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 June 30, 2021

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 August 3, 2021, there were 46,303,614 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.

FALCON MINERALS CORPORATION
TABLE OF CONTENTS

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: One barrel of oil equivalent, calculated by converting natural gas to oil equivalent barrels at a ratio of six Mcf of natural gas to one Bbl 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 BOE.

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 net 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 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)

	June 30, 2021	December 31, 2020
Assets:		
Current assets:		
Cash and cash equivalents	$ 3,037	$ 2,724
Account receivable	9,174	5,419
Prepaid expenses	327	766
Total current assets	12,538	8,909
Royalty interests in oil and natural gas properties, net of accumulated amortization of $151,657 and $144,445 respectively	201,380	207,505
Property and equipment, net	374	427
Deferred tax asset, net	54,116	55,773
Other assets	2,421	3,015
Total assets	$ 270,829	$ 275,629
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,920	$ 1,540
Other current liabilities	3,546	1,557
Total current liabilities	7,466	3,097
Credit facility	36,500	39,800
Warrant liability	5,913	3,503
Other non-current liabilities	686	828
Total liabilities	50,565	47,228
Commitments and contingencies (See Note 15)		
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; 46,303,614 and 46,107,183 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	5	5
Class C common stock, $0.0001 par value; 120,000,000 shares authorized; 40,000,000 issued and outstanding as of June 30, 2021 and December 31, 2020	4	4
Additional paid in capital	120,234	121,053
Non-controlling interests	87,163	88,637
Retained earnings	12,858	18,702
Total shareholders' equity	220,264	228,401
Total liabilities and shareholders' equity	$ 270,829	$ 275,629

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)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020 As restated, See Note 3	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020 As restated, See Note 3
Revenues:				
Oil and gas sales	$ 18,933	$ 6,305	$ 33,150	$ 19,905
Loss on commodity derivative instruments	(2,772)	(190)	(4,485)	(190)
Total revenue	16,161	6,115	28,665	19,715
Operating expenses:				
Production and ad valorem taxes	1,097	606	1,907	1,460
Marketing and transportation	473	608	864	1,005
Amortization of royalty interests in oil and natural gas properties	4,025	3,268	7,212	6,943
General, administrative, and other	2,381	2,737	5,815	5,811
Total operating expenses	7,976	7,219	15,798	15,219
Operating income (loss)	8,185	(1,104)	12,867	4,496
Other income (expense):				
Change in fair value of warrant liability	793	207	(2,409)	5,885
Other income	13	31	25	63
Interest expense	(487)	(537)	(974)	(1,217)
Total other income (expense)	319	(299)	(3,358)	4,731
Income (loss) before income taxes	8,504	(1,403)	9,509	9,227
Provision for (benefit from) income taxes	1,288	(287)	1,747	157
Net income (loss)	7,216	(1,116)	7,762	9,070
Net (income) loss attributable to non-controlling interests	(3,574)	748	(5,527)	(1,555)
Net income (loss) attributable to common shareholders	$ 3,642	$ (368)	$ 2,235	$ 7,515
Earnings (loss) per common share:				
Common shares - basic	$ 0.08	$ (0.01)	$ 0.05	$ 0.16
Common shares - diluted	$ 0.07	$ (0.01)	$ 0.05	$ 0.10
Weighted average number of shares outstanding:				
Common shares - basic	46,214	46,001	46,169	45,984
Common shares - diluted	86,214	46,001	46,169	85,984

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)

	June 30, 2021	June 30, 2020 As restated, See Note 3
Cash flow from operating activities:		
Net income	$ 7,762	$ 9,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of royalty interests in oil and natural gas properties	7,212	6,943
Depreciation of property and equipment	52	52
Amortization of debt issuance costs	335	324
Amortization of right-of-use assets	259	240
Unrealized (gain) loss on commodity derivative instruments	2,150	190
Change in fair value of warrant liability	2,409	(5,885)
Stock-based compensation	(729)	1,693
Deferred income taxes	1,657	147
Changes in operating assets and liabilities		
Accounts receivable	(3,756)	4,954
Prepaid expenses	440	296
Accounts payable and accrued expenses	2,381	(529)
Other liabilities	(303)	(283)
Net cash provided by operating activities	19,869	17,212
Cash flows from investing activities:		
Purchase of property and equipment	-	(14)
Acquisition of oil and natural gas properties	(1,087)	(2,101)
Net cash used in investing activities	(1,087)	(2,115)
Cash flows from financing activities:		
Proceeds from credit facility	4,000	10,000
Repayments of long-term debt	(7,300)	(11,900)
Deferred financing fees	-	(85)
Dividends paid	(8,079)	(7,355)
Distributions to non-controlling interests	(7,000)	(6,400)
Distribution equivalent rights paid	(90)	(54)
Net cash used in financing activities	(18,469)	(15,794)
Net increase (decrease) in cash and cash equivalents	313	(697)
Cash and cash equivalents, beginning of period	2,724	2,543
Cash and cash equivalents, end of period	$ 3,037	$ 1,846
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 639	$ 893
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for operating leases	$ -	$ 1,547
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)

(As restated, see Note 3)	Class A Common Stock Shares	Class A Common Stock Amount	Class C Common Stock Shares	Class C Common Stock Amount	Additional Paid In Capital	Non-controlling interests	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2019	45,964	$ 5	40,000	$ 4	$ 117,561	$ 96,089	$ 22,736	$ 236,395
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)	-	-	-	-	-	-	(6,205)	(6,205)
Net income	-	-	-	-	-	2,304	7,883	10,187
Balance at March 31, 2020	45,988	$ 5	40,000	$ 4	$ 118,355	$ 92,993	$ 24,414	$ 235,771
Vested restricted stock grants	35	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	969	-	-	969
Distribution equivalent rights paid	-	-	-	-	(12)	-	-	(12)
Distributions to non-controlling interests	-	-	-	-	-	(1,000)	-	(1,000)
Dividends to shareholders ($0.025 per share)	-	-	-	-	-	-	(1,150)	(1,150)
Net loss	-	-	-	-	-	(748)	(368)	(1,116)
Balance at June 30, 2020	46,023	$ 5	40,000	$ 4	$ 119,312	$ 91,245	$ 22,896	$ 233,462
Balance at December 31, 2020	46,107	$ 5	40,000	$ 4	$ 121,053	$ 88,637	$ 18,702	$ 228,401
Vested restricted stock grants	78	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	972	-	-	972
Distribution equivalent rights paid	-	-	-	-	(50)	-	-	(50)
Distributions to non-controlling interests	-	-	-	-	-	(3,000)	-	(3,000)
Dividends to shareholders ($0.075 per share)	-	-	-	-	-	-	(3,458)	(3,458)
Net income (loss)	-	-	-	-	-	1,952	(1,407)	545
Balance at March 31, 2021	46,185	$ 5	40,000	$ 4	$ 121,975	$ 87,589	$ 13,837	$ 223,410
Vested restricted stock grants	119	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	(1,701)	-	-	(1,701)
Distribution equivalent rights paid	-	-	-	-	(40)	-	-	(40)
Distributions to non-controlling interests	-	-	-	-	-	(4,000)	-	(4,000)
Dividends to shareholders ($0.10 per share)	-	-	-	-	-	-	(4,621)	(4,621)
Net income	-	-	-	-	-	3,574	3,642	7,216
Balance at June 30, 2021	46,304	$ 5	40,000	$ 4	$ 120,234	$ 87,163	$ 12,858	$ 220,264

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

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 July 26, 2017, the Company consummated an Initial Public Offering ("IPO") issuing units consisting of common shares and warrants ("Unit"). Each Unit consists of one share of Class A common stock and one-half of one warrant ("Public Warrant"), totaling 13,750,000 Public Warrants. Each whole Public Warrant entitles the holder to purchase one share of Class A common stock at an exercise price of $11.50.

Simultaneously with the closing of the IPO, the Company consummated the sale of 7,500,000 warrants (the "Private Placement Warrants") at a price of $1.00 per warrant in a private placement to the Company's sponsor, Osprey Sponsor, LLC ("Sponsor"), generating gross proceeds of $7,500,000.

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 the liquids-rich condensate region of the Eagle Ford Shale in Karnes, DeWitt and Gonzales Counties, Texas. The company owns additional assets of approximately 80,000 gross unit acres in Pennsylvania, Ohio and West Virginia which is prospective for the 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 Securities Exchange Commission ("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, 2020 included in our Amended Annual Report on Form 10-K/A that the Company filed with the SEC on May 5, 2021.

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 NGLs 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, and 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 June 30, 2021, and December 31, 2020, the Company had not recorded any reserves for uncollectible amounts or deemed any amounts to be uncollectible.

Commodity Derivative Financial Instruments

The Company's ongoing operations expose it to changes in the market price for oil and natural gas. To mitigate the price risk associated with its operations, the Company uses commodity derivative financial instruments. From time to time, such instruments may include variable-to-fixed-price swaps, costless collars, fixed-price contracts, and other contractual arrangements. The Company does not enter into derivative instruments for speculative purposes.

Derivative instruments are recognized at fair value. If a right of offset exists under master netting arrangements and certain other criteria are met, derivative assets and liabilities with the same counterparty are netted on the consolidated balance sheets. The Company does not specifically designate derivative instruments as fair value or cash flow hedges, even though they reduce its exposure to changes in oil and natural gas prices; therefore, gains and losses arising from changes in the fair value of the derivative instruments are recognized on a net basis in the accompanying consolidated statements of operations within Gain (loss) on commodity derivative instruments.

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 six months ended June 30, 2021 or 2020.

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 six months ended June 30, 2021 and 2020.

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 $1.5 million and $1.8 million as of June 30, 2021 and December 31, 2020, respectively. The costs are associated with the Company's credit agreement and are being amortized over the term of the credit agreement. In May 2020, the Company entered into an amendment to the Credit Facility and capitalized an additional $0.1 million of associated costs which will be amortized over the remainder of the term of the Credit Facility.

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. The Company's Public Warrants also approximate their fair value because the publicly quoted prices on active, liquid, and visible markets such as stock exchanges (Level 1). Because the Credit Facility (as defined in "Note 7 – Debt – Falcon Credit Facility" below) has a market rate of interest, its carrying amount approximated fair value (Level 2). The Company's commodity derivative instruments are classified within Level 2. The fair values of the Company's commodity derivative instruments are based upon inputs that are either readily available in the public market, such as oil and natural gas futures prices, volatility factors and discount rates, or can be corroborated from active markets. The Company's Private Placement Warrant liability is classified within Level 3 due to the significant unobservable inputs utilized in determining the fair value. See "Note 8 – Warrants" for further information.

Warrant Liability

The Company issued the Public and Private Placement Warrants in connection with its IPO in 2017. Warrants are accounted for in accordance with applicable accounting guidance provided in ASC 815-40 – "Derivatives and Hedging – Contracts in Entity's Own Equity ("ASC 815"), as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. The Company's warrants were classified as liabilities and are recorded at fair value upon issuance and are subject to remeasurement at each reporting period. Any change in fair value has been recorded in the statements of operations.

Revenue from Contracts with Customers

Revenues from Royalties 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 and six months ended June 30, 2021 and 2020, 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 June 30, 2021. 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 has been 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 10—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 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 adoption of this standard did not have a material impact to the Company’s financial statements.

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting which provides optional expedients and exceptions, for a limited time, to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The standard was effective upon issuance and generally can be applied through December 31, 2022. An entity may elect to apply the amendments for contract modifications as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected, the amendments in this update must be applied prospectively for all eligible contract modifications. In January 2021, the FASB issued ASU No. 2021-01, “Reference Rate Reform (Topic 848): Scope.” This standard clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2022. Management has elected to apply this update subsequent to March 12, 2020 but has not elected to apply this update as of June 30, 2021. Management is currently evaluating the impact of this guidance but does not expect this update to have a material impact on the Company's financial statements.

Note 3—Restatement of Previously Issued Condensed Consolidated Financial Statements

On May 5, 2021, the Company amended our Annual Report on Form 10-K/A for the year ended December 31, 2020 to restate our audited consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018. On April 12, 2021, the SEC Division of Corporation Finance released Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies (“SPACs”) (the “Statement”). Upon review and analysis of the Statement, management determined that the Company’s Public Warrants and Private Placement Warrants issued in connection with the closing of the Company’s IPO in July 2017 (see Notes 1 and 8) do not meet the scope exception from derivative accounting prescribed by ASC 815-40. Accordingly, the Warrants should have been recognized by the Company at fair value as of August 23, 2018, the Closing Date, and classified as a liability, rather than equity. Thereafter, the change in fair value of the outstanding Warrants should have been recognized as a derivative gain (loss) each reporting period in the Company’s consolidated statement of operations. The change in fair value amounted to $0.2 million and $5.9 million, respectively, for the three and six months ended June 30, 2020. Management concluded the effect of this error on the Company’s previously reported condensed consolidated financial statements is material and, as such, the accompanying condensed consolidated financial statements for the three and six months ended June 30, 2020 and accompanying notes hereto have been restated from the amounts previously reported to give effect to the correction of this error (the “Restatement”).

The following tables reflect the impact of the Restatement of the Company’s previously reported condensed consolidated financial statements:

	Condensed Consolidated Statement of Operations		
	For the three months ended June 30, 2020		
	As Previously Reported	**Adjustments**	**As Restated**
Change in fair value of warrant liability	$ -	$ 207	$ 207
Total other income (expense)	$ (506)	$ 207	$ (299)
Net loss before taxes	$ (1,610)	$ 207	$ (1,403)
Net loss	$ (1,323)	$ 207	$ (1,116)
Net loss attributable to common shareholders	$ (575)	$ 207	$ (368)

	Condensed Consolidated Statement of Operations		
	For the six months ended June 30, 2020		
	As Previously Reported	Adjustments	As Restated
Change in fair value of warrant liability	$ -	$ 5,885	$ 5,885
Total other income (expense)	$ (1,154)	$ 5,885	$ 4,731
Income before taxes	$ 3,342	$ 5,885	$ 9,227
Net income	$ 3,185	$ 5,885	$ 9,070
Net income attributable to common shareholders	$ 1,630	$ 5,885	$ 7,515
Earnings per share - basic	$ 0.04	$ 0.12	$ 0.16
Earnings per share - diluted	$ 0.04	$ 0.06	$ 0.10
Common shares - diluted	45,984	40,000	85,984

	Condensed Consolidated Statement of Cash Flows		
	For the six months ended June 30, 2020		
	As Previously Reported	Adjustments	As Restated
Net income	$ 3,185	$ 5,885	$ 9,070
Change in fair value of warrant liability	$ -	$ (5,885)	$ (5,885)

	Condensed Consolidated Statement of Shareholders' Equity		
	For the three months ended June 30, 2020		
	As Previously Reported	Adjustments	As Restated
Additional paid in capital	$ 125,728	$ (6,416)	$ 119,312
Non-controlling interests	$ 111,046	$ (19,801)	$ 91,245
Retained earnings	$ (575)	$ 23,471	$ 22,896
Net loss in retained earnings	$ (575)	$ 207	$ (368)
Total net loss	$ (1,323)	$ 207	$ (1,116)
Total shareholders' equity	$ 236,208	$ (2,746)	$ 233,462

Note 4—Leases

Substantially all of the Company’s leases are long-term operating leases with fixed payment terms and will terminate at various dates through April 2027. The Company’s right-of-use (“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 condensed consolidated balance sheet as of June 30, 2021.

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. Since the Company’s leases do not provide an implicit rate that can readily be determined, the Company used a discount rate based on its incremental borrowing rate, which is determined by the information available in our Credit Facility. The incremental borrowing rate reflects the estimated rate of interest the Company would pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

Our lease obligations are primarily comprised of the main office spaces used for operations and are recorded as general, administrative, and other expenses in the consolidated statements of operations. As of June 30, 2021, our lease obligations were classified as operating leases. The Company’s rental costs associated with these office spaces for the three and six months ended June 30, 2021 was $0.2 million and $0.3 million, respectively. The Company’s rental costs associated with these office spaces for the three and six months ended June 30, 2020 was $0.1 million and $0.3 million, respectively.

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 June 30, 2021, the weighted average remaining lease term is 3.3 years and the weighted average discount rate is 4.23%.

As of June 30, 2021, the Company has ROU assets of $0.8 million recorded as Other Assets, $0.5 million of corresponding obligations recorded as Other Current Liabilities and $0.7 million of corresponding obligations recorded as Other Liabilities on the Company’s condensed consolidated balance sheet.

As of June 30, 2021, the undiscounted cash flows for operating lease liabilities are as follows (in thousands):

	Payments Due by Period						
	Total	**Remainder of 2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**
Lease obligations	$ 1,025	$ 305	$ 228	$ 196	$ 199	$ 58	$ 39
Total	$ 1,025	$ 305	$ 228	$ 196	$ 199	$ 58	$ 39

Under ASC 842, as of December 31, 2020, the Company had operating lease obligations expiring at various dates. There is an immaterial difference between undiscounted cash flows for operating leases and our $1.0 million of lease obligations due to the impact of the applicable discount rate.

Note 5—Commodity Derivative Financial Instruments

The Company’s ongoing operations expose it to changes in the market price for oil and natural gas. To mitigate the inherent commodity price risk associated with its operations, the Company periodically uses oil and natural gas commodity derivative instruments. From time to time, such instruments may include variable-to-fixed-price swaps, costless collars, fixed-price contracts, and other contractual arrangements. The Company enters into oil and natural gas derivative contracts that contain netting arrangements with each counterparty. The Company does not enter into derivative instruments for speculative purposes.

As of June 30, 2021, the Company’s open derivative contracts consisted of fixed-price swap oil contracts. A fixed-price swap contract between the Company and a counterparty specifies a fixed price for the contract and pays a floating market price to the counterparty over a specified period for a contracted volume. The Company has not designated any of its contracts as fair value or cash flow hedges. Accordingly, the changes in fair value of the contracts are included in the consolidated statements of operations in the period of the change. All derivative gains and losses from the Company’s derivative contracts have been recognized in revenue in the Company’s accompanying consolidated statements of operations. Derivative instruments that have not yet been settled in cash are reflected as either derivative assets or liabilities in the Company’s accompanying consolidated balance sheets as of June 30, 2021 and December 31, 2020.

The Company’s oil fixed price swap transactions are settled based upon the average daily prices for the calendar month of the contract period. Settlement for oil derivative contracts occurs in the succeeding month.

The Company’s derivative contracts expose it to credit risk in the event of nonperformance by counterparties that may adversely impact the fair value of the Company’s commodity derivative assets. While the Company does not require contract counterparties to post collateral, the Company does evaluate the credit standing on each counterparty as deemed appropriate. The evaluation includes reviewing a counterparty’s credit rating and latest financial information. As of June 30, 2021, the Company had one counterparty, which is rated Aa3 or better by Moody’s and is a lender under the Credit Facility.

The Company utilizes the market approach in determining the fair value of its derivative positions by using either NYMEX, ICE or Magellan East Houston (“MEH”) published market prices, independent broker pricing data or broker/dealer valuations. The valuations of derivatives with pricing based on NYMEX, ICE or MEH published market prices may be considered Level 1 if they are settled through a NYMEX, ICE or MEH clearing broker account with daily margining. Over-the-counter derivatives with NYMEX, ICE or MEH based prices are considered Level 2 due to the impact of counterparty credit risk. The Company’s derivatives are classified within Level 2.

The table below summarizes the fair values and classifications of the Company's derivative instruments as of June 30, 2021 and December 31, 2020 (in thousands):

		As of June 30, 2021		
Classification	**Balance Sheet Location**	**Gross Fair Value**	**Effect of Netting**	**Net Carrying Value**
Assets:				
Current asset	Other current assets	$ -	$ -	$ -
Long-term asset	Other assets	-	-	-
Total assets		$ -	$ -	$ -
Liabilities:				
Current liability	Other current liabilities	$ 3,094	$ -	$ 3,094
Long-term liability	Other non-current liabilities	-	-	-
Total liabilities		$ 3,094	$ -	$ 3,094

		As of December 31, 2020		
Classification	**Balance Sheet Location**	**Gross Fair Value**	**Effect of Netting**	**Net Carrying Value**
Assets:				
Current asset	Other current assets	$ 342	$ (342)	$ -
Long-term asset	Other assets	-	-	-
Total assets		$ 342	$ (342)	$ -
Liabilities:				
Current liability	Other current liabilities	$ 1,286	$ (342)	$ 944
Long-term liability	Other non-current liabilities	-	-	-
Total liabilities		$ 1,286	$ (342)	$ 944

Changes in the fair values of the Company's derivative instruments are presented on a net basis in the accompanying consolidated statements of operations and consolidated statements of cash flows and consist of the following for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Unrealized loss of open non-hedge derivative instruments	$ (1,567)	$ (190)	$ (2,150)	$ (190)
Realized loss on settlement of non-hedge derivative instruments	(1,205)	-	(2,334)	-
Gain (loss) on commodity derivative instruments	$ (2,772)	$ (190)	$ (4,484)	$ (190)

The Company had the following open derivative contracts for oil as of June 30, 2021:

			Range (Per Bbl)	
Period and Type of Contract	**Volume (Bbl)**	**Weighted Average Price (Per Bbl)**	**Low**	**High**
Oil Swap Contracts:				
2021				
Third Quarter	86,000	$ 56.29	$ 56.29	$ 56.29
Fourth Quarter	77,000	$ 54.85	$ 54.85	$ 54.85

Note 6—Oil and Natural Gas Interests

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

	As of	
	June 30, 2021	December 31, 2020
Oil and natural gas interests:		
Subjection to depletion	$ 321,304	$ 319,487
Not subjection to depletion	31,733	32,463
Gross oil and natural gas interests	353,037	351,950
Accumulated depletion and impairment	(151,657)	(144,445)
Oil and natural gas interests, net	$ 201,380	$ 207,505

Note 7—Debt

Falcon Credit Facility

On the Closing Date, OpCo 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 which is currently $70.0 million, subject to scheduled semi-annual and other borrowing base redeterminations and expires on the fifth anniversary of the Closing Date. As of June 30, 2021, OpCo had borrowings of $36.5 million under the Credit Facility at an interest rate of 2.60% and $33.5 million available for future borrowings under the Credit Facility. Unamortized deferred issuance costs were $1.5 million as of June 30, 2021 and are being amortized over the remaining term of the Credit Facility.

Principal amounts borrowed are payable on the maturity date. OpCo 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 1st and October 1st of each year.

Obligations under the Credit Facility are guaranteed by OpCo 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 June 30, 2021, OpCo was in compliance with such covenants.

Note 8—Warrants

In July 2017, the Company consummated its IPO of units, each consisting of one share of Class A Common Stock and one-half of one warrant. Each Public Warrant entitles the holder to purchase one share of Class A Common Stock at the initial price of $11.50 per share. Pursuant to the Warrant 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 cents, 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 have been no additional changes to the exercise price since then. 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.

Upon closing of the IPO, the Sponsor purchased an aggregate of 7,500,000 warrants at a price of $1.00 per warrant. 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.

The Company accounted for the Public and Private Placement Warrants (the "Warrants") in accordance with ASC 815. ASC 815 provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. This applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under ASC 815, including any freestanding financial instrument that is potentially settled in an entity's own stock.

Due to certain circumstances that could require the Company to settle the Warrants in cash, the Warrants have been classified as derivative liabilities, as opposed to an equity contract. Therefore, the Warrants were recorded at fair value upon issuance and remeasured at each reporting period with the change in fair value recorded in the statements of operations. As of June 30, 2021 and December 31, 2020, there were 13,749,998 Public Warrants outstanding for each period. As of June 30, 2021 and December 31, 2020, there were 7,500,000 Private Placement Warrants outstanding for each period. The fair value of the Public Warrants was determined using the readily observable publicly traded price (Level 1) as of the end of each reporting period and the Private Placement Warrants were estimated utilizing a binomial lattice model using the following range of significant unobservable inputs (Level 3) for the respective periods:

	2021	2020
Stock price	$4.49 - $5.08	$2.01 - $3.10
Volatility	61.2% - 63.1%	57.8% - 75.0%
Risk-free rate	0.24% - 0.28%	0.16% - 0.31%
Dividend yield	6.63% - 7.80%	8.30% - 9.00%
Term	2.1 - 2.4 years	2.65 - 3.40 years

The following is a reconciliation of the beginning and ending balance for the Private Placement Warrant liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three and six months ended June 30, 2021 and 2020 (in thousands):

	Three months ended June 30,	
	2021	2020
Balance at March 31	$ 3,150	$ 1,200
Increase (decrease) in fair value	150	150
Balance at June 30	$ 3,300	$ 1,350

	Six months ended June 30,	
	2021	2020
Balance at December 31	$ 1,500	$ 3,750
Increase (decrease) in fair value	1,800	(2,400)
Balance at June 30	$ 3,300	$ 1,350

Note 9—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 June 30, 2021.

	Class A Common Stock	Class C Common Stock	Warrants
Beginning Balance at December 31, 2020	46,107,183	40,000,000	21,249,998
Restricted stock grant vesting	196,431	-	-
Shares outstanding at June 30, 2021	46,303,614	40,000,000	21,249,998

Preferred Stock – At June 30, 2021, 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 June 30, 2021, there were 46,303,614 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 June 30, 2021, 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.

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 54% 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 six months ended June 30, 2021 and 2020, $7.0 million and $6.4 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:

Quarter Ended	Total Quarterly Dividend Per Class A Common Share	Total Cash Dividend	Payment Date	Stockholders Record Date
June 30, 2021	$ 0.1500	$ 6,945,542	September 8, 2021	August 25, 2021
March 31, 2021	$ 0.1000	$ 4,620,937	June 8, 2021	May 25, 2021
December 31, 2020	$ 0.0750	$ 3,458,039	March 8, 2021	February 25, 2021
September 30, 2020	$ 0.0650	$ 2,996,528	December 8, 2020	November 24, 2020
June 30, 2020	$ 0.0300	$ 1,382,825	September 8, 2020	August 25, 2020
March 31, 2020	$ 0.0250	$ 1,149,695	June 8, 2020	May 25, 2020

Note 10—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.

We utilized a lattice model pricing model to measure the fair value of the PSUs. The derived service period equals the median time to achieve the hurdle in all simulations where the hurdle was achieved. Volatility assumptions are based on the average historical volatility of Falcon stock over the derived service period of the PSU. The risk-free interest rate is based on the U.S. Treasury rate in effect at the time of the grant over the derived service period of the PSU. The dividend yield is based on an annual dividend yield, taking into account historical dividends, over the derived service period of the PSU. The Company used the following weighted average assumptions to estimate the grant date fair value of the PSUs granted during the six months ended June 30, 2021:

	2021
Stock price	$ 3.97
Volatility	68.6%
Risk-free rate	0.30%
Dividend yield	6.50%
Derived service period	3.00 years

The following table summarizes the activity in our unvested RSAs and PSUs for the six months ended June 30, 2021:

	Restricted Stock	Weighted Average Grant-Date Fair Value	Performance Stock Units	Weighted Average Grant-Date Fair Value
Unvested at December 31, 2020	476,237	$ 4.36	2,164,620	$ 2.48
Granted	395,063	$ 4.33	802,114	$ 2.28
Vested	(196,431)	$ 4.79	-	$ -
Forfeited	(110,686)	$ 3.57	(1,778,916)	$ 2.50
Unvested at June 30, 2021	564,183	$ 4.34	1,187,818	$ 2.32

For the three and six months ended June 30, 2021, the Company recorded income related to share-based compensation of $1.7 million and $0.7 million, respectively, which is included in general, administrative, and other expenses in the accompanying consolidated statements of operations. For the three months ended June 30, 2021, the Company recorded forfeitures of $3.1 million related to employee turnover which resulted in the reduction of share-based compensation. For the three and six months ended June 30, 2020, the Company incurred $1.0 million and $1.7 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 $2.8 million at June 30, 2021. These costs are expected to be recognized as expense over a weighted average period of 2.0 years. For the three and six months ended June 30, 2021, the Company paid less than $0.1 million and $0.1 million, respectively, related to DERs of RSA holders. For the three and six months ended June 30, 2020, the Company paid less than $0.1 million and $0.1 million, respectively, related to DERs of RSA holders.

Note 11—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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Numerator:				
Net income (loss) attributable to common stockholders - basic	$ 3,642	$ (368)	$ 2,235	$ 7,515
Plus: Net income attributable to non-controlling interests, net of taxes	2,640	-	-	$ 1,418
Less: Earnings allocated to participating securities	(80)	-	(118)	(19)
Net income (loss) attributable to common stockholders - diluted	$ 6,202	$ (368)	$ 2,117	$ 8,914
Denominator:				
Weighted average shares outstanding - basic	46,214	46,001	46,169	45,984
Effect of dilutive securities	40,000	-	-	40,000
Weighted average shares outstanding - diluted	86,214	46,001	46,169	85,984
Net income (loss) per common share - basic	$ 0.08	$ (0.01)	$ 0.05	$ 0.16
Net income (loss) per common share - diluted	$ 0.07	$ (0.01)	$ 0.05	$ 0.10

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Warrants	21,250	21,250	21,250	21,250
Class C common shares	-	40,000	40,000	-
Total	21,250	61,250	61,250	21,250

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 June 30, 2021.

Note 12—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 and six months ended June 30, 2021, the Company recorded an income tax expense of $1.3 million and $1.7 million, respectively. For the three and six months ended June 30, 2020, the Company recorded an income tax expense (benefit) of $(0.3) million and $0.2 million, respectively.

As of June 30, 2021 and December 31, 2020, the Company had $54.1 million and $55.7 million, respectively, 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.

As of June 30, 2021, the Company had net operating loss carryforwards for federal income tax purposes of $5.7 million that, subject to limitation, may be available in future tax years to offset taxable income. The federal net operating loss carryforwards do not expire but are subject to certain income limitations in future tax years. In the event that the Company experiences an ownership change within the meaning of Section 382 of the Internal Revenue Code, our ability to utilize net operating losses, tax credits, and other tax attributes may be limited.

At June 30, 2021 and December 31, 2020, the Company did not have any prepaid income taxes.

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 13—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 IPO, 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 officer Jeffrey Brotman is also a director and officer 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 and six months ended June 30, 2021, the Company was reimbursed less than $0.1 million for each period under this agreement. For the three and six months ended June 30, 2020, the Company was reimbursed $0.1 million and $0.2 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 and six months ended June 30, 2021, the Company received less than $0.1 million and $0.1 million, respectively, under this agreement. For the three and six months ended June 30, 2020, the Company received $0.1 million and $0.8 million, respectively, under this agreement.

Note 14—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 June 30,		% of Revenues Six Months Ended June 30,	
	2021	2020	2021	2020
ConocoPhillips	64%	56%	57%	41%
EOG Resources	13%	16%	16%	20%
Devon	13%	12%	14%	16%
Total	90%	84%	87%	77%

Note 15—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 16—Subsequent Events

Cash Dividends

In August 2021, the Company declared a quarterly cash dividend of $0.15 per share of Class A Common Stock totaling approximately $6.9 million for all shares of Class A Common Stock outstanding. The dividend is for the period from April 1, 2021 through June 30, 2021. The dividend is payable on September 8, 2021 to all Class A shareholders of record on August 25, 2021.

OpCo Distribution

In August 2021, OpCo declared distributions totaling $12.9 million to its unitholders, of which $6.9 million will be distributed to the Company.

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;
- risk related to our hedging activities;
- 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 Amended Annual Report on Form 10-K/A filed with the SEC on May 5, 2021. 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 different 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 Amended Annual Report on Form 10-K/A filed with the SEC on May 5, 2021. 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 19 of our Amended Annual Report on Form 10-K/A filed with the SEC on May 5, 2021.

Restatement of Previously Issued Condensed Consolidated Financial Statements

On May 5, 2021, we amended our Annual Report on Form 10-K/A for the year ended December 31, 2020, to restate our audited consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018. See Note 3, Restatement of Previously Issued Consolidated Financial Statements, for additional information related to the restatement, including descriptions of the misstatements and the impacts to our condensed consolidated financial statements. In addition, we have restated certain previously reported financial information for the three and six months ended June 30, 2020, in this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

None.

Business Environment

COVID-19 Pandemic and Market Conditions

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. We will continue to prioritize the health and safety of our workforce when employees return to the office through frequent cleaning of common spaces, appropriate social distancing measures, and other best practices as recommended by state and local officials.

Commodity Prices and Demand

Oil and natural gas prices have been historically volatile based upon the dynamics of supply and demand. To manage the variability in cash flows associated with the projected sale of our oil and natural gas production, we from time to time use various derivative instruments, which have recently consisted of fixed-price swap contracts and costless collar contracts.

The impact of the COVID-19 pandemic has negatively affected the oil and natural gas business environment, primarily by causing a reduction in commercial activity and travel worldwide thereby lowering energy demand. This, in turn, resulted in periods of significantly lower market prices for oil, natural gas, and NGLs. The price environment in 2020 caused many of our operators to reduce their drilling and completion activity on our acreage, which negatively impacts our production volumes. Commodity prices have recovered in late 2020 and into 2021, reflecting rising demand as both COVID-19 vaccination rates and increasing global economic activity, combined with ongoing crude oil production limits from members of the Organization of the Petroleum Exporting

Countries and its broader partners. However, the current price environment remains uncertain as responses to the COVID-19 pandemic continue to evolve. 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. While we use derivative instruments to partially mitigate the impact of commodity price volatility, our revenues and operating results depend significantly upon the prevailing prices for oil and natural gas.

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 June 30, 2021, our Royalties represented the right to receive an average of 1.26% 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 therefore, from time to time, we have entered into derivative instruments to partially mitigate the impact of commodity price volatility on our cash generated from operations. Such instruments may include variable-to-fixed-price swaps, fixed price contracts, costless collars, and other contractual agreements. The impact of these derivative instruments could affect the amount of revenue we ultimately realize. We intend to continuously monitor the production from our assets and the commodity price environment, and will, from time to time, add additional hedges in the future. We do not enter into derivative instruments for speculative purposes. Our open commodity derivative contracts as of June 30, 2021 are detailed in "Note 5—Commodity Derivative Financial Instruments" to our unaudited consolidated financial statements included elsewhere in this Quarterly Report.

During the six months ended June 30, 2021, West Texas Intermediate monthly average posted prices for crude oil ranged from $52.10 to $71.35 per Bbl and the NYMEX monthly settlement price of natural gas ranged from $2.47 to $2.98 per MMBtu. During the year ended December 31, 2020, West Texas Intermediate monthly average posted prices that ranged from $16.70 to $57.86 per Bbl and the NYMEX monthly settlement price of natural gas ranged from $1.50 to $3.00 per MMBtu.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Royalty Income:				
Oil sales	76%	72%	75%	78%
Natural gas sales	15%	24%	17%	16%
Natural gas liquids sales	9%	4%	8%	6%
Lease bonus	0%	0%	0%	0%
Total	100%	100%	100%	100%

Commodity prices are inherently volatile, and changes in such prices have historically had an impact on our revenue. Lower prices may not only decrease our revenues, but also potentially the amount of oil and natural gas that our operators can produce economically. Lower oil and natural gas prices may also result in a reduction in the borrowing base under our credit agreement, which may be redetermined at the discretion of our lenders.

The following table sets forth the average realized prices for oil, natural gas and NGLs for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Oil (Bbls)	$ 64.45	$ 22.03	$ 60.98	$ 33.37
Natural gas (Mcf)	$ 2.79	$ 1.71	$ 2.99	$ 1.82
Natural gas liquids (Bbls)	$ 25.23	$ 5.44	$ 24.59	$ 10.32

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 being 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 statements 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 June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Revenues:				
Oil and gas sales	$ 18,933	$ 6,305	$ 33,150	$ 19,905
Loss on commodity derivative instruments	(2,772)	(190)	(4,485)	(190)
Total revenue	16,161	6,115	28,665	19,715
Expenses:				
Production and ad valorem taxes	1,097	606	1,907	1,460
Marketing and transportation	473	608	864	1,005
Amortization of royalty interests in oil and natural gas properties	4,025	3,268	7,212	6,943
General, administrative, and other	2,381	2,737	5,815	5,811
Total operating expenses	7,976	7,219	15,798	15,219
Operating income (loss)	8,185	(1,104)	12,867	4,496
Other income (expense):				
Change in fair value of warrant liability	793	207	(2,409)	5,885
Other income	13	31	25	63
Interest expense	(487)	(537)	(974)	(1,217)
Total other income (expense)	319	(299)	(3,358)	4,731
Income (loss) before income taxes	8,504	(1,403)	9,509	9,227
Provision for (benefit from) income taxes	1,288	(287)	1,747	157
Net income (loss)	7,216	(1,116)	7,762	9,070
Net (income) loss attributable to non-controlling interests	(3,574)	748	(5,527)	(1,555)
Net income (loss) attributable to common shareholders	$ 3,642	$ (368)	$ 2,235	$ 7,515
Other Financial Data:				
Adjusted EBITDA (1)	$ 12,115	$ 3,380	$ 21,577	$ 13,437

(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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Production Data:				
Oil (Bbls)	224,487	205,146	406,039	458,673
Natural gas (BOE)	167,791	145,759	309,359	290,594
Natural gas liquids (Bbls)	65,775	54,002	113,083	124,476
Combined volumes (BOE)	458,053	404,907	828,481	873,743
Average daily combined volume (BOE/d)	5,034	4,450	4,577	4,801
% Oil	49%	51%	49%	52%
Average sales prices:				
Oil (Bbls)	$ 64.45	$ 22.03	$ 60.98	$ 33.37
Natural gas (Mcf)	$ 2.79	$ 1.71	$ 2.99	$ 1.82
Natural gas liquids (Bbls)	$ 25.23	$ 5.44	$ 24.59	$ 10.32
Combined per (BOE)	$ 41.34	$ 15.58	$ 39.94	$ 22.62
Average Costs ($/BOE):				
Production and ad valorem taxes	$ 2.39	$ 1.50	$ 2.30	$ 1.67
Marketing and transportation expense	$ 1.03	$ 1.50	$ 1.04	$ 1.15
General and administrative	$ 5.20	$ 6.76	$ 7.02	$ 6.65
Interest expense, net	$ 1.06	$ 1.33	$ 1.18	$ 1.39
Depletion	$ 8.79	$ 8.07	$ 8.71	$ 7.95

Comparison of the three months ended June 30, 2021 to the three months ended June 30, 2020:

Oil and Gas Revenues

Oil and gas revenues increased $12.6 million, or 200%, to $18.9 million for the three months ended June 30, 2021, from $6.3 million for the three months ended June 30, 2020. We received an average price of $64.45 per Bbl of oil and $2.79 per Mcf of gas sold in the three months ended June 30, 2021 compared to $22.03 per Bbl of oil and $1.71 per Mcf of gas sold during the three months ended June 30, 2020. For the three months ended June 30, 2021, the loss from our commodity derivative instruments increased $2.6 million compared to the three months ended June 30, 2020.

Production and Ad Valorem Taxes

Production and ad valorem taxes increased $0.5 million, or 81%, to $1.1 million for the three months ended June 30, 2021, from $0.6 million for the three months ended June 30, 2020. The increase in production and ad valorem taxes was attributable to the increase in oil and natural gas production. As a percentage of revenue, production and ad valorem taxes were 6% and 10%, respectively, for the three months ended June 30, 2021 and 2020.

Marketing and Transportation Expense

Marketing and transportation expense decreased by $0.1 million, or 22%, to $0.5 million for the three months ended June 30, 2021, from $0.6 million for the three months ended June 30, 2020. For the three months ended June 30, 2021 and 2020, as a percentage of revenue, marketing and transportation expense was 2% and 10%, respectively.

Amortization of Royalty Interests in Oil and Gas Properties Expense

Amortization of royalty interests in oil and gas properties expense increased $0.8 million, or 23%, to $4.0 million for the three months ended June 30, 2021, from $3.3 million for the three months ended June 30, 2020. The increase in amortization of royalty interests in oil and gas properties expense was primarily attributable to the impact of the increase in production.

General, Administrative and Other Expense

General, administrative, and other expense decreased $0.4 million, or 13%, to $2.4 million for the three months ended June 30, 2021, from $2.7 million for the three months ended June 30, 2020. The decrease in general, administrative, and other expense was primarily attributable to a decrease in stock-based compensation of $2.7 million associated with forfeitures which was partially offset by $1.7 million of severance expense and other expenses associated with the departure of the Company's former CEO and $0.2 million of expenses attributable to the restatement of the Company's financial statements included in its 2020 Annual Report on Form 10-K.

Change in Fair Value of Warrant Liability

The change in the fair value of the warrant liability was $0.6 million to a gain of $0.8 million for the three months ended June 30, 2021, from a gain of $0.2 million for the three months ended June 30, 2020. The change in the fair value of the warrant liability was primarily attributable to the decrease in the market price of the Public Warrants partially offset by the increase in the Company's stock price used as an input in determining the fair value of the Private Placement Warrant liability.

Interest Expense

Interest expense decreased by less than $0.1 million to $0.5 million for the three months ended June 30, 2021, from $0.5 million for the three months ended June 30, 2020. The decrease in interest expense was attributable to lower average outstanding borrowings under our Credit Facility as well as a lower average interest rate.

Income Taxes

Income tax expense increased by $1.6 million for the three months ended June 30, 2021, from an income tax benefit of $0.3 million for the three months ended June 30, 2020. The increase in income taxes was attributable to an increase in taxable income.

Comparison of the six months ended June 30, 2021 to the six months ended June 30, 2020:

Oil and Gas Revenues

Oil and gas revenues increased $13.2 million, or 67%, to $33.2 million for the six months ended June 30, 2021, from $19.9 million for the six months ended June 30, 2020. The increase in oil and gas revenues was attributable to a significant increase in realized oil and natural gas prices partially offset by a decrease in oil production. We received an average price of $60.98 per Bbl of oil and $2.99 per Mcf of gas sold in the six months ended June 30, 2021 compared to $33.37 per Bbl of oil and $1.82 per Mcf of gas sold during the six months ended June 30, 2020 For the six months ended June 30, 2021, the loss from our commodity derivative instruments increased $4.3 million compared to the six months ended June 30, 2020.

Production and Ad Valorem Taxes

Production and ad valorem taxes increased $0.4 million, or 31%, to $1.9 million for the six months ended June 30, 2021, from $1.5 million for the six months ended June 30, 2020. The increase in production and ad valorem taxes was attributable to the increase in realized prices partially offset by a decrease in oil production. As a percentage of revenue, production and ad valorem taxes were 6% and 7%, respectively, for the six months ended June 30, 2021 and 2020.

Marketing and Transportation Expense

Marketing and transportation expense decreased $0.1 million, or 14%, to $0.9 million for the six months ended June 30, 2021, from $1.0 million for the six months ended June 30, 2020. For the six months ended June 30, 2021 and 2020, as a percentage of revenue, marketing and transportation expense was 3% and 5%, respectively. The decrease in marketing and transportation expense as a percentage of revenue during 2021 was attributable to fixed transportation costs incurred under our leases that do not increase along with the realized price on the sale of oil and natural gas.

Amortization of Royalty Interests in Oil and Gas Properties Expense

Amortization of royalty interests in oil and gas properties expense increased $0.3 million, or 4%, to $7.2 million for the six months ended June 30, 2021, from $6.9 million for the six months ended June 30, 2020. 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 less than $0.1 million, or 0%, to $5.8 million for the six months ended June 30, 2021, from $5.8 million for the six months ended June 30, 2020. The increase in general, administrative, and other expense was primarily attributable to a decrease in stock-based compensation of $2.4 million associated with forfeitures which was partially offset by $1.7 million of severance expense and other expenses associated with the departure of the Company's former CEO and $0.2 million of expenses attributable to the restatement of the Company's financial statements included in its 2020 Annual Report on Form 10-K.

Change in Fair Value of Warrant Liability

The change in the fair value of the warrant liability was $8.3 million to a loss of $2.4 million for the six months ended June 30, 2021, from a gain of $5.9 million for the six months ended June 30, 2020. The change in the fair value of the warrant liability was primarily attributable to the increase in the Company's stock price used as an input in determining the fair value of the Private Placement Warrant liability.

Interest Expense

Interest expense decreased by $0.2 million to $1.0 million for the six months ended June 30, 2021, from $1.2 million for the six months ended June 30, 2020. The decrease in interest expense was attributable to lower average outstanding borrowings under our Credit Facility and a lower average interest rate.

Income Taxes

Income tax expense increased by $1.6 million for the six months ended June 30, 2021, from $0.2 million for the six months ended June 30, 2020. The increase in income taxes was attributable to a increase in taxable income during 2021 as compared to 2020.

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 before interest expense, net, depletion expense, provision for income taxes, unrealized gains and losses on commodity derivative instruments, change in fair value of warrant liability, and non-cash equity-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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss)	$ 7,216	$ (1,116)	$ 7,762	$ 9,070
Interest expense, net	487	537	974	1,217
Depletion	4,025	3,268	7,212	6,943
Depreciation	26	26	52	52
Income tax expense (benefit)	1,288	(287)	1,747	157
Unrealized loss on commodity derivative instruments	1,567	190	2,150	190
Change in fair value of warrant liability	(793)	(207)	2,409	(5,885)
Share-based compensation	(1,701)	969	(729)	1,693
Adjusted EBITDA	$ 12,115	$ 3,380	$ 21,577	$ 13,437

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, approximately 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 following table presents cash dividends approved by the Board of Directors for the periods presented below:

Quarter Ended		Total Quarterly Dividend Per Class A Common Share		Total Cash Dividends	Payment Date	Stockholders Record Date
June 30, 2021	$	0.1500	$	6,945,542	September 8, 2021	August 25, 2021
March 31, 2021	$	0.1000	$	4,620,937	June 8, 2021	May 25, 2021
December 31, 2020	$	0.0750	$	3,458,039	March 8, 2021	February 25, 2021
September 30, 2020	$	0.0650	$	2,996,528	December 8, 2020	November 24, 2020
June 30, 2020	$	0.0300	$	1,382,825	September 8, 2020	August 25, 2020
March 31, 2020	$	0.0250	$	1,149,695	June 8, 2020	May 25, 2020

Indebtedness

Falcon Credit Facility

On the Closing Date, OpCo 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 which is currently $70.0 million, subject to scheduled semi-annual and other borrowing base redeterminations and expires on the fifth anniversary of the Closing Date. As of June 30, 2021, OpCo had borrowings of $36.5 million under the Credit Facility at an interest rate of 2.60% and $33.5 million available for future borrowings under the Credit Facility.

Principal amounts borrowed are payable on the maturity date. OpCo has 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 1st and October 1st of each year.

Obligations under the Credit Facility are guaranteed by OpCo 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 June 30, 2021, OpCo was in compliance with such covenants. The negative covenants include restrictions on OpCo'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).

	For the Six Months Ended June 30,			
		2021		2020
Net cash flows provided by (used in):				
Operating activities	$	19,869	$	17,212
Investing activities		(1,087)		(2,115)
Financing activities		(18,469)		(15,794)

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 increase in cash flow provided by operating activities for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020 was primarily related to an 83% increase in realized oil prices, and a 64% increase in natural gas realized prices partially offset by a 11% decrease in oil production period over period. In addition, the Company experienced a decrease in working capital primarily driven by the timing of collection of accounts receivables and the timing of payments of accounts payable and accrued expenses as well as additional accrued severance 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 six months ended June 30, 2021 was $1.1 million and was related to the acquisition of certain royalty interest in oil and gas properties. Cash used in investing activities for the six months ended June 30, 2020 was $2.1 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 six months ended June 30, 2021 was $18.5 million, which was primarily related to distributions and dividends totaling $15.1 million and net repayments under our Credit Facility of $3.3 million. Cash used in financing activities for the six months ended June 30, 2020 was $15.8 million, primarily related to distributions and dividends totaling $13.8 million and net repayments under our Credit Facility of $1.9 million. The net decrease in borrowings under our Credit Facility was paid from cash flow generated by our operations during the applicable periods.

Contractual Obligations

There were no material changes in our contractual obligations and other commitments as disclosed in our Annual Report on Form 10-K/A for the year ended December 31, 2020.

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/A for the year ended December 31, 2020.

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. To reduce the impact of fluctuations in oil and natural gas prices on our revenues, we may use commodity derivative instruments to reduce our exposure to the price volatility of oil and natural gas. The counterparties to these contracts are unrelated third parties. The contracts settle monthly in cash based on a designated floating price. The designated floating price is based on the MEH benchmark for oil and NYMEX for natural gas. We have not designated any of our contracts as fair value or cash flow hedges. Accordingly, the changes in fair value of the contracts are included in net income in the period of the change.

As of June 30, 2021, we had a net liability derivative position related to our commodity price derivatives of $3.1 million. Utilizing actual derivative contractual volumes under our fixed price swap contracts and costless collar contracts as of June 30, 2021, a 10% increase in forward curves associated with the underlying commodity would have increased the net liability position to $4.5 million, an increase of $1.4 million, while a 10% decrease in forward curves associated with the underlying commodity would have created a net loss position of $1.7 million, a decrease of $1.4 million. However, any cash derivative gain or loss would be partially offset by a decrease or increase, respectively, in the actual sales value of production covered by the derivative instrument.

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 six months ended June 30, 2021, we received approximately 57%, 16%, and 14% of our revenue from ConocoPhillips, EOG Resources, and Devon, respectively. For the six months ended June 30, 2020, we received approximately 41%, 20%, and 16% of our revenue from ConocoPhillips, EOG Resources, and Devon, respectively. We did not require collateral and did not believe the loss of any single operator 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 June 30, 2021, we had total borrowings under our Credit Facility of $36.5 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. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as June 30, 2021, due to the existence of the material weakness in our internal controls over financial reporting described below, our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act) were not effective to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act as recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Material Weakness in Internal Over Financial Reporting

As previously disclosed in our Annual Report on Form 10-K/A for the year ended December 31, 2020, we identified a material weakness in our internal controls over financial reporting related to inaccurate accounting for warrants issued in connection with our initial public offering and private placement. Notwithstanding this material weakness, management has concluded that our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with GAAP for each of the periods presented therein.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our internal control over financial reporting did not detect the proper accounting and reporting for our warrants issued in connection with the Company's initial public offering in July 2017. Management identified this error when the SEC issued a Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies ("SPACs") dated April 12, 2021 (the "SEC Staff Statement"). The SEC Staff Statement addresses certain accounting and reporting considerations related to warrants of a kind similar to those we issued at the time of our initial public offering in July 2017. This control deficiency resulted in the Company having to restate its audited consolidated financial statements contained in its Annual Report on Form 10-K for the year ended December 31, 2020 and if not remediated, could result in a material misstatement to future annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Plan of Remediation of Material Weakness

In response to this material weakness, the Company's management has expended, and will continue to expend, a substantial amount of effort and resources for the remediation and improvement of our internal control over financial reporting. While we have processes to properly identify and evaluate the appropriate accounting technical pronouncements and other literature for all significant or unusual transactions, we are improving these processes to ensure that the nuances of such transactions are effectively evaluated in the context of the increasingly complex accounting standards. Our plans at this time include acquiring enhanced access to accounting literature, research materials and documents and increased communication among our personnel and third-party professionals with whom we may consult regarding the application of complex accounting transactions. Our remediation plan can only be accomplished over time and will be continually reviewed to determine that it is achieving its objectives. We can offer no assurance that these initiatives will ultimately have the intended effects.

Changes in Internal Control Over Financial Reporting

Other than the changes made to remediate the material weakness described above, there has been no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2021 that have 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

Factors that could cause our actual results to differ materially from those in this Quarterly Report are any of the risks described in our Annual Report on Form 10-K/A which was filed with the SEC on May 5, 2021. 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.

As of the date of this Quarterly Report, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K/A which was filed with the SEC on May 5, 2021, except we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

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	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).
3.2	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).
10.1	Employment agreement dated June 28, 2021, by and between Falcon Minerals Corporation and Bryan C. Gunderson (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (file No. 001-38158) filed June 28, 2021.
10.2	Employment agreement dated June 28, 2021, by and between Falcon Minerals Corporation and Matthew B. Ockwood (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (file No. 001-38158) filed June 28, 2021.
10.3	Separation and General Release Agreement, dated June 28, 2021, by and between Falcon Minerals Corporation and Daniel C. Herz (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (file No. 001-38158) filed June 28, 2021).
31.1*	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.
31.2*	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.
32.1**	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.
32.2**	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.
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* 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: August 6, 2021	By: /s/ Bryan C. Gunderson Bryan C. Gunderson President and Chief Executive Officer (Principal Executive Officer)
Date: August 6, 2021	By: /s/ Matthew B. Ockwood Matthew B. Ockwood Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

Certification of Chief Executive 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: August 6, 2021

/s/ Bryan C. Gunderson
Bryan C. Gunderson
President and Chief Executive Officer

Exhibit 31.2

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

I, Matthew B. Ockwood, 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: August 6, 2021

/s/ Matthew B. Ockwood
Matthew B. Ockwood
Chief Financial Officer

Exhibit 32.1

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 June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bryan C. Gunderson, 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: August 6, 2021

/s/ BRYAN C. GUNDERSON
Bryan C. Gunderson
President and Chief Executive Officer

Exhibit 32.2

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 June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew B. Ockwood, 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: August 6, 2021

/s/ MATTHEW B. OCKWOOD
Matthew B. Ockwood
Chief Financial Officer