

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2020

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-38158

**FALCON MINERALS CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

82-0820780

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**510 Madison Avenue, 8th Floor, New York, NY**

**10022**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 506-5925

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001 per share	FLMN	Nasdaq Capital Market
Warrants, each to purchase one share of Class A Common Stock	FLMNW	Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 6, 2020, there were 45,993,349 shares of the registrant's Class A common stock, par value \$0.0001 per share, issued and outstanding and there were 40,000,000 shares of the registrant's Class C common stock, par value of \$0.0001 per share, issued and outstanding.

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## GLOSSARY OF TERMS

**Adjusted EBITDA:** Represents net income before interest expense, income taxes and depreciation and amortization expense, as further adjusted for other non-cash charges and other charges that are not reflective of our ongoing operations. Adjusted EBITDA is not a presentation made in accordance with GAAP. Please see the reconciliation of Adjusted EBITDA to net income in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview of Our Results of Operations—Adjusted EBITDA.”

**Barrel or bbl:** Stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons.

**BOE:** Barrels of oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of oil.

**BOE/d:** BOE per day.

**British Thermal Unit or Btu:** The quantity of heat required to raise the temperature of one pound of water by one-degree Fahrenheit.

**Completion:** The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

**Condensate:** Liquid hydrocarbons associated with the production that is primarily natural gas.

**Crude oil:** Liquid hydrocarbons retrieved from geological structures underground to be refined into fuel sources.

**Developed acreage:** Acreage allocated or assignable to productive wells.

**Differential:** An adjustment to the price of oil and natural gas from an established spot market price to reflect differences in the quality and/or location of oil or natural gas.

**GAAP:** Generally accepted accounting principles in the United States.

**Gross acres or gross wells:** The total acres or wells, as the case may be, in which an overriding, royalty or mineral interest is owned.

**MBbls:** Thousand barrels of crude oil or other liquid hydrocarbons.

**MBOE:** One thousand barrels of crude oil equivalent, determined using a ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

**Mcf:** Thousand cubic feet of natural gas.

**Mineral interests:** The interests in ownership of the resource and mineral rights, giving an owner the right to profit from the extracted resources.

**MMBtu:** Million British Thermal Units.

**MMcf:** Million cubic feet of natural gas.

**Net royalty acres:** Gross acreage multiplied by the average royalty interest.

**NGLs:** Natural gas liquids.

**Prospect:** A specific geographic area which, based on supporting geological, geophysical or other data and preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.

**Proved reserves:** The estimated quantities of oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in future years from known reservoirs under existing economic and operating conditions.

**PUD:** Proved undeveloped, used to characterize reserves.

**Reserves:** The estimated remaining quantities of oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to the market and all permits and financing required to implement the project. Reserves are not assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

**Reservoir:** A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

**Royalty interest:** An interest that gives an owner the right to receive a portion of the resources or revenues without having to carry any costs of development.

**SEC:** U.S. Securities and Exchange Commission.

**Undeveloped acreage:** Lease acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil and natural gas regardless of whether such acreage contains proved reserves.

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

**FALCON MINERALS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share amounts)  
(Unaudited)

	March 31, 2020	December 31, 2019
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 2,189	\$ 2,543
Account receivable	5,846	7,889
Prepaid expenses	1,096	1,182
Total current assets	9,131	11,614
Royalty interests in oil and natural gas properties, net of accumulated amortization of \$134,016 and \$130,342 respectively	217,619	219,192
Property and equipment, net	505	517
Deferred tax asset, net	55,908	56,352
Other assets	3,798	2,530
Total assets	<u>\$ 286,961</u>	<u>\$ 290,205</u>
<b>Liabilities and shareholders' equity:</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,107	\$ 2,206
Other current liabilities	590	-
Total current liabilities	1,697	2,206
Credit facility	45,250	42,500
Other non-current liabilities	1,290	473
Total liabilities	48,237	45,179
Commitments and contingencies (See Note 13)		
Shareholders' equity:		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued and outstanding	-	-
Class A common stock, \$0.0001 par value; 240,000,000 shares authorized; 45,987,806 and 45,963,716 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	5	5
Class C common stock, \$0.0001 par value; 120,000,000 shares authorized; 40,000,000 issued and outstanding as of March 31, 2020 and December 31, 2019	4	4
Additional paid in capital	125,921	129,127
Non-controlling interests	112,794	115,890
Retained earnings	-	-
Total shareholders' equity	238,724	245,026
Total liabilities and shareholders' equity	<u>\$ 286,961</u>	<u>\$ 290,205</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**FALCON MINERALS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Revenues:</b>		
Oil and gas sales	\$ 13,600	\$ 21,258
<b>Operating expenses:</b>		
Production and ad valorem taxes	854	1,128
Marketing and transportation	397	784
Amortization of royalty interests in oil and natural gas properties	3,674	3,511
General, administrative, and other	3,073	2,504
Total operating expenses	7,998	7,927
<b>Operating income</b>	5,602	13,331
<b>Other income (expense):</b>		
Other income	31	31
Interest expense	(680)	(654)
Total other income (expense)	(649)	(623)
Income before income taxes	4,953	12,708
Provision for income taxes	444	1,405
<b>Net income</b>	4,509	11,303
Net income attributable to non-controlling interests	(2,304)	(5,921)
<b>Net income attributable to common shareholders</b>	\$ 2,205	\$ 5,382
<b>Earnings per common share:</b>		
Common shares (basic and diluted)	\$ 0.05	\$ 0.12
<b>Weighted average number of shares outstanding:</b>		
Common shares (basic and diluted)	45,967	45,856

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**FALCON MINERALS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	March 31,	
	2020	2019
<b>Cash flow from operating activities:</b>		
Net income	\$ 4,509	\$ 11,303
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Amortization of royalty interests in oil and natural gas properties	3,674	3,511
Depreciation of property and equipment	26	-
Amortization of debt issuance costs	161	161
Amortization of right-of-use assets	117	-
Stock-based compensation	724	99
Deferred income taxes	444	966
Changes in operating assets and liabilities		
Accounts receivable	2,041	(1,393)
Prepaid expenses	86	170
Accounts payable and accrued expenses	(985)	680
Other liabilities	(139)	429
Net cash provided by operating activities	<u>10,658</u>	<u>15,926</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(14)	(205)
Acquisition of oil and natural gas properties	(2,101)	(9,705)
Net cash provided by (used in) investing activities	<u>(2,115)</u>	<u>(9,910)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from credit facility	10,000	14,000
Repayments of long-term debt	(7,250)	(6,500)
Dividends paid	(6,205)	(9,171)
Distributions to non-controlling interests	(5,400)	(8,559)
Distribution equivalent rights paid	(42)	(15)
Net cash used in financing activities	<u>(8,897)</u>	<u>(10,245)</u>
Net increase (decrease) in cash and cash equivalents	(354)	(4,229)
Cash and cash equivalents, beginning of period	2,543	7,317
Cash and cash equivalents, end of period	<u>\$ 2,189</u>	<u>\$ 3,088</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 519	\$ 493
<b>Non-cash investing and financing activities:</b>		
Accounts payable related to property and equipment	\$ -	\$ 337
Right-of-use assets obtained in exchange for operating leases	\$ 1,547	\$ -
Deferred rent	\$ -	\$ 381
Accrued bonus paid in stock	\$ 113	\$ -

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**FALCON MINERALS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In thousands, except per share amounts)  
(Unaudited)

	Class A Common Stock		Class C Common Stock		Additional Paid In Capital	Non-controlling interests	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
<b>Balance at December 31, 2018</b>	45,855	\$ 5	40,000	\$ 4	\$ 137,866	\$ 127,029	\$ 4,810	\$ 269,714
Vested restricted stock grants	4	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	99	-	-	99
Distribution equivalent rights paid	-	-	-	-	(15)	-	-	(15)
Distributions to non-controlling interests	-	-	-	-	-	(8,559)	-	(8,559)
Dividends to shareholders (\$0.20 per share)	-	-	-	-	-	-	(9,171)	(9,171)
Net income	-	-	-	-	-	5,921	5,382	11,303
<b>Balance at March 31, 2019</b>	<u>45,859</u>	<u>\$ 5</u>	<u>40,000</u>	<u>\$ 4</u>	<u>\$ 137,950</u>	<u>\$ 124,391</u>	<u>\$ 1,021</u>	<u>\$ 263,371</u>
<b>Balance at December 31, 2019</b>	45,964	\$ 5	40,000	\$ 4	\$ 129,127	\$ 115,890	\$ -	\$ 245,026
Vested restricted stock grants	24	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	836	-	-	836
Distribution equivalent rights paid	-	-	-	-	(42)	-	-	(42)
Distributions to non-controlling interests	-	-	-	-	-	(5,400)	-	(5,400)
Dividends to shareholders (\$0.135 per share)	-	-	-	-	(4,000)	-	(2,205)	(6,205)
Net income	-	-	-	-	-	2,304	2,205	4,509
<b>Balance at March 31, 2020</b>	<u>45,988</u>	<u>5</u>	<u>40,000</u>	<u>4</u>	<u>125,921</u>	<u>112,794</u>	<u>-</u>	<u>238,724</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**FALCON MINERALS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1—Organization and Presentation**

***Organization and Description of Business***

Falcon Minerals Corporation (the “Company” or “Falcon” and formerly named Osprey Energy Acquisition Corp.) was a blank check company, incorporated in Delaware in June 2016. The Company was formed for the purpose of acquiring, through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, recapitalization, or other similar business transaction, one or more operating businesses or assets (a “Business Combination”).

On August 23, 2018 (the “Closing Date”), the Company completed the acquisition of the equity interests ( the “Equity Interests”) in certain of the subsidiaries (the “Royal Entities”) of Noble Royalties Acquisition Co., LP (“NRAC”), Hooks Ranch Holdings LP (“Hooks Holdings”), DGK ORRI Holdings, LP (“DGK”), DGK ORRI GP LLC (“DGK GP”) and Hooks Holding Company GP, LLC (“Hooks GP”, and collectively with NRAC, Hooks Holdings, DGK, and DGK GP, the “Contributors”). The acquisition was made pursuant to the Contribution Agreement, dated as of June 3, 2018 (the “Contribution Agreement”), by and among the Company, Royal Resources L.P. (“Royal”), Royal Resources GP L.L.C. (“Royal GP”) and the Contributors. The acquisition of the Royal Entities pursuant to the Contribution Agreement is referred to as the “Business Combination” and the Business Combination together with the other transactions contemplated by the Contribution Agreement are referred to herein as the “Transactions.”

Pursuant to the Contribution Agreement, on the Closing Date, the Company contributed cash to Falcon Minerals Operating Partnership, LP, a Delaware limited partnership and wholly owned subsidiary of the Company (“OpCo”), in exchange for (a) a number of OpCo Common Units representing limited partnership interests in OpCo (the “OpCo Common Units”) equal to the number of shares of the Company’s Class A common stock, par value \$0.0001 per share (the “Class A Common Stock”), outstanding as of the Closing Date and (b) a number of OpCo warrants exercisable for OpCo Common Units equal to the number of the Company’s warrants outstanding as of the Closing Date. The Company controls OpCo through Falcon Minerals GP, LLC, a Delaware limited liability company, a wholly owned subsidiary of the Company and the sole general partner of OpCo (“OpCo GP”).

On the Closing Date, Falcon completed the acquisition of the Equity Interests and in return the Contributors received (i) \$400 million of cash and (ii) 40 million OpCo Common Units. The Company also issued to the Contributors 40 million shares of non-economic Class C common stock of the Company, which entitles each holder to one vote per share. The OpCo Common Units are redeemable on a one-for-one basis for shares of Class A Common Stock at the option of the Contributors. Upon the redemption by any Contributor of OpCo Common Units for Class A Common Stock, a corresponding number of shares of Class C Common Stock held by such Contributor will be cancelled.

In connection with the closing of the Business Combination (the “Closing”), the Company changed its name from “Osprey Energy Acquisition Corp.” to “Falcon Minerals Corporation.” The Company is now structured as an “Up-C,” meaning that substantially all the assets of the Company are held by OpCo, and the Company’s only operating asset is its equity interest in OpCo. Each OpCo Common Unit, together with one share of Class C Common Stock, is exchangeable for one share of Class A Common Stock at the option of the holder pursuant to the terms of the Company’s and OpCo’s organizational documents, subject to certain restrictions.

The Company’s assets, via its controlling interest in OpCo, consist of royalty interests, mineral interests, non-participating royalty interests and overriding royalty interests, or ORRIs (collectively, “Royalties”), underlying approximately 256,000 gross unit acres that are concentrated in what the Company believes is the “core-of-the-core” of liquids-rich condensate region of the Eagle Ford Share in Karnes, DeWitt and Gonzales Counties, Texas. The company owns additional assets of approximately 75,000 gross unit acres in Pennsylvania, Ohio and West Virginia that is prospective for Marcellus Shale.

These royalties entitle the holder to a portion of the production of oil and natural gas from the underlying acreage at the sales price received by the operator, net of any applicable post-production expenses and taxes. The holder of these interests has no obligation to fund exploration and development costs, lease operating expenses or pay for capital expenditures such as plugging and abandonment costs at the beginning and end of a well’s productive life.

**Note 2—Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying interim statements of the Company have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the SEC. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments and disclosures necessary for a fair statement of these interim statements have been included. All intercompany balances and transactions are eliminated in consolidation.

The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year or for any other period. These interim statements should be read in conjunction with the audited financial statements for the year ended December 31, 2019 included in our Annual Report on Form 10-K that the Company filed with the SEC on March 13, 2020.

Subsequent to the issuance of the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2019, the Company's management determined that a portion of the dividends to shareholders had been improperly deducted from Additional Paid In Capital ("APIC") rather than deducted from Retained Earnings until Retained Earnings had been exhausted. As a result, in the Condensed Consolidated Statements of Shareholders' Equity, the dividends to shareholders have been correctly classified reducing Retained Earnings rather than APIC, and the total balances of Retained Earnings and APIC have been corrected at March 31, 2019 as follows:

	<u>Retained Earnings</u>	<u>Additional Paid In Capital</u>
March 31, 2019 as presented	10,192	128,779
March 31, 2019 as corrected	1,021	137,950

The reclassification does not change, in any period, Total Shareholders' Equity. The Company evaluated the materiality of these misstatements from a quantitative and qualitative perspective and has concluded the misstatements are not material to the prior periods.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents represent unrestricted cash on hand and include all highly liquid investments purchased with a maturity of three months or less and money market funds. The Company maintains cash and cash equivalents in bank deposit accounts which, at times, may exceed the federally insured limits. The Company has not experienced any significant losses from such investments.

#### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; the reported amounts of revenues and expenses during the reporting periods; and the quantities and values of proved oil, natural gas and NGLs reserves used in calculating depletion and assessing impairment of oil and natural gas properties. Actual results could differ significantly from these estimates. Significant estimates made by management include the quantities of proved oil, natural gas and NGL reserves, related present value estimates of future net cash flows therefrom, the carrying value of oil and natural gas properties, fair value of the Company's warrants, estimates of current and deferred income taxes. While management believes these estimates are reasonable, changes in facts and assumptions or the discovery of new information may result in revised estimates. Actual results could differ from these estimates and it is reasonably possible these estimates could be revised in the near term, and these revisions could be material.

#### ***Accounts Receivable***

The Company's accounts receivable balance results primarily from operators' sales of oil and natural gas to their customers. Accounts receivable are recorded at the contractual amounts and do not bear interest. The Company reserves for specific accounts receivables when it is probable that all or a part of an outstanding balance will not be collected. The Company regularly reviews collectability and establishes or adjusts the allowance as necessary using the specific identification method. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered doubtful. As of March 31, 2020 and December 31, 2019, the Company had not recorded any reserves for uncollectible amounts or deemed any amounts to be uncollectible.

#### ***Royalty Interests in Oil and Natural Gas Properties***

The Company follows the successful efforts method of accounting for oil and natural gas operations. Under this method, costs to acquire mineral and royalty interests in oil and natural gas properties are capitalized when incurred. Acquisitions of royalty interests of oil and natural gas properties are considered asset acquisitions and are recorded at cost.

Acquisition costs of proven royalty interests are amortized using the units of production method over the life of the property, which is estimated using proven reserves. Acquisition costs of royalty interests on unproved properties, where there are no proven reserves, are not amortized. When the associated exploration stage interests are converted to proven reserves, the cost basis is amortized using the units of production methodology over the life of the property, using proven reserves. For purposes of amortization, interests in oil and natural gas properties are grouped in a reasonable aggregation of properties with common geological structural features or stratigraphic condition.

We review and evaluate our royalty interests in oil and natural gas properties for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Proved oil and gas properties are reviewed for impairment when events and circumstances indicate a potential decline in the fair value of such properties below the carrying value, such as a downward revision of the reserve estimates or lower commodity prices. When such events or changes in circumstances occur, we estimate the undiscounted future cash flows expected in connection with the properties and compare such future cash flows to the carrying amounts of the properties to determine if the carrying amounts are recoverable. If the carrying value of the properties is determined to not be recoverable based on the undiscounted cash flows, an impairment charge is recognized by comparing the carrying value to the estimated fair value of the properties. The factors used to determine fair value include, but are not limited to, estimates of proved, probable and possible reserves, future commodity prices, the timing of future production and a discount rate commensurate with the risk reflective of the lives remaining for the respective oil and gas properties. There was no such impairment of proved oil and natural gas properties for the three months ended March 31, 2020 or 2019.

Unproved properties are also assessed for impairment periodically on a depletable unit basis when facts and circumstances indicate that the carrying value may not be recoverable, at which point an impairment loss is recognized to the extent the carrying value exceeds the estimated recoverable value. The carrying value of unproved properties, including unleased mineral rights, is determined based on management's assessment of fair value using factors similar to those previously noted for proved properties, as well as geographic and geologic data. There was no impairment of unproved properties for the three months ended March 31, 2020 and 2019.

Upon the sale of a complete depletable unit, the book value thereof, less proceeds or salvage value, is charged to income. Upon the sale or retirement of an individual well, or an aggregation of interests which make up less than a complete depletable unit, the proceeds are credited to accumulated DD&A, unless doing so would significantly alter the DD&A rate of the depletable unit, in which case a gain or loss would be recorded.

#### ***Debt Issuance Costs***

Other assets include capitalized financing costs of \$2.2 million and \$2.4 million as of March 31, 2020 and December 31, 2019, respectively. The costs are associated with the Company's credit agreement and are being amortized over the term of the credit agreement.

#### ***Fair Value of Financial Instruments***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a specified measurement date. Fair value measurements are derived using inputs and assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. GAAP establishes a valuation hierarchy for disclosure of the inputs used to measure fair value. This three-tier hierarchy classifies fair value amounts recognized or disclosed in the consolidated financial statements based on the observability of inputs used to estimate such fair values. The classification within the hierarchy of an asset or liability is determined based on the lowest level input that is significant to the fair value measurement. The hierarchy considers fair value amounts based on observable inputs (Levels 1 and 2) to be more reliable and predictable than those based primarily on unobservable inputs (Level 3). At each balance sheet reporting date, the Company categorizes its assets and liabilities recorded at fair value using this hierarchy.

The amounts reported in the balance sheet for cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of the short-term maturities of these instruments (Level 1). Because the Credit Facility (as defined in "Note 5 – Debt – Falcon Credit Facility" below) has a market rate of interest, its carrying amount approximated fair value (Level 2).

#### ***Revenue from Contracts with Customers***

Revenues from royalty properties are recorded under the cash receipts approach as directly received from the remitters' statement accompanying the revenue check. Since the revenue checks are generally received 30 to 90 days after the production month, the Company accrues for revenue earned but not received by estimating production volumes and product prices. Revenues from lease bonus are recorded upon receipt. The lease bonus is separate from the lease itself and is recognized as revenue to the Company upon receipt of payment.

#### ***Transaction price allocated to remaining performance obligations***

The Company's right to royalty income does not originate until production occurs and, therefore, is not considered to exist beyond each day's production. Therefore, there are no remaining performance obligations under any of the Company's royalty income contracts.

#### *Contract balances*

Under the Company's royalty income contracts, it would have the right to receive royalty income from the producer once production has occurred, at which point payment is unconditional. Accordingly, the Company's royalty income contracts do not give rise to contract assets or liabilities.

#### *Prior-period performance obligations*

The Company records revenue in the month production is delivered to the purchaser. However, settlement statements for certain oil, natural gas and NGLs sales may not be received for 30 to 90 days after the date production is delivered, and as a result, the Company is required to estimate the amount of royalty income to be received based upon the Company's interest. The Company records the differences between its estimates and the actual amounts received for royalties in the quarter that payment is received from the producer. Identified differences between the Company's revenue estimates and actual revenue received historically have not been significant. For the three months ended March 31, 2020 and 2019, revenue recognized in the reporting period related to performance obligations satisfied in prior reporting periods was not material. The Company believes that the pricing provisions of its oil, natural gas and NGLs contracts are customary in the industry. To the extent actual volumes and prices of oil and natural gas sales are unavailable for a given reporting period because of timing or information not received from third parties, the royalties related to expected sales volumes and prices for those properties are estimated and recorded.

#### *Income Taxes*

The Company under ASC 740 uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (ii) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the rate change is enacted. A valuation allowance is provided for deferred tax assets when it is more likely than not the deferred tax assets will not be realized.

ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at March 31, 2020. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position. The Company is subject to income tax examinations by major taxing authorities since inception.

#### *Share-Based Compensation*

Share-based compensation awards are measured at fair value on the date of grant and are expensed, net of any actual forfeitures, over the required service period. See "Note 7—Share-Based Compensation" for additional information.

#### *Segment Reporting*

The Company derives revenue from Royalties in oil and natural gas properties in North America. The Company operates in a single operating and reportable segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company's Chief Executive Officer has been determined to be the CODM and allocates resources and assesses performance based upon financial information at the consolidated level.

#### *Recently Issued Accounting Pronouncements*

The Company is an "emerging growth company" ("EGC") as defined by the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Exchange Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has elected to avail itself of this exemption and, as a result, its financial statements may not be comparable to the financial statements of issuers that are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies. Section 107 of the JOBS Act provides that the Company can elect to opt out of the extended transition period at any time, which election is irrevocable.

In February 2016, the Financial Accounting Standards Board ("FASB") issued new guidance which amends various aspects of existing guidance for leases. The new guidance requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. The main difference between previous GAAP and the new standard is the recognition of lease assets and lease liabilities by lessees on the balance sheet for those leases classified as operating leases under previous GAAP. As a result, the Company will have to recognize a liability representing its lease

payments and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. The new guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company adopted the modified retrospective approach upon adoption of the new guidance on the effective date of January 1, 2020. Please see “Note 3—Impact of ASC 842 Adoption” for further details related to the Company’s adoption of this standard.

In June 2016, the FASB issued new guidance related to Accounting Standards Update 2016-13, “Financial Instruments – Credit Losses” (“ASU 2016-13”). This update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. In November 2018, the FASB issued a further update to ASU 2016-13. This update clarifies that receivables arising from operating leases are not in scope of this topic, but rather the leasing standard. This update is effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this standard did not have a material impact on the Company’s financial statements.

In December 2019, the FASB issued new guidance which amends certain aspects of accounting for income taxes. This amendment removes specific exceptions within existing GAAP related to the incremental approach for intraperiod tax allocation and to the general methodology for calculating income taxes in interim periods, among other changes. It also requires an entity to reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, among other requirements. This amendment is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. The Company is continuing to evaluate the provisions of the amendment and has not determined the full impact on its consolidated financial statements and related disclosures.

### **Note 3—Impact of ASC 842 Adoption**

On January 1, 2020, the Company adopted ASU 2016-02, Leases (“ASC 842”) using the modified retrospective method. The Company elected the package of practical expedients upon transition which will retain the lease classification for leases and any unamortized initial direct costs that existed prior to the adoption of this standard.

The adoption of the standard resulted in the recognition of operating lease right-of-use (“ROU”) assets and operating lease liabilities on the consolidated balance sheet as of January 1, 2020. ROU assets represent less than 1% of the Company’s total assets and lease liabilities represent less than 5% of the Company’s total liabilities as of March 31, 2020 and were not considered material to the Company. The Company did not recognize a material cumulative adjustment to the consolidated statement of shareholders’ equity and did not have any material changes in the timing of expense recognition or the Company’s accounting policies. The standard had no impact on the Company’s debt covenant compliance under existing agreements.

This ASU requires the Company to identify its contractual arrangements that contain leases at the inception of such arrangements. Specifically, the Company considered whether it can control the underlying asset and have the right to obtain substantially all of the economic benefits or outputs from the asset. The Company’s leases are long-term operating leases with fixed payment terms and will terminate at various dates through February 2025. The Company’s ROU assets represent its right to use an underlying asset for the lease term, and its operating lease liabilities represent its obligation to make lease payments. ROU operating assets and operating lease liabilities are included in the accompanying unaudited consolidated balance sheet as of March 31, 2020.

ROU assets are recognized at commencement date and consist of the present value of the remaining lease payments over the lease term, initial direct costs, prepaid lease payments less any lease incentives. Operating lease liabilities are recognized at commencement date based on the present value of the remaining lease payments over the lease term. The Company uses the implicit rate, when readily determinable, or its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments.

The lease terms may include periods covered by options to extend the lease when it is reasonably certain that the Company will exercise that option and periods covered by options to terminate the lease when it is not reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. In the event that the Company’s assumptions and expectations change, it may have to revise its ROU assets and operating lease liabilities. As of March 31, 2020 the weighted average remaining lease term is 3.9 years and the weighted average discount rate is 4.19%.

As of March 31, 2020, the Company has ROU assets of \$1.4 million recorded as Other Assets, \$0.6 million of corresponding obligations recorded as Other Current Liabilities and \$1.3 million of corresponding obligations recorded as Other Liabilities on the Company’s Condensed Consolidated Balance Sheet. Total operating lease costs were \$0.1 million in the Condensed Consolidated Statements of Operations during the three months ended March 31, 2020.

As of March 31, 2020, the undiscounted cash flows for operating lease liabilities are as follows (in thousands):

	Payments Due by Period						
	Total	Remainder of 2020	2021	2022	2023	2024	Thereafter
Lease obligations	1,399	296	400	211	196	200	96
Total	\$ 1,399	\$ 296	\$ 400	\$ 211	\$ 196	\$ 200	\$ 96

#### Note 4—Oil and Natural Gas Interests

Oil and natural gas interest include the following (in thousands):

	As of	
	March 31, 2020	December 31, 2019
Oil and natural gas interests:		
Subjection to depletion	\$ 313,507	\$ 311,954
Not subjection to depletion	38,128	37,580
Gross oil and natural gas interests	351,635	349,534
Accumulated depletion and impairment	(134,016)	(130,342)
Oil and natural gas interests, net	\$ 217,619	\$ 219,192

#### Note 5—Debt

##### Falcon Credit Facility

On the Closing Date, the Company entered into a credit facility with Citibank, N.A., as administrative agent and collateral agent for the lenders from time to time party thereto (the “Credit Facility”). The Credit Facility provides for a maximum credit amount of \$500.0 million and a borrowing base based on its oil and natural gas reserves and other factors of \$90.0 million, subject to scheduled semi-annual and other borrowing base redeterminations and expires on the fifth anniversary of the Closing Date. On the Closing Date, \$38.0 million was drawn under the Credit Facility to fund a portion of the purchase price of the Transactions, to pay transaction expenses, to fund any original issue discount or upfront fees in connection with the “market flex” provisions previously agreed upon and to finance working capital needs and other general corporate purposes. As of March 31, 2020, the Company had borrowings of \$45.3 million under the Credit Facility at an interest rate of 3.49% and \$44.8 million available for future borrowings under the Credit Facility. The Company incurred \$3.2 million of expenses in connection with the closing of the Credit Facility. These amounts are being amortized over the term of the Credit Facility. Unamortized deferred issuance costs were \$2.2 million as of March 31, 2020.

Principal amounts borrowed are payable on the maturity date. The Company has a choice of borrowing at an alternative base rate (which is equal to the greatest of the federal funds rate plus one-half of 1.0%, the prime rate or the one-month LIBOR rate plus 1.0%) or LIBOR, with such borrowings bearing interest, payable quarterly in arrears for base rate loans and one month, two-month, three month or six-month periods for LIBOR loans. LIBOR loans bear interest at a rate per annum equal to the rate appearing on the Reuters Reference LIBOR01 or LIBOR02 page as the LIBOR, for deposits in dollars at 12:00 noon (London, England time) for one, two, three, or six months plus an applicable margin ranging from 200 to 300 basis points. Base rate loans bear interest at a rate per annum equal to the greatest of (i) the agent bank’s reference rate, (ii) the federal funds effective rate plus 50 basis points and (iii) the rate for one-month LIBOR loans plus 1%, plus an applicable margin ranging from 100 to 200 basis points. The scheduled redeterminations of our borrowing base take place on April 1<sup>st</sup> and October 1<sup>st</sup> of each year.

Obligations under the Credit Facility are guaranteed by the Company and each of its existing and future, direct and indirect domestic subsidiaries (the “Credit Parties”) and are secured by all the present and future assets of the Credit Parties, subject to customary carve-outs.

The Credit Facility contains various affirmative, negative and financial maintenance covenants. These covenants, among other things, include restrictions on the Company’s ability to incur additional indebtedness, acquire and sell assets, create liens, enter into certain lease agreements, make investments, make distributions and require the maintenance of the financial ratios described below.

Financial Covenant	Required Ratio
Ratio of total net debt to EBITDAX, as defined in the Credit Facility	Not greater than 4.0 to 1.0
Ratio of current assets to current liabilities, as defined in the Credit Facility	Not less than 1.0 to 1.0

As of March 31, 2020, the Company was in compliance with such covenants.

## Note 6—Shareholders' Equity and Dividends

### Shares Outstanding

The Company is a holding company whose sole material operating asset consists of its interest in OpCo.

The following table summarizes the changes in the outstanding stock and warrants through March 31, 2020.

	Class A Common Stock	Class C Common Stock	Warrants
Beginning Balance at December 31, 2019	45,963,716	40,000,000	21,249,999
Restricted stock grant vesting	24,090	-	-
Shares outstanding at March 31, 2020	45,987,806	40,000,000	21,249,999

*Preferred Stock* – At March 31, 2020, there were no shares of preferred stock issued or outstanding. The Company is authorized to issue 1,000,000 shares of preferred stock with a par value of \$0.0001 per share with such designation, rights and preferences as may be determined from time to time by the Company's Board of Directors.

*Class A Common Stock* – At March 31, 2020, there were 45,987,806 shares of Class A Common Stock issued and outstanding. Holders of the Company's Class A Common Stock are entitled to one vote for each share. The Company is authorized to issue 240,000,000 shares of Class A Common Stock with a par value of \$0.0001 per share.

*Class C Common Stock* – At March 31, 2020, there were 40,000,000 shares of Class C Common Stock issued and outstanding. Class C Common Stock was issued to the Contributors in connection with the Transactions and are non-economic but entitle the holder to one vote per share. The Company is authorized to issue 120,000,000 shares of Class C Common Stock with a par value of \$0.0001 per share.

*Public Warrants* – In July 2017, the Company consummated its initial public offering of units, each consisting of one share of Class A Common Stock and one-half of one warrant ("Public Warrant"). At March 31, 2020, there were 13,749,999 Public Warrants outstanding. Each Public Warrant entitles the holder to purchase one share of Class A Common Stock at a price of \$11.50 per share. Pursuant to the Contribution Agreement, to the extent that any common stock dividend paid by the Company, when combined with other common stock dividends paid in the prior 365 days, exceeds \$0.50, it is categorized as an Extraordinary Dividend. Extraordinary Dividends reduce, penny for penny, the exercise price of the Company's warrants. For the quarters ending June 30, 2019 and September 30, 2019, the Company paid Extraordinary Dividends of \$0.12 and \$0.04, respectively. Accordingly, the exercise price of the Company's warrants was reduced to \$11.38 after the Extraordinary Dividend paid for the quarter ended June 30, 2019 and was further reduced to \$11.34 after the Extraordinary Dividend paid for the quarter ended September 30, 2019. There were no additional changes to the exercise price during the three months ended March 31, 2020. The Public Warrants will expire five years after the closing of the Transactions or earlier upon redemption or liquidation. The Company may call the Public Warrants for redemption, in whole and not in part, at a price of \$0.01 per warrant with not less than 30 days' notice provided to the Public Warrant holders. However, this redemption right can only be exercised if the last sale price of the Class A Common Stock equals or exceeds \$18.00 per share for any 20 trading days within a 30-day trading period ending three business days before we send the notice of redemption to the Public Warrant holders.

*Private Placement Warrants* – Upon closing of the Company's initial public offering, the Sponsor purchased an aggregate of 7,500,000 warrants at a price of \$1.00 per warrant (the "Private Placement Warrants"). Each Private Placement Warrant is exercisable for one share of Class A Common Stock at a price of \$11.34. The Private Placement Warrants are identical to the Public Warrants discussed above, except (i) they will not be redeemable by the Company so long as they are held by the Sponsor and (ii) they may be exercisable by the holders on a cashless basis. At March 31, 2020, there were 7,500,000 Private Placement Warrants outstanding.

In connection with the Transactions, the Company issued 40,000,000 OpCo Common Units to the Contributors. The OpCo Common Units are redeemable on a one-for-one basis for shares of Class A Common Stock at the option of the holder. Upon the redemption by any holder of OpCo Common Units for shares of Class A Common Stock, a corresponding number of shares of Class C Common Stock held by such holder will be cancelled.

### Earn-Out

In addition to the above, the Contributors will be entitled to receive earn-out consideration to be paid in the form of OpCo Common Units (with a corresponding number of shares of Class C Common Stock) if the volume-weighted average price of the trading days during any thirty (30) calendar days (the "30-Day VWAP") of the Class A Common Stock equals or exceeds certain hurdles set forth in the Contribution Agreement. If the 30-Day VWAP of the Class A Common Stock is \$12.50 or more per share at any time within the seven years following the closing, Royal LP will receive (i) an additional 10 million OpCo Common Units (and an equivalent number of shares of Class C Common Stock), plus (ii) an amount of OpCo Common Units (and an equivalent number of shares of Class C Common Stock) equal to (x) the amount by which annual cash dividends paid on each share of Class A Common

Stock exceeds \$0.50 in each year between the closing and the date the first earn-out is achieved (with any dividends paid in the stub year in which the first earn-out is achieved annualized for purposes of determining what portion of such dividends would have, on an annual basis, exceeded \$0.50), multiplied by 10 million, (y) divided by \$12.50. If the 30-Day VWAP of the Class A Common Stock is \$15.00 or more per share at any time within the seven years following the closing (which \$15.00 threshold will be reduced by the amount by which annual cash dividends paid on each share of Class A Common Stock exceeds \$0.50 in each year between the closing and the date the earn-out is achieved, but not below \$12.50), the Contributors will receive an additional 10 million OpCo Common Units (and an equivalent number of Class C Common Stock). Upon recognition of the earn-out, as there is no consideration received, the Company would record the payment of the earn-out as adjustments through equity (non-controlling interest and additional-paid-in-capital).

#### **Noncontrolling Interest**

The Company owns 100% of the general partner interests and 53% of the limited partner interests of OpCo and due to the Company's controlling interest in OpCo, OpCo is a consolidated subsidiary of the Company. Non-controlling ownership interests in OpCo are presented in the consolidated balance sheet within shareholders' equity as a separate component. In addition, consolidated net income includes earnings attributable to both the shareholders and the non-controlling interests. For the three months ended March 31, 2020 and 2019, \$5.4 million and \$8.6 million, respectively, of distributions have been made to non-controlling interest holders of the consolidated subsidiaries.

#### **Cash Dividends**

The table below summarizes the quarterly dividends related to the Company's quarterly financial results:

<b>Quarter Ended</b>	<b>Total Quarterly Dividend Per Class A Common Share</b>	<b>Total Cash Dividend</b>	<b>Payment Date</b>	<b>Stockholders Record Date</b>
March 31, 2020	\$ 0.0250	\$ 1,149,695	June 8, 2020	May 25, 2020
December 31, 2019	\$ 0.1350	\$ 6,205,102	March 9, 2020	February 25, 2020
September 30, 2019	\$ 0.1350	\$ 6,203,347	December 3, 2019	November 20, 2019
June 30, 2019	\$ 0.1500	\$ 6,879,245	September 6, 2019	August 26, 2019
March 31, 2019	\$ 0.1750	\$ 8,025,786	May 29, 2019	May 17, 2019

#### **Note 7—Share-Based Compensation**

The Falcon Board of Directors has adopted the Falcon Minerals Corporation 2018 Long-Term Incentive Plan (the "Plan"). An aggregate of 8.6 million shares of Class A Common Stock are available for issuance under the Plan. The Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. Common shares that are cancelled, forfeited or withheld to satisfy exercise prices or tax withholding obligations will be available for delivery pursuant to other awards. Distribution equivalent rights ("DER") are also available for grant under the Plan, either alone or in tandem with other specific awards, which will entitle the recipient to receive an amount equal to dividends paid on a Class A common share. The Plan is administered by the Falcon Board of Directors or a committee thereof.

#### **Restricted Stock Grants**

In accordance with the Plan, the Falcon Board of Directors is authorized to issue restricted stock awards ("RSA") to eligible employees and directors. The Company estimates the fair value of the RSAs as the closing price of the Company's Class A Common Stock on the grant date of the award, which is expensed over the applicable vesting period. Each RSA that has been granted has a DER included in each agreement. Dividends paid in connection with the DERs are accounted for as a reduction in retained earnings for those awards that are expected to vest. RSAs that are forfeited could cause a reclassification of any previously recognized DER payments from a reduction in retained earnings to additional compensation cost.

#### **Performance Stock Units**

Under the Plan, the Falcon Board of Directors is authorized to issue performance stock units ("PSU") to eligible employees and directors. The Company estimates the fair value and the derived service period of the PSUs utilizing a lattice model since one of the vesting requirements is a market-based condition (indexed to the Falcon stock price). The Company engaged a third-party consultant to calculate fair value and the derived service period of the grants at the time of issuance. The fair value of the PSUs is then amortized over the longer of the service condition or the derived service period attributable to each grant. All compensation cost for the PSUs will be recognized over the longer of the service condition or the derived service period, even if the market-condition is never satisfied as long as the award is not forfeited. The PSUs that have been granted to date do not have any DERs included in the agreements. PSUs that are forfeited could cause a reclassification of any previously recognized DER payments from a reduction in retained earnings to additional compensation cost.

The following table summarizes the activity in our unvested RSAs and PSUs for the three months ended March 31, 2020:

	Restricted Stock	Weighted Average Grant-Date Fair Value	Performance Stock Units	Weighted Average Grant-Date Fair Value
Unvested at December 31, 2019	283,917	\$ 8.10	1,413,334	\$ 3.45
Granted	258,730	\$ 2.47	751,286	\$ 0.64
Vested	(24,090)	\$ 4.67	-	-
Forfeited	-	-	-	-
Unvested at March 31, 2020	<u>518,557</u>	<u>\$ 5.45</u>	<u>2,164,620</u>	<u>\$ 2.48</u>

For the three months ended March 31, 2020 and 2019, the Company incurred \$0.7 million and \$0.1 million, respectively, of share-based compensation which is included in general, administrative and other expenses in the accompanying consolidated statements of operations. The unamortized estimated fair value of unvested RSAs and PSUs was \$5.9 million at March 31, 2020. These costs are expected to be recognized as expense over a weighted average period of 1.9 years. In addition, for the three months ended March 31, 2020 and 2019, the Company paid less than \$0.1 million and less than \$0.1 million, respectively, related to DERs of RSA holders.

#### Note 8—Earnings Per Share

Earnings per share is computed using the two-class method. The two-class method determines earnings per share of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Participating securities represent restricted stock awards in which the recipients have non-forfeitable rights to dividend equivalents during the performance period.

The following table sets forth the calculation of basic and diluted earnings per share for the periods indicated (in thousands, except per share data):

	Three Months Ended March 31,	
	2020	2019
<b>Numerator:</b>		
Net income attributable to common stockholders - basic and diluted	\$ 2,205	\$ 5,382
Less: Earnings allocated to participating securities	(9)	(24)
	<u>\$ 2,196</u>	<u>\$ 5,358</u>
<b>Denominator:</b>		
Weighted average shares outstanding - basic and diluted	<u>45,967</u>	<u>45,856</u>
Net income per common share, basic and diluted	\$ 0.05	\$ 0.12

The Company had the following shares that were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive for the periods presented but could potentially dilute basic earnings per share in future periods (in thousands):

	Three Months Ended March 31,	
	2020	2019
Warrants	21,250	21,250
Class C common shares	40,000	40,000
Total	<u>61,250</u>	<u>61,250</u>

Diluted net income per share also excludes the effects of OpCo Common Units (and related Class C Common Stock) associated with the earn-out, which are convertible into Class A Common Stock, and the PSUs because each are considered contingently issuable shares and the conditions for issuance were not satisfied as of March 31, 2020.

## Note 9—Income Taxes

The Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

For the three months ended March 31, 2020 and 2019, the Company recorded an income tax expense of \$0.4 million and \$1.4 million, respectively.

As of March 31, 2020, the Company had \$55.9 million of net deferred tax assets net of valuation allowances. These net deferred tax assets relate to oil and gas assets and other temporary items where the tax basis differs from the GAAP carrying amounts.

At March 31, 2020 and December 31, 2019, the Company had recorded a prepayment of income taxes of \$0.6 million and \$0.4 million, respectively.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at March 31, 2020. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position. The Company is subject to income tax examinations by major taxing authorities since inception.

## Note 10—Related Party Transactions

### Founder Shares

In June 2016, the Company issued an aggregate of 125,000 shares of Class B Common Stock to Osprey Sponsor, LLC (the “Sponsor”) for an aggregate purchase price of \$25,000 (the “Founder Shares”). In March 2017, the Company effectuated a 57.5-for-1 stock split resulting in an aggregate of 7,187,500 Founder Shares outstanding and held by the Sponsor. The Founder Shares automatically converted into Class A Common Stock upon the consummation of the Transactions on a one-for-one basis. Due to the underwriter’s election not to exercise the remaining portion of the over-allotment option related to the Company’s initial public offering, 312,500 Founder Shares were forfeited resulting in an aggregate of 6,875,000 Founder Shares held by the Sponsor prior to the Transactions.

### Hepco Capital Management, LLC

Hepco Capital Management, LLC (“Hepco Capital”), which Company officers and directors Edward Cohen, Jonathan Cohen and Jeffrey Brotman are also directors and officers of, and its affiliates share certain employees and office space and reimburses the Company for a proportionate amount of the shared expenses on a monthly basis. For the three months ended March 31, 2020 and 2019, the Company was reimbursed \$0.1 million and less than \$0.1 million, respectively, under this agreement.

### Royal Resources L.P.

Royal, which owns 35.2 million shares of the Class C Common Stock of the Company, as well as 35.2 million OpCo Common Units, entered into a Master Service Agreement (“MSA”) with the Company in December 2018. Under the MSA, the Company provides certain management services to Royal. For the three months ended March 31, 2020 and 2019, the Company received \$0.7 million and \$0.4 million, respectively, under this agreement.

## Note 11—Major Operators

The following table presents the percentage of revenues with the Company’s significant operators (those that have accounted for 10% or more of the Company’s revenues in a given period) for the periods indicated:

	% of Revenues Three Months Ended March 31,	
	2020	2019
ConocoPhillips	41%	39%
EOG Resources	20%	22%
Devon	16%	16%
Total	77%	77%

## Note 12—Commitments and Contingencies

The Company could be subject to various possible loss contingencies which arise primarily from interpretation of federal and state laws and regulations affecting the natural gas and crude oil industry. Such contingencies include differing interpretations as to

the prices at which natural gas and crude oil sales may be made, the prices at which royalty owners may be paid for production from their leases, environmental issues and other matters. Management believes it has complied with the various laws and regulations, administrative rulings and interpretations.

**Note 13—Subsequent Events**

***Cash Dividends***

In May 2020, the Company declared a quarterly cash dividend of \$0.025 per share of Class A Common Stock totaling approximately \$1.1 million for all shares of Class A Common Stock outstanding. The dividend is for the period from January 1, 2020 through March 31, 2020. The dividend is payable on June 8, 2020 to all Class A shareholders of record on May 25, 2020.

***OpCo Distribution***

In May 2020, OpCo declared distributions totaling \$2.1 million to its unitholders, of which \$1.1 million was distributed to the Company.

***Credit Facility Redetermination***

Effective May 1, 2020, in connection with the Company's spring redetermination, the borrowing base decreased from \$90 million to \$70 million. The borrowing base decrease would decrease the amount available for future borrowings to \$24.8 million, based upon the borrowings under the Credit Facility as of March 31, 2020. The Company has repaid an additional \$2.5 million during the period of March 31, 2020 through the date of issuance of this Quarterly Report on Form 10-Q.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Quarterly Report on Form 10-Q may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of present or historical fact, included in this report regarding our strategy, future operations, financial position, estimated revenues, and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words “could,” “should,” “will,” “may,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project,” the negative of such terms and other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on management’s current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this report. We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the development, production, gathering and sale of oil, natural gas and NGLs. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- our ability to execute our business strategies;
- changes in general economic conditions, including the material and adverse negative consequences of the COVID-19 pandemic and its unfolding impact on the global and national economy;
- the actions of the Organization of Petroleum Exporting Countries (OPEC) and other significant producers and governments;
- the volatility of realized oil and natural gas prices;
- the level of production on our properties;
- regional supply and demand factors, delays or interruptions of production;
- our ability to replace our oil and natural gas reserves;
- our ability to identify, complete and integrate acquisitions of properties or businesses;
- general economic, business or industry conditions;
- competition in the oil and natural gas industry;
- the ability of our operators to obtain capital or financing needed for development and exploration operations;
- title defects in the properties in which we invest;
- uncertainties with respect to identified drilling locations and estimates of reserves;
- the availability or cost of rigs, equipment, raw materials, supplies, oilfield services or personnel;
- restrictions on the use of water;
- the availability of transportation facilities;
- the ability of our operators to comply with applicable governmental laws and regulations and to obtain permits and governmental approvals;
- federal and state legislative and regulatory initiatives relating to hydraulic fracturing;
- future operating results;
- exploration and development drilling prospects, inventories, projects and programs;
- operating hazards faced by our operators; and
- the ability of our operators to keep pace with technological advancements.

For additional information regarding known material factors that could affect our operating results and performance, please read the section entitled “Risk Factors” in our Annual Report on Form 10-K filed with the SEC on March 13, 2020. Should one or more of the risks or uncertainties described in this report occur, or should underlying assumptions prove incorrect, actual results and plans could differ materially from those expressed in any forward-looking statements.

Reserve engineering is a process of estimating underground accumulations of oil, natural gas and NGLs that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and the price and cost assumptions made by reserve engineers. In addition, the results of drilling, completion and production activities may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any

further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of oil, natural gas and NGLs that are ultimately recovered.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Unless the context clearly indicates otherwise, references in this Quarterly Report on Form 10-Q to “Falcon,” the “Company,” “we,” “our,” “us” or similar terms refer to Falcon Minerals Corporation and its subsidiaries.

You should read the following discussion of our historical performance, financial condition and future prospects in conjunction with our unaudited financial statements and accompanying notes included herein and “Selected Financial Data,” and our audited financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the SEC on March 13, 2020. The information provided below supplements, but does not form part of, our financial statements. This discussion contains forward-looking statements that are based on the views and beliefs of our management, as well as assumptions and estimates made by our management. Actual results could differ materially from such forward-looking statements as a result of various risk factors, including those that may not be in the control of management. For further information on items that could impact our future operating performance or financial condition, see the section entitled “Risk Factors” beginning on page 17 of our Annual Report on Form 10-K filed with the SEC on March 13, 2020.

### Overview

We were formed to own and acquire royalty interests, mineral interests, non-participating royalty interests and overriding royalty interests, or ORRIs, (“Royalties”) in oil and natural gas properties in North America, substantially all of which are located in the Eagle Ford Shale. These Royalties entitle the holder to a portion of the production of oil and natural gas from the underlying acreage at the sales price received by the operator, net of any applicable post-production expenses and taxes. The holder of these interests has no obligation to fund exploration and development costs, lease operating expenses or plugging and abandonment costs at the end of a well’s productive life, which we believe results in low breakeven costs.

We own Royalties that entitle us to a portion of the production of oil, natural gas and NGLs from the underlying acreage at the sales price received by the operator, net of production expenses and taxes. We have no obligation to fund finding and development costs, lease operating expenses or pay capital expenditures such as plugging and abandonment costs. As such, we have historically operated with high cash margins, converting a large percentage of revenue to free cash flow, the majority of which has been distributed to our stockholders in the form of a dividend.

### Recent Developments

The COVID-19 pandemic has adversely affected the global economy, disrupted global supply chains and created significant volatility in the financial markets. In addition, the pandemic has resulted in travel restrictions, business closures and the institution of quarantining and other restrictions on movement in many communities. To protect the health and well-being of our workforce in the wake of COVID-19, we have implemented remote work arrangements for all employees. We do not expect these arrangements to impact our ability to maintain operations.

The impact of the COVID-19 pandemic and geopolitical events that increased the supply of low-priced oil have also negatively affected the oil and natural gas business environment, significantly reducing prices of oil, natural gas, and NGLs. Our revenues and operating results depend significantly upon the prevailing prices for oil and natural gas. The current price environment may cause some of our operators’ wells to become uneconomic, which may result in the future, in suspension of production from those wells or a significant reduction in or no royalty revenues from existing production. Some operators may also attempt to shut in producing wells and avoid lease termination or payment of shut-in royalties by claiming force majeure, if provided for in the applicable lease. Because these events have happened so recently, and no operator has, to our knowledge claimed force majeure, we have not been able to quantify their impact on our future revenues.

In a prolonged period of low commodity prices, we may be required to impair certain oil and gas producing properties and the borrowing base under our Credit Facility could be further reduced. In light of the challenging business environment and uncertainty caused by the pandemic, the Company’s Board of Directors also approved a reduction in the quarterly dividend that reflects a decrease in the payout ratio as compared to previous quarters.

## Sources of Our Revenue

Our revenues are derived from royalty payments we receive from our operators based on the sale of oil and natural gas production, as well as the sale of NGLs that are extracted from natural gas during processing. As of March 31, 2020, our Royalties represented the right to receive an average of 1.31% from the producing wells on the underlying acreage at the sales price received by our operators net of any applicable post-production expenses and taxes. Our revenues may vary significantly from period to period as a result of changes in volumes of production sold or changes in commodity prices. Oil, NGLs and natural gas prices have historically been volatile, and at March 31, 2020 and December 31, 2019, we did not hedge any of our exposure to changes in commodity prices. During the year ended December 31, 2019, West Texas Intermediate posted prices that ranged from \$51.55 to \$63.87 per Bbl and the NYMEX monthly settlement price of natural gas ranged from \$2.14 to \$3.64 per MMBtu. During the three months ended March 31, 2020, the West Texas Intermediate posted prices for crude oil ranged from \$30.44 to \$57.86 per Bbl and the NYMEX monthly settlement price of natural gas ranged from \$1.82 to \$2.16 per MMBtu.

The following table presents the breakdown of our revenue for the following periods:

	Three Months Ended March 31,	
	2020	2019
<b>Royalty Income:</b>		
Oil sales	81%	78%
Natural gas sales	12%	16%
Natural gas liquids sales	7%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Commodity prices are inherently volatile, and changes in such prices have historically had an impact on our revenue. The following table sets forth the average realized prices for oil, natural gas and NGLs for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
Oil (Bbls)	\$ 43.10	\$ 59.46
Natural gas (Mcf)	\$ 1.94	\$ 3.29
Natural gas liquids (Bbls)	\$ 14.05	\$ 18.23

The COVID-19 pandemic and related economic repercussions have resulted in a significant reduction in demand for and prices of oil, natural gas and NGLs. The effect of this was amplified late in the first quarter of 2020 when the Organization of Petroleum Exporting Countries and its broader partners ("OPEC+") were unable to reach an agreement on production levels for oil, at which point Saudi Arabia and Russia initiated efforts to aggressively increase production. While OPEC+ agreed in April 2020 to cut production, downward pressure on commodity prices has remained and could continue for the foreseeable future. In addition, concerns over the saturation of storage capacity for oil has further depressed prices. We expect these market conditions to result in a decline in drilling activity as operators revise their capital budgets downward and adjust their operations, including shutting in currently producing wells, in response to lower commodity prices. Given the dynamic nature of these events, we cannot reasonably estimate the period of time that the COVID-19 pandemic and related market conditions will persist.

## Principal Components of Our Cost Structure

### *Production and Ad Valorem Taxes*

Production taxes are paid on produced oil and natural gas based on a percentage of revenues from products sold at fixed rates established by federal, state and local taxing authorities. Where available, we have historically benefited from tax credits and exemptions in our various taxing jurisdictions. We also directly paid ad valorem taxes in the counties where our production was located. Ad valorem taxes were generally based on the state government's appraisal of our oil and natural gas properties.

### *Marketing and Transportation*

Marketing and transportation expenses include the costs to process and transport our production to applicable sales points. Generally, the terms of the lease governing the development of our properties permit the operator to pass through these expenses to us by deducting a pro rata portion of such expenses from our production revenues.

### ***Amortization***

Our Royalties are recorded at cost and capitalized as tangible assets. Acquisition costs are amortized on a units of production basis over the life of the proved reserves.

### ***General and Administrative***

General and administrative expenses are costs not directly associated with the production of oil, natural gas and NGLs and include the cost of executives and employees and related benefits (including stock-based compensation expenses), office expenses and fees for professional services. In addition, we incur incremental G&A expenses relating to be a publicly traded company, including but not limited to, expenses associated with SEC reporting requirements, including annual and quarterly reports to shareholders, tax return preparation and dividend expenses, Sarbanes-Oxley Act compliance expenses, expenses associated with listing our securities, independent auditor fees, legal expenses and investor relations expenses.

### ***Interest Expense***

We finance a portion of our working capital requirements and acquisitions with borrowings under our Credit Facility. As a result, we incur interest expense that is affected by both fluctuations in interest rates and our financing decisions. We reflect interest paid to the lenders under our credit facility in interest expense on our statement of operations. Please read “—Liquidity and Capital Resources—Indebtedness” for further details of our credit facility.

### ***Income Tax Expense***

Income taxes reflect the tax effects of transactions reported in the financial statements and consist of taxes currently payable plus deferred income taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred income tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when assets are recovered or settled. Deferred income taxes are also recognized for tax credits that are available to offset future income taxes. Deferred income taxes are measured by applying current tax rates to the differences between financial statement and income tax reporting. In assessing the realization of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, available taxes in carryback periods, projected future taxable income and tax planning strategies in making this assessment. We will continue to evaluate whether the valuation allowance is needed in future reporting periods. We are subject to taxation in many jurisdictions, and the calculation of our income tax liabilities involves dealing with uncertainties in the application of complex income tax laws and regulations in various taxing jurisdictions. We recognize certain income tax positions that meet a more-likely-than not recognition threshold. If we ultimately determine that the payment of these liabilities will be unnecessary, we will reverse the liability and recognize an income tax benefit during the period in which we determine the liability no longer applies.

## Overview of Our Results of Operations

The following table summarizes our revenue and expenses and production data for the periods indicated (in thousands, except production data).

	Three Months Ended March 31,	
	2020	2019
<b>Revenues:</b>		
Oil and gas sales	\$ 13,600	\$ 21,258
<b>Expenses:</b>		
Production and ad valorem taxes	854	1,128
Marketing and transportation	397	784
Amortization of royalty interests in oil and natural gas properties	3,674	3,511
General, administrative and other	3,073	2,504
Total operating expenses	7,998	7,927
<b>Operating income</b>	5,602	13,331
<b>Other income (expense):</b>		
Other income	31	31
Interest expense	(680)	(654)
Total other income (expense)	(649)	(623)
Income before income taxes	4,953	12,708
Provision for income taxes	444	1,405
<b>Net income</b>	4,509	11,303
Net income attributable to non-controlling interests	(2,304)	(5,921)
<b>Net income attributable to common shareholders</b>	\$ 2,205	\$ 5,382
<b>Other Financial Data:</b>		
Adjusted EBITDA <sup>(1)</sup>	\$ 10,057	\$ 16,890

(1) Adjusted EBITDA is a non-GAAP financial measure. For additional information regarding our calculation of Adjusted EBITDA as well as a reconciliation of net income to Adjusted EBITDA, please see “—Adjusted EBITDA” below.

	Three Months Ended March 31,	
	2020	2019
<b>Production Data:</b>		
Oil (Bbls)	253,528	274,978
Natural gas (BOE)	144,835	172,687
Natural gas liquids (Bbls)	70,474	72,891
Combined volumes (BOE)	468,837	520,556
Average daily combined volume (BOE/d)	5,152	5,784
% Oil	54%	53%
<b>Average sales prices:</b>		
Oil (Bbls)	\$ 43.10	\$ 59.46
Natural gas (Mcf)	\$ 1.94	\$ 3.29
Natural gas liquids (Bbls)	\$ 14.05	\$ 18.23
Combined per (BOE)	\$ 28.70	\$ 39.63
<b>Average Costs (\$/BOE):</b>		
Production and ad valorem taxes	\$ 1.82	\$ 2.17
Marketing and transportation expense	\$ 0.85	\$ 1.51
General and administrative	\$ 6.55	\$ 4.81
Interest expense, net	\$ 1.45	\$ 1.26
Depletion	\$ 7.84	\$ 6.74

## Comparison of the three months ended March 31, 2020 to the three months ended March 31, 2019:

### ***Oil and Gas Revenues***

Oil and gas revenues decreased \$7.7 million, or 36%, to \$13.6 million for the three months ended March 31, 2020, from \$21.3 million for the three months ended March 31, 2019. The decrease in oil and gas revenues was attributable to a decrease in oil and natural gas production in addition to a significant decline in realized oil and natural gas prices. We received an average price of \$43.10 per Bbl of oil and \$1.94 per Mcf of gas sold in the three months ended March 31, 2020 compared to \$59.46 per Bbl of oil and \$3.29 per Mcf of gas sold during the three months ended March 31, 2019.

### ***Production and Ad Valorem Taxes***

Production and ad valorem taxes decreased \$0.3 million, or 24%, to \$0.9 million for the three months ended March 31, 2020, from \$1.1 million for the three months ended March 31, 2019. The decrease in production and ad valorem taxes was attributable to the decrease in oil and natural gas production partially offset by an increase in ad valorem taxes. As a percentage of revenue, production and ad valorem taxes were 6% and 5%, respectively, for the three months ended March 31, 2020 and 2019.

### ***Marketing and Transportation Expense***

Marketing and transportation expense decreased \$0.4 million, or 49%, to \$0.4 million for the three months ended March 31, 2020, from \$0.8 million for the three months ended March 31, 2019. For the three months ended March 31, 2020 and 2019, as a percentage of revenue, marketing and transportation expense was 3% and 4%, respectively. The decrease in marketing and transportation expense as a percentage of revenue during 2020 is attributable to an increase in production from leases that are not burdened by marketing and transportation costs.

### ***Amortization of Royalty Interests in Oil and Gas Properties Expense***

Amortization of royalty interests in oil and gas properties expense increased \$0.2 million, or 5%, to \$3.7 million for the three months ended March 31, 2020, from \$3.5 million for the three months ended March 31, 2019. The increase in amortization of royalty interests in oil and gas properties expense was primarily attributable to the impact of higher depletion rates which was partially offset by lower production. The higher depletion rates were primarily driven by decreases in estimated proved developed producing reserve quantities in the Eagle Ford as adjusted in our year-end reserve report.

### ***General, Administrative and Other Expense***

General, administrative and other expense increased \$0.6 million, or 23%, to \$3.1 million for the three months ended March 31, 2020, from \$2.5 million for the three months ended March 31, 2019. The increase in general, administrative and other expense was attributable to an increase in stock-based compensation of \$0.6 million offset by a reduction in compensation expense of \$0.1 million.

### ***Interest Expense***

Interest expense increased by less than \$0.1 million to \$0.7 million for the three months ended March 31, 2020, from \$0.7 million for the three months ended March 31, 2019. The increase in interest expense was attributable to greater average outstanding borrowings under our Credit Facility offset by a lower average interest rate.

### ***Income Taxes***

Income tax expense decreased by \$1.0 million for the three months ended March 31, 2020, from \$1.4 million for the three months ended March 31, 2019. The decrease in income taxes was attributed to a decrease in taxable income during the first quarter of 2020 as compared to the first quarter of 2019.

### ***Adjusted EBITDA***

Adjusted EBITDA is a supplemental non-GAAP financial measure used by management and external users of our financial statements, such as industry analysts, investors, lenders and rating agencies. We believe Adjusted EBITDA is useful because it allows us to evaluate our performance and compare the results of our operations period to period without regard to our financing methods or capital structure. In addition, management uses Adjusted EBITDA to evaluate cash flow available to pay dividends to our common stockholders.

We define Adjusted EBITDA as net income plus interest expense, net, depletion expense, provision for (benefit from) income taxes and share-based compensation. Adjusted EBITDA is not a measure of net income as determined by GAAP. We exclude the items listed above from net income in arriving at Adjusted EBITDA because these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures and the method by which the assets were acquired. Certain items excluded from Adjusted EBITDA are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as historic costs of depreciable assets, none of which are components of Adjusted EBITDA.

Adjusted EBITDA should not be considered an alternative to, or more meaningful than, net income, royalty income, cash flow from operating activities or any other measure of financial performance presented in accordance with GAAP. Our computations of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

The following table presents a reconciliation of net income to Adjusted EBITDA, our most directly comparable GAAP financial measure for the periods indicated (in thousands).

	Three Months Ended March 31,	
	2020	2019
<b>Net income</b>	\$ 4,509	\$ 11,303
Interest expense, net	680	654
Depletion	3,674	3,511
Depreciation	26	-
Income taxes	444	1,405
Share-based compensation	724	17
<b>Adjusted EBITDA</b>	<b>\$ 10,057</b>	<b>\$ 16,890</b>

## Liquidity and Capital Resources

### Overview

Our primary sources of liquidity have historically been cash flows from operations and equity and debt financings, and our primary uses of cash are for dividends and for the acquisition of additional Royalties. We intend to finance potential future acquisitions through a combination of cash on hand, borrowings under our Credit Facility and, subject to market conditions and other factors, proceeds from one or more capital market transactions, which may include debt or equity offerings. Our ability to generate cash is subject to a number of factors, some of which are beyond our control, including commodity prices and general economic, financial, competitive, legislative, regulatory and other factors, including weather.

Our shareholders agreement does not require us to distribute any of the cash we generate from operations. We believe, however, that it is in the best interests of our stockholders if we distribute a substantial portion of the cash we generate from operations. Cash dividends are made to the common stockholders of record on the applicable record date, generally within 60 days after the end of each quarter. Available cash for each quarter's dividend is determined by the Board of Directors following the end of such quarter. Available cash for each quarter generally equals Adjusted EBITDA reduced for cash needed for debt service, income tax requirements and other contractual obligations and fixed charges that the Board of Directors deems necessary or appropriate, if any.

The effects of the COVID-19 outbreak and the recent oil price decline could have significant adverse consequences for general economic, financial and business conditions, as well as for our business and financial position and the business and financial position of the operators of our mineral interests and may, among other things, impact our ability to generate cash flows from operations, access the capital markets on acceptable terms or at all, and affect our future need or ability to borrow under our Credit Facility. In addition to our potential sources of funding, the effects of such global events may impact our liquidity or need to alter our allocation or sources of capital, implement further cost reduction measures and change our financial strategy. Although the COVID-19 outbreak and the recent oil price decline could have a broad range of effects on our sources and uses of liquidity, the ultimate effect thereon, if any, will depend on future developments, which cannot be predicted at this time.

The following table presents cash distributions approved by the Board of Directors of our general partner for the periods presented.

Quarter Ended	Total Quarterly Dividend Per Class A Common Share	Total Cash Dividends	Payment Date	Stockholders Record Date
March 31, 2020	\$ 0.0250	\$ 1,149,695	June 8, 2020	May 25, 2020
December 31, 2019	\$ 0.1350	\$ 6,205,102	March 9, 2020	February 25, 2020
September 30, 2019	\$ 0.1350	\$ 6,203,347	December 3, 2019	November 20, 2019
June 30, 2019	\$ 0.1500	\$ 6,879,245	September 6, 2019	August 26, 2019
March 31, 2019	\$ 0.1750	\$ 8,025,786	May 29, 2019	May 17, 2019

### Indebtedness

#### Falcon Credit Facility

On the Closing Date, we entered into a credit facility with Citibank, N.A., as administrative agent and collateral agent for the lenders from time to time party thereto (the "Credit Facility"). The Credit Facility provides for a maximum credit amount of \$500.0 million and a borrowing base based on its oil and natural gas reserves and other factors of \$90.0 million, subject to scheduled semi-annual and other borrowing base redeterminations and expires on the fifth anniversary of the Closing Date. Effective November 8, 2019, in connection with the Company's fall 2019 redetermination, the borrowing base decreased from \$105.0 million to \$90 million.

and, as of March 31, 2020, the Company had borrowings of \$45.3 million under the Credit Facility at an interest rate of 3.49% and \$44.8 million available for future borrowings under the Credit Facility. Subsequent to March 31, 2020, the Company completed the scheduled spring redetermination process and the Company's borrowing based was reduced to \$70.0 million. Therefore, based upon the borrowings outstanding under the Credit Facility at March 31, 2020, the amount available for future borrowings would be reduced to \$24.8 million. The Company has repaid an additional \$2.5 million during the period of March 31, 2020 through the date of issuance of this Quarterly Report on Form 10-Q.

Principal amounts borrowed are payable on the maturity date. We have a choice of borrowing at the base rate or LIBOR, with such borrowings bearing interest, payable quarterly in arrears for base rate loans and one month, two-month, three month or six-month periods for LIBOR loans. LIBOR loans bear interest at a rate per annum equal to the rate appearing on the Reuters Reference LIBOR01 or LIBOR02 page as the LIBOR, for deposits in dollars at 12:00 noon (London, England time) for one, two, three, or six months plus an applicable margin ranging from 200 to 300 basis points. Base rate loans bear interest at a rate per annum equal to the greatest of (i) the agent bank's reference rate, (ii) the federal funds effective rate plus 50 basis points and (iii) the rate for one-month LIBOR loans plus 1%, plus an applicable margin ranging from 100 to 200 basis points. The scheduled redeterminations of our borrowing base take place on April 1<sup>st</sup> and October 1<sup>st</sup> of each year.

Obligations under the Credit Facility are guaranteed by us and each of our existing and future, direct and indirect domestic subsidiaries (the "Credit Parties") and are secured by all of the present and future assets of the Credit Parties, subject to customary carve-outs.

The Credit Facility contains certain customary representations and warranties, affirmative covenants, negative covenants and events of default. As of March 31, 2020, the Company was in compliance with such covenants. The negative covenants include restrictions on the Company's ability to incur additional indebtedness, acquire and sell assets, create liens, enter into certain lease agreements, make investments and make distributions.

### **Cash Flows**

The following table presents our cash flows for the periods indicated (in thousands).

	<b>For the Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Net cash flows provided by (used in):</b>		
Operating activities	\$ 10,658	\$ 15,926
Investing activities	(2,115)	(9,910)
Financing activities	(8,897)	(10,245)

#### **Operating activities**

Our operating cash flow has historically been sensitive to many variables, the most significant of which is the volatility of prices for the oil and natural gas for which we receive royalty revenue. Prices for these commodities are determined primarily by prevailing market conditions. Regional and worldwide economic activity, weather and other substantially variable factors influence market conditions for these products. These factors are beyond our control and are difficult to predict.

The decrease in cash flow provided by operating activities for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019 was primarily related to a 8% decrease in oil production, a 16% decrease in natural gas production coupled with a 28% decrease in realized oil prices and a 41% decrease in realized natural gas prices period over period partially offset by an increase in working capital primarily driven by the timing of collection of accounts receivables and the timing of payments of accounts payable and accrued expenses.

#### **Investing activities**

Investing activities are primarily related to the acquisition and disposition of oil and natural gas interests. Cash used in investing activities for the three months ended March 31, 2020 was \$2.1 million and the majority was related to the acquisition of certain royalty interests in oil and natural gas properties. Cash used in investing activities for the three months ended March 31, 2019 was \$9.9 million and the majority was related to the acquisition of certain royalty interests in oil and natural gas properties.

#### **Financing activities**

Cash used in financing activities for the three months ended March 31, 2020 was \$8.9 million. It was primarily related to distributions and dividends totaling \$11.6 million partially offset by a net increase in borrowings under our Credit Facility of \$2.8 million. The borrowings under our Credit Facility were primarily used to fund the acquisition of certain royalty interests in oil and gas properties during the period. Cash used in financing activities for the three months ended March 31, 2019 was \$10.2 million, primarily related to distributions and dividends totaling \$17.7 million partially offset by a net increase in borrowings under our Credit

Facility of \$7.5 million. The borrowings under our Credit Facility were primarily used to fund the acquisition of certain royalty interests in oil and gas properties during the quarter.

#### **Contractual Obligations**

There were no material changes in our contractual obligations and other commitments as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

#### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

#### **Critical Accounting Policies and Estimates**

There have been no changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### *Commodity Price Risk*

Our major market risk exposure is in the pricing applicable to the oil and natural gas production of our operators. Realized pricing was primarily driven by the prevailing worldwide price for crude oil and spot market prices applicable to our natural gas production. Pricing for oil and natural gas production has been volatile and unpredictable for several years and we expect this volatility to continue in the future. The prices that our operators receive for production depend on many factors outside of our or their control. Historically, we have not entered into hedging arrangements to manage commodity price risks.

#### *Revenue Concentration Risk*

We are subject to risk resulting from the concentration of oil and gas revenues in producing oil and natural gas properties and receivables with several significant purchasers. For the three months ended March 31, 2020, we received approximately 41%, 20%, and 16% of our revenue from ConocoPhillips, EOG Resources, and Devon, respectively. For the three months ended March 31, 2019, we received approximately 39%, 22%, and 16% of our revenue from ConocoPhillips, EOG, and Devon, respectively. We did not require collateral and did not believe the loss of any single purchaser would materially impact our operating results, as crude oil and natural gas are fungible products with well-established markets and numerous purchasers.

#### *Interest Rate Risk*

We have exposure to changes in interest rates on our indebtedness. As of March 31, 2020, we had total borrowings under our Credit Facility of \$45.3 million. The impact of a 1% increase in the interest rate on this amount of debt would result in an increase in interest expense of approximately \$0.4 million annually, assuming that our indebtedness remained constant throughout the year. We do not currently have any interest rate hedges in place.

### **Item 4. Controls and Procedures**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### *Evaluation of Disclosure Controls and Procedures*

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2020. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act) were effective.

#### *Changes in Internal Control Over Financial Reporting*

During the most recently completed fiscal quarter, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

Although we are, from time to time, involved in various legal claims arising out of our operations in the normal course of business, we do not believe that the resolution of these matters will have a material adverse impact on our financial condition or results of operations. Additionally, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any

claim or proceeding would not have a material adverse effect on our business, financial condition, results of operations and ability to make quarterly dividends to our shareholders.

#### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, readers should carefully consider the risks described in our Annual Report on Form 10-K which was filed with the SEC on March 13, 2020. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations.

***The COVID-19 pandemic and the significant decline in commodity prices in the first quarter of 2020 has adversely affected our business, and the ultimate effect on our financial condition, results of operations, and cash dividends to shareholders will depend on future developments, which are highly uncertain and cannot be predicted.***

The COVID-19 pandemic has adversely affected the global economy, disrupted global supply chains and created significant volatility in the financial markets. In addition, the pandemic has resulted in travel restrictions, business closures and the institution of quarantining and other restrictions on movement in many communities. As a result, there has been a significant reduction in demand for and prices of oil, natural gas and NGLs. In addition, concerns over storage capacity for oil has further depressed prices.

In a prolonged period of low commodity prices, we may be required to impair certain oil and gas producing properties and the borrowing base under our Credit Facility could be reduced. Effective May 1, 2020, in connection with our spring redetermination, the borrowing base decreased from \$90 million to \$70 million. In light of the challenging business environment and uncertainty caused by the pandemic, our Board of Directors also approved a reduction in the quarterly dividend payout ratio for the first quarter of 2020 to increase the amount of retained free cash flow for debt reduction and balance sheet protection.

The impact of the COVID-19 pandemic and geopolitical events that increased the supply of low-priced oil have also negatively affected the oil and natural gas business environment, significantly reducing prices of oil, natural gas, and NGLs. Our revenues and operating results depend significantly upon the prevailing prices for oil and natural gas. The current price environment may cause some of our operators' wells to become uneconomic, which may result in the future, in suspension of production from those wells or a significant reduction in or no royalty revenues from existing production. Some operators may also attempt to shut in producing wells and avoid lease termination or payment of shut-in royalties by claiming force majeure, if provided for in the applicable lease. Because these events have happened so recently, and no operator has, to our knowledge claimed force majeure, we have not been able to quantify their impact on our future revenues.

The extent to which the COVID-19 pandemic adversely affects our business, results of operations, and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

##### *Unregistered Sales of Equity Securities*

None.

##### *Use of Proceeds*

None.

##### *Purchases of Equity Securities By the Issuer and Affiliated Purchasers*

None.

#### **Item 3. Defaults Upon Senior Securities**

None.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

#### **Item 6. Exhibits**

The following documents are filed as part of this Quarterly Report on Form 10-Q or incorporated herein by reference.

## EXHIBIT INDEX

Exhibit No.	Description
3.1	<a href="#">Second Amended and Restated Certificate of Incorporation of Falcon Minerals Corporation, dated as of August 23, 2018 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (file No. 001-38158) filed August 29, 2018).</a>
3.2	<a href="#">Amended and Restated Bylaws of Falcon Minerals Corporation (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K/A (file No. 001-38158) filed January 23, 2019).</a>
10.1*	<a href="#">Form of Performance Stock Unit Agreement</a>
10.2*	<a href="#">First Amendment to Credit Agreement</a>
31.1*	<a href="#">Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

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\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FALCON MINERALS CORPORATION

Date: May 11, 2020

By: /s/ Daniel C. Herz  
Daniel C. Herz  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 11, 2020

By: /s/ Bryan C. Gunderson  
Bryan C. Gunderson  
Chief Financial Officer  
(Principal Financial Officer)

## PERFORMANCE STOCK UNIT AGREEMENT

## PURSUANT TO THE

## FALCON MINERALS CORPORATION

## 2018 LONG-TERM INCENTIVE PLAN

\* \* \* \* \*

**Participant:****Grant Date:****Target Number of Performance Stock Units Granted:****Maximum Number of Performance Stock Units Granted:**

\* \* \* \* \*

**THIS PERFORMANCE STOCK UNIT AGREEMENT** (this "Agreement"), dated as of the Grant Date specified above, is entered into by and between Falcon Minerals Corporation, a Delaware corporation (the "Company"), and the Participant specified above, pursuant to the Falcon Minerals Corporation 2018 Long-Term Incentive Plan, as in effect and as amended from time to time (the "Plan"), which is administered by the Committee; and

**WHEREAS**, the Committee has determined in accordance with the Plan that it would be in the best interests of the Company to grant the Performance Stock Units ("PSUs") provided herein to the Participant.

**NOW, THEREFORE**, in consideration of the mutual covenants and promises hereinafter set forth and for other good and valuable consideration, and intending to be legally bound hereby, the parties hereto hereby mutually covenant and agree as follows:

1. **Incorporation By Reference; Plan Document Receipt**. This Agreement is subject in all respects to the terms and provisions of the Plan (including, without limitation, any amendments thereto adopted at any time and from time to time unless such amendments are expressly intended not to apply to the Award provided hereunder), all of which terms and provisions are made a part of and incorporated in this Agreement as if they were each expressly set forth herein. Any capitalized term not defined in this Agreement shall have the same meaning as is ascribed thereto in the Plan. The Participant hereby acknowledges receipt of a true copy of the Plan and that the Participant has read the Plan carefully and fully understands its content. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control; provided, however, that any provisions with respect to treatment of the PSUs upon the Participant's Termination (as defined below) shall be as provided in this Agreement.

2. **Grant of Performance Stock Unit Award**. The Company hereby grants to the Participant, as of the Grant Date specified above, the number of PSUs specified under Target Number of Performance Stock Units Granted above (i.e.,                      PSUs), provided that the Participant is eligible to earn PSUs up to the number of PSUs specified under Maximum Number of Performance Stock Units Granted above (i.e.,                      PSUs). Except as otherwise provided by the Plan and this Agreement, the Participant agrees and understands that nothing contained in this Agreement provides, or is intended to provide, the Participant with any protection against potential future dilution of the Participant's interest in the Company for any reason, and no adjustments shall be made for dividends in cash or other property, distributions or other rights in respect of any such shares, except as otherwise specifically provided for in the Plan or this Agreement, including Section 3(b) below. Subject to Section 5 hereof, the Participant shall not have the rights of a stockholder in respect of the shares underlying this Award until such shares are delivered to the Participant in accordance with Section 4 hereof.

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3. **Vesting.** The PSUs shall be subject to both time vesting and performance vesting.

(a) Subject to the further provisions of this Section 3, the PSUs subject to this grant shall time vest on the three year anniversary of the Grant Date, provided that the Participant has not incurred a Termination prior to such date.

(b) The number of PSUs set forth below shall performance vest if, on the three year anniversary of the Grant Date, the Total Shareholder Return (defined below) goals are met:

Target Compounded Annual Growth Rate	Total Shareholder Return over 3 years	PSUs vesting

“Total Shareholder Return” means a combination of share price appreciation from a starting price of \$ \_\_\_\_\_ on the Grant Date, plus dividends paid or declared as if such dividends were reinvested in Company Common Stock, to show a total return to the shareholders. Share price appreciation shall be calculated based on the 30-Day VWAP (as such term is defined in that certain Contribution Agreement, dated as of June 3, 2018, by and among Royal Resources L.P., a Delaware limited partnership (“Royal Resources”), Osprey Energy Acquisition Corp., a Delaware corporation, and such other parties thereto named therein, as such agreement is in effect as of the date hereof (the “Contribution Agreement”).

(c) If the maximum number of PSUs set forth above in (b) have not vested at the \_\_\_\_\_ year anniversary of the Grant Date, then Total Shareholder Return shall continue to be tested \_\_\_\_\_ for the following \_\_\_\_\_, based on the 30-Day VWAP (as such term is defined in the Contribution Agreement). During this period the Total Shareholder Return will be increased by the Target Compounded Annual Growth rate set forth above, pro rated for the testing period, and PSUs will be eligible to vest at each quarter end of the \_\_\_\_\_ year upon achieving these increased targets.

(d) Achievement of the goals set forth above shall be determined by the Committee in its sole discretion. Any PSUs that have not vested in accordance with the terms of this Agreement as of the end of the \_\_\_\_\_ year period beginning on the Date of Grant shall be automatically forfeited.

(e) Committee Discretion to Accelerate Vesting. Notwithstanding the foregoing, the Committee may, in its sole discretion, provide for accelerated vesting of the PSUs at any time and for any reason.

(f) Qualifying Termination. Upon the Participant’s Termination by the Company without Cause or upon the Participant’s Termination due to the Participant’s death or Disability (any such termination, a “Qualifying Termination”), the PSUs shall be time vested as of the date of termination and shall be performance vested, to the extent not yet performance vested, by testing the Total Shareholder Return as of the date of termination, such return to be calculated based on the Target Compounded Annual Growth rate set forth above, pro rated for the testing period. If any unvested PSUs remain after such calculation, the Company shall again test the Total Shareholder Return as of the 30th day following the Participant’s date of the Qualifying Termination. Any PSUs that have not vested in accordance with this Section 3(f) shall be forfeited for no consideration as of the date 31 days after the Qualifying Termination.

(g) Forfeiture. Subject to the Committee’s discretion to accelerate vesting hereunder, upon the Participant’s Termination for any reason before all of the PSUs subject to this grant have vested, any unvested PSUs shall automatically terminate and shall be forfeited as of the date of the Participant’s Termination.

4. **Delivery of Shares or Cash.**

(a) Within thirty (30) days following the date on which both the time and the performance vesting criteria have been met with respect to PSUs, the Participant shall receive the number of shares of Common Stock that correspond to the number of PSUs that have become vested on the applicable vesting date or, in the sole discretion of the Committee, an amount in cash equal to the Fair Market Value of a share of Common Stock on the date of vesting for each PSU. Whether payment is made in the form of Common Stock or cash, or a combination thereof, shall be determined in the sole discretion of the Committee.

(b) Blackout Periods. If the Participant is subject to any Company “blackout” policy or other trading restriction imposed by the Company on the date such distribution would otherwise be made pursuant to Section 4(a) hereof, such distribution shall be instead made on the earlier of (i) the date that the Participant is not subject to any such policy or restriction and (ii) ninety (90) days following the date such distribution would otherwise have been made

hereunder.

5. **Dividends; Rights as Stockholder.** Except as otherwise provided herein, the Participant shall have no rights as a stockholder with respect to any shares of Common Stock covered by any PSU, including any rights to cash dividends on shares of Common Stock issuable hereunder, unless and until the Participant has become the holder of record of such shares.

6. **Non-Transferability.** Subject to Section 19 hereof, no portion of the PSUs may be sold, assigned, transferred, encumbered, hypothecated or pledged by the Participant, other than to the Company as a result of forfeiture of the PSUs or in the event of the Participant's death or disability, as provided herein, unless and until payment is made in respect of vested PSUs in accordance with the provisions hereof and the Participant has become the holder of record of the vested shares of Common Stock issuable hereunder.

7. **Governing Law.** All questions concerning the construction, validity and interpretation of this Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to the choice of law principles thereof.

8. **Withholding of Tax.** The Company shall have the power and the right to deduct or withhold, or require the Participant to remit to the Company, an amount sufficient to satisfy any federal, state, local and foreign taxes of any kind (including, but not limited to, the Participant's FICA and SDI obligations) which the Company, in its sole discretion, deems necessary to be withheld or remitted to comply with the Code and/or any other applicable law, rule or regulation with respect to the PSUs and, if the Participant fails to do so, the Company may otherwise refuse to issue or transfer any shares of Common Stock otherwise required to be issued pursuant to this Agreement. At the discretion of the Company, any minimum statutorily required withholding obligation with regard to the Participant may be satisfied by reducing the amount of cash or shares of Common Stock otherwise deliverable to the Participant hereunder.

9. **Legend.** The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates, if any, representing shares of Common Stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares of Common Stock acquired pursuant to this Agreement in the possession of the Participant in order to carry out the provisions of this Section.

10. **Securities Representations.** The PSUs are being issued to the Participant and this Agreement is being made by the Company in reliance upon the following express representations and warranties of the Participant. The Participant acknowledges, represents and warrants that:

(a) The Participant has been advised that the Participant may be an "affiliate" within the meaning of Rule 144 under the Securities Act and in this connection the Company is relying in part on the Participant's representations set forth in this Section 10.

(b) If the Participant is deemed an affiliate within the meaning of Rule 144 of the Securities Act, any shares of Common Stock issued to the Participant in respect of the PSUs must be held indefinitely unless an exemption from any applicable resale restrictions is available or the Company files an additional registration statement (or a "re-offer prospectus") with regard to such shares and the Company is under no obligation to register such shares (or to file a "re-offer prospectus").

(c) If the Participant is deemed an affiliate within the meaning of Rule 144 of the Securities Act, the Participant understands that (i) the exemption from registration under Rule 144 will not be available unless (A) a public trading market then exists for the Common Stock of the Company, (B) adequate information concerning the Company is then available to the public, and (C) other terms and conditions of Rule 144 or any exemption therefrom are complied with, and (ii) any sale of the shares of Common Stock issued to the Participant in respect of the PSUs hereunder may be made only in limited amounts in accordance with the terms and conditions of Rule 144 or any exemption therefrom.

11. **Restrictive Covenants.**

(a) **Confidentiality.** During the course of the Participant's employment with the Company, the Participant will have access to Confidential Information. For purposes of this Agreement, "**Confidential Information**" means all data, information, ideas, concepts, discoveries, trade secrets, inventions (whether or not patentable or reduced to practice), innovations, improvements, know-how, developments, techniques, methods, processes, treatments, drawings, sketches, specifications, designs, plans, patterns, models, plans and strategies, and all other confidential or proprietary

information or trade secrets in any form or medium (whether merely remembered or embodied in a tangible or intangible form or medium) whether now or hereafter existing, relating to or arising from the past, current or potential business, activities and/or operations of the Company or any of its affiliates, including, without limitation, any such information relating to or concerning finances, sales, marketing, advertising, transition, promotions, pricing, personnel, customers, suppliers, vendors, raw partners and/or competitors. The Participant agrees that the Participant shall not, directly or indirectly, other than in the good faith performance of his duties hereunder, use, make available, sell, disclose or otherwise communicate to any person, other than in the course of the Participant's assigned duties and for the benefit of the Company, either during the period of the Participant's employment or at any time thereafter, any Confidential Information or other confidential or proprietary information received from third parties subject to a duty on the Company's and its subsidiaries' and affiliates' part to maintain the confidentiality of such information, and to use such information only for certain limited purposes, in each case, which shall have been obtained by the Participant during the Participant's employment by the Company (or any predecessor). The foregoing shall not apply to information that (i) was known to the public prior to its disclosure to the Participant; (ii) becomes generally known to the public subsequent to disclosure to the Participant through no wrongful act of the Participant or any representative of the Participant; (iii) is independently developed by Participant, or comes into possession of the Participant, other than in connection with his employment by the Company; or (iv) the Participant is required to disclose by applicable law, regulation or legal process (provided that the Participant provides the Company with prior notice of the contemplated disclosure and cooperates with the Company at its expense in seeking a protective order or other appropriate protection of such information).

(b) Nonsolicitation; Noninterference.

(i) During the Participant's employment with the Company and the Restricted Period (as defined below), the Participant agrees that the Participant shall not, except in the furtherance of the Participant's duties to the Company, directly or indirectly, individually or on behalf of any other person, firm, corporation or other entity, solicit, aid or induce any customer of the Company or any of its subsidiaries or affiliates to purchase goods or services then sold by the Company or any of its subsidiaries or affiliates from another person, firm, corporation or other entity or assist or aid any other persons or entity in identifying or soliciting any such customer.

(ii) During the Participant's employment with the Company and the Restricted Period, the Participant agrees that the Participant shall not, except in the furtherance of the Participant's duties to the Company, directly or indirectly, individually or on behalf of any other person, firm, corporation or other entity, (A) solicit, aid or induce any employee, representative or agent of the Company or any of its subsidiaries or affiliates to leave such employment or retention or to accept employment with or render services to or with any other person, firm, corporation or other entity unaffiliated with the Company or hire or retain any such employee, representative or agent, or take any action to materially assist or aid any other person, firm, corporation or other entity in identifying, hiring or soliciting any such employee, representative or agent, or (B) interfere, or aid or induce any other person or entity in interfering, with the relationship between the Company or any of its subsidiaries or affiliates and any of their respective vendors, joint venturers or licensors. An employee, representative or agent shall be deemed covered by this Section 11(b)(ii) while so employed or retained and for a period of six (6) months thereafter. Notwithstanding the foregoing, a general solicitation that is not targeted at employees, representatives, or agents of the Company shall not constitute a breach of this Section 11(b)(ii).

(iii) "Restricted Period" means the period beginning on the Participant's last day of employment with the Company and ending on the first anniversary thereof.

(c) Nondisparagement. The Participant agrees not to make negative comments or otherwise disparage the Company or its officers, directors, employees, shareholders, agents or products other than in the good faith performance of the Participant's duties to the Company while the Participant is employed by the Company. The Company agrees to instruct its officers and directors at the time of the Participant's termination and, to the extent the Participant is terminated in connection with a Change in Control, its officers and directors in the ninety (90)-day period following such Change in Control, not to make negative comments about or otherwise disparage the Participant other than in the good faith performance of duties to the Company. This Section 11(c) shall not be violated by truthful statements in response to legal process, required governmental testimony or filings, or administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings).

(d) Inventions.

(i) The Participant acknowledges and agrees that all ideas, methods, inventions, discoveries, improvements, work products, developments, software, know-how, processes, techniques, works of authorship and other work product, whether patentable or unpatentable, (A) that are reduced to practice, created, invented, designed, developed, contributed to, or improved with the use of any Company resources and/or within the

scope of the Participant's work with the Company or that relate to the business, operations or actual or demonstrably anticipated research or development of the Company, and that are made or conceived by the Participant, solely or jointly with others, during the period of employment (the "Employment Term"), or (B) suggested by any work that the Participant performs in connection with the Company, either while performing the Participant's duties with the Company or on the Participant's own time, shall belong exclusively to the Company (or its designee), whether or not patent or other applications for intellectual property protection are filed thereon (the "Inventions"). The Participant will keep full and complete written records (the "Records"), in the manner prescribed by the Company, of all Inventions, and will promptly disclose all Inventions completely and in writing to the Company. The Records shall be the sole and exclusive property of the Company, and the Participant will surrender them upon the termination of the Employment Term, or upon the Company's request. The Participant irrevocably conveys, transfers and assigns to the Company the Inventions and all patents or other intellectual property rights that may issue thereon in any and all countries, whether during or subsequent to the Employment Term, together with the right to file, in the Participant's name or in the name of the Company (or its designee), applications for patents and equivalent rights (the "Applications"). The Participant will, at any time during and subsequent to the Employment Term, make such applications, sign such papers, take all rightful oaths, and perform all other acts as may be requested from time to time by the Company to perfect, record, enforce, protect, patent or register the Company's rights in the Inventions, all without additional compensation to the Participant from the Company but at the Company's sole expense. The Participant will also execute assignments to the Company (or its designee) of the Applications, and give the Company and its attorneys all reasonable assistance (including the giving of testimony) to obtain the Inventions for the Company's benefit, all without additional compensation to the Participant from the Company.

(ii) In addition, the Inventions will be deemed Work for Hire, as such term is defined under the copyright laws of the United States, on behalf of the Company and the Participant agrees that the Company will be the sole owner of the Inventions, and all underlying rights therein, in all media now known or hereinafter devised, throughout the universe and in perpetuity without any further obligations to the Participant. If the Inventions, or any portion thereof, are deemed not to be Work for Hire, or the rights in such Inventions do not otherwise automatically vest in the Company, the Participant hereby irrevocably conveys, transfers and assigns to the Company, all rights, in all media now known or hereinafter devised, throughout the universe and in perpetuity, in and to the Inventions, including, without limitation, all of the Participant's right, title and interest in the copyrights (and all renewals, revivals and extensions thereof) to the Inventions, including, without limitation, all rights of any kind or any nature now or hereafter recognized, including, without limitation, the unrestricted right to make modifications, adaptations and revisions to the Inventions, to exploit and allow others to exploit the Inventions and all rights to sue at law or in equity for any infringement, or other unauthorized use or conduct in derogation of the Inventions, known or unknown, prior to the date hereof, including, without limitation, the right to receive all proceeds and damages therefrom. In addition, the Participant hereby waives any so-called "moral rights" with respect to the Inventions. To the extent that the Participant has any rights in the results and proceeds of the Participant's service to the Company that cannot be assigned in the manner described herein, the Participant agrees to unconditionally waive the enforcement of such rights. The Participant hereby waives any and all currently existing and future monetary rights in and to the Inventions and all patents and other registrations for intellectual property that may issue thereon including, without limitation, any rights that would otherwise accrue to the Participant's benefit by virtue of the Participant being an employee of or other service provider to the Company.

(iii) 18 U.S.C. § 1833(b) provides: "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal." Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b). Accordingly, the parties to this Agreement have the right to disclose in confidence trade secrets to federal, state, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. The parties also have the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure.

(e) Reasonableness of Covenants. In signing this Agreement, the Participant gives the Company assurance that the Participant has carefully read and considered all of the terms and conditions of this Agreement, including the restraints imposed under this Section 11 hereof. The Participant agrees that these restraints are necessary for the reasonable and

proper protection of the Company and its affiliates and their Confidential Information and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area, and that these restraints, individually or in the aggregate, will not prevent the Participant from obtaining other suitable employment during the period in which the Participant is bound by the restraints. The Participant agrees that, before providing services, whether as an employee or consultant, to any entity during the period of time that the Participant is subject to the constraints in Section 11(a) hereof, the Participant will provide a copy of Section 11 of this Agreement to such entity. The Participant acknowledges that each of these covenants has a unique, very substantial and immeasurable value to the Company and its affiliates and that the Participant has sufficient assets and skills to provide a livelihood while such covenants remain in force. The Participant further covenants that the Participant will not challenge the reasonableness or enforceability of any of the covenants set forth in this Section 11, and that the Participant will reimburse the Company and its affiliates for all costs (including reasonable attorneys' fees) incurred in connection with any action to enforce any of the provisions of this Section 11 if either the Company and/or its affiliates prevails on any material issue involved in such dispute or if the Participant challenges the reasonableness or enforceability of any of the provisions of this Section 11. It is also agreed that each of the Company's affiliates will have the right to enforce all of the Participant's obligations to that affiliate under this Agreement, including without limitation pursuant to this Section 11.

(f) **Reformation.** If it is determined by a court of competent jurisdiction in any state that any restriction in this Section 11 is excessive in duration or scope or is unreasonable or unenforceable under applicable law, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the laws of that state.

(g) **Tolling.** In the event of any violation of the provisions of this Section 11, the Participant acknowledges and agrees that the post-termination restrictions contained in this Section 11 shall be extended by a period of time equal to the period of such violation, it being the intention of the parties hereto that the running of the applicable post-termination restriction period shall be tolled during any period of such violation.

(h) **Survival of Provisions.** The obligations contained in Section 11 hereof shall survive the termination or expiration of the Employment Term and the Participant's employment with the Company and shall be fully enforceable thereafter.

12. **Adjustments for Certain Events.** In the event that a transaction or change in capitalization described in Section 4.2(b) of the Plan occurs, without limiting the application of Sections 4.2 and 12.1 of the Plan, the Company shall equitably adjust the Total Shareholder Return goals to reflect the applicable event. In the event of a Liquidity Event, the PSUs either (i) shall be assumed by the surviving entity, with equitable adjustments to the number of PSUs and the Total Shareholder Return goals or (ii) shall be fully vested with respect to time vesting and with respect to performance vesting, shall be vested to the extent Total Shareholder Return goals are achieved as of the date of the Liquidity Event, and the shares of Common Stock to be paid in respect of the PSUs shall be treated in the Liquidity Event as are other shares of Common Stock. The term "Liquidity Event" shall have the meaning set forth in the Contribution Agreement.

13. **Entire Agreement; Amendment.** This Agreement, together with the Plan, contains the entire agreement between the parties hereto with respect to the subject matter contained herein, and supersedes all prior agreements or prior understandings, whether written or oral, between the parties relating to such subject matter. The Committee shall have the right, in its sole discretion, to modify or amend this Agreement from time to time in accordance with and as provided in the Plan. This Agreement may also be modified or amended by a writing signed by both the Company and the Participant. The Company shall give written notice to the Participant of any such modification or amendment of this Agreement as soon as practicable after the adoption thereof.

14. **Notices.** Any notice hereunder by the Participant shall be given to the Company in writing and such notice shall be deemed duly given only upon receipt thereof by the General Counsel of the Company. Any notice hereunder by the Company shall be given to the Participant in writing and such notice shall be deemed duly given only upon receipt thereof at such address as the Participant may have on file with the Company.

15. **No Right to Employment.** Any questions as to whether and when there has been a Termination and the cause of such Termination shall be determined in the sole discretion of the Committee. Nothing in this Agreement shall interfere with or limit in any way the right of the Company, its Subsidiaries or Affiliates to terminate the Participant's employment or service at any time, for any reason and with or without Cause.

16. **Transfer of Personal Data.** The Participant authorizes, agrees and unambiguously consents to the transmission by the Company (or any Subsidiary) of any personal data information related to the PSUs awarded under this Agreement for legitimate business purposes (including, without limitation, the administration of the Plan). This authorization and consent is freely given by the Participant.

17. **Compliance with Laws.** The grant of PSUs and the issuance of shares of Common Stock hereunder shall be subject to, and shall comply with, any applicable requirements of any foreign and U.S. federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act, the Exchange Act and in each case any respective rules and regulations promulgated thereunder) and any other law, rule regulation or exchange requirement applicable thereto. The Company shall not be obligated to issue any shares of Common Stock pursuant to this Agreement if any such issuance would violate any such requirements. As a condition to the settlement of the PSUs, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate to evidence compliance with any applicable law or regulation.

18. **Section 409A.** Notwithstanding anything herein or in the Plan to the contrary, the PSUs are intended to be exempt from the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in accordance with such intent.

19. **Binding Agreement; Assignment.** This Agreement shall inure to the benefit of, be binding upon, and be enforceable by the Company and its successors and assigns. The Participant shall not assign (except in accordance with Section 6 hereof) any part of this Agreement without the prior express written consent of the Company.

20. **Headings.** The titles and headings of the various sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement.

21. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument.

22. **Further Assurances.** Each party hereto shall do and perform (or shall cause to be done and performed) all such further acts and shall execute and deliver all such other agreements, certificates, instruments and documents as either party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan and the consummation of the transactions contemplated thereunder.

23. **Severability.** The invalidity or unenforceability of any provisions of this Agreement in any jurisdiction shall not affect the validity, legality or enforceability of the remainder of this Agreement in such jurisdiction or the validity, legality or enforceability of any provision of this Agreement in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder shall be enforceable to the fullest extent permitted by law.

24. **Acquired Rights.** The Participant acknowledges and agrees that: (a) the Company may terminate or amend the Plan at any time, to the extent provided in Article XIII of the Plan; (b) the award of PSUs made under this Agreement is completely independent of any other award or grant and is made at the sole discretion of the Company; (c) no past grants or awards (including, without limitation, the PSUs awarded hereunder) give the Participant any right to any grants or awards in the future whatsoever; and (d) any benefits granted under this Agreement are not part of the Participant's ordinary salary, and shall not be considered as part of such salary in the event of severance, redundancy or resignation.

*[Remainder of Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

**FALCON MINERALS CORPORATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

\_\_\_\_\_  
Name: \_\_\_\_\_

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## FIRST AMENDMENT TO CREDIT AGREEMENT

This FIRST AMENDMENT TO CREDIT AGREEMENT (this "First Amendment"), dated as of May 1, 2020 (the "First Amendment Effective Date"), is among FALCON MINERALS OPERATING PARTNERSHIP, LP, a Delaware limited partnership (the "Borrower"); each of the undersigned guarantors (the "Guarantors", and together with the Borrower, the "Credit Parties"); each of the Lenders that is a signatory hereto; and CITIBANK, N.A., as administrative agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent"), as Collateral Agent, Swingline Lender, and an Issuing Bank.

### **Recitals**

- A. The Borrower, the Administrative Agent and the Lenders are parties to that certain Credit Agreement dated as of August 23, 2018 (the "Credit Agreement"), pursuant to which the Lenders have, subject to the terms and conditions set forth therein, made certain credit available to and on behalf of the Borrower.
- B. The parties hereto desire to enter into this First Amendment to, among other things, (i) evidence the reduction of the Borrowing Base from \$90,000,000 to \$70,000,000 as set forth in Section 3 herein and (ii) amend the Credit Agreement as set forth herein, in each case, effective as of the First Amendment Effective Date.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**Section 1.** Defined Terms. Each capitalized term which is defined in the Credit Agreement, but which is not defined in this First Amendment, shall have the meaning ascribed such term in the Credit Agreement, as amended hereby.

**Section 2.** Amendments. In reliance on the representations, warranties, covenants and agreements contained in this First Amendment, and subject to the satisfaction of the conditions precedent set forth in Section 4 hereof, the Credit Agreement shall be amended effective as of the First Amendment Effective Date in the manner provided in this Section 2.

**2.1** Additional Definitions. Section 1.1 of the Credit Agreement is hereby amended to add thereto in alphabetical order the following definitions which shall read in full as follows:

"First Amendment" means that certain First Amendment to Credit Agreement dated as of the First Amendment Effective Date, among the Borrower, the Administrative Agent and the Lenders party thereto.

"First Amendment Effective Date" means May 1, 2020.

**2.2** Restated Definitions. The following definition contained in Section 1.1 of the Credit Agreement is hereby amended and restated in its entirety to read in full as follows:

"Credit Documents" means this Agreement, the First Amendment, the Guarantee, the Security Documents, each Letter of Credit, any promissory notes issued by the Borrower under this Agreement, any Extension Amendment, any Incremental Agreement and any intercreditor agreement with respect to the Facility entered into on or after the Closing Date to which the Collateral Agent is party.

**2.3** Amended Definitions. The following definitions contained in Section 1.1 of the Credit Agreement are hereby amended as follows:

(a) “Consolidated Total Debt” is hereby amended by replacing the reference to “\$62,500,000” appearing in clause (y) therein with “\$35,000,000”; and

(b) “Unrestricted Subsidiary” is hereby amended by replacing the reference to “10.0%” therein with “15.0%”.

2.4 Amendments to Section 10.5 of the Credit Agreement. Section 10.5 of the Credit Agreement is hereby amended by replacing the reference to “10.0%” appearing in clause (j)(ii) therein with “15.0%”.

2.5 Amendment to Section 10.6 of the Credit Agreement. Clause (i) of Section 10.6 of the Credit Agreement is hereby amended by replacing the reference to “ten percent (10.0%)” appearing in clause (ii) therein with “fifteen percent (15.0%)”.

2.6 Amendment to Section 10.7 of the Credit Agreement. Clause (a) of Section 10.7 of the Credit Agreement is hereby amended by replacing the reference to “10.0%” appearing in clause (iii) therein with “15.0%”.

2.7 Amendment to Section 13 of the Credit Agreement. Section 13 of the Credit Agreement is hereby amended by adding a new Section 13.25 immediately after Section 13.24 therein to read in full as follows:

13.25 Acknowledgement Regarding Any Supported QFCs. To the extent that the Credit Documents provide support, through a guarantee or otherwise, for Hedge Agreements or any other agreement or instrument that is a QFC (such support, “QFC Credit Support” and, each such QFC, a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Credit Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States):

(a) In the event a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Credit Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Credit Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

(b) As used in this Section 13.25, the following terms shall have the following meanings:

“BHC Act Affiliate” of a party means an “affiliate” (as such term is defined under, and interpreted in accordance with, 12 U.S.C. § 1841(k)) of such party.

“Covered Entity” means any of the following:

- (i) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);
- (ii) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or
- (iii) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“QFC” has the meaning assigned to the term “qualified financial contract” in, and shall be interpreted in accordance with, 12 U.S.C. § 5390(c)(8)(D).

**Section 3.** Borrowing Base. In reliance on the covenants and agreements contained in this First Amendment, and subject to the satisfaction of the conditions precedent set forth in Section 4 hereof, the Administrative Agent and the Lenders have redetermined the Borrowing Base and agree that the Borrowing Base shall be, effective as of the First Amendment Effective Date, reduced from \$90,000,000 to \$70,000,000, and the Borrowing Base shall remain at \$70,000,000 until the next Scheduled Redetermination, Interim Redetermination or other redetermination or adjustment of the Borrowing Base thereafter in accordance with the terms of the Credit Agreement. The Borrower and the Lenders acknowledge that the redetermination of the Borrowing Base provided for in this Section 3 shall constitute the Scheduled Redetermination scheduled for on or about April 1, 2020 for purposes of Section 2.14(b) of the Credit Agreement, as amended hereby.

**Section 4.** Conditions Precedent. The effectiveness of this First Amendment is subject to the following:

**4.1** Counterparts. The Administrative Agent shall have received counterparts of this First Amendment from the Credit Parties and Lenders constituting the Required Lenders.

**Section 5.** Miscellaneous.

**5.1** Confirmation and Effect. The provisions of the Credit Agreement (as amended by this First Amendment) shall remain in full force and effect in accordance with its terms following the effectiveness of this First Amendment, and this First Amendment shall not constitute a waiver of any provision of the Credit Agreement or any other Loan Document. Each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein”, or words of like import shall mean and be a reference to the Credit Agreement as amended hereby, and each reference to the Credit Agreement in any other document, instrument or agreement executed and/or delivered in connection with the Credit Agreement shall mean and be a reference to the Credit Agreement as amended hereby.

**5.2** Ratification and Affirmation of Credit Parties. Each of the Credit Parties hereby expressly (i) acknowledges the terms of this First Amendment, (ii) ratifies and affirms its obligations under the Guarantee, the Security Documents and the other Credit Documents to which it is a party, (iii) acknowledges, renews and extends its continued liability under the Guarantee, the Security Documents and the other Credit Documents to which it is a party, (iv) agrees that its guarantee under the Guarantee, the Security Documents and the other Credit Documents to which it is a party remains in full force and effect with respect to the Obligations as amended hereby, (v) represents and warrants to the Lenders and the Administrative Agent that each representation and warranty of such Credit Party contained in the Credit Agreement and the other Loan Documents to which it is a party is true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date hereof and after giving effect to the amendments set forth in Section 2 hereof (except where such representations and warranties expressly relate to an earlier date, in which case such representations and warranties are true and correct

in all material respects as of such earlier date and except that any representation and warranty that is qualified as to “materiality,” “Material Adverse Effect” or similar language is true and correct (after giving effect to any qualification therein) in all respects on such respective dates), (vi) represents and warrants to the Lenders and the Administrative Agent that the execution, delivery and performance by such Credit Party of this First Amendment are within such Credit Party’s corporate, limited partnership or limited liability company powers (as applicable), have been duly authorized by all necessary action and that this First Amendment constitutes the valid and binding obligation of such Credit Party enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or similar laws affecting creditor’s rights generally, and (vii) represents and warrants to the Lenders and the Administrative Agent that, after giving effect to this First Amendment, no Borrowing Base Deficiency, Default or Event of Default exists as of the date hereof.

5.3 Counterparts. This First Amendment may be executed by one or more of the parties hereto on any number of separate counterparts (including by facsimile or other electronic transmission, *i.e.* a “pdf” or a “tif”), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

5.4 No Oral Agreement. THIS WRITTEN FIRST AMENDMENT, THE CREDIT AGREEMENT AND THE OTHER CREDIT DOCUMENTS REPRESENT THE AGREEMENT OF THE BORROWER, THE GUARANTORS, THE COLLATERAL AGENT, THE ADMINISTRATIVE AGENT AND THE LENDERS WITH RESPECT TO THE SUBJECT MATTER HEREOF AND THEREOF, AND THERE ARE NO PROMISES, UNDERTAKINGS, REPRESENTATIONS OR WARRANTIES BY THE BORROWER, THE GUARANTORS, ANY AGENT NOR ANY LENDER RELATIVE TO SUBJECT MATTER HEREOF NOT EXPRESSLY SET FORTH OR REFERRED TO HEREIN OR IN THE OTHER CREDIT DOCUMENTS.

5.5 Governing Law. THIS FIRST AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

5.6 Payment of Expenses. The Borrower agrees to pay or reimburse the Administrative Agent for all reasonable and documented out-of-pocket costs and expenses incurred in connection with this First Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, Attorney Costs of counsel to the Administrative Agent, in accordance with Section 13.5 of the Credit Agreement.

5.7 Severability. Any provision of this First Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

5.8 Successors and Assigns. This First Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

5.9 Electronic Execution of Certain Documents. The words “execution,” “execute,” “signed,” “signature,” and words of like import in or related to any document to be signed in connection with this First Amendment and the transactions contemplated hereby shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by the Administrative Agent, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the Uniform Electronic Transactions Act (as adopted in the State of Texas), or any other similar state laws based on the Uniform Electronic Transactions Act.

[Signature Pages Follow.]

The parties hereto have caused this First Amendment to be duly executed as of the day and year first above written.

**BORROWER:**

**FALCON MINERALS OPERATING PARTNERSHIP, LP,**

a Delaware limited partnership

By: Falcon Minerals GP, LLC, its general partner

By:

Name:

Title:

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT--FALCON MINERALS OPERATING PARTNERSHIP, LP]

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**GUARANTORS:**

**DGK ORRI COMPANY, L.P.**

By: Falcon Minerals GP, LLC, its general partner

By:

Name:

Title:

**VICKICRISTINA, L.P.**

By: Falcon Minerals GP, LLC, its general partner

By:

Name:

Title:

**NOBLE EF DLG LP**

By: Noble EF DLG GP LLC, its general partner

By: Falcon Minerals Operating Partnership, LP, its sole member

By: Falcon Minerals GP, LLC, its general partner

By:

Name:

Title:

**NOBLE EF DLG GP LLC**

By: Falcon Minerals Operating Partnership, LP, its sole member

By: Falcon Minerals GP, LLC, its general partner

By:

Name:

Title:

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT--FALCON MINERALS OPERATING PARTNERSHIP, LP]

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**NOBLE EF GP LLC**

By: Falcon Minerals Operating Partnership, LP, its sole member

By: Falcon Minerals GP, LLC, its general partner

By:  
Name:  
Title:

**NOBLE MARCELLUS LP**

By: Noble Marcellus GP, LLC, its general partner

By: Falcon Minerals Operating Partnership, LP, its sole member

By: Falcon Minerals GP, LLC, its general partner

By:  
Name:  
Title:

**NOBLE MARCELLUS GP, LLC**

By: Falcon Minerals Operating Partnership, LP, its sole member

By: Falcon Minerals GP, LLC, its general partner

By:  
Name:  
Title:

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT—FALCON MINERALS OPERATING PARTNERSHIP, LP]

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**CITIBANK, N.A.,**  
as the Administrative Agent and the Collateral Agent

By:  
Name:  
Title:

**CITIBANK, N.A.,**  
as a Swingline Lender, an Issuing Bank and a Lender

By:  
Name:  
Title:

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT—FALCON MINERALS OPERATING PARTNERSHIP, LP]

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[\_\_\_\_\_] ,  
as a Lender

By:  
Name:  
Title:

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT--FALCON MINERALS OPERATING PARTNERSHIP, LP]

**Certification of Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Daniel C. Herz, certify that:

1. I have reviewed this report on Form 10-Q of Falcon Minerals Corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such disclosure controls and procedures, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 11, 2020

/s/ DANIEL C. HERZ

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Daniel C. Herz  
President and Chief Executive Officer

**Certification of Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Bryan C. Gunderson, certify that:

1. I have reviewed this report on Form 10-Q of Falcon Minerals Corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such disclosure controls and procedures, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 11, 2020

/s/ BRYAN C. GUNDERSON

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Bryan C. Gunderson  
Chief Financial Officer

**Certification of the  
Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Falcon Minerals Corporation (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel C. Herz, the Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/s/ DANIEL C. HERZ

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Daniel C. Herz

President and Chief Executive Officer

**Certification of the  
Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Falcon Minerals Corporation (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan C. Gunderson, the Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/s/ BRYAN C. GUNDERSON

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Bryan C. Gunderson  
Chief Financial Officer