

# Condensed Consolidated Balance Sheets

(unaudited) (\$000s)	March 31 2022	December 31 2021
<b>Assets</b>		
Current assets:		
Cash	\$ 1,901	\$ 2,189
Accounts receivable	58,350	46,303
Income tax deposits (note 2)	14,711	14,711
	<b>74,962</b>	63,203
Exploration and evaluation assets (note 3)	73,031	74,455
Petroleum and natural gas interests (note 4)	906,821	932,849
<b>Total Assets</b>	<b>\$ 1,054,814</b>	<b>\$ 1,070,507</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Dividends payable (note 7)	\$ 12,050	\$ 9,037
Accounts payable and accrued liabilities	6,090	5,163
Current income taxes	8,613	-
Current portion of lease obligation	195	195
Current portion of decommissioning liability	900	750
Current portion of share based compensation payable (note 5)	4,692	3,287
	<b>32,540</b>	18,432
Lease obligation	1,595	1,619
Share based compensation payable (note 5)	5,395	4,455
Decommissioning liability	4,383	4,815
Deferred income tax liability	8,117	4,220
Long-term debt (note 6)	105,000	146,000
Shareholders' equity:		
Shareholders' capital (note 7)	1,499,740	1,499,544
Accumulated other comprehensive income (loss)	(1,523)	126
Contributed surplus	4,521	4,521
Deficit	(604,954)	(613,225)
<b>Total Shareholders' Equity</b>	<b>897,784</b>	<b>890,966</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,054,814</b>	<b>\$ 1,070,507</b>

See accompanying notes to interim condensed consolidated financial statements

# Condensed Consolidated Statements of Income and Comprehensive Income

(unaudited) (\$000s, except per share and weighted average shares)	Three months ended March 31	
	2022	2021
<b>Revenue:</b>		
Royalty and other revenue (note 8)	\$ 87,605	\$ 37,014
<b>Expenses:</b>		
General and administrative	3,590	3,225
Production and ad valorem taxes	1,605	269
Operating	161	155
Interest and financing (note 9)	851	980
Share based compensation (note 5)	2,063	1,668
Depletion, depreciation and other	23,963	20,576
Unrealized foreign exchange loss on intercompany note	3,920	1,912
Management fee (note 10)	196	199
	<b>36,349</b>	<b>28,984</b>
<b>Income before taxes</b>	<b>51,256</b>	<b>8,030</b>
<b>Income taxes:</b>		
Current income tax expense	8,976	-
Deferred income tax expense	3,885	2,395
	<b>12,861</b>	<b>2,395</b>
<b>Net income</b>	<b>\$ 38,395</b>	<b>\$ 5,635</b>
<b>Other comprehensive loss</b>		
Foreign currency translation adjustment	\$ (1,649)	\$ (25)
<b>Comprehensive income</b>	<b>\$ 36,746</b>	<b>\$ 5,610</b>
<b>Net income per share, basic and diluted</b>	<b>\$ 0.25</b>	<b>\$ 0.04</b>
<b>Weighted average number of shares:</b>		
Basic	150,612,334	130,873,521
Diluted	151,123,124	131,293,861

See accompanying notes to interim condensed consolidated financial statements

# Condensed Consolidated Statements of Cash Flows

(unaudited) (\$000s)	Three months ended March 31	
	2022	2021
<b>Operating:</b>		
Net income	\$ 38,395	\$ 5,635
Items not involving cash:		
Depletion, depreciation and other	23,963	20,576
Unrealized foreign exchange loss on intercompany note	3,920	1,912
Deferred income tax expense	3,885	2,395
Share based compensation expense (note 5)	2,063	1,668
Management fee (note 10)	196	199
Accretion of decommissioning liabilities and lease obligation	45	57
Decommissioning expenditures	(574)	(21)
Funds from operations	71,893	32,421
Changes in non-cash working capital (note 13)	(2,593)	(7,431)
	69,300	24,990
<b>Financing:</b>		
Long-term debt drawing (repayment)	(41,000)	3,000
Dividends paid (note 7)	(27,112)	(7,633)
Lease obligation paid	(49)	(47)
Share issuance related to subscription receipts, net of costs	-	58,396
Changes in non-cash working capital (note 13)	-	1,156
	(68,161)	54,872
<b>Investing:</b>		
Acquisitions and related expenditures (note 4)	(1,294)	(79,782)
Changes in non-cash working capital (note 13)	(41)	704
	(1,335)	(79,078)
Increase (decrease) in cash	(196)	784
Impact of foreign currency on cash balance	(92)	(3)
<b>Cash, beginning of period</b>	<b>2,189</b>	<b>1,026</b>
<b>Cash, end of period</b>	<b>\$ 1,901</b>	<b>\$ 1,807</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)	Three months ended March 31	
	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)	196	199
Share issuance related to subscription receipts	-	60,709
Share issue costs, net of tax effect	-	(1,755)
<b>Balance, end of period</b>	<b>1,499,740</b>	<b>1,331,550</b>
<b>Accumulated other comprehensive income (loss):</b>		
Balance, beginning of period	126	(40)
Foreign currency translation adjustment	(1,649)	(25)
<b>Balance, end of period</b>	<b>(1,523)</b>	<b>(65)</b>
<b>Contributed surplus:</b>		
Balance, beginning of period	4,521	3,763
Share based compensation	-	528
<b>Balance, end of period</b>	<b>4,521</b>	<b>4,291</b>
<b>Deficit:</b>		
Balance, beginning of period	(613,225)	(616,681)
Net income	38,395	5,635
Dividends declared (note 7)	(30,124)	(9,201)
<b>Balance, end of period</b>	<b>(604,954)</b>	<b>(620,247)</b>
<b>Total shareholders' equity</b>	<b>\$ 897,784</b>	<b>\$ 715,529</b>

See accompanying notes to interim condensed consolidated financial statements

# Notes to Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 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 period's 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 May 10, 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, entering into 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, including Omicron, continue to cause uncertainty on establishing crude oil market fundamentals.

## 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.

Disallowed NCL’s are anticipated to be deducted against taxable income upon filing Freehold’s Canadian 2021 income tax return. Prior to then, should the CRA’s appeal’s officer not overturn the Reassessments, these 2021 NCL deductions are anticipated to be disallowed by the CRA resulting in a reassessment against 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 \$25 million.

## 3. Exploration and Evaluation Assets

	March 31 2022	December 31 2021
Balance, beginning of period	\$ 74,455	\$ 80,152
Transfers to petroleum and natural gas interests (note 4)	(1,424)	(5,697)
<b>Balance, end of period</b>	<b>\$ 73,031</b>	<b>\$ 74,455</b>

There was no impairment recorded as a result of the mandatory impairment assessment on the transfer of Exploration and Evaluation assets to Petroleum and Natural Gas Interests during the three months ended March 31, 2022.

There were no indicators of impairment on Freehold’s exploration and evaluation assets as at March 31, 2022.. As a result, no impairment testing was conducted.

#### 4. Petroleum and Natural Gas Interests

(\$000s)	March 31 2022	December 31 2021
<b>Balance, beginning of period</b>	<b>\$ 1,878,761</b>	<b>\$ 1,496,062</b>
Acquisitions and related expenditures	1,294	377,002
Capitalized portion of long term incentive plan	282	1,163
Transfers from exploration and evaluation assets (note 3)	1,424	5,697
Foreign exchange translation	(5,636)	(467)
Decommissioning liability additions and revisions	341	(696)
<b>Balance, end of period</b>	<b>1,876,466</b>	<b>1,878,761</b>
<b>Balance, beginning of period</b>	<b>(945,912)</b>	<b>(857,665)</b>
Depletion and depreciation	(24,034)	(88,288)
Foreign exchange translation	301	41
<b>Balance, end of period</b>	<b>(969,645)</b>	<b>(945,912)</b>
<b>Net book value, end of period</b>	<b>\$ 906,821</b>	<b>\$ 932,849</b>

##### a. Canadian Acquisition and related expenditures

###### Canadian Acquisition

Freehold paid \$0.4 million during the three months ended March 31, 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 three months ended March 31, 2022, Freehold recognized capitalized general & administrative costs of \$0.8 million and other royalty income asset expenditures of \$0.1 million.

##### b. Impairment

At March 31, 2022, there were no indicators of impairment on Freehold's US and Canadian Royalty Cash Generating Units. As a result, no impairment testing was conducted.

#### 5. Share Based Compensation

For the three months ended March 31, 2022, expensed share based compensation associated with Freehold's Award Plan and deferred share unit plan was \$2.1 million (three months ended March 31, 2021 - \$1.7 million).

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

(\$000s)	March 31 2022	December 31 2021
<b>Balance, beginning of period</b>	<b>\$ 7,742</b>	<b>\$ 1,633</b>
Increase in liability	2,345	7,480
Cash payout	-	(1,371)
<b>Balance, end of period</b>	<b>\$ 10,087</b>	<b>\$ 7,742</b>
Current portion of liability	\$ 4,692	\$ 3,287
Long-term portion of liability	\$ 5,395	\$ 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.

There were no RSUs or PSUs granted for the three months ended March 31, 2022 with 926,733 awards outstanding at March 31, 2022.

### b. Deferred Share Unit Plan

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

#### DSU grants on or prior to December 31, 2021

The Board has the ability to settle DSU's granted on or prior to December 31, 2021 at its discretion through issuing common shares, which results in these specific grants being classified as equity-settled.

#### DSU grants on or subsequent to January 1, 2022

Grants issued during the three months ended March 31, 2022 resulted in Freehold's combined DSUs exceeding the maximum number of common shares issuable under its DSU plan. At this time, the Company does not intend to request an increase in this maximum from the Toronto Stock Exchange. As a result, the Company is only permitted to issue common shares up to 450,000 to satisfy the redemption of the equivalent number of DSUs resulting in the excess outstanding DSUs being classified as cash-settled. A liability was determined for these cash-settled awards based on their fair value at March 31, 2022 as included in share based compensation payable and expensed through share-based compensation. This fair value was determined from Freehold's common share price and the outstanding number of notional Freehold common shares. Hereafter and until these DSUs are cash-settled, the liability will be adjusted to reflect Freehold's common share price at each future reporting period.

The following table reconciles the outstanding number of DSUs:

	March 31 2022	December 31 2021
Balance, beginning of period	447,684	325,633
Annual grants and grants in lieu of fees	58,546	101,597
Additional resulting from paid dividends	12,781	20,454
Balance, end of period	519,011	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 March 31, 2022, \$105 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 0.4 times at March 31, 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 11% at March 31, 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 the Omicron subvariant 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 months ended March 31, 2022, the average effective interest rate on advances from Freehold's credit facilities was 2.2% (three months ended March 31, 2021 – 2.1%).

At March 31, 2022 and December 31, 2021, the fair values of the long-term debt approximated its carrying values, as the long-term debt carries interest at prevailing market 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)	March 31, 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	<b>13,750</b>	<b>196</b>	110,000	1,074
<b>Balance, end of period</b>	<b>150,626,084</b>	<b>\$ 1,499,740</b>	150,612,334	\$ 1,499,544

### b. Dividends

During the three months ended March 31, 2022, Freehold declared dividends of \$30.1 million (three months ended March 31, 2021 - \$9.2 million) or \$0.20 per common share (three months ended March 31, 2021 - \$0.07 per common

share). During this same period, Freehold paid dividends of \$27.1 million (three months ended March 31, 2021 - \$7.6 million) or \$0.18 per common share (three months ended March 31, 2021 - \$0.06 per common share).

On March 2, 2022, the Board declared a dividend of \$0.08 per common share or \$12.1 million which was paid on April 18, 2022 to common shareholders on record on March 31, 2021 (December 31, 2021 - \$9.0 million). On April 14, 2022, the Board declared a dividend of \$0.08 per common share to be paid on May 16, 2022, to common shareholders on record on April 29, 2022. On [May 10], 2022, the Board declared a dividend of [\$0.08] per common share to be paid on [June 15], 2022, to common shareholders on record on [May 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 "severance 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 March 31	
	2022	2021
Oil	\$ 63,223	\$ 25,859
Natural gas	13,656	7,088
NGL	8,922	3,599
Potash	867	316
Bonus consideration and lease rentals	937	152
<b>Royalty and other revenue</b>	<b>\$ 87,605</b>	<b>\$ 37,014</b>

### b. Royalty and Other Revenue by Category

(\$000s)	Three months ended March 31	
	2022	2021
Royalty interest revenue	\$ 86,668	\$ 36,862
Bonus consideration and lease rentals	937	152
<b>Royalty and other revenue</b>	<b>\$ 87,605</b>	<b>\$ 37,014</b>

As at March 31, 2022, there was outstanding accounts receivable and accrued revenue of \$56.2 million (December 31, 2021 - \$44.6 million) associated with US and Canadian royalty and other revenues. For the three months ended March 31, 2022 and 2021 there were no significant royalty and other revenue adjustments relating to prior periods.

## 9. Interest and Financing

(\$000s)	Three months ended March 31	
	2022	2021
Interest on long term debt and financing expense	\$ 806	\$ 923
Accretion of decommissioning obligation	21	34
Accretion of lease obligation and other	24	23
<b>Interest and financing</b>	<b>\$ 851</b>	<b>\$ 980</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 March 31, 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 that capped the respective management fee at 13,750 and 27,500 Freehold common shares per quarter for 2022 and 2021. For both the three months ended March 31, 2022 and 2021, ascribed values of \$0.2 million were based on the closing price of Freehold's common shares on the last trading day of each quarter.

For the three months ended March 31, 2022, the Manager charged \$3.4 million (three months ended March 31, 2021 - \$2.9 million) in general and administrative costs. At March 31, 2022, there was \$2.3 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 months ended March 31, 2022, Freehold paid \$5.1 million (three months ended March 31, 2021 - \$1.7 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 months ended March 31, 2022, Freehold reported royalties of approximately \$0.2 million from Rife (three months ended March 31, 2021 - \$0.1 million).

At March 31, 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 March 31, 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 March 31, 2022, Freehold was in compliance with all such covenants.

Freehold's March 31, 2022 net debt to funds from operations ratio was 0.3 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 that reflects cash available to pay back Freehold's debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others.

## a. Working Capital

(\$000s)	March 31 2022	December 31 2021
Cash	\$ 1,901	\$ 2,189
Accounts receivable	58,350	46,303
Income tax deposits	14,711	14,711
Dividends payable	(12,050)	(9,037)
Accounts payable and accrued liabilities	(6,090)	(5,163)
Current income taxes	(8,613)	-
Current portion of lease obligation	(195)	(195)
Current portion of decommissioning liability	(900)	(750)
Current portion of share based compensation payable	(4,692)	(3,287)
Working capital <sup>(1)</sup>	\$ 42,422	\$ 44,771

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

## b. Capitalization and net debt

(\$000s)	March 31 2022	December 31 2021
<b>Shareholders' equity</b>	\$ 897,784	\$ 890,966
Long term debt	105,000	146,000
Working capital	(42,422)	(44,771)
<b>Net debt<sup>(1)</sup></b>	\$ 62,578	\$ 101,229
<b>Capitalization<sup>(1)</sup></b>	\$ 960,362	\$ 992,195

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

## c. Net Debt to Funds from Operations

(\$000s)	March 31 2022	March 31 2021
Cash provided by operating activities for last 12 months	\$ 206,331	\$ 59,874
Change in operating non-cash working capital	22,790	25,190
<b>Funds from operations</b>	\$ 229,121	\$ 85,064
<b>Net debt to funds from operations (times)<sup>(1)</sup></b>	0.3	1.2

(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 March 31	
	2022	2021
Canada	\$ 57,916	\$ 32,248
United States	29,689	4,766
<b>Royalty and other revenue</b>	<b>\$ 87,605</b>	<b>\$ 37,014</b>

The following table presents total assets by geographic region:

(\$000s)	March 31	December 31
	2022	2021
Canada	\$ 675,669	\$ 683,190
United States	379,145	387,317
<b>Total Assets</b>	<b>\$ 1,054,814</b>	<b>\$ 1,070,507</b>

### 13. Supplemental Disclosures

#### Changes in Non-Cash Working Capital

(\$000s)	Three months ended March 31	
	2022	2021
Accounts receivable	\$ (12,174)	\$ (8,527)
Accounts payable and accrued liabilities	927	333
Income taxes payable	8,613	-
Prepaid	-	2,623
	<b>\$ (2,634)</b>	<b>\$ (5,571)</b>
Operating	\$ (2,593)	\$ (7,431)
Financing	-	1,156
Investing	(41)	704
	<b>\$ (2,634)</b>	<b>\$ (5,571)</b>

#### Cash Expenses

(\$000s)	Three months ended March 31	
	2022	2021
Interest on long term debt and financing fees	\$ 806	\$ 923
Income taxes	\$ 363	\$ -