Mesquite Energy, Inc.

Consolidated Annual Financial Statements

December 31, 2020

(With Independent Auditor's Report Thereon)

Mesquite Energy, Inc.
Table of Contents

KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report

The Board of Directors
Mesquite Energy, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mesquite Energy, Inc., formerly known as Sanchez Energy Corporation, and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2020 (Successor) and 2019 (Predecessor), and the related consolidated statements of operations, shareholders' equity, and cash flows for the six month period ended December 31, 2020 (Successor period), and for the six month period ended June 30, 2020 and for the year ended December 31, 2019 (Predecessor periods) and the related notes to the financial statements (collectively, the consolidated financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Presentation

As discussed in Notes 2 and 3 to the consolidated financial statements, the Company emerged from bankruptcy on June 30, 2020. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with Accounting Standards Codification Topic 852, *Reorganizations*, for the Successor as a new entity with assets, liabilities and a capital structure having carrying amounts not comparable with prior periods as discussed in Note 2.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mesquite Energy, Inc. and its subsidiaries as of December 31, 2020 (Successor) and 2019 (Predecessor), and the results of its operations and its cash flows for the six month period ended December 31, 2020 (Successor period), and for the six month period ended June 30, 2020 and for the year ended December 31, 2019 (Predecessor periods) in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Houston, Texas
April 30, 2021

Mesquite Energy, Inc.
Consolidated Statement of Operations

(In thousands)	Successor	Predecessor	
	Six Months Ended December 31, 2020	Six Months Ended June 30, 2020	Year Ended December 31, 2019
REVENUES:			
Oil sales	$ 78,629	$ 85,376	$ 458,551
Natural gas sales	35,198	33,629	125,954
Natural gas liquid sales	26,209	20,678	117,886
Sales and marketing revenues	4,553	5,287	25,981
Total revenues	144,589	144,970	728,372
OPERATING COSTS AND EXPENSES:			
Oil and natural gas production expenses	17,339	29,999	76,005
Marketing and transportation expenses	67,907	87,855	226,979
Exploration expenses	-	7	6,188
Sales and marketing expenses	4,144	4,995	23,860
Production and ad valorem taxes	8,524	10,044	42,670
General and administrative	2,674	21,258	75,091
Depreciation, depletion, amortization and accretion	8,141	34,154	251,352
Impairment of oil and natural gas properties	74	516,933	1,197,071
Impairment of right of use assets	-	33,672	4,831
Pre-petition restructuring charges	-	-	41,931
Total operating costs and expenses	108,803	738,917	1,945,978
Operating income (loss)	**35,786**	**(593,947)**	**(1,217,606)**
Other income (expense):			
Interest expense	(11,715)	(10,322)	(131,053)
Interest income	8	58	1,545
Other expense	328	(170,504)	(26,216)
Loss on disposal of assets	(1,971)	(4,399)	(15)
Earnings from equity investments	-	-	-
Net gains (losses) on commodity derivatives	(15,167)	45,512	(33,124)
Total other income (expense)	(28,517)	(139,655)	(188,863)
Reorganization items	(29,254)	2,185,715	(82,278)
Income (loss) before income taxes	(21,985)	1,452,113	(1,488,747)
Income tax benefit	-	(16)	(23)
Net income (loss)	**$ (21,985)**	**$ 1,452,129**	**$ (1,488,724)**

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

Mesquite Energy, Inc.
Consolidated Balance Sheet

(In thousands)	Successor	Predecessor
	December 31, 2020	December 31, 2019
Current assets:		
Cash and cash equivalents	$ 72,777	$ 162,254
Oil and natural gas receivables	42,162	69,576
Joint interest billings receivables	16,825	12,289
Accounts receivable - related entities	-	2,500
Fair value of derivative instruments	3,670	3,801
Other current assets	13,000	17,545
Total current assets	148,434	267,965
Oil and natural gas properties, at cost, using the successful efforts method:		
Proved oil and natural gas properties	130,418	3,891,291
Unproved oil and natural gas properties	5,793	226,608
Total oil and natural gas properties	136,211	4,117,899
Less: accumulated depreciation, depletion, amortization and impairment	(6,621)	(3,113,960)
Total oil and natural gas properties, net	129,590	1,003,939
Fair value of derivative instruments - long term	-	609
Investments - long term	1,364	4,597
Other assets	20,614	59,404
Right of use assets, net of amortization and impairment	144,420	248,070
Total assets	**$ 444,422**	**$ 1,584,585**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 16,380	$ 4,851
Accounts payable - related entities	12,103	-
Other payables	22,145	32,496
Accrued liabilities	44,827	126,597
Fair value of derivative instruments - short term liability	18,204	4,865
Short-term debt	-	47,782
Short-Term DIP Financing	-	100,000
Other current liabilities	8,418	19,700
Right of use liability - short-term	78,056	99,200
Total current liabilities	**200,133**	**435,491**
Long term debt, net of discount and debt issuance costs	74,925	144,955
Asset retirement obligations	31,402	50,241
Fair value of derivative instruments - long term liability	-	313
Liabilities subject to compromise	-	2,294,088
Right of use liability - long-term	68,037	152,564
Total liabilities	**374,497**	**3,077,651**
Mezzanine equity	-	482,849
Stockholders' equity:		
Preferred stock	-	31
Common stock	5	1,014
Additional paid-in capital	91,905	1,371,694
Accumulated deficit	(21,985)	(3,348,654)
Total stockholders' equity (deficit)	69,925	(1,975,915)
Total liabilities and stockholders' equity (deficit)	**$ 444,422**	**$ 1,584,585**

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

Mesquite Energy, Inc.
Consolidated Statement of Shareholders' Equity (Predecessor)
For the Six-Month Period Ended June 30, 2020 and the Year Ended December 31, 2019

(In thousands)	Series A Preferred Stock		Series B Preferred Stock		Common Stock				
	Shares	Amounts	Shares	Amounts	Shares	Amounts	APIC	Retained earnings (accumulated deficit)	Total Stockholders' equity (deficit)
BALANCE, December 31, 2018 (Predecessor)	**1,839**	**$ 18**	**3,528**	**$ 35**	**87,329**	**$ 881**	**$ 1,367,427**	**$ (1,812,884)**	**$ (444,523)**
Adoption of accounting standards	-	-	-	-	-	-	-	42,499	42,499
Dividends on Series A and Series B Preferred stock	-	-	-	-	7,898	79	3,908	(9,525)	(5,538)
Dividends on UnSub preferred units	-	-	-	-	-	-	-	(50,000)	(50,000)
Accretion of discount on UnSub preferred units	-	-	-	-	-	-	-	(30,021)	(30,021)
Restricted stock awards, net of forfeitures	-	-	-	-	(389)	2	(2)	-	-
Exchange of preferred stock for common stock	(1,219)	(12)	(1,062)	(10)	5,317	52	(30)	-	-
Non-cash stock-based compensation	-	-	-	-	-	-	391	-	391
Net loss	-	-	-	-	-	-	-	(1,488,723)	(1,488,723)
BALANCE, December 31, 2019 (Predecessor)	**620**	**6**	**2,466**	**25**	**100,155**	**1,014**	**1,371,694**	**(3,348,654)**	**(1,975,915)**
Dividends on Series A and Series B Preferred stock	-	-	-	-	-	-	-	(88)	(88)
Dividends on UnSub preferred units paid in kind	-	-	-	-	-	-	-	(12,500)	(12,500)
Accretion of discount on UnSub preferred units	-	-	-	-	-	-	-	(11,199)	(11,199)
Deconsolidation of UnSub - removal of Equity	-	-	-	-	-	-	-	630,001	630,001
Restricted stock awards, net of forfeitures	-	-	-	-	(170)	(1)	1	-	-
Exchange of preferred stock for common stock	(183)	(2)	(831)	(8)	2,367	24	(14)	-	-
Non-cash stock-based compensation	-	-	-	-	-	-	(18)	-	(18)
Net loss	-	-	-	-	-	-	-	(767,424)	(767,424)
BALANCE, June 30, 2020 (Predecessor)	**437**	**4**	**1,635**	**17**	**102,352**	**1,037**	**1,371,663**	**(3,509,864)**	**(2,137,143)**
Cancellation of Predecessor equity	(437)	(4)	(1,635)	(17)	(102,352)	(1,037)	(1,371,663)	1,372,721	-
Net impact to retained earnings from fresh start adjustments	-	-	-	-	-	-	-	2,137,143	2,137,143
BALANCE, June 30, 2020 (Predecessor)	-	$ -	-	-	-	$ -	-	$ -	$ -

Consolidated Statement of Shareholders' Equity (Successor)
For the Six-Month Period Ended December 31, 2020

(In thousands)	Common Stock				
	Shares	Amounts	APIC	Retained earnings	Stockholders' equity
BALANCE, June 30, 2020 (Predecessor)	-	$ -	$ -	$ -	$ -
Issuance of Successor common stock	2,000	2	82,408	-	82,410
BALANCE, July 1, 2020 (Successor)	**2,000**	**2**	**82,408**	**-**	**82,410**
Common stock issuance with Series 2 Notes	2,813	3	9,497	-	9,500
Net loss	-	-	-	(21,985)	(21,985)
BALANCE, December 31, 2020 (Successor)	**4,813**	**$ 5**	**$ 91,905**	**$ (21,985)**	**$ 69,925**

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

Mesquite Energy, Inc.
Consolidated Statement of Cash Flows

(In thousands)	Successor	Predecessor	
	Six Months Ended December 31, 2020	Six Months Ended June 30, 2020	Year Ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (21,985)	$ 1,452,129	$ (1,488,723)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation, depletion, amortization and accretion	8,141	34,154	251,355
Impairment of oil and natural gas properties	74	516,933	1,197,071
Loss on sale of assets	1,971	4,399	858
Stock-based compensation	-	(15)	312
Net (gains) losses on commodity derivative contracts	15,167	(45,512)	33,124
Net cash settlement received (paid) on commodity derivative contracts	(3,137)	8,127	(7,701)
Loss on other derivatives	-	-	5,550
Gain on termination of Sanchez Resources debt	-	(22,682)	-
Loss on investments	182	3,028	4,786
Loss on sale of inventory	-	-	143
Loss on impairment of investment	-	-	7,281
Loss on other asset impairment	-	-	11,755
Loss on impairment of right of use assets	-	33,672	4,831
Cash Adjustment - Deconsolidation of UnSub	-	(23,626)	-
Equity Adjustment - Deconsolidation of UnSub	-	189,634	-
Amortization of deferred financing costs	185	1,301	9,251
Accretion of debt interest	11,489	-	1,019
Reorganization items - non-cash	-	(2,212,417)	39,238
Changes in operating assets and liabilities			
Accounts receivable	18,257	(1,945)	39,709
Accounts payable - related entities	4,069	(3,809)	3,934
Other current assets	(6,906)	6,943	10,926
Other assets	2,566	7,550	(20,164)
Accounts payable	(8,397)	20,945	(16,882)
Other payables	10,790	(22,406)	(34,780)
Accrued liabilities	(21,449)	(39,333)	81,711
Other current liabilities	(3,547)	(7,736)	(32,743)
Net cash provided by (used in) operating activities	7,470	(100,666)	101,861
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for development of oil and natural gas properties	(2,886)	(45,963)	(135,127)
Acquisitions of oil and natural gas properties	(57,151)	-	-
Proceeds from sale of oil and natural gas properties	5,416	1	-
Receipts (payments) for sales and purchases of other assets	(185)	398	(562)
Proceeds from sale of other assets	6,544	-	5,199
Net cash used in investing activities	(48,262)	(45,564)	(130,490)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings, including borrowings under DIP Facility	75,000	60,000	75,000
Repayment of borrowings	(3,252)	(29,260)	(18,443)
Financing costs, including costs for DIP Facility (Predecessor)	(1,993)	(2,950)	(13,089)
Cash paid to tax authority for employee stock-based compensation awards	-	-	(198)
Preferred unit distribution	-	-	(50,000)
Net cash provided by (used in) financing activities	69,755	27,790	(6,730)
Increase (decrease) in cash and cash equivalents	28,963	(118,440)	(35,359)
Cash and cash equivalents, beginning of period	43,814	162,254	197,613
Cash and cash equivalents, end of period	$ 72,777	$ 43,814	$ 162,254
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Asset retirement obligations	$ 12,113	$ (4,443)	$ 189
Change in accrued capital expenditures	$ (422)	$ (9,135)	$ (51,287)
SUPPLEMENTAL DISCLOSURE:			
Cash paid for interest	$ -	$ 2,103	$ 88,356
Cash paid for reorganization items	$ 30,898	$ 32,195	$ 28,743

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

Mesquite Energy, Inc.
Notes to Financial Statements

Note 1. Organization and Business

On August 11, 2019 (the "Petition Date"), Mesquite Energy, Inc. (formerly known as Sanchez Energy Corporation, or "Sanchez") and its subsidiaries SN Palmetto, LLC; SN Marquis, LLC; SN Cotulla Assets, LLC; SN Operating, LLC; SN TMS, LLC; SN Catarina, LLC ("SN Catarina"); Rockin L Ranch Company, LLC; SN EF Maverick, LLC ("SN Maverick"); SN Payables, LLC; and SN UR Holdings, LLC ("UR Holdings") (collectively, the "Debtors") filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy") in the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court"). Additional subsidiaries SN EF UnSub, LP ("UnSub"); SN EF UnSub GP, LLC ("UnSub GP"); SN EF UnSub Holdings, LLC ("UnSub Holdings"); SN Comanche Manager, LLC; Sanchez Resources, LLC ("Sanchez Resources"); SR TMS, LLC; SR Acquisition I, LLC ("SRAI"); SR Acquisition III; SN Services, LLC; SN Midstream, LLC; SN Terminal, LLC; and SN Capital, LLC (collectively, the "Non-debtors"), did not file for bankruptcy but were still considered and reported as consolidated subsidiaries by Sanchez as of such date.

On April 30, 2020 (the "Confirmation Date"), the Bankruptcy Court confirmed the Sanchez Plan of Reorganization (the "Plan") which, among other things, resolved certain of Sanchez's pre-petition obligations, set forth a revised capital structure of the newly reorganized entity and provided for corporate governance subsequent to the exit from Bankruptcy. On June 30, 2020 (the "Effective Date"), the Plan became effective, and the Debtors emerged from Bankruptcy (upon emergence, the "Reorganized Debtors").

Following the Debtors' successful emergence from Bankruptcy on the Effective Date, Sanchez Energy Corporation was renamed as Mesquite Energy, Inc., a corporation organized and existing under the laws of the State of Delaware (together with its consolidated subsidiaries, "Mesquite," the "Company," "our," "we," "us," "Successor" or similar terms). We are a privately held independent oil and natural gas exploration and production company focused on the development of our properties in the Eagle Ford Shale in South Texas, with our corporate office located in Houston, Texas.

Our primary oil and natural gas fields, which we operate, are the Comanche field, Catarina field and Maverick field. The Comanche consists of producing wells and acreage in Dimmit, Webb, La Salle, Zavala and Maverick counties, Texas, where we own an approximate 40% leasehold working interest as December 31, 2020. The Catarina field consists of producing wells and acreage in Dimmit, La Salle and Webb counties, Texas, where we own a 100% working interest as of December 31, 2020. The Maverick field consists of producing wells and acreage in Dimmit, Frio, La Salle and Zavala counties, Texas, where we own an approximate 98% working interest as of December 31, 2020.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Comparability of Financial Statements to Prior Periods

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 852, Reorganizations.

Topic 852, Reorganizations, requires that transactions and events directly associated with the Chapter 11 reorganization be distinguished from the ongoing operations of the business. Accordingly, the Company reported all expenses, realized gains and losses and provisions for losses associated with the reorganization of the business in Reorganization items on the consolidated statements of operations.

Fresh Start Accounting

In accordance with the foregoing, on the Effective Date, the Company adopted fresh start accounting (discussed below under Note 3. "Fresh Start Accounting, Successor Equity and Reorganization Value"), which resulted in the Company becoming a new entity for financial reporting purposes. Upon the adoption of fresh start accounting, the Reorganized Debtors' assets and liabilities were recorded at their fair values as of the Effective Date, which differed materially from the recorded values of the assets and liabilities as reflected in the Company's historical consolidated balance sheets. The effects of the Plan and the application of fresh start accounting to the Reorganized Debtors' assets and liabilities were reflected in the Company's consolidated financial statements as of the Effective Date, and the related adjustments thereto were recorded in the consolidated statements of operations as Reorganization items for the period from January 1, 2020 through the Effective Date.

UnSub Deconsolidation

On May 1, 2020, following a tolling period for certain actions and remedies, UnSub GP sent a letter to Sanchez notifying Sanchez that a purported "Investor Redemption Event" under the GP LLC Agreement had occurred. In connection therewith, UnSub GP asserted that GSO ST Holdings Associates LLC ("GSO"), the holder of the Class B units of UnSub, was entitled and sought to designate two additional directors to the board of directors of UnSub GP (the "GP Board"), shifting majority control of the GP Board from Sanchez to GSO. The Company has identified the loss of control of the GP Board on May 1, 2020 as a triggering event for the exclusion (deconsolidation) of UnSub from the Company's consolidated financial statements. However, despite the loss of majority control of the GP Board, the Company still retained certain minority rights and influence over UnSub. Accordingly, upon deconsolidation, the Company has determined to account for the investment in UnSub as an equity method investment that should be recorded at fair value upon deconsolidation. As a result, the Company's consolidated financial statements reflect UnSub as a consolidated subsidiary through April 30, 2020, and beginning May 1, 2020, as an equity method investment. Utilizing a discounted cash flow analysis based on certain market and other available information, management's estimate of the fair value of its investment in UnSub on May 1, 2020 was approximately zero, and a loss on the deconsolidation of UnSub of approximately $189.6 million was recorded as Other expense on the statements of operations.

Incomparability of Results to Prior Periods

For the reasons described above, including implementation of the Plan, the Company's consolidated financial statements subsequent to the Effective Date will not be comparable to the Company's consolidated financial statements prior to the Effective Date. The consolidated financial statements and related discussion of material recent events are presented with a black line division which delineates the lack of comparability between amounts presented. References to "Successor" relate to the Company (including the Reorganized Debtors and Non-debtors) on and subsequent to the Effective Date, and references to "Predecessor" relate to the Sanchez consolidated subsidiaries (including the Debtors and Non-debtors) prior to the Effective Date. In addition, the Company's consolidated financial statements subsequent to May 1, 2020 will not be comparable to the Company's consolidated financial statements prior to May 1, 2020 as UnSub, and its subsidiaries, are accounted for as consolidated Non-debtor subsidiaries prior to this date, and as an equity method investment with an initial estimated fair value of zero after this date.

Principles of Consolidation

The Company's consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments." This ASU modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in a more timely recognition of losses, if applicable. In November 2019, the FASB issued ASU 2019-10, "Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates" which provided a delayed implementation date for the new standard and is effective for private business entities for annual and interim periods in fiscal years beginning after December 15, 2022, and earlier adoption is permitted. We are currently in the process of evaluating the impact of adoption of this guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," effective for annual and interim periods for private companies beginning after December 15, 2019. Additionally, in July 2018, the FASB issued ASU 2018-10, "Codification Improvements to ASC 842 (Leases)," which provides narrow amendments to clarify how to apply certain aspects of ASU 2016-02. The Company plans on electing the practical expedients disclosed in ASU 2018-10. The effective date in ASU 2018-10 is the same as that of ASU 2016-02. The standards update the previous lease guidance by requiring the recognition of a right-of-use ("ROU") asset and lease liability on the statement of financial position for all leases with lease terms of more than 12 months. The lease liability represents the discounted obligation to make future minimum lease payments and the corresponding ROU asset represents the lessee's right to use, or control the use of, a specified asset for the lease term. Recognition, measurement and presentation of expenses and cash flows arising from a lease will depend on classification as a finance or an operating lease. Sanchez implemented the new standard on January 1, 2019 along with the implementation of a new lease accounting software program. The processes and controls surrounding "Leases (Topic 842)" were in place upon emergence from Bankruptcy, and currently remain in place. Sanchez elected the package of practical expedients, permitted under "Leases (Topic 842)," which allowed us to not reassess under the new standard our prior conclusions regarding lease identification, lease classification and initial direct costs, the practical expedient to not separate lease and non-lease components for all of our existing lessee arrangements, and to elect an accounting policy to not apply the recognition requirements of "Leases (Topic 842)" to our short-term leases. We did not elect the practical expedient for use of hindsight in determining the lease term and assessing impairment of our ROU assets as it did not have a material impact upon implementation. Adoption of "Leases (Topic 842)" resulted in the recognition of ROU assets and lease liabilities for operating leases on the balance sheet and the derecognition of the deferred gain previously recorded on a sale-leaseback transaction as a cumulative effect adjustment to retained earnings on January 1, 2019. Amounts recognized on January 1, 2019 for operating leases were as follows (in thousands):

	December 31, 2018	Adjustments due to Leases (Topic 842)	January 1, 2019
ROU assets	$ —	$ 344,472	$ 344,472
Short term lease liabilities	—	99,693	99,693
Other current liabilities	75,581	(23,720)	51,861
Long term lease liabilities	—	246,746	246,746
Other long term liabilities	21,407	(20,745)	662
Accumulated deficit	(1,812,884)	42,499	(1,770,385)

No impact was recorded to the consolidated statement of operations as of January 1, 2019 related to the adoption of "Leases (Topic 842)."

Use of Estimates

The accompanying financial statements are prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of (a) assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and (b) the reported amounts of revenues and expenses during the reporting period. The most significant items subject to such estimates and assumptions relate to proved oil and natural gas reserves and related cash flow estimates used in the depletion and impairment of oil and natural gas properties, the evaluation of unproved properties for impairment, the fair value of commodity derivative contracts and asset retirement obligations and accrued oil, natural gas and natural gas liquids ("NGL") revenues and expenses. Actual results could differ materially from those estimates.

Oil and Natural Gas Properties

The Company's oil and natural gas properties are accounted for using the successful efforts method of accounting. All direct costs and certain indirect costs associated with the acquisition and successful exploration and development of oil and natural gas properties are capitalized. Once evaluated, these costs, as well as estimated costs to retire the assets, are included in the amortization base and amortized to depletion expense using the units-of-production ("UOP") method. Depletion is calculated based on estimated proved oil and natural gas reserves. The sale or disposition of oil and natural gas properties results in a gain or loss, unless the sale or disposition does not cause a significant change in the relationship between costs and the estimated quantities of proved reserves, in which case the proceeds are applied to reduce net capitalized costs.

Depreciation, depletion and amortization—Depreciation, depletion and amortization ("DD&A") is calculated using the UOP method based upon estimates of proved oil, natural gas and NGL reserves, with oil, natural gas and NGL production converted to a common unit of measure based upon their relative energy content. All capitalized costs of oil and natural gas properties are amortized using the UOP method based on proved reserves. Investments in unproved properties are not amortized until proved reserves associated with the projects can be determined. Once the assessment of unproved oil and natural gas properties is complete, the costs previously excluded from amortization are transferred to proved oil and natural gas properties and then amortized over time.

In arriving at depletion rates under the UOP method, the quantities of recoverable oil and natural gas reserves are established based on estimates made by internal and third-party petroleum engineers and geologists, which require significant judgment along with the projection of future production volumes and levels of future costs. All of these judgments, considered individually and in the aggregate, may have a significant impact on the calculation of depletion expense.

Impairment of Oil and Natural Gas Properties—Capitalized costs (net of accumulated DD&A and impairment) of proved oil and natural gas properties are subjected to an impairment test when facts and circumstances indicate that their carrying value may not ultimately be recoverable. Net capitalized costs of proved oil and natural gas properties are compared to estimated undiscounted future net cash flows using management's expectations of future oil and natural gas prices. If net capitalized costs exceed estimated undiscounted future net cash flows, the measurement of impairment is based on estimated fair value, using estimated discounted future net cash flows. The estimated future cash flows used to determine whether an impairment is present and the related fair value calculations are typically based on assessments of future production, commodity prices, operating expenses and capital expenditures utilizing available information. The underlying commodity prices used in preparing the estimated cash flows are derived from a calculation that applies adjustments to NYMEX forward curve for estimated location and quality differentials, as well as other factors that are expected to impact the realizable price. Asset impairment evaluations are, by nature, highly subjective and involve expectations about future cash flows generated by our assets and reflect management's assumptions and judgments regarding future industry conditions. The use of different estimates and assumptions could result in materially different carrying values of our assets. We did not record proved property impairment to oil and natural gas properties during the six months ended December 31, 2020. During the six months ended June 30, 2020 and the year ended December 31, 2019, the Predecessor recorded proved property impairments of $475.2 million and $1,109.8 million, respectively, due to decreases in the NYMEX forward curve prices for each respective period.

Unproved Properties—Costs associated with unproved properties and properties under development are excluded from the amortization base until the properties have been sufficiently evaluated. Additionally, the costs associated with acquiring and maintaining leasehold acreage and for wells currently being drilled are also initially excluded from the amortization base. Unproved properties are identified on a project basis, with a "project" defined as an area which includes significant contiguous leasehold interests. Unproved properties are reviewed periodically by management and transferred into the amortization base when management determines that a project area has been sufficiently evaluated through drilling operations or through geologic assessment. If the results of an assessment indicate that the properties are impaired, the carrying amount of the identified unproved properties are reduced to their fair value. We did not record any material impairments to our unproved oil and natural gas properties during the six months ended December 31, 2020. During the six months ended June 30, 2020 and the year ended December 31, 2019, the Predecessor recorded unproved property impairments of $41.8 million and $87.2 million, respectively, due to acreage expirations.

Oil and Natural Gas Reserve Quantities

The Company's most significant estimates relate to its quantities of recoverable oil and natural gas reserves made by internal and third-party petroleum engineers and geologists. The estimates of oil and natural gas reserves as of December 31, 2020 and 2019 are based on reports prepared by a third-party engineering firm, Ryder

Scott Company, L.P. (“Ryder Scott”). Ryder Scott has prepared the Company’s third-party reserve estimates since 2008.

Estimates of proved reserves are based on the quantities of oil and natural gas that engineering and geological analyses demonstrate, with reasonable certainty, to be recoverable from established reservoirs in the future under current operating and economic parameters. Ryder Scott prepared a reserve and economic evaluation of the Company’s properties, utilizing information provided by management and other available information.

Reserves and their relation to estimated future net cash flows impact the depletion and impairment calculations. As a result, adjustments to depletion and impairment are made concurrently with changes to reserve estimates. The reserve estimates and the projected cash flows derived from these reserve estimates are prepared in accordance with Securities and Exchange Commission (“SEC”) guidelines. Ryder Scott adheres to these guidelines when preparing our reserve reports. The accuracy of the reserve estimates is a product of many factors, including the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgments of individuals preparing the estimates, all of which could deviate significantly from actual results. As such, reserve estimates may vary materially from the actual quantities of oil and natural gas ultimately recovered over time.

Asset Retirement Obligations

Asset retirement obligations represent the present value of the estimated cash flows expected to be incurred to plug, abandon and remediate producing properties, excluding salvage values, at the end of their productive lives in accordance with applicable laws. The significant unobservable inputs to this fair value measurement include estimates of plugging, abandonment and remediation costs, well life, inflation and the credit-adjusted risk-free interest rate. The inputs are based on historical data as well as current estimates. To estimate the fair value of an asset retirement obligation, we perform present value calculations. Changes in timing or changes to the original estimate of cash flows will result in a change to the carrying amount of the liability.

Revenue Recognition

We recognize revenue from the sale of oil, natural gas and NGLs in the period that the performance obligations are satisfied in accordance with ASC 606. Our performance obligations are primarily comprised of the delivery of oil, natural gas or NGLs at specified delivery points. Each barrel of oil, MMBtu of natural gas or other unit of measure is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligations are satisfied at a point in time once control of the product has been transferred to the customer through monthly delivery of oil, natural gas and NGLs.

Our primary market risk exposure relates to the prices we receive for our oil, natural gas and NGL production. The prices we ultimately realize for our oil, natural gas and NGLs are based on a number of variables, including prevailing index prices attributable to our production and certain differentials to those index prices. Pricing for oil, natural gas and NGLs is volatile and inherently unpredictable, and this volatility is expected to continue in the future. In addition, the prices we receive for our oil, natural gas and NGLs depend on many factors outside of our control, such as the supply and demand for oil, natural gas and NGLs, the relative strength of the domestic and global economies, various geopolitical factors and the actions of the Organization of Petroleum Exporting Countries, among others. A sustained decline in or periods of low commodity prices could limit our oil, natural gas and NGL revenues, which could significantly affect our operating results. We cannot predict whether, when, the manner in or the extent to which the economic and geopolitical conditions described above will change or their ultimate effects.

The majority of the Company’s receivables arise from sales of oil, natural gas or NGLs. The Company does not have any off-balance sheet credit exposure related to its customers. Receivables from the sale of oil, natural gas and NGLs are generally unsecured. Allowances for doubtful accounts are determined based on management’s experience and assessment of the creditworthiness of the individual customers. Receivables are considered past due if full payment is not received by the contractual due date. Past due accounts are written off against the allowance for doubtful accounts only after all reasonable collection attempts have been exhausted. As of

December 31, 2020 and 2019, management believed that all balances were fully collectible and no allowance for doubtful accounts was deemed necessary.

Leases

The Company determines if a contractual arrangement is a lease at inception. Operating leases are included in ROU assets, Short-term lease liabilities and Long-term lease liabilities in the consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments for the use of such assets arising from the lease. Operating lease ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. To determine the present value of lease payments, the Company uses the implicit rate prescribed by the respective leases, where available. However, most of the Company's leases do not provide an implicit rate; in such cases, the Company uses its estimated incremental borrowing rate based on information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company gives consideration to various factors, including the terms of the Company's outstanding debt instruments, publicly available data for instruments with similar characteristics and other information, together with internally prepared estimates, assumptions and judgment to determine the Company's incremental borrowing rate for purposes of making these calculations. Changes in the assumption for the discount rate will result in changes to the carrying values of the ROU assets and lease liabilities.

In cases where lease agreements have lease and non-lease components, such arrangements are accounted for as a single lease component.

Note 3. Fresh Start Accounting, Successor Equity and Reorganization Value

Upon emergence from Bankruptcy on the Effective Date, the Predecessor qualified for and applied fresh start accounting to the Predecessors' financial statements in accordance with the provisions set forth in ASC 852, as (i) the holders of existing voting shares of the Predecessor prior to emergence received less than 50% of the voting shares of the Successor following emergence from Bankruptcy, and (ii) the Reorganization Value (defined below) of the Predecessors' assets immediately prior to confirmation of the Plan was less than the Successors' post-petition liabilities and allowed claims.

Adopting fresh start accounting results in a new reporting entity for financial reporting purposes with no beginning value of retained earnings or deficit. The cancellation of all outstanding pre-existing shares in the Predecessor on the Effective Date and issuance of new shares in the Successor caused a related change of control under U.S. GAAP.

The outstanding common and preferred shares of the Predecessor were cancelled, and substantially all of the new Common Stock (defined below in Note 5. "Equity") was issued in the form of common shares to the Predecessor's creditors, who thereby became the Company's shareholders. Accordingly, the holders of the Predecessor's common and preferred shares effectively received no shares of the Successor. Please see Note 5. "Equity" for important information regarding the equity distribution.

The value of the Successor's equity was based on an independent assessment of enterprise value, which generally represents the estimated aggregate fair value of an entity's long-term debt and shareholders' equity. The independent assessment of enterprise value was derived using an asset-based valuation methodology, which considered estimated proved reserves, undeveloped acreage, financial projections and other information, taken in light of various assumptions, and applied a combination of the income, cost and market approaches as of the fresh start reporting date of July 1, 2020. The Company's principal assets are its oil and natural gas properties. For purposes of estimating the fair value of the Company's proved reserves, an income approach was used, which estimated fair value based on the anticipated cash flows associated with the Company's reserves, using weighted average commodity prices derived from forward strip pricing as of July 1, 2020, discounted at a weighted average cost of capital rate of approximately 11%. The proved reserve locations were limited to proved developed producing wells only. A market approach was used to estimate the fair value of the Company's unproved acreage, which based fair value on recent market transactions involving properties in a similar geographical location. Although the Company believes the assumptions and estimates used to develop enterprise value are reasonable and appropriate, different assumptions and estimates could materially impact the analysis and resulting conclusions. The assumptions used in estimating these values are inherently uncertain and require judgment.

As disclosed in the Debtor's Disclosure Statement filed with the Bankruptcy Court, the enterprise value of the Company was estimated to be within a range of approximately $65 million to $95 million. An enterprise value of $85 million was agreed among the constituent parties and confirmed in the Plan by the Bankruptcy Court. Management identified various assets and liabilities that were assumed to be zero in the calculation of the enterprise value, such as net working capital (inclusive of cash). As of the Effective Date, the value of the net working capital (inclusive of cash) was a net liability of approximately $2.6 million. For purposes of fresh start accounting, the Company added the value of these net liabilities to the $85 million Enterprise Value confirmed in the Plan to derive an adjusted Enterprise Value of approximately $82.4 million. Accordingly, the Company utilized an initial enterprise value of $82.4 million (the "Enterprise Value") for purposes of fresh start accounting and the related determinations.

"Reorganization Value" is derived from the Enterprise Value and represents the fair value of the Successor's total assets and is intended to approximate the amount a willing buyer would pay for the assets immediately after restructuring. Under fresh start accounting, the Reorganization Value was allocated to the Successors' individual assets based on their estimated fair values. The following table reconciles the Successor's equity value to the Reorganization Value of the Successor's assets as of the Effective Date (in thousands):

Enterprise Value	$	82,410
Current liabilities		121,710
Asset retirement obligations		18,459
Right of use liability - short-term		71,891
Right of use liability - long-term		100,000
Other long-term liabilities		3,253
Reorganization Value	$	397,723

The following table reflects the reorganization and fresh start accounting adjustments to the Successor's condensed consolidated balance sheet as of the Effective Date (in thousands):

	Predecessor June 30, 2020	Reorganization Adjustments		Fresh Start Adjustments		Successor June 30, 2020
Current assets:						
Cash and cash equivalents	$ 82,192	$ (38,378)	(a)	$ -		$ 43,814
Restricted cash	-	38,378	(a)			38,378
Investments	-	-		-		-
Oil and natural gas receivables	11,753	-		3,817	(f)	15,570
Joint interest billings receivables	18,874	-		(243)	(f)	18,631
Other current assets	3,300	(572)	(b)	-		2,728
Total current assets	116,119	(572)		3,574		119,121
Oil and natural gas properties, at cost, using the successful efforts method:						
Proved oil and natural gas properties	2,998,001	-		(2,925,943)	(g)	72,058
Unproved oil and natural gas properties	110,057	-		(107,492)	(g)	2,565
Total oil and natural gas properties	3,108,058	-		(3,033,435)		74,623
Less: accumulated depreciation, depletion, amortization and impairment	(2,776,748)	-		2,776,748	(g)	-
Total oil and natural gas properties, net	331,310	-		(256,687)		74,623
Investments - long term	1,569	-		(22)	(f)	1,547
Investments in subsidiaries	-	-		-		-
Other assets	36,543	(2,559)	(b)	(1,795)	(f)	32,189
Right of use assets, net of amortization and impairment	170,243	-		-		170,243
Total assets	**$ 655,784**	**$ (3,131)**		**$ (254,930)**		**$ 397,723**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$ 24,778	$ -		$ -		$ 24,778
Accounts payable - related entities	4,130	-		3,904	(f)	8,034
Other payables	10,493	-		-		10,493
Accrued liabilities	72,102	(5,667)	(b)	-		66,435
Short-Term DIP Financing	-	-		-		-
Other current liabilities	11,970	-		-		11,970
Right of use liability - short-term	71,891	-		-		71,891
Total current liabilities	**195,364**	**(5,667)**		**3,904**		**193,601**
Long term debt, net of discount and debt issuance costs	3,253	-		-		3,253
Asset retirement obligations	36,662	-		(18,203)	(h)	18,459
Liabilities subject to compromise	2,457,648	(2,457,648)	(c)	-		-
Right of use liability - long-term	100,000	-		-		100,000
Total liabilities	**2,792,927**	**(2,463,315)**		**(14,299)**		**315,313**
Stockholders' equity:						
Predecessor preferred stock	21	-		(21)	(i)	-
Predecessor common stock	1,037	-		(1,037)	(i)	-
Predecessor additional paid-in capital	1,371,663	-		(1,371,663)	(i)	-
Successor common stock	-	2	(d)	-		2
Successor additional paid-in capital		82,408	(d)	-		82,408
Stockholders' equity (deficit)	(3,509,864)	2,377,774	(e)	1,132,090	(j)	-
Total stockholders' equity (deficit)	(2,137,143)	2,460,184		(240,631)		82,410
Total liabilities and stockholders' equity (deficit)	**$ 655,784**	**$ (3,131)**		**$ (254,930)**		**$ 397,723**

(a) Reflects the funding of an escrow account for professional fees associated with the Bankruptcy.

(b) Reflects the elimination of prepaid items, including the prepaid Sanchez directors and officers' insurance policies and accrued dividends on preferred stock issued by the Predecessor.

(c) Upon filing for bankruptcy protection, certain claims against the Debtors were stayed pending resolution of the amount of consideration the claimants would receive in the reorganization process. The Debtors recorded their estimate of the total amount of valid claims that were expected not to be paid in full as "liabilities subject to compromise," which included debtor-in-possession ("DIP") financing that became impaired prior to the Effective Date.

Liabilities subject to compromise that were settled in the reorganization process consisted of the following prior to the Effective Date (in thousands):

7.75% Senior Notes	$	607,233
6.125% Senior Notes		1,190,306
7.25% Senior Notes		450,000
Debtor-in-possession financing		150,000
Preferred stock dividends payable		3,900
Accounts payable		12,500
Accrued liabilities and other		43,709
Total liabilities subject to compromise	$	2,457,648

(d) The reorganized Company issued shares of new common stock in settlement of certain liabilities subject to compromise. The value of the new common stock is equal to the adjusted Enterprise Value of $82.4 million.

(e) Reflects the impact on Retained earnings from reorganization adjustments as follows (in thousands):

Liabilities subject to compromise settlement	$	2,457,648
Other reorganization adjustments		2,536
Fair value of equity issued to claimholders		(82,410)
Gain on extinguishment of debt	$	2,377,774

(f) Reflects adjustments to bring certain assets, including other non-oil and gas receivables, joint interest billing receivables and contractual linefill, to their fair values as of the Effective Date.

(g) Reflects adjustments to net book values of oil and natural gas properties to record estimated fair values in accordance with fresh start accounting. The fair value of proved properties was determined using the discounted cash flow model under the income approach, and the fair value of unproved properties was determined using the market approach, both as further discussed above.

(h) Reflects adjustments to asset retirement obligation to record estimated fair values in accordance with fresh start accounting. The fair value was determined utilizing the Company's estimate of a credit-adjusted risk-free rate under required U.S. GAAP methodologies.

(i) Reflects cancellation of the Predecessor's equity.

(j) Fresh start adjustments reset accumulated deficit for the Successor to zero.

Reorganization Items

"Reorganization items" represent the direct and incremental costs of bankruptcy, such as professional fees, liabilities subject to compromise adjustments and gains or losses related to rejecting contracts. Unamortized deferred financing costs, premiums and discounts associated with debt classified as liabilities subject to compromise were expensed to Reorganization items to reflect the expected amounts of the probable allowed claims. Reorganization items consist of the following for the periods indicated (in thousands):

	Successor	**Predecessor**	**Predecessor**
	Six Months Ended December 31, 2020	Six Months Ended June 30, 2020	Year Ended December 31, 2019
Liabilities subject to compromise settlement	$ -	$ 2,457,648	$ -
Loss on revaluation of assets in fresh start accounting	-	(240,631)	-
Professional fees	(29,254)	(29,593)	(37,502)
DIP financing issuance costs and related fees	-	(4,245)	(44,774)
Other reorganization adjustments	-	2,536	-
Total Reorganization items	$ (29,254)	$ 2,185,715	$ (82,276)

Note 4. Debt

Series 1 and 2 Notes

On July 10, 2020, in order to provide financing for the Company after emergence from Bankruptcy, Mesquite entered into an indenture with Wilmington Savings Fund Society (“WSFS”), as Trustee, for $30 million aggregate principal amount of 15% Convertible Secured PIK Notes due 2023 and issued and sold such notes to certain qualified institutions. With respect to each quarter during which such notes are outstanding, holders of the notes will be issued additional notes for the relevant interest, accrued and compounded for the prior quarterly period, rounded down to the nearest whole dollar (the “Series 1 Additional Notes,” and together with the $30 million 15% Convertible Secured PIK Notes and related indenture, the “Series 1 Notes”). The Series 1 Notes will mature on July 15, 2023. The Company is required to repurchase the Series 1 Notes under certain circumstances, including due to a (1) Lien-Related Litigation Mandatory Redemption Event, (2) Redemption upon an Acceleration Event, (3) Repurchase at Option of Holders Upon a Fundamental Change or (4) Redemption at Option of the Company, in each case as such terms are defined in and subject to the terms of the Series 1 Notes.

Upon the closing and funding of the initial Series 1 Notes, a 5% PIK commitment fee and 5% PIK backstop fee on the $30 million committed aggregate principal amount were fully earned and added to the principal of the Series 1 Notes.

On November 10, 2020, in order to finance a portion of the Gavilan Acquisition (defined below), Mesquite entered into an amended and restated indenture with WSFS, as Trustee, for an additional $45 million aggregate principal amount of 15% Convertible Secured PIK Notes due 2023 and issued and sold such notes to certain qualified institutions. With respect to each quarter during which such notes are outstanding, holders of the notes will be issued additional notes for the relevant interest, accrued and compounded for the prior quarterly period, rounded down to the nearest whole dollar (the “Series 2 Additional Notes,” together with the $45 million 15% Convertible Secured PIK Notes and the related indenture, the “Series 2 Notes,” and together with the Series 1 Notes, the “Series 1 and 2 Notes”).

Upon the closing and funding of the initial Series 2 Notes, a 10% PIK commitment fee on the $45 million committed aggregate principal amount was fully earned and added to the principal of the Series 2 Notes, and a financing fee in the form of 2,812,500 Common Shares (defined in Note 5. “Equity”) was paid to the initial purchasers of the Series 2 Notes (the “Financing Fee”). The Company estimated the fair value of the Financing Fee to be approximately $9.5 million and accounted for the Financing Fee as a discount to the face value of the Series 2 Notes, which discount will be amortized over the term of the Series 2 Notes as interest expense. For the six months ended December 31, 2020, the Company recognized interest expense of approximately $0.5 million related to the amortization of the Financing Fee, which is included in Interest expense on the consolidated statements of operations.

The Series 1 and 2 Notes allow for conversion of all or a portion of the Series 1 and 2 Notes into Common Stock, at the election of the holders, if a Fundamental Change occurs (as defined in the indenture for the Series 1 and 2 Notes).

The indenture for the Series 1 and 2 Notes also provides for other limitations on certain fundamental transactions, dispositions and distributions.

For the six months ended December 31, 2020, the Company accrued interest and issued as PIK interest Series 1 Additional Notes and Series 2 Additional Notes of approximately $3.6 million.

SR Credit Agreement

In 2017, Sanchez acquired Sanchez Resources and its wholly-owned subsidiaries SRAI and SR TMS, LLC, which owned oil and natural gas properties in Louisiana and Mississippi, and SR Acquisition III, which held no material assets. At the time of acquisition, SRAI owed approximately $24.0 million in borrowings under an existing revolving credit facility. On November 16, 2018, SRAI’s credit facility was amended and restated to convert the outstanding revolving loan to a term loan and extend the maturity date to October 31, 2022 (the “SR Credit

Agreement”). As of December 31, 2019, there was approximately $22.8 million outstanding under the SR Credit Agreement.

In June 2020, the properties owned by SRAI were sold for de minimis consideration in the Sanchez Resources Sale (as defined and discussed further in Note 9. “Acquisitions and Divestitures”) and a termination and settlement payment of $0.1 million was made to the lender under the SR Credit Agreement to extinguish the remaining loan balance. The termination of the SR Credit Agreement represents an extinguishment of debt under the troubled debt restructuring guidance, which resulted in the Predecessor recognizing a gain from extinguishment of debt of approximately $23.4 million (inclusive of approximately $0.6 million of accrued interest) that is included in Other expense on the consolidated statements of operations.

UnSub Credit Agreement

On March 1, 2017, UnSub, as borrower, entered into a credit agreement for a $500 million revolving credit facility with JP Morgan Chase Bank, N.A. as the administrative agent and the lenders party thereto with a maturity date of March 1, 2022 (the “UnSub Credit Agreement”). The initial borrowing base amount under the UnSub Credit Agreement was $330 million. Additionally, the UnSub Credit Agreement provides for the issuance of letters of credit, generally limited in the aggregate to the lesser of $50 million and the total availability under the borrowing base. Availability under the UnSub Credit Agreement is at all times subject to customary conditions and the then-applicable borrowing base, which is subject to periodic redetermination. As of December 31, 2019, there were approximately $150.0 million of borrowings and no letters of credit outstanding under the UnSub Credit Agreement. Upon deconsolidation of UnSub, as of April 30, 2020, there were approximately $156.0 million of borrowings and no letters of credit outstanding under the UnSub Credit Agreement. The UnSub Credit Agreement is non-recourse to Mesquite and, following the deconsolidation, is no longer reflected in the Company’s financial statements.

Interest Expense

As of the Petition Date, the Debtors discontinued recording interest on debt instruments classified as subject to compromise. The contractual interest on liabilities subject to compromise not reflected in the consolidated statements of operations as of June 30, 2020 and December 31, 2019 was approximately $58.5 million and $45.3 million, respectively, representing interest expense from the Petition Date.

The components of interest expense are (in thousands):

	Successor	Predecessor	Predecessor
	Six Months Ended December 31, 2020	Six Months Ended June 30, 2020	Year Ended December 31, 2019
Interest Expense	$ (11,530)	$ (9,021)	$ (121,802)
Amortization of debt issuance costs	(185)	(1,301)	(9,251)
Total interest expense	$ (11,715)	$ (10,322)	$ (131,053)

For the six months ended December 31, 2020, we had approximately $2.1 million in unamortized debt issuance costs and approximately $8.6 million in unamortized discount that reduce the face value of the Series 1 and 2 Notes on the consolidated balance sheet.

As of December 31, 2020, we had approximately $86.1 million of borrowings outstanding under the Series 1 and 2 Notes.

Note 5. Equity

Common Equity

On the Effective Date, per the Plan, the Company issued 20%, or 2,000,000, of the 10,000,000 authorized common shares, par value $0.001 per share (the “Common Stock” or “Common Shares”) to the lenders under Sanchez’s Amended and Restated Senior Secured Debtor-In-Possession Term Loan Credit Agreement, which constituted 100% of the Common Stock issued on the Effective Date. The remaining 80%, or 8,000,000, of the 10,000,000 authorized Common Shares, as of the Effective Date, are subject to issuance and distribution to Holders of Allowed Claims in Classes 3, 4 and/or 5 as ordered by the Bankruptcy Court in connection with adjudication or other resolution of the Lien-Related Litigation (as defined in the Plan). Accordingly, as the Lien-Related Litigation had not been fully adjudicated or resolved as of the Effective Date, the Company had only the 2,000,000 Common Shares described above outstanding at such time. The Company calculated the value of the Common Shares issued on the Effective Date by utilizing the adjusted Enterprise Value and recorded $2,000 as Common stock on the consolidated balance sheet, which was calculated as 2,000,000 Common Shares issued multiplied by the par value of $0.001 per Common Share. The remaining equity value of $82.4 million, which agrees to the adjusted Enterprise Value, was recorded to Additional-paid-in capital on the consolidated balance sheet.

On November 5, 2020, the Company amended its Certificate of Incorporation with the Delaware Secretary of State to increase the total number of Common Shares that the Company is authorized to issue to 50,000,000. On November 10, 2020, the Company issued 2,812,500 Common Shares for the Financing Fee, as discussed in "Note 4. Debt." As of December 31, 2020, the Company had 50,000,000 Common Shares authorized and 4,812,500 Common Shares outstanding, and the Lien-Related Litigation had not been fully adjudicated or resolved. The Company has no preferred stock outstanding.

The Common Shares are entitled to one vote per share in matters submitted to a vote of stockholders, have no liquidation preference, and have no right to dividends unless declared by the Board of Directors.

As of December 31, 2020, no dividends have been declared or paid by Mesquite to holders of the Common Shares.

Cancellation of Predecessor Equity

Prior to the Effective Date, the Predecessor had various classifications of equity outstanding, including common shares, preferred stock that was convertible into shares of common stock, and restricted shares of common stock that vested upon certain conditions (collectively, the "Predecessor Equity"). In accordance with the Plan, the Predecessor Equity was cancelled and written off on the Effective Date. The adjustments related to the write-off of the Predecessor Equity are considered fresh start adjustments and included in Reorganization items on the consolidated statements of operations (see additional disclosure in Note 3. "Fresh Start Accounting, Successor Equity and Reorganization Value").

UnSub Preferred Unit Issuance

In March 2017, affiliates of GSO (the "GSO Funds") purchased 485,000 preferred units of UnSub for $485.0 million and Intrepid Private Equity V-A, LLC purchased 15,000 preferred units of UnSub for $15.0 million (in aggregate, the "UnSub Preferred Units"). In addition, UnSub Holdings, a subsidiary of UR Holdings, purchased 100,000 common units of UnSub for $100.0 million. The applicable parties entered into an amended and restated partnership agreement of UnSub (the "Partnership Agreement") and the GP LLC Agreement.

Under the terms of the Partnership Agreement, holders of the UnSub Preferred Units are entitled to receive distributions of 10.0% per annum, payable quarterly in cash, unless a cash payment is then prohibited by certain of UnSub's debt agreements, in which case such distribution will be deemed to have been paid in kind. UnSub may not make distributions on its common units until the preferred units are redeemed in full.

The UnSub Preferred Units have priority over the common units, to the extent of the Base Return (as defined below), upon a liquidation, sale of all or substantially all assets, certain change of control and exit transactions.

UnSub may, from time to time and subject to the conditions set forth in the Partnership Agreement and the UnSub Credit Agreement, redeem UnSub Preferred Units at a purchase price per unit sufficient to achieve the greater of (i) the amount required to cause the return on investment with respect to each such UnSub Preferred Unit to be equal to the product of (x) 1.5 multiplied by (y) the purchase price per unit and (ii) the amount required to cause the internal rate of return with respect to each UnSub Preferred Unit to be equal to 14.0%, in each case inclusive of previous distributions made in cash (the “Base Return”). Partners holding a majority of the UnSub Preferred Units have the option to request UnSub to redeem all of the preferred units for the Base Return at any time following the seventh anniversary of issuance or upon the occurrence of certain change of control transactions, as further described in the Partnership Agreement.

The UnSub Preferred Units were accounted for as mezzanine equity in the consolidated balance sheets, with carrying values of approximately $482.8 million as of December 31, 2019 and $506.6 million as of April 30, 2020, upon the deconsolidation of UnSub. The UnSub Preferred Units are non-recourse to Mesquite and, following the deconsolidation, are no longer reflected in the Company’s financial statements.

As discussed above in Note 2. “Basis of Presentation and Summary of Significant Accounting Policies,” following the deconsolidation, the Company accounts for its investment in UnSub as an equity method investment, which it wrote down to an estimated fair value of zero as of May 1, 2020.

Note 6. Revenue Recognition

Revenue from Contracts with Customers

We account for revenue from contracts with customers in accordance with ASC 606. The unit of account in ASC 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods or services) or a series of distinct goods or services provided over a period of time. ASC 606 requires that a contract’s transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, is to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (at a point in time) or as (over time) the performance obligation is satisfied.

ASC 606 provides additional clarification related to principal or agent considerations. We enter into marketing agreements with our non-operating partners to market and sell their share of production to third parties. We have determined that we act as an agent in such arrangements, which we account for on a net basis.

Certain of our contracts for the sale of commodities meet the definition of a derivative. We have elected the normal purchases and normal sales scope exception as provided by ASC 815, “Derivatives and Hedging,” and account for such contracts in accordance with ASC 606.

Disaggregation of Revenue

We recognized revenue of approximately $144.6 million for the six months ended December 31, 2020. The Predecessor recognized revenue of approximately $145.0 million for the six months ended June 30, 2020 and $728.4 million for the year ended December 31, 2019. We disaggregate revenue in our income statement based on product type, and we further disaggregate our revenue related to sales and marketing activities.

In selecting the disaggregation categories, we considered a number of factors, including disclosures presented outside the financial statements, such as information reviewed internally for evaluating performance, and other factors used by the Company or the users of its financial statements to evaluate performance or allocate resources. As such, we have concluded that disaggregating revenue by product type appropriately depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Oil, Natural Gas and NGL Revenues

We recognize revenue from the sale of oil, natural gas and NGLs in the period that the performance obligations are satisfied, in accordance with ASC 606. Our performance obligations are primarily comprised of the delivery of oil, natural gas or NGLs at specified delivery points. Each barrel of oil, MMBtu of natural gas or other unit of measure is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligations are satisfied at a point in time once control of the product has been transferred to the customer through monthly delivery of oil, natural gas and NGLs.

We sell oil at market-based prices with adjustments for location and quality. Under our oil sales contracts, we transfer control of the product to the purchaser at the delivery point and recognize revenue based on the contract price.

Under our natural gas sales contracts, we deliver natural gas to the purchaser at an agreed upon delivery point. Natural gas is transported from our wellheads to delivery points specified under sales contracts. To deliver natural gas to these points, we rely on third parties to gather, process and transport our natural gas. We maintain control of the natural gas during gathering, processing and transportation. We transfer control of the product at the delivery point and recognize revenue based on the contract price. The costs to gather, process and transport the natural gas are recorded as marketing and transportation expenses.

NGLs, which are extracted from natural gas through processing, are either sold by us directly to the customer or sold by the processor under our processing contracts. For NGLs sold by us, we transfer control of the product to the purchaser at the delivery point and recognize revenue based on the contract price. For NGLs sold by the processor, our processing contracts provide that we transfer control to the processor at the tailgate of the processing plant and we recognize revenue based on the price received from the processor.

Our contracts with customers typically require payment for oil and condensate, natural gas and NGL sales within 30 days following the calendar month of delivery. The sales of oil and condensate, natural gas and NGLs typically include variable consideration that is based on pricing tied to local indices adjusted for differentials and volumes delivered in the current month. Revenues include estimates for the two most recent months using published commodity price indices and volumes supplied by our field operators, which are adjusted in the subsequent two-month period as sales information is finalized.

Sales and Marketing Revenue

We believe an opportunity exists, from time to time, to participate in additional economic benefits and operational efficiencies in support of our upstream activities by purchasing and reselling production from others, to a limited extent, in order to utilize existing firm transportation arrangements. In such cases, we enter into commodity purchase transactions with certain third parties and then subsequently sell the purchased commodity as separate revenue streams. We retain control of the purchased hydrocarbons prior to delivery to the purchaser. The Company has concluded that we are the principal in these arrangements; therefore, within our consolidated statement of operations, we recognize revenue on a gross basis as Sales and marketing revenues, with costs to purchase and transport the commodity presented as Sales and marketing expenses. Profitability of these purchase and resale activities is determined by subtracting the Sales and marketing expenses from the Sales and marketing revenues for a given period. Contracts to sell the third-party hydrocarbons are the same contracts as those for which we sell our produced hydrocarbons, and as such, we do not recognize this revenue any differently than our oil, natural gas and NGL revenue discussed previously.

Remaining Performance Obligations

Certain of our sales contracts contain multiple performance obligations, such as delivering oil and natural gas to purchasers at specified locations and at a specified quality. For these contracts, we have taken the optional exception under ASC 606-10-50-14A(b) which is available only for wholly unsatisfied performance obligations for which the criteria in ASC 606-10-32-40 have been met. Under this exception, neither estimation of variable consideration nor disclosure of the transaction price allocated to the remaining performance obligations is required. Revenue is alternatively recognized in the period that control of the commodity is transferred to the customer and the respective variable component of the total transaction price is resolved.

For forms of variable consideration that are not associated with a specific volume and thus do not meet the allocation exception, estimation is required. Examples of such variable consideration include late payment fees, truck rejection charges, inflation adjustments and imbalance penalties; however, these items are immaterial to our consolidated financial statements and/or have a low probability of occurrence, and thus no estimation is required.

Contract Balances

Under our sales contracts, we invoice customers after our performance obligations have been satisfied, at which point payment is unconditional. Accordingly, our contracts do not give rise to contract assets or liabilities under ASC 606. As of December 31, 2020 and 2019, our receivables from contracts with customers were approximately $36.0 million and $69.6 million, respectively.

Note 7. Related Party Transactions

UnSub

As discussed above in Note 2. "Basis of Presentation and Summary of Significant Accounting Policies," Sanchez consolidated UnSub as a 100% owned subsidiary through May 1, 2020. Subsequent to Sanchez losing control of the GP Board on May 1, 2020, UnSub was no longer considered a consolidated subsidiary and the Company's investment in UnSub was reclassified as an equity method investment. As of December 31, 2020, the Company carried its equity method investment in UnSub at a zero balance.

On March 1, 2017, Sanchez, SN Maverick, UnSub and Gavilan Resources, LLC ("Gavilan") entered into a Joint Development Agreement (the "JDA") to provide for certain capital planning, operatorship, transfer and economic rights between the parties to the JDA. The Sanchez parties to the JDA scheduled the JDA for rejection in the Schedule of Rejected Executory Contracts and Unexpired Leases, which is a schedule to the Plan. Gavilan initially objected to the rejection of the JDA in the Sanchez Bankruptcy, but subsequently withdrew its objection to the Sanchez parties' rejection after the Gavilan Acquisition. Gavilan rejected the JDA in its own bankruptcy proceeding. GSO also objected to the Sanchez parties' rejection of the JDA, and the Bankruptcy Court has yet to rule on GSO's objection.

In its capacity as operator, SN Maverick incurs drilling and operating costs that are billed to UnSub based on its working interest. SN Maverick bills UnSub on a monthly basis for the projected outlay of capital and operating costs for the following 30-day period.

Prior to the Petition Date, UnSub, SN Maverick, and, for certain limited purposes, Sanchez entered into a hydrocarbons purchase and marketing agreement (the "HPMA") pursuant to which UnSub sold all of its production from the Comanche field to SN Maverick for aggregation and sale with SN Maverick's own production from the Comanche field. SN Maverick arranged for midstream and marketing services and remitted to UnSub its proportionate share of the sales proceeds. SN Maverick and Sanchez scheduled the HPMA for rejection. UnSub objected to rejection of the HPMA, and the Bankruptcy Court has yet to rule on Unsub's objection. On March 9, 2021, GSO also filed a motion seeking to dismiss the rejection dispute as moot, arguing that the Reorganized Debtors had repudiated the HPMA following the Effective Date of the Plan and that purported repudiation obviated the need for a decision on the rejection dispute. GSO's motion to dismiss also remains pending before the Bankruptcy Court.

Billings paid by UnSub during the years ended December 31, 2020 and 2019 were approximately $43.2 million and $70.9 million, respectively. Revenue distributions to UnSub during the years ended December 31, 2020 and 2019 were approximately $151.0 million and $216.4 million, respectively.

Effective July 1, 2020, Mesquite entered into a services agreement with UnSub (the "UnSub MSA") pursuant to which Mesquite provides certain management, general administrative and support services to UnSub. We are compensated by a one-time commencement fee of $750,000, and a recurring fee of $150,000 per month from December 1, 2020 through the end of the term. The UnSub MSA had an initial term expiring on March 31, 2021, renewing automatically for additional one-month terms thereafter unless either Mesquite or UnSub delivers written notice to the other of its desire not to renew the term at least 20 days prior to end of the applicable term. For the year ended December 31, 2020, Mesquite received fees of $900,000 related to the UnSub MSA that are recorded as a credit to general and administrative expenses.

As of December 31, 2020 and 2019, the Company had an outstanding net related party payable to UnSub of approximately $7.9 million and $10.2 million, respectively, included in Accounts Payable – related entities on the balance sheet.

Sanchez Oil & Gas Corporation

Prior to the Effective Date, the Company did not have any employees. Instead, Sanchez Oil & Gas Corporation ("SOG"), an oil and natural gas operating company privately owned by A. R. Sanchez, Jr. and members of his family, provided managerial, operational and administrative services to Sanchez, pursuant to management services agreements, including the SOG MSA (defined below). On December 19, 2011, Sanchez entered into a services agreement with SOG (the "SOG MSA") pursuant to which specified employees of SOG provided certain services to Sanchez under the direction, supervision and control of SOG. Sanchez compensated SOG for the services at a price equal to SOG's cost of providing such services, including all direct costs and indirect administrative and overhead costs (including the allocable portion of salary, bonus, incentive compensation and other amounts paid to persons that provided the services on SOG's behalf) allocated in accordance with SOG's ordinary course practices between itself, Sanchez and other entities for which SOG provided similar services, such as SNMP (defined below). Salaries and associated benefits of SOG employees were allocated to Sanchez based on an analysis of time spent by the professional staff on Sanchez projects and activities. General and administrative expenses such as office rent, utilities, supplies and other overhead costs were allocated on the same basis as the SOG employee salaries. Expenses allocated to Sanchez for general and administrative expenses and oil and natural gas production expenses for the six months ended June 30, 2020 and year ended December 31, 2019 were approximately $24.0 million and $63.8 million, respectively. The SOG MSA was rejected on the Effective Date, and no expenses were allocated from SOG to Mesquite during the six months ended December 31, 2020. Mesquite made offers of employment to certain SOG employees to join the new Mesquite workforce upon the Company's emergence from Bankruptcy and Mesquite operations have continued uninterrupted.

As of December 31, 2020, the Company had a net receivable from SOG of approximately $0.2 million related to final accounting settlement amounts. As of December 31, 2019, the Company had a net receivable from SOG of approximately $2.5 million, which consisted primarily of advances related to general and administrative expenses and other costs paid to SOG in the ordinary course. These balances are included in Accounts receivable—related entities in the consolidated balance sheets.

Sanchez Midstream Partners LP

Prior to the Effective Date, Sanchez Midstream Partners LP ("SNMP") (now known as Evolve Transition Infrastructure LP) was considered a related party of Sanchez because (i) Antonio R. Sanchez, III, who served as the President and Chief Executive Officer of Sanchez, also served as Chairman of the Board of SNMP, (ii) Patricio D. Sanchez, who served as Executive Vice President of Sanchez, also served as a member of the Board and as President and Chief Operating Officer of SNMP, and (iii) Sanchez and certain members of the Sanchez family directly or indirectly owned a significant percentage of the issued and outstanding common units of SNMP. A subsidiary of the Company owns approximately 2.3 million SNMP common units (see Note 16. "Investments"). However, as of the Effective Date, Mesquite has new management and SNMP is no longer considered a related party of Mesquite.

As of June 30, 2020, the Company did not have any material payables to or receivables from SNMP. As of December 31, 2019, the Company had a net payable to SNMP of approximately $4.1 million that consisted primarily of the accrual for fees associated with the gathering agreement Sanchez entered into with SNMP as part of the sale of SN Catarina's interests in Catarina Midstream, LLC, a wholly-owned subsidiary of SN Catarina, which is reflected in the "Accrued Liabilities – Other" account on the consolidated balance sheets.

Note 8. Derivative Instruments

We use derivative contracts to mitigate the effects of commodity price volatility on the Company's financial results, reduce uncertainty as we develop plans for capital spending and protect the economics of property acquisitions at the time of execution. Examples of such hedging transactions include fixed price swaps (whereby, on the settlement date, we receive or pay an amount based on the difference between a predetermined fixed price and a variable market price for a notional quantity of production) and costless collars (whereby, on the settlement date, we receive the excess, if any, of a variable market price over a fixed floor price, up to a fixed ceiling price, for a notional quantity of production).

These hedging activities, which are governed by the terms of the Series 1 Notes and the Series 2 Notes, as applicable, are intended to support oil and natural gas prices at targeted levels and manage exposure to oil and natural gas price fluctuations. It is our policy to enter into derivative contracts only with counterparties that are creditworthy and competitive market participants. It is never our intention to enter into derivative contracts for speculative trading purposes. In addition, our Series 1 Notes and Series 2 Notes contain customary restrictions on speculative trading and limit our hedging activities to permitted secured hedges with creditworthy counterparties.

All of our derivatives are accounted for as mark-to-market activities. Under ASC 815, "Derivatives and Hedging," these instruments are recorded on the balance sheet at fair value as either current or long-term assets or liabilities based on their anticipated settlement date. We net derivative assets and liabilities by commodity for counterparties where a legal right to such offset exists. Changes in the derivatives' fair values are recognized in current earnings since we have elected not to designate our derivative contracts as cash flow hedges for accounting purposes.

The following table presents our derivative positions for the periods indicated as of December 31, 2020:

	2021
Oil positions:	
Fixed price swaps (NYMEX WTI):	
Hedged volume (Bbls)	3,506,057
Average price ($/Bbl)	$ 43.12
Natural gas positions:	
Fixed price swaps (NYMEX Henry Hub):	
Hedged volume (MMBtu)	23,106,746
Average price ($/MMBtu)	$ 2.79

The following table sets forth a reconciliation of the changes in fair value of our commodity derivatives for the six months ended December 31, 2020, six months ended June 30, 2020 and year ended December 31, 2019 (in thousands):

	Successor	Predecessor	Predecessor
	Six Months Ended December 31, 2020	Six Months Ended June 30, 2020	Year Ended December 31, 2019
Beginning fair value of commodity derivatives	$ -	$ (768)	$ 21,194
Net gains (losses) on crude oil derivatives	(18,882)	46,446	(40,886)
Net gains (losses) on natural gas derivatives	3,714	(934)	7,762
Net settlements (received) paid on derivative contracts:			
Crude oil	677	(6,165)	16,117
Natural gas	(44)	(2,568)	(4,955)
Adjustment for deconsolidation of UnSub	-	(36,011)	-
Ending fair value of commodity derivatives	$ (14,534)	$ -	$ (768)

Balance Sheet Presentation

Our derivatives are presented on a net basis as Fair value of derivative instruments on our balance sheet. The following information summarizes the gross fair values of derivative instruments and presents the impact of offsetting the derivative assets and liabilities on our balance sheets (in thousands):

	Successor as of December 31, 2020		
	Gross Amount of Recognized Assets and Liabilities	Gross Amount Offset on the Balance Sheet	Net Amount Presented on the Balance Sheet
Offsetting Derivative Assets:			
Current asset	$ 3,822	$ 152	$ 3,670
Long-term asset	-	-	-
Total asset	$ 3,822	$ 152	$ 3,670
Offsetting Derivative Liabilities:			
Current liability	$ 18,356	$ 152	$ 18,204
Long-term liability	-	-	-
Total liability	$ 18,356	$ 152	$ 18,204

	Predecessor as of December 31, 2019		
	Gross Amount of Recognized Assets and Liabilities	Gross Amount Offset on the Balance Sheet	Net Amount Presented on the Balance Sheet
Offsetting Derivative Assets:			
Current asset	$ 3,801	$ -	$ 3,801
Long-term asset	2,251	1,642	609
Total asset	$ 6,052	$ 1,642	$ 4,410
Offsetting Derivative Liabilities:			
Current liability	$ 4,865	$ -	$ 4,865
Long-term liability	1,955	1,642	313
Total liability	$ 6,820	$ 1,642	$ 5,178

Note 9. Acquisitions and Divestitures

Our acquisitions are accounted for as asset acquisitions or business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations."

Typically, the sale or disposition of oil and natural gas properties results in recording a gain or loss for the difference between the proceeds received and the net capitalized costs of the oil and natural gas properties, unless the sale or disposition does not cause a significant change in the relationship between costs and the estimated quantities of proved reserves. In circumstances where treating a sale like a normal asset retirement does not result in a significant change in the relationship between costs and the estimated quantities of proved reserves, the proceeds are applied to reduce net capitalized costs.

Gavilan Acquisition

In November 2020, the Company completed the acquisition of an additional approximate 25% average working interest in the Comanche field, which included approximately 59,000 net Eagle Ford Shale acres and approximately 2,000 net acres of deep rights only, relating to the Pearsall Shale, from Gavilan and Gavilan Resources Management Services, LLC (the "Gavilan Acquisition"). The Gavilan Acquisition significantly expanded our production base and undeveloped acreage, and repositioned Mesquite as the largest working interest owner in the Comanche field. Pursuant to the asset purchase agreement for the Gavilan Acquisition, the effective date for the transaction was April 1, 2020 and the purchase price for the acquired assets was $50.0 million before purchase price adjustments. Mesquite paid an adjusted purchase price of approximately $57.1 million, which included approximately $5.2 million used by Gavilan to satisfy a prior obligation owed to Springfield Pipeline, LLC for unpaid gathering services during Gavilan's bankruptcy proceedings. In connection with the closing of the Gavilan Acquisition, Mesquite formed and assigned the acquired assets to a new wholly-owned subsidiary, Mesquite Comanche Holdings, LLC. Mesquite's legacy position in the Comanche field is held by wholly-owned subsidiary SN Maverick, which is also the operator of the Comanche field. The total purchase price was allocated to the assets purchased and liabilities assumed based upon their relative fair values on the date of acquisition as follows (in thousands):

Proved oil and natural gas properties	$	62,086
Unproved properties		2,484
Fair value of assets acquired		64,570
Asset retirement obligations		(12,086)
Fair value of net assets acquired	$	52,484

Palmetto Divestiture

In August 2020, the Company, through its wholly-owned subsidiary, SN Palmetto, LLC, sold approximately 7,200 net Eagle Ford Shale acres located in Gonzalez and Dewitt counties, Texas, to Westhoff Palmetto LP for an adjusted purchase price of approximately $5.3 million in cash (the "Palmetto Divestiture"). Consideration received from the Palmetto Divestiture was based on a June 1, 2020 effective date. Assets conveyed pursuant to the Palmetto Divestiture consisted of non-operated wells and leaseholds. The Company did not record any gains or losses as a result of the Palmetto Divestiture.

Sanchez Resources Sale

In June 2020, Sanchez, via its wholly-owned subsidiaries SN TMS, LLC, SRAI and Sanchez Resources, completed the sale of all of the remaining producing properties, non-producing leases and non-oil and natural gas assets in Louisiana and Mississippi and the disposition of related future asset retirement obligations (the "Sanchez Resources Properties") with an effective date of June 1, 2020 (the "Sanchez Resources Sale") to White River SPV 2 LLC for aggregate cash consideration of approximately $1,000.

Typically, proceeds from the sale or disposition of oil and natural gas properties are applied to reduce net capitalized costs with no gain or loss recognized, unless the sale or disposition causes a significant change in the relationship between costs and the estimated quantities of proved reserves. However, in circumstances where treating a sale like a normal asset retirement would result in a significant change in the relationship between costs and the estimated quantities of proved reserves, judgment must be applied. The Company determined that adjustments to capitalized costs for the Sanchez Resources Sale would cause a significant change in the relationship between costs and the estimated quantities of proved reserves for the Tuscaloosa Marine Shale depletion unit, which consisted entirely of the Sanchez Resources Properties. Upon the closing of the Sanchez Resources Sale, the Company recorded a loss of approximately $4.4 million to Loss on disposal of assets on the consolidated statements of operations.

Note 10. Fair Value of Financial Instruments

Measurements of fair value of derivative instruments are classified according to the fair value hierarchy, which prioritizes the inputs to the valuation techniques used to measure fair value. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and liabilities are classified based on the lowest level of input that is significant to their fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Fair Value on a Recurring Basis

The following tables set forth, by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2020 and 2019 (in thousands):

	Successor as of December 31, 2020			
	Active Market for Identical Assets (Level 1)	**Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total Carrying Value**
Cash equivalents:				
Cash equivalents	$ 12,077	$ -	$ -	$ 12,077
Equity investment:				
Investment in SNMP	1,364	-	-	1,364
Investment in Lonestar	-	-	-	-
Oil derivative instruments:				
Swaps	-	(18,204)	-	(18,204)
Gas derivative instruments:				
Swaps	-	3,670	-	3,670
Total	$ 13,441	$ (14,534)	$ -	$ (1,094)

	Predecessor as of December 31, 2019			
	Active Market for Identical Assets (Level 1)	**Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total Carrying Value**
Cash equivalents:				
Cash equivalents	$ 62,885	$ -	$ -	$ 62,885
Equity investment:				
Investment in SNMP	682	-	-	682
Investment in Lonestar	3,915	-	-	3,915
Oil derivative instruments:				
Swaps	-	(3,965)	-	(3,965)
Collars	-	(197)	-	(197)
Gas derivative instruments:				
Swaps	-	3,365	-	3,365
Collars	-	29	-	29
Total	$ 67,482	$ (768)	$ -	$ 66,714

Level 1 measurements are fair value measurements which use quoted market prices (unadjusted) in active markets for identical assets or liabilities. We use Level 1 inputs when available, as Level 1 inputs generally provide the most reliable evidence of fair value.

Level 2 measurements are fair value measurements which use inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly.

Level 3 measurements are fair value measurements which use unobservable inputs and require management to make certain assumptions in the determination of value.

The Level 1 instruments presented in the tables above consist of money market funds and time deposits, held with banks and financial institutions, included in cash and cash equivalents on the Company's consolidated balance sheets as of December 31, 2020 and 2019. The Company identified the money market funds and time deposits as Level 1 instruments, as money market funds have daily liquidity, there are active markets for the underlying investments and quoted prices for the underlying investments can be obtained. In addition, as of December 31, 2020 and 2019, the Level 1 instruments include the Company's equity investments in SNMP as described and further discussed in Note 16. "Investments," which is a publicly traded company and is included in Investments on the Company's consolidated balance sheets as of December 31, 2020 and 2019. As of December 31, 2019, the Level 1 instruments also included the Company's equity investment in Lonestar, as defined and further discussed in Note 16. "Investments." This investment is included in Investments on the Company's consolidated balance sheets as of December 31, 2019.

The Company's commodity derivative instruments consisted of swaps and collars as of December 31, 2020 and 2019 as shown in the table above. The fair values of the Company's derivatives are based on third-party pricing models which utilize inputs that are either readily available in the public market, such as forward curves, or can be corroborated from active markets of broker quotations, and therefore are classified as Level 2. Derivative instruments are also subject to the risk that counterparties will be unable to meet their obligations. Such non-performance risk is considered in the valuation of the Company's derivative instruments, but to date has not had a material impact on estimates of fair values. Significant changes in the quoted forward prices for commodities and changes in market volatility will generally lead to corresponding changes in the fair value measurement of the Company's derivative instruments.

There were no instruments classified as Level 3 as of December 31, 2020 or 2019.

Fair Value on a Non-Recurring Basis

In connection with the fresh start accounting guidance from ASC 852 described in Note 3. "Fresh Start Accounting, Successor Equity and Reorganization Value," the Reorganization Value was allocated to the Reorganized Debtors' individual assets based on their estimated fair values, and assets and liabilities were recorded at their fair value on the Effective Date.

As noted in Note 4. "Debt," 2,812,500 Common Shares were issued to the purchasers of the Series 2 Notes as the Financing Fee. The Company estimated the fair value of the Financing Fee to be approximately $9.5 million and accounted for the Financing Fee as a discount to the face value of the Series 2 Notes.

We follow the provisions of ASC 820-10 for nonfinancial assets and liabilities measured at fair value on a non-recurring basis. Fair value measurements of assets acquired and liabilities assumed in business combinations and asset acquisitions are based on inputs that are not observable in the market and thus represent Level 3 inputs. The fair value of acquired properties is based on market and cost approaches. Liabilities assumed include asset retirement obligations existing at the date of acquisition. Asset retirement obligation estimates are derived from historical costs as well as management's expectation of future cost environments. As there is no corroborating market activity to support the assumptions, we have designated these liabilities as Level 3. A reconciliation of the beginning and ending balances of our asset retirement obligations is presented in Note 11. "Asset Retirement Obligations."

We did not record proved property impairment to oil and natural gas properties during the six months ended December 31, 2020. During the six months ended June 30, 2020 and the year ended December 31, 2019, Sanchez recorded proved property impairment of $475.2 million and $1,109.8 million, respectively. The carrying value of the properties was impaired based on a fair value measurement of approximately $306.0 million as of March 31, 2020, and $766.8 million as of December 31, 2019, estimated using inputs characteristic of a Level 3 fair value measurement.

Fair Value of Other Financial Instruments

The carrying amounts of our oil and natural gas receivables, accounts payable and accrued liabilities approximate fair value due to their highly liquid nature.

Note 11. Asset Retirement Obligations

Our asset retirement obligations represent the present value of the estimated costs expected to be incurred to plug, abandon and remediate producing properties, excluding salvage values, at the end of their productive lives in accordance with applicable laws. Revisions in estimated liabilities during the period relate primarily to changes in estimates of asset retirement costs. Revisions in estimated liabilities can also include, but are not limited to, revisions of estimated inflation rates, changes in property lives and the expected timing of settlement.

The changes in the asset retirement obligation for the six months ended December 31, 2020, six months ended June 30, 2020 and year ended December 31, 2019 were as follows (in thousands):

	Successor		Predecessor		Predecessor	
	As of December 31, 2020		As of June 30, 2020		As of December 31, 2019	
Abandonment liability, beginning of period	$	18,459	$	50,241	$	46,175
Revision due to Fresh Start Accounting		-		(18,203)		-
Revision due to deconsolidation of UnSub		-		(13,685)		-
Liabilities incurred during period		25		162		336
Acquisitions		12,086		-		-
Divestitures		-		(1,886)		(147)
Accretion expense		832		1,830		3,877
Abandonment liability, end of period	$	31,402	$	18,459	$	50,241

Note 12. Accrued Liabilities and Other Current Liabilities

The following information summarizes accrued liabilities as of December 31, 2020 and 2019 (in thousands):

	Successor		Predecessor	
	December 31, 2020		**December 31, 2019**	
Capital expenditures	$	762	$	11,023
Lease operating Expenses		34,845		45,116
Production taxes		2,043		2,790
Ad valorem taxes		676		4,751
General and administrative expenses		6,380		26,475
Interest payable		-		32,735
Other accrued liabilities		121		3,707
Total accrued liabilities	$	44,827	$	126,597

The Other payables balance of approximately $22.1 million and $32.5 million as of December 31, 2020 and 2019, respectively, is primarily related to revenues payable to working interest owners in the Comanche field.

The Other current liabilities balance of approximately $8.4 million and $19.7 million as of December 31, 2020 and 2019, respectively, is primarily related to cash calls received from working interest owners in the Comanche field that will be used to fund future operations and development.

Note 13. Income Taxes

Income Taxes

Income tax expense attributable to income from continuing operations consists of:

(In thousands)	Successor Six Months Ended December 31, 2020	Predecessor Six Months Ended June 30, 2020	Predecessor Year Ended December 31, 2019
Current tax expense (benefit):			
Federal	$ -	$ -	$ -
State	-	(16)	(23)
Deferred tax expense:			
Federal	-	-	-
State	-	-	-
Income tax expense (benefit)	$ -	$ (16)	$ (23)

Tax Rate Reconciliation

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 21% to pretax income as a result of the following:

	Successor Six Months Ended December 31, 2020	Predecessor Six Months Ended June 30, 2020	Predecessor Year Ended December 31, 2019
Income tax benefit computed at the statutory rate	21.00%	21.00%	21.00%
State and local income taxes	-	-	0.64%
Interest not included on statement of operations	-	0.60%	-
Non-deductible restructuring costs	-	0.58%	(0.85)%
Non-deductible general and administrative expenses	(0.06)%	0.01%	(0.06)%
Officer's compensation	-	-	(0.14)%
Western Catarina midstream deferred gain	-	-	(0.59)%
Valuation allowance	(20.94)%	(22.19)%	(20.00)%
Income tax expense	-	-	-

Significant Components of Deferred Taxes

For federal income tax purposes, the taxable year ends December 31, 2020 and includes the 12-month taxable income of both the Predecessor and Successor. The temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2020 and 2019 are related to reversal of interest disallowance (primarily due to section 163(j) limitation), income or loss from U.S. partnerships (primarily due to differences in tax and GAAP income recognition), property, plant and equipment (primarily due to differences in depreciation, depletion, intangible drilling costs, expired leases, GAAP impairments and capitalized interest), and net operating loss carryforwards.

We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. Management considers the scheduled reversal of deferred tax liabilities (including the effect of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment. The valuation allowance for deferred tax assets as of December 31, 2020 and 2019 was $305.9 million and $607.7 million, respectively. The net change in the total valuation allowance was a decrease of $301.8 million in 2020 and an increase of $297.7 million in 2019. The valuation allowance as of December 31, 2020 and 2019, was primarily related to federal net operating loss carryforwards that, in the judgment of management, are not more likely than not to be realized.

As of December 31, 2020, the Company has net operating loss carryforwards for federal income tax purposes of $210.3 million, which have an indefinite carryforward period but are subject to limitations under Section 382 of the Internal Revenue Code. Additionally, the Company has state net operating loss carryforwards which will begin to expire in 2021.

The Company files income tax returns in the U.S. and various state jurisdictions. The Company is no longer subject to examination by federal income tax authorities for years prior to 2016. State statutes vary by jurisdiction.

As of December 31, 2020 and 2019, the Company has no material uncertain tax positions.

Note 14. Commitments and Contingencies

Volume Commitments

As is common in our industry, prior to the Petition Date, the Company entered into certain agreements, including certain oil and natural gas gathering and transportation and natural gas processing agreements, that imposed certain obligations to deliver a specified volume of production over a defined time horizon. If not fulfilled, these agreements subjected the Company to deficiency payments to our midstream counterparties. The Debtors sought to reject many such arrangements pursuant to the Plan, although these efforts are subject to various pending objections and disputes. In the event the Debtors are partially or entirely successful in their rejection efforts, a portion of the Debtors' volume commitment and related obligations under these agreements may be discharged through the bankruptcy process. In the event that the Bankruptcy Court rules that none of these agreements are subject to rejection and that the Company remains bound by the volume commitments contained therein, the Company would have had, as of December 31, 2020, approximately $407.4 million in future commitments related to oil and natural gas gathering and transportation agreements ($202.6 million for 2021 through 2023, $87.1 million from 2024 through 2026, and $117.7 million under commitments expiring after December 31, 2026, in the aggregate) and approximately $15.1 million in future commitments related to natural gas processing agreements, all expiring by the end of 2022, that are not recorded in the accompanying consolidated balance sheets.

As of December 31, 2019, in the event that the Bankruptcy Court rules that none of these agreements are subject to rejection and that the Company remains bound by the volume commitments contained therein, the Company would have had approximately $389.2 million in future commitments related to oil and natural gas gathering and transportation agreements ($184.0 million for 2020 through 2022, $91.4 million from 2023 through 2025, and $113.8 million under commitments expiring after December 31, 2025, in the aggregate) and approximately $37.5 million in future commitments related to natural gas processing agreements, all expiring by the end of 2022, that are not recorded in the accompanying consolidated balance sheets.

Loss Contingencies

To the extent we are able to assess the likelihood of a negative outcome for a contingency, such as the loss or impairment of an asset or the incurrence of a liability, our assessments of such likelihood range from remote to probable. If we determine that a negative outcome is probable and the amount of loss is reasonably estimable, we accrue an undiscounted liability equal to the estimated amount. If a range of probable loss amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then we accrue an undiscounted liability equal to the minimum amount in the range. In addition, we estimate legal fees that we expect to incur associated with loss contingencies and accrue those costs when they are material and probable of being incurred.

We do not record a contingent liability when the likelihood of loss is probable but the amount cannot be reasonably estimated or when the likelihood of loss is believed to be only reasonably possible or remote. For contingencies where an unfavorable outcome is reasonably possible and the impact would be material to our consolidated financial statements, we disclose the nature of the contingency and, where feasible, an estimate of the possible loss or range of loss. As of December 31, 2020 and 2019, the Company did not record any material liabilities related to contingent losses.

Note 15. Leases

We determine if an arrangement is a lease at inception. To the extent that we determine an arrangement represents a lease, we classify that lease as an operating lease or a finance lease. We currently do not have any finance leases. We capitalize our operating leases on our consolidated balance sheet through a ROU asset and a corresponding lease liability. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Short-term leases that have an initial term of one year or less are not capitalized but are disclosed below. Short-term lease costs exclude expenses related to leases with a lease term of one month or less.

Our operating leases are reflected as operating lease ROU assets, Short-term operating lease liabilities and Long-term operating lease liabilities on our consolidated balance sheet. Operating lease ROU assets and liabilities are recognized at the commencement date of an arrangement based on the present value of lease payments over the lease term. In addition to the present value of lease payments, the operating lease ROU asset also includes any lease payments made to the lessor prior to lease commencement less any lease incentives and initial direct costs incurred. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Nature of Leases

We lease certain property, including corporate and field offices and facilities, vehicles, field equipment, and midstream gathering and processing facilities to support our operations. A more detailed description of our significant lease types is included below.

Midstream Gathering and Processing Facilities

We engage in various types of transactions with midstream entities to gather and/or process our products, leveraging integrated systems and facilities wholly owned by the midstream counterparty. In certain circumstances, we utilize substantially all of the underlying gathering system or processing facility capacity and we have, therefore, concluded that those underlying assets meet the definition of an identified asset. These contracts, some of which are subject to pending rejection disputes in the Bankruptcy cases that may reduce or eliminate the Company's future obligations, have non-cancellable lease terms of approximately four to 17 years and continue thereafter on a renewable basis, subject to termination by either party with notice. Consequently, certain of our gathering and/or processing contracts represent an operating lease of the underlying midstream system or facilities with a lease term that equals the primary non-cancellable contract term.

Real Estate

We rent facilities from third parties for our Houston corporate headquarters and Carrizo Springs field office. Our office lease agreements are structured with non-cancellable lease terms of approximately three to seven years. We have concluded that these agreements represent operating leases with a lease term that equals the primary non-cancellable contract term. Generally, upon completion of the primary term, both parties have the right to terminate the lease.

Field Equipment and Vehicles

We enter into daywork contracts for drilling rigs with third parties to support our drilling activities. Our drilling rig arrangements are typically structured with a term that is in effect for a specified period of time or until a specified number of wells are drilled. Upon mutual agreement with the contractor, we typically have the option to extend the contract term for additional wells or well pads. We have concluded that our drilling rig arrangements represent operating leases with lease terms of six to 18 months from the inception of the lease. For those arrangements with terms of less than one year, we have determined those arrangements to be short-term operating leases. Due to the continuously evolving nature of our drilling schedules and the volatility in commodity prices in an annual period, our strategy to enter into shorter term drilling rig arrangements allows us the flexibility to respond to changes in our operating and economic environment. We exercise discretion in choosing whether to request an extension on a rig-by-rig basis depending on the conditions present at the time the contract expires.

We have determined we cannot conclude with reasonable certainty, at the time of contract commencement, if we will choose to extend a contract beyond its original term. Pursuant to the successful efforts method of accounting, our net share of these costs is capitalized as part of Oil and natural gas properties on the balance sheet as incurred.

We rent compressors from third parties to facilitate the downstream movement of our production to market. Our compressor arrangements typically have non-cancellable lease terms of 12 months from the inception of the lease and continue thereafter on a month-to-month basis, subject to termination by either party with 30 days' notice. We have concluded that our compressor arrangements represent operating leases with a lease term that equals the primary non-cancellable contract term. Generally, upon completion of the primary term, both parties have the right to terminate the lease.

We rent vehicles for our drilling and operations personnel. Our vehicle agreements have non-cancellable lease terms of 18 to 30 months from the inception of the lease. We have concluded that our vehicle agreements represent operating leases with a lease term that equals the primary non-cancellable contract term. Generally, upon completion of the primary term, both parties have the right to terminate the lease.

Significant Judgments – Discount Rate

Our leases typically do not provide an implicit rate. Accordingly, we are required to use our estimated incremental borrowing rate in determining the present value of lease payments based on the information available at commencement date. Our estimated incremental borrowing rate reflects a reasonable projection of the interest that we would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in a similar economic environment. The Company gives consideration to various factors, including the terms of the Company's outstanding debt instruments, publicly available data for instruments with similar characteristics and other information, together with internally prepared estimates, assumptions and judgment to determine the Company's incremental borrowing rate for purposes of making these calculations.

Practical Expedients and Accounting Policy Elections

Certain of our lease arrangements include lease and non-lease components. For all existing asset classes with multiple component types, we have utilized the practical expedient to not separate lease and non-lease components. Accordingly, we account for the lease and non-lease components in an arrangement as a single lease component.

In addition, for all existing asset classes, we have elected an accounting policy to not apply the recognition requirements of Topic 842 to our short-term leases. Accordingly, we recognize lease payments related to our short-term leases in our statement of operations, which is consistent with our prior recognition.

The following are components of our lease expense for the six months ended December 31, 2020 and June 30, 2020 and the year ended December 31, 2019, the majority of which are included in Oil and natural gas production expenses and Marketing and transportation expenses on the consolidated statement of operations (in thousands):

	Successor	**Predecessor**	**Predecessor**
	Six Months Ended December 31, 2020	Six Months Ended June 30, 2020	Year Ended December 31, 2019
Operating lease expense	$ 44,489	$ 37,553	$ 99,609
Short term and variable lease expense	1,524	6,598	23,105
Total lease expense	$ 46,013	$ 44,151	$ 122,714
Operating lease cost	$ -	$ 1,179	$ 7,911
Short term lease cost	-	1,390	3,061
Variable lease cost	159	3,046	1,473
Total lease cost	$ 159	$ 5,616	$ 12,445

Other information related to our operating leases are as follows (in thousands, except lease term and discount rate):

	Successor	Predecessor	Predecessor
	Six Months Ended December 31, 2020	Six Months Ended June 30, 2020	Year Ended December 31, 2019
Operating cash flows from operating leases	$ 46,013	$ 44,151	$ 122,714
Investing cash flows from operating leases [(1)]	159	5,616	12,445
ROU assets obtained in exchange for operating lease obligations	18,537	2,194	359,994
Amortization of ROU assets	(44,357)	(52,709)	(111,924)
Weighted average remaining lease term (years)	1.98	1.98	2.91
Weighted average discount rate	10%	10%	10%

(1) Represents capital expenditures related to the use of drilling rigs for the respective periods, which are capitalized as part of oil and natural gas properties on our consolidated balance sheets.

As of December 31, 2020 and 2019, minimum future payments, including imputed interest, for our long-term operating leases under ASC 842 are as follows (in thousands):

	Amount as of December 31, 2020	Amount as of December 31, 2019
2020	$ -	$ 118,968
2021	88,620	79,475
2022	52,912	59,216
2023	19,387	25,779
2024	138	6,143
Thereafter	-	1,470
Total lease payments	$ 161,057	$ 291,051
Less: Imputed interest	14,964	39,288
Total lease liabilities	$ 146,093	$ 251,763

Note 16. Investments

UR Holdings, a subsidiary of the Company, owned 1.5 million shares of Class A Common Stock of Lonestar Resources US Inc. ("Lonestar"), which Sanchez received as partial consideration from a sale of certain oil and natural gas assets to Lonestar in June 2017. On September 30, 2020, Lonestar and certain of its affiliates filed voluntary petitions for reorganization (the "Lonestar Reorganization Plan") under Chapter 11 of the United States Bankruptcy Code (the "Lone Star Bankruptcy"). On November 30, 2020, the Lonestar Reorganization Plan became effective (the "Lonestar Effective Date"). Pursuant to the Lonestar Reorganization Plan, on the Lonestar Effective Date, all shares of Lonestar Class A Common Stock were cancelled, and such shareholders are entitled to receive a pro-rata share of 1% of the new equity interests in Lonestar. Therefore, pursuant to the Lonestar Reorganization Plan, our 1.5 million shares of Class A Common Stock of Lonestar were cancelled on November 30, 2020, the Company was issued 5,911 shares of new common stock, and the Company wrote the value of the investment in Lonestar to zero.

Prior to the cancellation of the Lonestar Class A Common Stock, the Company accounted for the investment in Lonestar as an investment in equity securities measured at fair value in the consolidated balance sheets at the end of each reporting period. The Company recorded losses related to the investment in Lonestar for the six months ended December 31, 2020 and June 30, 2020 of approximately $0.7 million and $3.2 million, respectively, and the year ended December 31, 2019 of approximately $1.6 million. Any gains or losses related to the investment in Lonestar are recorded as a component of Other income (expense) in the consolidated statements of operations.

UR Holdings owns approximately 2.3 million SNMP common units, which trade on NYSE American. Based on a public filing made by SNMP on March 16, 2021, our ownership represented approximately 11% of SNMP's common units outstanding as of December 31, 2020. The Company elected the fair value option to account for its interest in SNMP and records the equity investment at fair value in the consolidated balance sheets at the end of each reporting period. The Company recorded gains related to its investment in SNMP for the six months ended December 31, 2020 and June 30, 2020 of approximately $0.6 million and $0.2 million, respectively, and recorded losses for the year ended December 31, 2019 of approximately $3.3 million. Any gains or losses related to our investment in SNMP are recorded as a component of Other income (expense) in the consolidated statements of operations. In addition, for the year ended December 31, 2019, the Predecessor recorded partnership distributions of approximately $0.7 million related to ownership of the SNMP common units. The Company did not record any partnership distributions related to its investment in SNMP in 2020. Any gains, losses or partnership distributions related to our investment in SNMP are recorded as a component of Other income (expense) in the consolidated statements of operations.

Note 17. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through April 30, 2021, the date at which the financial statements were available to be issued and determined there are no other items to disclose.