted in a total of 926,922 PSUs and RSUs outstanding at December 31, 2021 and March 2, 2022 (December 31, 2020 – 686,792).

Deferred Share Unit Plan

Pursuant to our deferred share unit plan, fully-vested deferred share units (DSUs) are granted annually in the first quarter to non-management members of 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. The Board has the ability to settle such transactions at its discretion through issuing common shares, which results in the plan being classified as equity-settled.

During 2021, Freehold granted a total of 93,088 DSUs to members of the Board largely as part of their annual compensation resulting in 447,684 outstanding DSUs at December 31, 2021 (December 31, 2020 – 325,633). Since Q4-2021, additional grants compensating for paid share dividends resulted in 509,985 outstanding DSUs at March 2, 2022.

Interest and Financing

2021 interest and financing expense modestly increased compared to 2020, due to costs associated with the recent increase in Freehold's debt to partially finance the Eagle Ford Royalty Transaction and the Midland Assets. The average effective interest rate on advances under our credit facilities for both current reporting periods was 2.0% and 2.2% (2020 – 2.2% and 2.5%).

	Three Months Ended December 31			Year Ended December 31		
($000s, except as noted)	2021	2020	Change	2021	2020	Change
Interest on long term debt and financing fees	$ 1,004	$ 865	16%	$ 3,285	$ 3,155	4%
Non-cash interest expense [1]	45	73	-38%	205	218	-6%
Interest and finance expense	$ 1,049	$ 938	12%	$ 3,490	$ 3,373	3%
Per boe ($)	$ 0.81	$ 1.05	-23%	$ 0.81	$ 0.94	-14%
Per boe - cash expense ($)	$ 0.78	$ 0.97	-20%	$ 0.76	$ 0.88	-14%

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

Netback and Cash Costs

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 $53.58/boe and $43.99/boe during the current reporting periods, in excess of 100% increases versus the same periods in 2020. These increases include significantly improved realized commodity prices and reduced cash costs[1].

As part of ongoing efforts to improve Freehold's portfolio with higher netback production, we acquired U.S. royalty properties in 2021 and sold a substantial portion of our remaining working interest production in 2020. For 2021, the higher cash payout on share-based compensation was due to an improved Freehold share price. No further cash payouts for Freehold's award plan are expected until Q2-2022. Combined with lower per boe G&A and cash-based interest charges, cash costs[1] for the current reporting periods were down 11% and 19% on a boe basis compared to the same periods in 2020.

	Three Months Ended December 31			Year Ended December 31		
($/boe)	2021	2020	Change	2021	2020	Change
Royalty and other revenue	$ 57.15	$ 28.96	97%	$ 47.70	$ 25.13	90%
Less:						
Operating expense	(0.16)	(0.32)	-50%	(0.15)	(0.57)	-74%
General and administrative	(2.63)	(2.74)	-4%	(2.48)	(3.05)	-19%
Interest and financing cash expense	(0.78)	(0.97)	-20%	(0.76)	(0.88)	-14%
Cash payout on share based compensation	-	-	0%	(0.32)	(0.10)	220%
Cash costs [1]	(3.57)	(4.03)	-11%	(3.71)	(4.60)	-19%
Netback [1]	$ 53.58	$ 24.93	115%	$ 43.99	$ 20.53	114%

(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.

Depletion rates per boe in the current reporting periods of $18.69/boe and $20.36/boe, were down compared to the same periods in 2020, due largely to Freehold's recent U.S. royalty income asset acquisitions that lowered the overall rate. However, this lower rate was more than offset by higher production resulting in overall increases in depletion, depreciation and other by 25% and 11% in the current reporting periods compared to the same periods in 2020.

	Three Months Ended December 31			Year Ended December 31		
($000s, except as noted)	2021	2020	Change	2021	2020	Change
Depletion, depreciation and other	$ 24,085	$ 19,194	25%	$ 88,025	$ 79,393	11%
Per boe ($)	$ 18.69	$ 21.55	-13%	$ 20.36	$ 22.18	-8%

Unrealized Foreign Exchange Loss

During the current reporting periods, intercompany balances from Freehold's Canadian parent to its U.S. subsidiary increased as a result of U.S. royalty property acquisitions throughout 2021. Although these balances eliminate on consolidation, the intercompany balances by the Canadian parent is recognized as unrealized foreign exchange whereas revaluation by the U.S. subsidiary is recognized within other comprehensive income due to different functional currencies between the parent and the U.S. subsidiary. These intercompany positions are revalued at the relevant foreign exchange rate at each period end.

	Three Months Ended December 31			Year Ended December 31		
($000s)	2021	2020	Change	2021	2020	Change
Unrealized foreign exchange loss	$ 1,359	$ -	nm	$ 341	$ -	nm

Management Fee

The Manager receives a quarterly management fee paid with Freehold common shares. In 2021, the management fee is capped at the equivalent of 27,500 Freehold common shares per quarter, with the fee gradually decreasing to the equivalent of 5,500 common shares per quarter by 2023 as per the table below:

	2021	2022	2023 and thereafter
Quarterly share payment	27,500	13,750	5,500

The per boe management fee was up 4% and 39% in the current reporting periods versus the same periods in 2020, due to increases in Freehold's trading share price, partially offset by lower shares issued for management fees.

	Three Months Ended December 31					Year Ended December 31				
		2021		2020	Change		**2021**		2020	Change
Shares issued for management fees		**27,500**		41,250	-33%		**110,000**		165,000	-33%
Ascribed value ($000s) (1)	**$**	**320**	$	215	49%	**$**	**1,074**	$	634	69%
Closing share price ($/share)	**$**	**11.65**	$	5.21	124%	**$**	**11.65**	$	5.21	124%
Per boe ($)	**$**	**0.25**	$	0.24	4%	**$**	**0.25**	$	0.18	39%

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

Impairment

At December 31, 2021, there were no indicators of impairment on Freehold's United States and Canadian Royalty cash generating units (CGUs) nor on its exploration and evaluation assets. As a result, no impairment testing was conducted. During 2020, there was an impairment charged against the Working Interest CGU of $9.6 million as its carrying value exceeded its estimated value in use. The majority of Freehold's Working Interest CGU was sold in 2020 reducing its carrying value to zero.

Income Tax

Freehold's taxable income is based on revenues (which will vary depending on commodity prices and production volumes) less deductible expenses, including tax pool deductions. There were no Canadian or American income taxes because Freehold had sufficient tax pool deductions. In the current reporting periods, Freehold had deferred tax expenses of $10.1 million and $22.7 million because its estimated tax deductions exceeded its reported expenses. Freehold does anticipate a current income tax expense during 2022 on both its Canadian and American activities.

	Three Months Ended December 31			Year Ended December 31		
($000s)	**2021**	2020	Change	**2021**	2020	Change
Deferred income taxes (recovery)	**10,064**	1,777	466%	**22,729**	(3,144)	nm

nm – not meaningful

CRA Reassessments

As previously reported, Freehold's corporate income tax filings for 2015, 2018, and 2019 were reassessed by the Canada Revenue Agency (CRA) in 2020 (the Reassessments). Pursuant to the Reassessments, deductions of $92.6 million of non-capital losses (NCLs) by Freehold were denied, resulting in reassessed taxes, interest, and penalties totaling $29.3 million, in addition to a denial of $129.9 million of carried forward NCLs. Freehold previously filed its objection of the Reassessments which required deposits totaling $14.7 million that have been provided to the CRA.

Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, management remains of the opinion that all tax filings to date were filed correctly and that it expects to be successful in its objection of these Reassessments and therefore the payment of these deposits held by the CRA should be refunded, plus interest, and the denied NCLs should be reinstated. Although the assignment of the CRA appeals' officer to these Reassessments has only just recently occurred, Freehold has yet to receive additional information from this appeals' officer through to the date of this MD&A.

Disallowed NCL's are anticipated to be deducted against taxable income upon filing Freehold's Canadian 2021 income tax return. Prior to then, should the CRA's appeal's officer not overturn the Reassessments, these 2021 NCL deductions are anticipated to be disallowed by the CRA resulting in a reassessment against our 2021 income tax. On receipt of this anticipated 2021 reassessment, this requires us to post an additional deposit of $10 million within 90 days bringing the total posted deposits to $25 million.

Tax Pools

Freehold is entitled to claim certain tax pool deductions available to all owners of oil and gas properties. Without reflecting the Reassessments, Freehold's tax pools increased to $972.4 million at the end 2021 (from $775.4 million at the end of 2020), as we acquired in excess of $370 million in acquired royalty interest assets prior to tax pool deductions applied against the $189.6 million of funds from operations. The tax pools below are deductible at various jurisdiction tax rates:

	Year Ended December 31		
($000s)	**2021**	2020	Change
Canada			
Oil and gas property expense	**$ 543,211**	$ 598,892	-9%
Development expense	**10,769**	15,380	-30%
Capital cost allowance	**4,137**	5,454	-24%
Share issue costs	**7,581**	-	nm
Non-capital losses	**49,702**	134,246	-63%
United States			
Depletion	**356,975**	21,440	nm
Total	**$ 972,375**	$ 775,412	25%

nm – not meaningful

Deferred Tax Liability

At December 31, 2021, Freehold had a deferred income tax liability of $4.2 million (2020 – deferred income tax asset of $16.3 million) resulting from the combined tax effected differences of accounting carrying values in excess of associated tax pools.

Net Income (Loss) and Comprehensive Income (Loss)

In the current reporting periods, Freehold had net income of $31.2 million and $72.1 million compared with net income of $0.4 million in the comparative quarter and a net loss of $13.9 million in 2020. These increases were due to higher commodity pricing reflecting significant improvement in crude oil and natural gas benchmark pricing combined with a weighted average shift to stronger U.S. based pricing, higher volumes resulting from both a return to drilling on Freehold's Canadian lands and 2021 U.S. royalty property acquisitions combined with a lower cost structure. In addition, for 2021 there was the absence of an impairment charge as reported in 2020. For the same reasons, comprehensive income of $30.9 million and $72.2 million for the current reporting periods was higher than comprehensive income of $0.3 million and a loss of $14.0 million reported in the same periods of 2020.

	Three Months Ended December 31			Year Ended December 31		
($000s, except as noted)	**2021**	2020	Change	**2021**	2020	Change
Net income (loss)	**$ 31,178**	$ 373	nm	**$ 72,084**	$ (13,931)	nm
Per share, basic and diluted ($)	**$ 0.21**	$ -	nm	**$ 0.53**	$ (0.12)	nm
Comprehensive income (loss)	**$ 30,904**	$ 349	nm	**$ 72,250**	$ (13,954)	nm

nm – not meaningful

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. We have a declining asset base, and 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 fund acquisitions, sustain dividends 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 (loss) per share.

Funds from operations for the current reporting periods increased 211% and 160% to $68.8 million ($0.46/share) and $189.6 million ($1.39/share) from $22.1 million ($0.19/share) and $72.9 million ($0.61/share) in the same periods in 2020. These increases were due to higher royalty production resulting from Freehold's acquisitions of U.S. royalty properties, higher third party drilling activities, higher commodity pricing reflecting significant improvement in crude oil and natural gas benchmark pricing combined with both a weighted average shift to stronger U.S. based pricing and a lower cost structure.

Cash flow from operations of $59.7 million and $162.0 million for the current reporting periods was materially higher by 190% and 146% than the same periods of 2020 for the same reasons as explained for funds from operations.

	Three Months Ended December 31			Year Ended December 31		
($000s, except as noted)	**2021**	2020	Change	**2021**	2020	Change
Cash flow from operations	**$ 59,700**	$ 20,610	190%	**$ 162,021**	$ 65,767	146%
Funds from operations	**$ 68,773**	$ 22,129	211%	**$ 189,649**	$ 72,891	160%
Per share - basic ($)[1]	**$ 0.46**	$ 0.19	142%	**$ 1.39**	$ 0.61	128%

(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 December 31, 2021 was $44.8 million, higher by $17.5 million from December 31, 2020. This increase reflects higher commodity pricing, improved production and their associated revenues partially offset by the reduction of prepaid costs associated with share issue or acquisition costs combined with an increase in dividends payable. Working capital at December 31, 2021 and 2020 includes $14.7 million of deposits provided to the CRA upon Freehold filing its objection of the Reassessments (see CRA Reassessments).

($000s)	December 31 2021	December 31 2020
Long-term debt	**146,000**	93,000
Working capital	**(44,771)**	(27,235)
Net debt(1)	**101,229**	65,765

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

Decommissioning Liability

Freehold has no decommissioning liability on its royalty interest properties. Freehold's decommissioning liability results from its responsibility to abandon and reclaim its net share of its working interest properties. During 2021 and 2020, Freehold incurred $0.5 million per year on decommissioning expenditures and benefited from $0.3 million in government incentives.

During 2021 and 2020, Freehold benefited from a federal government funded site rehabilitation program administered by the Alberta government. This program allows oil and gas operators to nominate inactive well sites or suspended pipelines across any stage of the abandonment and reclamation process for partial or full government funding. After approval but upon completion of either the abandonment or reclamation work, the provincial government directly pays the service provider at which time Freehold credited depletion, depreciation and other for $0.3 million (2020 - $0.3 million) as offset through a reduction in the decommissioning liability.

The undiscounted value of Freehold's total decommissioning liability is estimated to be $5.5 million (2020 – $6.9 million). Payments to settle the obligations are expected to occur over the next 40 years, with the majority being settled within 10 years. At December 31, 2020, a risk-free rate of 1.7% (2020 – 1.2%) and an inflation rate of 1.8% (2020 – 1.5%) were used to calculate the present value of $5.6 million (2020 - $6.9 million).

Financing Activities

Long-Term Debt

During September 2021, Freehold amended its credit facility agreement with a syndicate of four Canadian banks increasing the committed revolving facility by $120 million to $285 million while the operating facility remained unchanged at $15 million (December 31, 2020 - $165 million and $15 million, respectively). The amended credit facility agreement includes a permitted increase in the revolving facility to $360 million, subject to lenders' consent. Both the committed revolving and operating facilities mature September 28, 2024. At December 31, 2021, $146 million was drawn on the committed revolving facility (December 31, 2020 - $93 million). This debt increase reflects the partial funding of the Eagle Ford Royalty Transaction and Midland Assets. The credit facilities are secured with a $400 million first charge demand debenture over all of Freehold's Canadian royalty income assets and fixed charge mortgage securities on U.S. royalty income assets with associated proved developed producing reserves.

The 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 0.6 times at December 31, 2021) 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 14% at December 31, 2021). 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. As a result of economic uncertainties that exist around the impact of COVID-19, actual operating results may vary from Freehold's current best estimate.

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

At December 31, 2021 and 2020, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market rates.

Net Debt

In 2021, net debt increased by $35.5 million, or 54%, to $101.2 million from $65.8 million at December 31, 2020, mainly as a result of financing increased acquisition activity.

Despite acquisitions during 2021 totaling over $370 million, Freehold's net debt to trailing funds from operations ratio at December 31, 2021 lowered to 0.5 times from 0.9 times during 2020 and was well within our net debt strategy target of below 1.5 times. This ratio is a financial leverage measure that reflects cash available to pay back our debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others. However, the calculation of net debt to funds from operations excludes funds from operations from U.S. assets acquired during the year for the periods prior to closing of such acquisitions that if included would benefit this measure.

A Freehold capital management measure is capitalization defined as net debt plus shareholders' equity. The associated capital management net debt to capitalization ratio is a financial leverage measure that shows the portion of capital relating to debt. Freehold's low financial risk ratio of 10% at December 31, 2021 (December 31, 2020 – 9%) reflects an increase during 2021 in share capital resulting from two conversions of subscription receipts in exchange for an equivalent number of shares partially offsetting the effect of the aforementioned net debt increase.

Debt Analysis

	At December 31		
($000s)	2021	2020	Change
Long-term debt	$ 146,000	$ 93,000	57%
Short-term debt (operating line)	-	-	-
Total debt	$ 146,000	$ 93,000	57%
Working capital (1)	(44,771)	(27,235)	64%
Net debt (1)	$ 101,229	$ 65,765	54%

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

Financial Leverage Ratios (1)

	At December 31		
	2021	2020	Change
Net debt to funds from operations (times)	0.5	0.9	-44%
Net debt to capitalization	10%	9%	1%

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

Shareholders' Capital

On December 5, 2020, Freehold issued 12,647,667 subscription receipts at a price of $4.80 per receipt through a public offering pursuant to Freehold's short form prospectus and a concurrent private placement. The total gross proceeds from these subscription receipts was $60.7 million. Each subscription receipt entitled the holder to receive, upon occurrence of all outstanding conditions precedent to the closing of Freehold's acquisition of certain U.S. based royalty properties, one common share of Freehold. This U.S. based royalty properties acquisition closed during January 2021 resulting in the 12,647,667 subscription receipts being exchanged for an equivalent number of

Freehold's common shares concurrent with the release from escrow of gross proceeds of $60.7 million (December 31, 2020 - $63.3 million including $2.6 million of prepaids).

On September 22, 2021, Freehold issued 19,067,000 subscription receipts at a price of $9.05 per receipt through a public offering pursuant to Freehold's short form prospectus. The total gross proceeds from these subscription receipts was $172.6 million including proceeds from a related party (see Related Parties). Each subscription receipt entitled the holder to receive, upon occurrence of all outstanding conditions precedent to the closing of Freehold's Eagle Ford Royalty Transaction, one common share of Freehold. On closing the Eagle Ford Royalty Transaction, this resulted in the 19,067,000 subscription receipts being exchanged for an equivalent number of Freehold's common shares concurrent with the release from escrow of gross proceeds of $172.6 million.

The combined public offerings and private placement resulted in the issuance of 31,714,667 Freehold common shares for gross proceeds of $233.3 million before total costs of $9.5 million ($7.2 million net of deferred income tax).

In 2021, Freehold also issued 110,000 shares for payment of the management fee.

At December 31, 2021 and March 2, 2022, there were 150,612,334 shares outstanding.

Shareholders' Capital

	December 31, 2021		December 31, 2020	
($000s, except as noted)	Shares	Amount	Shares	Amount
Balance, beginning of period	118,787,667	$ 1,272,397	118,622,667	$ 1,271,763
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	110,000	1,074	165,000	634
Balance, end of period	150,612,334	$ 1,499,544	118,787,667	$ 1,272,397

Weighted Average and Period Ending Shares

	Three Months Ended December 31			Year Ended December 31		
	2021	2020	Change	2021	2020	Change
Weighted average						
Basic	150,585,133	118,746,865	27%	136,510,142	118,685,218	15%
Diluted	151,025,668	119,071,054	27%	136,940,337	118,685,218	15%
At period end	150,612,334	118,787,667	27%	150,612,334	118,787,667	27%

Dividend Policy and Analysis

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

The payment of dividends by a corporation is governed by the liquidity and insolvency tests described in the *Business Corporations Act* (Alberta) (ABCA). Pursuant to the ABCA, after the payment of a dividend, we must be able to pay our liabilities as they become due and the realizable value of our assets must be greater than our liabilities and the legal stated capital of our outstanding securities. At December 31, 2021, our legal stated capital was $360 million.

2021 Dividends Declared

Record Date	Payment Date	Dividend Amount ($ per share)
January 31, 2021	February 16, 2021	$ 0.02
February 28, 2021	March 15, 2021	0.02
March 31, 2021	April 15, 2021	0.03
April 30, 2021	May 17, 2021	0.03
May 31, 2021	June 15, 2021	0.04
June 30, 2021	July 15, 2021	0.04
July 31, 2021	August 16, 2021	0.04
August 31, 2021	September 15, 2021	0.05
September 30, 2021	October 15, 2021	0.05
October 31, 2021	November 15, 2021	0.05
November 30, 2021	December 15, 2021	0.06
December 31, 2021	January 17, 2022	0.06
		$ 0.49

Dividends declared and paid in Q4-2021 totaled $25.6 million ($0.17 per share) and $24.1 million ($0.16 per share), respectively, both materially higher than $5.9 million ($0.05 per share) and $5.3 million ($0.045 per share) declared and paid in the same period of 2020. In 2021, Freehold's dividends declared and paid totaled $68.6 million ($0.49 per share) and $62.0 million ($0.45 per share), respectively, both materially higher than $35.3 million ($0.30 per share) and $39.2 million ($0.33 per share) declared and paid in 2020.

On January 12, 2022, the Board declared a dividend of $0.06 per common share which was paid on February 15, 2022, to common shareholders on record on January 31, 2022. On February 15, 2022, the Board declared a dividend of $0.06 per common share to be paid on March 15, 2022, to common shareholders on record on February 28, 2022. On March 2, 2022, the Board declared a dividend of $0.08 per common share to be paid on April 18, 2022, to common shareholders on record on March 31, 2022.

From inception in 1996 through to December 31, 2021, Freehold has distributed $1.8 billion ($33.09 per share) to our shareholders. Freehold's dividends are designated as eligible dividends for Canadian income tax purposes.

Accumulated Dividends (1)

	Three Months Ended December 31			Year Ended December 31		
($000's, except per share)	**2021**	2020	Change	**2021**	2020	Change
Dividends declared	**$ 25,599**	$ 5,938	331%	**$ 68,628**	$ 35,306	94%
Accumulated, beginning of period	**1,780,878**	1,731,911	3%	**1,737,849**	1,702,543	2%
Accumulated, end of period	**$ 1,806,477**	$ 1,737,849	4%	**$ 1,806,477**	$ 1,737,849	4%
Dividends per share ($) (2)	**$ 0.17**	$ 0.0500	240%	**$ 0.49**	$ 0.2975	65%
Accumulated, beginning of period ($)	**32.9225**	32.5525	1%	**32.6025**	32.3050	1%
Accumulated, end of period ($)	**$ 33.0925**	$ 32.6025	2%	**$ 33.0925**	$ 32.6025	2%

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

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

The following tables reconciles funds from operations to dividends declared. In the current reporting periods Freehold's payout(2) ratio was 35% and 33% highlighting that dividend payments are being made within our means, with excess funds from operations being used to fund acquisitions and then repay debt.

Reconciliation of Funds from Operations and Dividends Declared

	Three Months Ended December 31			Year Ended December 31		
($000s)	2021	2020	Change	2021	2020	Change
Funds from operations	$ 68,773	$ 22,129	211%	$ 189,649	$ 72,891	160%
Debt drawing (repayments)	20,000	(14,000)	-243%	53,000	(16,000)	nm
Share issuances related to subscription receipts	-	-	nm	233,265	-	nm
Share issue costs	-	-	nm	(9,476)	-	nm
Acquisitions and related expenditures	(67,906)	(222)	nm	(377,002)	(7,058)	nm
Working interest dispositions (buyout)	-	36	nm	-	(2,338)	nm
Working capital change	4,732	(2,005)	-336%	(20,808)	(12,189)	71%
Dividends declared	$ 25,599	$ 5,938	331%	$ 68,628	$ 35,306	94%

Payout Ratio (2)

	Three Months Ended December 31			Year Ended December 31		
($000s)	2021	2020	Change	2021	2020	Change
Dividends paid (1)	$ 24,094	$ 5,343	351%	$ 61,969	$ 39,158	58%
Funds from operations	$ 68,773	$ 22,129	211%	$ 189,649	$ 72,891	160%
Payout ratio (2)	35%	24%	11%	33%	54%	-21%

(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's payout(2) ratio for Q4-2021 was 35%, below the lower end of our guided dividend payout range of 60%-80% of annualized funds flow, but an increase compared to 24% during the same period in 2020. Freehold initially reduced its monthly dividend in the second quarter of 2020, reflecting the COVID-19 pandemic and the significant demand destruction for oil resulting in volatile commodity pricing and uncertainty regarding the timing for recovery. Commodity prices and production volumes on our royalty lands has since recovered with funds from operations outperforming expectations. With improved commodity prices and other macroeconomic factors in North America, Freehold is working to return to the payout ratio target through a measured strategy. With the goal of aligning dividend levels to a stronger and stabilizing business outlook, Freehold has increased its monthly dividend from $0.015/share in November 2020 to $0.04/share in May 2021, to $0.05/share in August 2021, to $0.06/share in November and most recently has approved increasing its monthly dividend to $0.08/share or $0.96/share on an annualized basis in March 2022.

Investing Activities

Acquisitions

In 2021, Freehold invested $377.0 million in acquisitions and related expenditures.

United States Acquisitions

During January 2021, Freehold acquired U.S. royalty properties for US$58.1 million ($74.1 million) after customary adjustments. The acquisition included 400,000 gross drilling unit acres of mineral title and overriding royalty interest across 12 basins in eight states; predominantly weighted towards the Permian and Eagle Ford basins.

During July 2021, Freehold acquired U.S royalty properties in Texas within the Eagle Ford, Delaware and Midland basins for US$15.7 million ($19.5 million) after customary adjustments.

In September 2021, Freehold completed the Eagle Ford Royalty Transaction for consideration of US$159.7 million ($202.0 million) after customary adjustments. The Eagle Ford Royalty Transaction included 92,000 gross drilling unit acres of overriding royalty interest in Texas within the Eagle Ford basin.

In October 2021, Freehold acquired the U.S. royalty Midland Assets for US$53.3 million ($67.5 million) after customary adjustments.

For 2021, Freehold also completed another three acquisitions for certain U.S. royalty assets for US$3.7 million ($4.9 million). These additional U.S. royalty acquisitions complemented our positions in the Bakken and Permian basins.

Canadian Acquisitions

During July 2021, Freehold closed a Canadian royalty transaction with a commitment to pay up to $7.9 million in accordance with a drilling agreement in exchange for gross overriding royalties in the range of 3 to 5% in the Clearwater play in central Alberta. Freehold has paid $5.8 million towards the committed amount as at December 31, 2021.

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

Other

For 2021, Freehold recognized capitalized general & administrative costs of $2.0 million and other royalty income asset expenditures of $0.6 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 19.9% ownership in Freehold at December 31, 2021, a decrease from the 22% ownership at December 31, 2020, caused by the CN Pension Trust Funds not acquiring the combined full pro rata percentage of subscription receipts sold pursuant to Freehold's September 2021 short form prospectus offering. Subsequent to December 31, 2021, Rife sold 2.8 million shares of its investment in Freehold reducing the combined Rife and CN Pension Trust Funds ownership to 18.1% at March 2, 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.

On May 18, 2021, Freehold entered into an acquisitions opportunities agreement (the Acquisitions Opportunities Agreement) with Rife, Canpar and the Manager (the "Related Parties") that reaffirmed Freehold's priority right to acquire petroleum royalty interest opportunities. In addition, this acquisitions opportunities agreement provides Freehold the right to participate in potential other mineral royalty interest opportunities including those identified on the lands of the Related Parties.

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

Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares on a quarterly basis, pursuant to the Management Agreement that capped the respective management fee at 27,500 and 41,250 Freehold common shares per quarter for 2021 and 2020. For the current reporting periods the ascribed values of $0.3 million and $1.1 million (comparative periods - $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. Effective January 1, 2022, the Management Agreement will limit the management fee at 13,750 shares per quarter for 2022.

During 2021, the Manager charged $9.7 million in G&A costs (2020 - $11.0 million). At December 31, 2021, there was $0.5 million (December 31, 2020 – $0.7 million) in accounts payable and accrued liabilities relating to these costs.

Rife Resources Ltd. and CN Pension Trust Funds

During 2020, Rife acquired 2,791,667 subscription receipts at $4.80 per receipt through a private placement that closed concurrently with Freehold’s public offering of subscription receipts pursuant to its December 2020 short form prospectus. Pursuant to Freehold’s September 2021 short form prospectus, the CN Pension Trust Funds acquired 939,200 subscription receipts at $9.05 per share for proceeds of $8.5 million. The price per subscription receipt paid by Rife and the CN Pension Trust Funds was equivalent to the public offering prices. The total proceeds from these offerings was $21.9 million. No commission was paid in respect of the subscription receipts purchased by Rife and the CN Pension Trust Funds pursuant to either the private placement or the September 2021 offering. During 2021 and per the same terms as the December 2020 and September 2021 public offerings, upon Freehold’s acquisitions of certain U.S. based royalty properties, the subscription receipts were exchanged for a total of 3,730,867 in Freehold’s common shares. Subsequent to December 31, 2021, Rife sold 2.8 million shares of its investment in Freehold reducing the combined Rife and CN Pension Trust Funds ownership to 18.1% at March 2, 2022.

During 2021, Freehold paid $13.2 million in total cash dividends to Rife and the CN Pension Trust Funds for their combined ownership in Freehold’s common shares (2020 - $8.6 million and $0.1 million in dividends and dividend equivalent payments).

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. During 2021 and 2020, Freehold received royalties each year of approximately $0.3 million from Rife.

At December 31, 2021, there was $1.8 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared, net of royalties receivable (2020 - $0.4 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 December 31, 2021 and 2020 there were no amounts due from Canpar.

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

Key Management Personnel Compensation

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

($000s)	December 31 2021	December 31 2020
Short-term benefits (including employee wages and directors fees)	**$ 1,442**	$ 1,971
Share based compensation	**2,515**	761
Key management compensation	**$ 3,957**	$ 2,732

In December 2020, the Board approved an amendment to the DSU plan to permit each non-management Board member to elect on an annual basis to receive the equivalent fair value of DSUs in lieu of all or a portion of his or her annual remuneration.

Select Annual Information

FINANCIAL ($000s, except as noted)	**2021**	2020	2019
Royalty and other revenue	**$ 206,191**	$ 89,958	$ 140,837
Net income (loss)	**$ 72,084**	$ (13,931)	$ 5,193
Per share, basic and diluted ($)	**0.53**	(0.12)	0.04
Dividends declared	**$ 68,628**	$ 35,306	$ 74,663
Per share ($) (1)	**0.4900**	0.2975	0.630
Total assets	**$ 1,070,507**	$ 829,909	$ 839,893
Long-term debt	**$ 146,000**	$ 93,000	$ 109,000
Total long-term liabilities	**$ 161,109**	$ 102,619	$ 120,689

Select Quarterly Information

Financial ($000s, except as noted)	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1
Royalty and other revenue	**73,642**	50,879	44,925	36,745	25,793	23,123	14,758	26,284
Net income (loss)	**31,178**	22,726	12,545	5,635	373	139	(5,421)	(9,022)
Per share, basic ($) (1)	**$ 0.21**	$ 0.17	$ 0.10	$ 0.04	$ -	$ -	$ (0.05)	$ (0.08)
Cash flows from operations	**59,700**	43,911	33,420	24,990	20,610	1,130	13,144	30,833
Funds from operations	**68,773**	48,247	40,208	32,421	22,129	19,893	10,622	20,248
Per share, basic ($) (1)	**$ 0.46**	$ 0.36	$ 0.31	$ 0.25	$ 0.19	$ 0.17	$ 0.09	$ 0.17
Acquisitions and related expenditures	**67,906**	228,382	930	79,782	222	485	981	5,370
Dividends paid	**24,094**	17,095	13,147	7,633	5,342	5,342	9,790	18,683
Per share ($) (2)	**0.16**	0.13	0.10	0.06	0.045	0.045	0.0825	0.1575
Dividends declared	**25,598**	19,364	14,464	9,201	5,938	5,342	5,341	18,685
Per share ($) (2)	**$ 0.17**	$ 0.14	$ 0.11	$ 0.07	$ 0.0500	$ 0.0450	$ 0.0450	$ 0.1575
Payout ratio (%) (3)	**35%**	35%	33%	24%	24%	27%	92%	92%
Long term debt	**146,000**	126,000	78,000	96,000	93,000	107,000	102,000	103,000
Net debt	**101,229**	75,278	40,751	64,797	65,765	81,678	96,071	101,833
Shares outstanding, period end (000s)	**150,612**	150,585	131,490	131,463	118,788	118,746	118,705	118,664
Average shares outstanding (000s) (1)	**150,585**	132,941	131,463	130,874	118,747	118,706	118,664	118,623
Operating								
Light and medium oil (bbls/d)	**5,401**	4,038	4,102	3,811	3,239	3,384	3,314	3,936
Heavy oil (bbls/d)	**1,254**	1,236	1,199	1,045	1,173	791	920	1,300
NGL (bbls/d)	**1,564**	1,125	1,107	1,065	824	859	788	896
Total liquids (bbls/d)	**8,219**	6,399	6,408	5,921	5,236	5,034	5,022	6,132
Natural gas (Mcf/d)	**34,700**	29,203	28,376	30,132	26,671	24,656	25,576	29,361
Total production (boe/d) (4)	**14,005**	11,265	11,137	10,944	9,681	9,143	9,285	11,026
Oil and NGL (%)	**59%**	57%	58%	54%	54%	55%	54%	56%
Petroleum and natural gas realized price ($/boe)	**57.44**	49.17	44.22	37.31	27.99	26.95	17.06	25.69
Cash costs ($/boe) (3)(4)	**3.57**	2.49	4.48	4.37	4.03	3.70	4.79	5.74
Netback ($/boe) (3)(4)	**53.58**	46.60	39.83	32.94	24.85	23.79	12.68	20.46
Benchmark Prices								
West Texas Intermediate crude oil (US$/bbl)	**77.19**	70.55	66.07	57.81	42.47	40.91	27.81	45.65
Exchange rate (Cdn$/US$)	**0.79**	0.79	0.81	0.79	0.77	0.75	0.72	0.74
Edmonton Light Sweet crude oil (Cdn$/bbl)	**93.28**	83.77	77.12	66.76	50.45	49.81	29.79	51.77
Western Canadian Select crude oil (Cdn$/bbl)	**78.71**	71.79	66.90	57.55	43.56	42.55	22.37	34.02
Nymex natural gas (US$/mcf)	**4.75**	4.35	2.95	3.50	2.26	2.00	1.70	1.90
AECO monthly contract natural gas (Cdn$/Mcf)	**4.93**	3.36	2.80	2.92	2.76	2.14	1.85	2.13

(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) See Conversion of Natural Gas to Barrels of Oil Equivalent (boe)

Business Risks and Mitigating Strategies

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

- fluctuations in commodity prices and quality differentials as a result of weather patterns, world and North American market forces or shifts in the balance between supply and demand for crude oil and gas;
- the impacts of the Russian Ukrainian conflict on supply and demand for oil and natural gas and the world economy;
- climate change and ESG concerns reducing the demand for crude oil and gas;
- access to pipelines or other transportation methods for bringing oil and natural gas to market;
- variations in currency exchange rates;

- imprecision of reserve estimates and uncertainty of depletion and recoverability of reserves. Our reserves will deplete over time through continued production and we and our industry partners and royalty payors may not be able to replace these reserves on an economic basis;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- industry activity levels and intense competition for land, goods and services, and qualified personnel;
- stock market volatility and the ability to access sufficient capital from internal and external sources;
- the impact of the COVID-19 pandemic on demand and commodity prices;
- risk associated with volatility in global financial markets;
- risk associated with the renegotiation of our credit facility;
- operational or marketing risks resulting in delivery interruptions, delays or unanticipated production declines;
- changes in government regulations, taxation, and royalties; and
- safety and environmental risks.

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

We employ the following strategies to mitigate these risks:

- Our diversified revenue stream limits the size of any one property with respect to our total assets.
- We are not liable for abandonment and reclamation costs on our royalty lands.
- Due to our high percentage of royalty lands, we have one of the lowest all-in cost structures of our peer group. In addition, we maintain a focus on controlling direct costs to maximize profitability.
- We negotiate agreements that provide mechanisms to ensure that our interests are protected.
- Systems and processes are in place to identify any unpaid or incorrect revenues.
- We maintain a dedicated compliance function, with a comprehensive auditing program, to ensure that the terms of the various agreements are followed. During 2021, our audit staff issued audit exception queries amounting to $3.6 million, bringing the total amount of audit exception queries since 1997 to $101.0 million, of which we have successfully recovered $81.6 million.
- We adhere to strict investment criteria for acquisitions, seeking quality royalty properties that have attractive returns, acceptable risk profiles and long economic lives.
- We market our products to a diverse range of buyers or with our diverse range of royalty payors. Currently, we do not have any commodity price, exchange rate, or interest rate hedging programs in place.
- We employ a qualified Manager that has many years of experience and knowledge in managing our assets.
- We maintain levels of liability insurance that meet or exceed industry standards.
- We employ a conservative approach to debt management. As circumstances warrant, we allocate a portion of funds from operations to debt repayment.
- Strong balance sheet – focus on acquisitions with economics with strong characteristics – ESG friendly business model – low carbon footprint.

Environmental Regulation and Risk

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

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

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

Climate Change Risks

Global climate issues continue to attract public and scientific attention. Numerous reports, including reports from the Intergovernmental Panel on Climate Change, have engendered concern about the impacts of human activity, especially hydrocarbon combustion, on global climate issues. In turn, increasing public, government, and investor attention is being paid to global climate issues and to emissions of greenhouse gas (GHG), including emissions of carbon dioxide and methane from the production and use of oil, liquids and natural gas. The majority of countries across the globe, including Canada and the United States, have agreed to reduce their carbon emissions in accordance with the Paris Agreement. In addition, during the course of the 2021 United Nations Climate Change Conference in Glasgow, Scotland, Canada's Prime Minister Justin Trudeau made several pledges aimed at reducing Canada's GHG emissions and environmental impact. Additional information on climate change regulations and risks related to climate change can be found under the headings "Industry Conditions" and "Risk Factors" in Freehold’s Annual Information Form.

Transition risks

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

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

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

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

Physical risks

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

Controls, Accounting and Regulatory Matters

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

Disclosure Controls

As of December 31, 2021, an internal evaluation was carried out of the effectiveness of Freehold's disclosure controls and procedures. This evaluation was performed under the supervision of, and with the participation of the CEO and the CFO. It took into consideration Freehold's Disclosure, Insider Trading, Code of Business Conduct and Conflict of Interest, and Whistleblower policies, as well as the functioning of the Manager, the officers, the Board and Board Committees. In addition, the evaluation covered the processes, systems and capabilities relating to regulatory filings, public disclosures, and the identification and communication of material information. Management also evaluated the effect from the significant U.S. royalty properties acquired in 2021 but concluded processes and systems already existed from its Canadian operations. Based on this evaluation, management has concluded that Freehold's disclosure controls and procedures were effective as at December 31, 2021, in ensuring that material information is made known to management in a timely manner, particularly during the period in which the annual filings were being prepared, and information required to be disclosed by Freehold in its annual filings, interim filings or other reports filed or submitted by Freehold under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Control Over Financial Reporting

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

Under the supervision of the CEO and CFO, Freehold conducted an evaluation of the effectiveness of its ICFR as at December 31, 2021, as structured within the 2013 COSO Framework. Based on this evaluation, the CEO and CFO concluded that, as of December 31, 2021, that ICFR was effective. Our ICFR provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There were no changes in our ICFR during the period beginning on October 1, 2021 and ended on December 31, 2021 that materially affected Freehold's ICFR.

Use of Estimates and Judgment

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

Petroleum and natural gas reserves

The amounts recorded for the depletion of petroleum and natural gas interests, the provision for decommissioning liability, business combinations, indicators of impairment or impairment reversal and the amounts used in an impairment calculation are based on estimates of proved and probable petroleum and natural gas reserves. By their nature, these estimates of proved and probable petroleum and natural gas reserves and the related cash flows are subject to uncertainty including significant assumptions related to forecasted royalty production from proved and probable petroleum and natural gas reserves and forecasted oil and gas commodity prices and the impact on the financial statements of future periods could be material. Freehold's proved and probable petroleum and natural gas reserves have been prepared at December 31, 2021 by the Company's external independent qualified reserves evaluators. Significant management judgment is required to analyze internal and external indicators of impairment for petroleum and natural gas interests and exploration and evaluation assets with the estimate of proved and probable petroleum and natural gas reserves and the related cash flows being significant to the assessment.

Unbooked future development locations

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

Decommissioning liability

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

Share-based compensation

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

Income taxes

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

Cash generating units

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

Business combination

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

Petroleum and natural gas royalty revenue accruals

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

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

Significant Accounting Policies

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

Exploration and evaluation assets

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

Impairment

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

Royalty revenue recognition

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

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

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, Subsequent Events, Outlook, 2022 Guidance, 2021 U.S. Royalty Acquisitions, Drilling Activity, CRA Reassessments and Liquidity and Capital Resources pertaining to the following:

- our expectation of creating value for our shareholders by driving oil and gas development on our lands through our lease program and royalty optimization, acquiring royalty assets with acceptable risk profiles and long economic life and generating gross overriding royalties for revenue growth;

- our intent to maintain balance sheet strength (1.5 times or less net debt to funds from operations) and achieve a payout ratio of between 60%-80%;
- 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 guidance including average daily production (including commodity weighting) and commodity prices;
- 2022 funds from operations guidance
- the belief that the quality of both Freehold's Canadian and U.S. portfolios is expected to drive strong third-party production additions into 2022;
- the expectation that the acquisition of additional U.S royalty production and royalty lands in late 2021 will further diversify and enhance Freehold's asset base;
- 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;
- our dividend policy and expectations for future dividends; and
- treatment under governmental regulatory regimes and tax laws.

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

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

- the continuing impact of the COVID-19 pandemic on demand and commodity prices;
- changes in income tax laws or changes in tax laws, regulations, royalties, or incentive programs relating to the oil and gas industry;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- uncertainties or imprecision associated with estimating oil and gas reserves;
- stock market volatility and our ability to access sufficient capital from internal and external sources;
- a significant or prolonged downturn in general economic conditions or industry activity;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- geological, technical, drilling, and processing problems;
- environmental risks and liabilities inherent in oil and gas operations; and
- other factors discussed in Freehold's annual MD&A and audited financial statements for the year-ended December 31, 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, our ability to obtain financing on acceptable terms, shut-in production, production additions from our audit function and our ability to add production and reserves through development and acquisition activities and elsewhere in this MD&A.

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

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

Non-GAAP Financial Ratios and Other Financial 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 the non-GAAP financial ratios: cash costs and netback, and the supplemental measure payout ratio are useful for management and investors to analyze operating performance and liquidity and we use these terms to facilitate the understanding and comparability of our results of operations. 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.

Cash costs, which is calculated on a boe basis, is comprised by the recurring cash based costs in the statement of income deducted in determining funds from operations. For Freehold, cash costs are identified as operating expense, G&A and cash-based interest, financing and share-based compensation charges. Cash costs allow Freehold to benchmark how changes in its cash-based cost structure compare against prior periods.

The netback, which is also calculated on a boe basis, as average realized price less operating expenses, general and administrative and cash interest charges, represents the per boe cash flow amount which allows the Company to benchmark how changes in commodity pricing 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.

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

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

Management's Report

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

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

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

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

(signed) "*David M. Spyker*"

David M. Spyker
President and Chief Executive Officer

(signed) "*David W. Hendry*"

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

March 2, 2022

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Freehold Royalties Ltd.

Opinion

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

- the consolidated balance sheets as at December 31, 2021 and December 31, 2020
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of the United States and Canadian royalty revenue accrual

Description of the matter

We draw attention to note 1d, note 2h and note 10 to the financial statements. The Company's royalty revenue accrual as of December 31, 2021 was $41.6 million. The Company earns royalty revenue from the sale of crude oil, natural gas, natural gas liquids and other products that is recognized as it accrues in accordance with the terms of the United States and Canadian leases and royalty agreements, which is generally in the month when the oil and gas is produced or extracted. The United States and Canadian royalty revenue accrual is necessary due to the delay between the timing of oil and gas production and when the Company receives its royalty production and payment, which is typically a time lag of approximately two to three months.

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

- Royalty production
- Realized commodity prices.

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

Why the matter is a key audit matter

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

KPMG

price assumptions.

How the matter was addressed in the audit

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

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

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

- Comparing the Company's royalty production assumptions for oil and gas to 2021 received royalty production. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the royalty production assumptions
- Developing an expectation of the realized commodity prices for oil and gas based on publicly available price benchmarks adjusted for quality, location, allowable deductions, or other factors
- Developing an expectation of the United States and Canadian royalty revenue accrual for oil and gas based on the Company's royalty production assumptions and our expectation of the realized commodity price assumptions and comparing the United States and Canadian royalty revenue accrual expectation to the Company's United States and Canadian royalty revenue accrual
- Comparing the United States and Canadian royalty revenue accrual to cash received subsequent to December 31, 2021, for a selection of customers.

Assessment of indicators of impairment for the United States and Canadian royalty cash generating units

Description of the matter

We draw attention to note 1d, note 2c and note 4d to the financial statements. The Company assesses at each reporting date whether there is an indication that the United States and Canadian royalty cash generating units within petroleum and natural gas interests may be impaired. As at December 31, 2021, there were no indicators of impairment on the Company's United States and Canadian royalty cash generating units. Significant management judgment is required to analyze internal and external indicators of impairment for petroleum and natural gas interests with the estimate of proved and probable petroleum and natural gas reserves and the related cash flows being significant to the assessment.

The estimate of proved and probable petroleum and natural gas reserves and the related cash flows includes significant assumptions related to:

- Forecasted royalty production
- Forecasted oil and gas commodity prices.

The Company engages external independent qualified reserve evaluators to estimate the proved and probable petroleum and natural gas reserves and the related cash flows as at December 31, 2021.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment for the United States and Canadian royalty cash generating units as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures with respect to the internal and external indicators of impairment including the estimate of proved and probable petroleum and natural gas reserves and the related cash flows.

How the matter was addressed in the audit

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

We evaluated the Company's assessment of internal and external indicators of impairment by considering whether quantitative and qualitative information in the analysis was consistent with internal and external market and industry data, the Company's press releases and certain minutes of the meetings of the Board of Directors and the estimate of proved and probable petroleum and natural gas reserves and the related cash flows.

With respect to the estimate of proved and probable petroleum and natural gas reserves and the related cash flows as at December 31, 2021:

- We evaluated the competence, capabilities and objectivity of the external independent qualified reserve evaluators engaged by the Company
- We compared forecasted oil and gas commodity prices to those published by other external independent qualified reserve evaluators
- We compared the 2021 actual royalty production of the Company to those estimates used in the prior year's estimate of proved petroleum and natural gas reserves and the related cash flows to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted royalty production from proved and probable petroleum and natural gas reserves by comparing to 2021 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

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Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in the 2021 Annual Report.

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

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

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the 2021 Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Group Entity to express an opinion on the financial statement. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Brad William Robertson.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 2, 2022

Consolidated Balance Sheets

($000s)	December 31 2021	December 31 2020
Assets		
Current assets:		
Cash	**$ 2,189**	$ 1,026
Accounts receivable	**46,303**	16,017
Income tax deposits (note 13)	**14,711**	14,711
Restricted cash and prepaids (note 9)	**-**	63,332
	63,203	95,086
Exploration and evaluation assets (note 3)	**74,455**	80,152
Petroleum and natural gas interests (note 4)	**932,849**	638,397
Deferred income tax asset (note 13)	**-**	16,274
Total Assets	**$ 1,070,507**	$ 829,909
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable (note 9)	**$ 9,037**	$ 2,376
Accounts payable and accrued liabilities	**5,163**	3,913
Current portion of lease obligation (note 5)	**195**	195
Current portion of share based compensation payable (note 7)	**3,287**	658
Current portion of decommissioning liability (note 6)	**750**	-
Subscription receipts obligation (note 9)	**-**	60,709
	18,432	67,851
Lease obligation (note 5)	**1,619**	1,718
Decommissioning liability (note 6)	**4,815**	6,926
Share based compensation payable (note 7)	**4,455**	975
Deferred income tax liability (note 13)	**4,220**	-
Long-term debt (note 8)	**146,000**	93,000
Shareholders' equity:		
Shareholders' capital (note 9)	**1,499,544**	1,272,397
Accumulated other comprehensive income (loss)	**126**	(40)
Contributed surplus	**4,521**	3,763
Deficit	**(613,225)**	(616,681)
Total Shareholders' Equity	**890,966**	659,439
Total Liabilities and Shareholders' Equity	**$ 1,070,507**	$ 829,909

Subsequent events (notes 7, 9 and 12)
See accompanying notes to consolidated financial statements

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

(signed) "*Marvin F. Romanow*" (signed) "*Arthur N. Korpach*"

Marvin F. Romanow
Director

Arthur N. Korpach
Director

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

($000s, except per share and weighted average data)	Year Ended December 31 2021	2020
Revenue:		
Royalty and other revenue (note 10)	**$ 206,191**	$ 89,958
Expenses:		
Operating	**633**	2,032
General and administrative	**10,742**	10,930
Share based compensation (note 7)	**7,073**	1,071
Interest and financing (note 11)	**3,490**	3,373
Depletion, depreciation and other (note 4 and 6)	**88,025**	79,393
Unrealized foreign exchange loss on intercompany note	**341**	-
Management fee (note 12)	**1,074**	634
Impairment (note 4)	**-**	9,600
	111,378	107,033
Income (loss) before taxes	**94,813**	(17,075)
Deferred income tax expense (recovery) (note 13)	**22,729**	(3,144)
Net income (loss)	**$ 72,084**	$ (13,931)
Other comprehensive income (loss)		
Foreign currency translation adjustment	**$ 166**	$ (23)
Comprehensive income (loss)	**$ 72,250**	$ (13,954)
Net income per share (loss), basic and diluted	**$ 0.53**	$ (0.12)
Weighted average number of shares:		
Basic	**136,510,142**	118,685,218
Diluted	**136,940,337**	118,685,218

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

	Year Ended December 31	
($000s)	**2021**	2020
Operating:		
Net income (loss)	**$ 72,084**	$ (13,931)
Items not involving cash:		
Depletion, depreciation, and other (notes 4 and 6)	**88,025**	79,393
Impairment (note 4)	**-**	9,600
Share based compensation expense (note 7)	**7,073**	1,071
Deferred income tax expense (recovery)	**22,729**	(3,144)
Unrealized foreign exchange loss on intercompany note	**341**	-
Accretion of decommissioning liabilities and lease obligations	**205**	147
Management fee (note 12)	**1,074**	634
Cash payout on share based compensation (note 7)	**(1,371)**	(389)
Decommissioning expenditures (note 6)	**(511)**	(490)
Funds from operations	**189,649**	72,891
Changes in non-cash working capital (note 17)	**(27,628)**	(7,124)
	162,021	65,767
Financing:		
Share issuance related to subscription receipts (note 9)	**233,265**	-
Lease obligation paid	**(195)**	(49)
Long-term debt drawing (repayment)	**53,000**	(16,000)
Dividends paid (note 9)	**(61,969)**	(39,158)
Share issuance costs (note 9)	**(9,476)**	-
Changes in non-cash working capital (note 17)	**1,156**	(1,156)
	215,781	(56,363)
Investing:		
Acquisitions and related expenditures (note 4)	**(377,002)**	(7,058)
Working interest dispositions	**-**	(2,338)
Changes in non-cash working capital (note 17)	**389**	(155)
	(376,613)	(9,551)
Increase (decrease) in cash	**1,189**	(147)
Impact of foreign currency on cash balance	**(26)**	(26)
Cash, beginning of year	**1,026**	1,199
Cash, end of year	**$ 2,189**	$ 1,026

See accompanying notes consolidated financial statements

Supplemental cash flow disclosure (note 17b)

Consolidated Statements of Changes in Shareholders' Equity

	Year Ended December 31	
($000s)	**2021**	2020
Shareholders' capital:		
Balance, beginning of year	**$ 1,272,397**	$ 1,271,763
Share issuances related to subscription receipts (note 9)	**233,265**	-
Share issue costs, net of tax effect (note 9)	**(7,192)**	-
Shares issued for payment of management fee (note 12)	**1,074**	634
Balance, end of year	**1,499,544**	1,272,397
Accumulated other comprehensive income (loss):		
Balance, beginning of year	**(40)**	(17)
Foreign currency translation adjustment	**166**	(23)
Balance, end of year	**126**	(40)
Contributed surplus:		
Balance, beginning of year	**3,763**	3,175
Share based compensation	**758**	588
Balance, end of year	**4,521**	3,763
Deficit:		
Balance, beginning of year	**(616,681)**	(567,444)
Net income (loss)	**72,084**	(13,931)
Dividends declared	**(68,628)**	(35,306)
Balance, end of year	**(613,225)**	(616,681)
Total shareholders' equity	**$ 890,966**	$ 659,439

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

1. Basis of Presentation

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

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

a) Statement of Compliance

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

These financial statements were approved by the Board of Directors on March 2, 2022.

b) Basis of Measurement and Principles of Consolidation

These 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 these financial statements.

c) Impact of COVID-19 Pandemic

Since the World Health Organization declared the COVID-19 outbreak to be a pandemic, Governments have taken significant steps to contain the spread of the virus, which have led to significant disruption of business operations and economic uncertainty. Although crude oil benchmarks exceed pre-pandemic pricing levels and interest rates are low, world demand still remains uncertain. Much of the recent increase in oil benchmarks reflects the progress of COVID-19 vaccine rollouts and the subsequent demand response, as countries attempt to return to life before the pandemic. Although the recent reopening of economies post COVID-19 has put upward pressure on oil demand, several economies have retrenched as the impacts of different variants continue to cause volatility in the market. The result of this economic uncertainty and the resulting direct and indirect impact on Freehold continue to be evaluated by management and could have a prospective material impact on its operations, cash flows and liquidity.

d) Use of Estimates and Judgment

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

Petroleum and natural gas reserves

The amounts recorded for the depletion of petroleum and natural gas interests, the provision for decommissioning liability, business combinations, indicators of impairment or impairment reversal and the amounts used in an impairment calculation are based on estimates of proved and probable petroleum and natural gas reserves. By their nature, these estimates of proved and probable petroleum and natural gas reserves and the related cash flows are subject to uncertainty including significant assumptions related to forecasted royalty production from proved and probable petroleum and natural gas reserves and forecasted oil and gas commodity prices and the impact on the financial statements of future periods could be material. Freehold's proved and probable petroleum and natural gas reserves have been prepared at December 31, 2021 by the Company's external independent qualified reserves evaluators. Significant management judgment is required to analyze internal and external indicators of impairment for petroleum and natural gas interests and exploration and evaluation assets with the estimate of proved and probable petroleum and natural gas reserves and the related cash flows being significant to the assessment.

Unbooked future development locations

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

Decommissioning liability

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

Share-based compensation

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

Income taxes

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

Cash generating units

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

Business combination

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

United States and Canadian Petroleum and natural gas royalty revenue accruals

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

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

2. Significant Accounting Policies

a. Jointly Controlled Operations and Jointly Controlled Assets

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

b. Exploration and Evaluation Assets

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

c. Petroleum and Natural Gas Interests

Petroleum and natural gas interests

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

Depletion

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

Impairment and impairment reversals

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

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

d. Decommissioning Liability

Freehold has no decommissioning liability on its royalty interest properties. Freehold's decommissioning liability results from its responsibility to abandon and reclaim its net share of its working interest properties. Freehold measures the decommissioning liability as the present value of management's best estimate of the expenditure required to settle the liability at the reporting date using a risk-free discount rate. This estimate is recognized when a legal or constructive obligation arises and is recorded as both a short and long-term liability, with a corresponding increase in the carrying value of the petroleum and natural gas working interest asset. The capitalized amount is depleted on a unit-of-production method over the life of the reserves. At each reporting date, the passage of time and changes to estimates results in liability changes, and the amount of accretion is charged against current period income.

e. Income Tax

Income tax expense comprises current and deferred tax.

Current income tax

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

Deferred income tax

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f. Share Based Compensation Plans

Award plan

Freehold's award plan consists of grants of performance share units (PSUs) and restricted share units (RSUs) (combined the Award Plan). Underlying each PSU and RSU is one notional Freehold common share. The notional units are adjusted whenever a dividend is paid by Freehold.

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

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

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

Deferred share unit plan

A deferred share unit (DSU) plan was established for the non-management directors of Freehold whereby fully-vested DSUs are granted annually. Under this plan, dividends paid to shareholders prior to redemption of the DSU are reinvested on behalf of the directors in additional DSUs. During 2020 the DSU plan was amended to allow Freehold at the time of settlement, at the discretion of the Board of Directors, to pay cash in lieu of issuing common shares on redemption of DSUs. Previously, the DSU plan only allowed for an equity settlement of such units. Freehold's Board of Directors does not currently have a stated intent whether such future settlements of DSUs will be cash or equity-settled but because they have the ability to settle such transactions at their discretion through issuing common shares, this plan will continue to be classified as equity-settled. Compensation expense is recognized at the market value of Freehold's common shares at the time of grant or dividend, with a corresponding increase to contributed surplus. Upon redemption of the DSUs for Freehold's common shares, the amount previously recognized in contributed surplus is recorded as an increase to shareholders' capital.

g. Net Income Per Share

Basic net income per share is calculated using the weighted average number of shares outstanding for each period. Diluted net income per share is calculated using the weighted average number of diluted shares outstanding for each period. Diluted shares outstanding are calculated assuming that any proceeds received from options with a market value in excess of option price would be used to buy back shares at the average market price for the period.

h. Revenue Recognition

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

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

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

i. Financial Instruments

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

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

j. Foreign Currency translations

Foreign transactions

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

Foreign operations

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

k. Related Party Transactions

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

3. Exploration and Evaluation Assets

($000s)	December 31 2021	December 31 2020
Balance, beginning of year	**$ 80,152**	$ 85,850
Transfers to petroleum and natural gas interests (note 4)	**(5,697)**	(5,698)
Balance, end of year	**$ 74,455**	$ 80,152

There was no impairment recorded as a result of the mandatory impairment assessment on the transfer of Exploration and Evaluation assets to Petroleum and Natural Gas Interests during the years ended December 31, 2021 and 2020.

There were no indicators of impairment for the years ended December 31, 2021 and 2020. As a result, no impairment testing was conducted.

4. Petroleum and Natural Gas Interests

($000s)	December 31 2021	December 31 2020
Cost		
Balance, beginning of year	**$ 1,496,062**	$ 1,484,600
Acquisitions and related expenditures	**377,002**	7,058
Capitalized portion of long term incentive plan	**1,163**	197
Transfers from exploration and evaluation assets (note 3)	**5,697**	5,698
Foreign exchange translation	**(467)**	-
Decommissioning liability additions and revisions	**(696)**	1,332
Working interest dispositions	**-**	(2,823)
Balance, end of year	**1,878,761**	1,496,062
Accumulated depletion and depreciation		
Balance, beginning of year	**(857,665)**	(769,780)
Depletion and depreciation	**(88,288)**	(81,108)
Foreign exchange translation	**41**	-
Impairment	**-**	(9,600)
Accumulated depletion and depreciation of working interest dispositions	**-**	2,823
Balance, end of year	**(945,912)**	(857,665)
Net book value, end of year	**$ 932,849**	$ 638,397

a. Acquisitions and related expenditures

For the year ended December 31, 2021, Freehold invested $377.0 million in acquisitions and related expenditures (2020 – $7.1 million).

United States Acquisitions

During January 2021, Freehold acquired U.S. royalty properties for US$58.1 million ($74.1 million) after customary adjustments (the Permian Royalty Transaction). The acquisition included 400,000 gross drilling unit acres of mineral title and overriding royalty interest across 12 basins in eight states; predominantly weighted towards the Permian and Eagle Ford basins.

During July 2021, Freehold acquired U.S royalty properties in Texas within the Eagle Ford, Delaware and Midland basins for US$15.7 million ($19.5 million) after customary adjustments.

In September 2021, Freehold acquired U.S. royalty properties for US$159.7 million ($202.0 million) after customary adjustments (the Eagle Ford Royalty Transaction). The acquisition included 92,000 gross drilling unit acres of overriding royalty interest in Texas within the Eagle Ford basin.

In October 2021, Freehold acquired U.S. royalty properties located in the Midland oil basin in Texas for US$53.3 million ($67.5 million) after customary adjustments (the Midland Assets).

For the year ended December 31, 2021, Freehold also completed another three acquisitions for certain U.S. royalty assets for US$3.7 million ($4.9 million).

During the year ended December 31, 2020, Freehold completed two acquisition transactions for certain U.S. royalty assets for US$2.4 million ($3.3 million).

These U.S. royalty transactions were included in the U.S. royalty CGU and treated as asset acquisitions resulting in the purchase prices being reported as petroleum and natural gas interests and measured at an amount equal to the consideration paid.

Canadian Acquisitions

During July 2021, Freehold closed a Canadian royalty transaction with a commitment to pay up to $7.9 million in accordance with a drilling agreement in exchange for gross overriding royalties in the range of 3 to 5% in the Clearwater play in central Alberta. Freehold has paid $5.8 million towards the committed amount as at December 31, 2021.

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

Other

For the year ended December 31, 2021, Freehold recognized capitalized general & administrative costs of $2.0 million and other royalty income asset expenditures of $0.6 million (2020 – $2.1 million and $1.7 million, respectively).

b. Dispositions

During the year ended December 31, 2020, Freehold disposed of certain working interest properties whereby the purchasers agreed to assume decommissioning liabilities of $3.8 million associated with these properties in exchange for Freehold paying $2.4 million, resulting in a gain on disposition of $1.4 million. There was no net carrying value of petroleum and natural gas working interest associated with these dispositions.

c. Depletion, depreciation and other

For the year ended December 31, 2021, depletion and depreciation of $88.3 million (2020 - $81.1 million) was reported net of the government assistance for reclamations of $0.3 million (2020- $1.7 million including the aforementioned gain on dispositions of $1.4 million)

There are no future development costs associated with the Company's proved and probable petroleum and natural gas reserves as at December 31, 2021 and 2020 which could have been included in its depletion calculation.

d. Impairment and impairment reversal

At December 31, 2021, there were no indicators of impairment on Freehold's U.S. and Canadian Royalty CGUs. As a result, no impairment testing was conducted.

There was an impairment charged against the Working Interest CGU for the year ended December 31, 2020 of $9.6 million as its carrying value exceeded its estimated value in use. The majority of Freehold's Working Interest CGU was sold in 2020 reducing its carrying value to zero.

5. Lease Obligation

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

Current portion of liability	**$ 195**	$ 195
Long-term portion of liability	**1,619**	1,718
Total	**$ 1,814**	$ 1,913

6. Decommissioning Liability

($000s)	**December 31 2021**	December 31 2020
Balance, beginning of year	**$ 6,926**	$ 10,022
Decommissioning expenditures	**(511)**	(490)
Government assistance	**(263)**	(268)
Change in estimates	**(696)**	1,332
Accretion expense	**109**	110
Liabilities disposed (note 4)	**-**	(3,780)
Balance, end of year	**$ 5,565**	$ 6,926
Current portion of liability	**$ 750**	$ -
Long-term portion of liability	**$ 4,815**	$ 6,926

Freehold has no decommissioning liability on its royalty interest properties, rather Freehold's decommissioning liability results from its responsibility to abandon and reclaim its net share of its working interest properties. The undiscounted value of Freehold's total decommissioning liability is estimated to be $5.5 million (2020 – $6.9 million). Payments to settle the obligations are expected to occur over the next 40 years, with the majority being settled within 10 years. At December 31, 2021, a risk-free rate of 1.7% (2020 – 1.2%) and an inflation rate of 1.8% (2020 – 1.5%) were used to calculate the present value.

During the years ended December 31, 2021 and 2020, Freehold benefited from a federal government funded site rehabilitation program administered by the Alberta government. This program allows oil and gas producers to nominate inactive well sites or suspended pipelines across any stage of the abandonment and reclamation process for partial or full government funding. After approval but upon completion of either the abandonment or reclamation work, the provincial government directly pays the service provider at which time Freehold credited depletion, depreciation and other, for the years ended December 31, 2021 and 2020, each by $0.3 million as offset through a reduction in the decommissioning liability.

7. Share Based Compensation

For the years ended December 31, 2021 and 2020, expensed share based compensation associated with Freehold's Award Plan and deferred share unit plan was $7.1 million and $1.1 million, respectively. Associated with the award plan, during the years ended December 31, 2021 and 2020, Freehold paid to its employees $1.4 million and $0.4 million, respectively.

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 share-based awards 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 based upon 50% of an absolute total shareholder return and 50% on a relative total shareholder return over a three-year period.

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

($000s)	**December 31 2021**	December 31 2020
Balance, beginning of year	**$ 1,633**	$ 1,342
Increase in liability	**7,480**	680
Cash payout	**(1,371)**	(389)
Balance, end of year	**$ 7,742**	$ 1,633
Current portion of liability	**$ 3,287**	$ 658
Long-term portion of liability	**$ 4,455**	$ 975

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

	December 31 2021	December 31 2020
Balance, beginning of year	**686,792**	333,106
Units issued	**429,454**	671,689
Estimated and actual forfeitures	**(37,244)**	(220,273)
Paid out	**(152,080)**	(97,730)
Balance, end of year	**926,922**	686,792

b. Deferred Share Unit Plan

Pursuant to our deferred share unit plan, fully-vested deferred share units (DSUs) are granted annually in the first quarter to non-management members of Freehold's Board of Directors (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. The Board has the ability to settle such transactions at its discretion through issuing common shares, which results in the plan being classified as equity-settled. The following table reconciles the outstanding number of DSUs:

	December 31 2021	December 31 2020
Balance, beginning of year	**325,633**	236,311
Annual grants and grants in lieu of fees	**101,597**	66,529
Additional resulting from paid dividends	**20,454**	22,793
Balance, end of year	**447,684**	325,633

Subsequent to December 31, 2021, Freehold's 2022 annual DSU grant to its Board of Directors was issued resulting in 509,985 outstanding DSUs at March 2, 2022.

8. Long-term Debt

In September 2021, Freehold amended its credit facility agreement with a syndicate of four Canadian banks increasing the committed revolving facility by $120 million to $285 million while the operating facility remained unchanged at $15 million (December 31, 2020 - $165 million and $15 million, respectively). The amended credit facility agreement includes a permitted increase in the revolving facility to $360 million, subject to lenders' consent. Both the committed revolving and operating facilities mature September 28, 2024. At December 31, 2021, $146 million was drawn on the committed revolving facility (December 31, 2020 - $93 million). The credit facilities are secured with a $400 million first charge demand debenture over all of Freehold's Canadian royalty income assets and fixed charge mortgage securities on U.S. royalty income assets with associated proved developed producing reserves.

The 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 0.6 times at December 31, 2021) 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 14% at December 31, 2021). 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. As a result of economic uncertainties that exist around the impact of COVID-19, actual operating results may vary from Freehold's current best estimate.

Borrowings under the credit facilities bear interest at the bank's prime lending rate or bankers' acceptance rates plus applicable margins and standby fees, dependent on ratios of Freehold's long-term debt to EBITDA on royalty interest properties. For the year ended December 31, 2021, the average effective interest rate on advances from Freehold's credit facilities was 2.2% (2020 – 2.5%).

At December 31, 2021 and 2020, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market rates.

9. Shareholders' Capital

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

a. Shares Issued and Outstanding

	December 31, 2021			December 31, 2020		
	Shares		Amount	Shares		Amount
Balance, beginning of year	**118,787,667**	**$**	**1,272,397**	118,622,667	$	1,271,763
Share issuances related to subscription receipts	**31,714,667**		**233,265**	-		-
Share issue costs, net of tax effect	**-**		**(7,192)**	-		-
Issued for payment of management fee (note 12)	**110,000**		**1,074**	165,000		634
Balance, end of year	**150,612,334**	**$**	**1,499,544**	118,787,667	$	1,272,397

b. Share Issuances Related to Subscription Receipts

On December 5, 2020, Freehold issued 12,647,667 subscription receipts at a price of $4.80 per receipt through a public offering pursuant to Freehold's short form prospectus and a concurrent private placement. The total gross proceeds from these subscription receipts was $60.7 million. Each subscription receipt entitled the holder to receive, upon occurrence of all outstanding conditions precedent to the closing of Freehold's Permian Royalty Transaction (see note 4a), one common share of Freehold. The Permian Royalty Transaction closed during January 2021 resulting in the 12,647,667 subscription receipts being exchanged for an equivalent number of Freehold's common shares concurrent with the release from escrow of gross proceeds of $60.7 million (December 31, 2020 - $63.3 million including $2.6 million of prepaids).

On September 22, 2021, Freehold issued 19,067,000 subscription receipts at a price of $9.05 per receipt through a public offering pursuant to Freehold's short form prospectus. The total gross proceeds from these subscription receipts was $172.6 million including proceeds from a related party (see note 12). Each subscription receipt entitled the holder to receive, upon occurrence of all outstanding conditions precedent to the closing of Freehold's Eagle Ford Royalty Transaction (see note 4a), one common share of Freehold. On closing the September Eagle Ford Royalty Transaction, this resulted in the 19,067,000 subscription receipts being exchanged for an equivalent number of Freehold's common shares concurrent with the release from escrow of gross proceeds of $172.6 million.

The combined offerings and private placement resulted in the issuance of 31,714,667 Freehold common shares for gross proceeds of $233.3 million before total costs of $9.5 million ($7.2 million net of deferred income tax).

c. Dividends & Dividend Equivalent Payments

During the years ended December 31, 2021 and 2020, Freehold respectively declared dividends of $68.6 million and $35.3 million or $0.49 and $0.30 per common share, respectively. During these same years, Freehold respectively paid dividends of $62.0 million and $39.2 million or $0.45 and $0.33 per common share, respectively. Freehold also paid $0.3 million of dividend equivalent payments for the year ended December 31, 2021.

On December 14, 2021, the Board declared a dividend of $0.06 per common share or $9.0 million which was paid on January 17, 2022 to common shareholders on record on December 31, 2021 (December 31, 2020 - $2.4 million). On January 12, 2022, the Board declared a dividend of $0.06 per common share which was paid on February 15, 2022, to common shareholders on record on January 31, 2022. On February 15, 2022, the Board declared a dividend of $0.06 per common share to be paid on March 15, 2022, to common shareholders on record on February 28, 2022. On March 2, 2022, the Board declared a dividend of $0.08 per common share to be paid on April 18, 2022, to common shareholders on record on March 31, 2022.

10. Revenue

Royalty and other revenue is measured at fair value of the consideration received or receivable, per the terms of various agreements. The transaction price used for crude oil, natural gas, natural gas liquids and other products is based on the commodity price in the month of production specific to the property or interest. The realized commodity price received or receivable is based on publicly available benchmarks adjusted for quality, location, allowable deductions or other factors pursuant to the terms of the Company's U.S. and Canadian leases and royalty agreements.

Freehold takes its product in kind (TIK) on certain royalty properties when deemed beneficial to do so. In this case, Freehold would receive its cash payment on or about the 25th day of the month following production. Typically, if a property is non-TIK then Freehold would receive the cash payment generally within one to two or two to three months following production for U.S. or Canadian operations, respectively. Bonus consideration received or receivable can significantly vary period over period as it is dependent on the specific details of each lease and the number of leases issued.

a. Revenue and Other Revenue by Commodity Type

($000s)	**December 31 2021**	December 31 2020
Oil	**$ 150,898**	$ 64,386
Natural gas	**36,293**	16,264
NGL	**19,129**	7,017
Potash	**1,490**	1,042
Bonus consideration and lease rentals	**1,182**	1,565
	208,992	90,274
Production taxes	**(2,801)**	(316)
Total royalty and other revenue	**$ 206,191**	$ 89,958

b. Revenue and other revenue by category

($000s)	**December 31 2021**	December 31 2020
Royalty interest revenue from oil, NGL and natural gas	**$ 207,810**	$ 88,709
Bonus consideration and lease rentals	**1,182**	1,565
	208,992	90,274
Production taxes	**(2,801)**	(316)
Total royalty and other revenue	**$ 206,191**	$ 89,958

As at December 31, 2021, there was outstanding accounts receivable and accrued revenue of $44.6 million (December 31, 2020 - $15.6 million) associated with U.S. and Canadian royalty and other revenues. For the years ended December 31, 2021 and 2020 there were no significant royalty and other revenue adjustments relating to prior periods.

11. Interest and Financing

($000s)	December 31 2021	December 31 2020
Interest on long term debt and financing expense	**$ 3,285**	$ 3,155
Accretion of decommissioning obligation	**109**	110
Accretion of lease obligation and other	**96**	108
Total finance expense	**$ 3,490**	$ 3,373

12. Related Party Transactions

Freehold does not have any employees. Rather, Freehold is managed by Rife Resources Management Ltd. (the Manager) pursuant to a management agreement (the Management Agreement). The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). Rife is 100% owned by the pension funds for the employees of the Canadian National Railway Company (the CN Pension Trust Funds), and both Rife and the CN Pension Trust Funds are shareholders of Freehold. Combined they have a 19.9% ownership in Freehold at December 31, 2021, a decrease from the 22% ownership at December 31, 2020, caused by the CN Pension Trust Funds not acquiring the combined full pro rata percentage of subscription receipts sold pursuant to Freehold’s September 2021 short form prospectus offering (see Note 9). Subsequent to December 31, 2021, Rife sold 2,791,667 shares of its investment in Freehold reducing the combined Rife and CN Pension Trust Funds ownership to 18.1% at March 2, 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.

On May 18, 2021, Freehold entered into an acquisitions opportunities agreement with Rife, Canpar and the Manager (the “Related Parties”) that reaffirmed Freehold’s priority right to acquire petroleum royalty interest opportunities. In addition, this acquisitions opportunities agreement provides Freehold the right to participate in potential other mineral royalty interest opportunities including those identified on the lands of the Related Parties.

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

a. Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares on a quarterly basis, pursuant to the Management Agreement that capped the respective management fee at 27,500 and 41,250 Freehold common shares per quarter for 2021 and 2020. For the years ended December 31, 2021 and 2020, respective ascribed values of $1.1 million and $0.6 million were based on the closing price of Freehold's common shares on the last trading day of each quarter. Effective January 1, 2022, the Management Agreement will limit the management fee at 13,750 shares per quarter for 2022.

For the years ended December 31, 2021 and 2020, the Manager charged $9.7 million and $11.0 million in general and administrative costs, respectively. At December 31, 2021, there was $0.5 million (December 31, 2020 – $0.7 million) in accounts payable and accrued liabilities relating to these costs.

b. Rife Resources Ltd. and CN Pension Trust Funds

During the year ended December 31, 2020, Rife acquired 2,791,667 subscription receipts at $4.80 per receipt for proceeds of $13.4 million through a private placement that closed concurrently with Freehold's public offering of subscription receipts pursuant to its December 2020 short form prospectus (see note 9). Pursuant to Freehold's September 2021 short form prospectus (see note 9), the CN Pension Trust Funds acquired 939,200 subscription receipts at $9.05 per share for proceeds of $8.5 million. The price per subscription receipt paid by Rife and the CN Pension Trust Funds was equivalent to the public offering prices. The total proceeds from these offerings was $21.9 million. No commission was paid in respect of the subscription receipts purchased by Rife and the CN Pension Trust Funds pursuant to either the private placement or the September 2021 offering. During 2021 and per the same terms as the December 2020 and September 2021 public offerings, upon Freehold's acquisitions of U.S. based royalty properties, the subscription receipts were exchanged for a total of 3,730,867 in Freehold's common shares. Subsequent to December 31, 2021, Rife sold 2,791,667 million shares of its investment in Freehold reducing the combined Rife and CN Pension Trust Funds ownership to 18.1% at March 2, 2022.

For the years ended December 31, 2021 and 2020, Freehold respectively paid $13.2 million and $8.6 million, respectively, in total cash dividends to Rife and the CN Pension Trust Funds for their combined ownership in Freehold's common shares.

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the years ended December 31, 2021 and 2020, Freehold respectively received royalties in each year of approximately $0.3 million from Rife.

At December 31, 2021. there was $1.8 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared, net of royalties receivable ($0.4 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 December 31, 2021 and 2020 there was $nil in accounts receivable and accounts payable and accrued liabilities relating to transactions with Canpar.

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

d. Key Management

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

($000s)		December 31 2021		December 31 2020
Short-term benefits (including employee wages and directors fees)	$	1,442	$	1,971
Share based compensation		2,515		761
Key management compensation	$	3,957	$	2,732

In December 2020, the Board of Directors approved an amendment to the DSU plan to permit each non-management Board member to elect on an annual basis to receive the equivalent fair value of DSUs in lieu of all or a portion of his or her annual remuneration.

13. Income Taxes

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

($000s, except as noted)		December 31 2021		December 31 2020
Income (loss) before taxes	$	94,813	$	(17,075)
Expected income tax rate		23.9%		24.8%
Computed expected income tax expense (recovery)	$	22,698	$	(4,235)
Change in income tax resulting from:				
Effect of rate change		-		620
Permanent differences and miscellaneous		31		471
Total income taxes (recovery)	$	22,729	$	(3,144)

The components of the deferred income tax asset (liability) are as follows:

($000s)		December 31 2021		December 31 2020
Non-capital losses	$	12,887	$	32,796
Decommissioning liability		1,332		1,694
Lease obligation		434		461
Share issue expense		1,815		-
Deferred income tax liabilities:				
Petroleum and natural gas interests		(23,087)		(19,820)
Other		2,399		1,143
Deferred income tax asset (liability)	$	(4,220)	$	16,274

As at December 31, 2021, Freehold had approximately $50 million (2020 - $134 million) of Canadian carry-forward non-capital losses (NCLs) and approximately $923 million (2020 - $641 million) of U.S. and Canadian other tax pools that should be available to offset against future taxable profits. The carry-forward Canadian NCLs will expire between the years 2031 and 2040.

The continuity of deferred income tax asset (liability) for the years ended December 31, 2021 and 2020 are as follows:

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

($000s)	Balance December 31 2019	Recognized in Profit or Loss	Recognized in Equity	Foreign Currency Translation Adjustment	**Balance December 31 2020**
Non-capital losses	$ 31,361	1,435	-	-	**$ 32,796**
Decommissioning liability	2,455	(761)	-	-	**1,694**
Lease obligation	471	(10)	-	-	**461**
Share issue expense	410	(410)	-	-	**-**
Petroleum and natural gas interests	(22,560)	2,740	-	-	**(19,820)**
Other	993	150	-	-	**1,143**
Deferred income tax asset	$ 13,130	3,144	-	-	**$ 16,274**

Freehold's deferred tax liability relates to its assets having a higher carrying value relative to the associated tax value. Freehold's deferred tax assets primarily relates to the non-capital losses. When combined there is an overall net deferred tax liability.

Freehold's corporate income tax filings for 2015, 2018, and 2019 were reassessed by the Canada Revenue Agency (CRA) in 2020 (the Reassessments). Pursuant to the Reassessments, deductions of $92.6 million of non-capital losses (NCLs) by Freehold were denied, resulting in reassessed taxes, interest, and penalties totaling $29.3 million, in addition to a denial of $129.9 million of carried forward NCLs. Freehold previously filed its objection of the Reassessments which required deposits totaling $14.7 million that have been provided to the CRA.

Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, management remains of the opinion that all tax filings to date were filed correctly and that it expects to be successful in its objection of these Reassessments and therefore the payment of these deposits held by the CRA should be refunded, plus interest, and the denied NCLs should be reinstated. Although the assignment of the CRA appeals' officer to these Reassessments has only just recently occurred, Freehold has yet to receive additional information from this appeals' officer.

Disallowed NCL's are anticipated to be deducted against taxable income upon filing Freehold's Canadian 2021 income tax return. Prior to then, should the CRA's appeal's officer not overturn the Reassessments, these 2021 NCL deductions are anticipated to be disallowed by the CRA resulting in a reassessment against the Company's 2021 income tax. On receipt of this anticipated 2021 reassessment, this requires the Company to post an additional deposit of $10 million within 90 days bringing the total posted deposits to $25 million.

14. 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 to shareholders any cash partially based on what is required for financing operations or capital investment growth opportunities that may offer shareholders better value.

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

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

Freehold is bound by non-financial covenants and two financial covenants (see note 8) on its credit facilities. The covenants are monitored as part of management's internal review to ensure compliance with requirements. As at December 31, 2021, Freehold was in compliance with all such covenants.

Freehold's 2021 net debt to funds from operations ratio was 0.5 times (2020 – 0.9 times) and within its debt strategy target of below 1.5 times. This ratio is a financial leverage measure that reflects cash available to pay back Freehold's debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others.

a. Working Capital

	December 31 2021	December 31 2020
Cash	**$ 2,189**	$ 1,026
Accounts receivable	**46,303**	16,017
Income tax deposits	**14,711**	14,711
Restricted cash and prepaids	**-**	63,332
Dividends payable	**(9,037)**	(2,376)
Accounts payable and accrued liabilities	**(5,163)**	(3,913)
Current portion of lease obligation	**(195)**	(195)
Current portion of share based compensation payable	**(3,287)**	(658)
Current portion of decommissioning liability	**(750)**	-
Subscription receipts	**-**	(60,709)
Working capital(1)	**$ 44,771**	$ 27,235

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

b. Capitalization and net debt

($000s, except as noted)	December 31 2021	December 31 2020
Shareholders' equity	**$ 890,966**	$ 659,439
Long term debt	146,000	93,000
Working capital	(44,771)	(27,235)
Net debt (1)	**$ 101,229**	$ 65,765
Capitalization(1)	**$ 992,195**	$ 725,204

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

c. Net Debt to Funds from Operations

($000s, except as noted)	December 31 2021	December 31 2020
Cash provided by operating activities for last 12 months	**$ 162,021**	$ 65,767
Change in operating non-cash working capital	**27,628**	7,124
Funds from operations	**$ 189,649**	$ 72,891
Net debt to funds from operations (times)(1)	**0.5**	0.9

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

15. Financial Instrument Risk Management

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

a. Credit Risk

Credit risk is the risk of financial loss to Freehold if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Freehold's receivables. A large part of accounts receivable is with Canadian and U.S. oil and gas industry operators, largely as payors of various royalty agreements. Credit risk decreased throughout the crude oil and natural gas industry during the last 12 months because liquidity challenges previously faced by Canadian and U.S. oil and gas industry operators due to demand volatility caused by COVID-19 has eased. Collection of accounts receivable is a priority for Freehold, however its credit risk is relatively low because of the quality of Freehold's more substantial royalty payors in addition to diversification through a broad number of remaining royalty payors that individually represent an insignificant amount of Freehold's outstanding accounts receivable. To partially mitigate credit risk, Freehold has take-in-kind privileges where it exited 2021 taking approximately 3% of its production in-kind. Freehold also has a dedicated Compliance group that pursues collections.

The carrying amounts of cash, accounts receivable and income tax deposits represent Freehold's maximum credit exposure. Cash is held at a reputable financial institution. Freehold did not have an allowance for doubtful accounts as at December 31, 2021 and 2020 and did not identify any significant receivables to write off during the years ended December 31, 2021 and 2020. Freehold considers all material amounts greater than three months to be past due. The income tax deposits are held by the Canadian Government (note 13).

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

($000s)	Less than 3 months	4-12 months	over 1 year	Total
Accounts receivable	$ 44,814	$ 1,413	$ 76	$ 46,303

b. Liquidity Risk

Liquidity risk is the risk that Freehold will not be able to meet financial obligations as they come due. Management maintains a conservative approach to debt management that aims to provide maximum financial flexibility with respect to acquisitions and development expenditures, while maintaining stable dividend payments. At December 31, 2021, there was $154 million of available capacity under the credit facilities. As circumstances warrant, management allocates a portion of funds from operations to debt repayment. Management prepares annual capital expenditure and operating budgets, which are regularly monitored and updated. In addition, dividend levels are monitored and adjusted as necessary, to levels that are supported by Freehold's funds from operations.

Freehold's financial liabilities include its dividends payable, accounts payable and accrued liabilities, lease obligation and long-term debt. Freehold has no derivative financial liabilities. The following table outlines required cash flows associated with the contractual maturities of Freehold's financial liabilities as at December 31, 2021:

($000s)	Less than 1 Year	1-3 Years	3 Years and beyond	Total
Dividends payable	$ 9,037	$ -	$ -	$ 9,037
Accounts payable and accrued liabilities	5,163	-	-	5,163
Lease obligation	195	390	1,229	1,814
Long-term debt	-	146,000	-	146,000
Total	$ 14,395	$ 146,390	$ 1,229	$ 162,014

c. Market risk

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

Foreign currency exchange rate risk

Freehold has royalty assets in the U.S. held by its wholly-owned U.S. subsidiary resulting in foreign currency exchange rate risk associated with these operations. With the recent acquisitions of U.S. based royalty properties (see note 4a) throughout the year ended December 31, 2021, this risk has increased. Further, Freehold is exposed to foreign exchange fluctuations as a result of crude oil sales based on U.S. dollar benchmark prices. Freehold's net income (loss), comprehensive loss and cash flows will be affected by fluctuations in foreign exchange. At December 31, 2021, Freehold had no foreign exchange related derivative contracts in place.

Commodity price risk

Commodity price risk is the risk that the fair value of Freehold's financial instruments will fluctuate with changes in commodity prices. Commodity prices for oil and natural gas are influenced by the relationship between the Canadian and U.S. dollar as well as macroeconomic events that dictate the levels of supply and demand. During the years ended December 31, 2021 and 2020, Freehold had no commodity price related derivative contracts in place.

Interest rate risk

Freehold is exposed to interest rate risk on outstanding bank debt, which has a floating interest rate, and fluctuations in interest rates would impact future cash flows. Assuming all other variables held constant at December 31, 2021, a 1% change (plus or minus) in the interest rate could result in a corresponding change to income (loss) before taxes of $1.5 million.

16. Segmented Information

Resulting from recent U.S. acquisitions (see note 4a) for the year ended December 31, 2021, Freehold evaluated its reportable segments and determined them based on the underlying operations geographic locations:

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

Freeholds' royalty and other revenue is reportable by segment whereas all other accounts presented on the consolidated statements of income (loss) are either not significant on a segment basis or associated with both segments with any allocation of such accounts not providing meaningful information. The following table presents royalty and other revenue by geographic region:

($000s)	**December 31 2021**	December 31 2020
Canada	**$ 161,878**	$ 87,819
United States	**44,313**	2,139
Royalty and other revenue	**$ 206,191**	$ 89,958

The following table presents total assets by geographic region:

($000s)	**December 31 2021**	December 31 2020
Canada	**$ 683,190**	$ 809,333
United States	**387,317**	20,576
Total Assets	**$ 1,070,507**	$ 829,909

17. Supplemental Disclosure

a. Statements of Income (Loss) and Comprehensive Loss Presentation

Freehold's consolidated statements of income (loss) and comprehensive loss are prepared by nature of expense. If prepared by function, there would be no difference in the presentation.

b. Supplemental Cash Flow Disclosure

Changes in Non-Cash Working Capital

($000s)	December 31 2021	December 31 2020
Accounts receivable	$ (29,956)	$ 8,881
Income tax deposit	-	(14,711)
Accounts payable and accrued liabilities	1,250	18
Prepaid	2,623	-
	$ (26,083)	$ (5,812)
Operating	$ (27,628)	$ (7,124)
Financing	1,156	(1,156)
Investing	389	(155)
	$ (26,083)	$ (8,435)

Cash Expenses

($000s)	December 31 2021	December 31 2020
Interest on long term debt and financing fees	$ 3,201	$ 2,800

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Manager, Resource and Royalties
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