

# Management Discussion and Analysis

*The following Management's Discussion and Analysis (MD&A) was prepared as of August 9, 2022 and is management's opinion about the consolidated operating and financial results of Freehold Royalties Ltd. and its wholly-owned subsidiaries (collectively, Freehold or the Company) for the three and six months ended June 30, 2022 and its comparative periods, and the outlook for Freehold based on information available as of the date hereof.*

The financial information contained herein was based on information in the condensed consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. All comparative percentages are between the three ("Q2-2022") and six ("first six months") months ended June 30, 2022 (combined the "current reporting periods" in that respective order) and the same period(s) in 2021 (also in that respective order), and all dollar amounts are expressed in Canadian currency, unless otherwise noted. References to "US\$" are to United States (US) dollars. This MD&A should be read in conjunction with the June 30, 2022 unaudited condensed financial statements (the "interim financial statements") and the December 31, 2021 audited consolidated financial statements and notes (the "audited financial statements").

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

This MD&A contains the non-GAAP financial ratios: **cash costs** and **netback** and a supplemental financial measure **payout ratio**. These are useful supplements to analyze operating performance, financial leverage, and liquidity, among others. However, these terms do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities. This MD&A also contains the capital management measures of working capital, net debt, capitalization and net debt to funds from operations as defined in Note 11 to the June 30, 2022 unaudited condensed consolidated financial statements. In addition, this MD&A contains forward-looking statements that are intended to help readers better understand our business and prospects. Readers are cautioned that the MD&A should be read in conjunction with our disclosure under "Non-GAAP Financial Ratios and Other Financial Measure" and "Forward-Looking Statements" included at the end of this MD&A.

## Business Overview

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

## The Royalty Advantage

Freehold manages one of the largest non-government portfolios of oil and natural gas royalties in Canada with an expanding land base in the US, uniquely positioning Freehold as a North American royalty company. Our total land holdings encompass approximately 6.1 million gross acres in Canada and includes exposure to approximately 0.9 million gross drilling acres in the US, collectively greater than 99% of which are royalty lands. Our Canadian mineral title lands (including royalty assumption lands), which we own in perpetuity, cover approximately 1.1 million acres

and we also have gross overriding royalty and other interests in approximately 5.0 million acres. Our US acreage is comprised of more than 75% mineral title lands.

We have royalty interests in more than 15,000 producing wells and 350 units spanning five provinces and eight states and receive royalty income from over 350 industry operators throughout North America. Our revenues also include potash, bonus consideration and lease rental streams that diversify our royalty revenue portfolio. Our diversified North American land base lowers Freehold's risk, and as a royalty owner, Freehold benefits from the drilling activity of others without any capital investments.

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

## Freehold's Strategy

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

- **Creating Value**
  - Drive development on our lands through our lease out program and royalty optimization
  - Acquire royalty assets with acceptable risk profiles and long economic life
  - Generate gross overriding royalties for revenue growth
- **Enhancing value**
  - Maximize Freehold's royalty interests through a comprehensive audit and compliance program
  - Manage our debt prudently with a target below 1.5 times net debt to funds from operations
- **Delivering value**
  - Target a dividend payout ratio of 60%-80%

## Subsequent Events

### US Midland and Eagle Ford Basin Transactions

On July 7th, 2022, Freehold announced it had entered into a definitive agreement with a private seller to acquire high-quality US mineral title and royalty assets located in the Eagle Ford basin in Texas for \$32 million (US\$25 million), net of estimates for exchange rates and customary closing adjustments. This transaction will be funded through the utilization of Freehold's credit facility. This transaction is expected to close in mid-September 2022.

On August 5, 2022, Freehold closed a transaction, acquiring concentrated US mineral title and royalty assets located in the Midland basin predominantly in Howard County, Texas across 51,000 gross acres for \$123 million (US\$95 million), net of estimates for exchange rates and customary closing adjustments. This transaction was funded from Freehold's credit facility.

Combined, these two US acquisitions are expected to add approximately 1,000 boe/d in production volumes and \$28 million in funds from operations in 2023 while growing our US land holdings by approximately 92,000 gross acres (95% mineral interests).

## Dividend Announcement

Freehold's Board of Directors (the Board) has approved a dividend of \$0.09 per common share to be paid on September 15, 2022, to shareholders of record on August 31, 2022. This dividend level strikes a balance between a return to shareholders, managing our financial leverage and retaining the optionality for portfolio reinvestment. The dividend to be paid on September 15, 2022, represents a 13% increase over the \$0.08 per common share dividend to be paid on August 15, 2022, to shareholders of record July 29, 2022. The dividend is designated as an eligible dividend for Canadian income tax purposes. Freehold will continue to evaluate our payout on a quarterly basis with the next expected update as part of our Q3-2022 results in November 2022.

## Outlook

### Business Environment

Global crude oil prices continued to exhibit considerable momentum during Q2-2022, with geopolitical tensions and supply tightness outweighing headwinds associated with global recession fears. Overall, the West Texas Intermediate (WTI) price averaged US\$108.41/bbl during Q2-2022, a 64% improvement versus the same period in 2021. When compared to the previous quarter, WTI prices increased 15%.

The upward price momentum of crude oil prices for the first six months in 2022 has largely been a result of the continued tightening of supply side drivers including the Russian invasion of Ukraine. In addition, there continues to remain uncertainty around global oil output above current levels, with increasing pressure from oil consuming nations for OPEC to balance the market with its spare capacity. Thus far, there have been several OPEC members which have been unable to keep up with production, suggesting that actual capacity may be lower than peak levels observed in the past.

North American E&Ps continue to message capital discipline within their capital programs, prioritizing capital returned to shareholders through share buybacks and dividend increases over volume growth. Additionally, egress, labor and equipment remain as constraints against output growth in the near-term even if producers are considering more aggressive growth.

Further to the supply side, the eventual refilling of the Strategic Petroleum Reserve (SPR) over the next few years as the US looks to replenish the 180 mmbbl of storage it withdrew through 2022 is likely to serve as a floor on pricing.

Potential downside to pricing includes the risk associated with a worldwide global recession, impacting future demand for crude oil production. Over the past five recessions post 1973, oil demand has been reduced by approximately 1-4 mmbbl/d over the following 12-24 months. In the most extreme example, peak to trough demand decline was approximately 4.5 mmbbl/d. While relatively early in the cycle, the threat for potential demand destruction through a prolonged period of economic slowdown remains the more significant risk associated with the near to medium term price outlook.

Within Canada, crude oil pricing has maintained the momentum set by global benchmarks with Edmonton Sweet light oil prices averaging \$137.79/bbl and \$126.73/bbl for the current reporting periods, up 79% and 76% versus the same periods in 2021. Also, during the current reporting periods, Western Canadian Select (WCS) prices averaged \$122.09/bbl and \$111.56/bbl, up 82% and 79% when compared to the same periods in 2021. Light heavy differentials averaged greater than US\$20/bbl for parts of Q2-2022 driven by volumes released from the SPR weighted towards sour barrels and OPEC+ barrels returning to the market. This was partially offset by lower Western Canada production as oil sands facilities underwent prolonged periods of turnaround and downtime during the quarter.

AECO 7A Monthly Index and NYMEX natural gas monthly contract prices averaged \$6.27/mcf and US\$7.17/mcf for Q2-2022, respectively up 124% and 143% versus the same period in 2021. For the first six months of 2022, AECO and NYMEX prices are up 90% and 84%, respectively, when compared to the same period in 2021. NYMEX prices were impacted by downtime at the Freeport LNG terminal over the quarter. Freeport recently revised its targeted start date from September to October 2022 with any further delays expected to prolong the supply/demand imbalance within the natural gas market. Within Canada, Western Canada inventories are well below their five-year average, which may represent a bullish starting point heading into winter 2022/2023.

## 2022 Guidance Update

After realizing actual results for the first half of 2022 and incorporating Freehold's most recent and upcoming US acquisitions (see Investing Activities and Subsequent Events) and higher future commodity pricing, we are updating guidance for 2022 as last reported on May 10, 2022. The following table summarizes our key operating assumptions for 2022, where production is expected to be weighted approximately 61% liquids and 39% natural gas:

<b>2022 Average</b>	<b>August 9 2022</b>	<b>May 10 2022</b>
Production (boe/d) <sup>(1)</sup>	<b>13,750 - 14,750</b>	13,750 - 14,750
Funds from operations (\$MM)	<b>\$300 - 320</b>	\$230 - 250
West Texas Intermediate crude oil (US\$/bbl)	<b>\$ 97.00</b>	\$ 75.00
Edmonton Light Sweet crude oil (Cdn\$/bbl)	<b>\$ 120.00</b>	\$ 88.00
AECO natural gas (Cdn\$/mcf)	<b>\$ 5.00</b>	\$ 4.00
Nymex (US\$/mcf)	<b>\$ 5.00</b>	\$ 4.00
Exchange rate (US\$/Cdn\$)	<b>\$ 0.79</b>	\$ 0.80

(1) 2022 Guidance at August 9, 2022 is expected to consist of 8% heavy oil, 42% light and medium oil, 11% NGL's and 39% natural gas, relatively unchanged from May 10, 2022

# Operating and Financial Results

FINANCIAL (\$000s, except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Royalty and other revenue	\$ 108,495	\$ 45,353	139%	\$ 196,100	\$ 82,367	138%
Net income	\$ 66,875	\$ 12,545	433%	\$ 105,270	\$ 18,180	479%
Per share, basic (\$) <sup>(1)</sup>	\$ 0.44	\$ 0.10	344%	\$ 0.70	\$ 0.14	400%
Cash flows from operations	\$ 75,443	\$ 33,420	126%	\$ 144,742	\$ 58,410	148%
Funds from operations	\$ 83,846	\$ 40,208	109%	\$ 155,739	\$ 72,629	114%
Per share, basic (\$) <sup>(1)</sup>	\$ 0.56	\$ 0.31	81%	\$ 1.03	\$ 0.55	87%
Acquisitions and related expenditures	\$ 20,661	\$ 930	2122%	\$ 21,955	\$ 80,712	-73%
Dividends paid	\$ 36,150	\$ 13,147	175%	\$ 63,262	\$ 20,780	204%
Per share (\$) <sup>(2)</sup>	\$ 0.24	\$ 0.10	142%	\$ 0.42	\$ 0.16	163%
Dividends declared	\$ 36,151	\$ 14,464	150%	\$ 66,275	\$ 23,665	180%
Per share (\$) <sup>(2)</sup>	\$ 0.24	\$ 0.11	118%	\$ 0.44	\$ 0.18	144%
Payout ratio (%) <sup>(3)</sup>	43%	33%	10%	41%	29%	12%
Long term debt	\$ 86,000	\$ 78,000	10%	\$ 86,000	\$ 78,000	10%
Net debt <sup>(4)</sup>	\$ 33,095	\$ 40,751	-19%	\$ 33,095	\$ 40,751	-19%
Shares outstanding, period end (000s)	150,640	131,490	15%	150,640	131,490	15%
Average shares outstanding (000s) <sup>(1)</sup>	150,626	131,463	15%	150,619	131,170	15%
<b>OPERATING</b>						
Light and medium oil (bbl/d)	5,378	4,048	33%	5,319	3,936	35%
Heavy oil (bbl/d)	1,239	1,253	-1%	1,212	1,144	6%
NGL (bbl/d)	1,613	1,107	46%	1,685	1,087	55%
Total liquids (bbl/d)	8,230	6,408	28%	8,216	6,167	33%
Natural gas (Mcf/d)	31,336	28,376	10%	32,086	29,250	10%
Total production (boe/d) <sup>(5)</sup>	13,453	11,137	21%	13,564	11,042	23%
Oil and NGL (%)	61%	58%	5%	61%	56%	5%
Petroleum and natural gas realized price (\$/boe) <sup>(5)</sup>	\$ 87.55	\$ 44.22	98%	\$ 78.60	\$ 40.71	93%
Cash costs (\$/boe) <sup>(3)(5)</sup>	\$ 8.38	\$ 4.48	87%	\$ 6.04	\$ 4.43	36%
Netback (\$/boe) <sup>(3)(5)</sup>	\$ 78.80	\$ 39.83	98%	\$ 72.46	\$ 36.43	99%

nm – not meaningful

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

## Q2-2022 Operating and Financial Highlights

- Dividends declared for Q2-2022 totaled \$36.2 million (\$0.24 per share), up 150% in total versus the same period in 2021 when Freehold declared dividends of \$14.5 million (\$0.11 per share). Freehold's dividend payout<sup>(2)</sup> ratio for Q2-2022 was 43% versus 33% during the same period in 2021.
- Royalty and other revenue totaled \$108.5 million in Q2-2022, up 139% from the same period in 2021. This was driven by a favorable commodity price environment, second half of 2021 acquisition activity mainly relating to US transactions and an increase in third-party drilling activity on Freehold's lands. Third-party drilling and US royalty acquisitions were primarily oil focused over the current reporting period, when compared to Q2-2021, resulting in liquids weighting moving up from 58% to 61%.
- Funds from operations in Q2-2022 totaled \$83.8 million or \$0.56 per share, Freehold's third consecutive quarter of record total reported funds from operations, up 109% in total from \$40.2 million or \$0.31 per share in the same period in 2021. This increase reflects broad gains across commodity prices and higher production volumes.
- Q2-2022 production averaged 13,453 boe/d, a 21% increase versus the same period in 2021 as volumes added from US transactions and third-party activities drove production growth versus the same period in 2021.
  - Canadian volumes averaged 9,692 boe/d for Q2-2022, up 1% versus the same period in 2021, driven by third-party drilling on our royalty lands.

- US production averaged 3,761 boe/d for Q2-2022, up 144% versus the same period in 2021. This increase primarily reflects acquisition activity during 2021.
- Freehold closed a transaction to acquire mineral title and overriding royalty interests across approximately 1,100 net royalty acres (220,000 gross acres) in the core of the Midland basin of the Permian for \$19.4 million. 2023 production volumes associated with the transaction are forecast to average approximately 130 boe/d.
- Closing long term debt at June 30, 2022 was \$86 million, a decrease of \$19 million versus March 31, 2022 as we paid down debt levels with excess funds from operations.

## Drilling Activity

In total, 224 gross wells were drilled on Freehold's royalty lands in Q2-2022, a 146% increase versus the same period in 2021. For the first six months of 2022, 460 gross wells were drilled on Freehold's land, this compares to 189 gross wells for the same period in 2021. The significant increase in drilling activity aligns with the recovery of commodity prices in addition to the 2021 and 2022 US and Canadian royalty transactions.

Of the total wells drilled in Q2-2022, approximately 59% of gross wells on Freehold royalty lands targeted prospects in Texas, 22% in Alberta, and 13% in Saskatchewan with the balance spread across other regions. In Q2-2022 approximately 83% of wells drilled on Freehold's Canadian lands were on gross overriding royalty (GORR) prospects with the remaining 17% targeting mineral title prospects. In aggregate, 93% of new wells drilled targeted oil or liquids prospects.

### Canada

With spring break-up occurring in Q2-2022, third-party activity trends downward compared to the first quarter. During Q2-2022, Freehold saw drilling in oil weighted areas such as the Viking, Sparky, and Clearwater in addition to gas weighted targets in the Deep Basin.

While producers remain disciplined in their production growth despite the significant increase in commodity prices, we continue to see significant and broad increases in drilling activity across our Canadian portfolio compared to 2021. In Q2-2022, we had 76 gross locations drilled within our Canadian portfolio compared to 59 gross locations during the same period in 2021. For the first six months of 2022, 219 gross locations were drilled on Freehold's Canadian land, a 50% increase over 146 gross locations in the same period in 2021.

### US

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

Although Freehold's US net well additions were lower than in Canada, US wells are significantly more prolific as they generally come on production at approximately ten times that of an average Canadian well in our portfolio. We also note that we are seeing upwards of six to twelve months from initial license to first production within our US royalty assets (compared to three to four months in Canada, on average). Overall, 148 gross wells were drilled on our US royalty lands during Q2-2022, which compares to 32 gross wells during the same period in 2021, this increase is due largely to second half of 2021 royalty acquisitions in addition to industry activity increases from improved commodity pricing.

## Royalty Interest Drilling

	Three Months Ended June 30				Six months ended June 30			
	2022		2021		2022		2021	
	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>
Canada	76	2.31	59	2.10	219	8.12	146	5.50
United States	148	0.72	32	0.20	241	1.11	50	0.30
Total	224	3.03	91	2.30	460	9.23	196	5.80

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

## Production

Freehold's total production averaged 13,453 boe/d and 13,564 boe/d during the current reporting periods, 21% and 23% increases over the same periods in 2021. These increases reflect acquisition activity and higher third-party drilling additions on Freehold's lands.

Production mix through the first half of 2022 was 40% light and medium oil, 9% heavy oil, 12% NGL and 39% natural gas. Working interest production for Q2-2022 was 110 boe/d versus 22 boe/d during the same period of 2021.

### Production Summary

(boe/d)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Canada	9,692	9,593	1%	9,743	9,626	1%
United States	3,761	1,544	144%	3,821	1,416	170%
Total	13,453	11,137	21%	13,564	11,042	23%

### Average Daily Production by Product Type

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Light and medium oil (bbl/d)	5,378	4,048	33%	5,319	3,936	35%
Heavy oil (bbl/d)	1,239	1,253	-1%	1,212	1,144	6%
NGL (bbl/d)	1,613	1,107	46%	1,685	1,087	55%
Natural gas (Mcf/d)	31,336	28,376	10%	32,086	29,250	10%
Total production (boe/d)	13,453	11,137	21%	13,564	11,042	23%
Number of days in period (days)	91	91	-	181	181	-
Total volumes during period (Mboe)	1,224	1,013	21%	2,455	1,999	23%

## Canada

Canadian production averaged 9,692 boe/d and 9,743 boe/d during the current reporting periods, comprised of 55% oil and NGL's, up 1% primarily due to a slight increase in oil focused drilling activity on Freehold's lands.

### Canadian Average Daily Production by Product Type

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Light and medium oil (bbl/d)	3,242	3,275	-1%	3,189	3,248	-2%
Heavy oil (bbl/d)	1,239	1,253	-1%	1,212	1,144	6%
NGL (bbl/d)	888	928	-4%	934	912	2%
Natural gas (Mcf/d)	25,938	24,823	4%	26,445	25,933	2%
Canadian production (boe/d)	9,692	9,593	1%	9,743	9,626	1%

## US

US production, representing 28% of total volumes, averaged 3,761 boe/d and 3,821 boe/d during the current reporting periods, up noticeably versus the same periods in 2021 primarily from US acquisition activities in the second half of 2021 and production additions within Freehold's US royalty portfolio from new wells.

## US Average Daily Production by Product Type

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Light and medium oil (bbl/d)	2,136	773	176%	2,130	688	210%
NGL (bbl/d)	725	179	305%	751	175	329%
Natural gas (Mcf/d)	5,398	3,553	52%	5,641	3,317	70%
United States production (boe/d)	3,761	1,544	144%	3,821	1,416	170%

## Product Prices

The price received by Freehold for produced oil is primarily driven by the US dollar price of WTI, with the realized Canadian price adjusted for the value of the Canadian dollar relative to the US dollar. WTI averaged US\$108.41/bbl and US\$101.35/bbl in the current reporting periods, 64% higher versus the same periods in 2021.

In Canada, Edmonton Light Sweet prices averaged \$137.79/bbl and \$126.73/bbl during the current reporting periods, 79% and 76% higher versus the same periods in 2021. WCS prices averaged \$122.09/bbl and \$111.56/bbl during the current reporting periods, 82% and 79% higher versus the same periods in 2021. These increases reflect a weakening Canadian dollar relative to the US dollar and a tightening supply/demand equilibrium exaggerated by heightening geopolitical risk on the supply side.

For natural gas, AECO 7A and NYMEX averaged \$6.27/mcf and US\$7.17/mcf, respectively, in Q2-2022, 124% and 143% higher versus the same period in 2021. These same natural gas benchmarks respectively averaged \$5.43/mcf and US\$5.91/mcf for the first six months of 2022, 90% and 84% higher than the same period in 2021. These current reporting period increases reflect a continuing return to balance in this market caused by improving net exports of LNG's.

As Freehold has increased its US royalty exposure, its overall realized price has improved 98% and 93% in the current reporting periods compared to the same periods in 2021. US volumes realize prices closer to WTI and NYMEX natural gas benchmarks versus discounted pricing for Canadian production that is associated with transportation costs to markets and oil quality differentials. Freehold's realized pricing further benefited from late 2021 US acquisitions that realize higher pricing in relation to Freehold's US portfolio of assets prior to such acquisitions.

## Average Benchmark Prices

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
West Texas Intermediate crude oil (US\$/bbl)	\$ 108.41	\$ 66.07	64%	\$ 101.35	\$ 61.94	64%
Exchange rate (US\$/Cdn\$)	\$ 0.78	\$ 0.81	-4%	\$ 0.79	\$ 0.80	-1%
Edmonton Light Sweet crude oil (Cdn\$/bbl)	\$ 137.79	\$ 77.12	79%	\$ 126.73	\$ 71.96	76%
Western Canadian Select crude oil (Cdn\$/bbl)	\$ 122.09	\$ 66.90	82%	\$ 111.56	\$ 62.23	79%
Nymex natural gas (US\$/Mcf)	\$ 7.17	\$ 2.95	143%	\$ 5.91	\$ 3.22	84%
AECO 7A Monthly Index (Cdn\$/Mcf)	\$ 6.27	\$ 2.80	124%	\$ 5.43	\$ 2.86	90%

Freehold's average selling prices reflect product quality and transportation differences from benchmark prices. On a boe basis, our average selling price was \$87.55/boe and \$78.60/boe in the current reporting periods, both up from \$44.22/boe and \$40.71/boe in the same periods in 2021.

## Average Realized Prices Summary

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Oil (\$/bbl)	\$ 131.66	\$ 70.83	86%	\$ 120.54	\$ 65.28	85%
NGL (\$/bbl)	\$ 62.74	\$ 39.41	59%	\$ 59.46	\$ 38.51	54%
Oil and NGL (\$/bbl)	\$ 118.15	\$ 65.39	81%	\$ 108.02	\$ 60.56	78%
Natural gas (\$/Mcf)	\$ 6.55	\$ 2.58	154%	\$ 5.57	\$ 2.60	114%
Oil equivalent (\$/boe)	\$ 87.55	\$ 44.22	98%	\$ 78.60	\$ 40.71	93%

## Canada

On a barrel of oil equivalent basis, Freehold's average selling price realized in Canada was \$83.04/boe and \$73.57/boe during the current reporting periods, up 94% and 85% versus the same periods in 2021. For these same periods, oil and NGL pricing averaged \$119.49/bbl and \$108.41/bbl, up 86% and 81%, whereas the average realized natural gas price was \$6.30/mcf and \$5.23/mcf, up 159% and 110%.

### Canadian Average Realized Prices

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Oil (\$/bbl)	\$ 128.30	\$ 69.35	85%	\$ 116.57	\$ 63.98	82%
NGL (\$/bbl)	\$ 75.00	\$ 39.73	89%	\$ 69.95	\$ 40.30	74%
Oil and NGL (\$/bbl)	\$ 119.49	\$ 64.23	86%	\$ 108.41	\$ 59.83	81%
Natural gas (\$/Mcf)	\$ 6.30	\$ 2.43	159%	\$ 5.23	\$ 2.49	110%
Oil equivalent (\$/boe)	\$ 83.04	\$ 42.83	94%	\$ 73.57	\$ 39.70	85%

## US

On a barrel of oil equivalent basis, Freehold's average selling price realized in the US was \$99.16/boe and \$91.44/boe during the current reporting periods, up 89% and 93% versus the same periods in 2021. The current reporting periods include realized oil pricing in the US that averaged \$138.70/bbl and \$128.75/bbl, both up 75% when compared to the same periods in 2021. Freehold's average realized US natural gas price was \$7.79/mcf and \$7.15/mcf, up 114% and 109% when compared to the same periods in 2021.

### US Average Realized Prices (in Canadian Dollars)

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Oil (\$/bbl)	\$ 138.70	\$ 79.48	75%	\$ 128.75	\$ 73.59	75%
NGL (\$/bbl)	\$ 47.74	\$ 37.71	27%	\$ 46.43	\$ 29.19	59%
Oil and NGL (\$/bbl)	\$ 115.64	\$ 67.10	72%	\$ 107.26	\$ 60.39	78%
Natural gas (\$/Mcf)	\$ 7.79	\$ 3.64	114%	\$ 7.15	\$ 3.42	109%
Oil equivalent (\$/boe)	\$ 99.16	\$ 52.53	89%	\$ 91.44	\$ 47.38	93%

## Credit Risk Management

Freehold's royalty lands consist of a large number of properties with generally small volumes per property. Many of Freehold's leases and royalty agreements allow it to take its share of oil and natural gas in-kind. Taking product in-kind allows us to take ownership of the product as it is produced and thus sell it directly ourselves rather than having the royalty payor sell the product on our behalf and pass along proceeds from the sale in subsequent months. As part of Freehold's credit risk mitigation program, Freehold's dedicated Compliance Group carefully monitors its royalty receivables and may choose to take its royalty in-kind if there are benefits in doing so. For Q2-2022, Freehold marketed approximately 2% of its total royalty production that was taken-in-kind using 30-day contracts, a decrease from 15% during the same period in 2021. This decrease is attributed to higher US production where mineral title claims have priority and we have not needed to take-in-kind in addition to improved commodity prices resulting in more robust funds flow amongst Freehold's Canadian payors, further mitigating the risk of their insolvency. Historically Freehold has not experienced significant collection issues.

## Royalty and Other Revenue

Royalty and other revenue of \$108.5 million and \$196.1 million in the current reporting periods was 142% and 140% higher when compared to the same periods in 2021. Freehold's royalty and other revenue benefited from the higher crude oil and natural gas prices, alongside growing production volumes primarily through US royalty property

acquisitions in the second half of 2021. Oil and NGL's represented approximately 82% of royalty and other revenue for both current reporting periods, a 2% decrease from the same periods in 2021.

Freehold also received \$0.8 million for potash revenues and \$0.5 million for bonus consideration and lease rentals, both sizeable increases in Q2-2022 over the same period in 2021 as potash pricing and US leasing activity increased. During Q2-2022, Freehold entered into 17 new leases with eight counterparties. For the first half of 2022, new leasing has already surpassed full year 2021 levels.

### Royalty and Other Revenue Summary

(\$000s, except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Canada	\$ 74,574	\$ 37,969	96%	\$ 132,490	\$ 70,215	89%
United States	33,921	7,386	359%	63,610	12,152	423%
Royalty and other revenue	\$ 108,495	\$ 45,353	139%	\$ 196,100	\$ 82,367	138%
Per boe (\$)	\$ 88.64	\$ 44.73	98%	\$ 79.88	\$ 41.21	94%

### Royalty and Other Revenue by Category

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Royalty interest	\$ 107,992	\$ 45,144	139%	\$ 194,660	\$ 82,006	137%
Bonus consideration and lease rentals	503	209	141%	1,440	361	299%
Royalty and other revenue	\$ 108,495	\$ 45,353	139%	\$ 196,100	\$ 82,367	138%

### Royalty and Other Revenue by Type

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Oil	\$ 79,276	\$ 34,165	132%	\$ 142,499	\$ 60,024	137%
Natural gas	18,687	6,670	180%	32,343	13,758	135%
Natural gas liquids	9,209	3,978	131%	18,131	7,577	139%
Potash	819	331	147%	1,686	647	161%
Bonus consideration and lease rentals	503	209	141%	1,440	361	299%
Royalty and other revenue	\$ 108,495	\$ 45,353	139%	\$ 196,100	\$ 82,367	138%

## General and Administrative

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

In the current reporting periods, G&A expenses totaling \$3.3 million and \$6.9 million were up 48% and 26% versus the same periods in 2021. These increases partially relate to Freehold's expansion into the US, including more staff, and a newly created diversified royalties' team.

On a per boe basis, the current reporting periods G&A expenses of \$2.69/boe and \$2.80/boe increased by 22% and 3% versus the same periods in 2021. These increases were also due to Freehold's expansion into the US but partially offset by the associated production.

(\$000s, except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
General and administrative expenses before capitalized and overhead recoveries	\$ 3,796	\$ 2,699	41%	\$ 8,156	\$ 6,433	27%
Less: capitalized and overhead recoveries	(505)	(468)	-8%	(1,275)	(977)	-31%
General and administrative expenses	\$ 3,291	\$ 2,231	48%	\$ 6,881	\$ 5,456	26%
Per boe (\$)	\$ 2.69	\$ 2.20	22%	\$ 2.80	\$ 2.73	3%

## Production and Ad Valorem Taxes

Production and ad valorem taxes are incurred in the US at the state level derived from production and property values. With Freehold's expansion into the US largely in the second half of 2021, the expenses of \$1.8 million and \$3.4 million during the current reporting periods were 316% and 386% higher than the same periods in 2021. The increases on a per boe basis reflects Freehold's US expansion into states, largely Texas, that do not charge corporate income taxes but do assess flat tax rates on commodity revenues in addition to property tax assessments.

(\$000s, except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Production and ad valorem taxes	\$ 1,782	\$ 428	316%	\$ 3,387	\$ 697	386%
Per boe (\$)	\$ 1.46	\$ 0.42	248%	\$ 1.38	\$ 0.35	294%

## Operating Expenses

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

(\$000s, except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Operating expenses	\$ 345	\$ 249	39%	\$ 506	\$ 404	25%
Per boe (\$)	\$ 0.28	\$ 0.25	12%	\$ 0.21	\$ 0.20	5%

## Interest and Financing

Interest on long term debt in the current reporting periods has increased compared to the same periods in 2021, due in part to higher fees associated with the expanded credit facility and both higher interest rates and average debt levels associated with the latter half of 2021 and Q2-2022 US acquisitions. The comparative periods include refinancing fees resulting from last year's credit renewal.

The average effective interest rate on advances under our credit facilities for the current reporting periods was 3.2% and 2.6% (2021 – 2.1% for both periods).

(\$000s, except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Interest on long term debt and financing fees	\$ 780	\$ 693	13%	\$ 1,586	\$ 1,616	-2%
Non-cash interest expense <sup>(1)</sup>	47	58	-19%	92	115	-20%
Interest and finance expense	\$ 827	\$ 751	10%	\$ 1,678	\$ 1,731	-3%
Per boe (\$)	\$ 0.68	\$ 0.74	-8%	\$ 0.68	\$ 0.87	-22%
Per boe - cash expense (\$)	\$ 0.64	\$ 0.68	-6%	\$ 0.65	\$ 0.81	-20%

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

## Share-Based Compensation

Share-based compensation expense, reflecting Freehold's award and deferred share unit (DSU) plans were \$2.1 million and \$4.2 million during the current reporting periods versus \$1.8 million and \$3.5 million in the same periods of 2021. The current reporting periods include a non-cash charge of \$1.5 million to adjust the carrying amount of

DSUs to their market value at June 30, 2022 to prospectively account for this plan as cash settled (see Change in DSU Accounting). Previously this plan was mostly accounted for as equity settled. The current reporting periods' share-based compensation decreased as Freehold's share price lowered whereas it increased during the comparative periods.

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

(\$000s, except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Share-based compensation	\$ 2,092	\$ 1,815	15%	\$ 4,155	\$ 3,483	19%
Cash payout on share based compensation	\$ 5,838	\$ 1,371	326%	\$ 5,838	\$ 1,371	326%
Per boe (\$)	\$ 4.77	\$ 1.35	253%	\$ 2.38	\$ 0.69	245%

## Award Plan

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

Share-based compensation expense is based on Freehold's share price, the number of PSUs and RSUs outstanding at each period end, a notional adjustment for paid dividends and an estimated forfeiture rate. Compensation expense is recognized over the vesting period. For the PSUs there is also a performance multiplier of 0 to 2 times, 50% of which is determined from absolute total shareholder return and 50% of which is determined from relative total shareholder return over a three-year period.

During the current reporting periods, there were 235,142 PSUs and RSUs granted under Freehold's award plan. Net of forfeitures and payouts, this resulted in a total of 886,013 PSUs and RSUs outstanding at June 30 and August 9, 2022 (December 31, 2021 – 926,922).

## Deferred Share Unit Plan

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

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

During the first half of 2022, Freehold granted a total of 74,074 DSUs to members of the Board largely as part of their annual compensation resulting in 456,806 outstanding DSUs at June 30, 2022 (December 31, 2021 – 447,684). Since Q2-2022, additional grants compensating for paid share dividends resulted in 459,765 outstanding DSUs at August 9, 2022.

## Netback and Cash Costs

The netback<sup>(1)</sup> allows Freehold to benchmark how changes in commodity pricing and our cash-based cost structure compare against prior periods. Freehold's netback<sup>(1)</sup> totaled \$78.80/boe and \$72.46/boe during the current reporting periods, 98% and 99% increases versus the same periods in 2021. These increases include significantly improved realized commodity pricing but partially offset by increased cash costs<sup>(1)</sup>.

Cash costs<sup>(1)</sup> during the current reporting periods were up 87% and 36%, on a boe basis, compared to the same periods in 2021. These increases were largely driven by a higher annual cash payout on share-based compensation, including redeemed DSU's from a retiring director, in addition to increased operating expenses and general and administrative costs.

(\$/boe)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Royalty and other revenue	\$ 88.64	\$ 44.73	98%	\$ 79.88	\$ 41.21	94%
Production and ad valorem taxes	(1.46)	(0.42)	248%	(1.38)	(0.35)	294%
Net revenue	\$ 87.18	\$ 44.31	97%	\$ 78.50	\$ 40.86	92%
Less:						
General and administrative	(2.69)	(2.20)	22%	(2.80)	(2.73)	3%
Operating expense	(0.28)	(0.25)	12%	(0.21)	(0.20)	5%
Interest and financing cash expense	(0.64)	(0.68)	-6%	(0.65)	(0.81)	-20%
Cash payout on share based compensation	(4.77)	(1.35)	253%	(2.38)	(0.69)	245%
Cash costs <sup>(1)</sup>	(8.38)	(4.48)	87%	(6.04)	(4.43)	36%
Netback <sup>(1)</sup>	\$ 78.80	\$ 39.83	98%	\$ 72.46	\$ 36.43	99%

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

## Depletion, Depreciation and Other

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

The depletion rates per boe of \$19.22/boe and \$19.34/boe in the current reporting periods, were both down 8% during the same periods in 2021, due largely to Freehold's 2021 US royalty income asset acquisitions lowering the overall rate. However, this lower rate was offset by increased production associated with acquisitions, resulting in an increase of 11% and 14% in expensed depletion, depreciation and other during the current reporting periods compared to the same periods in 2021.

(\$000s, except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Depletion, depreciation and other	\$ 23,527	\$ 21,220	11%	\$ 47,490	\$ 41,796	14%
Per boe (\$)	\$ 19.22	\$ 20.93	-8%	\$ 19.34	\$ 20.91	-8%

## Unrealized Foreign Exchange on Intercompany Note

Intercompany balances from Freehold's Canadian parent to its US subsidiary have increased as a result of US royalty property acquisitions primarily in the latter half of 2021 and most recently in Q2-2022. Although these balances eliminate on consolidation, the intercompany balance held by the Canadian parent was recognized as unrealized foreign exchange whereas revaluation by the US subsidiary was recognized within other comprehensive income due to different functional currencies between the parent and the US subsidiary. These intercompany positions are revalued at the relevant foreign exchange rate at each period end. During the current reporting periods, the strengthening US dollar relative to the Canadian dollar increased the reported intercompany note causing unrealized foreign exchange gains where the opposite occurred in the comparative periods.

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Unrealized foreign exchange (gain) loss on intercompany note	\$ (8,349)	\$ 1,412	691%	\$ (4,429)	\$ 3,324	233%

## Management Fee

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

The ascribed value attributable to management fees during the current reporting periods of \$0.2 million and \$0.4 million were decreases of 35% and 21% compared to the same periods of 2021. These decreases reflect the lower number of shares issued for management fees, partially offset by increases in Freehold's share price.

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Shares issued for management fees	13,750	27,500	-50%	27,500	55,000	-50%
Ascribed value (\$000s) <sup>(1)</sup>	\$ 175	\$ 269	-35%	\$ 371	\$ 468	-21%
Closing share price (\$/share)	\$ 12.74	\$ 9.77	30%	\$ 12.74	\$ 9.77	30%

(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 June 30, 2022, there were no indicators of impairment on Freehold's US and Canadian Royalty cash generating units nor on its exploration and evaluation assets. As a result, no impairment testing was conducted.

## Income Taxes

Freehold's taxable income is based on revenues (which will vary depending on commodity prices and production volumes) less deductible expenses, including tax pool deductions. For the six months of 2022, Freehold estimates current income tax expenses in Canada and the US of \$15.6 million and \$5.8 million, respectively, driven by strong commodity pricing and increased US production volumes. There was no current income tax expense in 2021 as Freehold sheltered its income using its tax pools.

In the current reporting periods, Freehold had deferred tax expenses of \$5.5 million and \$9.4 million.

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Current income tax expense	\$ 12,388	-	nm	\$ 21,364	\$ -	nm
Deferred income tax expense	5,542	4,433	25%	9,427	6,828	38%
Income taxes	\$ 17,930	\$ 4,433	304%	\$ 30,791	\$ 6,828	351%

nm – not meaningful

## CRA Reassessments

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

Freehold has received legal advice that it should be entitled to deduct the NCLs and as such, expects to be successful on its appeal and payment of these deposits held by the CRA should be refunded, plus interest, and the denied NCLs

should be reinstated. A CRA appeals' officer was assigned in late 2021 but there have been no new developments since the assignment.

NCLs were deducted against taxable income on filing Freehold's Canadian 2021 income tax return. These 2021 NCL deductions are anticipated to be disallowed by the CRA resulting in a reassessment against our 2021 income tax. On receipt of this anticipated 2021 reassessment, Freehold will be required to post an additional deposit of approximately \$10 million within 90 days bringing the total deposits to approximately \$25 million.

## Net Income and Comprehensive Income

In the current reporting periods, Freehold had net income of \$66.9 million and \$105.3 compared to \$12.5 million and \$18.2 million in the same periods in 2021. These increases were due to higher commodity pricing reflecting significant improvement in crude oil and natural gas benchmark pricing combined with a weighted average shift to stronger US based pricing and higher volumes resulting from 2021 US royalty property acquisitions, slightly offset by the introduction of current income taxes of \$12.4 million and \$21.4 million.

(\$000s, except per share)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Net income	\$ 66,875	\$ 12,545	433%	\$ 105,270	\$ 18,180	479%
Per share, basic and diluted (\$)	\$ 0.44	\$ 0.10	340%	\$ 0.70	\$ 0.14	400%
Comprehensive income	\$ 70,520	\$ 12,448	467%	\$ 107,266	\$ 18,058	494%

## Liquidity and Capital Resources

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

## Operating Activities

### Cash Flow from Operating Activities and Funds from Operations

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

Funds from operations for the current reporting periods increased over 100% to \$83.8 million (\$0.56/share) and \$155.7 million (\$1.03/share) from \$40.2 million (\$0.31/share) and \$72.6 million (\$0.55/share) in the same periods of 2021. These increases were due to higher production resulting from Freehold's acquisitions of US royalty properties, higher third-party drilling activities, higher commodity pricing reflecting significant improvement in crude oil and natural gas benchmark pricing combined with a weighted average shift to stronger US based pricing.

Cash flow from operations of \$75.4 million and \$144.7 million during the current reporting periods were 126% and 148% higher than the same periods of 2021, consistent with the increases in funds from operations.

(\$000s, except as noted)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Cash flow from operations	\$ 75,443	\$ 33,420	126%	\$ 144,742	\$ 58,410	148%
Funds from operations	\$ 83,846	\$ 40,208	109%	\$ 155,739	\$ 72,629	114%
Per share - basic (\$) <sup>(1)</sup>	\$ 0.56	\$ 0.31	81%	\$ 1.03	\$ 0.55	87%

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

## Working Capital

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

Working capital on June 30, 2022 was \$52.9 million, 18% higher from December 31, 2021. This increase reflects a \$24.6 million increase in accounts receivable slightly offset by higher accrued current income taxes and dividends payable. Working capital at June 30, 2022 and December 31, 2021 includes \$14.7 million of deposits provided to the CRA upon Freehold filing its objection of the Reassessments (see CRA Reassessments).

(\$000s)	At June 30	At December 31	Change
	2022	2021	
Working capital <sup>(1)</sup>	\$ 52,905	\$ 44,771	18%

(1) Working capital is a capital management measures

## Financing Activities

### Long-Term Debt

Freehold has an amended credit facility agreement with a syndicate of four Canadian banks with a committed revolving facility availability of \$285 million and an operating facility availability of \$15 million. The amended credit facility agreement includes a permitted increase in the revolving facility to \$360 million, subject to lenders' consent. Both the committed revolving and operating facilities mature September 28, 2024. At June 30, 2022, \$86.0 million was drawn on the committed revolving facility (December 31, 2021 - \$146 million). The decrease from year-end of \$60.0 million was attributable to excess funds from operations. The credit facilities are secured with a \$400 million first charge demand debenture over all of Freehold's Canadian royalty income assets and fixed charge mortgage securities on US royalty income assets with associated proved developed producing reserves.

The credit agreement contains two financial covenants: (i) the first financial covenant is that long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times (the actual ratio was 0.3 times at June 30, 2022) and (ii) the second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders' equity) percentage shall not exceed 55% (the actual percentage was 9% at June 30, 2022). In addition, Freehold forecasts to be in compliance with all covenants on a quarterly basis for at least the next 12 months based on Freehold's current best estimate of results from operations. As a result of economic uncertainties including, but not limited to, the impact of subvariants of COVID-19 and sanctions imposed on Russia as a result of its invasion of Ukraine, actual operating results may vary from Freehold's current best estimate.

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

At June 30, 2022 and December 31, 2021, the fair values of the long-term debt approximated their carrying values, as the long-term debt carries interest at prevailing market rates.

## Net Debt

During the six months of 2022, net debt decreased by \$68.1 million, or 67%, to \$33.1 million from \$101.2 million at December 31, 2021, resulting from strong funds from operations.

Freehold's net debt to trailing funds from operations ratio at June 30, 2022 lowered to 0.1 times from 0.5 times at December 31, 2021 and was well within our net debt strategy target of below 1.5 times. This ratio is a financial leverage measure. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others. However, the calculation of net debt to funds from operations excludes funds from operations from US assets acquired during 2021 and Q2-2022 for the periods prior to closing of such acquisitions that if included would benefit this measure.

Freehold uses the capital management measure capitalization which is defined as net debt plus shareholders' equity. The associated capital management measure net debt to capitalization ratio is a financial leverage measure that shows the portion of capital relating to debt. Freehold's low net debt to capitalization ratio of 3% at June 30, 2022 (December 31, 2022 – 10%) reflects the \$60.0 million repayment of long term debt during the first six months of 2022.

## Debt Analysis

(\$000s)	At June 30	At December 31	
	2022	2021	Change
Long-term debt	\$ 86,000	\$ 146,000	-41%
Working capital <sup>(1)</sup>	(52,905)	(44,771)	18%
Net debt <sup>(1)</sup>	\$ 33,095	\$ 101,229	-67%

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

## Financial Leverage Ratios <sup>(4)</sup>

	At June 30	At December 31	
	2022	2021	Change
Net debt to funds from operations (times)	0.1	0.5	-75%
Net debt to capitalization	3%	10%	-7%

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

## Shareholders' Capital

In the six months of 2022, Freehold issued 27,500 shares for payment of the management fee.

At June 30, 2022 and August 9, 2022, there were 150,639,834 shares outstanding.

## Shareholders' Capital

(\$000s, except as noted)	June 30, 2022		December 31, 2021	
	Shares	Amount	Shares	Amount
<b>Balance, beginning of period</b>	<b>150,612,334</b>	<b>\$ 1,499,544</b>	118,787,667	\$ 1,272,397
Share issuances related to subscription receipts	-	-	31,714,667	233,265
Share issue costs, net of tax effect	-	-	-	(7,192)
Issued for payment of management fee	27,500	371	110,000	1,074
<b>Balance, end of period</b>	<b>150,639,834</b>	<b>\$ 1,499,915</b>	150,612,334	\$ 1,499,544

## Weighted Average and Period Ending Shares

	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Weighted average						
Basic	<b>150,626,235</b>	131,463,136	15%	<b>150,619,323</b>	131,169,957	15%
Diluted	<b>151,113,563</b>	131,890,251	15%	<b>151,118,320</b>	131,593,704	15%
At period end	<b>150,639,834</b>	131,490,334	15%	<b>150,639,834</b>	131,490,334	15%

## 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 June 30, 2022, our legal stated capital was \$360 million.

### 2022 Dividends Declared

Record Date	Payment Date	Dividend Amount (\$/share)
January 31, 2022	February 15, 2022	\$ 0.06
February 28, 2022	March 15, 2022	0.06
March 31, 2022	April 18, 2022	0.08
April 29, 2022	May 16, 2022	0.08
May 31, 2022	June 15, 2022	0.08
June 30, 2022	July 15, 2022	0.08
		\$ 0.44

Dividends declared and paid in Q2-2022 totaled \$36.2 million (\$0.24/share), both higher than the \$14.5 million (\$0.11/share) declared and the \$13.1 million (\$0.10/share) paid in the same period of 2021. For the six months of 2022, dividends declared and paid totaled \$66.3 (\$0.44/share) and \$63.3 (\$0.42/share), respectively, higher than the \$23.7 million (\$0.18 per share) and \$20.8 million (\$0.16 per share) in the same period of 2021.

On July 13, 2022, the Board declared a dividend of \$0.08 per common share to be paid on August 15, 2022, to common shareholders on record on July 29, 2022.

On August 9, 2022, the Board declared a dividend of \$0.09 per common share to be paid on September 15, 2022, to common shareholders on record on August 31, 2022.

From inception in 1996 through to June 30, 2022, Freehold has distributed \$1.9 billion (\$33.53 per share) to our shareholders. Freehold's dividends are designated as eligible dividends for Canadian income tax purposes.

## Accumulated Dividends <sup>(1)</sup>

(\$000's, except per share)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
<b>Dividends declared</b>	<b>\$ 36,151</b>	\$ 14,464	150%	<b>\$ 66,275</b>	\$ 23,665	180%
Accumulated, beginning of period	<b>1,836,601</b>	1,747,050	5%	<b>1,806,477</b>	1,737,849	4%
Accumulated, end of period	<b>\$ 1,872,752</b>	\$ 1,761,514	6%	<b>\$ 1,872,752</b>	\$ 1,761,514	6%
<b>Dividends per share</b> (\$) <sup>(2)</sup>	<b>\$ 0.24</b>	\$ 0.1100	118%	<b>\$ 0.44</b>	\$ 0.1800	144%
Accumulated, beginning of period (\$)	<b>33.2925</b>	32.6725	2%	<b>33.0925</b>	32.6025	2%
Accumulated, end of period (\$)	<b>\$ 33.5325</b>	\$ 32.7825	2%	<b>\$ 33.5325</b>	\$ 32.7825	2%

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

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

In the current reporting periods, Freehold's payout<sup>(2)</sup> ratios were 43% and 41% highlighting that dividend payments are being made within our means, with excess funds from operations being used to repay debt and fund a US acquisition during Q2-2022.

## Payout Ratio <sup>(2)</sup>

(\$000s)	Three months ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Dividends paid <sup>(1)</sup>	<b>\$ 36,150</b>	\$ 13,147	175%	<b>\$ 63,262</b>	\$ 20,780	204%
Funds from operations	<b>\$ 83,846</b>	\$ 40,208	109%	<b>\$ 155,739</b>	\$ 72,629	114%
Payout ratio <sup>(2)</sup>	<b>43%</b>	33%	10%	<b>41%</b>	29%	12%

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

(2) Payout ratio is a supplemental measure

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

Freehold's payout<sup>(2)</sup> ratio for the current reporting periods were 43% and 41%, an increase compared to 33% and 29% during the same periods in 2021. Commodity prices and production volumes on our royalty lands have funds from operations outperforming expectations; however considerable future commodity pricing volatility remains. Localized lockdowns resulting from different COVID-19 variants continue to drive volatility into the market fundamentals. Further, recent oil price increases and inflationary pressures are attributable in part to Russia's invasion of the Ukraine, resulting in an unbalancing of the global energy market as the European Union and various other countries impose sanctions on Russia's significant oil and gas industry. The resulting volatility in commodity prices and inflationary pressures in addition to other logistical constraints in global manufacturing and transport of goods has significantly increased potential recessionary risks. Freehold continues to work towards returning the payout ratio to the lower end of our target through a measured strategy using long term planning pricing which weighs this return against expected future pricing volatility. With the goal of aligning dividend levels to a stronger and stabilizing business outlook, Freehold has increased its monthly dividend from \$0.04/share in May 2021, to \$0.05/share in August 2021, to \$0.06/share in November, to \$0.08/share in March 2022 and to \$0.09/share or \$1.08/share on an annualized basis in August 2022.

## Investing Activities

### Acquisitions and Related Expenditures

In the first six months of 2022, Freehold invested \$20.7 million in acquisitions and related expenditures.

### **US Acquisition**

On June 28, 2022, Freehold acquired US mineral title and overriding royalty interests on 220,000 gross acres (1,100 net royalty acres) in the Midland basin located in Texas for \$19.4 million (US\$15.1 million). This transaction was treated as an asset acquisition.

### **Canadian Acquisition**

Freehold paid \$0.4 million during the six months of 2022 pursuant to a Canadian royalty transaction signed in 2021 in exchange for gross overriding royalties in the range of 3 to 5% in the Clearwater play in central Alberta. Freehold's combined payments in 2021 and 2022 are \$6.2 million relative to its commitment to pay up to \$7.9 million conditional on the operator continuing to satisfy its drilling commitment.

### **Related Expenditures**

For Q2-2022, Freehold recognized capitalized general & administrative costs of \$1.2 million and other royalty income asset and miscellaneous expenditures of \$1.0 million.

## **Related Party Transactions**

Freehold does not have any employees. Rather, Freehold is managed by Rife Resources Management Ltd. (the Manager) pursuant to a management agreement (the Management Agreement). The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). Rife is 100% owned by the pension funds for the employees of the Canadian National Railway Company (the CN Pension Trust Funds), and both Rife and the CN Pension Trust Funds are shareholders of Freehold. Combined they have a 18.1% ownership in Freehold at June 30, 2022, a decrease from the 19.9% ownership at December 31, 2021, caused by Rife selling 2.8 million shares of its investment in Freehold in January 2022. Canpar Holdings Ltd. (Canpar) is managed by Rife and owned 100% by the CN Pension Trust Funds. Two of the directors of each of Rife and Canpar are also directors of Freehold.

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

### **Rife Resources Management Ltd.**

The Manager provides certain services for a fee based on a specified number of Freehold common shares on a quarterly basis. Pursuant to the Management Agreement, the management fee was capped at 13,750 and 27,500 Freehold common shares per quarter for 2022 and 2021, respectively. For the current reporting periods, the ascribed values of \$0.2 million and \$0.4 million were based on the closing price of Freehold's common shares on the last trading day of each quarter (same periods in 2021 - \$0.3 million and \$0.5 million).

During the current reporting periods, the Manager charged \$2.5 million and \$5.9 million in G&A costs (same periods in 2021 - \$2.4 million and \$5.3 million). At June 30, 2022, there was \$0.8 million (December 31, 2021 – \$0.5 million) in accounts payable and accrued liabilities relating to these types of costs.

### **Rife Resources Ltd. and CN Pension Trust Funds**

During the current reporting periods, Freehold paid \$6.5 million and \$11.6 million in cash dividends to Rife and the CN Pension Trust Funds for their combined ownership in Freehold's common shares (same periods in 2021 - \$2.9 million and \$4.6 million).

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. During the current reporting periods, Freehold reported royalties of approximately \$0.1 million and \$0.3 million from Rife (same periods in 2021 - \$0.2 million and \$0.3 million).

At June 30, 2022, there was \$2.2 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared, net of royalties' receivable (December 31, 2021 - \$1.8 million).

## Canpar Holdings Ltd.

Freehold and Canpar generally share mineral title ownership in a substantial land base in western Canada. Generally, Canpar owns mineral rights that were below the deepest producing formation at the time that Freehold was created, and Freehold holds the balance of the mineral rights. Where Freehold is not the legal registered owner of such mineral rights, Canpar holds these rights in trust for Freehold and receives the royalty payments in respect of such mineral rights on behalf of Freehold. At June 30, 2022, and December 31, 2021, there were no amounts due from Canpar.

## Select Quarterly Information

Financial (\$000s, except as noted)	2022		2021				2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Royalty and other revenue	<b>108,495</b>	87,605	75,202	51,423	45,353	37,014	25,882	23,156
Net income	<b>66,875</b>	38,395	31,178	22,726	12,545	5,635	373	139
Per share, basic (\$) <sup>(1)</sup>	<b>\$ 0.44</b>	\$ 0.25	\$ 0.21	\$ 0.17	\$ 0.10	\$ 0.04	\$ -	\$ -
Cash flows from operations	<b>75,443</b>	69,300	59,700	43,911	33,420	24,990	20,610	1,130
Funds from operations	<b>83,846</b>	71,893	68,773	48,247	40,208	32,421	22,129	19,893
Per share, basic (\$) <sup>(1)</sup>	<b>\$ 0.56</b>	\$ 0.48	\$ 0.46	\$ 0.36	\$ 0.31	\$ 0.25	\$ 0.19	\$ 0.17
Acquisitions and related expenditures	<b>20,661</b>	1,294	67,906	228,382	930	79,782	222	485
Dividends paid	<b>36,150</b>	27,112	24,094	17,095	13,147	7,633	5,342	5,342
Per share (\$) <sup>(2)</sup>	<b>0.24</b>	0.18	0.16	0.13	0.10	0.06	0.045	0.045
Dividends declared	<b>36,151</b>	30,124	25,598	19,364	14,464	9,201	5,938	5,342
Per share (\$) <sup>(2)</sup>	<b>\$ 0.24</b>	\$ 0.20	\$ 0.17	\$ 0.14	\$ 0.11	\$ 0.07	\$ 0.0500	\$ 0.0450
Payout ratio (%) <sup>(3)</sup>	<b>43%</b>	38%	35%	35%	33%	24%	24%	27%
Long term debt	<b>86,000</b>	105,000	146,000	126,000	78,000	96,000	93,000	107,000
Net debt <sup>(4)</sup>	<b>33,095</b>	62,578	101,229	75,278	40,751	64,797	65,765	81,678
Shares outstanding, period end (000s)	<b>150,640</b>	150,626	150,612	150,585	131,490	131,463	118,788	118,746
Average shares outstanding (000s) <sup>(1)</sup>	<b>150,626</b>	150,612	150,585	132,941	131,463	130,874	118,747	118,706
<b>Operating</b>								
Light and medium oil (bbls/d)	<b>5,378</b>	5,234	5,401	4,025	4,048	3,784	3,325	3,232
Heavy oil (bbls/d)	<b>1,239</b>	1,210	1,254	1,249	1,253	1,072	1,087	943
NGL (bbls/d)	<b>1,613</b>	1,757	1,564	1,125	1,107	1,065	824	859
Total liquids (bbls/d)	<b>8,230</b>	8,201	8,219	6,399	6,408	5,921	5,236	5,034
Natural gas (Mcf/d)	<b>31,336</b>	32,845	34,700	29,203	28,376	30,132	26,671	24,656
Total production (boe/d) <sup>(5)</sup>	<b>13,453</b>	13,676	14,005	11,265	11,137	10,944	9,681	9,143
Oil and NGL (%)	<b>61%</b>	60%	59%	57%	58%	54%	54%	55%
Petroleum and natural gas realized price (\$/boe)	<b>87.55</b>	69.71	57.44	49.17	44.22	37.31	28.16	26.95
Cash costs (\$/boe) <sup>(3)(5)</sup>	<b>8.38</b>	3.70	3.57	2.49	4.48	4.37	4.03	3.70
Netback (\$/boe) <sup>(3)(5)</sup>	<b>78.80</b>	66.17	53.58	46.60	39.83	32.94	24.85	23.79
<b>Benchmark Prices</b>								
West Texas Intermediate crude oil (US\$/bbl)	<b>108.41</b>	94.29	77.19	70.55	66.07	57.81	42.47	40.91
Exchange rate (Cdn\$/US\$)	<b>0.78</b>	0.79	0.79	0.79	0.81	0.79	0.77	0.75
Edmonton Light Sweet crude oil (Cdn\$/bbl)	<b>137.79</b>	115.67	93.28	83.77	77.12	66.76	50.45	49.81
Western Canadian Select crude oil (Cdn\$/bbl)	<b>122.09</b>	101.02	78.71	71.79	66.90	57.55	43.56	42.55
Nymex natural gas (US\$/mcf)	<b>7.17</b>	4.64	4.75	4.35	2.95	3.50	2.26	2.00
AECO 7A Monthly Index (Cdn\$/Mcf)	<b>6.27</b>	4.58	4.93	3.36	2.80	2.92	2.76	2.14

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

# Internal Control Over Financial Reporting

Freehold is required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The certification of interim filings requires us to disclose in the MD&A any changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We confirm that no such changes were made to the internal controls over financial reporting during Q2-2022. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2, Certification of Interim Filings, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## Change in DSU Accounting

The accounting policies used in the preparation of the audited financial statements have been applied in the preparation of the interim financial statements, except for the accounting treatment for the DSU plan. Effective April 1, 2022 (the effective date), DSUs are prospectively accounted as cash settled. Previously the DSU plan was accounted as equity settled as it was then the intention of Freehold to settle DSUs with equity and there was no history of cash settlement. This change in treatment resulted from redeemed DSUs being paid out in cash, as allowed by the DSU plan, during the current reporting periods. Because the DSU plan's accounting treatment changed from equity to cash-settled, the DSUs' carrying amount of \$4.5 million on the effective date was reclassified from contributed surplus to share-based compensation liability. On reclassification of those DSUs previously accounted as equity settled, the market value was determined from Freehold's share price with the difference between it and the amount reclassified from contributed surplus of \$1.5 million charged to share-based compensation expense for the current reporting periods. For all future period ends, including June 30, 2022, outstanding DSUs are measured to the market value of Freehold's share price. The equivalent Freehold dividend per share paid prior to redemption of each DSU is then reinvested on behalf of the non-management directors in additional DSUs. Cash payouts occur on redemption of DSUs when a non-management director retires, whereby the payout reduces share-based compensation payable. Although DSUs are prospectively accounted for as cash-settled from the effective date, the Board retains the right to settle DSUs through the issuance of equity.

## Forward-looking Statements

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

In particular, this MD&A contains forward-looking statements under the headings Freehold's Strategy, Subsequent Events, Outlook, 2022 Guidance, Q2-2022 Operating and Financial Highlights, CRA Reassessments and Liquidity and Capital Resources pertaining to the following:

- our expectation of generating lower risk returns to our shareholders by driving oil and gas development on our lands through our lease program, acquiring royalty assets with acceptable risk profiles and long economic life and generating gross overriding royalties for revenue growth;
- our intent to maintain balance sheet strength (1.5 times or less net debt to funds from operations) and achieve a payout ratio of between 60%-80%;
- the expected timing of closing the acquisition of certain assets in the Eagle Ford basin in Texas and the expected sources of funds for such acquisition;
- the 2023 production and funds from operations forecasts associated with certain U.S. acquisitions;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil, natural gas liquids and natural gas;
- light/heavy oil price differentials;
- 2022 second half guidance including average royalty production (including commodity weighting), funds from operations and commodity prices;
- our expectation that we will be successful in our objection of the Reassessments and the payment of the deposits held by the CRA will be refunded, plus interest, and the denied NCLs will be reinstated;
- our forecast to be in compliance with all covenants under our credit facilities on a quarterly basis for at least the next 12 months based on Freehold's current best estimate of results from operations;
- our dividend policy and expectations for future dividends; and
- treatment under governmental regulatory regimes and tax laws.

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

- volatility in market prices for crude oil, NGL and natural gas;
- the impacts of the Russian-Ukraine war and associated sanctions on the global economy and commodity prices
- the impacts of inflation and supply chain shortages on the operations of our industry partners and royalty payors;
- the continuing impact of the COVID-19 pandemic on demand and commodity prices;
- future capital expenditure levels;
- future production levels;
- future exchange rates;
- future tax rates;
- future legislation;
- the cost of developing and expanding our assets;
- our ability and the ability of our industry partners and royalty payors to obtain equipment in a timely manner to carry out development activities;
- our ability to market our product successfully to current and new customers;

- our expectation for the consumption of crude oil, NGL's and natural gas;
- our expectation for industry drilling levels on our royalty lands;
- the impact of competition;
- our ability to obtain financing on acceptable terms;
- our ability to add production and reserves through our development and acquisitions activities.
- lack of pipeline capacity;
- currency fluctuations;
- changes in income tax laws or changes in tax laws, regulations, royalties, or incentive programs relating to the oil and gas industry;
- reliance on royalty payors to drill and produce on our lands and their ability to pay their obligations;
- uncertainties or imprecision associated with estimating oil and gas reserves;
- stock market volatility and our ability to access sufficient capital from internal and external sources;
- a significant or prolonged downturn in general economic conditions or industry activity;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- geological, technical, drilling, and processing problems;
- environmental risks and liabilities inherent in oil and gas operations; and
- other factors discussed in Freehold's annual MD&A and audited financial statements for the year-ended December 31, 2021 and our AIF.

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

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

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

## Non-GAAP Financial Ratios and Other Financial Measure

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

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

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

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

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

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

## Condensed Consolidated Balance Sheets

(unaudited) (\$000s)	June 30 2022	December 31 2021
<b>Assets</b>		
Current assets:		
Cash	\$ 1,622	\$ 2,189
Accounts receivable	70,876	46,303
Income tax deposits (note 2)	14,711	14,711
	87,209	63,203
Exploration and evaluation assets (note 3)	71,607	74,455
Petroleum and natural gas interests (note 4)	916,689	932,849
<b>Total Assets</b>	<b>\$ 1,075,505</b>	<b>\$ 1,070,507</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Dividends payable (note 7)	\$ 12,051	\$ 9,037
Accounts payable and accrued liabilities	2,577	5,163
Current income taxes	15,626	-
Current portion of lease obligation	195	195
Current portion of decommissioning liability	425	750
Current portion of share based compensation payable (note 5)	3,430	3,287
	34,304	18,432
Lease obligation	1,569	1,619
Share based compensation payable (notes 1d and 5)	7,586	4,455
Decommissioning liability	4,607	4,815
Deferred income tax liability	13,632	4,220
Long-term debt (note 6)	86,000	146,000
Shareholders' equity:		
Shareholders' capital (note 7)	1,499,915	1,499,544
Accumulated other comprehensive income	2,122	126
Contributed surplus (note 1d)	-	4,521
Deficit	(574,230)	(613,225)
<b>Total Shareholders' Equity</b>	<b>927,807</b>	<b>890,966</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,075,505</b>	<b>\$ 1,070,507</b>

See accompanying notes to interim condensed consolidated financial statements  
Subsequent events (notes 4c and 7b)

# Condensed Consolidated Statements of Income and Comprehensive Income

(unaudited) (\$000s, except per share and weighted average shares)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
<b>Revenue:</b>				
Royalty and other revenue (note 8)	\$ 108,495	\$ 45,353	\$ 196,100	\$ 82,367
<b>Expenses:</b>				
General and administrative	3,291	2,231	6,881	5,456
Production and ad valorem taxes	1,782	428	3,387	697
Operating	345	249	506	404
Interest and financing (note 9)	827	751	1,678	1,731
Share based compensation (note 5)	2,092	1,815	4,155	3,483
Depletion, depreciation and other	23,527	21,220	47,490	41,796
Unrealized foreign exchange (gain) loss on intercompany note	(8,349)	1,412	(4,429)	3,324
Management fee (note 10)	175	269	371	468
	23,690	28,375	60,039	57,359
<b>Income before taxes</b>	<b>84,805</b>	16,978	<b>136,061</b>	25,008
<b>Income taxes:</b>				
Current income tax expense	12,388	-	21,364	-
Deferred income tax expense	5,542	4,433	9,427	6,828
	17,930	4,433	30,791	6,828
<b>Net income</b>	<b>\$ 66,875</b>	\$ 12,545	<b>\$ 105,270</b>	\$ 18,180
<b>Other comprehensive loss</b>				
Foreign currency translation adjustment	\$ 3,645	\$ (97)	\$ 1,996	\$ (122)
<b>Comprehensive income</b>	<b>\$ 70,520</b>	\$ 12,448	<b>\$ 107,266</b>	\$ 18,058
<b>Net income per share, basic and diluted</b>	<b>\$ 0.44</b>	\$ 0.10	<b>\$ 0.70</b>	\$ 0.14
<b>Weighted average number of shares:</b>				
Basic	150,626,235	131,463,136	150,619,323	131,169,957
Diluted	151,113,563	131,890,251	151,118,320	131,593,704

See accompanying notes to interim condensed consolidated financial statements

# Condensed Consolidated Statements of Cash Flows

(unaudited) (\$000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
<b>Operating:</b>				
Net income	\$ 66,875	\$ 12,545	\$ 105,270	\$ 18,180
Adjustments:				
Depletion, depreciation and other	23,527	21,220	47,490	41,796
Unrealized foreign exchange (gain) loss on intercompany note	(8,349)	1,412	(4,429)	3,324
Deferred income tax expense	5,542	4,433	9,427	6,828
Share based compensation expense (note 5)	2,092	1,815	4,155	3,483
Management fee (note 10)	175	269	371	468
Accretion of decommissioning liabilities and lease obligation	47	58	92	115
Cash payout on share based compensation (note 5)	(5,838)	(1,371)	(5,838)	(1,371)
Decommissioning expenditures	(225)	(173)	(799)	(194)
Funds from operations	83,846	40,208	155,739	72,629
Changes in non-cash working capital (note 13)	(8,403)	(6,788)	(10,997)	(14,219)
	75,443	33,420	144,742	58,410
<b>Financing:</b>				
Long-term debt repayment	(19,000)	(18,000)	(60,000)	(15,000)
Dividends paid (note 7)	(36,150)	(13,147)	(63,262)	(20,780)
Lease obligation paid	(49)	(51)	(98)	(98)
Share issuance related to subscription receipts, net of costs	-	-	-	58,396
Changes in non-cash working capital (note 13)	-	-	-	1,156
	(55,199)	(31,198)	(123,360)	23,674
<b>Investing:</b>				
Acquisitions and related expenditures (note 4)	(20,661)	(930)	(21,955)	(80,712)
Changes in non-cash working capital (note 13)	(187)	(219)	(228)	485
	(20,848)	(1,149)	(22,183)	(80,227)
Increase (decrease) in cash	(606)	1,073	(801)	1,857
Impact of foreign currency on cash balance	327	(57)	234	(60)
<b>Cash, beginning of period</b>	<b>1,901</b>	<b>1,807</b>	<b>2,189</b>	<b>1,026</b>
<b>Cash, end of period</b>	<b>\$ 1,622</b>	<b>\$ 2,823</b>	<b>\$ 1,622</b>	<b>\$ 2,823</b>

See accompanying notes to interim condensed consolidated financial statements  
Supplemental cash flow disclosures (note 13)

# Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited) (\$000s)	Six months ended June 30	
	2022	2021
<b>Shareholders' capital:</b>		
Balance, beginning of period	\$ 1,499,544	\$ 1,272,397
Shares issued for payment of management fee (note 10)	371	468
Share issuance related to subscription receipts	-	60,709
Share issue costs, net of tax effect	-	(1,755)
<b>Balance, end of period</b>	<b>1,499,915</b>	<b>1,331,819</b>
<b>Accumulated other comprehensive income (loss):</b>		
Balance, beginning of period	126	(40)
Foreign currency translation adjustment	1,996	(122)
<b>Balance, end of period</b>	<b>2,122</b>	<b>(162)</b>
<b>Contributed surplus:</b>		
Balance, beginning of period	4,521	3,763
Share based compensation	-	591
Reclassification to share based compensation payable (note 1d)	(4,521)	-
<b>Balance, end of period</b>	<b>-</b>	<b>4,354</b>
<b>Deficit:</b>		
Balance, beginning of period	(613,225)	(616,681)
Net income	105,270	18,180
Dividends declared (note 7)	(66,275)	(23,665)
<b>Balance, end of period</b>	<b>(574,230)</b>	<b>(622,166)</b>
<b>Total shareholders' equity</b>	<b>\$ 927,807</b>	<b>\$ 713,845</b>

See accompanying notes to interim condensed consolidated financial statements

# Notes to Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2022 and 2021 (unaudited)

## 1. Basis of Presentation

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

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

### a) Statement of Compliance

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

These financial statements were approved by the Board of Directors on August 9, 2022.

### b) Basis of Measurement and Principles of Consolidation

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

### c) Use of Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the current reporting period. The following uncertainties had direct and indirect impacts on Freehold's estimates and continue to be evaluated by management for any prospective material impact on its operations, cash flows and liquidity:

#### **Sanctions on Russian Oil and Gas Industry**

The European Union and various other countries including the United Kingdom, Canada and the United States (US), resulting from Russia's invasion of the Ukraine, have imposed various sanctions including those on the Russian Oil and Gas Industry. These sanctions have disrupted the balance of global energy markets causing, among other factors, significantly higher oil pricing and correspondingly inflationary pressures in North America. The extent of existing

and future sanctions on Russia and its Oil and Gas Industry could result in significant future volatility in oil pricing and inflation rates.

### **Impact of COVID-19**

Since 2020 when the World Health Organization declared the COVID-19 outbreak to be a pandemic, higher crude oil benchmark prices are partially attributed to increases in the demand for goods as global economies largely return to pre-pandemic levels. However, during 2022 certain regional governments and communities continue to impose lockdowns in attempts to stop localized viral spread. This has resulted in regional economies retrenching as the impact of different variants continue to cause uncertainty on establishing crude oil market fundamentals.

### **d) Change in Deferred Share Unit Accounting**

The accounting policies used in the preparation of the audited consolidated financial statements and notes for the year ended December 31, 2021, have been applied in the preparation of these financial statements, except for the accounting treatment for the deferred share unit (DSU) plan. Effective April 1, 2022 (the effective date), DSUs are prospectively accounted as cash settled. Previously the DSU plan was accounted as equity settled as it was then the intention of the Company to settle DSUs with equity and there was no history of cash settlement. This change in treatment resulted from redeemed DSUs being paid out in cash, as allowed by the DSU plan, during the three and six months ended June 2022. Because the DSU plan's accounting treatment changed from equity to cash-settled, the DSUs' carrying amount of \$4.5 million on the effective date was reclassified from contributed surplus to share-based compensation liability as reported on the Condensed Consolidated Balance Sheet. On reclassification of those DSUs previously accounted as equity settled, the market value was determined from Freehold's share price with the difference between it and the amount reclassified from contributed surplus of \$1.5 million charged to share-based compensation expense for the three and six months ended June 30, 2022. For all future period ends, including June 30, 2022, outstanding DSUs are measured to the market value of Freehold's share price. The equivalent Freehold dividend per share paid prior to redemption of each DSU is then reinvested on behalf of the non-management directors in additional DSUs. Cash payouts occur on redemption of DSUs when a non-management director retires, whereby the payout reduces share-based compensation payable. Although DSUs are prospectively accounted for as cash-settled from the effective date, the Board retains the right to settle DSUs through the issuance of equity.

## **2. Income Tax Deposits**

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

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

NCLs were deducted against taxable income on filing Freehold's Canadian 2021 income tax return. These 2021 NCL deductions are anticipated to be disallowed by the CRA resulting in a reassessment against Freehold's 2021 income

tax. On receipt of this anticipated 2021 reassessment, Freehold will be required to post an additional deposit of approximately \$10 million within 90 days bringing the total deposits to approximately \$25 million.

### 3. Exploration and Evaluation Assets

	June 30 2022	December 31 2021
<b>Balance, beginning of period</b>	\$ 74,455	\$ 80,152
Transfers to petroleum and natural gas interests (note 4)	(2,848)	(5,697)
<b>Balance, end of period</b>	<b>\$ 71,607</b>	<b>\$ 74,455</b>

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

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

### 4. Petroleum and Natural Gas Interests

(\$000s)	June 30 2022	December 31 2021
<b>Balance, beginning of period</b>	<b>\$ 1,878,761</b>	<b>\$ 1,496,062</b>
Acquisitions and related expenditures	21,955	377,002
Capitalized portion of long term incentive plan	436	1,163
Transfers from exploration and evaluation assets (note 3)	2,848	5,697
Foreign exchange translation	6,341	(467)
Decommissioning liability additions and revisions	341	(696)
<b>Balance, end of period</b>	<b>1,910,682</b>	<b>1,878,761</b>
<b>Balance, beginning of period</b>	<b>(945,912)</b>	<b>(857,665)</b>
Depletion and depreciation	(47,612)	(88,288)
Foreign exchange translation	(469)	41
<b>Balance, end of period</b>	<b>(993,993)</b>	<b>(945,912)</b>
<b>Net book value, end of period</b>	<b>\$ 916,689</b>	<b>\$ 932,849</b>

#### a. Acquisitions and related expenditures

##### US Acquisition

On June 28, 2022, Freehold acquired US mineral title and overriding royalty interests on 220,000 gross acres (1,100 net royalty acres) for \$19.4 million (US\$15.1 million), net of customary adjustments, in the Midland basin located in Texas. This transaction was treated as an asset acquisition.

##### Canadian Acquisition

Freehold paid \$0.4 million during the six months ended June 30, 2022 pursuant to a Canadian royalty transaction signed in 2021 in exchange for gross overriding royalties in the range of 3 to 5% in the Clearwater play in central Alberta. Freehold's combined payments in 2021 and 2022 are \$6.2 million relative to its commitment to pay up to \$7.9 million conditional on the operator continuing to satisfy its drilling commitment.

## Related Expenditures

For the six months ended June 30, 2022, Freehold recognized capitalized general & administrative costs of \$1.2 million and other royalty income asset and miscellaneous expenditures of \$1.0 million.

### b. Impairment

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

### c. Subsequent Events

On July 7th, 2022, Freehold announced it had entered into a definitive agreement with a private seller to acquire high-quality US mineral title and royalty assets located in the Eagle Ford basin in Texas for \$32 million (US\$25 million), net of estimates for exchange rates and customary closing adjustments. This transaction will be funded through the utilization of Freehold's existing credit facility. On signing of this definitive agreement, a deposit of \$3.7 million (US\$2.8 million) was paid by Freehold into an escrowed account pursuant to the Eagle Ford Assets' purchase and sale agreement, with the remainder of the balance due on closing of the transaction expected mid-September 2022. This transaction is expected to be funded through Freehold's existing credit facility.

On August 5, 2022, Freehold closed a transaction, acquiring concentrated US mineral title and royalty assets located in the Midland basin predominantly in Howard County, Texas across 51,000 gross acres for \$123 million (US\$95 million), net of estimates for exchange rates and customary closing adjustments. This transaction was funded from Freehold's existing credit facility.

## 5. Share Based Compensation

For the three and six months ended June 30, 2022, expensed share based compensation associated with Freehold's combined award and DSU plans was \$2.1 million and \$4.2 million, respectively (three and six months ended June 30, 2021 - \$1.8 and \$3.5 million, respectively), where the current reporting periods include a charge of \$1.5 million to adjust the carrying amount of DSUs previously accounted for as equity settled to their market value on reclassification from contributed surplus to share-based compensation payable (see note 1d).

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

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

(\$000s)	June 30 2022	December 31 2021
<b>Balance, beginning of period</b>	\$ 7,742	\$ 1,633
Reclassification from Contributed Surplus (note 1d)	4,521	-
Increase in liability	4,591	7,480
Cash payout	(5,838)	(1,371)
<b>Balance, end of period</b>	\$ 11,016	\$ 7,742
Current portion of liability	\$ 3,430	\$ 3,287
Long-term portion of liability	\$ 7,586	\$ 4,455

### a. Long-term Incentive Plans

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

Share based compensation expense is based on Freehold's share price, the number of PSUs and RSUs outstanding at each period end, a notional adjustment for paid dividends and an estimated forfeiture rate. Compensation expense is recognized over the vesting period. Also, for the PSUs there is a performance multiplier of 0 to 2 times, 50% of which is determined from absolute total shareholder return and 50% of which is determined from relative total shareholder return over a three-year period.

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

	June 30 2022	December 31 2021
<b>Balance, beginning of period</b>	<b>926,922</b>	686,792
Units issued	235,142	429,454
Forfeitures	(34,310)	(37,244)
Cash payout	(241,741)	(152,080)
<b>Balance, end of period</b>	<b>886,013</b>	926,922

### b. Deferred Share Unit Plan

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

While the Board may elect to settle DSUs through issuing common shares, from the effective date outstanding DSUs were prospectively accounted for as cash-settled (see note 1d) due to the Company establishing a precedent of cash settlement. Previously they were accounted for as equity settled.

The following table reconciles the outstanding number of DSUs:

	June 30 2022	December 31 2021
<b>Balance, beginning of period</b>	<b>447,684</b>	325,633
Annual grants and grants in lieu of fees	74,074	101,597
Additional grants resulting from paid dividends	14,385	20,454
Redeemed	(79,337)	-
<b>Balance, end of period</b>	<b>456,806</b>	447,684

## 6. Long-term Debt

Freehold has an amended credit facility agreement with a syndicate of four Canadian banks with a committed revolving facility availability of \$285 million and an operating facility availability of \$15 million. The amended credit facility agreement includes a permitted increase in the revolving facility to \$360 million, subject to lenders' consent. Both the committed revolving and operating facilities mature September 28, 2024. At June 30, 2022, \$86 million was drawn on the committed revolving facility (December 31, 2021 - \$146 million). The credit facilities are secured with

a \$400 million first charge demand debenture over all of Freehold’s Canadian royalty income assets and fixed charge mortgage securities on US royalty income assets with associated proved developed producing reserves.

The credit agreement contains two financial covenants: (i) the first financial covenant is that long-term debt to EBITDA on royalty interest properties (calculated as earnings on royalty interest properties before non-cash charges including, but not limited to, interest, taxes, depletion and depreciation and amortization) shall not exceed 3.5 times (the actual ratio was 0.3 times at June 30, 2022) and (ii) the second financial covenant is that the long-term debt to capitalization (the aggregate of long-term debt and shareholders’ equity) percentage shall not exceed 55% (the actual percentage was 9% at June 30, 2022). In addition, Freehold forecasts to be in compliance with all covenants on a quarterly basis for at least the next 12 months based on Freehold’s current best estimate of results from operations. As a result of economic uncertainties including, but not limited to, the impact of subvariants of COVID-19 and sanctions imposed on Russia as a result of its invasion of Ukraine, actual operating results may vary from Freehold’s current best estimate.

Borrowings under the credit facilities bear interest at the bank’s prime lending rate or bankers’ acceptance rates plus applicable margins and standby fees, dependent on ratios of Freehold’s long-term debt to EBITDA on royalty interest properties. For the three and six months ended June 30, 2022, the average effective interest rate on advances from Freehold’s credit facilities was 3.2% and 2.6%, respectively (for both the three and six months ended June 30, 2021 – 2.1%).

At June 30, 2022 and December 31, 2021, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market rates.

## 7. Shareholders’ Capital

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

### a. Shares Issued and Outstanding

(\$000s)	June 30, 2022		December 31, 2021	
	Shares	Amount	Shares	Amount
<b>Balance, beginning of period</b>	<b>150,612,334</b>	<b>\$ 1,499,544</b>	118,787,667	\$ 1,272,397
Share issuances related to subscription receipts	-	-	31,714,667	233,265
Share issue costs, net of tax effect	-	-	-	(7,192)
Issued for payment of management fee	27,500	371	110,000	1,074
<b>Balance, end of period</b>	<b>150,639,834</b>	<b>\$ 1,499,915</b>	150,612,334	\$ 1,499,544

### b. Dividends

During the three and six months ended June 30, 2022, Freehold declared dividends of \$36.2 million and \$66.3 million (three and six months ended June 30, 2021 - \$14.5 million and \$23.7 million) or \$0.24 and \$0.44 per common share, respectively (three and six months ended June 30, 2021 - \$0.11 and \$0.18 per common share). During this same period, Freehold paid dividends of \$36.2 million and \$63.3 million (three and six months ended June 30, 2021 - \$13.1 million and \$20.8 million) or \$0.24 and \$0.42 per common share (three and six months ended June 30, 2021 - \$0.10 and \$0.16 per common share).

On June 14, 2022, the Board declared a dividend of \$0.08 per common share or \$12.1 million which was paid on July 15, 2022 to common shareholders on record on June 30, 2021 (December 31, 2021 - \$9.0 million). On July 13, 2022, the Board declared a dividend of \$0.08 per common share to be paid on August 15, 2022, to common shareholders on record on July 29, 2022. On August 9, 2022, the Board declared a dividend of \$0.09 per common share to be paid on September 15, 2022, to common shareholders on record on August 31, 2022.

## 8. Revenue

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

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

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

### a. Royalty and Other Revenue by Commodity Type

(\$000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Oil	\$ 79,276	\$ 34,165	\$ 142,499	\$ 60,024
Natural gas	18,687	6,670	32,343	13,758
NGL	9,209	3,978	18,131	7,577
Potash	818	331	1,685	647
Bonus consideration and lease rentals	504	209	1,441	361
<b>Royalty and other revenue</b>	<b>\$ 108,495</b>	<b>\$ 45,353</b>	<b>\$ 196,100</b>	<b>\$ 82,367</b>

### b. Royalty and Other Revenue by Category

(\$000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Royalty interest revenue	\$ 107,990	\$ 45,144	\$ 194,658	\$ 82,006
Bonus consideration and lease rentals	505	209	1,442	361
<b>Royalty and other revenue</b>	<b>\$ 108,495</b>	<b>\$ 45,353</b>	<b>\$ 196,100</b>	<b>\$ 82,367</b>

As at June 30, 2022, there was outstanding accounts receivable and accrued revenue of \$66.6 million (December 31, 2021 - \$44.6 million) associated with US and Canadian royalty and other revenues. For the three and six months ended June 30, 2022 and 2021 there were no significant royalty and other revenue adjustments relating to prior periods.

## 9. Interest and Financing

(\$000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Interest on long term debt and financing expense	\$ 780	\$ 693	\$ 1,586	\$ 1,616
Accretion of decommissioning obligation	23	33	44	67
Accretion of lease obligation	24	25	48	48
<b>Interest and financing</b>	<b>\$ 827</b>	<b>\$ 751</b>	<b>\$ 1,678</b>	<b>\$ 1,731</b>

## 10. Related Party Transactions

Freehold does not have any employees. Rather, Freehold is managed by Rife Resources Management Ltd. (the Manager) pursuant to a management agreement (the Management Agreement). The Manager is a wholly-owned subsidiary of Rife Resources Ltd. (Rife). Rife is 100% owned by the pension funds for the employees of the Canadian National Railway Company (the CN Pension Trust Funds), and both Rife and the CN Pension Trust Funds are shareholders of Freehold. Combined they have a 18.1% ownership in Freehold at June 30, 2022, a decrease from the 19.9% ownership at December 31, 2021, caused by Rife selling 2,791,667 shares of its investment in Freehold in January 2022. Canpar Holdings Ltd. (Canpar) is managed by Rife and owned 100% by the CN Pension Trust Funds. Two of the directors of each of Rife and Canpar are also directors of Freehold.

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

### a. Rife Resources Management Ltd.

The Manager provides certain services for a fee based on a specified number of Freehold common shares on a quarterly basis. Pursuant to the Management Agreement, the management fee was capped at 13,750 and 27,500 Freehold common shares per quarter for 2022 and 2021, respectively. For both the three and six months ended June 30, 2022, ascribed values of \$0.2 million and \$0.4 million were based on the closing price of Freehold's common shares on the last trading day of each quarter (three and six months ended June 30, 2021 - \$0.3 million and \$0.5 million, respectively).

For the three and six months ended June 30, 2022, the Manager charged \$2.5 million and \$5.9 million (three and six months ended June 30, 2021 - \$2.9 million and \$4.6 million) in general and administrative costs. At June 30, 2022, there was \$0.8 million (December 31, 2021 - \$0.5 million) in accounts payable and accrued liabilities relating to these costs.

### b. Rife Resources Ltd. and CN Pension Trust Funds

For the three and six months ended June 30, 2022, Freehold paid \$6.5 million and \$11.6 million (three and six months ended June 30, 2021 - \$2.4 million and \$5.3 million) in cash dividends to Rife and the CN Pension Trust Funds for their combined ownership in Freehold's common shares.

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. For the three and six months ended June 30, 2022, Freehold reported royalties of approximately \$0.1 million and \$0.3 million from Rife (three and six months ended June 30, 2021 - \$0.2 million and \$0.3 million).

At June 30, 2022, there was \$2.2 million in dividends payable due to Rife and the CN Pension Trust Fund related to dividends declared, net of royalties receivable (December 31, 2021 - \$1.8 million).

**c. Canpar Holdings Ltd.**

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

## **11. Capital Management**

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

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

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

Freehold is bound by non-financial covenants and two financial covenants (see note 6) on its credit facilities. The covenants are monitored as part of management's internal review to ensure compliance with requirements. As at June 30, 2022, Freehold was in compliance with all such covenants.

Freehold's June 30, 2022 net debt to funds from operations ratio was 0.1 times (December 31, 2021 – 0.5 times) and within its debt strategy target of below 1.5 times. This ratio is a financial leverage measure. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others.

### a. Working Capital

(\$000s)	June 30 2022	December 31 2021
Cash	\$ 1,622	\$ 2,189
Accounts receivable	70,876	46,303
Income tax deposits	14,711	14,711
Dividends payable	(12,051)	(9,037)
Accounts payable and accrued liabilities	(2,577)	(5,163)
Current income taxes	(15,626)	-
Current portion of lease obligation	(195)	(195)
Current portion of decommissioning liability	(425)	(750)
Current portion of share based compensation payable	(3,430)	(3,287)
Working capital <sup>(1)</sup>	\$ 52,905	\$ 44,771

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

### b. Capitalization and net debt

(\$000s)	June 30 2022	December 31 2021
<b>Shareholders' equity</b>	\$ 927,807	\$ 890,966
Long term debt	86,000	146,000
Working capital	(52,905)	(44,771)
<b>Net debt<sup>(1)</sup></b>	\$ 33,095	\$ 101,229
<b>Capitalization<sup>(1)</sup></b>	\$ 960,902	\$ 992,195

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

### c. Net Debt to Funds from Operations

(\$000s)	June 30 2022	June 30 2021
Cash provided by operating activities for last 12 months	\$ 248,353	\$ 80,150
Change in operating non-cash working capital	24,406	34,500
<b>Funds from operations for the last 12 months</b>	\$ 272,759	\$ 114,650
<b>Net debt to funds from operations (times)<sup>(1)</sup></b>	0.1	0.9

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

## 12. Segmented Information

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

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

Freehold's royalty and other revenue is reportable by segment whereas all other accounts presented on the condensed consolidated statements of income are either not significant on a segment basis, associated with both segments with any allocation of such accounts not providing meaningful information or pertain to taxes or other

measures which the Company does not consider a component of its operating results. The following table presents royalty and other revenue by geographic region:

(\$000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Canada	\$ 74,574	\$ 37,967	\$ 132,490	\$ 70,215
United States	33,921	7,386	63,610	12,152
<b>Royalty and other revenue</b>	<b>\$ 108,495</b>	<b>\$ 45,353</b>	<b>\$ 196,100</b>	<b>\$ 82,367</b>

The following table presents total assets by geographic region:

(\$000s)	June 30 2022	December 31 2021
Canada	\$ 669,069	\$ 683,190
United States	406,436	387,317
<b>Total Assets</b>	<b>\$ 1,075,505</b>	<b>\$ 1,070,507</b>

### 13. Supplemental Disclosures

#### Changes in Non-Cash Working Capital

(\$000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Accounts receivable	\$ (12,090)	\$ (5,596)	\$ (24,265)	\$ (14,123)
Accounts payable and accrued liabilities	(3,513)	(1,411)	(2,586)	(1,078)
Current income taxes payable	7,013	-	15,626	-
Prepaid	-	-	-	2,623
	\$ (8,590)	\$ (7,007)	\$ (11,225)	\$ (12,578)
Operating	\$ (8,402)	\$ (6,788)	\$ (10,997)	\$ (14,219)
Financing	-	-	-	1,156
Investing	(187)	(219)	(228)	485
	\$ (8,590)	\$ (7,007)	\$ (11,225)	\$ (12,578)

#### Cash Expenses

(\$000s)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Interest on long term debt and financing fees	\$ 780	\$ 693	\$ 1,586	\$ 1,616
Current income taxes	\$ 5,852	\$ -	\$ 6,215	\$ -

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## Board of Directors

**Marvin F. Romanow**  
Chair of the Board

**Sylvia K. Barnes** <sup>(2)</sup>  
Corporate Director

**Gary R. Bugeaud** <sup>(1) (2)</sup>  
Corporate Director

**Peter T. Harrison**  
Corporate Director

**Maureen E. Howe** <sup>(1)</sup>  
Corporate Director

**J. Douglas Kay** <sup>(2) (3)</sup>  
Corporate Director

**Arthur N. Korpach** <sup>(1) (2)</sup>  
Corporate Director

**Valerie A. Mitchell** <sup>(3)</sup>  
Corporate Director

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

**Aidan M. Walsh** <sup>(1) (3)</sup>  
Corporate Director

(1) Audit Committee

(2) Governance, Nominating and Compensation Committee

(3) Reserves Committee

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## Officers

**David M. Spyker**  
President and Chief Executive Officer

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

**Lisa N. Farstad**  
Vice President, Corporate Services

**Ian C. Hantke**  
Vice President, Diversified Royalties

**Robert A. King**  
Vice President, Business Development

**Robert E. Lamond**  
Vice President, Asset Development

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## Head Office

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1000, 517 – 10 Avenue SW  
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f. 403.221.0888  
w. freeholdroyalties.com

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## The Manager

**Rife Resources Management Ltd.**  
t. 403.221.0800  
w. rife.com

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## Investor Relations

**Matt J. Donohue**  
Manager, Investor Relations and Capital Markets  
t. 403.221.0833  
tf. 888.257.1873  
e. mdonohue@rife.com

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## Auditors

**KPMG LLP**

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## Bankers

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

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## Legal Counsel

**Burnet, Duckworth & Palmer LLP**

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## Reserve Evaluators

**Trimble Engineering Associates Ltd.**  
**RSC Group, Inc.**

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## Stock Exchange and Trading Symbol

**Toronto Stock Exchange (TSX)**  
**Common Shares: FRU**

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## Transfer Agent and Registrar

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