

# Management Discussion and Analysis

*The following Management's Discussion and Analysis (MD&A) was prepared as of May 10, 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 months ended March 31, 2022 and its comparative period, 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 months ended March 31, 2022 ("Q1-2022" or the "current reporting period") and the same period in 2021 ("Q1-2021" or when combined the "reporting periods"), 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 March 31, 2022 unaudited condensed financial statements and the December 31, 2021 audited consolidated financial statements and notes.

Additional information about Freehold, including its Annual Information Form for the year ended December 31, 2021 (AIF), 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 March 31, 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 6.2 million gross acres in Canada and includes exposure to approximately 0.8 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 80% mineral title lands.

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

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

## Freehold's Strategy

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

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

## Dividend Announcement

Freehold's Board of Directors (the Board) has approved a dividend of \$0.08 per common share to be paid on June 15, 2022, to shareholders of record on May 31, 2022. This dividend level strikes a balance between commodity price volatility, managing our financial leverage and portfolio reinvestment. We will continue to evaluate our payout on a quarterly basis with the next expected update as part of our Q2-2022 results in August 2022.

## Outlook

### Business Environment

Despite being one of the more turbulent periods in terms of volatility associated with the macroeconomic environment, global crude oil prices exhibited considerable momentum during the first quarter of 2022 maintaining the upward trajectory in prices we saw through most of 2021. Overall, the West Texas Intermediate (WTI) price averaged US\$94.29/bbl during Q1-2022, a 63% improvement versus the same period in 2021. Potential downside to pricing include the prevailing risk associated with a worldwide global recession (amplified by Russian disruptions), which could impact future demand for crude oil products.

Despite some transitory headwinds including bearish supply factors such as the Strategic Petroleum Reserve (SPR) release and the potential for Iranian barrels to come online, global demand has effectively reached pre-pandemic levels of >100 MMbbl/d. In tandem, rising geopolitical tensions including Russia's invasion of Ukraine have resulted

in an estimated 5-7 MMbbl/d remaining offline, increasing skepticism that OPEC will be able to balance the market when the group meets to set supply targets. The SPR release, while an attempt to bring down prices in the near-term as reserves are released, remains a positive driver for the broader crude oil complex in the longer term as there remains one less mechanism to manage prices while creating a future source of potential demand as governments' replenish their reserves. Additionally, we continue to see North American E&Ps remaining disciplined with capital focused on value over volume approach, resulting in favorable shareholder returns. Related to the sector's ability to adopt higher growth rates, we note there is currently limited capacity to do so, both from an infrastructure and supply chain perspective (egress, equipment and labor constraints).

Within Canada, crude oil pricing has maintained the momentum set by global benchmarks with Edmonton Sweet light oil prices averaging \$115.67/bbl for Q1-2022, up 73% versus the same period in 2021. Western Canadian Select (WCS) prices averaged \$101.02/bbl for the first quarter, up 76% when compared to Q1-2021. Light heavy differentials averaged greater than US\$15/bbl for the quarter as increased production out of Canada coupled with heavier OPEC+ barrels returning to the market were bottlenecked by a lack of refining.

AECO and NYMEX natural gas monthly contract prices averaged \$4.66/mcf and US\$4.64/mcf for Q1-2022, respectively up 54% and 33% versus the same period in 2021. Natural gas prices continue to display strong upward momentum as net exports and seasonal trends continue to drive a strong positive supply/demand outlook.

## 2022 Guidance

The following table, which remains unchanged since initially reported on March 2, 2022, summarizes our key assumptions for 2022:

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

(1) 2022 guidance is expected to consist of 8% heavy oil, 41% light and medium oil, 11% NGL's and 40% natural gas

## 2021 US Royalty Acquisitions

Throughout 2021, Freehold completed \$368 million in value enhancing US royalty acquisitions with integration now largely complete to recognize Freehold as the new royalty owner. These transactions focused primarily on expanding Freehold's US royalty asset base and adding exposure to key plays including the Eagle Ford, Permian and Haynesville. Given the quantum of this activity, including the associated production and revenue growth, there were material variances reported during Q1-2022 compared to the same period in 2021 as discussed throughout this MD&A.

# Operating and Financial Results

| FINANCIAL (\$000s, except as noted)                              | Three months ended March 31 |           |        |
|--|-----------------------------|-----------|--------|
|  | 2022                        | 2021      | Change |
| Royalty and other revenue  | \$ 87,605                   | \$ 37,014 | 137%   |
| Net income   | \$ 38,395                   | \$ 5,635  | 581%   |
| Per share, basic (\$) <sup>(1)</sup>                             | \$ 0.25                     | \$ 0.04   | 525%   |
| Cash flows from operations                                       | \$ 69,300                   | \$ 24,990 | 177%   |
| Funds from operations  | \$ 71,893                   | \$ 32,421 | 122%   |
| Per share, basic (\$) <sup>(1)</sup>                             | \$ 0.48                     | \$ 0.25   | 92%    |
| Acquisitions and related expenditures                            | \$ 1,294                    | \$ 79,782 | nm     |
| Dividends paid   | \$ 27,112                   | \$ 7,633  | 255%   |
| Per share (\$) <sup>(2)</sup>                                    | \$ 0.18                     | \$ 0.06   | 200%   |
| Dividends declared   | \$ 30,124                   | \$ 9,201  | 227%   |
| Per share (\$) <sup>(2)</sup>                                    | \$ 0.20                     | \$ 0.07   | 186%   |
| Payout ratio (%) <sup>(3)</sup>                                  | 38%                         | 24%       | 14%    |
| Long term debt   | \$ 105,000                  | \$ 96,000 | 9%     |
| Net debt   | \$ 62,578                   | \$ 64,797 | -3%    |
| Shares outstanding, period end (000s)                            | 150,626                     | 131,463   | 15%    |
| Average shares outstanding (000s) <sup>(1)</sup>                 | 150,612                     | 130,874   | 15%    |
| <b>OPERATING</b>   |                             |           |        |
| Light and medium oil (bbl/d)                                     | 5,305                       | 3,811     | 39%    |
| Heavy oil (bbl/d)  | 1,139                       | 1,045     | 9%     |
| NGL (bbl/d)  | 1,757                       | 1,065     | 65%    |
| Total liquids (bbl/d)  | 8,201                       | 5,921     | 39%    |
| Natural gas (Mcf/d)  | 32,845                      | 30,132    | 9%     |
| Total production (boe/d) <sup>(4)</sup>                          | 13,676                      | 10,944    | 25%    |
| Oil and NGL (%)  | 60%                         | 54%       | 6%     |
| Petroleum and natural gas realized price (\$/boe) <sup>(4)</sup> | \$ 69.71                    | \$ 37.31  | 87%    |
| Cash costs (\$/boe) <sup>(3)(4)</sup>                            | \$ 3.70                     | \$ 4.37   | -15%   |
| Netback (\$/boe) <sup>(3)(4)</sup>                               | \$ 66.17                    | \$ 32.94  | 101%   |

nm – not meaningful

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

## Q1-2022 Operating and Financial Highlights

- Dividends declared for Q1-2022 totaled \$30.1 million (\$0.20 per share), up 227% in total versus the same period in 2021 when Freehold declared dividends of \$9.2 million (\$0.07 per share). Our dividend payout<sup>(2)</sup> ratio for Q1-2022 was 38% versus 24% during the same period in 2021.
- Royalty and other revenue totaled \$87.6 million in Q1-2022, up 137% from the same period in 2021. This was driven by positive momentum in crude oil prices, acquisition activity and growth in Freehold's royalty portfolio through third party drilling additions. Royalty and other revenue was comprised of 82% oil and NGL's, an increase from 80% in the same period of 2021, driven by increases in crude oil pricing, modest average shift in Freehold's total liquids. Third party drilling and US royalty acquisitions, were primarily oil focused over the current reporting period, when compared to Q1-2021, resulting in liquids weighting moving up from 54% to 60%.
- Funds from operations in Q1-2022 totaled \$71.9 million or \$0.48 per share, Freehold's highest ever reported measure in total for funds from operations, up 122% in total from \$32.4 million or \$0.25 per share in the same period in 2021. This increase reflects broad gains across commodity prices and higher production volumes.
- Q1-2022 production averaged 13,676 boe/d, a 25% increase versus the same period in 2021 as volumes added from US acquisitions and third-parties' royalty drilling activities drove production growth versus the same period in 2021.

- US production averaged 3,883 boe/d for Q1-2022, up materially versus the same period in 2021. This increase primarily reflects \$368 million in US royalty transactions in 2021. Canadian volumes averaged 9,793 boe/d for Q1-2022, up 1% versus the same period in 2021, driven by organic production additions from third-party drilling on our royalty lands.
- Closing long term debt at March 31, 2022 was \$105 million, a decrease of \$41 million versus December 31, 2021 as we paid down debt levels with funds from operations.

## Drilling Activity

In total, 244 gross wells were drilled on Freehold’s royalty lands in Q1-2022, a 120% increase versus the same period in 2021. The significantly increased drilling activity reflects the strong upward movement in oil prices between the reported periods resulting in higher capital spending by our royalty payors in addition to an increase in our royalty lands available to drill associated with our 2021 US and Canadian royalty property transactions.

Of the total wells drilled in Q1-2022, approximately 36% of gross wells on Freehold royalty lands targeted prospects in Texas, 30% in Alberta, and 27% in Saskatchewan with the balance spread across other regions. In Q1-2022 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. More broadly, 59% of all wells drilled targeted Canadian prospects with the remainder targeting Freehold’s US acreage. In aggregate, 98% of new wells drilled targeted oil or liquids prospects.

## Canada

Through Q1-2022, Freehold has seen consistent drilling activity in oil plays including the Viking, Mississippian, Clearwater, Deep Basin and Cardium. We are also seeing a strong increase in drilling in plays including the Shaunavon, East Shale Duvernay and Devonian.

As producers’ balance sheets are improved and their funds from operations become more robust, we are seeing an increase in drilling activities more broadly throughout our Canadian royalty portfolio. In total, we had 144 gross locations drilled within our Canadian portfolio compared to 87 gross locations during the same period in 2021.

## US

In the US, activity levels on Freehold’s royalty lands focused on light oil prospects targeting the Permian and Eagle Ford basins. We continue to see development backstopped by a strong group of disciplined investment grade public companies along with a very active group of private companies.

Although Freehold’s US net wells are 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, 100 gross wells were drilled on our US royalty lands during Q1-2022, which compares to 18 gross wells during the same period in 2021, largely due to an increase in our royalty lands available to drill associated with our 2021 US royalty property transactions.

### Royalty Interest Drilling

|               | Three months ended March 31 |                    |       |                    |
|---------------|-----------------------------|--------------------|-------|--------------------|
|               | 2022                        |                    | 2021  |                    |
|               | Gross                       | Net <sup>(1)</sup> | Gross | Net <sup>(1)</sup> |
| Canada        | 144                         | 5.9                | 87    | 3.4                |
| United States | 100                         | 0.4                | 18    | 0.1                |
| Total         | 244                         | 6.3                | 105   | 3.5                |

(1) 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 13,676 boe/d during Q1-2022, a 25% increase over the same period in 2021. The increase reflects acquisition activity and higher third-party drilling additions on Freehold's US and Canadian lands. Relative to the previous quarter, Canadian volumes for Q1-2022 were impacted by colder weather resulting in freeze offs whereas US volumes were impacted by timing associated with bringing new wells on stream.

Our production mix through Q1-2022 was 39% light and medium oil, 8% heavy oil, 13% NGL and 40% natural gas. Working interest production for Q1-2022 was 95 boe/d, relatively unchanged from the same period in 2021.

### Production Summary

| (boe/d)       | Three months ended March 31 |               |            |
|---------------|-----------------------------|---------------|------------|
|               | 2022                        | 2021          | Change     |
| Canada        | 9,793                       | 9,659         | 1%         |
| United States | 3,883                       | 1,285         | 202%       |
| <b>Total</b>  | <b>13,676</b>               | <b>10,944</b> | <b>25%</b> |

### Average Daily Production by Product Type

|   | Three months ended March 31 |               |            |
|---|-----------------------------|---------------|------------|
|   | 2022                        | 2021          | Change     |
| Light and medium oil (bbl/d)              | 5,305                       | 3,811         | 39%        |
| Heavy oil (bbl/d)                         | 1,139                       | 1,045         | 9%         |
| NGL (bbl/d)                               | 1,757                       | 1,065         | 65%        |
| Natural gas (Mcf/d)                       | 32,845                      | 30,132        | 9%         |
| <b>Total production (boe/d)</b>           | <b>13,676</b>               | <b>10,944</b> | <b>25%</b> |
| Number of days in period (days)           | 90                          | 90            | -          |
| <b>Total volumes during period (Mboe)</b> | <b>1,231</b>                | <b>985</b>    | <b>25%</b> |

## Canada

Canadian production averaged 9,793 boe/d during Q1-2022, comprised of 54% oil and NGL's. Volumes in Q1-2022 were up 1% compared to the same period in 2021, driven by organic production additions from third-party drilling on our royalty lands. NGL and heavy oil volumes were the largest contributor, both with increases of approximately 10% over the same period in 2021 as producers targeted the Deep Basin and Clearwater.

### Canadian Average Daily Production by Product Type

|                                    | Three months ended March 31 |              |           |
|------------------------------------|-----------------------------|--------------|-----------|
|                                    | 2022                        | 2021         | Change    |
| Light and medium oil (bbl/d)       | 3,181                       | 3,210        | -1%       |
| Heavy oil (bbl/d)                  | 1,139                       | 1,045        | 9%        |
| NGL (bbl/d)                        | 980                         | 894          | 10%       |
| Natural gas (Mcf/d)                | 26,958                      | 27,054       | 0%        |
| <b>Canadian production (boe/d)</b> | <b>9,793</b>                | <b>9,659</b> | <b>1%</b> |

## US

US production, representing 28% of total volumes, averaged 3,883 boe/d during Q1-2022, up significantly versus the same period in 2021 largely due to our US expansion and higher third party drilling additions. US production in Q1-2022 was impacted by timing associated with bringing new wells onstream. We believe this issue is transitory with volumes expected to now come on during the second half of 2022.

## US Average Daily Production by Product Type

|                                  | Three months ended March 31 |       |        |
|----------------------------------|-----------------------------|-------|--------|
|                                  | 2022                        | 2021  | Change |
| Light and medium oil (bbl/d)     | 2,124                       | 601   | 253%   |
| NGL (bbl/d)                      | 777                         | 171   | 354%   |
| Natural gas (Mcf/d)              | 5,887                       | 3,078 | 91%    |
| United States production (boe/d) | 3,883                       | 1,285 | 202%   |

## 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\$94.29/bbl in Q1-2022, 63% higher versus the same period in 2021.

In Canada, Edmonton Light Sweet and WCS prices averaged \$115.67/bbl and \$101.02/bbl, respectively, during Q1-2022, 73% and 76% higher versus the same period in 2021. These Canadian oil benchmarks increases reflect improved supply/demand fundamentals as global demand increases and producers maintain discipline on the supply side.

For natural gas, AECO 7A and NYMEX averaged \$4.58/mcf and US\$4.64/mcf, respectively, in Q1-2022, 57% and 33% higher versus the same period in 2021 as net exports and seasonal trends continue to drive balance to this market.

As Freehold has increased its US royalty exposure, this contributed to Freehold's overall realized price improving 87%, as 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 high pricing in relation to Freehold's US portfolio of assets prior to such acquisitions.

## Average Benchmark Prices

|   | Three months ended March 31 |          |        |
|---|-----------------------------|----------|--------|
|   | 2022                        | 2021     | Change |
| West Texas Intermediate crude oil (US\$/bbl)  | \$ 94.29                    | \$ 57.81 | 63%    |
| Exchange rate (US\$/Cdn\$)                    | \$ 0.79                     | \$ 0.79  | 0%     |
| Edmonton Light Sweet crude oil (Cdn\$/bbl)    | \$ 115.67                   | \$ 66.76 | 73%    |
| Western Canadian Select crude oil (Cdn\$/bbl) | \$ 101.02                   | \$ 57.55 | 76%    |
| Nymex natural gas (US\$/Mcf)                  | \$ 4.64                     | \$ 3.50  | 33%    |
| AECO 7A Monthly Index (Cdn\$/Mcf)             | \$ 4.58                     | \$ 2.92  | 57%    |

Freehold's average selling prices reflect product quality and transportation differences from benchmark prices. Our average selling price was \$69.71/boe in Q1-2022, up \$37.61/boe when compared to the same period in 2021.

## Average Realized Prices Summary

|                         | Three months ended March 31 |          |        |
|-------------------------|-----------------------------|----------|--------|
|                         | 2022                        | 2021     | Change |
| Oil (\$/bbl)            | \$ 109.01                   | \$ 59.16 | 84%    |
| NGL (\$/bbl)            | \$ 56.42                    | \$ 37.56 | 50%    |
| Oil and NGL (\$/bbl)    | \$ 97.74                    | \$ 55.28 | 77%    |
| Natural gas (\$/Mcf)    | \$ 4.62                     | \$ 2.61  | 77%    |
| Oil equivalent (\$/boe) | \$ 69.71                    | \$ 37.31 | 87%    |

## Canada

Freehold's average realized Canadian selling price was \$64.09/boe during Q1-2022, up 73% versus the same period in 2021 due to improved commodity prices. For these same periods, oil and NGL pricing averaged \$97.07/bbl, up 76%.

## Canadian Average Realized Prices

|                         | Three months ended March 31 |          |        |
|-------------------------|-----------------------------|----------|--------|
|                         | 2022                        | 2021     | Change |
| Oil (\$/bbl)            | \$ 104.27                   | \$ 58.20 | 79%    |
| NGL (\$/bbl)            | \$ 65.31                    | \$ 40.90 | 60%    |
| Oil and NGL (\$/bbl)    | \$ 97.07                    | \$ 55.20 | 76%    |
| Natural gas (\$/Mcf)    | \$ 4.20                     | \$ 2.55  | 65%    |
| Oil equivalent (\$/boe) | \$ 64.09                    | \$ 37.08 | 73%    |

## US

Freehold's average realized US selling price was \$83.88/boe during Q1-2022, up 115% versus the same period in 2021. For these same periods, Freehold's average realized US natural gas price was \$6.54/mcf, up 106%. US volumes continue to receive premium pricing relative to Canada given their proximity to major pricing hubs. Freehold's average realized US price for Q1-2022 benefited from the second half of 2021 US royalty acquisitions where we received premium oil and natural gas pricing in comparison to our other US properties. While the US accounts for 28% of Freehold's production, the pricing premium resulted in the US accounting for 34% of royalty and other revenues during Q1-2022.

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

|                         | Three months ended March 31 |          |        |
|-------------------------|-----------------------------|----------|--------|
|                         | 2022                        | 2021     | Change |
| Oil (\$/bbl)            | \$ 118.63                   | \$ 65.95 | 80%    |
| NGL (\$/bbl)            | \$ 45.20                    | \$ 20.15 | 124%   |
| Oil and NGL (\$/bbl)    | \$ 98.96                    | \$ 55.81 | 77%    |
| Natural gas (\$/Mcf)    | \$ 6.54                     | \$ 3.17  | 106%   |
| Oil equivalent (\$/boe) | \$ 83.88                    | \$ 39.01 | 115%   |

## 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 Q1-2022, Freehold took-in-kind and marketed approximately 4% of its total royalty production using 30-day contracts, a decrease from 14% in the period as we elected to rescind several take-in-kind privileges to accompany perceived reductions in evaluated payor risk due to improved benchmark pricing and increases in US production where we have yet to elect to take-in-kind. Historically Freehold has not experienced significant collection issues.

## Royalty and Other Revenue

Royalty and other revenue of \$87.6 million in Q1-2022 was 137% higher when compared to the same period in 2021. Freehold's royalty and other revenue has benefited from strong upward momentum in crude oil and natural gas benchmarks, while growing production volumes mostly from recent US royalty property acquisitions. Freehold also received \$0.9 million for potash revenues and the same amount for bonus consideration and lease rentals, both sizeable increases in Q1-2022 over the same period in 2021 as potash pricing and US leasing activity increased. During Q1-2022, Freehold entered into 33 new leases with 12 counterparties. Oil and NGL's represented approximately 82% of royalty and other revenue for Q1-2022, a 2% increase from the same period in 2021.

## Royalty and Other Revenue Summary

| (\$000s, except as noted) | Three months ended March 31 |           |        |
|---------------------------|-----------------------------|-----------|--------|
|                           | 2022                        | 2021      | Change |
| Canada                    | \$ 57,916                   | \$ 32,247 | 80%    |
| United States             | 29,689                      | 4,767     | 523%   |
| Royalty and other revenue | \$ 87,605                   | \$ 37,014 | 137%   |
| Per boe (\$)              | \$ 71.17                    | \$ 37.58  | 89%    |

## Royalty and Other Revenue by Category

| (\$000s)                              | Three months ended March 31 |           |        |
|---------------------------------------|-----------------------------|-----------|--------|
|                                       | 2022                        | 2021      | Change |
| Royalty interest                      | \$ 86,668                   | \$ 36,862 | 135%   |
| Bonus consideration and lease rentals | 937                         | 152       | 516%   |
| Royalty and other revenue             | \$ 87,605                   | \$ 37,014 | 137%   |

## Royalty and Other Revenue by Type

| (\$000s)                              | Three months ended March 31 |           |        |
|---------------------------------------|-----------------------------|-----------|--------|
|                                       | 2022                        | 2021      | Change |
| Oil                                   | \$ 63,223                   | \$ 25,859 | 144%   |
| Natural gas                           | 13,656                      | 7,088     | 93%    |
| Natural gas liquids                   | 8,922                       | 3,599     | 148%   |
| Potash                                | 867                         | 316       | 174%   |
| Bonus consideration and lease rentals | 937                         | 152       | 516%   |
| Royalty and other revenue             | \$ 87,605                   | \$ 37,014 | 137%   |

## General and Administrative

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

In Q1-2022, G&A expenses totaling \$3.6 million were up 11% compared to the same period in 2021. This increase was in response to Freehold's 2021 US expansion. On a per boe basis, the increase in production lowered G&A expense to \$2.92/boe in Q1-2022, a decrease of 11% versus the same period in 2021.

| (\$000s, except as noted)  | Three months ended March 31 |          |        |
|--|-----------------------------|----------|--------|
|  | 2022                        | 2021     | Change |
| General and administrative expenses before capitalized and overhead recoveries | \$ 4,360                    | \$ 3,734 | 17%    |
| Less: capitalized and overhead recoveries                                      | (770)                       | (509)    | -51%   |
| General and administrative expenses  | \$ 3,590                    | \$ 3,225 | 11%    |
| Per boe (\$)   | \$ 2.92                     | \$ 3.27  | -11%   |

## 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 expense of \$1.6 million in Q1-2022 was a 497% increase compared to the same period in 2021. The increase 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 March 31 |         |        |
|---------------------------------|-----------------------------|---------|--------|
|                                 | 2022                        | 2021    | Change |
| Production and ad valorem taxes | \$ 1,605                    | \$ 269  | 497%   |
| Per boe (\$)                    | \$ 1.30                     | \$ 0.27 | 381%   |

## Operating Expenses

Operating expenses consists of expenses associated with Freehold's Canadian working interest production activities. Operating expenses in Q1-2022 increased 4% in total but declined 19% on a per boe basis when compared to the same period in 2021.

Freehold does not incur operating expenses on production from its royalty lands.

| (\$000s, except as noted) | Three months ended March 31 |         |        |
|---------------------------|-----------------------------|---------|--------|
|                           | 2022                        | 2021    | Change |
| Operating expenses        | \$ 161                      | \$ 155  | 4%     |
| Per boe (\$)              | \$ 0.13                     | \$ 0.16 | -19%   |

## Interest and Financing

Q1-2022 interest and financing expenses decreased 13% compared to the same period in 2021, as the comparative period included fees from amending Freehold's credit facility agreement. The average effective interest rate on advances under our credit facilities for the current reporting period was 2.2% (compared to Q1-2021 at 2.1%).

| (\$000s, except as noted)                     | Three months ended March 31 |         |        |
|---|-----------------------------|---------|--------|
|   | 2022                        | 2021    | Change |
| Interest on long term debt and financing fees | \$ 806                      | \$ 923  | -13%   |
| Non-cash interest expense <sup>(1)</sup>      | 45                          | 57      | -21%   |
| Interest and finance expense                  | \$ 851                      | \$ 980  | -13%   |
| Per boe (\$)                                  | \$ 0.69                     | \$ 0.99 | -30%   |
| Per boe - cash expense (\$)                   | \$ 0.65                     | \$ 0.94 | -31%   |

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

## Netback and Cash Costs

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 \$66.17/boe during Q1-2022, a 101% increase versus the same period in 2021. This increase includes significantly improved realized commodity prices and, on a boe basis, reduced cash costs<sup>(1)</sup>.

Cash costs<sup>(1)</sup> during Q1-2022 were down 15%, on a boe basis, compared to the same period in 2021. Higher overall general and administrative costs and operating expenses in Q1-2022 were offset on a boe basis due to increased volumes when compared to the same period in 2021.

| (\$/boe)                            | Three months ended March 31 |          |        |
|-------------------------------------|-----------------------------|----------|--------|
|                                     | 2022                        | 2021     | Change |
| Royalty and other revenue           | \$ 71.17                    | \$ 37.58 | 89%    |
| Production and ad valorem taxes     | (1.30)                      | (0.27)   | 381%   |
| Net revenue                         | \$ 69.87                    | \$ 37.31 | 87%    |
| Less:                               |                             |          |        |
| General and administrative          | (2.92)                      | (3.27)   | -11%   |
| Operating expense                   | (0.13)                      | (0.16)   | -19%   |
| Interest and financing cash expense | (0.65)                      | (0.94)   | -31%   |
| Cash costs <sup>(1)</sup>           | (3.70)                      | (4.37)   | -15%   |
| Netback <sup>(1)</sup>              | \$ 66.17                    | \$ 32.94 | 101%   |

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

## Share-Based Compensation

Share-based compensation expense, reflecting Freehold's award and deferred share unit plans in Q1-2022 was \$2.0 million versus \$1.7 million in the same period of 2021. This increase was due to a higher amount of outstanding awards and improved Freehold share pricing as reflected by prices of \$14.31/share and \$7.25/share exiting the respective reporting periods. There were no cash payouts in either of the reporting periods.

| (\$000s, except as noted) | Three months ended March 31 |          |        |
|---------------------------|-----------------------------|----------|--------|
|                           | 2022                        | 2021     | Change |
| Share-based compensation  | \$ 2,063                    | \$ 1,668 | 24%    |
| Per boe (\$)              | \$ 1.68                     | \$ 1.69  | -1%    |

## 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.

There was a total of 926,733 PSUs and RSUs outstanding at March 31, 2022, comparable to the outstanding units at December 31, 2021 as no units were granted or paid out under Freehold's award plan during Q1-2022. Subsequent to Q1-2022, additional PSUs and RSUs were granted and some were settled and paid out resulting in 910,791 PSUs and RSUs outstanding at May 10, 2022.

## Deferred Share Unit Plan

Pursuant to our deferred share unit plan, fully-vested deferred share units (DSUs) are granted annually in the first quarter to non-management members of the Board. At the Board's discretion, outstanding DSUs are redeemable for either an equal number of Freehold common shares or cash in lieu of the equivalent fair value of such shares upon the member's retirement. Dividends paid on Freehold's common shares prior to redemption of DSUs are equated to a fair value which is then reinvested on behalf of the member in additional 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 Q1-2022 resulted in Freehold's combined outstanding DSUs exceeding the maximum number of common shares issuable under its DSU plan. At this time, Freehold does not intend to request an increase in this maximum from the Toronto Stock Exchange. As a result, Freehold 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.

### Combined DSU grants

During Q1-2022, Freehold granted a total of 71,327 DSUs to members of the Board largely as part of their annual compensation resulting in 519,011 outstanding DSUs at March 31, 2022 (December 31, 2021 – 447,684). Since Q1-2022, additional grants compensating for paid share dividends resulted in 521,759 outstanding DSUs at May 10, 2022.

## 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 rate per boe in Q1-2022 of \$19.47/boe, was down 7% from \$20.89/boe during the same period in 2021, due largely to Freehold's 2021 US royalty income asset acquisitions that lowered the overall rate. However, when this lower rate was multiplied by increased production associated with the 2021 US acquisitions, this resulted in an increase of 16% in expensed depletion, depreciation and other during Q1-2022 compared to the same period in 2021.

| (\$000s, except as noted)         | Three months ended March 31 |           |        |
|-----------------------------------|-----------------------------|-----------|--------|
|                                   | 2022                        | 2021      | Change |
| Depletion, depreciation and other | \$ 23,963                   | \$ 20,576 | 16%    |
| Per boe (\$)                      | \$ 19.47                    | \$ 20.89  | -7%    |

## Unrealized Foreign Exchange Loss on Intercompany Note

During Q1-2022, intercompany balances from Freehold's Canadian parent to its US subsidiary increased as a result of US royalty property acquisitions throughout 2021. 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.

| (\$000s)  | Three months ended March 31 |          |        |
|---|-----------------------------|----------|--------|
|   | 2022                        | 2021     | Change |
| Unrealized foreign exchange loss on intercompany note | \$ 3,920                    | \$ 1,912 | 105%   |

## 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 was unchanged at \$0.2 million during the reporting periods as lower shares issued for management fees in Q1-2022 was offset by an increase in Freehold's trading share price. On a boe basis, the fee was down 20% due to the increase in volumes.

|  | Three months ended March 31 |         |        |
|--|-----------------------------|---------|--------|
|  | 2022                        | 2021    | Change |
| Shares issued for management fees      | <b>13,750</b>               | 27,500  | -50%   |
| Ascribed value (\$000s) <sup>(1)</sup> | <b>\$ 196</b>               | \$ 199  | -2%    |
| Closing share price (\$/share)         | <b>\$ 14.31</b>             | \$ 7.25 | 97%    |
| Per boe (\$)                           | <b>\$ 0.16</b>              | \$ 0.20 | -20%   |

(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 March 31, 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. In Q1-2022 Freehold is reporting estimated current income tax expenses in Canada and the US of \$6.4 million and \$2.6 million, respectively, driven by strong commodity pricing and increased production volumes. In the reporting periods, Freehold had deferred tax expenses of \$3.9 million and \$2.4 million.

| (\$000s)                | Three months ended March 31 |          |        |
|-------------------------|-----------------------------|----------|--------|
|                         | 2022                        | 2021     | Change |
| Current income expense  | <b>\$ 8,976</b>             | \$ -     | nm     |
| Deferred income expense | <b>3,885</b>                | 2,395    | 62%    |
| Income taxes            | <b>\$ 12,861</b>            | \$ 2,395 | 437%   |

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.

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

## Net Income and Comprehensive Income

In Q1-2022, Freehold had net income of \$38.4 million compared to \$5.6 million in the same period of 2021. This increase was 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 in Q1-2022 with current income taxes of \$9.0 million.

| (\$000s, except per share)        | Three months ended March 31 |          |        |
|-----------------------------------|-----------------------------|----------|--------|
|                                   | 2022                        | 2021     | Change |
| Net income                        | \$ 38,395                   | \$ 5,635 | 581%   |
| Per share, basic and diluted (\$) | \$ 0.25                     | \$ 0.04  | 525%   |
| Comprehensive income              | \$ 36,746                   | \$ 5,610 | 555%   |

## 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 Q1-2022 increased 122% to \$71.9 million (\$0.48/share) from \$32.4 million (\$0.25/share) in the same period of 2021. This increase was 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 \$69.3 million during Q1-2022 was 177% higher than the same period of 2021 for the same reasons as explained for funds from operations.

| (\$000s, except as noted)             | Three months ended March 31 |           |        |
|---------------------------------------|-----------------------------|-----------|--------|
|                                       | 2022                        | 2021      | Change |
| Cash flow from operations             | \$ 69,300                   | \$ 24,990 | 177%   |
| Funds from operations                 | \$ 71,893                   | \$ 32,421 | 122%   |
| Per share - basic (\$) <sup>(1)</sup> | \$ 0.48                     | \$ 0.25   | 92%    |

(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 March 31, 2022 was \$42.4 million, lower by \$2.3 million or 5% from December 31, 2021. This decrease reflects both higher accrued income taxes and dividends payable despite a \$12.1 million increase in accounts receivable. Working capital at March 31, 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 March 31 | At December 31 | Change |
|-----------------|-------------|----------------|--------|
|                 | 2022        | 2021           |        |
| Working capital | \$ 42,422   | \$ 44,771      | -5%    |

(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 March 31, 2022, \$105.0 million was drawn on the committed revolving facility (December 31, 2021 - \$146 million). This debt decrease of \$41.0 million reflects the higher funds from operations relative to dividend commitments. 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.

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.

## Net Debt

In Q1-2022, net debt decreased by \$38.6 million, or 38%, to \$62.6 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 March 31, 2022 lowered to 0.3 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 that reflects cash available to pay back our debts. It represents the number of years it would take Freehold to reduce its net debt to zero if funds from operations was held constant and there were no other cash outflow obligations required such as dividends and acquisitions, among others. However, the calculation of net debt to funds from operations excludes funds from operations from US assets acquired during 2021 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 financial risk ratio of 7% at March 31, 2022 (December 31, 2021 – 10%) reflects the \$41.0 million repayment of long term debt during Q1-2022.

## Debt Analysis

| (\$000s)                       | At March 31 |            | At December 31 |        |
|--------------------------------|-------------|------------|----------------|--------|
|                                | 2022        | 2021       | 2021           | Change |
| Long-term debt                 | \$ 105,000  | \$ 146,000 |                | -28%   |
| Working capital <sup>(1)</sup> | (42,422)    | (44,771)   |                | -5%    |
| Net debt <sup>(1)</sup>        | \$ 62,578   | \$ 101,229 |                | -38%   |

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

## Financial Leverage Ratios <sup>(1)</sup>

|   | At March 31 |      | At December 31 |        |
|---|-------------|------|----------------|--------|
|   | 2022        | 2021 | 2021           | Change |
| Net debt to funds from operations (times) | 0.3         | 0.5  |                | -45%   |
| Net debt to capitalization                | 7%          | 10%  |                | -3%    |

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

## Shareholders' Capital

In Q1-2022, Freehold issued 13,750 shares for payment of the management fee.

At March 31, 2022 and May 10, 2022, there were 150,626,084 shares outstanding.

## Shareholders' Capital

| (\$000s, except as noted)                        | 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             | 13,750             | 196                 | 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    |

## Weighted Average and Period Ending Shares

|                  | Three months ended March 31 |             |        |
|------------------|-----------------------------|-------------|--------|
|                  | 2022                        | 2021        | Change |
| Weighted average |                             |             |        |
| Basic            | <b>150,612,334</b>          | 130,873,521 | 15%    |
| Diluted          | <b>151,123,124</b>          | 131,293,861 | 15%    |
| At period end    | <b>150,626,084</b>          | 131,462,834 | 15%    |

## Dividend Policy and Analysis

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

The payment of dividends by a corporation is governed by the liquidity and insolvency tests described in the *Business Corporations Act* (Alberta) (ABCA). Pursuant to the ABCA, after the payment of a dividend, we must be able to pay our liabilities as they become due and the realizable value of our assets must be greater than our liabilities and the legal stated capital of our outstanding securities. At March 31, 2022, our legal stated capital was \$360 million.

### 2022 Dividends Declared

| Record Date       | Payment Date      | Dividend Amount<br>(\$/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                          |
|                   |                   | \$ 0.20                       |

Dividends declared and paid in Q1-2022 totaled \$30.1 million (\$0.20/share) and \$27.1 million (\$0.18/share), respectively, both higher than \$9.2 million (\$0.07/share) and \$7.6 million (\$0.06/share) in the same period of 2021.

On April 14 and May 10, 2022, the Board declared dividends of \$0.08 per common share to be respectively paid on May 16 and June 15, 2022, to common shareholders on record on April 29, 2022 and May 31, 2022.

From inception in 1996 through to March 31, 2022, Freehold has distributed \$1.8 billion (\$33.29 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 March 31 |              |        |
|--|-----------------------------|--------------|--------|
|  | 2022                        | 2021         | Change |
| <b>Dividends declared</b>                      | <b>\$ 30,124</b>            | \$ 9,201     | 227%   |
| Accumulated, beginning of period               | <b>1,806,477</b>            | 1,737,849    | 4%     |
| Accumulated, end of period                     | <b>\$ 1,836,601</b>         | \$ 1,747,050 | 5%     |
| <b>Dividends per share</b> (\$) <sup>(2)</sup> | <b>\$ 0.20</b>              | \$ 0.0700    | 186%   |
| Accumulated, beginning of period (\$)          | <b>33.0925</b>              | 32.6025      | 2%     |
| Accumulated, end of period (\$)                | <b>\$ 33.2925</b>           | \$ 32.6725   | 2%     |

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

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

The following tables reconciles funds from operations to dividends declared. In Q1-2022 Freehold's payout<sup>(2)</sup> ratio was 38% highlighting that dividend payments are being made within our means, with excess funds from operations being used to repay debt.

## Reconciliation of Funds from Operations and Dividends Declared

| (\$000s)   | Three months ended March 31 |           |        |
|--|-----------------------------|-----------|--------|
|  | 2022                        | 2021      | Change |
| Funds from operations  | \$ 71,893                   | \$ 32,421 | 122%   |
| Debt drawing (repayments)  | (41,000)                    | 3,000     | -1467% |
| Release of restricted cash related to subscription receipts net of costs | -                           | 58,396    | -100%  |
| Acquisitions and related expenditures                                    | (1,294)                     | (79,782)  | -98%   |
| Working capital change   | 525                         | (4,834)   | -111%  |
| Dividends declared   | \$ 30,124                   | \$ 9,201  | 227%   |

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

| (\$000s)                      | Three months ended March 31 |           |        |
|-------------------------------|-----------------------------|-----------|--------|
|                               | 2022                        | 2021      | Change |
| Dividends paid <sup>(1)</sup> | \$ 27,112                   | \$ 7,633  | 255%   |
| Funds from operations         | \$ 71,893                   | \$ 32,421 | 122%   |
| Payout ratio <sup>(2)</sup>   | 38%                         | 24%       | 14%    |

(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 Q1-2022 was 38%, an increase compared to 24% during the same period in 2021. Commodity prices and production volumes on our royalty lands have recovered and now exceed COVID-19 pre-pandemic levels with funds from operations outperforming expectations; however considerable future commodity pricing volatility remains. Localized lockdowns resulting from different COVID-19 variants, including Omicron, 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. With improved commodity prices and other macroeconomic factors in North America, Freehold continues to work towards returning the payout ratio to the lower end of our target through a measured strategy while weighing this return against expected future pricing volatility and significant inflationary pressures and potential recessionary risks. 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 and to \$0.08/share or \$0.96/share on an annualized basis in March 2022.

## Investing Activities

### Acquisition and Related Expenditures

In Q1-2022, Freehold invested \$1.3 million in Canadian acquisition and related expenditures.

#### Canadian Acquisition

Freehold paid \$0.4 million during Q1-2022 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 Q1-2022, Freehold recognized capitalized general & administrative costs of \$0.8 million and other royalty income asset expenditures of \$0.1 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 March 31, 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 that capped the respective management fee at 13,750 and 27,500 Freehold common shares per quarter for 2022 and 2021. For both the reporting periods, the 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.

During Q1-2022, the Manager charged \$3.9 million in G&A costs (Q1-2021 - \$2.9 million). At March 31, 2022, there was \$2.3 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 Q1-2022, Freehold paid \$5.1 million in cash dividends to Rife and the CN Pension Trust Funds for their combined ownership in Freehold's common shares (Q1-2021 - \$1.7 million in dividends).

In addition, Freehold receives royalties from Rife pursuant to various royalty agreements. During Q1-2022, Freehold reported royalties of approximately \$0.2 million from Rife (Q1-2021 - \$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).

### 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 were no amounts due from Canpar.

## Select Quarterly Information

| Financial (\$000s, except as noted)               | 2022           |         |         |         |         | 2020      |           |           |
|---|----------------|---------|---------|---------|---------|-----------|-----------|-----------|
|   | Q1             | Q4      | Q3      | Q2      | Q1      | Q4        | Q3        | Q2        |
| Royalty and other revenue                         | <b>87,605</b>  | 75,202  | 51,423  | 45,353  | 37,014  | 25,882    | 23,156    | 14,847    |
| Net income (loss)                                 | <b>38,395</b>  | 31,178  | 22,726  | 12,545  | 5,635   | 373       | 139       | (5,421)   |
| Per share, basic (\$) <sup>(1)</sup>              | <b>\$ 0.25</b> | \$ 0.21 | \$ 0.17 | \$ 0.10 | \$ 0.04 | \$ -      | \$ -      | \$ (0.05) |
| Cash flows from operations                        | <b>69,300</b>  | 59,700  | 43,911  | 33,420  | 24,990  | 20,610    | 1,130     | 13,144    |
| Funds from operations                             | <b>71,893</b>  | 68,773  | 48,247  | 40,208  | 32,421  | 22,129    | 19,893    | 10,622    |
| Per share, basic (\$) <sup>(1)</sup>              | <b>\$ 0.48</b> | \$ 0.46 | \$ 0.36 | \$ 0.31 | \$ 0.25 | \$ 0.19   | \$ 0.17   | \$ 0.09   |
| Acquisitions and related expenditures             | <b>1,294</b>   | 67,906  | 228,382 | 930     | 79,782  | 222       | 485       | 981       |
| Dividends paid                                    | <b>27,112</b>  | 24,094  | 17,095  | 13,147  | 7,633   | 5,342     | 5,342     | 9,790     |
| Per share (\$) <sup>(2)</sup>                     | <b>0.18</b>    | 0.16    | 0.13    | 0.10    | 0.06    | 0.045     | 0.045     | 0.0825    |
| Dividends declared                                | <b>30,124</b>  | 25,598  | 19,364  | 14,464  | 9,201   | 5,938     | 5,342     | 5,341     |
| Per share (\$) <sup>(2)</sup>                     | <b>\$ 0.20</b> | \$ 0.17 | \$ 0.14 | \$ 0.11 | \$ 0.07 | \$ 0.0500 | \$ 0.0450 | \$ 0.0450 |
| Payout ratio (%) <sup>(3)</sup>                   | <b>38%</b>     | 35%     | 35%     | 33%     | 24%     | 24%       | 27%       | 92%       |
| Long term debt                                    | <b>105,000</b> | 146,000 | 126,000 | 78,000  | 96,000  | 93,000    | 107,000   | 102,000   |
| Net debt  | <b>62,578</b>  | 101,229 | 75,278  | 40,751  | 64,797  | 65,765    | 81,678    | 96,071    |
| Shares outstanding, period end (000s)             | <b>150,626</b> | 150,612 | 150,585 | 131,490 | 131,463 | 118,788   | 118,746   | 118,705   |
| Average shares outstanding (000s) <sup>(1)</sup>  | <b>150,612</b> | 150,585 | 132,941 | 131,463 | 130,874 | 118,747   | 118,706   | 118,664   |
| <b>Operating</b>                                  |                |         |         |         |         |           |           |           |
| Light and medium oil (bbls/d)                     | <b>5,305</b>   | 5,401   | 4,038   | 4,102   | 3,811   | 3,239     | 3,384     | 3,314     |
| Heavy oil (bbls/d)                                | <b>1,139</b>   | 1,254   | 1,236   | 1,199   | 1,045   | 1,173     | 791       | 920       |
| NGL (bbls/d)                                      | <b>1,757</b>   | 1,564   | 1,125   | 1,107   | 1,065   | 824       | 859       | 788       |
| Total liquids (bbls/d)                            | <b>8,201</b>   | 8,219   | 6,399   | 6,408   | 5,921   | 5,236     | 5,034     | 5,022     |
| Natural gas (Mcf/d)                               | <b>32,845</b>  | 34,700  | 29,203  | 28,376  | 30,132  | 26,671    | 24,656    | 25,576    |
| Total production (boe/d) <sup>(4)</sup>           | <b>13,676</b>  | 14,005  | 11,265  | 11,137  | 10,944  | 9,681     | 9,143     | 9,285     |
| Oil and NGL (%)                                   | <b>60%</b>     | 59%     | 57%     | 58%     | 54%     | 54%       | 55%       | 54%       |
| Petroleum and natural gas realized price (\$/boe) | <b>69.71</b>   | 57.44   | 49.17   | 44.21   | 37.31   | 28.16     | 26.95     | 17.06     |
| Cash costs (\$/boe) <sup>(3)(4)</sup>             | <b>3.70</b>    | 3.57    | 2.49    | 4.48    | 4.37    | 4.03      | 3.70      | 4.79      |
| Netback (\$/boe) <sup>(3)(4)</sup>                | <b>66.17</b>   | 53.58   | 46.60   | 39.83   | 32.94   | 24.85     | 23.79     | 12.68     |
| <b>Benchmark Prices</b>                           |                |         |         |         |         |           |           |           |
| West Texas Intermediate crude oil (US\$/bbl)      | <b>94.29</b>   | 77.19   | 70.55   | 66.07   | 57.81   | 42.47     | 40.91     | 27.81     |
| Exchange rate (Cdn\$/US\$)                        | <b>0.79</b>    | 0.79    | 0.79    | 0.81    | 0.79    | 0.77      | 0.75      | 0.72      |
| Edmonton Light Sweet crude oil (Cdn\$/bbl)        | <b>115.67</b>  | 93.28   | 83.77   | 77.12   | 66.76   | 50.45     | 49.81     | 29.79     |
| Western Canadian Select crude oil (Cdn\$/bbl)     | <b>101.02</b>  | 78.71   | 71.79   | 66.90   | 57.55   | 43.56     | 42.55     | 22.37     |
| Nymex natural gas (US\$/mcf)                      | <b>4.64</b>    | 4.75    | 4.35    | 2.95    | 3.50    | 2.26      | 2.00      | 1.70      |
| AECO 7A Monthly Index (Cdn\$/Mcf)                 | <b>4.58</b>    | 4.93    | 3.36    | 2.80    | 2.92    | 2.76      | 2.14      | 1.85      |

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

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

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

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

## 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 Q1-2022. 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).

## Forward-looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or our expectations of future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "forecast", "project", "predict",

"potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions (including the negatives thereof). These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and, as such, forward-looking statements included in this MD&A should not be unduly relied upon. These forward-looking statements are provided to allow readers to better understand our business and prospects.

In particular, this MD&A contains forward-looking statements under the headings Freehold's Strategy, Outlook, 2022 Guidance, Drilling Activity, 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%;
- our outlook for commodity prices including supply and demand factors relating to crude oil, heavy oil, natural gas liquids and natural gas;
- light/heavy oil price differentials;
- 2022 guidance including average royalty production (including commodity weighting), funds from operations and commodity prices;
- our expectation that timing delays associated with bringing new wells onstream in the US are transitory and the expectation that volumes will now come on during the second half of 2022;
- 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 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;

- the impacts of inflation and supply chain shortages on the operations of our industry partners and royalty payors;
- 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, 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 and cash interest charges, 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.