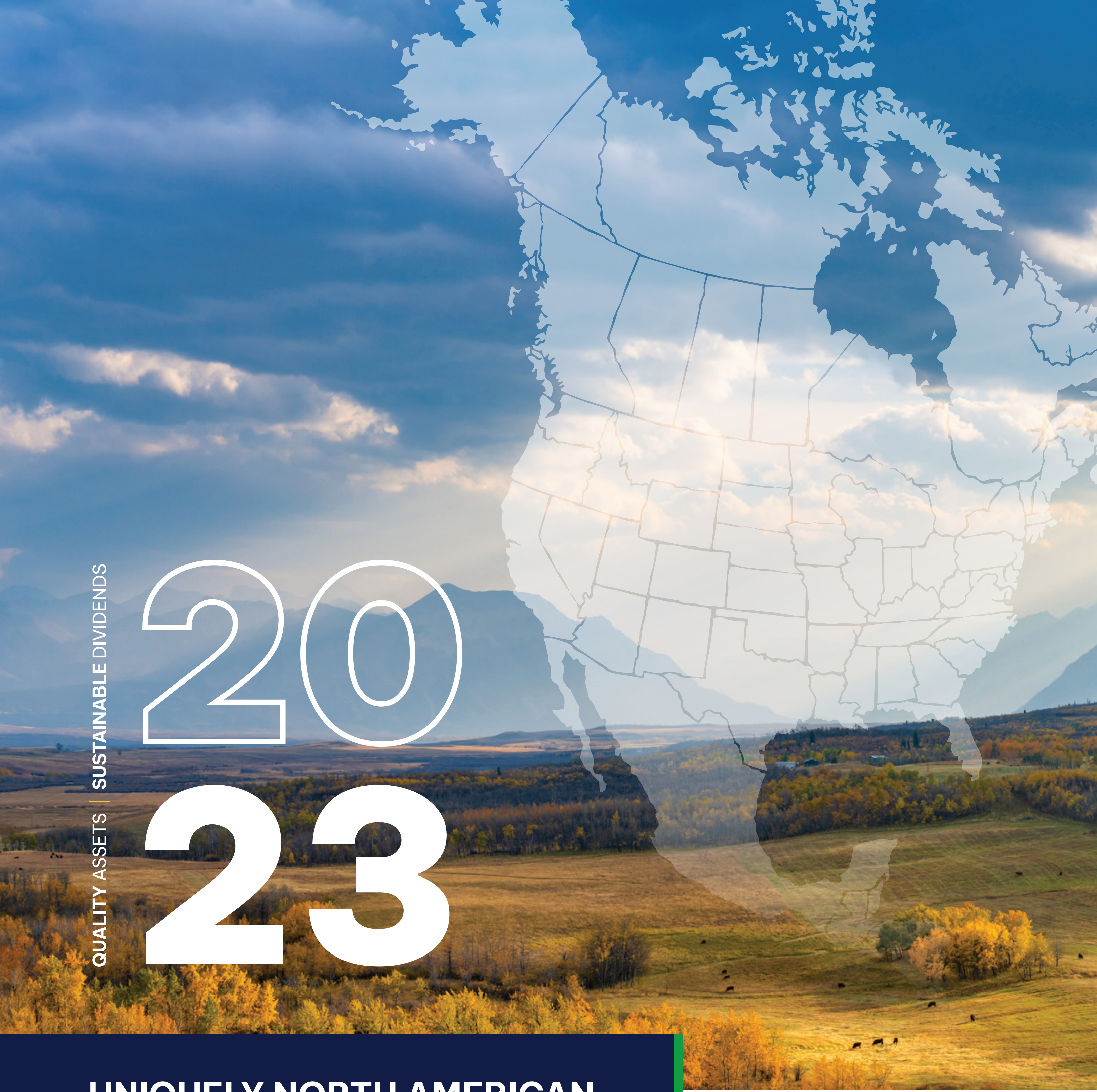

QUALITY ASSETS | SUSTAINABLE DIVIDENDS

2023

UNIQUELY NORTH AMERICAN

ANNUAL REPORT | TSX **FRU**

DATED | **FEBRUARY 28** | 2024

FREEHOLD ROYALTIES

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) was prepared as of February 28, 2024 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, 2023 and its comparative periods, and the outlook for Freehold based on information available as of the date hereof.

The financial information contained herein is 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 (Q4-2023) and twelve months (current year or 2023) ended December 31, 2023 (combined the current reporting periods in that respective order) and the same period(s) in 2022 (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, 2023 audited consolidated financial statements (the "audited financial statements"). These documents, as well as, additional information about Freehold, including its Annual Information Form for the year ended December 31, 2023 (AIF), are available on SEDAR+ at www.sedarplus.ca and on Freehold's website at www.freeholdroyalties.com.

This MD&A contains the non-GAAP financial measures: **net revenue**, **cash costs** and **netback** and the supplementary financial measures: **dividend payout ratio** and **funds from operations per share**. These are useful supplements to analyze operating performance, financial leverage, and liquidity, among others. However, these terms do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities. This MD&A also contains the capital management measures of working capital, net debt, capitalization and net debt to trailing funds from operations for the last 12 months as defined in Note 14 of the audited 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 and Other Financial Measures" and "Forward-Looking Statements" included at the end of this MD&A.

Business Overview

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

The Royalty Advantage

Freehold manages one of the largest non-government portfolios of oil and natural gas royalties in Canada with a sizeable land base in the U.S., uniquely positioning Freehold as a leading North American energy royalty company. Our total land holdings encompass approximately 6.2 million gross acres in Canada and approximately 1.1 million gross drilling acres in the U.S., collectively greater than 99% of which are royalty lands. Our Canadian mineral title lands, which we own in perpetuity, cover approximately 1.1 million acres and we also have gross overriding royalty (GORR) and other interests in approximately 5.1 million acres. Our U.S. acreage is comprised of greater than 75% mineral title lands.

We have royalty interests in more than 20,000 producing wells and almost 400 units spanning five provinces and eight states and receive royalty income from over 360 industry operators throughout North America. Our revenues also include potash royalties, lease bonus consideration and lease rental streams that diversify our revenue portfolio. Our North American land base lowers Freehold's risk and, as a royalty owner, Freehold benefits from the drilling activity of others without any capital investments.

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

Freehold's Strategy

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

- Creating Value
    - Drive development on our lands through our lease out program and royalty optimization
    - Acquire royalty assets with acceptable risk profiles and long economic life
    - Generate GORRs 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 trailing funds from operations
- Delivering Value
    - Target a dividend payout ratio of approximately 60%

Dividend Announcement

Freehold's Board of Directors (the Board) approved a dividend of $0.09 per common share to be paid on April 15, 2024, to shareholders of record on March 28, 2024. Freehold's dividend of $0.09 per common share is in-line with our payout strategy and highlights the sustainability of our dividend through commodity cycles. The dividend is designated as an eligible dividend for Canadian income tax purposes.

Outlook

Freehold is forecasting modestly lower drilling activity in Canada and similar drilling activity in its U.S. portfolio in 2024, when compared to 2023.

In the U.S., we anticipate drilling on our lands to be focused in the Permian and Eagle Ford, where play economics remain top decile.

In Canada, we anticipate drilling on our lands focused in the Viking, southeast Saskatchewan, Clearwater, Mannville heavy oil and Cardium plays. Following record leasing in 2023, we have seen an increase in the number of private and smaller operators targeting oil focused prospects on Freehold's royalty lands in southeast Saskatchewan and lands prospective for Mannville heavy oil.

Subsequent Event – U.S. Acquisitions

In January 2024, Freehold invested $115.5 million (US$86.0 million), before customary closing adjustments, in U.S. acquisitions through two transactions. These acquisitions included mineral title and royalty assets on approximately 123,000 gross acres, in the Midland and Delaware basins of the Permian located in Texas and New Mexico and are expected to add approximately 600 boe/d of production in 2024 with an estimated 85% liquids weighting. The transactions were funded by acquisition deposits and borrowing from Freehold's credit facility.

2024 Guidance

After incorporating the two U.S. royalty acquisitions early in the year (See Subsequent Event-U.S. Acquisitions, above), Freehold is forecasting production to average between 14,700-15,700 boe/d in 2024. In addition, Freehold expects 2024 West Texas Intermediate (WTI) prices to average US$75/bbl with AECO 5A and NYMEX prices averaging $2.00/Mcf and US$2.50/Mcf respectively.

The following table summarizes our key operating assumptions for 2024 with production expected to be weighted 64% oil and NGLs and 36% natural gas:

2024 Guidance	**February 28 2024**
Production (boe/d) [1]	**14,700 - 15,700**
West Texas Intermediate crude oil (US$/bbl)	**$75.00**
AECO natural gas (Cdn$/Mcf)	**$2.00**
Nymex (US$/Mcf)	**$2.50**
Exchange rate (Cdn$/US$)	**1.35**

1. 2024 production is expected to consist of 9% heavy oil, 43% light and medium oil, 12% NGLs and 36% natural gas

Operating and Financial Results

Financial ($000s, except as noted)	Three months ended December 31 2023	2022	Change	Year ended December 31 2023	2022	Change
Royalty and other revenue	**$ 80,062**	$ 98,502	-19%	**$ 314,575**	$ 393,020	-20%
Net income	**$ 34,323**	$ 40,744	-16%	**$ 131,904**	$ 209,189	-37%
Per share, basic & diluted ($) [1]	**$ 0.23**	$ 0.27	-15%	**$ 0.88**	$ 1.39	-37%
Cash flows from operations	**$ 70,704**	$ 82,675	-14%	**$ 216,916**	$ 327,348	-34%
Funds from operations	**$ 62,805**	$ 79,973	-21%	**$ 239,665**	$ 316,494	-24%
Per share, basic & diluted ($) [1][3]	**$ 0.42**	$ 0.53	-21%	**$ 1.59**	$ 2.10	-24%
Acquisitions and related expenditures	**$ 2,065**	$ 7,160	-71%	**$ 10,647**	$ 190,794	-94%
Dividends paid	**$ 40,686**	$ 40,677	0%	**$ 162,731**	$ 141,597	15%
Per share ($) [2]	**$ 0.27**	$ 0.27	0%	**$ 1.08**	$ 0.94	15%
Dividends declared	**$ 40,686**	$ 40,678	0%	**$ 162,732**	$ 146,121	11%
Per share ($) [2]	**$ 0.27**	$ 0.27	0%	**$ 1.08**	$ 0.97	11%
Dividend payout ratio (%) [3]	**65%**	51%	27%	**68%**	45%	51%
Long-term debt	**$ 122,973**	$ 156,560	-21%	**$ 122,973**	$ 156,560	-21%
Net debt [4]	**$ 93,652**	$ 127,904	-27%	**$ 93,652**	$ 127,904	-27%
Shares outstanding, period end (000s)	**150,689**	150,667	0%	**150,689**	150,667	0%
Average shares outstanding (000s) [1]	**150,684**	150,654	0%	**150,676**	150,633	0%
Operating						
Light and medium oil (bbl/d)	**6,308**	6,418	-2%	**6,203**	5,758	8%
Heavy oil (bbl/d)	**1,182**	1,218	-3%	**1,187**	1,202	-1%
NGL (bbl/d)	**1,878**	1,781	5%	**1,796**	1,715	5%
Total liquids (bbl/d)	**9,368**	9,417	-1%	**9,186**	8,674	6%
Natural gas (Mcf/d)	**32,968**	33,744	-2%	**33,167**	32,563	2%
Total production (boe/d) [5]	**14,863**	15,041	-1%	**14,714**	14,101	4%
Oil and NGL (%)	**63%**	63%	0%	**62%**	62%	0%
Petroleum and natural gas realized price ($/boe) (	**$ 57.94**	$ 69.76	-17%	**$ 57.65**	$ 75.14	-23%
Cash costs ($/boe) [3][5]	**$ 4.73**	$ 5.17	-9%	**$ 5.71**	$ 5.19	10%
Netback ($/boe) [3][5]	**$ 52.59**	$ 63.92	-18%	**$ 51.28**	$ 69.48	-26%

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

Q4-2023 Operating and Financial Highlights

- Q4-2023 production averaged 14,863 boe/d, a 1% decrease versus the same quarter in 2022, largely reflecting natural declines offset by strong third-party drilling and completion activities.
  - U.S. and Canadian production averaged 5,204 boe/d and 9,659 boe/d respectively.
- Lower benchmark prices during Q4-2023 resulted in an average realized commodity price of $57.94/boe, down 17% from the same period in 2022.
- Royalty and other revenue totaled $80.1 million, down 19% from the same period in 2022, related to lower commodity pricing. Total royalty revenue was weighted 91% to oil and NGL revenue.
- Funds from operations totaled $62.8 million or $0.42 per share[1], down 21% from the $80.0 million or $0.53 per share[1] in the same quarter in 2022.
- Dividends paid for Q4-2023 totaled $40.7 million ($0.27 per share), consistent with the same period in 2022.

- Dividend payout ratio[1] of 65% is up 27% from the same period in 2022.
- Cash costs[1] for the quarter totaled $4.73/boe, down 9% versus the same period in 2022 reflecting lower interest costs, despite an increase in the effective interest rate of 1.4%, due to debt repayment throughout 2023.
- Long term debt at December 31, 2023 was $123.0 million, a decrease of $18.2 million versus September 30, 2023.
    - Net debt at December 31, 2023 was $93.7 million, a decrease of $12.9 million versus September 30, 2023, reflecting strength in revenue.
- Entered into two definitive acquisition agreements in Q4-2023, both of which closed in January 2024. As part of the transactions, Freehold acquired U.S. mineral title and royalty assets in the Midland and Delaware basins of the Permian for $115.5 million (US$86.0 million). The transactions are expected to add approximately 600 boe/d of production in 2024 with an estimated 85% liquids weighting. Acquisition deposits of $12.1 million (US$9.1 million) were paid in Q4-2023.

2023 Operating and Financial Highlights

- Dividends declared and paid for 2023 reached a record level for Freehold, totaling $162.7 million ($1.08 per share), up 11% versus 2022 when Freehold declared dividends of $146.1 million ($0.97 per share). Our dividend payout[2] ratio for 2023 was 68% compared to 45% in 2022.
- 2023 production averaged 14,714 boe/d, a 4% increase versus 2022 as third-party drilling and the impacts of 2022 U.S. acquisition activity drove production growth, with Canadian production relatively stable and U.S. production increasing 16%.
- Oil and NGL volumes represented 62% of 2023 royalty production, consistent with 2022.
- Royalty and other revenue totaled $314.6 million in 2023, down 20% from the previous year reflecting lower commodity prices partly offset by production growth. Total royalty revenue was weighted 89% to oil and NGL revenue.
- Funds from operations in 2023 totaled $239.7 million or $1.59 per share[1], down 24% from $316.5 million or $2.10 per share[1] in 2022. This year-over-year decrease reflected weakening commodity prices partially offset by increased U.S. production volumes.
- Long term debt decreased by $33.6 million from December 31, 2022 to December 31, 2023.
- Proved and probable oil and natural gas reserves [3] totaled 54.5 MMboe exiting 2023, relatively unchanged from 2022 as previously unbooked drilling additions largely offset production in 2023 of 5.4 MMboe.

1. See Non-GAAP and Other Financial Measures
2. Dividend payout ratio is a supplementary 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, 2023, is provided in the AIF. A copy of the AIF can be found on Freehold's website at www.freeholdroyalties.com or www.sedarplus.ca

Drilling Activity

In 2023, 993 gross wells (18.6 net) were drilled on Freehold's North American royalty lands, slightly below the 2022 record of 1,057 gross wells (23.0 net). Drilling activity levels on Freehold's land and the Western Canadian Sedimentary Basin mirrored a 23% reduction in commodity prices year over year, as well as capital discipline within the broader exploration and production industry. Of the gross wells drilled in the current reporting periods, 94% and 95% targeted oil prospects. Approximately 37% of 2023 gross wells were drilled on Freehold's GORR prospects in Canada, 10% targeted mineral title prospects in Canada and of the 53% of wells drilled on Freehold's U.S. royalty acreage, 78% were drilled on Freehold's mineral title.

	Three months ended December 31				Year ended December 31			
	2023		2022		**2023**		2022	
	Gross	**Net** [1]	Gross	Net [1]	**Gross**	**Net** [1]	Gross	Net [1]
Canada	**120**	**3.8**	137	6.2	**466**	**16.0**	503	20.1
United States	**142**	**0.7**	156	0.9	**527**	**2.6**	554	2.9
Total	**262**	**4.5**	293	7.1	**993**	**18.6**	1,057	23.0

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

CANADA

During 2023, 466 gross locations, or 47%, were drilled on Freehold's Canadian lands, a 7% decrease over 503 gross locations in the same period in 2022, correlating with a decrease in benchmark prices. Freehold saw drilling in oil weighted areas including the Clearwater and Cardium in Alberta and the Mississippian Subcrop, Bakken and Viking in Saskatchewan. Additionally, there was an increase in heavy oil drilling in the Mannville stack in Alberta and Saskatchewan, the result of strong recent leasing activity.

Q4-2023 gross activity levels were down 12% compared to the same quarter in 2022 as operators curtailed their drilling activities in the wake of benchmark pricing volatility. During the fourth quarter, approximately 13% of the 120 gross locations drilled within our Canadian portfolio, were drilled in each of the Cardium and Clearwater plays. By geography, approximately 74% of gross wells drilled targeted prospects in Alberta and 22% targeted prospects in Saskatchewan.

U.S.

For the full year 2023, 527 gross locations, or 53%, were drilled on Freehold's U.S. land, a 5% decrease from 554 gross wells in 2022. In the U.S., operators focused drilling on light oil prospects in the Permian and Eagle Ford with 88% of activity within these basins. Freehold also saw strong activity associated with development in the Bakken play. Development of Freehold's U.S. lands was led by a diverse group of investment grade public companies and growth oriented public and private operators.

During Q4-2023, 142 gross wells were drilled on our U.S. royalty lands, with 59% of Q4-2023 drilling in the Permian and 25% in the Eagle Ford, compared to 156 gross wells during the same quarter in 2022. By geography, approximately 89% of Q4-2023 gross wells in the U.S. targeted prospects in Texas.

Although Freehold's U.S. net well additions were lower than in Canada, U.S. wells generally come on production at approximately ten times that of an average Canadian well in our portfolio. However, a U.S. well can take upwards of six to nine months on average from initial license to first production, compared to three to four months in Canada.

Production

Freehold's total production averaged 14,863 boe/d and 14,714 boe/d during the current reporting periods, a 1% decrease and 4% increase over the same periods in 2022. The annual increase mainly reflects acquisitions completed during 2022 and third-party drilling and completion activities on Freehold's lands.

Production Summary

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	**2023**	2022	Change
Canada (boe/d)	**9,659**	9,777	-1%	**9,612**	9,706	-1%
United States (boe/d)	**5,204**	5,264	-1%	**5,102**	4,395	16%
Total production (boe/d)	**14,863**	15,041	-1%	**14,714**	14,101	4%

Average Daily Production by Product Type

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	**2023**	2022	Change
Light and medium oil (bbl/d)	**6,308**	6,418	-2%	**6,203**	5,758	8%
Heavy oil (bbl/d)	**1,182**	1,218	-3%	**1,187**	1,202	-1%
NGL (bbl/d)	**1,878**	1,781	5%	**1,796**	1,715	5%
Natural gas (Mcf/d)	**32,968**	33,744	-2%	**33,167**	32,563	2%
Total production (boe/d)	**14,863**	15,041	-1%	**14,714**	14,101	4%
Number of days in period (days)	**92**	92	-	**365**	365	-
Total volumes during period (MMboe)	**1.367**	1.384	-1%	**5.371**	5.147	4%

CANADA

Canadian production averaged 9,659 boe/d and 9,612 boe/d during the current reporting periods, comprised of approximately 55% oil and NGLs and 45% natural gas. These production volumes were largely consistent with the same periods in 2022 as natural declines were offset by third-party drilling on our royalty lands. 2023 production was also impacted by producer shut-ins due to wildfires throughout Western Canada which decreased annual production by approximately 100 boe/d.

Canadian Average Daily Production by Product Type

	Three months ended December 31			Year ended December 31		
Canadian production	**2023**	2022	Change	**2023**	2022	Change
Light and medium oil (bbl/d)	**3,261**	3,118	5%	**3,196**	3,160	1%
Heavy oil (bbl/d)	**1,182**	1,218	-3%	**1,187**	1,202	-1%
NGL (bbl/d)	**863**	925	-7%	**857**	893	-4%
Natural gas (Mcf/d)	**26,120**	27,096	-4%	**26,229**	26,710	-2%
Total production (boe/d)	**9,659**	9,777	-1%	**9,612**	9,706	-1%

U.S.

U.S. production averaged 5,204 boe/d and 5,102 boe/d during the current reporting periods, a 1% decrease and 16% increase versus the same periods in 2022, with 2023 setting a record for U.S. annual production. The slight decrease in Q4-2023 production compared to the same period in 2022 mainly relates to the timing of new wells coming on production. Freehold's 2023 U.S. production peaked in Q3-2023, with the associated flush production from new well activities curtailing slightly in Q4-2023, while 2022 U.S. production peaked in Q4-2022. The 2023 increase was mainly due to the impact of acquisitions completed in 2022 and third-party drilling and completion activities, particularly in the Midland basin. Freehold's U.S. production during the current reporting periods represents approximately 35% of corporate volumes, flat and a 4% increase from the same periods in 2022.

Freehold's U.S. production in 2023 was comprised of approximately 77% oil and NGLs and 23% natural gas.

U.S. Average Daily Production by Product Type

	Three months ended December 31			Year ended December 31		
United States production	**2023**	2022	Change	**2023**	2022	Change
Light and medium oil (bbl/d)	**3,047**	3,300	-8%	**3,007**	2,598	16%
NGL (bbl/d)	**1,015**	856	19%	**939**	821	14%
Natural gas (Mcf/d)	**6,849**	6,648	3%	**6,937**	5,853	19%
Total production (boe/d)	**5,204**	5,264	-1%	**5,102**	4,395	16%

Product Prices

Benchmark 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 and quality differentials. For the current reporting periods, WTI averaged US$78.32/bbl and US$77.62/bbl, 5% and 18% lower versus the same periods in 2022. When compared to the previous quarter, WTI prices fell by 5%. Weakening refined product demand, recessionary concerns, supply quota uncertainty from OPEC+ and surging U.S. production drove lower crude oil prices during Q4-2023.

Within Canada, Edmonton Light Sweet prices averaged $99.69/bbl and $100.39/bbl during the current reporting periods, 9% and 16% lower versus the same periods in 2022. Western Canadian Select (WCS) prices averaged $76.96/bbl and $79.52/bbl during the current reporting periods, flat and 19% lower versus the same periods in 2022. Egress takeaway constraints tightened during Q4-2023 with low turnaround activity across oil sands projects. Going forward the need to refill the U.S. Strategic Petroleum Reserve and the completion of the Trans Mountain Expansion Project is expected to provide support for narrowing heavy oil differentials.

For Q4-2023, AECO 7A Monthly Index and NYMEX natural gas monthly contract prices averaged $2.70/Mcf and US$2.98/Mcf, respectively, down 52% and 51% from the same period in 2022. For 2023, AECO 7A and NYMEX prices averaged $2.98/Mcf and US$2.84/Mcf, respectively, down 46% and 56% from 2022. Prices retreated over the current reporting periods, as Canadian natural gas storage levels approached capacity in December 2023 while storage levels in the U.S. reached a new 5-year high. These storage builds have been driven by an unseasonably warm winter, along with significant supply increases in North America.

Average Benchmark Prices

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	**2023**	2022	Change
West Texas Intermediate crude oil (US$/bbl)	**$ 78.32**	$ 82.64	-5%	**$ 77.62**	$ 94.23	-18%
Exchange rate (Cdn$/US$)	**1.36**	1.35	1%	**1.35**	1.30	4%
Edmonton Light Sweet crude oil (Cdn$/bbl)	**$ 99.69**	$ 109.83	-9%	**$ 100.39**	$ 120.03	-16%
Western Canadian Select crude oil (Cdn$/bbl)	**$ 76.96**	$ 77.08	0%	**$ 79.52**	$ 98.42	-19%
Nymex natural gas (US$/Mcf)	**$ 2.98**	$ 6.03	-51%	**$ 2.84**	$ 6.40	-56%
AECO 7A Monthly Index (Cdn$/Mcf)	**$ 2.70**	$ 5.58	-52%	**$ 2.98**	$ 5.56	-46%

Realized Prices

As Freehold has increased its U.S. royalty portfolio, its overall realized price has strengthened as U.S. crude oil production realizes prices closer to WTI versus discounted pricing in Canada associated with transportation costs to markets and oil quality differentials. This, coupled with a higher oil weighting in the U.S., resulted in Freehold receiving a 43% and 39% commodity pricing premium for its U.S. production compared to its Canadian production for the current reporting periods. However, as driven by a lower commodity price environment, our average selling prices were $57.94/boe and $57.65/boe in the current reporting periods, down from $69.76/boe and $75.14/boe during the same periods in 2022.

Average Realized Prices Summary

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	**2023**	2022	Change
Oil ($/bbl)	**$ 96.14**	$ 103.27	-7%	**$ 94.43**	$ 113.47	-17%
NGL ($/bbl)	**$ 37.59**	$ 46.33	-19%	**$ 39.19**	$ 53.31	-26%
Oil and NGL ($/bbl)	**$ 84.40**	$ 92.51	-9%	**$ 83.62**	$ 101.58	-18%
Natural gas ($/Mcf)	**$ 2.14**	$ 5.28	-60%	**$ 2.41**	$ 5.48	-56%
Oil equivalent ($/boe)	**$ 57.94**	$ 69.76	-17%	**$ 57.65**	$ 75.14	-23%

CANADA

Freehold's average selling price realized in Canada was $50.34/boe and $50.82/boe during the current reporting periods, lower by 16% and 25% versus the same periods in 2022. These decreases reflect lower Canadian benchmarks.

Freehold's Canadian realized oil pricing averaged $87.65/bbl and $87.48/bbl during the current reporting periods, down 6% and 19% when compared to the same periods in 2022. The average realized NGL price of $51.26/bbl and $51.47/bbl during the current reporting periods was down 5% and 19% versus the same periods in 2022, reflecting lower oil benchmarks. The average realized natural gas price was $2.02/Mcf and $2.32/Mcf in the current reporting periods, down by 59% and 54% from the same periods in 2022. Canadian natural gas pricing was also affected by overall weakening in North American pricing.

Canadian Average Realized Prices

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	**2023**	2022	Change
Oil ($/bbl)	**$ 87.65**	$ 92.85	-6%	**$ 87.48**	$ 107.83	-19%
NGL ($/bbl)	**$ 51.26**	$ 53.84	-5%	**$ 51.47**	$ 63.53	-19%
Oil and NGL ($/bbl)	**$ 81.73**	$ 85.99	-5%	**$ 81.60**	$ 100.30	-19%
Natural gas ($/Mcf)	**$ 2.02**	$ 4.90	-59%	**$ 2.32**	$ 5.02	-54%
Oil equivalent ($/boe)	**$ 50.34**	$ 59.85	-16%	**$ 50.82**	$ 68.12	-25%

U.S.

Freehold's average realized selling price in the U.S. was $72.04/boe and $70.50/boe during the current reporting periods, down 18% and 22% versus the same periods in 2022, reflecting lower U.S. benchmarks. The current reporting periods include realized oil pricing in the U.S. averaging $108.51/bbl and $104.56/bbl, down 7% and 15% when compared to the same periods in 2022. U.S. average realized NGL pricing of $26.01/bbl and $27.96/bbl, decreased 32% and 34% versus the same periods in 2022. In the U.S., NGL prices declined more than oil due to stagnant demand from U.S. and international markets, while supplies increased due to record natural gas production. Freehold's average realized U.S. natural gas price was $2.60/Mcf and $2.75/Mcf, down 62% and 64% when compared to the same periods in 2022. Realized U.S. natural gas pricing was driven by lower NYMEX pricing, caused by strong U.S. production levels alongside limited new LNG export capacity.

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

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	**2023**	2022	Change
Oil ($/bbl)	**$ 108.51**	$ 116.97	-7%	**$ 104.56**	$ 122.95	-15%
NGL ($/bbl)	**$ 26.01**	$ 38.22	-32%	**$ 27.96**	$ 42.19	-34%
Oil and NGL ($/bbl)	**$ 87.91**	$ 100.75	-13%	**$ 86.34**	$ 103.55	-17%
Natural gas ($/Mcf)	**$ 2.60**	$ 6.83	-62%	**$ 2.75**	$ 7.57	-64%
Oil equivalent ($/boe)	**$ 72.04**	$ 88.17	-18%	**$ 70.50**	$ 90.64	-22%

Credit Risk Management

Freehold's royalty lands consist of a large number of properties with generally small volumes per property. Many of Freehold's leases and royalty agreements allow it to take its share of oil and natural gas in-kind. Taking product in-kind allows us to take ownership of the product as it is produced and thus sell it directly rather than having the royalty payor sell the product on our behalf and pass along proceeds from the sale in subsequent months. For 2023, Freehold marketed and took-in-kind approximately 3% of its total royalty production. As part of Freehold's credit risk mitigation program, Freehold's dedicated Compliance Group carefully monitors its royalty receivables and may choose to take its royalty in-kind if there are benefits in doing so.

Royalty and Other Revenue

Royalty and other revenue of $80.1 million and $314.6 million in the current reporting periods was 19% and 20% lower when compared to the same periods in 2022, primarily reflecting lower benchmark commodity pricing. For the current reporting periods, oil and NGLs represented 91% and 89% of royalty and other revenue, 10% and 7% increases from the same periods in 2022.

Bonus consideration and lease rental revenue were $0.4 million and $3.3 million in the current reporting periods, a decrease of 58% and increase of 6% from the same periods in 2022. During 2023, Freehold set a record for leasing activity, entering into 122 new leases with 41 counterparties. Included in the current reporting periods for royalty and other revenue is $0.4 million and $1.6 million in potash royalty revenues, decreases of 56% and 48% versus the same periods in 2022. These decreases were due to lower global potash pricing, with current reporting periods' pricing coming down from historical highs realized in 2022.

Royalty and Other Revenue Summary

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2023**	2022	Change	**2023**	2022	Change
Canada	**$ 45,479**	$ 55,345	-18%	**$ 183,128**	$ 246,689	-26%
United States	**34,583**	43,157	-20%	**131,447**	146,331	-10%
Royalty and other revenue	**$ 80,062**	$ 98,502	-19%	**$ 314,575**	$ 393,020	-20%
Per boe ($)	**$ 58.57**	$ 71.17	-18%	**$ 58.57**	$ 76.36	-23%

Royalty and Other Revenue by Category

	Three months ended December 31			Year ended December 31		
($000s)	**2023**	2022	Change	**2023**	2022	Change
Royalty interest	**$ 79,619**	$ 97,438	-18%	**$ 311,244**	$ 389,891	-20%
Bonus consideration and lease rentals	**443**	1,062	-58%	**3,331**	3,129	6%
Royalty and other revenue	**$ 80,062**	$ 98,502	-19%	**$ 314,575**	$ 393,020	-20%

Royalty and Other Revenue by Type

	Three months ended December 31			Year ended December 31		
($000s)	**2023**	2022	Change	**2023**	2022	Change
Oil	**$ 66,251**	$ 72,556	-9%	**$ 254,695**	$ 288,245	-12%
Natural gas	**6,483**	16,391	-60%	**29,206**	65,109	-55%
Natural gas liquids	**6,491**	7,590	-14%	**25,695**	33,367	-23%
Potash	**394**	901	-56%	**1,648**	3,170	-48%
Bonus consideration and lease rentals	**443**	1,064	-58%	**3,331**	3,129	6%
Royalty and other revenue	**$ 80,062**	$ 98,502	-19%	**$ 314,575**	$ 393,020	-20%

General and Administrative

Freehold has a business development group dedicated to the acquisition and development of its future and existing assets and a diversified royalties' team who are evaluating non-hydrocarbon, resource based royalty opportunities in addition to land administration, accounting, and auditing expertise to administer and collect royalty payments, including systems to track development activity on its royalty lands. General and administrative (G&A) expenses include directly billed costs in addition to costs incurred by the Manager (as defined below) and billed to Freehold (see Related Party Transactions).

In the current reporting periods, G&A expenses totaling $4.0 million and $15.7 million were down 7% and up 12% versus the same periods in 2022. The annual increase related to the additional skill sets obtained in 2022 to manage Freehold's expanding North American asset base, demonstrated through a 16% increase in U.S. production, as well as overall inflationary pressures. Additionally, the year-to-date increase was impacted by higher annual performance-based bonus payouts and a one-time severance cost.

On a per boe basis, current reporting periods G&A expenses of $2.90/boe and $2.93/boe decreased by 6% and increased by 8%, respectively.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2023**	2022	Change	**2023**	2022	Change
General and administrative expenses before capitalized and overhead recoveries	**$ 4,786**	$ 4,857	-1%	**$ 19,189**	$ 16,931	13%
Less: capitalized and overhead recoveries	**(818)**	(600)	36%	**(3,469)**	(2,953)	17%
General and administrative expenses	**$ 3,968**	$ 4,257	-7%	**$ 15,720**	$ 13,978	12%
Per boe ($)	**$ 2.90**	$ 3.08	-6%	**$ 2.93**	$ 2.72	8%

Production and Ad Valorem Taxes

Production and ad valorem taxes are incurred in the U.S. at the state level derived from production and property values. The expenses of $1.7 million and $8.5 million during the current reporting periods were 41% and 2% lower than the same periods in 2022. The decreases reflect a one-time reduction in Q4-2023 of property tax rates in Texas due to a state tax surplus and lower U.S. revenues, as partially offset by a full year of production from 2022 U.S. acquisitions. Similarly, variations on a per boe basis are impacted by the Texas property tax rate reduction in Q4-2023 as well as by production levels by state.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2023**	2022	Change	**2023**	2022	Change
Production and ad valorem taxes	**$ 1,715**	$ 2,882	-41%	**$ 8,488**	$ 8,687	-2%
Per boe ($)	**$ 1.25**	$ 2.08	-40%	**$ 1.58**	$ 1.69	-7%

Interest and Financing

Interest on long term debt decreased in Q4-2023 but increased in the current year compared to the same periods in 2022. The Q4-2023 decrease reflects lower average debt resulting from the repayment of borrowings incurred for the U.S. acquisitions that closed in 2022. The 2023 increase was due to higher interest rates and average debt levels associated with these 2022 U.S. acquisitions. The current reporting periods' average effective interest rate on advances from Freehold's $300 million committed credit facilities were 6.7% and 6.4% (same periods in 2022 – 5.3% and 4.3%).

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2023**	2022	Change	**2023**	2022	Change
Interest on long-term debt and financing fees	**$ 2,257**	$ 2,646	-15%	**$ 10,017**	$ 5,934	69%
Non-cash interest expense [1]	**82**	47	74%	**263**	186	41%
Interest and finance expense	**$ 2,339**	$ 2,693	-13%	**$ 10,280**	$ 6,120	68%
Per boe - cash expense ($)	**$ 1.65**	$ 1.91	-14%	**$ 1.87**	$ 1.15	63%

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

Share-Based Compensation

Freehold's award plans consist of grants of performance share units (PSUs) and restricted share units (RSUs) to executive officers and employees of Freehold under a Share Unit Award Plan (the Share Award Plan) and grants of deferred share units (DSUs) and restricted share units (DRSUs) to non-management directors of Freehold under a Deferred and Restricted Share Unit Plan, as amended in November 2022 (the Director Award Plan, when combined with the Share Award Plan, the Award Plans). The Award Plans are accounted as cash settled.

Share-based compensation expense was $1.3 million and $3.1 million during the current reporting periods, decreases of 35% and 63% compared to the same periods of 2022. These decreases generally reflect a lower Freehold share price. The closing Freehold share price at December 31, 2023 was $13.69, as compared to $15.83 at December 31, 2022. Share-based compensation expense in 2022 also included a non-cash charge of $3.3 million, adjusting DSUs to market value to prospectively account for these units as cash settled effective April 1, 2022.

During 2023, Freehold paid $3.9 million in share-based compensation as previously charged against net income, as compared to payouts of $5.8 million during the same period in 2022. This decrease reflects both a lower award value and payouts to retired directors. Payouts generally occur in the second quarter of each year.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2023**	2022	Change	**2023**	2022	Change
Share-based compensation	**$ 1,324**	$ 2,028	-35%	**$ 3,052**	$ 8,336	-63%
Cash payout on share based compensation before capitalized recovery	**$ -**	$ -	nm	**$ 4,817**	$ 5,838	-17%
Less: capitalized recovery	**-**	-	nm	**(930)**	-	nm
Cash payout on share based compensation	**$ -**	$ -	nm	**$ 3,887**	$ 5,838	-33%
Per boe ($)	**$ -**	$ -	nm	**$ 0.72**	$ 1.13	-36%

(nm) not meaningful

During 2023, Freehold granted 232,024 awards under the Share Award Plan resulting in a total of 216,469 outstanding RSUs (December 31, 2022 – 291,605) and 425,225 outstanding PSUs (December 31, 2022 – 573,037) at each of December 31, 2023 and February 28, 2024.

During the year-to-date, Freehold granted 110,736 awards under the Director Award Plan to members of the Board, largely as part of their annual compensation resulting in a total of 523,587 outstanding DSUs (December 31, 2022 – 481,359) and 18,508 outstanding DRSUs (December 31, 2022 – nil) at December 31, 2023. Since Q4-2023, additional grants less redemptions resulted in 522,977 outstanding DSUs and 38,334 outstanding DRSUs at February 28, 2024.

Netback and Cash Costs

The netback(1) allows Freehold to benchmark how changes in commodity pricing and our cash-based cost structure compare against prior periods. Freehold's netback(1) totaled $52.59/boe and $51.28/boe during the current reporting periods, 18% and 26% lower than the same periods in 2022. These decreases largely reflect lower realized commodity pricing in 2023.

Cash costs(1) during the current reporting periods, as measured on boe basis and compared to the same periods in 2022, were down 9% and up 10%. The Q4-2023 decrease primarily reflects reduced borrowing costs stemming from lower average debt. Inversely, the 2023 increase primarily reflects higher interest rates and higher average outstanding debt resulting from U.S. acquisitions that closed in 2022.

	Three months ended December 31			Year ended December 31		
($/boe)	**2023**	2022	Change	**2023**	2022	Change
Royalty and other revenue	**$ 58.57**	$ 71.17	-18%	**$ 58.57**	$ 76.36	-23%
Production and ad valorem taxes	**(1.25)**	(2.08)	-40%	**(1.58)**	(1.69)	-7%
Net revenue (1)	**$ 57.32**	$ 69.09	-17%	**$ 56.99**	$ 74.67	-24%
Less:						
General and administrative	**$ (2.90)**	$ (3.08)	-6%	**$ (2.93)**	$ (2.72)	8%
Operating expense (2)	**(0.18)**	(0.18)	0%	**(0.19)**	(0.19)	0%
Interest and financing cash expense	**(1.65)**	(1.91)	-14%	**(1.87)**	(1.15)	63%
Cash payout on share based compensation	**-**	-	nm	**(0.72)**	(1.13)	-36%
Cash costs (1)	**$ (4.73)**	$ (5.17)	-9%	**$ (5.71)**	$ (5.19)	10%
Netback (1)	**$ 52.59**	$ 63.92	-18%	**$ 51.28**	$ 69.48	-26%

1. See Non-GAAP and Other Financial Measures
2. Operating expense relates to working interest assets. Also relating to working interest assets, decommissioning liabilities reflected on Freehold's balance sheet and 2023 production of 116 boe/d (2022 – 102 boe/d) included in volumes presented under the "production" heading above.

(nm) not meaningful

Depletion, Depreciation and Other

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

The depletion rates per boe of $13.48/boe and $17.84/boe in the current reporting periods are lower than the same periods in 2022 largely due to an increase in Freehold's proved and probable reserves as at December 31, 2022, resulting in a reduced depletion rate throughout 2023. Additionally, the Q4-2023 depletion rate reflects previously unbooked drilling additions largely offsetting production in 2023. Changes in depletion expense for the current reporting periods, as compared to the same periods in 2022, also reflect changes in production.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2023**	2022	Change	**2023**	2022	Change
Depletion	**$ 18,430**	26,839	-31%	**$ 95,821**	100,667	-5%
Depreciation and other	**677**	$ 1,456	-54%	**803**	$ 1,946	-59%
Depletion, depreciation and other	**$ 19,107**	$ 28,295	-32%	**$ 96,624**	$ 102,613	-6%
Depletion per boe ($)	**$ 13.48**	$ 19.39	-30%	**$ 17.84**	$ 19.56	-9%

Foreign Exchange

Freehold has intercompany balances which arose from the financing of prior years' U.S. royalty acquisitions. Although these balances eliminate on consolidation, the foreign exchange change in the intercompany balance held by the Canadian parent is recognized as foreign exchange within net income whereas revaluation by the U.S. subsidiary is recognized within other comprehensive income due to different functional currencies between these entities. These intercompany positions are revalued at the relevant foreign exchange rate at each period end partially offset by changes in the Canadian dollar equivalent of the portion of Freehold's long-term debt denominated in U.S. dollars when outstanding.

At December 31, 2023, and as compared to September 30, 2023 and December 31, 2022, the Canadian dollar strengthened relative to the U.S. dollar to CDN$1.32/US, resulting in a foreign exchange losses during the current reporting periods.

At December 31, 2023, Freehold had repaid all U.S. dollar denominated borrowings drawn initially to fund 2022 U.S. acquisitions, resulting in nominal foreign exchange on long term debt in the current reporting periods compared to the same periods in 2022.

	Three months ended December 31			Year ended December 31		
($000s)	**2023**	2022	Change	**2023**	2022	Change
Foreign exchange (gain) loss on:						
Intercompany note	**$ 6,120**	$ 6,684	-8%	**$ 6,930**	$ (24,332)	-128%
Long-term debt	**105**	(1,590)	-107%	**(273)**	6,850	104%
	$ 6,225	$ 5,094	22%	**$ 6,657**	$ (17,482)	-138%

Management Fee

The Manager (as defined below) receives a quarterly management fee paid with Freehold common shares. In 2023 and thereafter, the management fee is capped at the equivalent of 5,500 Freehold common shares per quarter. Freehold has the right to settle the management fee through either cash payments or issuing Freehold common shares.

The ascribed value attributable to management fees during the current reporting periods of $0.1 million and $0.3 million decreased by 66% and 61% compared to the same periods of 2022. These decreases largely reflect the lower number of shares issued for management fees.

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	**2023**	2022	Change
Shares issued for management fees	**5,500**	13,750	-60%	**22,000**	55,000	-60%
Ascribed value ($000s) [1]	**$ 73**	$ 217	-66%	**$ 308**	$ 787	-61%
Closing share price ($/share)	**$ 13.69**	$ 15.83	-14%	**$ 13.69**	$ 15.83	-14%

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

Impairment

At December 31, 2023, there were no indicators of impairment on Freehold's U.S. and Canadian royalty cash generating units nor on its exploration and evaluation assets. As a result, no impairment testing was conducted.

Income Taxes

Freehold's taxable income is based on revenues less deductible expenses, including tax pool deductions. For the current reporting periods, income tax expenses of $10.7 million and $40.5 million decreased from the same periods in 2022, reflecting lower revenues partially offset by lower tax deductions on its oil and gas properties.

	Three months ended December 31			Year ended December 31		
($000s)	**2023**	2022	Change	**2023**	2022	Change
Current income tax expense	**$ 8,866**	$ 8,328	6%	**$ 35,465**	$ 40,074	-12%
Deferred income tax expense	**1,881**	3,711	-49%	**5,067**	19,761	-74%
Income taxes	**$ 10,747**	$ 12,039	-11%	**$ 40,532**	$ 59,835	-32%

CRA Assessments

The Canada Revenue Agency (CRA) has assessed Freehold's prior years' tax returns, denying $222 million of non-capital losses (NCL's) (the Assessments). Pursuant to the Assessments, denied NCL claims resulted in taxes, interest, and penalties totaling an estimated $62 million. Freehold is objecting to all Assessments and has provided deposits totaling $29.3 million as at December 31, 2023 (December 31, 2022 - $21.9 million) and paid an additional deposit of $1.6 million subsequent to December 31, 2023.

Income tax deposits were reclassified to non-current assets during the year ended December 31, 2023 due to the longer than anticipated timeline for resolving the Assessments with the CRA. Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, expects to be successful in challenging the Assessments.

Tax Pools

Freehold is entitled to claim tax deductions on its oil and gas properties at prescribed rates. Freehold's tax pools decreased to $887.3 million at the end 2023 (from $1,011 million at the end of 2022) due to tax deductions claimed in 2023. Freehold's tax pools are summarized below:

	Year ended December 31		
($000s)	**2023**	2022	Change
Canada			
Oil and gas property expense	**448,289**	496,859	-10%
Development expense	**5,590**	7,755	-28%
Capital cost allowance	**2,665**	3,365	-21%
Share issue costs	**3,790**	5,686	-33%
United States			
Depletion	**426,970**	496,913	-14%
Total	**887,304**	1,010,578	-12%

Net Income and Comprehensive Income

In the current reporting periods, Freehold had net income of $34.3 million and $131.9 million, decreases compared to $40.7 million and $209.2 million in the same periods in 2022, largely due to lower realized average commodity prices. For these same periods and for the same reasons, comprehensive income also decreased as further impacted in the current reporting periods by foreign currency translation losses related to the translation of Freehold's wholly-owned U.S. subsidiary to Canadian dollars.

	Three months ended December 31			Year ended December 31		
($000s, except per share)	**2023**	2022	Change	**2023**	2022	Change
Net income	**$ 34,323**	$ 40,744	-16%	**$ 131,904**	$ 209,189	-37%
Per share, basic and diluted ($)	**$ 0.23**	$ 0.27	-15%	**$ 0.88**	$ 1.39	-37%
Comprehensive income	**$ 28,355**	$ 39,497	-28%	**$ 125,846**	$ 219,230	-43%

Liquidity and Capital Resources

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

Operating Activities

Cash Flow from Operations and Funds from Operations

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

Funds from operations for the current reporting periods decreased to $62.8 million ($0.42/share) and $239.7 million ($1.59/share) from $80.0 million ($0.53/share) and $316.5 million ($2.10/share) in the same periods of 2022. These decreases mainly reflect lower realized average commodity prices caused by various benchmark decreases. The decrease in 2023 also reflects higher interest costs. 2023 funds from operations of $239.7 million was $10.3 million below the low end of 2023 guidance caused by product mix and lower benchmark prices.

Cash flow from operations of $70.7 million and $216.9 million during the current reporting periods were approximately 14% and 34% lower than the same periods of 2022, directionally consistent with the decrease in funds from operations, and the impact of paying the final 2022 tax instalment of $29.3 million in 2023.

	Three months ended December 31			Year ended December 31		
($000s, except as noted)	**2023**	2022	Change	**2023**	2022	Change
Cash flow from operations	**$ 70,704**	$ 82,675	-14%	**$ 216,916**	$ 327,348	-34%
Funds from operations	**$ 62,805**	$ 79,973	-21%	**$ 239,665**	$ 316,494	-24%
Per share - basic ($) [1][2]	**$ 0.42**	$ 0.53	-21%	**$ 1.59**	$ 2.10	-24%

1. Weighted average number of shares outstanding during the period, basic
2. Funds from operations per share is a supplementary financial measure

Working Capital

We retain working capital (calculated as current assets, less current liabilities) primarily to fund dividends, acquisitions, expenditures and/or repayments of long-term debt. 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 commodity price changes at each period end. Changes in the declared dividend and timing differences between accruing a liability, such as current income taxes, and the related payments can also affect working capital.

Working capital on December 31, 2023, was $29.3 million, 2% or $0.7 million higher when compared to December 31, 2022. Working capital was relatively unchanged as the settlement of 2022 year end current taxes payable of $29.3 million was offset by income tax deposits being reclassified from current to non-current assets (see CRA Assessments). Starting in 2023 corporate income taxes are required to be paid through current year installments. Decreases in accounts receivable attributed to collection efforts and lower commodity pricing was offset by acquisition deposits posted on signing definitive agreements, where these U.S. acquisitions closed in January 2024.

($000s)	At December 31 **2023**	At December 31 2022	Change
Working capital (1)	**$ 29,321**	$ 28,656	2%

1. Working capital is a capital management measure

Financing Activities

Long-Term Debt

Freehold's credit facilities with a syndicate of four Canadian banks have a committed revolving facility availability of $285 million and an operating facility availability of $15 million, where either facility can be drawn in Canadian or U.S. dollars. The credit agreement includes a permitted increase in the committed revolving facility to $435 million subject to lenders' consent. Both the committed revolving and operating facilities mature October 21, 2025. At December 31, 2023, $123.0 million was drawn on the committed revolving facility (December 31, 2022 - $156.6 million). There were no U.S. dollar denominated borrowings against the committed revolving facility (2022 – US$61.4 million) or drawings against the operating facility (2022 – $nil) at December 31, 2023. The credit facilities are secured with a $400 million first charge demand debenture over all of Freehold's Canadian royalty income assets and fixed charge mortgage securities on certain U.S. royalty income assets with associated proved developed producing reserves.

Freehold's credit agreement contains, among affirmative covenants, two financial covenants: (i) long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times (0.4 times at December 31, 2023) and (ii) long-term debt to the aggregate of long-term debt and shareholders' equity percentage shall not exceed 55% (12% at December 31, 2023). Freehold forecasts to be in compliance with all covenants on a quarterly basis for at least the next year based on its current best estimate of results from operations.

Outstanding borrowings under the credit facilities bear interest on U.S. and Canadian denominated drawings at Secured Overnight Financing Rate (SOFR) and Canadian Dollar Offered Rate (CDOR), respectively, or at the lender's prime lending rate plus applicable margins and standby fees, dependent on ratios of Freehold's long-term debt to EBITDA on royalty interest properties. The publication of CDOR will cease after June 28, 2024, with the credit facilities transitioning to Canadian Overnight Repo Rate Average (CORRA) based loans. Freehold does not expect this transition will cause a significant difference on the cost of its borrowings under the credit facilities.

At December 31, 2023 and December 31, 2022, the fair value of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market and foreign exchange rates.

Net Debt

During 2023, net debt decreased by $34.3 million, or 27%, to $93.7 million from $127.9 million at December 31, 2022, largely as a result of lower long-term debt.

Freehold's net debt to trailing funds from operations ratio of 0.4 times at December 31, 2023 was consistent with the December 31, 2022 ratio, and well within our net debt strategy target of below 1.5 times. This ratio is a financial leverage measure. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others.

Freehold uses the capital management measure capitalization which is defined as net debt plus shareholders' equity. The associated capital management measure net debt to capitalization ratio is a financial leverage measure that shows the portion of capital relating to debt. Freehold's net debt to capitalization ratio was 9% at December 31, 2023, a reduction of 3% from December 31, 2022.

Debt Analysis

($000s)	At December 31 **2023**	At December 31 2022	Change
Long-term debt	**$ 122,973**	$ 156,560	-21%
Working capital [1]	**(29,321)**	(28,656)	2%
Net debt [1]	**$ 93,652**	$ 127,904	-27%

1. Working capital and net debt are capital management measures

Financial Leverage Ratios[1,2]

	At December 31 **2023**	At December 31 2022	Change
Net debt to funds from operations (times)	**0.4**	0.4	0%
Net debt to capitalization (%)	**9%**	12%	-25%

1. Funds from operations are 12-months trailing and do not include the proforma effects of acquisitions
2. Net debt to trailing funds from operations is a capital management measure

Shareholders' Capital

In 2023, Freehold issued 22,000 shares for payment of the management fee.

At each of December 31, 2023 and February 28, 2024, there were 150,689,334 common shares outstanding.

Shareholders' Capital

	December 31, 2023			December 31, 2022		
($000s, except as noted)	**Shares**		**Amount**	Shares		Amount
Balance, beginning of year	**150,667,334**	**$**	**1,500,331**	150,612,334	$	1,499,544
Issued for payment of management fee	**22,000**		**308**	55,000		787
Balance, end of year	**150,689,334**	**$**	**1,500,639**	150,667,334	$	1,500,331

Weighted Average Shares

	Three months ended December 31			Year ended December 31		
	2023	2022	Change	**2023**	2022	Change
Weighted average						
Basic	**150,684,013**	150,653,733	0%	**150,675,727**	150,633,203	0%
Diluted	**151,219,052**	151,077,555	0%	**151,219,049**	150,822,910	0%
At year end	**150,689,334**	150,667,334	0%	**150,689,334**	150,667,334	0%

Dividend Policy and Analysis

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

The payment of dividends by a corporation is governed by the liquidity and insolvency tests described in the *Business Corporations Act* (Alberta) (ABCA). Pursuant to the ABCA, after the payment of a dividend, we must be able to pay our liabilities as they become due and the realizable value of our assets must be greater than our liabilities and the legal stated capital of our outstanding securities. At December 31, 2023, our legal stated capital was $361 million.

2023 Dividends Declared

Record Date	Payment Date		Dividend Amount ($/share)
January 31, 2023	February 15, 2023	**$**	**0.09**
February 28, 2023	March 15, 2023	**$**	**0.09**
March 31, 2023	April 17, 2023	**$**	**0.09**
April 28, 2023	May 15, 2023	**$**	**0.09**
May 31, 2023	June 15, 2023	**$**	**0.09**
June 30, 2023	July 17, 2023	**$**	**0.09**
July 31, 2023	August 15, 2023	**$**	**0.09**
August 31, 2023	September 15, 2023	**$**	**0.09**
September 29, 2023	October 16, 2023	**$**	**0.09**
October 31, 2023	November 15, 2023	**$**	**0.09**
November 30, 2023	December 15, 2023	**$**	**0.09**
December 29, 2023	January 15, 2024	**$**	**0.09**
		$	**1.08**

On January 16, 2024, the Board declared a dividend of $0.09 per common share which was paid on February 15, 2024, to common shareholders on record on January 31, 2024. On February 15, 2024, the Board declared a dividend of $0.09 per common share to be paid on March 15, 2024, to common shareholders on record on February 29, 2024. On February 28, 2024, the Board declared a dividend of $0.09 per common share to be paid on April 15, 2024, to common shareholders on record on March 28, 2024.

2023 Dividends Paid

Dividends paid in Q4-2023 totaled $40.7 million ($0.27/share), were unchanged from the same period of 2022. For 2023, dividends paid represent a record level of dividends, totaling $162.7 million ($1.08/share), higher than the $141.6 million ($0.94 per share) paid in the same period of 2022.

From inception in 1996 through to December 31, 2023, Freehold has distributed in excess of $2.1 billion ($35.14 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		
($000's, except per share)	**2023**	2022	Change	**2023**	2022	Change
Dividends declared	**$ 40,686**	$ 40,678	0%	**$ 162,732**	$ 146,121	11%
Accumulated, beginning of period	**2,074,643**	1,911,920	9%	**1,952,597**	1,806,477	8%
Accumulated, end of period	**$ 2,115,329**	$ 1,952,598	8%	**$ 2,115,329**	$ 1,952,598	8%
Dividends per share ($) (2)	**$ 0.27**	$ 0.27	0%	**$ 1.08**	$ 0.97	11%
Accumulated, beginning of period ($)	**34.87**	33.79	3%	**34.06**	33.09	3%
Accumulated, end of period ($)	**$ 35.14**	$ 34.06	3%	**$ 35.14**	$ 34.06	3%

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

In the current reporting periods, Freehold's payout[(2)] ratios were 65% and 68% with excess funds from operations largely being used to repay debt, in addition to funding acquisition deposits during Q4-2023 and paying the 2022 year-end Canadian current income tax payable during 2023.

Dividend Payout Ratio[2]

($000s, except as noted)	Three months ended December 31 2023	2022	Change	Year ended December 31 2023	2022	Change
Dividends paid [(1)]	**$ 40,686**	$ 40,677	0%	**$ 162,731**	$ 141,597	15%
Funds from operations	**$ 62,805**	$ 79,973	-21%	**$ 239,665**	$ 316,494	-24%
Dividend payout ratio (%) [(2)]	**65%**	51%	27%	**68%**	45%	51%

1. Based on the dividend payment date which is generally on the 15th day of the month following the month it was declared
2. Dividend payout ratio is a supplementary financial measure

Dividend payout ratios, a supplementary financial measure, are often used for dividend paying companies in the oil and gas industry to identify dividend levels in relation to the funds a company receives and uses in its capital and operational activities. Freehold's dividend payout ratio is calculated as dividends declared as a percentage of funds from operations.

With the goal of aligning dividend levels to a stronger and stabilizing business outlook, Freehold increased its monthly dividend from $0.04/share in May 2021, to $0.05/share in August 2021, to $0.06/share in November 2021, to $0.08/share in March 2022 and to $0.09/share, or $1.08/share on an annualized basis, in August 2022.

Investing Activities

Canadian Acquisitions and Related Expenditures

Canadian Acquisitions

In 2023, Freehold invested $5.2 million to acquire GORRs in the Clearwater play in central Alberta and $0.2 million for an incremental royalty interest in a potash mine located in Rocanville, Saskatchewan.

U.S. Acquisitions

As at December 31, 2023, Freehold had paid acquisition deposits totaling $12.1 million (US$9.1 million) towards two U.S. transactions that closed in January 2024.

Related Expenditures

Freehold capitalized G&A costs of $3.4 million and cash share-based compensation payouts of $0.9 million that were directly attributable to acquisition activities and capitalized other royalty income asset and miscellaneous expenditures of $0.9 million in 2023.

Related Party Transactions

Freehold does not have any employees. Rather, Freehold is managed by Rife Resources Management Ltd. (the Manager) pursuant to a management agreement (the Management Agreement). The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). Rife is 100% owned by the pension funds for the employees of the Canadian National Railway Company (the CN Pension Trust Funds), and both Rife and the CN Pension Trust Funds are shareholders of Freehold. Combined they have a 16.7% ownership in Freehold at December 31, 2023 and December 31, 2022. Canpar Holdings Ltd. (Canpar, and together with Rife and the Manager, the Related Parties) is managed by Rife and owned 100% by the CN Pension Trust Funds. Two of the directors of each of Rife and Canpar are also directors of Freehold.

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

Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares on a quarterly basis. Pursuant to the Management Agreement, the management fee was capped at 5,500 and 13,750 Freehold common shares per quarter for 2023 and 2022, respectively. For the current reporting periods, the respective ascribed values of $0.1 and $0.3 million were based on the closing price of Freehold's common shares on the last trading day of each quarter (same periods of 2022 - $0.3 million and $0.8 million).

For 2023 and 2022, the Manager charged $15.1 million and $12.2 million in general and administrative costs and $4.1 million and $4.6 million for share-based compensation payouts, respectively. At December 31, 2023 there was $0.2 million in accounts payable and accrued liabilities relating to these costs (December 31, 2022 - $nil).

Rife Resources Ltd. and CN Pension Trust Funds

For 2023 and 2022, Freehold paid $27.1 million and $25.8 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 2023 and 2022 Freehold received royalties of approximately $0.4 million and $0.6 million from Rife. At December 31, 2023 and 2022 there was $2.3 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared.

Canpar Holdings Ltd.

Freehold and Canpar generally share mineral title ownership in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Where Freehold is not the legal registered owner of such mineral rights, Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. Amounts due from Canpar at December 31, 2023 were a nominal amount (December 31, 2022 - $0.7 million).

Key Management Personnel Compensation

Key management personnel are considered to be the Board and executive officers. The Board is compensated directly by Freehold. Executive officers' salaries and other benefits are charged by and paid to the Manager, whereas grants pursuant to the Share Awards Plan are issued directly by Freehold. The table below provides amounts charged by the Manager for the executive officers, Board fees and the share based compensation expense attributable to key management personnel.

($000s)		**December 31 2023**		December 31 2022
Cash directors' fees	**$**	**399**	$	421
Manager charges for executive officers		**2,388**		1,366
Share based compensation		**1,866**		6,327
Key management compensation	**$**	**4,653**	$	8,114

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

Select Annual Information

FINANCIAL ($000S, except as noted)	**2023**	2022	2021
Royalty and other revenue	**314,575**	393,020	208,992
Net income	**131,904**	209,189	72,084
Per share, basic and diluted ($)	**0.88**	1.39	0.53
Dividends declared	**162,732**	146,121	68,628
Per share ($)	**1.08**	0.97	0.45
Total assets	**1,118,423**	1,212,003	1,070,507
Long-term debt	**122,973**	156,560	146,000
Total long-term liabilities	**168,566**	200,235	161,109

Select Quarterly Information

Financial ($millions, except as noted)	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1
Royalty and other revenue	**80.1**	84.2	73.7	76.6	98.5	98.4	108.5	87.6
Net income	**34.3**	42.3	24.3	31.1	40.7	63.2	66.9	38.4
Per share, basic & diluted ($) (1)	**0.23**	0.28	0.16	0.21	0.27	0.42	0.44	0.25
Cash flows from operations	**70.7**	53.7	49.9	42.6	82.7	99.9	75.4	69.3
Funds from operations	**62.8**	65.3	53.0	58.6	80.0	80.8	83.8	71.9
Per share, basic & diluted ($) (1)	**0.42**	0.43	0.35	0.39	0.53	0.54	0.56	0.48
Acquisitions and related expenditures	**2.1**	1.2	3.2	4.3	7.2	161.7	20.7	1.3
Dividends paid	**40.7**	40.7	40.7	40.7	40.7	37.7	36.2	27.1
Per share ($) (2)	**0.27**	0.27	0.27	0.27	0.27	0.25	0.24	0.18
Dividends declared	**40.7**	40.7	40.7	40.7	40.7	39.2	36.2	30.1
Per share ($) (2)	**0.27**	0.27	0.27	0.27	0.27	0.26	0.24	0.20
Payout ratio (%) (3)	**65%**	62%	77%	69%	51%	47%	43%	38%
Long term debt	**123.0**	141.2	152.0	159.1	156.6	196.9	86.0	105.0
Net debt (4)	**93.7**	106.6	130.8	115.8	127.9	159.9	33.1	62.6
Shares outstanding, period end (millions)	**150.7**	150.7	150.7	150.7	150.7	150.7	150.6	150.6
Average shares outstanding (millions) (1)	**150.7**	150.7	150.7	150.7	150.7	150.6	150.6	150.6
Operating								
Light and medium oil (bbls/d)	**6,308**	6,325	6,093	6,102	6,418	5,935	5,378	5,234
Heavy oil (bbls/d)	**1,182**	1,127	1,167	1,253	1,218	1,190	1,239	1,210
NGL (bbls/d)	**1,878**	1,678	1,845	1,788	1,781	1,708	1,613	1,757
Total liquids (bbls/d)	**9,368**	9,130	9,105	9,143	9,417	8,833	8,230	8,201
Natural gas (Mcf/d)	**32,968**	32,851	33,372	33,486	33,744	32,319	31,336	32,845
Total production (boe/d) (5)	**14,863**	14,605	14,667	14,724	15,041	14,219	13,453	13,676
Oil and NGL (%)	**63%**	63%	62%	62%	63%	62%	61%	60%
Petroleum and natural gas realized price ($/boe)	**57.94**	61.55	54.05	56.99	69.76	74.31	87.55	69.71
Cash costs ($/boe) (3)(5)	**4.73**	5.10	7.19	5.82	5.17	3.62	8.38	3.70
Netback ($/boe) (3)(5)	**52.59**	55.63	46.07	50.79	63.92	69.77	78.80	66.17
Benchmark Prices								
West Texas Intermediate crude oil (US$/bbl)	**78.32**	82.26	73.78	76.13	82.64	91.56	108.41	94.29
Average Exchange rate (Cdn$/US$)	**1.36**	1.34	1.34	1.35	1.35	1.30	1.28	1.27
Edmonton Light Sweet crude oil (Cdn$/bbl)	**99.69**	107.89	94.97	99.03	109.83	116.85	137.79	115.67
Western Canadian Select crude oil (Cdn$/bbl)	**76.96**	93.05	78.76	69.31	77.08	93.49	122.09	101.02
Nymex natural gas (US$/Mcf)	**2.98**	2.64	2.17	3.30	6.03	8.20	7.17	4.64
AECO 7A Monthly Index (Cdn$/Mcf)	**2.70**	2.42	2.40	4.34	5.58	5.50	6.27	4.58

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

Business Risks

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

- volatility in market prices for oil and natural gas;
- the impact of development of alternatives to, and changing demand for, petroleum producers;
- the impact of any changes in the regulatory or royalty regimes in the jurisdictions where the Corporation has assets;
- liabilities inherent in oil and natural gas operations;
- changes in general economic, market and business conditions;
- the effects of the Russian/Ukrainian conflict and Isreal/Hamas conflict on commodity prices and the world economy;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of royalty reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- operational dependence on the financial and operational capacity of royalty payors and third-party operators for Freehold's revenues;
- risks related to the environment and changing environmental laws, such as, carbon tax and methane emissions regulations;
- risks pertaining to supply chain issues and inflationary pressures;
- fluctuations in the availability and cost of borrowing;
- royalty payor geological, technical, drilling, and processing problems; and
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry.

For a more detailed description of risk factors, please see our AIF, filed on SEDAR+ at www.sedarplus.ca.

Environmental Risks

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

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

Additional information on environmental regulations and risks related thereto can be found under the headings "Industry Conditions" and "Risk Factors" in the AIF.

Climate Change Risks

Global climate issues continue to attract public and scientific attention. Numerous reports, including reports from the Intergovernmental Panel on Climate Change, have engendered concern about the impacts of human activity, especially hydrocarbon combustion, on global climate issues. In turn, increasing public, government, and investor attention is being paid to global climate issues and to emissions of GHG, including emissions of carbon dioxide and methane from the production and use of oil, liquids and natural gas. The majority of countries, including Canada and the United States, have agreed to reduce their carbon emissions in accordance with the Paris Agreement. At the 2021 United Nations Climate Change Conference in Glasgow, Scotland, Canada made several pledges aimed at reducing Canada's GHG emissions and at the 2023 United Nations Climate Change Conference, Canada renewed its commitments to transitioning away from fossil fuels and further cutting GHG emissions.

Transition Risks

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

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

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

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social, governance and climate reporting, in June 2023 the International Sustainability Standards Board issued two new international sustainability disclosure standards with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. The Canadian Securities Administrators had previously 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. It is expected that the introduction of new international standards will instruct how new Canadian sustainability disclosure standards are finalized. If the Corporation is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licences, registrations, approvals, and authorizations from various governmental authorities, and raise capital may be adversely affected.

Additional information on environmental regulations and risks related thereto can be found under the heading "Industry Conditions" in the AIF.

Physical Risks

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

Controls, Accounting and Regulatory Matters

Freehold is required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The certification of annual filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. 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. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F1, Certification of Annual Filings, which can be found on SEDAR+ at www.sedarplus.ca.

Disclosure Controls and Procedures

As of December 31, 2023, an internal evaluation was carried out of the effectiveness of Freehold's disclosure controls and procedures. This evaluation was performed under the supervision of, and with the participation of the CEO and the CFO. It took into consideration Freehold's Disclosure, Insider Trading, Code of Business Conduct and Conflict of Interest, and Whistleblower policies, as well as the functioning of the Manager, the officers, the Board and Board Committees. In addition, the evaluation covered the processes, systems and capabilities relating to regulatory filings, public disclosures, and the identification and communication of material information. Based on this evaluation, management has concluded that Freehold's disclosure controls and procedures were effective as at December 31, 2023, 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, 2023, as structured within the 2013 COSO Framework. Based on this evaluation, the CEO and CFO concluded that, as of December 31, 2023, Freehold's 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 year ended December 31, 2023 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, business combinations, indicators of impairment 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, 2023 by the Company's external independent qualified reserves evaluators. Management judgment is required to analyze internal and external indicators of impairment for petroleum and natural gas interests and exploration and evaluation assets with the estimate of proved and probable petroleum and natural gas reserves and the related cash flows being significant to the assessment.

Unbooked Future Development Locations

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

Share-based Compensation

Share based compensation is determined based on the value of outstanding awards at each period end. The value recorded incorporates the period-end share price, dividends declared from the grant date through to the period-end and certain assumptions including an estimate of the multiplier for PSUs. 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, when it is considered probable that deferred tax liabilities or assets will be payable or recoverable, respectively, in future periods, which requires management judgement. 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, changes in income tax liabilities or assets may arise in future periods 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 expensed income tax 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.

United States and Canadian Petroleum and Natural Gas Royalty Revenue Accruals

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

Judgment is required to determine the interests of royalty properties in areas where mineral rights are shared with a related party, Canpar. 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.

Changes in Accounting Standards

Amendments to IAS 1 Presentation of Financial Statements

In January 2020 and October 2022, the International Accounting Standards Board issued amendments to IAS 1 Presentation of Financial Statements that specify the requirements for the classification of debt and other liabilities as either current or non-current. The amendments will be effective on January 1, 2024 and are to be applied retrospectively. The Company's preliminary assessment on the impact of the January 1, 2024 adoption on the consolidated financial statements indicates that the amendments will result in the reclassification of certain share-based compensation liabilities from long-term to current. Retrospective application will result in a restatement of the December 31, 2023 balance sheet, reclassifying $6.5 million of the share compensation liability from long-term to current.

Sustainability Reporting

During 2023, the International Sustainability Standards Board (ISSB) published the following two IFRS sustainability disclosure standards: "General Requirements for Disclosure of Sustainability-related Financial Information" and "Climate-related Disclosures". These standards "set out the overall requirements for disclosing sustainability-related financial information in order to provide primary users with a complete set of sustainability-related financial disclosures" and "set out the requirements for identifying, measuring and disclosing climate-related risks and opportunities as part of an entity's general purpose financial reporting." Currently, the ISSB's sustainability disclosure standard, effective from January 1, 2024, is subject to adoption by the international community, including Canada's Securities Administration. The recently formed Canadian Sustainability Standards Board's mandate is to develop and support adopting international sustainability standards in Canada. With the adoption of sustainability standards not yet having an effective date in Canada, accordingly, Freehold, at this time, is in the preliminary stages of understanding the impacts on its future financial statements resulting from the ISSB's standards. Costs to comply with these sustainability disclosures is not quantifiable at this time.

Forward-looking Statements

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

In particular, this MD&A contains forward-looking statements under the headings Freehold's Strategy, Outlook, 2024 Guidance, Q4-2023 Operating and Financial Highlights, Credit Risk Management, CRA Assessments, Liquidity and Capital Resources, Financing Activities, Dividend Policy and Analysis and Changes in Accounting Standards pertaining to the following:

- our expectation of generating growth and lower risk returns to 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 GORRs for revenue growth;
- our expectation that we will maximize Freehold's royalty interests through a comprehensive audit and compliance program, our intent to maintain balance sheet strength (1.5 times or less net debt to trailing funds from operations) and target a dividend payout ratio of approximately 60%;
- expectations with respect to drilling activity across Freehold's North American portfolio in 2024, when compared to 2023;
- our expected areas of focus for drilling in 2024 in both the U.S. and Canada;
- anticipated 2024 production from Freehold's two U.S. acquisitions that closed in January 2024 and the estimated commodity weighting of such production;
- 2024 guidance including 2024 production profile, commodity pricing, average royalty production (including commodity weighting), pricing and exchange rate assumptions;
- our expectation that the need to refill the U.S. Strategic Petroleum Reserve and the completion of the Trans Mountain Expansion Project will provide support for narrowing heavy oil differentials;
- the possibility that we may take our royalty in-kind if there are benefits in doing so;
- Freehold's expectations regarding the Assessments;
- 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;
- expectations regarding the issuance of shares to finance acquisitions;
- the expectation that the transition from publication of CDOR rates will cease and the timing thereof, the anticipated transition of credit facilities to CORRA based loans and the expectation that this will not cause a significant difference on the cost of our borrowings under the credit facilities;
- Freehold's intent in establishing its dividend rate and the process;
- the expected impact to our financial reporting of certain changes in accounting standards; 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;
- the impacts of the ongoing Israeli-Hamas and Russia-Ukraine wars and any associated sanctions as well as OPEC+ curtailments on the global economy and commodity prices;
- the impacts of inflation and supply chain shortages on the operations of our industry partners and royalty payors, as well as on demand and commodity prices;
- future capital expenditure levels;
- future production levels;
- future exchange rates;
- future tax rates;

- future legislation;
- the cost of developing and expanding our assets;
- our ability and the ability of our industry partners and royalty payors to obtain equipment in a timely manner to carry out development activities;
- our ability to market our product successfully to current and new customers;
- our expectation for the consumption of crude oil, NGLs 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.
- pipeline capacity constraints;
- currency fluctuations;
- our and our counsel's interpretation of tax laws, regulations, royalties, or incentive programs relative to the interpretation and enforcement of thereof by governmental authorities;
- changes in income tax laws or changes in tax laws, regulations, royalties, or incentive programs relating to the oil and gas industry;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- uncertainties or imprecision associated with estimating oil and gas reserves;
- stock market volatility and our ability to access sufficient capital from internal and external sources;
- a significant or prolonged downturn in general economic conditions or industry activity;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- geological, technical, drilling, and processing problems;
- environmental risks and liabilities inherent in oil and gas operations; and
- other factors discussed in this MD&A and audited financial statements for the year-ended December 31, 2023 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, the interpretation and implementation of tax legislation, our ability to market our oil and gas successfully to current and new customers, our expectation for the consumption of crude oil and natural gas, our expectation for industry drilling levels, assumptions as to expected performance of current and future wells drilled by our royalty payors, our ability to obtain financing on acceptable terms, shut-in production, production additions from our audit function and our ability to add production and reserves through development and acquisition activities.

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

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

Non-GAAP and Other Financial Measures

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

Net revenue, which is calculated as revenues less ad valorem and production taxes (as incurred in the U.S. at the state level, largely Texas, which do not charge corporate income taxes but do assess flat tax rates on commodity revenues in addition to property tax assessments) details the net amount Freehold receives from its royalty payors, largely after state withholdings. Please refer to the table under the heading Netback and Cash Costs within this MD&A for a quantitative calculation of net revenue.

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

Netback, which is calculated on a boe basis, as average realized price less production and ad valorem taxes, operating expenses, general and administrative, cash interest charges and share-based payouts, represents the per boe netback amount allowing the Company to benchmark how changes in commodity pricing, net of production and ad valorem taxes, and our cash-based cost structure compare against prior periods. Please refer to the table under the heading Netback and Cash Costs within this MD&A for a quantitative calculation of netback.

Dividend payout ratios are often used for dividend paying companies in the oil and gas industry to identify dividend levels in relation to funds from operations that are also used to finance debt repayments and/or acquisition opportunities. Dividend payout ratio is calculated as dividends paid as a percentage of funds from operations. Please refer to the table under the heading Dividend Policy and Analysis – Dividend Payout Ratio within this MD&A for discussion on this supplementary measure.

Funds from operations per share, which is calculated as funds from operations divided by the weighted average shares outstanding, provides direction if changes in commodity prices, cash costs, and/or acquisitions were accretive on a per share basis. Please refer to the table under the heading Cash Flow from Operations and Funds from Operations within this MD&A for discussion on this supplementary measure.

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

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

February 28, 2024

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Freehold Royalties Ltd.

Opinion

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

- the consolidated balance sheets as at December 31, 2023 and December 31, 2022
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. 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 auditor's report.

Assessment of the United States and Canadian royalty revenue accrual

Description of the matter

We draw attention to note 1, note 2 and note 9 to the financial statements. The Company has accounts receivable as of December 31, 2023 of $43.3 million, a portion of which relates to the United States and Canadian royalty revenue accrual. The Company earns royalty revenue from the sale of crude oil, natural gas, natural gas liquids and other products that is recognized as it accrues in accordance with the terms of the United States and Canadian leases and royalty agreements, which is generally in the month when the oil and gas is produced or extracted. The United States and Canadian royalty revenue accrual is necessary due to the delay between the timing of oil and gas production and when the Company receives its royalty production and payment, which is typically a time lag of approximately two to three months.

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

- Royalty production
- Realized commodity prices.

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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

- Comparing the Company’s royalty production assumptions for oil and gas to 2023 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, 2023, for a selection of customers.

Other Information

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

– the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.

– the information, other than the financial statements and the auditor’s report thereon, included in a document entitled “2023 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 information, other than the financial statements and the auditor’s report thereon, included in a document entitled “2023 Annual Report” as at the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor’s report.

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

– Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

– Obtain sufficient audit evidence regarding the financial information of the companies or business activities with the group Company to express an opinion on the financial statement. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

– Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Heather Leanne Steinley.

Chartered Professional Accountants

KPMG LLP

Calgary, Canada
February 28, 2024

CONSOLIDATED BALANCE SHEETS

($000s)	December 31 2023	December 31 2022
Assets		
Current assets:		
Cash	**$ -**	$ 524
Accounts receivable	**43,329**	57,650
Acquisition deposits (note 5)	**12,086**	-
Current portion of income tax deposits (note 13)	**-**	21,909
	55,415	80,083
Income tax deposits (note 13)	**29,274**	-
Exploration and evaluation assets (note 4)	**63,059**	68,758
Petroleum, natural gas and other interests (note 5)	**970,675**	1,063,162
Total Assets	**$ 1,118,423**	$ 1,212,003
Liabilities and Shareholders' Equity		
Current liabilities:		
Dividends payable (note 8)	**$ 13,562**	$ 13,560
Accounts payable and accrued liabilities	**4,877**	4,016
Current portion of share based compensation payable (note 6)	**5,605**	3,853
Current income taxes payable (note 13)	**1,314**	29,303
Current portion of lease obligation	**236**	195
Current portion of decommissioning liability	**500**	500
	26,094	51,427
Lease obligation	**1,380**	1,520
Share based compensation payable (note 6)	**9,475**	12,167
Decommissioning liability	**5,532**	5,437
Deferred income tax liability (note 13)	**29,206**	24,551
Long-term debt (note 7)	**122,973**	156,560
Shareholders' equity:		
Shareholders' capital (note 8)	**1,500,639**	1,500,331
Accumulated other comprehensive income	**4,109**	10,167
Deficit	**(580,985)**	(550,157)
Total Shareholders' Equity	**923,763**	960,341
Total Liabilities and Shareholders' Equity	**$ 1,118,423**	$ 1,212,003

See accompanying notes to consolidated financial statements

Subsequent events (notes 5, 6, 8 and 13)

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

(signed) "Marvin F. Romanow"

Marvin F. Romanow
Director

(signed) "Maureen E. Howe"

Maureen E. Howe
Director

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

($000s, except per share and weighted average shares)	Year ended December 31 2023	2022
Revenue:		
Royalty and other revenue (note 9)	**$ 314,575**	$ 393,020
Expenses:		
General and administrative	**15,720**	13,978
Production and ad valorem taxes	**8,488**	8,687
Operating	**1,010**	957
Interest and financing (note 10)	**10,280**	6,120
Share based compensation (note 6)	**3,052**	8,336
Depletion and depreciation (note 5)	**96,624**	102,613
Foreign exchange loss (gain) (note 12)	**6,657**	(17,482)
Management fee (note 11)	**308**	787
	142,139	123,996
Income before taxes	**172,436**	269,024
Income taxes:		
Current income tax expense (note 13)	**35,465**	40,074
Deferred income tax expense (note 13)	**5,067**	19,761
	40,532	59,835
Net income	**$ 131,904**	$ 209,189
Other comprehensive income (loss)		
Foreign currency translation adjustment	**(6,058)**	10,041
Comprehensive income	**$ 125,846**	$ 219,230
Net income per share, basic and diluted	**$ 0.88**	$ 1.39
Weighted average number of shares:		
Basic	**150,675,727**	150,633,203
Diluted	**151,219,049**	150,822,910

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

($000s)	Year ended December 31 2023	2022
Operating:		
Net income	**$ 131,904**	$ 209,189
Adjustments:		
Depletion and depreciation (note 5)	**96,624**	102,613
Foreign exchange loss (gain) (note 12)	**6,657**	(17,482)
Deferred income tax expense (note 13)	**5,067**	19,761
Share based compensation (note 6)	**3,052**	8,336
Management fee (note 11)	**308**	787
Accretion of decommissioning liabilities and lease obligation	**263**	186
Payout on share based compensation (note 6)	**(3,887)**	(5,838)
Decommissioning expenditures	**(323)**	(1,058)
Funds from operations	**239,665**	316,494
Changes in non-cash working capital & other (note 17)	**(22,749)**	10,854
	216,916	327,348
Financing:		
Long-term debt net (repayment) drawn	**(33,314)**	3,710
Dividends paid (note 8)	**(162,731)**	(141,597)
Lease obligation paid	**(196)**	(195)
	(196,241)	(138,082)
Investing:		
Acquisitions and related expenditures (note 5)	**(10,647)**	(190,794)
Changes in non-cash working capital & other (note 17)	**(10,533)**	(385)
	(21,180)	(191,179)
Decrease in cash	**(505)**	(1,913)
Impact of foreign currency on cash balance	**(19)**	248
Cash, beginning of year	**524**	2,189
Cash, end of year	**$ -**	$ 524
Supplemental disclosures		
Interest paid	**$ 10,017**	$ 5,934
Income taxes paid, excluding tax deposits	**$ 63,470**	$ 10,468

See accompanying notes to consolidated financial statements

Supplemental cash flow disclosures (note 17)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Year ended December 31	
($000s)	**2023**	2022
Shareholders' capital:		
Balance, beginning of year	**$ 1,500,331**	$ 1,499,544
Shares issued for payment of management fee (note 11)	**308**	787
Balance, end of year	**1,500,639**	1,500,331
Accumulated other comprehensive income:		
Balance, beginning of year	**10,167**	126
Foreign currency translation adjustment	**(6,058)**	10,041
Balance, end of year	**4,109**	10,167
Contributed surplus:		
Balance, beginning of year	**-**	4,521
Reclassification to share based compensation payable	**-**	(4,521)
Balance, end of year	**-**	-
Deficit:		
Balance, beginning of year	**(550,157)**	(613,225)
Net income	**131,904**	209,189
Dividends declared (note 8)	**(162,732)**	(146,121)
Balance, end of year	**(580,985)**	(550,157)
Total shareholders' equity	**$ 923,763**	$ 960,341

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022

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 mineral 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 IFRS Accounting Standards (IFRS) as issued by the International Accounting Standards Board. A summary of Freehold's material accounting policies under IFRS are presented in note 2.

These financial statements were approved by Freehold's Board of Directors (the Board) on February 28, 2024.

b) Basis of Measurement and Principles of Consolidation

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

c) Use of Estimates and Judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the current reporting period. Among other uncertainties, the Company continues to monitor the direct and indirect impacts on its operations, cash flows and liquidity from global economic and commodity pricing volatility.

Petroleum and natural gas reserves

The amounts recorded for the depletion of petroleum and natural gas interests, business combinations, indicators of impairment 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, 2023 by the Company's external independent qualified reserves evaluators. Management judgment is required to analyze internal and external indicators of impairment for petroleum and natural gas interests and exploration and evaluation assets with the estimate of proved and probable petroleum and natural gas reserves and the related cash flows being significant to the assessment.

Unbooked future development locations

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

Share based compensation

Share based compensation is determined based on the value of outstanding awards at each period end. The value recorded incorporates the period-end share price, dividends declared from the grant date through to the period-end and certain assumptions including an estimate of the multiplier for performance share units (PSUs). 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, when it is considered probable that deferred tax liabilities or assets will be payable or recoverable, respectively, in future periods, which requires management judgement. 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, changes in income tax liabilities or assets may arise in future periods 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 expensed income tax 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.

United States and Canadian Petroleum and natural gas royalty revenue accruals

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

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

2. Material Accounting Policies

a) Exploration and Evaluation Assets

All exploration and evaluation (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.

b) Petroleum and Natural Gas Interests

Petroleum and natural gas interests

Petroleum and natural gas interests largely include mineral royalty interests, stated at cost, less accumulated depletion. 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, 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

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

c) Income Tax

Income tax expense comprises current and deferred tax.

Current income tax

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

Deferred income tax

Deferred income tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. 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.

d) Share Based Compensation Plans

Freehold's award plans consist of grants of PSUs and restricted share units (RSUs) to executive officers and employees of Freehold pursuant to a Share Unit Award Plan (the Share Award Plan) and grants of deferred share units (DSUs) and director restricted share units (DRSUs) to non-management directors of Freehold pursuant to an Amended and Restated Deferred and Restricted Share Unit Plan (the Director Award Plan, and when combined with the Share Award Plan, the Award Plans). The Award Plans are share based and cash settled.

Share Award Plan

Compensation expense and a corresponding liability is recognized as services are rendered based on the value of the outstanding RSUs and PSUs at the grant date, as remeasured at each period end through to their vesting date.

I. RSUs

Generally, one-third of the granted RSUs will vest on each of the first, second and third anniversaries of the date of grant. Upon vesting of the RSUs, the holder is entitled to an amount equal in value to the notional Freehold common shares as adjusted for notional 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 for the five trading days prior to the settlement date.

II. PSUs

Generally, all of the granted PSUs will vest on the third anniversary of the date of grant. For PSUs, the notional Freehold common shares as adjusted for notional dividends paid 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 the Board at the time of grant, but currently are determined evenly from absolute and relative total shareholder returns over a three-year period.

Director Award Plan

The Director Award Plan consists of DSUs and DRSUs, where each unit represents a notional share that has the same value as one Freehold common share. The value of DSUs and DRSUs changes with Freehold's share price. DSUs and DRSUs accrue dividends as additional units, at the same rate as dividends paid on Freehold's commons shares. Settlements of DSUs and DRSUs may be made by cash payment or by the issuance of common shares, at the discretion of the Board, but only if practical as determined by management. Compensation expense and a corresponding liability is recognized on the value of the outstanding DSUs and DRSUs at the grant date, as remeasured at each period end through to their redemption date.

I. DSUs

DSUs vest when granted but are redeemable when the holder retires from the Board. From the date of retirement, the holder has until mid-December of the following year to redeem their DSUs.

II. DRSUs

DRSUs are similar to DSUs except one-third of granted DRSUs are redeemable on each of the first, second and third anniversaries of the date of grant except where a member of the Board retires, which in this case the DRSUs held by that member are immediately redeemable.

e) Net Income Per Share

Basic net income per share is calculated using net income divided by the weighted average number of outstanding shares for each period. Diluted net income per share is calculated by adjusting net income to remove share based compensation expense related to the remeasurement of DSUs and DRSUs at each period end, which would not be incurred if the Board exercised its right to settle these units through the issuance of equity, and dividing by the weighted average number of outstanding diluted shares for each period. Outstanding diluted shares for the period is calculated by adding the weighted average outstanding DSUs and DRSUs to the weighted average outstanding number of shares. If this effect is anti-dilutive to net income per share, the weighted average outstanding DSUs and DRSUs are excluded from the calculation of diluted income per share.

f) Revenue Recognition

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

g) 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, acquisition deposits, dividends payable, accounts payables and accrued liabilities 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.

h) Foreign Currency translations

Foreign transactions

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

Foreign operations

The functional currency of Freehold's subsidiaries is the currency of the primary economic environment in which the entity operates. Freehold’s U.S. subsidiary, Freehold Royalties (USA) Inc., operates and transacts primarily in U.S. dollars and is considered to have a U.S. dollar 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 the U.S. entity are translated into Canadian dollars in preparation of the Company's consolidated financial statements. The assets and liabilities of Freehold’s U.S. operations are translated to Canadian dollars at the period-end exchange rate. Revenues and expenses of U.S. 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. The accumulated other comprehensive income resulting from currency translation on foreign operations may subsequently be reclassified to net income in future reporting periods.

3. Amendments to IAS 1 Presentation of Financial Statements

In January 2020 and October 2022, the IASB issued amendments to IAS 1 Presentation of Financial Statements that specify the requirements for the classification of debt and other liabilities as either current or non-current. The amendments will be effective on January 1, 2024 and are to be applied retrospectively. The Company’s preliminary assessment on the impact of the January 1, 2024 adoption on the consolidated financial statements indicates that the amendments will result in the reclassification of certain share-based compensation liabilities from long-term to current. Retrospective application will result in a restatement of the December 31, 2023 balance sheet, reclassifying $6.5 million of the share compensation liability from long-term to current.

4. Exploration and Evaluation Assets

($000s)	**December 31 2023**	December 31 2022
Balance, beginning of year	**$ 68,758**	$ 74,455
Transfers to petroleum and natural gas interests (note 5)	**(5,699)**	(5,697)
Balance, end of year	**$ 63,059**	$ 68,758

There was no impairment recorded on the transfer of E&E assets to Petroleum and Natural Gas Interests during the years ended December 31, 2023 and 2022.

There were no indicators of impairment on Freehold’s E&E assets for the years ended December 31, 2023 and 2022.

5. Petroleum and Natural Gas Interests

($000s)	December 31 2023	December 31 2022
Gross cost		
Balance, beginning of year	**$ 2,113,341**	$ 1,879,457
Acquisitions and related expenditures	**$ 10,647**	190,794
Capitalized (reversal) portion of long term incentive plan	**$ (105)**	1,260
Transfers from exploration and evaluation assets (note 4)	**$ 5,699**	5,697
Foreign exchange translation	**$ (14,095)**	36,133
Balance, end of year	**$ 2,115,487**	2,113,341
Accumulated depletion		
Balance, beginning of year	**$ (1,050,179)**	(946,608)
Depletion and depreciation	**$ (96,371)**	(101,277)
Foreign exchange translation	**$ 1,738**	(2,294)
Balance, end of year	**$ (1,144,812)**	(1,050,179)
Net book value, end of year	**$ 970,675**	$ 1,063,162

a) Acquisitions and related expenditures

For the year ended December 31, 2023, Freehold invested $10.6 million in acquisitions and related expenditures (2022 – $190.8 million). All transactions for the years ended December 31, 2023 and 2022 were treated as asset acquisitions.

Canadian Acquisitions

Freehold paid $4.2 million during the year ended December 31, 2023 in exchange for gross overriding royalties of 4% in the Clearwater play in central Alberta pursuant to an agreement. Under the agreement, which expires on March 31, 2024, Freehold has a remaining commitment subject to the counterparty undertaking the related drilling activities of up to $7.5 million (2022 – $11.7 million) in exchange for gross overriding royalties in the range of 2% to 4%.

Freehold paid $1.0 million during the year ended December 31, 2023 in exchange for an incremental gross overriding royalty of 2% in an existing Clearwater property in central Alberta, bringing Freehold's total interest to 5% in this specific property.

In 2023, Freehold acquired an incremental mineral royalty interest in a potash mine located in Rocanville, Saskatchewan for $0.2 million.

During the year ended December 31, 2022, Freehold paid $8.8 million in exchange for gross overriding royalties in the Clearwater play.

U.S. Acquisitions

During the year ended December 31, 2022, Freehold acquired U.S. royalty properties for a combined cost of $177.9 million (US$ 138.2 million) through several different transactions, including mineral title and overriding royalty interests, weighted towards the Permian and Eagle Ford across multiple states.

Related Expenditures

For the year ended December 31, 2023, Freehold capitalized general & administrative costs of $3.4 million (2022 – $2.9 million), cash share-based compensation payouts of $0.9 million (2022 – $nil) and other royalty income asset and miscellaneous expenditures of $0.9 million (2022 – $1.2 million).

Subsequent Events

In January 2024, Freehold closed two transactions, acquiring combined U.S. mineral title and royalty assets on approximately 123,000 gross acres for $115.5 million (US$86.0 million), before customary closing adjustments, in the Midland and Delaware basins of the Permian located in in Texas and New Mexico. As at December 31, 2023, Freehold had paid deposits on the above transactions of $12.1 million (US$9.1 million), reported as acquisition deposits on the consolidated balance sheet. The transactions were funded by acquisition deposits and borrowing from Freehold's credit facility.

b) Depletion and depreciation

For the year ended December 31, 2023, reported depletion and depreciation is $96.6 million (2022 – $102.6 million). Depletion and depreciation reported on the consolidated statements of income also includes site restoration credits and asset retirement costs related to changes in estimates on decommissioning liabilities.

There are no future development costs associated with the Company's proved and probable petroleum and natural gas reserves as at each of December 31, 2023 and 2022 to include in the depletion calculation.

c) Impairment

At each of December 31, 2023 and 2022, there were no indicators of impairment on Freehold's U.S. and Canadian Royalty Cash Generating Units.

6. Share Based Compensation

For the year ended December 31, 2023, the share based compensation liability associated with the Award Plans increased by $3.9 million consisting of $3.1 million as expensed and $0.8 million as capitalized (2022 – increased by $9.6 million consisting of $8.3 million as expensed and $1.3 million as capitalized) incorporating Freehold's December 31, 2023 closing share price of $13.69 per share (2022 – $15.83 per share). Correspondingly, for the year ended December 31, 2023, this liability decreased with a payout of $4.8 million, consisting of $3.9 million as previously expensed and $0.9 million as previously capitalized (2022 – $5.8 million as previously expensed).

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

($000s)	**December 31 2023**	December 31 2022
Balance, beginning of year	**$ 16,020**	$ 7,742
Operating payout	**(3,887)**	(5,838)
Capitalized payout	**(930)**	-
Capitalized portion	**825**	1,259
Expensed	**3,052**	8,336
Reclassification from contributed surplus	**-**	4,521
Balance, end of year	**$ 15,080**	$ 16,020
Current portion of liability	**$ 5,605**	$ 3,853
Long-term portion of liability	**$ 9,475**	$ 12,167

a) Share Award Plan

Freehold's Share Award Plan is share based and cash settled. It consists of grants of PSUs and RSUs awarded to executive officers, employees and other service providers.

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

	December 31 2023	December 31 2022
Balance, beginning of year	**864,642**	926,922
Units issued	**232,024**	238,616
Forfeitures	**(42,759)**	(59,155)
Payout	**(412,213)**	(241,741)
Balance, end of year	**641,694**	864,642
RSUs outstanding, end of year	**216,469**	291,605
PSUs outstanding, end of year	**425,225**	573,037

b) Director Award Plan

The following table reconciles the outstanding number of DSUs and DRSUs:

	December 31 2023	December 31 2022
Balance, beginning of year	**481,359**	447,684
Annual grants and grants in lieu of fees	**70,875**	82,461
Additional grants resulting from paid dividends	**39,861**	30,551
Redeemed	**(50,000)**	(79,337)
Balance, end of year	**542,095**	481,359
DSUs outstanding, end of year	**523,587**	481,359
DRSUs outstanding, end of year	**18,508**	-
DSUs Redeemable, end of year	**50,212**	-

Effective April 1, 2022, the DSU's accounting treatment changed from equity to cash settled. This resulted in their carrying amount of $4.5 million, as of the effective date, being reclassified from contributed surplus to share based compensation liability as reported on the Consolidated Balance Sheet. On reclassification of those DSUs, their market value was determined from Freehold's share price with the difference between it and the amount reclassified from contributed surplus of $3.3 million charged to share based compensation expense for the year ended December 31, 2022.

During the year ended December 31, 2023, a non-management director retired and the Board resolved to issue cash in-lieu for the equivalent fair value of Freehold common shares upon redemption of this director's DSUs. As at December 31, 2023, the outstanding redeemable DSUs have a fair value of $0.7 million. Subsequent to December 31, 2023, the director redeemed these remaining redeemable DRSUs.

On January 1, 2024 the Company issued 69,759 combined DSUs and DRSUs to its non-management directors.

7. Long-term Debt

Freehold's credit facilities with a syndicate of four Canadian banks have a committed revolving facility availability of $285 million and an operating facility availability of $15 million, where either facility can be drawn in Canadian or U.S. dollars. The credit agreement includes a permitted increase in the committed revolving facility to $435 million subject to lenders' consent. Both the committed revolving and operating facilities mature October 21,

2025. At December 31, 2023, $123.0 million was drawn on the committed revolving facility (December 31, 2022 – $156.6 million). There were no U.S. dollar denominated borrowings against the committed revolving facility (2022 – US$61.4 million) or drawings against the operating facility (2022 – $nil) at December 31, 2023. The credit facilities are secured with a $400 million first charge demand debenture over all of Freehold's Canadian royalty income assets and fixed charge mortgage securities on certain U.S. royalty income assets with associated proved developed producing reserves.

Freehold's credit agreement contains, among affirmative covenants, two financial covenants: (i) long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times (0.4 times at December 31, 2023); and (ii) long-term debt to the aggregate of long-term debt and shareholders' equity percentage shall not exceed 55% (12% at December 31, 2023). Freehold forecasts to be in compliance with all covenants on a quarterly basis for at least the next year based on its current best estimate of results from operations.

Outstanding borrowings under the credit facilities bear interest on U.S. and Canadian denominated drawings at Secured Overnight Financing Rate (SOFR) and Canadian Dollar Offer Rate (CDOR), respectively, or at the lender's prime lending rate plus applicable margins and standby fees, dependent on ratios of Freehold's long-term debt to EBITDA on royalty interest properties. The publication of CDOR will cease after June 28, 2024, with the credit facilities transitioning to Canadian Overnight Repo Rate Average (CORRA) based loans. Freehold does not expect this transition will cause a significant difference on the cost of its borrowings under the credit facilities.

For the year ended December 31, 2023, the average effective interest rates on advances from Freehold's committed credit facility was 6.4% (2022 – 4.3%).

At each of December 31, 2023 and 2022, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market and foreign exchange rates.

8. 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, 2023		December 31, 2022	
($000s, except shares)	**Shares**	**Amount**	Shares	Amount
Balance, beginning of year	**150,667,334**	**$ 1,500,331**	150,612,334	$ 1,499,544
Issued for payment of management fee (note 11)	**22,000**	**308**	55,000	787
Balance, end of year	**150,689,334**	**$ 1,500,639**	150,667,334	$ 1,500,331

b. Dividends

During the year ended December 31, 2023, Freehold declared and paid dividends of $162.7 million, or $1.08 per comment shares, and in the year ended December 31, 2022, Freehold declared dividends of $146.1 million, or $0.97 per common share ($141.6 million paid).

On December 14, 2023, the Board declared a dividend of $0.09 per common share or $13.6 million which was paid on January 15, 2024 to common shareholders on record on December 29, 2023 (December 31, 2022 – $13.6 million). On January 16, 2024, the Board declared a dividend of $0.09 per common share which was paid on

February 15, 2024, to common shareholders on record on January 31, 2024. On February 15, 2024, the Board declared a dividend of $0.09 per common share to be paid on March 15, 2024, to common shareholders on record on February 29, 2024. On February 28, 2024, the Board declared a dividend of $0.09 per common share to be paid on April 15, 2024, to common shareholders on record on March 28, 2024.

9. Revenue

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

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

a. Royalty and Other Revenue by Commodity Type

	Year ended December 31	
($000s)	**2023**	2022
Oil	**$ 254,695**	$ 288,245
Natural gas	**29,206**	65,109
NGL	**25,695**	33,367
Potash	**1,648**	3,170
Bonus consideration and lease rentals	**3,331**	3,129
Royalty and other revenue	**$ 314,575**	$ 393,020

b. Royalty and Other Revenue by Category

	Year ended December 31	
($000s)	**2023**	2022
Royalty interest revenue	**$ 311,244**	$ 389,891
Bonus consideration and lease rentals	**3,331**	3,129
Royalty and other revenue	**$ 314,575**	$ 393,020

For the year ended December 31, 2023, Freehold had two royalty payors with each constituting more than 10 per cent of royalty and other revenue. Combined revenues of $89.2 million (2022 – $112.5 million) were attributable to these payors, of which $54.7 million (2022 – $70.9 million) and $34.5 million (2022 – $41.6 million) are from the U.S. and Canadian segments, respectively.

As at December 31, 2023, there was outstanding accounts receivable and accrued revenue of $42.2 million (December 31, 2022 - $55.9 million) associated with U.S. and Canadian royalty and other revenues.

10. Interest and Financing

	Year ended December 31	
($000s)	**2023**	2022
Interest on long term debt and financing expense	**$ 10,017**	$ 5,934
Accretion of decommissioning obligation	**167**	90
Accretion of lease obligation	**96**	96
Interest and financing	**$ 10,280**	$ 6,120

11. Related Party Transactions

Freehold does not have any employees. Rather, Freehold is managed by Rife Resources Management Ltd. (the Manager) pursuant to a management agreement (the Management Agreement). The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). Rife is 100% owned by the pension funds for the employees of the Canadian National Railway Company (the CN Pension Trust Funds), and both Rife and the CN Pension Trust Funds are shareholders of Freehold. Combined they have a 16.7% ownership in Freehold at each of December 31, 2023 and 2022. Canpar Holdings Ltd. (Canpar and together with Rife and the Manager, the Related Parties) is managed by Rife and owned 100% by the CN Pension Trust Funds. Two of the directors of each of Rife and Canpar are also directors of Freehold.

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

a. Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares on a quarterly basis. Pursuant to the Management Agreement, the management fee was capped at 5,500 and 13,750 Freehold common shares per quarter for 2023 and 2022, respectively. For the years ended December 31, 2023 and 2022, respective ascribed values of $0.3 million and $0.8 million were based on the closing price of Freehold's common shares on the last trading day of each quarter.

For the years ended December 31, 2023 and 2022, the Manager charged $15.1 million and $12.2 million in general and administrative costs and $4.1 million and $4.6 million for share-based compensation payouts, respectively. At December 31, 2023, there was $0.2 million (December 31, 2022 – $nil million) in accounts payable and accrued liabilities relating to these costs.

b. Rife Resources Ltd. and CN Pension Trust Funds

For the years ended December 31, 2023 and 2022, Freehold paid $27.1 million and $25.8 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 year ended December 31, 2023, Freehold received royalties of approximately $0.4 million (2022 – $0.6 million) from Rife. At each of December 31, 2023 and 2022, there was $2.3 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared.

c. Canpar Holdings Ltd.

Freehold and Canpar generally share mineral title ownership in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Where Freehold is not the legal registered owner of such mineral rights, Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. Amounts due from Canpar at December 31, 2023 and 2022 were a nominal amount and $0.7 million, respectively.

Freehold maintains an acquisitions opportunities agreement with the Related Parties, that reaffirms Freehold's priority right to acquire petroleum royalty interest opportunities and provides Freehold the right to participate in potential other mineral royalty interest opportunities including those identified on the lands of the Related Parties.

Pursuant to the acquisitions opportunities agreement, during 2023 Freehold elected to participate in Canpar's mineral royalty interest acquisition in a potash mine located in Rocanville, Saskatchewan, whereby Canpar and Freehold each purchased an equal share of the mineral royalty interest. Freehold and Canpar directly paid their own share of the acquisition to the third party of $0.2 million each.

d. Key Management

Key management personnel are considered to be the Board and executive officers. The Board is compensated directly by Freehold. Executive officers' salaries and other benefits are charged by and paid to the Manager, whereas grants pursuant to the Share Awards Plan are issued directly by Freehold. The table below provides amounts charged by the Manager for the executive officers, Board fees and the share based compensation expense attributable to key management personnel.

($000s)	**December 31 2023**	December 31 2022
Cash directors' fees	**$ 399**	$ 421
Manager charges for executive officers	**2,388**	1,366
Share based compensation	**1,866**	6,327
Key management compensation	**$ 4,653**	$ 8,114

12. Foreign Exchange

	Year ended December 31	
($000s)	**2023**	2022
Foreign exchange loss (gain) on:		
Intercompany note	**$ 6,930**	$ (24,332)
Long term debt	**(273)**	6,850
	$ 6,657	$ (17,482)

Foreign exchange results from the revaluation of a U.S. dollar intercompany receivable held by Freehold's Canadian parent partially offset by the revaluation of U.S. dollar denominated long-term debt (see note 7). Although the intercompany balances eliminate on consolidation, the revaluation of the parent's U.S. dollar intercompany receivable is recognized as foreign exchange in the consolidated statement of income whereas revaluation of the U.S. subsidiary's intercompany debt is recognized within other comprehensive income due to different functional currencies between these entities.

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 2023	December 31 2022
Income before taxes	$ 172,436	$ 269,024
Expected income tax rate	23.9%	23.9%
Computed expected income tax expense	$ 41,212	$ 64,404
Change in income tax resulting from:		
Effect of rates for foreign jurisdictions	(1,172)	(1,940)
Effect of foreign exchange	556	(2,089)
Contributed surplus reclassification	-	(455)
Other	(64)	(85)
Total income taxes	$ 40,532	$ 59,835

Freehold had $1.3 million of current taxes payable at December 31, 2023 (December 31, 2022 – $29.3 million).

As at December 31, 2023, Freehold had approximately $887 million (2022 – $1,011 million) of U.S. and Canadian other tax pools that should be available to offset against future taxable profits.

The continuity of deferred income tax liability (asset) for the years ended December 31, 2023 and 2022 are as follows:

($000s)	Balance December 31 2022	Recognized in Profit or Loss	Foreign Currency Translation Adjustment	Balance December 31 2023
Capital assets	$ 29,294	6,910	(412)	$ 35,792
Decommissioning liability	(1,419)	(23)	-	(1,442)
Lease obligation	(410)	24	-	(386)
Share issue expense	(1,359)	453	-	(906)
Share based compensation	(3,830)	224	-	(3,606)
Other	2,275	(2,521)	-	(246)
Deferred income tax liability	$ 24,551	5,067	(412)	$ 29,206

($000s)	Balance December 31 2021	Recognized in Profit or Loss	Foreign Currency Translation Adjustment	Balance December 31 2022
Capital assets	$ 23,087	5,637	570	$ 29,294
Non-capital losses	(12,887)	12,887	-	-
Decommissioning liability	(1,332)	(87)	-	(1,419)
Lease obligation	(434)	24	-	(410)
Share issue expense	(1,815)	456	-	(1,359)
Share based compensation	(1,853)	(1,977)	-	(3,830)
Other	(546)	2,821	-	2,275
Deferred income tax liability	$ 4,220	19,761	570	$ 24,551

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

The Canada Revenue Agency (CRA) has assessed Freehold's prior years' tax returns, denying $222 million of non-capital losses (NCL's) (the Assessments). Pursuant to the Assessments, denied NCL claims resulted in taxes, interest, and penalties totaling an estimated $62 million. Freehold is objecting to all Assessments, has provided deposits totaling $29.3 million as at December 31, 2023 (December 31, 2022 – $21.9 million) and paid an additional deposit of $1.6 million subsequent to December 31, 2023.

Income tax deposits were reclassified to non-current assets during the year ended December 31, 2023 due to the longer than anticipated timeline for resolving the Assessments with the CRA. Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, expects to be successful in challenging the Assessments.

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 most of its revenue from oil and gas properties as reserves are produced. Freehold then pays dividends to shareholders 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 cash exceeding 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 and expenditures for production and ad valorem taxes, general and administrative, operating expenditures, interest, 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.

Freehold is bound by non-financial covenants and two financial covenants (see note 7) on its credit facilities. The covenants are monitored as part of management's internal review to ensure compliance with requirements. As at December 31, 2023, Freehold was in compliance with all such covenants.

Freehold's net debt to funds from operations ratio was 0.4 times at each of December 31, 2023 and 2022, within its debt strategy target of below 1.5 times. This ratio is a financial leverage measure that reflects cash available to pay back Freehold's debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others.

a. Working Capital

($000s)	December 31 2023	December 31 2022
Cash	**$ -**	$ 524
Accounts receivable	**43,329**	57,650
Acquisition deposits	**12,086**	-
Current portion of income tax deposits	**-**	21,909
Dividends payable	**(13,562)**	(13,560)
Accounts payable and accrued liabilities	**(4,877)**	(4,016)
Current income taxes payable	**(1,314)**	(29,303)
Current portion of lease obligation	**(236)**	(195)
Current portion of decommissioning liability	**(500)**	(500)
Current portion of share based compensation payable	**(5,605)**	(3,853)
Working capital (1)	**$ 29,321**	$ 28,656

Working capital is considered a capital management measure.

b. Capitalization and net debt

($000s)	December 31 2023	December 31 2022
Shareholders' equity	**$ 923,763**	$ 960,341
Long term debt	**122,973**	156,560
Working capital	**(29,321)**	(28,656)
Net debt (1)	**$ 93,652**	$ 127,904
Capitalization (1)	**$ 1,017,415**	$ 1,088,245

Capitalization and net debt are considered capital management measures.

c. Net Debt to Funds from Operations

($000s, except as noted)	December 31 2023	December 31 2022
Funds from operations	**$ 239,665**	$ 316,494
Net debt to funds from operations (times) (1)	**0.4**	0.4

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.

Collection of accounts receivable is a priority for Freehold and 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 2023 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 acquisition deposits represent Freehold's maximum credit exposure to financial assets. When available, cash is held at a reputable financial institution. Freehold did not have an allowance for doubtful accounts as at each of December 31, 2023 and 2022 and did not identify any significant receivables to write off during the years ended December 31, 2023 and 2022. Freehold considers all material amounts greater than three months to be past due.

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	$ 39,174	$ 3,332	$ 823	$ 43,329
Acquisition deposits	$ 12,086	$ -	$ -	$ 12,086
Total	$ 51,260	$ 3,332	$ 823	$ 55,415

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, while maintaining stable dividend payments. At December 31, 2023, there was $177.0 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 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, 2023:

($000s)	Less than 1 Year	1-3 Years	3 Years and beyond	Total
Dividends payable	$ 13,562	$ -	$ -	$ 13,562
Accounts payable and accrued liabilities	4,877	-	-	4,877
Long-term debt	-	122,973	-	122,973
Total	$ 18,439	$ 122,973	$ -	$ 141,412

c. Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, commodity prices and interest rates, will affect net income or the value of financial instruments. The Board reviews the potential use of derivative contracts on a regular 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. From time to time, Freehold draws U.S. debt to partially finance U.S. acquisitions, which results in foreign currency exchange rate risk on long-term debt that is contra to the foreign exchange risk from operations. Further, Freehold is exposed to foreign exchange fluctuations as a result of crude oil sales based on U.S. dollar benchmark prices. Freehold's net income, comprehensive loss and cash flows will be affected by fluctuations in foreign exchange. At December 31, 2023, 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 each of the years ended December 31, 2023 and 2022, 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, 2023, a 1% change (plus or minus) in the interest rate could result in a corresponding change to income before taxes of $1.2 million.

16. Segmented Information

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

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

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

	Year ended December 31	
($000s)	**2023**	2022
Canada	**$ 183,128**	$ 246,689
United States	**131,447**	146,331
Royalty and other revenue	**$ 314,575**	$ 393,020

The following table presents total assets by geographic region:

	December 31	December 31
($000s)	**2023**	2022
Canada	**$ 583,472**	$ 638,613
United States	**534,951**	573,390
Total Assets	**$ 1,118,423**	$ 1,212,003

17. Supplemental Disclosures

Changes in Non-Cash Working Capital & Other

($000s)	Year ended December 31 2023	2022
Accounts receivable	**$ 14,321**	$ (11,347)
Acquisition deposits	**(12,086)**	-
Income tax deposits (note 13)	**(7,365)**	(7,198)
Accounts payable and accrued liabilities	**861**	(1,147)
Current income taxes payable	**(27,989)**	29,303
Less: Foreign exchange on translation	**(1,024)**	858
	$ (33,282)	$ 10,469
Operating	**$ (22,749)**	$ 10,854
Investing	**(10,533)**	(385)
	$ (33,282)	$ 10,469

BOARD OF DIRECTORS

Marvin F. Romanow
Chair of the Board

Sylvia K. Barnes
Corporate Director

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

Peter T. Harrison
Corporate Director

Maureen E. Howe (1)(2)
Corporate Director

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

Valerie A. Mitchell (3)
Corporate Director

David M. Spyker
President and Chief Executive Officer

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

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

OFFICERS

David M. Spyker
President and Chief Executive Officer

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

Robert A. King
Chief Operating Officer

Lisa N. Farstad
Vice President, Corporate Services

Brianna E.C. Guenther
General Counsel & Corporate Secretary

Ian C. Hantke
Vice President, Diversified Royalties

Susan J. Nagy
Vice President, Business Development

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ATB Financial
Royal Bank of Canada
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Trimble Engineering Associates Ltd.
Ryder Scott (RSC Group)

STOCK EXCHANGE AND TRADING SYMBOL

Toronto Stock Exchange (TSX) Common Shares: FRU

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FREEHOLD ROYALTIES