UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 3, 2021

FALCON MINERALS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	001-38158	82-0820780
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation to the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Item 2.02. Results of Operations and Financial Condition.

On November 3, 2021, Falcon Minerals Corporation (the "Company") issued a press release regarding its financial results for the three and nine months ended September 30, 2021. A copy of the press release is furnished as Exhibit 99.1 to this Current Report and is incorporated by reference herein.

Item 7.01. Regulation FD Disclosure.

On November 4, 2021, the Company held a conference call to discuss its financial results for the three and nine months ended September 30, 2021. A copy of the transcript of the conference call is furnished as Exhibit 99.2 to this Current Report and is incorporated by reference herein.

The information in this Current Report, including Exhibits 99.1 and 99.2, are being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Current Report shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description of Exhibit
99.1	Press release
99.2	Transcript
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

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 hereunto duly authorized.

Dated: November 4, 2021

FALCON MINERALS CORPORATION

By: /s/ Matthew B. Ockwood
Name: Matthew Ockwood
Title: Chief Financial Officer

Exhibit 99.1

Falcon Minerals

FALCON MINERALS CORPORATION REPORTS RESULTS FOR THIRD QUARTER 2021 AND DECLARES QUARTERLY DIVIDEND

NEW YORK, NY – November 3, 2021 – Falcon Minerals Corporation ("Falcon," or the "Company," "we," "our,") (NASDAQ: FLMN, FLMNW), a leading oil and gas minerals company, today announces financial and operating results for the third quarter 2021 and declares its third quarter 2021 dividend.

Highlights

- Net production of 4,535 barrels of oil equivalent per day ("Boe/d") for the third quarter 2021
- Averaged 4 rigs running on Falcon's Eagle Ford position during the third quarter 2021
- 62 gross wells (0.31 net) were turned in line during the third quarter 2021
- 140 gross line-of-sight wells (1.57 net) permitted and in active development as of November 1, 2021 on the Company's Eagle Ford position
- Received $1.1 million of lease bonus revenue in the Marcellus Shale during the third quarter 2021
- Third quarter 2021 net income of $10.5 million(1)
- Adjusted EBITDA of $14.7 million for the third quarter 2021(2)
- Pro-forma Free Cash Flow increased to $13.9 million in the third quarter 2021(2)
- Third quarter 2021 dividend declared of $0.155 per share
- Dividend will be paid on December 8, 2021 to all shareholders of record on November 23, 2021

(1) Net income shown above includes amounts attributable to non-controlling interests.
(2) Please refer to the disclosure on pages 6-7 for a reconciliation of the identified non-GAAP measures to net income, the most comparable financial measure prepared in accordance with GAAP.

Bryan C. Gunderson, President and Chief Executive Officer of Falcon Minerals commented, "Falcon's assets performed as expected in the third quarter, exceeding the high end of the free cash flow per share guidance range provided to investors in August." Mr. Gunderson continued saying, "Falcon's oil-weighted Eagle Ford assets and high payout ratio afforded shareholders the immediate benefits of the pricing environment we have experienced since the summer. In addition, we are pleased to see our assets in the Marcellus make a meaningful contribution this quarter through more than $1 million in new lease bonuses. Looking ahead, we are excited for Falcon's future as operators finalize 2022 budgets with the strength of the current commodity backdrop influencing plans for next year."

Matthew B. Ockwood, Falcon's Chief Financial Officer added, "Falcon's financial position continues to be strong in the third quarter. Net debt to LTM EBITDA now sits at 0.74x and should fall further as we approach year end. With our high-quality balance sheet and attractive cash margins, we are pleased to announce a sequential increase in the quarterly dividend to $0.155 per share. The third quarter dividend represents a payout ratio of 97% of the Company's available free cash flow per share of $0.16."

Financial Results

Falcon realized prices of $69.61 per barrel (“bbl”) for crude oil, $3.65 per thousand cubic feet (“mcf”) for natural gas and $33.92/bbl for natural gas liquids (“NGL”) during the third quarter 2021.

Falcon reported net income of $10.5 million, or $0.12 of net income per Class A common share, for the third quarter 2021, which includes amounts attributable to non-controlling interests. Falcon generated royalty revenue of $19.1 million (approximately 71% oil) and lease bonus revenue of $1.1 million for the third quarter 2021. The Company reported Adjusted EBITDA (a non-GAAP measure defined and reconciled on pages 6-7) of $14.7 million for the third quarter 2021.

Cash operating costs consisting of production and ad valorem taxes and marketing and transportation expenses for the third quarter 2021 were $1.5 million. General and administrative expense for the third quarter 2021, excluding non-cash stock-based compensation, was approximately $2.7 million.

As of September 30, 2021, the Company had $36.5 million of borrowings on its revolving credit facility, and $3.6 million of cash on hand, resulting in net debt of approximately $32.9 million at the end of the quarter. Falcon’s net debt / LTM EBITDA ratio was 0.74x as of September 30, 2021. (3)

(3) Calculated by dividing the sum of total debt outstanding less cash on hand as of September 30, 2021 by Adjusted EBITDA for the trailing 12-month period. Please refer to the disclosure on pages 6-7 for the Reconciliation of net income to Non-GAAP Measures.

Third Quarter 2021 Dividend

Falcon’s Board of Directors declared a dividend of $0.155 per Class A share for the third quarter 2021. During the third quarter 2021, the Company generated Pro-forma Free Cash Flow of $13.9 million, or $0.16 per share (as described and reconciled on page 6-7). The dividend for the third quarter 2021 will be paid on December 8, 2021 to all Class A shareholders of record on November 23, 2021. The third quarter 2021 dividend does not have any effect on the current $11.34 exercise price of the Company’s outstanding warrants.

The Company expects that greater than 50% of its 2021 dividends will not constitute taxable dividend income and instead will result in a non-taxable reduction to the tax basis of the shareholders’ common stock. The reduced tax basis will increase a shareholders’ capital gain (or decrease shareholders’ capital loss) when shareholders’ sell their common stock.

Operational Results

Falcon’s production averaged 4,535 Boe/d during the third quarter 2021, of which approximately 47% was oil. Eagle Ford production was approximately 57% oil during the third quarter 2021. Falcon had 62 gross wells turned in line (0.31 net wells) with an average net royalty interest (“NRI”) of approximately 0.5% during the third quarter 2021.

Falcon currently has 2,225 gross producing Eagle Ford wells, and the Company’s average NRI for all producing wells is approximately 1.26%. As of November 1, 2021, the Company had 140 line-of-sight wells (1.57 net wells) with an average NRI of 1.12% in various stages of development on Falcon’s Eagle Ford minerals position. These wells are comprised of the following:

Line-of-Sight Wells (As of November 1, 2021)

Stage of Activity	*Gross Wells*	*Net Wells*	*NRI %*
Permitted	73	0.93	1.27%
Waiting on completion	63	0.63	1.00%
Waiting on connection	4	0.02	0.47%
Total line-of-sight	***140***	***1.57***	***1.12%***

Conference Call Details

Falcon management invites investors and interested parties to listen to the conference call to discuss third quarter 2021 results on Thursday, November 4, 2021 at 9:00 am ET. Participants for the conference call should dial (888) 567-1602 (International: (862) 298-0702). A replay of the Falcon earnings call will be available starting at 2:00 pm ET on November 4, 2021. Investors and interested parties can listen to the replay on www.falconminerals.com in the Events page of the Investor Relations section or call (888) 539-4649 (International: (754) 333-7735). At the system prompt, dial your replay code (156513#); playback will automatically begin.

About Falcon Minerals

Falcon Minerals Corporation (NASDAQ: FLMN, FLMNW) is a C-Corporation formed to own and acquire high growth oil-weighted mineral rights. Falcon Minerals owns mineral, royalty, and over-riding royalty interests covering approximately 256,000 gross unit acres in the Eagle Ford Shale and Austin Chalk in Karnes, DeWitt, and Gonzales Counties in Texas. The Company also owns approximately 80,000 gross unit acres in the Marcellus Shale across Pennsylvania, Ohio, and West Virginia. For more information, visit our website at www.falconminerals.com.

Cautionary Note Regarding Forward-Looking Statements

This document contains forward-looking statements that involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. Falcon cautions readers not to place any undue reliance on these forward-looking statements as forward-looking information is not a guarantee of future performance. Such forward-looking statements include, but are not limited to, statements about future financial and operating results, future dividends paid, the tax treatment of dividends paid, Falcon's plans, initiatives, objectives, expectations and intentions and other statements that are not historical facts. Risks, assumptions and uncertainties that could cause actual results to materially differ from the forward-looking statements include, but are not limited to, those associated with general economic and business conditions; the COVID-19 pandemic and its impact on Falcon and on the oil and gas industry as a whole; Falcon's ability to realize the anticipated benefits of its acquisitions; changes in commodity prices; uncertainties about estimates of reserves and resource potential; inability to obtain capital needed for operations; Falcon's ability to meet financial covenants under its credit agreement or its ability to obtain amendments or waivers to effect such compliance; changes in government environmental policies and other environmental risks; the availability of drilling equipment and the timing of production in Falcon's regions; tax consequences of business transactions; and other risks, assumptions and uncertainties detailed from time to time in Falcon's reports filed with the U.S. Securities and Exchange Commission, including under the heading "Risk Factors" in Falcon's most recent annual report on Form 10-K as well as any subsequently filed quarterly reports on Form 10-Q and current reports on Form 8-K. Forward-looking statements speak only as of the date hereof, and Falcon assumes no obligation to update such statements, except as may be required by applicable law.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Revenues:				
Oil and gas sales	$ 19,130	$ 9,942	$ 52,227	$ 29,848
Lease bonus and other revenue	1,110	-	1,162	-
Loss on hedging activities	(1,026)	(273)	(5,510)	(463)
Total revenue	19,214	9,669	47,879	29,385
Expenses:				
Production and ad valorem taxes	1,078	745	2,985	2,205
Marketing and transportation	466	562	1,330	1,567
Amortization of royalty interests in oil & gas properties	3,870	3,542	11,082	10,485
General, administrative and other	3,249	2,806	9,063	8,618
Total expenses	8,663	7,655	24,460	22,875
Operating income	10,551	2,014	23,419	6,510
Other income (expense):				
Change in fair value of warrant liability	1,669	971	(740)	6,856
Other income	13	31	38	94
Interest expense	(477)	(490)	(1,452)	(1,706)
Total other income (expense)	1,205	512	(2,154)	5,244
Income before income taxes	11,756	2,526	21,265	11,754
Provision for income taxes	1,277	243	3,024	400
Net income	10,479	2,283	18,241	11,354
Net income attributable to non-controlling interests	(4,671)	(723)	(10,198)	(2,278)
Net income attributable to shareholders	$ 5,808	$ 1,560	$ 8,043	$ 9,076
Class A common shares - basic	$ 0.12	$ 0.03	$ 0.17	$ 0.20
Class A common shares - diluted	$ 0.11	$ 0.02	$ 0.17	$ 0.13

FALCON MINERALS CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,561	$ 2,724
Accounts receivable	9,575	5,419
Prepaid expenses	1,078	766
Total current assets	14,214	8,909
Royalty interests in oil & gas properties, net of accumulated amortization	197,695	207,505
Property and equipment, net of accumulated depreciation	348	427
Deferred tax asset, net	53,056	55,773
Other assets	2,225	3,015
Total assets	$ 267,538	$ 275,629
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,735	$ 1,540
Other current liabilities	3,180	1,557
Total current liabilities	7,915	3,097
Credit facility	36,500	39,800
Warrant liability	4,244	3,503
Other non-current liabilities	632	828
Total liabilities	49,291	47,228
Shareholders' equity:		
Class A common stock	5	5
Class C common stock	4	4
Additional paid in capital	120,695	121,053
Non-controlling interests	85,834	88,637
Retained earnings	11,709	18,702
Total shareholders' equity	218,247	228,401
Total liabilities and shareholders' equity	$ 267,538	$ 275,629

Non-GAAP Financial Measures

Adjusted EBITDA and Pro-forma Free Cash Flow are supplemental non-GAAP financial measures used by management and external users of our financial statements, such as industry analysts, investors, lenders, and rating agencies. We believe Adjusted EBITDA and Pro-forma Free Cash Flow are useful because they allow 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 and Pro-forma Free Cash Flow to evaluate cash flow available to pay dividends to our common shareholders.

We define Adjusted EBITDA as net income before interest expense, net, depletion and depreciation expense, provision for income taxes, change in fair value of warrant liability, unrealized gains and losses on commodity derivative instruments and non-cash equity-based compensation. We define Pro-forma Free Cash Flow as net income before depletion and depreciation expense, provision for income taxes, change in fair value of warrant liability, unrealized gains and losses on commodity derivative instruments and non-cash equity-based compensation less interest expense and cash income taxes. Adjusted EBITDA and Pro-forma Free Cash Flow are not measures of net income as determined by GAAP. We exclude the items listed above from net income in calculating Adjusted EBITDA and Pro-forma Free Cash Flow 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 and Pro-forma Free Cash Flow 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 and Pro-forma Free Cash Flow.

Adjusted EBITDA and Pro-forma Free Cash Flow 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 and Pro-forma Free Cash Flow may not be comparable to other similarly titled measures of other companies.

Reconciliation of Net Income to Adjusted EBITDA and Pro-forma Free Cash Flow (in thousands, except per share amounts):

	Three Months Ended September 30, 2021	Fully Converted Per Share Basis Three Months Ended September 30, 2021 (1)
Net income	$ 10,479	$ 0.12
Interest expense (2)	477	0.01
Depletion and depreciation	3,896	0.04
Share-based compensation	545	0.01
Unrealized gain on commodity derivatives	(267)	(0.00)
Change in fair value of warrant liability	(1,669)	(0.02)
Income tax expense	1,277	0.01
Adjusted EBITDA	$ 14,738	$ 0.17
Interest expense (2)	(477)	(0.01)
Pro-forma cash income taxes (3)	(404)	(0.00)
Pro-forma Free Cash Flow	$ 13,857	$ 0.16

(1) Per share information is presented on a fully converted basis of 86.9 million common shares which is inclusive of 46.3 million Class A common shares, 40.0 million Class C common shares and 0.6 million unvested restricted stock awards that are outstanding as of September 30, 2021. As such, net income per fully converted share in this schedule is not comparable to net income per share of $0.12 for the period ended September 30, 2021 as shown on the Condensed Consolidated Statements of Operations.
(2) Interest expense includes amortization of deferred financing costs.
(3) Pro-forma cash income taxes are estimated on a pro-rata basis and therefore based upon net income before non-controlling interest considerations.

Calculation of cash available for dividends for the third quarter 2021 (in thousands):

	Three Months Ended September 30, 2021
Adjusted EBITDA	$ 14,738
Interest expense (2)	(477)
Pro-forma cash taxes (3)	(404)
Net cash available for distribution	$ 13,857
Cash to be distributed to non-controlling interests	$ 6,387
Cash to be distributed to Falcon Minerals Corp. (4)	$ 7,405
Dividends to be paid to Class A shareholders	$ 7,188

(2) Interest expense includes amortization of deferred financing costs.
(3) Pro-forma cash income taxes are estimated on a pro-rata basis and therefore based upon net income before non-controlling interest considerations.
(4) Includes approximately $217k of cash for current income taxes at Falcon Minerals Corporation.

FALCON MINERALS CORPORATION
SELECTED OPERATING DATA
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Production Data:				
Oil (bbls)	194,845	197,652	600,884	656,326
Natural gas (Mcf)	985,012	899,399	2,841,167	2,642,963
Natural gas liquids (bbls)	58,209	63,821	171,292	188,297
Combined volumes (boe)	417,223	411,373	1,245,704	1,285,117
Average daily combined volume (boe/d)	4,535	4,471	4,563	4,690
Average sales prices:				
Oil (bbls)	$ 69.61	$ 36.91	$ 63.78	$ 34.65
Natural gas (mcf)	$ 3.65	$ 1.98	$ 3.22	$ 1.88
Natural gas liquids (bbls)	$ 33.92	$ 13.58	$ 27.76	$ 11.42
Combined per boe	$ 45.86	$ 24.17	$ 41.93	$ 23.24
Average costs ($/boe):				
Production and ad valorem taxes	$ 2.58	$ 1.81	$ 2.40	$ 1.72
Marketing and transportation expense	$ 1.12	$ 1.37	$ 1.07	$ 1.22
Cash general and administrative expense	$ 6.42	$ 4.59	$ 7.36	$ 4.90
Interest expense, net	$ 1.14	$ 1.19	$ 1.17	$ 1.33
Depletion	$ 9.28	$ 8.61	$ 8.90	$ 8.16

Falcon Minerals Contact:

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Chief Financial Officer
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Falcon Minerals Corporation (NASDAQ:FLMN)
Q3 2021 Earnings Call

Company Participants

- Bryan C. Gunderson, President and Chief Executive Officer
- Matthew B. Ockwood, Chief Financial Officer

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Falcon Minerals Q3 2021 Earnings Call. All lines have been placed on a listen-only mode and the floor will be open for questions and comments on the presentation. (Operator Instructions) At this time, it is my pleasure to turn the floor over to your host, Matthew Ockwood, Chief Financial Officer of Falcon Minerals. Sir, the floor is yours.

Matthew B. Ockwood

Thank you, Dagma and good morning everyone. Thank you for joining today's call to discuss the Falcon Minerals' third quarter 2021 results. Before we begin, I would like to remind you that during this call, we will make certain forward-looking statements that address our expected future business financial performance and financial conditions. Actual results achieved by the company may differ materially from those made or implied in any forward-looking statements due to a wide range of risks and uncertainties, including those set forth in our SEC filings.

The company expressly disclaims any obligation to update or revise any forward-looking statements. Additionally, this discussion also includes non-GAAP measures. Reconciliations of these measures to the most directly comparable GAAP measures are included in the earnings release, which is posted on our website. And with that I will now turn the call over to Falcon's President and Chief Executive Officer Bryan Gunderson for his remarks. Bryan?

Bryan C. Gunderson

Thanks, Matt, and good morning to those on the line. We appreciate you joining Falcon Minerals third quarter 2021 earnings call. I am joined today by Falcon's Chief Financial Officer, Matthew Ockwood, who you just heard from and Falcon's Chief Operating Officer, Michael Downs. After my remarks, Matt will speak to our financial results for the third quarter and then we will take questions from those on the line. We are pleased with the way the business performed during the third quarter, which was in line with what we expected. The business generated $0.16 of free cash flow per share, which exceeds the high end of our $0.13 to $0.15 cash flow per share guidance range that we shared in August.

Production during the quarter was 4,535 BOE per day with approximately 47% crude oil and 61% total liquids. The business generated $14.7 million of EBITDA with greater than 70% EBITDA margins. These results are reflective of the quality of our position in the Karnes Trough, which continues to be among the best performing and lowest breakeven reservoirs in the United States.

Additionally, we saw a significant benefit from our position in the Marcellus Shale this quarter, including $1.1 million in lease bonus revenue as operators in the basin sought to take advantage of the rising prices for natural gas. The free cash flow that Falcon generated from this performance allowed us to declare a quarterly dividend of $0.155, which represents a payout ratio of approximately 97% and a sequential increase from the second quarter.

We are excited to see our shareholders immediately benefiting from Falcon's industry-leading payout ratio and the strong commodity backdrop we've experienced in the second half of this year. The third quarter dividend on an annualized basis translates to $0.62 per share, which we believe represents a compelling yield for investors.

Looking ahead to the remainder of 2021, we anticipate that production volumes will continue to moderate through year-end, while still allowing free cash flow to remain healthy in this supportive commodity price environment. Based on current strip pricing we anticipate free cash flow per share to be approximately $0.13 to $0.14 in the fourth quarter 2021.

While we are excited for Falcon's prospects in 2022, it's too soon for us to give any specific guidance for the full year. However, we are optimistic knowing that the key operators on our assets are working to finalize their own capital budgets in the midst of very strong commodity prices. A component of 2022 will likely be development activity on our Hooks Ranch asset. The Hooks Ranch is a world-class Shale asset with exceptionally strong operator economics and we are pleased to own the entire mineral estate under this property. As we have previously discussed ConocoPhillips permitted six wells in the third quarter 2020 which will be drilled a cross-unit boundaries from the Hamilton Trust "B" Unit into the Hooks Ranch, where Falcon holds material NRI. During our last conference call, I noted a ConocoPhillips development of these wells was delayed due to difficulties regarding the location of the pad with the surface owner on the Hamilton Trust "B" Unit. While Falcon is not involved with this dispute, we are optimistic that the parties are nearing resolution and development activity could begin during the first half of 2022.

It is our strongly-held belief that the Hooks Ranch assets will be developed over time and will deliver meaningful returns to shareholders. While we remain enthusiastic about our existing portfolio of core Eagle Ford acreage, I continue to believe that Falcon could benefit from being a larger entity with a more diverse portfolio of properties. Enhance diversity and scale provided that it comes largely from Tier One assets and Tier One operators can serve as an engine to grow free cash flow on a per share basis.

The market continues to provide avenues to express this view and we will explore them as we seek to maximize shareholder value. Above all our core focus remains an unwavering commitment to generating industry leading shareholder returns through free cash flow growth on a per share basis and the distribution of this cash flow to our investors. We will continue to be thorough and disciplined as we manage the existing portfolio and as we consider opportunities to grow the business. With that, I'll now turn it up the call over to our CFO, Matt Ockwood, Matt?

Matthew B. Ockwood

Thank you, Bryan. During the third quarter our assets generated $20.2 million in royalty and lease revenue. We recognized a cash loss of $1.3 million from our commodity derivative instruments during the period. Production for the third quarter was 4,535 BOE per day compared to 5,034 BOE per day in the second quarter. The sequential decline in production during the third quarter is consistent with our expectations from the second quarter earnings call as the robust pace of development activity in the early part of the year moderated into the summer and early fall on a net basis.

The sequential increase in revenue we experienced this quarter was driven by higher pricing and revenue associated with lease bonuses in the Marcellus. During the third quarter, we saw a 0.31 net or 62 gross wells turned in line compared to 0.51 net or 55 gross wells during the second quarter. This brings our total wells turned in line year-to-date to 2.05 net wells or 177 on a gross basis. Falcon's average realized price for oil during the third quarter was $69.61 per barrel. The average realized price for natural gas was $3.65 per Mcf and our NGL realizations averaged $33.92 per barrel. We have generally seen more favorable realized pricing as differentials have tightened across our assets in Texas, while Marcellus differentials widened as the benchmark Henry Hub prices rose during the third quarter.

Also during the quarter Falcon entered into new commodity derivative instruments through costless collars related to natural gas for the months of November 2021 through March 2022, which provide floor prices of $4.20 per MMBTU on the hedge volumes. Falcon is unhedged on crude oil volumes in 2022. Associated pricing and volumes for all of these hedges are laid out in our investor presentation which is available on our website.

Cash operating costs for the third quarter 2021 were $1.5 million. Ad valorem and production taxes comprised approximately $1.1 million of this figure for the quarter. Marketing and transportation expenses were the remaining $0.5 million or about $1.12 per BOE. Cash G&A expense was approximately $2.7 million for the third quarter, which excludes approximately $0.5 million of non-cash stock-based compensation expense recognized in the period.

Adjusted EBITDA for the third quarter was $14.7 million, which represents an increase of approximately $900,000 from the $13.8 million reported in the second quarter of 2021. The increase was largely attributable to increased realized pricing across all three product streams as well as an increase in lease bonus income. At the end of the third quarter, Falcon had $36.5 million of debt outstanding on its revolving credit facility and approximately $3.6 million of cash on hand, resulting in net debt of approximately $32.9 million. Falcon continues to have a conservative approach to leverage. We held the revolver balance flat quarter-over-quarter and Falcon's net debt-to-LTM EBITDA has decreased to 0.74x. We see that ratio tightening further as we close out 2021 under current commodity pricing.

Falcon reported third quarter net income of $5.8 million on a standalone basis and $10.5 million inclusive of non-controlling interests. Reported third quarter net income of $5.8 million is inclusive of a gain of $1.7 million associated with the revaluation of the company's warrant liability. GAAP income tax expense of $1.3 million for the quarter is mostly attributable to the utilization of our deferred tax asset. This is primarily due to the tax benefit of a basis step-up related to the assets that Falcon acquired as part of the transaction with Royal Resources in 2018. Falcon expects that more than 50% of the dividends paid to Class A shareholders for 2021 will be classified as non-dividend distributions. This treatment will generally result in a non-taxable reduction to the tax basis of shareholders' common shares until the time when an investor's basis is fully recovered. This reduced tax basis will increase shareholder capital gain or decrease shareholders' capital loss when the shareholder sells their common shares.

Proforma free cash flow per share was approximately $0.16 for the quarter. On November 3, 2021 Falcon declared a third quarter dividend of $0.155 per share. This dividend is payable on December 8, 2021 to shareholders of record as of November 23, 2021 and reflects a payout ratio of approximately 97%. We define pro forma free cash flow as adjusted EBITDA inclusive of noncontrolling interests, less interest expense and cash income taxes.

And with that I will now turn the call back over to Bryan Gunderson.

Bryan C. Gunderson

Thanks Matt. Dagma, you can open up the lines for questions.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Kyle May. Please state your question.

Q - Kyle May

Hi, good morning everyone.

A - Matthew B. Ockwood

Hi Kyle.

Q - Kyle May

Hi guys. Bryan, maybe to start out one of your peers announced an acquisition this morning and Bryan, you touched on scale in your opening remarks. Just wondering if you can give us an update on maybe the opportunities that you're seeing and how Falcon is thinking about potentially growing the asset base.

A - Bryan C. Gunderson

Yes, I mean it's a good question, Kyle. We obviously saw that in print this morning. Look, we're focused on driving free cash flow on a per share basis as we've said. I think that as we've said as well there are a number of assets that are in private hands that are looking to migrate into the public hands, and you're seeing that narrative unfold.

I think for us, we continue to be focused on strategic level transactions, we're being opportunistic on it, but we have a real biased towards core basins and for that -- for us that really means in the Midland and the Delaware.

Q - Kyle May

Got it. Okay, that's helpful and then you also touched on the dispute at Hooks Ranch and I believe you mentioned development activity could begin in the first half of next year. Any preliminary thoughts about maybe when that production could begin to flow or kind of how you guys are thinking about the timing of that?

A - Bryan C. Gunderson

Yeah, I mean, look, we're optimistic that is nearing resolution. We anticipate, we're optimistic and we anticipate that we're going to see development again in 1H, and I mean that implies second half turn-in-line type timeline.

Q - Kyle May

Okay, got it. I'll turn it back thanks.

A - Matthew B. Ockwood

Thanks Kyle.

Operator

Okay. Our next question comes from comes from Pearce Hammond with Piper Sandler. Please state your question.

Q - Pearce Hammond

Yeah, hi, good morning and thanks for taking my questions. With the improvement in price of gas, as well as the lease bonus that you reported in the Marcellus. Are you expecting a higher gas mix as we move forward into 2022?

A - Matthew B. Ockwood

Hey Pearce. It's Matt. Good morning.

Q - Pearce Hammond

Good morning.

A - Matthew B. Ockwood

I think the short answer is a consistent mix. We saw the Marcellus volumes grow Q2 to Q3 by a low double-digit percentage, so not insignificant. It's not clear to us if that kind of growth rate will be sustained. But given what's going on in the Marcellus and the lease bonus we've gotten a lot of those have some near-term potential production associated with them. I would anticipate we'll continue to see a little more gas in the mix.

Q - Pearce Hammond

Okay, thank you and then line-of-sight wells have been ticking down -- ticked down this past quarter. So net wells at about 1.57, and then NRI at 1.12 and NRI is little higher than it was last quarter, but just curious, number one, do you see the line-of-sight wells starting to increase, maybe more from the permitting standpoint. Or what can you -- is there anything you can do or what's your preference on how much line-of-sight that you have in front of you, because I think this quarter you completed like 0.3 net well. So it just seems like it's starting to narrow between the net wells in the line of sight versus how many were completed in the quarter.

A - Bryan C. Gunderson

Yeah, I'll start and then I'll let others jump in. I mean, I think one of the things we're focused on is that at this time of year, we don't have line-of-sight fully re-populated yet as our core operators are really in the middle of the budgeting process. Though, we would anticipate it may come up as those budgeting processes is unfold.

A - Matthew B. Ockwood

I think that's right. Yeah, well that's right. On a gross basis activity has been pretty consistent. On a net basis, it was, we had some really high NRI pads earlier this year and the gross activity has just hit lower NRI pads in the summer and into the fall. So activity broadly is strong. We even saw EOG add a rig here very recently. It's a question of when and how that activity lands on us in a material net way and that's really been the story of first half vs. second half in 2021.

Q - Pearce Hammond

Okay. Thanks, Bryan. Thanks, Matt.

A - Matthew B. Ockwood

No problem.

A - Bryan C. Gunderson

Thanks Pearce.

Operator

(Operator Instructions) Okay. Our next question comes from TJ Schultz. Please state your question.

Q - TJ Schultz

Okay, thanks, good morning. So you guys keep a higher payout ratio on the dividend than some of your mineral peers. Just any thought on retaining more cash if you see more acquisition opportunities, or your kind of general view on where that payout ratio may trend to longer term for you all and kind of how you're thinking about financing potential acquisitions? Thanks.

A - Bryan C. Gunderson

I'll take the payout ratio portion, and then I'll let Matt jump in on the financing portion for acquisitions. I think the payout ratio we've been really clear with the market that we want to keep that high payout ratio and as you've seen it's been 90% plus kind of averaging around that 95%. We see it as a way to hand back cash to shareholders in a constructive commodity price environment and we think it's an attractive value proposition on a yield basis to our shareholder base. As it relates to the financing, the acquisitions, Matt, maybe you want to jump in

A - Matthew B. Ockwood

Yes, sure. It really even dovetails with the payout ratio. There is some materiality proportioning here that affects our thinking. Our focus, as Bryan articulated has been on more strategic level opportunities. With the payout ratio, even a little lower payout ratio wouldn't be very impactful relative to the size of strategic things that we're focused on. So we really wouldn't want to withhold that cash from shareholders in the short term.

As to financing, it's very dependent on the nature of an asset, should we find the right one to acquire. As you can imagine, we're looking for the right asset, right basin and right value first and we'll build the capital structure that fits around that with our guiding principles. Those principles being that we aren't looking to over leverage the balance sheet and we're also not looking to unnecessarily dilute shareholders. So we'll let the asset lead and build the cap structure around that. Does that makes sense?

Q - TJ Schultz

Yeah, that all makes perfect sense. Thanks for that. I guess just lastly from me, what's your expectation for hedging oil more moving forward into 2022 and 2023 prices? Thanks.

A - Bryan C. Gunderson

Yeah, obviously, you saw that we layered on some winter gas hedges. So we do have hedges going into March on the gas side, we're totally unhedged on the crude side in 2022 and I think that's where we're going to be. Matt, anything to add?

A – Matthew B. Ockwood

Yeah, just that we're not -- we're obviously completely unhedged on oil next year. The fact that we haven't decided to layer in hedges is a conscious decision that we've made. To back to the acquisition question, we think a lot about hedges in the context of any outlays of capital. So there may be a distinction in our mind between what we do with, call it the base business and if we have the opportunity to make a material investment. Subject to the timing of the cash flows and how we've underwritten it I think using hedges tactically to protect returns and underpin the investment that we're underwriting could make a lot of sense. But in the absence of that we aren't today looking to put on oil hedges for 2022, at least not in the immediate term.

Q - TJ Schultz

Perfect. Thanks for that.

A - Matthew B. Ockwood

Thanks, TJ.

A - Bryan C. Gunderson

Thanks, TJ.

Operator

Okay. Our next question comes from Jon Evans. Please state your question.

Q - Jon Evans

Hey, Bryan. I was just curious, can you talk a little bit about I guess because the curve is so backwardated. I mean it's unbelievably backwardated and I'm just curious if that causes any bid/asks to be pretty wide relative to the acquisition market. And then how should we think, I know you've said that an acquisition is going to be accretive. But how do you think about, I mean envision it that we'll see a couple like smaller transactions or is it just a major transaction or what do you guys kind of planned for?

A - Bryan C. Gunderson

I mean on the bid/ask Jon, I mean I appreciate the question. I mean bid-ask, I mean the reality is that said that the industry values at strip and so the backward dated dimension of it's part of every valuation you would go through. And so I don't necessarily see that as being a big distinction. On a big deal versus small deal, I think we're focused on the bigger stuff, just kind of I think that will really move the strategic landscape for Falcon more. We're not averse to something small and if things come across our desk which they do, that are really, really attractive we'd be open to doing that. But it's really just not where we spend most of our time.

Q - Jon Evans

Got it and so when you think of that, is that $100 million or more or is it $50 million, or what can you give us like what's the big deal in your guys mind?

A - Bryan C. Gunderson

Yeah, 50 plus is like, there is what we would think of as big.

Q - Jon Evans

Okay.

A - Bryan C. Gunderson

What I say -- when I say I'm not focused on the smaller, I think, I mean I'm not focused on the $200,000, $500,000, $2 million type deals.

Q - Jon Evans

All right. And I mean before you've said you want to be in the Permian and you want to be pretty oily, I mean what's happened to gas does that, does that change things at all or is it still primarily you want to be in the Permian and be oily.

A - Bryan C. Gunderson

Really primary -- primarily Permian and oily.

Q - Jon Evans

Okay, thanks. Hope you have a great day.

A - Bryan C. Gunderson

Likewise.

Operator

Our next question comes from Lee Cooper. Please state your question.

Q - Lee Cooperman

Yeah, hi, it's Lee Cooperman. I guess the question have all the dialogue has been on focused on buying. Have you guys talked about the possibility of selling, since we sell at a discount to private market value?

A - Bryan C. Gunderson

Sure. I mean we've thought about it. I mean I think that the answer is that we are -- we're open to it if the right opportunity presents itself.

Q - Lee Cooperman

You're not concerned about this environment of high prices about paying down your debt at all?

A - Bryan C. Gunderson

We have a really conservative balance sheet -- We have really conservative balance sheet. Lee, and we see it trending down further over the course of the year.

Q - Lee Cooperman

Okay. Good luck. Thank you.

A - Bryan C. Gunderson

Thanks, Lee. Appreciate your support.

Operator

Okay and it looks like that was our final question.

A - Bryan C. Gunderson

Thanks, Dagma. And thanks for everybody for joining the line. Look forward to speaking to everybody over the coming months and on the 4Q call. Thanks everybody.

Operator

Thank you. This concludes today's conference call. We thank you for your participation, you may disconnect your lines at this time and have a great day.