

Freehold Royalties Announces Fourth Quarter and Full Year 2023 Results, Reserves and Guidance for 2024

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CALGARY, Feb. 28, 2024 - [Freehold Royalties Ltd.](#) (Freehold or the Company) (TSX:FRU) announces fourth quarter and year-end results for the period ended December 31, 2023.

President's Message

Freehold showcased the strength of our unique North American portfolio in 2023, with exposure to a stable production base in Canada, and growing oil weighted volumes in the U.S. Over the last four years we have structurally improved our business through exposure to the top-tier basins across North America, enhancing the sustainability of drilling on our lands and returns to our shareholders. We achieved 100% organic reserves replacement in 2023, demonstrating the strength of our asset base. This evolution has resulted in \$163 million in dividends returned to our shareholders, while maintaining conservative debt levels (0.4 times net debt to trailing funds from operations).

2023 and Fourth Quarter Highlights included:

- \$315 million in revenue; \$80 million during the fourth quarter;
- \$240 million in funds from operations (\$1.59/share⁽¹⁾); \$63 million (\$0.42/share⁽¹⁾) during the fourth quarter;
- \$163 million (\$1.08/share) in dividends paid in 2023, at record levels of dividends paid and up 15% versus 2022;
- \$115 million in core Permian basin acquisitions announced late 2023, closed in January 2024;
- Record leasing in Canada with 122 agreements signed through 2023; up 53% versus 2022;
- Record U.S. annual average production of 5,102 boe/d, a 16% increase over 2022;
- Canadian annual production averaged 9,612 boe/d, flat versus 2022;
- 993 gross wells drilled, 466 wells in Canada and 527 wells in the U.S.;
- \$57.65/boe average annual realized price (\$70.50/boe in the U.S. and \$50.82/boe in Canada);
- Proved and probable reserves totalled 54.5 MMboe as at December 31, 2023;
- Proved developed producing reserves totalled 26.3 MMboe as at year-end 2023, a 2% improvement versus 2022. The reserve additions were the result of infill drilling and improved recovery within Freehold's portfolio;
- Freehold replaced 115% of proved developed producing reserves and 128% of proved reserves; reserve replacement ratios were consistent with 2022, with 115% of proved reserves replaced organically.

(1) See Non-GAAP and Other Financial Measures

Production volumes for the year averaged 14,714 boe/d, a 4% increase and 6% growth in liquids volumes versus 2022. Freehold continues to build its U.S. portfolio with production averaging 5,102 boe/d in 2023 or 16% higher than the previous year. In the Midland basin in the Permian, we saw volumes grow 25% versus 2022 as our strong suite of payors executed their growth plans. In Canada, production remained flat year-over-year in the absence of a material acquisition, with volumes averaging 9,612 boe/d for the year, highlighting the asset quality of our Canadian portfolio. 2023 also represented a record year of leasing for Freehold, with the Company completing 122 agreements with 41 distinct counterparties, with the majority of the focus in southeast Saskatchewan and the emerging Mannville oil play.

Late in 2023, Freehold announced the acquisition of two royalty assets increasing our exposure in the Midland and Delaware basins for \$115 million, which closed in January 2024. These transactions further Freehold's North American strategy, growing the Company's Permian production by 30% and overall U.S. corporate volumes by 12%.

Freehold exited the year with long term debt of \$123 million or 0.5x long term debt to funds from operations.

After completing the above transactions in January 2024, Freehold expects to continue to maintain considerable financial flexibility throughout 2024. Freehold paid record dividends to its shareholders in 2023 and at current commodity price levels we believe the dividend is right sized, with potential to grow through further portfolio investment, accelerated third party development on our royalty lands and/or a fundamental shift in the underlying commodity price environment.

Looking into 2024, we have set a production guidance range of 14,700-15,700 boe/d which implies approximately 3% growth at the midpoint over 2023. We are assuming West Texas Intermediate (WTI) prices average US\$75/bbl through the year which is forecast to provide significant revenue, funds from operations and dividend sustainability, allowing the Company to execute its strategy and provide consistent returns for our shareholders.

I would like to thank our employees, shareholders, Board of Directors, and all those who have supported Freehold throughout the year.

David M. Spyker, President and Chief Executive Officer

Dividend Announcement

The Board of Directors of Freehold has declared a monthly dividend of \$0.09 per share to be paid on April 15, 2024, to shareholders of record on March 28, 2024. The dividend is designated as an eligible dividend for Canadian income tax purposes.

Operating and Financial Highlights

	Three Months Ended			Twelve Months Ended		
	December 31 2023	September 30 2023		December 31 st 2023	2022	2021
FINANCIAL (\$ millions, except as noted)						
West Texas Intermediate (US\$/bbl)	78.32	82.26	(5%)	77.62	94.23	(18%)
AECO 7A Monthly Index (Cdn\$/Mcf)	2.70	2.42	12%	2.98	5.56	(46%)
Royalty and other revenue	80.1	84.2	(5%)	314.6	393.0	(20%)
Funds from operations	62.8	65.3	(4%)	239.7	316.5	(24%)
Funds from operations per share, basic & diluted (\$) ⁽¹⁾⁽³⁾	0.42	0.43	(2%)	1.59	2.10	(23%)
Dividends paid per share (\$) ⁽²⁾	0.27	0.27	-	1.08	0.94	13%
Dividend payout ratio (%) ⁽³⁾	65%	62%	5%	68%	45%	51%
Long-term debt	123.0	141.2	(13%)	123.0	156.6	(21%)
Net debt ⁽⁵⁾	93.7	106.6	(12%)	93.7	127.9	(27%)
OPERATING						
Total production (boe/d) ⁽⁴⁾	14,863	14,605	2%	14,714	14,101	4%
Canadian production (boe/d) ⁽⁴⁾	9,659	9,178	5%	9,612	9,706	(1%)
U.S. production (boe/d) ⁽⁴⁾	5,204	5,427	(4%)	5,102	4,395	16%
Oil and NGL (%)	63%	63%	-	62%	62%	-
Petroleum and natural gas realized price (\$/boe) ⁽⁴⁾	57.94	61.55	(6%)	57.65	75.14	(23%)
Cash costs (\$/boe) ⁽³⁾⁽⁴⁾	4.73	5.10	(7%)	5.71	5.19	10%
Netback (\$/boe) ^{(3) (4)}	52.59	55.63	(5%)	51.28	69.48	(26%)
ROYALTY INTEREST DRILLING (gross / net)						
Canada	120/ 3.8	116/ 3.9	3%/ (3%)	466/ 16.0	503/ 20.1	(7%)
U.S.	142/ 0.7	107/ 0.7	(10%)/ -	527/ 2.6	554/ 2.9	(5%)

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

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

(3) See Non-GAAP and Other Financial Measures

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

(5) Net debt is a capital management measure

Fourth Quarter Highlights

- WTI prices averaged US\$78.32/bbl, 5% lower than the previous quarter and the same period in 2022.
- Royalty and other revenue totalled \$80.1 million down 5% versus the previous quarter and 18% when compared to the same period in 2022, reflecting lower commodity prices.
- Funds from operations totalled \$62.8 million (\$0.42/share⁽¹⁾), compared to \$65.3 million (\$0.43/share⁽¹⁾) in the previous quarter and \$80.0 million (\$0.53/share⁽¹⁾) during the same period in 2022 as a result of lower commodity pricing.
- Freehold's corporate realized price of \$57.94/boe was down 6% versus the previous quarter and 16% when compared to the same period in 2022. Despite lower prices, Freehold continues to benefit from the advancement of its North American strategy with more favourable U.S. realized pricing of \$72.04/boe, 43% higher than the realized price in Canada (\$50.34/boe) for Q4-2023.
- Average production of 14,863 boe/d in Q4-2023 represented an increase of 2% over Q3-2023 and a 1% decline versus the same period in 2022. Oil and NGL production grew by 3% versus the previous quarter and 6% when compared to the same period in 2022.
 - U.S. oil and gas royalty production averaged 5,204 boe/d, down 4% compared to Q3-2023 and 1% versus the same period in 2022. The variance quarter-over-quarter reflected declines from flush production in Q3-2023, when a number of high net royalty interest wells and multi-well pads in the Permian and Eagle Ford were brought onstream.
 - Q4-2023 Canadian oil and gas royalty volumes averaged 9,659 boe/d, up 5% quarter-over-quarter and down 1% versus the same period in 2022.
- Recorded a netback⁽¹⁾ of \$52.59/boe down 5% versus the previous quarter and 18% versus the same period in 2022, reflecting lower commodity prices.
- Freehold entered into agreements with two private sellers to acquire high quality Permian mineral title and royalty assets located in the Midland basin in Texas and the Delaware basin in New Mexico and Texas for approximately \$115.5 million. Production associated with these acquisitions are forecast to average 600 boe/d in 2024, increasing Freehold's Permian production by 30% and the Company's U.S. production by 12%. These acquisitions closed in January 2024.
- Dividends declared for Q4-2023 totaled \$40.7 million (\$0.27 per share), flat versus the previous quarter and the same period in 2022. Freehold's dividend payout ratio⁽¹⁾ for Q4-2023 was 65% also flat versus the previous quarter and the same period in 2022. Freehold's dividend remains sustainable at oil and natural gas prices materially below current commodity price levels.
- Net debt⁽¹⁾ of \$93.7 million at the end of Q4-2023 decreased by \$12.9 million from the previous quarter and was 0.4 times trailing funds from operations.
- Cash costs⁽¹⁾ for the quarter totalled \$4.73/boe, down 7% versus the previous quarter and 9% from the same period in 2022. This decrease was driven by lower interest costs and higher production volumes during the period.

(1) See Non-GAAP and Other Financial Measures

2023 Annual Highlights

- Royalty and other revenue totalled \$314.6 million, down 20% over 2022 with lower commodity pricing offsetting gains in production volumes over the period. Revenue from the U.S. accounted for 42% of total revenues versus 37% in 2022. Oil and NGL's represented 89% of revenue for the year versus 82% in 2022.
- Funds from operations in 2023 totalled \$239.7 million (\$1.59/share). This compares to \$316.5 million (\$2.10/share) in 2022. The year-over-year decrease reflects lower commodity prices and higher interest costs versus 2022.
- Production volumes averaged 14,714 boe/d for 2023, an increase of 4% over 2022 and 6% growth within Freehold's oil and liquids portfolio over the same period. Canadian volumes of 9,612 boe/d were flat versus 2022 and U.S. volumes averaging 5,102 boe/d were up 16% due to strong drilling activity and acquisition activity completed during 2022.
- Dividends paid for the year totaled \$162.7 million (\$1.08/share) a record for Freehold and an increase of 15% over 2022. Freehold's dividend payout ratio of 68% for 2023 versus 45% in 2022.
- Freehold experienced a record leasing year in 2023 with 122 agreements signed during the period, a 53% increase from 2022. Leases were made throughout the Western Canadian Sedimentary Basin but were focused in southeast Saskatchewan light oil and Mannville heavy oil areas. Leases were executed with 41 different counterparties with the majority being growth focused private and public junior exploration and production companies.
- Proved and probable reserves totalled 54.5 MMboe as at December 31, 2023;
- Proved developed producing reserves totalled 26.3 MMboe as at year-end 2023, a 2% improvement versus 2022. The reserve additions were from infill drilling and improved recovery within Freehold's portfolio;
- Freehold replaced 115% of proved developed producing reserves and 128% of proved reserves; reserve replacement ratios were consistent with 2022, with 115% of proved reserves replaced organically.

2023 Drilling and Leasing Activity

In total, 993 gross wells were drilled on Freehold's royalty lands in 2023, a 6% decrease versus 2022.

Approximately 28% of gross wells on Freehold royalty lands targeted prospects in Alberta, 18% in Saskatchewan and 46% in Texas with the balance spread across other regions. Producers continue to remain focused on oil prospects with 95% of wells targeting oil. Of the gross wells drilled in 2023, approximately 37% were drilled on Freehold's gross overriding royalty (GORR) prospects in Canada, 10% targeted mineral title prospects in Canada and 53% were drilled on Freehold's U.S. royalty acreage (78% mineral title). The Viking in southwest Saskatchewan, Mississippian in southeast Saskatchewan, Clearwater and Cardium in central Alberta, Eagle Ford in Texas and Permian in Texas, and New Mexico and North Dakota continue to be the areas of focus within Freehold's portfolio. In total, Freehold estimates approximately \$7.7 billion in gross third-party capital was spent on its royalty lands in 2023 up from \$6.3 billion in 2022. Spending was comprised of US\$5 billion (US\$25 million net) on our U.S. assets and \$1 billion (\$34 million net) on our Canadian royalty assets.

Royalty Interest Drilling

	Three Months Ended December 31				Twelve Months Ended December			
	2023		2022		2023		2022	
	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾	Gross	Net ⁽¹⁾
Canada	120	3.8	137	6.2	466	16.0	503	20.1
United States	142	0.7	156	0.9	527	2.6	554	2.9
Total	262	4.5	293	7.1	993	18.6	1,057	23.0

(1) Equivalent net wells are aggregate of the numbers obtained by multiplying each gross well by our royalty interest percentage.

Canada

In Q4-2023, Freehold had 120 gross (3.8 net) locations drilled on its Canadian portfolio compared to 137 gross (6.2 net) locations during Q4-2022. Drilling on our Canadian lands in 2023 totalled 466 gross locations (16.0 net), down 7% and 20% respectively on a gross and net measure when compared to 2022.

Over the quarter, drilling in Canada was led by a portfolio of oil weighted plays including the Cardium (16 gross wells), Viking (16 gross wells) and Clearwater (15 gross wells).

Freehold also benefitted from record leasing throughout our Canadian portfolio in 2023, with the majority of the 122 new leases targeting Mississippian light oil targets in southeast Saskatchewan (51%) and Mannville heavy oil targets in Alberta (28%). Freehold continues to see a revitalization of its southeast Saskatchewan light oil and Mannville heavy oil portfolios, with several well capitalized growth oriented junior producers focusing on these areas. Multilateral drilling has been a focus by operators in the heavy oil areas to improve both well productivity and oil recovery.

U.S.

Overall, 142 gross wells were drilled on our U.S. royalty lands in Q4-2023, which compares to 156 gross wells during Q4-2022. Given the composition of our U.S. portfolio (over 60% are investment grade payors), we see sustained development on our U.S. lands with more than 13 years of multi-zone, oil weighted drilling inventory.

In the U.S., operators focused drilling on light oil prospects in the Permian and Eagle Ford with 85% of activity within these basins. In total, 85 gross locations targeting prospects in the Permian and 38 gross locations in the Eagle Ford over the quarter. We also saw activity associated with the Bakken and Haynesville plays.

We continue to highlight the "saw tooth" nature of our U.S. portfolio where volumes are expected to increase significantly when multi-well and/or high net royalty interest production pads are brought onstream. On an annual basis, we expect our U.S. portfolio to provide growth of approximately 3% over the next twelve months, aligned with third-party projections of production growth in the U.S. producing basins, particularly the Permian.

Although Freehold's U.S. net well additions were lower than in Canada, U.S. wells are significantly more prolific as they generally come on production at approximately ten times that of an average Canadian well in our portfolio.

2024 Guidance

The following table summarizes our key operating assumptions for 2024:

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

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

2023 Reserves Information

Freehold's year-end 2023 reserves were evaluated by independent reserve evaluators Trimble Engineering Associates Ltd. and Ryder Scott and were completed in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101-Standards of Disclosure for Oil and Gas Activities. Freehold's reserve information is included in the Company's Annual Information Form which is available on SEDAR+ at www.sedarplus.ca and Freehold's website at www.freeholdroyalties.com.

Conference Call Details

A webcast to discuss financial and operational results for the period ended December 31, 2023, will be held for the investment community on Thursday February 29, 2024, beginning at 7:00 AM MST (9:00 AM EST).

A live audio webcast will be accessible through the link below and on Freehold's website under "*Events & Presentations*" on Freehold's website at www.freeholdroyalties.com.

To participate in the conference call, you are asked to register at the link provided below.

Live Audio Webcast URL: <https://edge.media-server.com/mmc/p/qkr6o5bo>. A dial-in option is also available and can be accessed by dialing 1-800-952-5114 (toll-free in North America) participant passcode is 5916138#.

For further information, contact

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Select Quarterly Information

Financial (\$millions, except as noted)	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Royalty and other revenue	80.1	84.2	73.7	76.6	98.5	98.4	108.5	87.6
Net Income (loss)	34.3	42.3	24.3	31.1	40.7	63.2	66.9	38.4
Per share, basic (\$) ⁽¹⁾	0.23	0.28	0.16	0.21	0.27	0.42	0.44	0.25
Cash flows from operations	70.9	53.7	49.9	42.6	82.7	99.9	75.4	69.3

Funds from operations	62.8	65.3	53.0	58.6	80.0	80.8	83.8	71.9
Per share, basic (\$) ⁽¹⁾⁽³⁾	0.42	0.43	0.35	0.39	0.53	0.54	0.56	0.48
Acquisitions & related expenditures	2.1	1.2	3.2	4.3	7.2	161.7	20.7	1.3
Dividends paid	40.7	40.7	40.7	40.7	40.7	37.7	36.2	27.1
Per share (\$) ⁽²⁾	0.27	0.27	0.27	0.27	0.27	0.25	0.24	0.18
Dividends declared	40.7	40.7	40.7	40.7	40.7	39.2	36.2	30.1
Per share (\$) ⁽²⁾	0.27	0.27	0.27	0.27	0.27	0.26	0.24	0.20
Dividend payout ratio (%) ⁽³⁾	65%	62%	77%	69%	51%	47%	43%	38%
Long-term debt	123.0	141.2	152.0	159.1	156.6	196.9	86.0	105.0
Net debt	93.7	106.6	130.8	115.8	127.9	159.9	33.1	62.6
Shares outstanding, period end (000s)	150.7	150.7	150.7	150.7	150.7	150.7	150.6	150.6
Average shares outstanding (000s) ⁽¹⁾	150.7	150.7	150.7	150.7	150.7	150.6	150.6	150.6
Operating								
Light and medium oil (bbl/d)	6,308	6,325	6,093	6,102	6,418	5,935	5,378	5,234
Heavy oil (bbl/d)	1,182	1,127	1,167	1,253	1,218	1,190	1,239	1,210
NGL (bbl/d)	1,878	1,678	1,845	1,788	1,781	1,708	1,613	1,757
Total liquids (bbl/d)	9,368	9,130	9,105	9,143	9,417	8,833	8,230	8,201
Natural gas (Mcf/d)	32,968	32,851	33,372	33,486	33,744	32,319	31,336	32,845
Total production (boe/d) ⁽⁴⁾	14,863	14,605	14,667	14,724	15,041	14,219	13,453	13,676
Oil and NGL (%)	63%	63%	62%	62%	63%	62%	61%	60%
Petroleum & natural gas realized price (\$/boe) ⁽⁴⁾	57.94	61.55	54.05	56.99	69.76	74.31	87.55	69.71
Cash costs (\$/boe) ⁽³⁾⁽⁴⁾	4.73	5.10	7.19	5.82	5.17	3.62	8.38	3.70
Netback (\$/boe) ⁽³⁾⁽⁴⁾	52.59	55.63	46.07	50.79	63.92	69.77	78.80	66.17
Benchmark Prices								
West Texas Intermediate crude oil (US\$/bbl)	78.32	82.26	73.78	76.13	82.64	91.56	108.41	94.29
Exchange rate (Cdn\$/US\$)	1.36	1.34	1.34	1.35	1.35	1.30	1.28	1.26
Edmonton Light Sweet crude oil (Cdn\$/bbl)	99.69	107.89	94.97	99.03	109.83	116.85	137.79	115.67
Western Canadian Select crude oil (Cdn\$/bbl)	76.96	93.05	78.76	69.31	77.08	93.49	122.09	101.02
Nymex natural gas (US\$/mcf)	2.96	2.64	2.17	3.30	6.03	8.20	7.17	4.64
AECO 7A Monthly Index (Cdn\$/Mcf)	2.70	2.42	2.40	4.34	5.58	5.50	6.27	4.58

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

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

(3) See Non-GAAP and Other Financial Measures

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

Forward-Looking Statements

This news release offers our assessment of Freehold's future plans and operations as of February 28, 2024, and contains forward-looking statements that we believe allow readers to better understand our business and prospects. These forward-looking statements include our expectations for the following:

- our expectation to maintain considerable financial flexibility throughout 2024;
- our belief the dividend is right sized, with potential to grow through further portfolio investment, accelerated third party development on our royalty lands and/or a fundamental shift in the underlying commodity price environment;
- our anticipated 2024 production guidance range and the expectation that anticipated pricing will provide significant revenue, funds from operations and dividend sustainability which will allow the Company to execute its strategy and provide consistent returns for our shareholders;
- our anticipated funds from operations and production resulting from the two acquisitions located in the Midland basin in Texas and the Delaware basin in New Mexico and Texas;
- that our dividend will remain sustainable at oil and natural gas prices materially below current commodity price levels;
- our expectation to see sustained multi-year development on our U.S. lands with more than 13 years of multi-zone, oil weighted drilling inventory;

- our expectation that volumes from our U.S. portfolio will increase significantly when multi-well and/or high net royalty interest production pads are brought onstream;
- our expectation that our U.S. portfolio will provide growth in the 3% range over the next twelve month, aligned with third party projections of production growth in the U.S. producing basins; and
- Freehold's 2023 production guidance (including production mix), underlying commodity and exchange rate assumptions.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including general economic conditions, inflation and supply chain issues, the impacts of conflicts in the middle-east and eastern Europe on commodity prices and the world economy, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, competition from other industry participants, the failure to complete acquisitions on the timing and terms expected, the failure to satisfy conditions of closing for any acquisitions, the lack of availability of qualified personnel or management, stock market volatility, our inability to come to agreement with third parties on prospective opportunities and the results of any such agreement and our ability to access sufficient capital from internal and external sources. Risks are described in more detail in our Annual Information Form for the year-ended December 31, 2023, available at www.sedarplus.ca.

With respect to forward-looking statements contained in this news release, 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, the quality of our counterparties and the plans thereof, 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, the performance of current wells and future wells drilled by our royalty payors, our expectation for the consumption of crude oil and natural gas, our expectation for industry drilling levels, our ability to obtain financing on acceptable terms, shut-in production, production additions from our audit function, our ability to execute on prospective opportunities and our ability to add production and reserves through development and acquisition activities. Additional operating assumptions with respect to the forward-looking statements referred to above are detailed in the body of this news release.

You are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. To the extent any guidance or forward-looking statements herein constitute 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. 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.

You are further cautioned that the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS), which are the Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises, 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.

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.

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 bbl). 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 and observing trends, 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.

Non-GAAP and Other Financial Measures

Within this news release, references are made to terms commonly used as key performance indicators in the oil and gas industry. We believe that net revenue, netback, dividend payout ratio, funds from operations per share and cash costs are useful non-GAAP financial measures and ratios 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. 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 news release also contains the capital management measure net debt, as defined in note 12 to the December 31, 2023, unaudited condensed consolidated financial statements.

Net revenue, which is calculated as revenues less ad valorem and production taxes (as incurred in the U.S. at the state level, largely Texas, which do not charge corporate income taxes but do assess flat tax rates on commodity revenues in addition to property tax assessments) details the net amount Freehold receives from its royalty payors, largely after state withholdings.

The netback, which is also calculated on a boe basis, as average realized price less production and ad valorem taxes, operating expenses, general and administrative and cash interest charges and share-based payouts, represents the per boe netback amount which allows us to benchmark how changes in commodity pricing, net of production and ad valorem taxes, and our cash-based cost structure compare against prior periods.

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

The following table presents the computation of Net Revenue, Cash costs and the Netback:

	Three Months Ended December 31			Three Months Ended September 30	
	2023	2022	Change	2023	2022
\$/boe					
Royalty and other revenue	58.57	\$71.17	(18%)	\$62.67	(nm)
Production and ad valorem taxes	(1.25)	(2.08)	(40%)	(1.94)	(nm)
Net revenue	\$57.32	\$69.09	(17%)	\$60.73	(nm)
Less:					
General and administrative expense	(2.90)	(3.08)	(6%)	(2.29)	(nm)
Operating expense	(0.18)	(0.18)	-	(0.18)	(nm)
Interest and financing cash expense	(1.65)	(1.91)	(14%)	(2.11)	(nm)
Cash payout on share-based compensation	-	-	-	(0.52)	(nm)
Cash costs	(4.73)	(5.17)	(9%)	(5.10)	(nm)
Netback	\$52.59	\$63.92	(18%)	\$55.63	(nm)

(nm) not meaningful

Dividend payout ratios are often used for dividend paying companies in the oil and gas industry to identify

dividend levels in relation to funds from operations that are also used to finance debt repayments and/or acquisition opportunities. Dividend payout ratio is a supplementary measure and is calculated as dividends paid as a percentage of funds from operations.

(\$000s, except as noted)	Three Months Ended December 31		Three Months Ended September 30	Change
	2023	2022	2023	
Dividends paid	\$40,686	\$40,677	\$40,683	-
Funds from operations	\$62,804	\$79,973	\$65,251	(4%)
Dividend payout ratio (%)	65%	51%	62%	5%

Funds from operations per share, which is calculated as funds from operations divided by the weighted average shares outstanding during the period, provides direction if changes in commodity prices, cash costs, and/or acquisitions were accretive on a per share basis. Funds from operations per share is a supplementary measure.

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