



**AMEN** PROPERTIES

# 2021 Third Quarter Report

**Consolidated Financial Statements  
Periods Ended September 30, 2021 (Unaudited)  
and 2020 (Unaudited)**

*# Shares Outstanding at 9/30/21: 53,146*

**Amen Properties, Inc.  
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**2021 THIRD QUARTER REPORT  
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## COMPANY OVERVIEW

### **Background**

Amen Properties was originally incorporated under the name DIDAX in 1997 and soon thereafter began doing business as Crosswalk.com. For several years, the company operated one of the leading Christian sites on the web, *crosswalk.com*. In late 2002, on the brink of insolvency, the Company sold almost all its assets and changed its name to Amen Properties.

Amen Properties is a Christian corporation that donates 10% of its net earnings to Christian causes.

### **Evolution of Strategy – Increasing Focus on Energy**

#### **Real Estate**

Having sold all its assets, the Company embarked on a new business strategy in 2002 focused on real estate investments in secondary and out-of-favor markets. The Company acquired an 18% interest in an entity which owns over 200 thousand square feet of office space located in Midland, Texas but was unable to find additional viable real estate investment opportunities. Consequently, the Company decided to maintain its relatively small investment in real estate and focus on other areas for growth.

***In December 2014, the Company sold its interest in the Midland office buildings; its only remaining real estate asset is an 18% interest in a parking lot in downtown Midland (the “Superblock”).***

#### **Energy Services**

In 2003 deregulation of the Texas electricity market, the largest electricity market in the United States, created numerous opportunities for growth. The Company decided to approach this market in two ways:

- **Retail Electricity Provider (REP):** In 2004 the Company started a REP named W Power. As a REP, W Power sold electricity and provided the related billing, customer service and collection services to residential and commercial customers. ***In June of 2008, the Company decided to shut down the operations of W Power due to the significant credit requirements imposed on REP’s by the State of Texas and adverse changes in the business climate of the Texas retail electricity market.***
- **Energy Management and Consulting:** In 2006 the Company acquired Priority Power, one of the leading electricity aggregation, brokering and consulting firms in the State of Texas, for a total purchase price of \$3.5 million. Priority provides services to its customers in the areas of load aggregation, natural gas and electricity procurement, energy risk management, and energy consulting in both regulated and deregulated domestic markets. ***In October of 2010, the Company sold Priority Power to its management team.***

## Energy Resources

One of the elements of the Company's revised business plan was to tap into the oil and gas expertise possessed by several of its Directors to acquire profitable oil and gas-related assets. The Company owns numerous oil and gas royalty and working interests in several states, including those acquired from the former Santa Fe Energy Trust in 2007:

- **Santa Fe Energy Trust Assets:** in December 2007 the Company acquired a one-third interest in the royalty (SFF Royalty, LLC) and working (SFF Production, LLC) interests formerly owned by the Santa Fe Energy Trust for a total purchase price of \$10 million. In December 2008, the Company increased its ownership of SFF Production to approximately 79% for an additional investment of \$6.9 million. In December 2014, the Company purchased the remaining shares of SFF Production for a total purchase price of \$1.3 million and now owns 100%.

## **People**

### Amen's Board of Directors

**Eric L. Oliver** was appointed as a director of AMEN in July 2001 and was appointed Chairman of the Board on September 19, 2002. Mr. Oliver was elected to the Board of Texas Mutual Insurance Company in 2009. He is founder of Softvest LP in Abilene and serves on the board of ACIMCO, Abilene Christian University's endowment management company.

**Jon M. Morgan** was appointed as a director of AMEN in October 2000 and is the Chairman and CEO of Anthem Oil and Gas, Inc. based in Midland Texas. Mr. Morgan principally founded and has been actively involved in over a dozen companies involved in real estate, oil and gas, minor league sports, geophysical services, financial services, data management, power procurement and the internet.

**Bruce E. Edgington** has been director of AMEN since November 1997. From 1979 through 1988, Mr. Edgington was a registered representative with Johnston Lemon & Co., a securities broker-dealer, where his responsibilities included the management of retail securities accounts and administration. In 1988 he founded and continues to be an officer, director and stockholder of DiBiasio & Edgington, a firm engaged in providing software to investment firms and money managers. He currently serves as a director for wireless charging firm Momentum Dynamics.

### Management Team

**Kris Oliver** was appointed Chief Financial Officer of the Company on March 7, 2007. Mr. Oliver is a Certified Public Accountant and began his career in the Audit Practice of Arthur Andersen, where he left as an Audit Senior in 1990. After receiving an MBA in Finance from the University of Texas at Austin in 1992, Mr. Oliver spent 14 years at American Airlines / Sabre in a variety of roles including Corporate Finance, Business Development, Marketing and Sales. Just prior to joining the Company, Mr. Oliver was a Senior Financial Advisor with Technology Partners International, the world's largest outsourcing advisory firm. Mr. Oliver served on the Richardson ISD Board of Trustees from 2010 through 2017 and is the brother of Eric Oliver, the Company's Chairman of the Board of Directors.

## MANAGEMENT DISCUSSION and ANALYSIS 2021 THIRD QUARTER FINANCIAL RESULTS

### ***Operating***

The Company recognized \$1.1 million in oil and gas revenue for the quarter, an increase of \$816 thousand versus the same quarter in 2020. Operating expenses increased 15% versus 2020, resulting in operating income of \$412 thousand for the quarter. This improvement in earnings is attributable to increased demand and commodity prices for oil and gas.

### ***Investments / Other***

During the quarter, the Company recognized the following transactions related to investment income:

- \$252 thousand of equity income and cash distributions totaling \$222 thousand resulting from its investment in SFF Royalty, LLC.

Amen's Board approved a plan in 2012 whereby the Company will no longer hedge the revenue stream associated with its oil and gas royalties. The Board reached this decision based on reduced cash flow risk associated with the retirement of the Company's debt in 2011. The Company has notified shareholders that they now hold an unhedged long oil and gas position and should pursue their own hedging strategy if they are uncomfortable with that risk.

### ***Net Income / Dividends***

The Company recognized Net Income of \$641 thousand for the quarter versus \$98 thousand for the same quarter in 2020. The increase in earnings was caused primarily by the increase in oil and gas revenue described above.

The Company declared a regular dividend of \$7.50 per common share during the quarter and anticipates making regular quarterly dividends to common stockholders, the amount of which will be largely determined by fluctuations in commodity prices for oil and gas.

**AMEN Properties, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**

	<b>ASSETS</b>	
	<b>September 30 2021 (Unaudited)</b>	<b>December 31, 2020 (Audited)</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,184,802	\$ 3,222,609
Accounts Receivable, net of allowance	280,420	204,749
Other Current Assets	136,725	242,436
<b>Total Current Assets</b>	<b>3,601,947</b>	<b>3,669,794</b>
<b>PROPERTY AND EQUIPMENT</b>	<b>3,118</b>	<b>4,184</b>
<b>DEFERRED INCOME TAX ASSET</b>	<b>-</b>	<b>-</b>
<b>INVESTMENT IN SFF ROYALTY</b>	<b>167,456</b>	<b>117,860</b>
<b>OIL AND GAS ROYALTY AND WORKING INTERESTS</b>	<b>955,452</b>	<b>1,023,089</b>
<b>INVESTMENT IN REAL ESTATE</b>	<b>400,710</b>	<b>400,710</b>
<b>OTHER ASSETS</b>		
Deposits and Other Assets	-	-
<b>Total Other Assets</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,128,683</b>	<b>\$ 5,215,637</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	81,277	218,669
Accrued Liabilities	164,331	203,940
Accrued Dividends	-	-
<b>Total Current Liabilities</b>	<b>245,608</b>	<b>422,609</b>
<b>DEFERRED INCOME TAX LIABILITY</b>	<b>-</b>	<b>-</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>	<b>-</b>
<b>STOCKHOLDER'S EQUITY</b>		
Common Stock, \$.01 par value; 20,000,000 shares authorized; 53,146 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	531	531
Treasury Stock, at cost	(446,755)	(446,755)
Additional Paid-in Capital	54,942,016	54,942,016
Accumulated Deficit	(49,612,717)	(49,702,764)
Accumulated Other Comprehensive Income	-	-
<b>Total Stockholders' Equity</b>	<b>4,883,075</b>	<b>4,793,028</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 5,128,683</b>	<b>\$ 5,215,637</b>

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

**AMEN Properties, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended September 30		Nine Months Ended September 30	
	2021 (Unaudited)	2020 (Audited)	2021 (Unaudited)	2020 (Audited)
<b>OPERATING REVENUE</b>				
Oil and Gas Revenue	\$ 1,117,877	\$ 301,464	\$ 2,161,383	\$ 727,885
Total Operating Revenue	<u>1,117,877</u>	<u>301,464</u>	<u>2,161,383</u>	<u>727,885</u>
<b>OPERATING EXPENSE</b>				
Oil and Gas Operations	384,536	217,627	809,452	658,469
General and Administrative	200,555	182,495	547,108	492,888
Depreciation, Amortization and Depletion	117,973	211,844	294,482	687,560
Charitable Contributions	3,000	-	3,000	-
Total Operating Expenses	<u>706,064</u>	<u>611,966</u>	<u>1,654,042</u>	<u>1,838,917</u>
<b>INCOME/(LOSS) FROM OPERATIONS</b>	<u>411,813</u>	<u>(310,502)</u>	<u>507,341</u>	<u>(1,111,032)</u>
<b>OTHER INCOME (EXPENSE)</b>				
Interest Income (Expense)	251	421	1,112	15,964
Income from Real Estate Investment	-	-	-	-
Income from SFF Royalty	251,689	153,670	636,263	472,469
Other Income	-	135	151,668	(1,151,238)
Total Other Income	<u>251,940</u>	<u>154,226</u>	<u>789,043</u>	<u>(662,805)</u>
<b>INCOME BEFORE TAXES</b>	<u>663,753</u>	<u>(156,276)</u>	<u>1,296,384</u>	<u>(1,773,837)</u>
Franchise and Other Income Taxes	<u>(22,574)</u>	<u>36,230</u>	<u>(30,217)</u>	<u>9,346</u>
Current Federal Income Tax	-	218,347	-	218,347
Deferred Federal Income Tax	-	-	-	-
<b>NET INCOME</b>	<u>\$ 641,179</u>	<u>\$ 98,301</u>	<u>\$ 1,266,167</u>	<u>\$ (1,546,144)</u>

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

**AMEN Properties, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income / (Loss)	Treasury Stock	Total Equity
	Shares	Amount					
BALANCE, DECEMBER 31, 2019 (Audited)	53,146	\$ 531	\$ 54,942,016	\$ (47,059,502)	\$ (1,143,035)	\$ (446,755)	\$ 6,293,255
Common stock dividends				(1,960,200)			(1,960,200)
Other comprehensive income / (loss)					1,143,035		1,143,035
Net income (loss)				(683,062)			(683,062)
Total comprehensive income / (loss)				(683,062)	1,143,035		459,973
BALANCE, DECEMBER 31, 2020 (Audited)	53,146	\$ 531	\$ 54,942,016	\$ (49,702,764)	\$ -	\$ (446,755)	\$ 4,793,028
Common stock dividends	-	-	-	(1,176,120)	-	-	(1,176,120)
Net income (loss)	-	-	-	1,266,167	-	-	1,266,167
Total comprehensive income / (loss)	-	-	-	1,266,167	-	-	1,266,167
BALANCE, SEPTEMBER 30, 2021 (Unaudited)	53,146	\$ 531	\$ 54,942,016	\$ (49,612,717)	\$ -	\$ (446,755)	\$ 4,883,075

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



**AMEN Properties, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**

	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 1,266,167	\$ (1,546,144)
<i>Adjustments to Reconcile Net Income to</i>		
<i>Cash Provided by Operating Activities</i>		
Gain on Sale / Assignment of Leasehold Interest	(151,668)	(129,168)
Loss / (Gain) on Sale of Marketable Securities	-	1,280,535
Depreciation, Amortization & Depletion	294,482	687,560
Equity Income from SFF Royalty Investment	(636,263)	(472,469)
<i>Changes in Operating Assets and Liabilities</i>		
Accounts Receivable	(75,671)	290,407
Other Assets	105,711	(543,001)
Accounts Payable / Accrued Liabilities	(177,001)	70,479
	625,757	(361,801)
<b>Net Cash Provided by / (Used In) Operations</b>		
<b>Cash Flows from Investing Activities</b>		
(Purchases) / Disposition of Property & Equipment, net	(1,043)	-
Development of Oil & Gas Interests	(224,736)	(223,896)
Proceeds from Sale / Assignment of Leasehold Interest	151,668	129,168
Distributions from SFF Royalty	586,667	474,999
	512,556	380,271
<b>Net Cash Provided by / (Used In) Investing Activities</b>		
<b>Cash Flows from Financing Activities</b>		
Common Stock Dividends	(1,176,120)	(1,568,160)
	(1,176,120)	(1,568,160)
<b>Net Cash Provided by / (Used In) Financing Activities</b>		
<b>Net Increase / (Decrease) in Cash</b>	(37,807)	(1,549,690)
<b>Cash at Beginning of Period</b>	3,222,609	4,718,509
<b>Cash at End of Period</b>	\$ 3,184,802	\$ 3,168,819

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

**AMEN Properties, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**Third Quarter 2021**

**NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. *Organization*

**Company Background**

- The Company was originally incorporated as DIDAX, Inc., in January 1997
- Until December 2002 the Company operated under the name Crosswalk.com; its primary businesses were operation of the Christian web portal *crosswalk.com*<sup>™</sup> and a direct mail advertising service.
- During the last quarter of 2002, the Company sold substantially all its assets except for the Company's accumulated Net Operating Loss ("NOL") and changed its name to AMEN Properties, Inc.
- A revised business plan was approved by the shareholders in 2002, and called for the Company to grow via the selective acquisition of cash-generating assets in three categories:
  - Commercial real estate in secondary stagnant markets
  - Commercial real estate in out of favor growth markets
  - Oil and gas royalties

The Company has shielded significant earnings from Federal Income Taxes over the past several years and used the remainder of its NOL during 2018.

**Company Organization**

In initiating the 2002 business plan the Company, in October 2002, formed the following entities:

- NEMA Properties LLC ("NEMA"), a Nevada limited liability company 100% owned by AMEN
- AMEN Delaware LP ("Delaware"), a Delaware limited partnership owned 99% by NEMA as the sole limited partner and 1% by AMEN, as the sole general partner
- AMEN Minerals LP ("Minerals"), a Delaware limited partnership, owned 99% by NEMA as the sole limited partner and 1% by AMEN, as the sole general partner.

On July 30, 2004, the Company formed W Power and Light LP ("W Power"), a Delaware limited partnership owned 99% by NEMA as the sole limited partner and 1% by AMEN, as the sole general partner. On May 18, 2006, the Company acquired 100% of Priority Power Management, Ltd. and Priority Power Management Dallas, Ltd. (collectively "Priority Power") effective April 1, 2006. Priority Power is owned 1% by AMEN, as the sole general partner, and 99% by NEMA, as the sole limited Partner.

**Corporate Reorganization**

On December 17, 2007, the Company approved a corporate reorganization (the "Reorganization") effective January 1, 2008. As part of the Reorganization, the Delaware Partnership, the Minerals Partnership, the PPM Partnership, and the W Power Partnership were each converted from limited partnerships into limited liability companies with AMEN owning 100% of the shares and as the sole managing member of each entity. The converted entities are:

- AMEN Delaware, LLC, ("Delaware")
- AMEN Minerals, LLC, ("Minerals")
- NEMA Properties, LLC, ("NEMA")
- Priority Power Management, LLC ("Priority Power")
- W Power and Light, LLC, ("W Power")

On May 31, 2008, as part of the Reorganization, NEMA was converted from a Nevada Limited Liability Company to a Texas Limited Liability Company.

**AMEN Properties, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED**  
**Third Quarter 2021**

As used herein, the terms “Company” and “AMEN” and references to “we” and “our” refer to all of AMEN Properties, Inc., NEMA, Delaware, Minerals, and W Power and Priority Power unless the context otherwise requires.

On September 28<sup>th</sup>, 2009, the Company approved a reorganization plan effective January 1, 2010 whereby Delaware, Minerals and NEMA were dissolved and the assets and liabilities of each entity were conveyed to Amen Properties, Inc.

**2. *Basis of Presentation***

The consolidated financial statements include the accounts of the Company and its majority-owned/controlled subsidiaries and affiliates. Inter-company balances and transactions have been eliminated.

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses in the consolidated financial statements, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

**3. *Cash Equivalents***

The Company considers cash on hand, cash on deposit in banks, money market mutual funds and highly liquid debt instruments purchased with a maturity of three months or less to be a cash equivalent.

**4. *Marketable Investments***

The Company invests in U.S. government bonds and treasury notes, municipal bonds, certificates of deposit, corporate bonds and other securities. Investments with original maturities greater than three months but less than twelve months from the balance sheet date are short-term investments. Those investments with original maturities greater than twelve months from the balance sheet date are long-term investments.

The Company’s marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses, net of tax, recorded in stockholders’ equity. Realized gains or losses and permanent declines in value, if any, on available-for-sale investments are reported in other income or expense as incurred.

**5. *Fair Value of Financial Instruments***

Generally accepted accounting principles require disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheet. Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The carrying value of cash and cash equivalents, investments, accounts receivable, notes receivable, and accounts payable approximate fair value because of the relatively short maturity of these instruments. Disclosure about fair value of financial instruments is based on pertinent information available to management as of the balance sheet date.

**6. *Accounts Receivable***

The Company’s trade receivables are primarily from lease operators or purchasers. Management regularly reviews accounts receivable and estimates the necessary amounts to be recorded as an allowance for doubtful accounts. The Company considers trade receivables to be fully collectible.

**AMEN Properties, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED**  
**Third Quarter 2021**

*7. Depreciation, Amortization and Depletion*

Property and equipment are stated at cost. Depreciation is determined using the straight-line method over the estimated useful lives ranging from three to 10 years. Royalty acquisitions are stated at cost. Depletion is determined using the units-of-production method based on the estimated oil and gas reserves.

*8. Revenue Recognition*

On January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers," ("ASC 606") using the modified retrospective transition method. The adoption did not require an adjustment to retained earnings as there was no material change to the timing or pattern of revenue recognition due to the adoption of ASC 606. The Company recognizes revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

*9. Impairment of Long-Lived Assets*

Generally accepted accounting principles specify circumstances in which certain long-lived assets must be reviewed for impairment. If the carrying amount of an asset exceeds the sum of its expected cash flows, the asset's carrying value must be written down to fair value. The Company periodically evaluates the recoverability of the carrying value of its long-lived assets and identifiable intangibles by monitoring and evaluating changes in circumstances that may indicate that the carrying amount of the asset may not be recoverable. Examples of events or changes in circumstances that indicate that the recoverability of the carrying amount of an asset should be assessed include but are not limited to the following: a significant decrease in the market value of an asset, a significant change in the extent or manner in which an asset is used or a significant physical change in an asset, a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator, an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset, and/or a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue.

The Company considers historical performance and anticipated future results in its evaluation of potential impairment. Accordingly, when indicators or impairments are present, the Company evaluates the carrying value of these assets in reaction to the operating performance of the business and future discounted and non-discounted cash flows expected to result from the use of these assets. Impairment losses are recognized when the sum of expected future cash flows are less than the assets' carrying value.

*10. Investment in Real Estate and SFF Group*

The Company's determination of the appropriate accounting method with respect to investments in limited partnerships, limited liability companies and other subsidiaries is based on control. For general partner interests, the Company is presumed to control (and therefore consolidate) the entity, unless the other limited partners have substantive rights that overcome this presumption of control. These substantive rights allow the limited partners to participate in significant decisions made in the ordinary course of the entity's business. The Company accounts for its non-controlling general partner investments in these entities under the equity method. This treatment also applies to the Company's managing member interests in limited liability companies.

The Company's determination of the appropriate accounting method for all other investments in subsidiaries is based on the amount of influence the Company has (including our ownership interest) in the underlying entity. Those other investments where the Company can exercise significant influence (but not control) over operating and financial policies of such subsidiaries (including certain subsidiaries where the Company has less than 20% ownership) are accounted for using the equity method. The Company eliminates transactions with such equity method subsidiaries to the extent of the ownership in such subsidiaries. Accordingly, the Company's share of the

**AMEN Properties, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED**  
**Third Quarter 2021**

earnings or losses of these equity method subsidiaries is included in net earnings. All the Company's remaining investments are carried at cost. Under either the equity or cost method, impairment losses are recognized upon evidence of other-than-temporary losses of value.

The Company's investments in real estate and SFF Royalty (see Notes D and E) are recorded at cost, adjusted for its equity share of earnings, using the equity method of accounting, and cash contributions and distributions.

**11. *Income and Franchise Taxes***

The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and net operating loss and tax credit carryforwards. The amount of deferred taxes on these temporary differences is determined using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, as applicable, based on tax rates and laws in the respective tax jurisdiction enacted as of the balance sheet date.

The Company reviews its deferred tax assets for recoverability and establishes a valuation allowance based on projected future taxable income, applicable tax strategies and the expected timing of the reversals of existing temporary differences. A valuation allowance is provided when it is more likely than not (likelihood of greater than 50 percent) that some portion or all the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based upon the technical merits of the position. If all, or a portion, of the unrecognized tax benefit is sustained upon examination by the taxing authorities, the tax benefit will be recognized as a reduction to the Company's deferred tax liability and will affect the Company's effective tax rate in the period it is recognized. The Company records any tax-related interest charges as interest expense and any tax-related penalties as other expense in the consolidated statements of operations. The Company is no longer subject to income tax examinations by the U.S. federal, state, or local authorities with few exceptions for periods prior to 2017.

**12. *Corporate Tithing***

The Company shall, to the extent permitted by law, expend from the revenues of the Company such sums as are deemed prudent by the Board of Directors to support, encourage, or sustain persons or entities which in the judgment of the Board of Directors are expected to make significant efforts to propagate the Gospel of Jesus Christ in any manner not in conflict with the Statement of Faith. Such expenditures may be made without regard to the tax status or nonprofit status of the recipient. It is expected that the expenditures paid out under the provisions of this policy shall approximate ten percent (10%) of the amount that would otherwise be the net profits of the Company for the accounting period.

**13. *Management Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from such estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the recognition of revenues, the estimate of the allowance for doubtful accounts, the estimate of asset impairments and the determination of depreciation and amortization expense.

**14. *Environmental Costs***

**AMEN Properties, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED**  
**Third Quarter 2021**

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Costs are expensed when they relate to an existing condition caused by past operations and will not contribute to current or future revenue generation. Liabilities related to environmental assessments and/or remedial efforts are accrued when property or services are provided or can be reasonably estimated.

The Company, through its ownership of working interests is subject to extensive federal, state, and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the operator to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites.

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Costs are expensed when they relate to an existing condition caused by past operations and will not contribute to current or future revenue generation. Liabilities related to environmental assessments and/or remedial efforts are accrued when property or services are provided or can be reasonably estimated.

**15. Subsequent Events**

The Company has evaluated subsequent events through the date of issuance of the consolidated financial statements. The Company is not aware of any reportable subsequent events.

**16. Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 “Financial Instruments – Credit Losses.” This Update changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. This update is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for a fiscal year beginning after December 15, 2018. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13 “Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement,” which changes the disclosure requirements for fair value measurements by removing, adding, and modifying certain disclosures. ASU 2018-13 is effective for financial statements issued for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact of adoption of the ASU on its related disclosures and does not expect it to have a material impact on the financial statements.

Management does not believe these new standards will have a material impact on its financial statements.

**NOTE B – CONCENTRATIONS OF CREDIT RISK**

The Company maintains cash balances at several financial institutions, which at times may exceed federally insured limits. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risks on such accounts.

**NOTE C – PROPERTY AND EQUIPMENT**

Property and equipment, at cost, consisted of the following at September 30, 2021 and December 31, 2020:

	<u>9/30/2021</u>	<u>12/31/2020</u>
Furniture, fixtures and equipment	\$ 8,773	\$ 9,878
Less: accumulated depreciation	<u>(5,655)</u>	<u>(5,694)</u>
	<u>\$ 3,118</u>	<u>\$ 4,184</u>

**AMEN Properties, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED**  
**Third Quarter 2021**

**NOTE D – INVESTMENT IN REAL ESTATE**

As of the balance sheet date, the Company’s only remaining real estate asset is an 18% interest in a parking lot in downtown Midland (the “Superblock”).

**NOTE E – OIL AND GAS ROYALTY AND WORKING INTERESTS**

The Company owns oil and gas royalty and working interests in several states. Under accounting principles generally accepted in the United States of America, revenues and expenses are recognized on an accrual basis. Oil and gas revenue is generally received one to two months following the month of production and the Company uses estimates to accrue.

*SFF Interests*

On December 17, 2007, the Company invested \$7.6 million in SFF Royalty, LLC (“SFF Royalty”) and \$2.4 million in SFF Production (“SFF Production”) in exchange for a one-third ownership interest in each entity. Also on December 17, 2007, SFF Royalty and SFF Production acquired the following properties from Santa Fe Energy Trust (the “Trust”) and Devon Energy Production Company, LP (“Devon”):

<u>Acquiring Entity</u>	<u>Acquired from the Trust</u>		<u>Acquired from Devon</u>		<u>Total Purchase</u>
	<u>Description</u>	<u>Purchase Amount</u>	<u>Description</u>	<u>Purchase Amount</u>	
SFF Royalty	Net profits interests in royalty interests owned by Devon	\$ 21,077,688	Royalty interests subject to Trust’s net profits interests	\$ 2,254,662	\$ 23,332,350
SFF Production	Net profits interests in working interests owned by Devon	6,072,125	Working interests subject to Trust’s net profits interests	649,531	6,721,656
Totals		<u>\$ 27,149,813</u>		<u>\$ 2,904,193</u>	<u>\$ 30,054,006</u>

In December 2008, the Company increased its ownership of SFF Production to approximately 79% for an additional investment of \$6.9 million. In December 2014, the Company purchased the remaining shares of SFF Production for a total purchase price of \$1.3 million and now owns 100% of that entity. The financial position and results of SFF Production are now consolidated with the Company’s.

The Company’s equity in SFF Royalty, LLC consists of the following at September 30, 2021 and December 31, 2020:

	<u>9/30/2021</u>	<u>12/31/2020</u>
Investment in SFF Group	\$ 117,860	\$ 177,146
Capital Distributions	(586,667)	(729,666)
Equity Earnings	636,263	666,300
	<u>\$ 167,456</u>	<u>\$ 117,860</u>

**AMEN Properties, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED**  
**Third Quarter 2021**

The Company's investment and equity earnings results for the third quarter of 2021 are based on the results of SFF Royalty, LLC. SFF Royalty, LLC reported the following consolidated financial information at September 30, 2021:

	<u>SFF Royalty</u>
Total Assets	\$ 647,018
Total Liabilities	87,504
Net Income (three months ended September 30, 2021)	755,141

**NOTE F – ACCRUED LIABILITIES**

Accrued liabilities consisted of the following at September 30, 2021 and December 31, 2020:

	<u>9/30/2021</u>	<u>12/31/2020</u>
Accrued Oil & Gas Operating Expenses	211,281	193,890
Other Liabilities	(46,950)	10,050
Total Accrued Liabilities	\$ 164,331	\$ 203,940

**NOTE G – INCOME TAXES**

Taxes are provided on all revenues and expenses in the statement of operations, regardless of the period in which such items are recognized for income tax purposes, except for items representing a permanent difference between pretax accounting income and taxable income.

**NOTE H – COMMITMENTS AND CONTINGENCIES**

*Legal Proceedings*

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

**NOTE I – STOCKHOLDERS' EQUITY**

*Treasury Stock*

The Company has purchased 874 shares under the Company's stock repurchase program. These shares are being held by the Company as treasury stock and are reflected on the balance sheet at cost.

*Common Dividend*

The Company's Board of Directors declared a regular dividend of \$7.50 per common share with a record date of September 23, 2021, and payment date of September 30, 2021.