UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2021

OR

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

For the transition period from __________ to __________ .

Commission File Number 001-33147

Evolve Transition Infrastructure LP
(Exact name of registrant as specified in its charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**11-3742489** **(I.R.S. Employer Identification No.)**
1360 Post Oak Blvd, Suite 2400 **Houston, Texas** **(Address of Principal Executive Offices)**	**77056** **(Zip Code)**

(713) 783-8000
(Registrant's Telephone Number, Including Area Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Units representing limited partner interests	SNMP	NYSE American

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒	Smaller reporting company ☒	Emerging growth company ☐

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

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

Common units outstanding as of May 12, 2021: approximately 56,185,378 common units.

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COMMONLY USED DEFINED TERMS

As used in this Quarterly Report on Form 10-Q (this "Form 10-Q"), unless the context indicates or otherwise requires, the following terms have the following meanings:

- "Evolve Transition Infrastructure," "the Partnership," "we," "us," "our" or like terms refer collectively to Evolve Transition Infrastructure LP, its consolidated subsidiaries and, where the context provides, the entities in which we have a 50% ownership interest.
- "Bbl" means one barrel of 42 U.S. gallons of oil or other liquid hydrocarbons.
- "Board" means the board of directors of our general partner.
- "Boe" means one barrel of oil equivalent, calculated by converting natural gas to oil equivalent barrels at a ratio of six Mcf of natural gas to one Bbl of oil.
- "Boe/d" means one Boe per day.
- "Class C Preferred Units" means our Class C Preferred Units representing limited partner interests in Evolve Transition Infrastructure.
- "common units" means our common units representing limited partner interests in Evolve Transition Infrastructure.
- "Credit Agreement" means collectively, the Third Amended and Restated Credit Agreement, dated as of March 31, 2015, among the Partnership, Royal Bank of Canada, as administrative agent and collateral agent, and the lenders party thereto, as amended by (i) Amendment and Waiver of Third Amended and Restated Credit Agreement, dated as of August 12, 2015, (ii) Joinder, Assignment and Second Amendment to Third Amended and Restated Credit Agreement, dated as of October 14, 2015, (iii) Third Amendment to Third Amended and Restated Credit Agreement, dated as of November 12, 2015, (iv) Fourth Amendment to Third Amended and Restated Credit Agreement, dated as of July 5, 2016, (v) Fifth Amendment to Third Amended and Restated Credit Agreement, dated as of April 17, 2017, (vi) Sixth Amendment to Third Amended and Restated Credit Agreement, dated as of November 7, 2017, (vii) Seventh Amendment to Third Amended and Restated Credit Agreement, dated as of February 5, 2018, (viii) Eighth Amendment to Third Amended and Restated Credit Agreement, dated as of May 7, 2018, (ix) Ninth Amendment to Third Amended and Restated Credit Agreement, dated as of November 22, 2019, and (x) Tenth Amendment to Third Amended and Restated Credit Agreement, dated as of November 6, 2020 (individually, the "Tenth Amendment").
- "Gathering Agreement" means the Firm Gathering and Processing Agreement, dated as of October 14, 2015, by and between Catarina Midstream, LLC and SN Catarina LLC, as amended by Amendment No. 1 thereto, dated June 30, 2017.
- "MBbl" means one thousand Bbls.
- "MBbl/d" means one thousand barrels of oil or other liquid hydrocarbons per day.
- "MBoe" means one thousand Boe.
- "Mcf" means one thousand cubic feet of natural gas.
- "Mesquite" means (i) at all times prior to June 30, 2020, Sanchez Energy Corporation and its consolidated subsidiaries, and (ii) at all times after and including June 30, 2020, Mesquite Energy, Inc. and its consolidated subsidiaries.
- "MMBtu" means one million British thermal units.
- "MMcf" means one million cubic feet of natural gas.
- "MMcf/d" means one million cubic feet of natural gas per day.
- "NGLs" means natural gas liquids such as ethane, propane, butane, natural gasolines and other components that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.
- "Operational Services Agreement" means that certain Services Agreement, effective as of November 1, 2020, between the Partnership, SEP Holdings IV, LLC, Catarina Midstream, LLC, SECO Pipeline and SNMP Services.

- “our general partner” refers to Evolve Transition Infrastructure GP LLC, our general partner.
- “our partnership agreement” means the Third Amended and Restated Agreement of Limited Partnership of the Partnership, dated as of August 2, 2019, as amended by the Stonepeak Letter Agreement (as defined herein), as amended by Amendment No. 1 thereto, dated as of February 12, 2021.
- “Shared Services Agreement” means the Amended and Restated Shared Services Agreement between SP Holdings and the Partnership, dated as of March 6, 2015.
- “SEC” means the United States Securities and Exchange Commission.
- “Settlement Agreement” means the Settlement Agreement, dated June 6, 2020, as amended by that certain Amendment Agreement, dated as of June 14, 2020 and effective as of June 6, 2020, in each case, by and among the Partnership, our general partner, Catarina Midstream, LLC, Seco Pipeline, LLC, the SN Debtors, SP Holdings, Carnero G&P LLC and TPL SouthTex Processing Company LP.
- “SN Debtors” means collectively, Mesquite, SN Palmetto, LLC, SN Marquis LLC, SN Cotulla Assets, LLC, SN Operating, LLC, SN TMS, LLC, SN Catarina, LLC, Rockin L Ranch Company, LLC, SN Payables, LLC, SN EF Maverick, LLC and SN UR Holdings, LLC.
- “SNMP Services” means SNMP Services Inc., our wholly owned subsidiary which provides payroll, human resources, employee benefits and other consulting services to us and our subsidiaries.
- “SP Holdings” means SP Holdings, LLC, the sole member of our general partner.
- “Stonepeak” means Stonepeak Catarina and its subsidiaries, other than the Partnership.
- “Stonepeak Catarina” means Stonepeak Catarina Holdings, LLC.

Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws. Except for statements of historical fact, all statements in this Form 10-Q constitute forward-looking statements. Forward-looking statements may be identified by words like "may," "could," "should," "expect," "plan," "project," "intend," "anticipate," "believe," "estimate," "predict," "potential," "pursue," "target," "continue," the negative of such terms or other similar expressions. The absence of such words or expressions does not necessarily mean the statements are not forward-looking.

The forward-looking statements contained in this Form 10-Q are largely based on our current expectations, which reflect estimates and assumptions made by the management of our general partner. Although we believe such estimates and assumptions to be reasonable, statements made regarding future results are not guarantees of future performance and are subject to numerous assumptions, uncertainties and risks that are beyond our control. Actual outcomes and results may be materially different from the results stated or implied in such forward-looking statements included in this report. You should not put any undue reliance on any forward-looking statement. All forward-looking information in this Form 10-Q and subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

Important factors that could cause our actual results to differ materially from the expectations reflected in the forward looking statements include, among others:

- the resolution of the pending Rejection Lawsuits (as defined below) and their impact on the effectiveness of the Settlement Agreement and our business, results of operations and financial condition;
- our ability to successfully execute our business, acquisition and financing strategies;
- changes in general economic conditions, including market and macro-economic disruptions resulting from the ongoing pandemic caused by a novel strain of coronavirus ("COVID-19") and related governmental responses;
- the ability of our customers to meet their drilling and development plans on a timely basis, or at all, and perform under gathering, processing and other agreements;
- the creditworthiness and performance of our counterparties, including financial institutions, operating partners, customers and other counterparties;
- our ability to extend, replace or refinance our Credit Agreement;
- our ability to grow enterprise value;
- the ability of our partners to perform under our joint ventures;
- the availability, proximity and capacity of, and costs associated with, gathering, processing, compression and transportation facilities;
- our ability to access the credit and capital markets to obtain financing on terms we deem acceptable, if at all, and to otherwise satisfy our capital expenditure requirements;
- the timing and extent of changes in prices for, and demand for, natural gas, NGLs and oil;
- our ability to successfully execute our hedging strategy and the resulting realized prices therefrom;
- the accuracy of reserve estimates, which by their nature involve the exercise of professional judgment and may, therefore, be imprecise;
- competition in the oil and natural gas industry for employees and other personnel, equipment, materials and services and, related thereto, the availability and cost of employees and other personnel, equipment, materials and services;
- the extent to which our assets operated by others are operated successfully and economically;
- our ability to compete with other companies in the oil and natural gas industry;
- the impact of, and changes in, government policies, laws and regulations, including tax laws and regulations, environmental laws and regulations relating to air emissions, waste disposal, hydraulic fracturing and access to and use of water, laws and

regulations imposing conditions and restrictions on drilling and completion operations and laws and regulations with respect to derivatives and hedging activities;

- the use of competing energy sources and the development of alternative energy sources;
- unexpected results of litigation filed against us;
- disruptions due to extreme weather conditions, such as extreme rainfall, hurricanes or tornadoes;
- the extent to which we incur uninsured losses and liabilities or losses and liabilities in excess of our insurance coverage; and
- the other factors described under "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part II, Item 1A. Risk Factors" and elsewhere in this Form 10-Q and in our other public filings with the SEC.

Management cautions all readers that the forward-looking statements contained in this Form 10-Q are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in forward-looking statements. The forward-looking statements speak only as of the date made, and other than as required by law, we do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

EVOLVE TRANSITION INFRASTRUCTURE LP and SUBSIDIARIES

Condensed Consolidated Statements of Operations

(In thousands, except unit data)

(Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Revenues		
Natural gas sales	$ 75	$ 234
Oil sales	2,306	7,187
Natural gas liquid sales	135	31
Gathering and transportation sales	—	785
Gathering and transportation lease revenues	9,294	12,606
Total revenues	11,810	20,843
Expenses		
Operating expenses		
Lease operating expenses	1,840	1,909
Transportation operating expenses	1,903	2,558
Production taxes	105	106
General and administrative expenses	6,933	3,775
Unit-based compensation expense	337	398
Depreciation, depletion and amortization	5,461	5,915
Asset impairments	—	23,247
Accretion expense	148	138
Total operating expenses	16,727	38,046
Other (income) expense		
Interest expense, net	30,447	23,009
Earnings from equity investments	(599)	1,202
Total other expenses	29,848	24,211
Total expenses	46,575	62,257
Loss before income taxes	(34,765)	(41,414)
Income tax expense	40	(73)
Net loss	(34,805)	(41,341)
Net loss per unit		
Common units - Basic and Diluted	$ (0.89)	$ (2.18)
Weighted Average Units Outstanding		
Common units - Basic and Diluted	38,921,661	19,006,403

See accompanying notes to condensed consolidated financial statements.

EVOLVE TRANSITION INFRASTRUCTURE LP and SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except unit data)

ASSETS	March 31, 2021 (Unaudited)	December 31, 2020
Current assets		
Cash and cash equivalents	$ 1,626	$ 1,718
Accounts receivable	7,404	6,670
Prepaid expenses	1,014	595
Total current assets	10,044	8,983
Oil and natural gas properties and related equipment		
Oil and natural gas properties, equipment and facilities (successful efforts method)	112,471	112,471
Gathering and transportation assets	187,977	187,977
Less: accumulated depreciation, depletion, amortization and impairment	(179,649)	(177,553)
Oil and natural gas properties and equipment, net	120,799	122,895
Other assets		
Intangible assets, net	128,423	131,786
Equity investments	87,670	89,635
Other non-current assets	119	129
Total assets	$ 347,055	$ 353,428
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,408	$ 4,420
Accounts payable and accrued liabilities - related entities	12,869	25,737
Royalties payable	359	359
Short-term debt, net of debt issuance costs	103,942	110,233
Class C preferred units	356,855	345,205
Total current liabilities	477,433	485,954
Other liabilities		
Long term accrued liabilities - related entities	16,584	12,137
Asset retirement obligation	7,613	7,465
Other liabilities	6,210	1,416
Total other liabilities	30,407	21,018
Total liabilities	507,840	506,972
Commitments and contingencies (See Note 12)		
Partners' deficit		
Common units, 56,185,378 and 19,953,880 units issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	(160,785)	(153,544)
Total partners' deficit	(160,785)	(153,544)
Total liabilities and partners' capital	$ 347,055	$ 353,428

See accompanying notes to condensed consolidated financial statements.

EVOLVE TRANSITION INFRASTRUCTURE LP and SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (34,805)	$ (41,341)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation, depletion and amortization	2,098	2,551
Amortization of debt issuance costs	209	181
Accretion of Class C discount	11,650	8,693
Class C distribution accrual	—	12,101
Asset impairments	—	23,247
Accretion expense	148	138
Distributions from equity investments	2,564	1,615
Equity earnings in affiliate	(599)	1,202
Mark-to-market on warrant	4,792	271
Net (gain) loss on commodity derivative contracts	—	(4,948)
Net cash settlements received on commodity derivative contracts	101	87
Unit-based compensation	1,879	243
Amortization of intangible assets	3,363	3,364
Changes in Operating Assets and Liabilities:		
Accounts receivable	(835)	(1)
Accounts receivable - related entities	—	(1,006)
Prepaid expenses	(419)	77
Other assets	10	(108)
Accounts payable and accrued liabilities	24,673	(1,420)
Accounts payable and accrued liabilities- related entities	(8,421)	1,547
Net cash provided by operating activities	6,408	6,493
Cash flows from investing activities:		
Development of oil and natural gas properties	—	5
Construction of gathering and transportation assets	—	(59)
Net cash used in investing activities	—	(54)
Cash flows from financing activities:		
Repayment of debt	(12,000)	(10,000)
Proceeds from issuance of debt	5,500	—
Units tendered by SOG employees for tax withholdings	—	(31)
Debt issuance costs	—	(62)
Net cash used in financing activities	(6,500)	(10,093)
Net decrease in cash and cash equivalents	(92)	(3,654)
Cash and cash equivalents, beginning of period	1,718	5,099
Cash and cash equivalents, end of period	$ 1,626	$ 1,445
Supplemental disclosures of cash flow information:		
Change in accrued capital expenditures	$ —	$ 62
Cash paid during the period for interest	$ 781	$ 1,767

See accompanying notes to condensed consolidated financial statements.

EVOLVE TRANSITION INFRASTRUCTURE LP and SUBSIDIARIES

Condensed Consolidated Statements of Changes in Partners’ Capital

(In thousands, except unit data)

(Unaudited)

	Common Units		Total
	Units	Amount	Capital
Partners' Deficit, December 31, 2020	19,953,880	$ (153,544)	$ (153,544)
Unit-based compensation programs	1,511,138	1,879	1,879
Common units issued as Class C Preferred distributions	34,720,360	25,685	25,685
Net loss	—	(34,805)	(34,805)
Partners' Deficit, March 31, 2021	56,185,378	$ (160,785)	$ (160,785)

	Common Units		Total
	Units	Amount	Capital
Partners' Deficit, December 31, 2019	20,087,462	$ (35,800)	$ (35,800)
Unit-based compensation programs	(23,387)	243	243
Units tendered by SOG employees for tax withholdings	(88,819)	(31)	(31)
Net loss	—	(41,341)	(41,341)
Partners' Deficit, March 31, 2020	19,975,256	$ (76,929)	$ (76,929)

See accompanying notes to condensed consolidated financial statements.

(Unaudited)

1. ORGANIZATION AND BUSINESS

Organization

We are a publicly-traded limited partnership formed in 2005 focused on the acquisition, development, and ownership of infrastructure critical to the transition of energy supply to lower carbon sources. We own natural gas gathering systems, pipelines, and processing facilities in South Texas and continue to pursue energy transition infrastructure opportunities. Our common units are currently listed on the NYSE American under the symbol "SNMP."

On February 26, 2021, in connection with our management team's focus on expanding our business strategy to focus on the ongoing energy transition in the industries in which we operate, we changed our name to Evolve Transition Infrastructure LP and our general partner changed its name to Evolve Transition Infrastructure GP LLC.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Accounting policies used by us conform to accounting principles generally accepted in the United States of America ("GAAP"). The accompanying financial statements include the accounts of us and our wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Our business consists of two reportable segments: Production and Midstream. Midstream includes Western Catarina Midstream (as defined in Note 9 "Intangible Assets"), the Carnero JV (as defined in Note 10 "Investments") and Seco Pipeline (as defined in Note 4 "Fair Value Measurements"). Production consists of our oil and natural gas properties in Texas and Louisiana. Our management evaluates performance based on these two business segments.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with GAAP, have been condensed or omitted pursuant to those rules and regulations. We believe that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows with respect to the interim condensed consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire year.

These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 16, 2021.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB"), which are adopted by us as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not effective, will not have a material impact on our consolidated financial statements upon adoption.

In January 2020, the FASB issued Accounting Standards Update ("ASU") 2020-01 "Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)," which clarifies the interaction among the accounting standards for equity securities, equity method investments and certain derivatives. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2020. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 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 more timely recognition of losses. Additionally, 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 changed the effective date for certain issuers to 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 condensed consolidated financial statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material impact on the Partnership's financial position, results of operations and cash flows.

Liquidity and Going Concern

The Partnership's inability to generate sufficient liquidity to meet future debt obligations raises substantial doubt regarding our ability to continue as a going concern. The Credit Agreement matures September 30, 2021 and our ability to continue as a going concern is contingent upon our ability to either (i) refinance or extend the maturity of the Credit Agreement, or (ii) obtain adequate new debt or equity financing to repay the Credit Agreement in full at maturity. We intend to refinance or extend the maturity of the Credit Agreement prior to its maturity date. However, we may not be able to refinance or extend the maturity of the Credit Agreement or, if we are able to refinance or extend the maturity, we may not be able to do so with borrowing and debt issue costs, terms, covenants, restrictions, commitment amount or a borrowing base favorable to us. The consolidated financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The consolidated financial statements do not include any adjustments that might result from the outcome of substantial doubt as to the Partnership's ability to continue as a going concern. If the Partnership cannot continue as a going concern, adjustments to the carrying values and classification of its assets and liabilities and the reported amounts of income and expenses could be required and could be material.

Use of Estimates

The condensed consolidated financial statements are prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and reported amounts of revenues and expenses. The estimates that are particularly significant to our financial statements include estimates of our reserves of natural gas, NGLs and oil; future cash flows from oil and natural gas properties; depreciation, depletion and amortization; asset retirement obligations; certain revenues and operating expenses; fair values of derivatives; and fair values of assets and liabilities. As fair value is a market-based measurement, it is determined based on the assumptions that market participants would use. These estimates and assumptions are based on management's best judgment using the data available. Management evaluates its estimates and assumptions on an on-going basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from the estimates. Any changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

3. REVENUE RECOGNITION

Revenue from Contracts with Customers

We account for revenue from contracts with customers in accordance with ASC 606, "Revenue from Contracts with Customers." 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 (point in time) or as (over time) the performance obligation is satisfied.

Disaggregation of Revenue

We recognized revenue of $11.8 million for the three months ended March 31, 2021. We disaggregate revenue based on type of revenue and product type. In selecting the disaggregation categories, we considered a number of factors, including disclosures presented outside the financial statements, such as in our earnings release and investor presentations, information reviewed internally for evaluating performance, and other factors used by the Partnership or the users of its financial statements to evaluate performance or allocate resources. We have concluded that disaggregating revenue by type of revenue and product type appropriately depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

Midstream Segment

The Firm Transportation Service Agreement, dated September 1, 2017, by and between Seco Pipeline, LLC and SN Catarina, LLC (the “Seco Pipeline Transportation Agreement”) is the only contract that we account for under ASC 606. The Seco Pipeline Transportation Agreement was terminated by Mesquite effective February 12, 2020. The Gathering Agreement (as defined in Note 12 “Related Party Transactions”) is classified as an operating lease and is accounted for under ASC 842, “Leases” and is reported as gathering and transportation lease revenues in our condensed consolidated statements of operations.

We account for income from our unconsolidated equity method investments as earnings from equity investments in our condensed consolidated statements of operations. Earnings from these equity method investments are further discussed in Note 10 “Investments.”

Production Segment

Our oil, natural gas, and NGL revenue is marketed and sold on our behalf by the respective asset operators. We are not party to the contracts with the third-party customers. However, we are party to joint operating agreements, which we account for under ASC 808, “Collaborative Agreements,” and revenues for these arrangements is recognized based on the information provided to us by the operators.

We additionally recognize and present changes in the fair value of our commodity derivative instruments within natural gas sales and oil sales in our consolidated statements of operations, which is accounted for under ASC 815, “Derivatives and Hedging.”

Performance Obligations

Under the Seco Pipeline Transportation Agreement, we agreed to provide transportation services of certain quantities of natural gas from the receipt point to the delivery point. Each MMBtu of natural gas transported is distinct and the transportation services performed on each distinct molecule of product is substantially the same in nature. We applied the series guidance and treated these services as a single performance obligation satisfied over time using volumes delivered as the measure of progress. The Seco Pipeline Transportation Agreement required payment within 30 days following the calendar month of delivery.

The Seco Pipeline Transportation Agreement contained variable consideration in the form of volume variability. As the distinct goods or services (rather than the series) are considered for the purpose of allocating variable consideration, we have taken the optional exception under ASC 606 which is available only for wholly unsatisfied performance obligations for which the criteria in ASC 606 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 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 (such as late payment fees) and thus do not meet allocation exception, estimation is required. These fees, however, are immaterial to our condensed consolidated financial statements and have a low probability of occurrence. As significant reversals of revenue due to this variability are not probable, 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. At March 31, 2021 and December 31, 2020, our accounts receivables from contracts with customers were $1.9 million and $1.9 million, respectively.

4. FAIR VALUE MEASUREMENTS

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. Fair value measurements are classified and disclosed in one of the following categories:

Level 1: Measured based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Active markets are considered those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Measured based on quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. Substantially all of these inputs are observable in the marketplace throughout the term of the instrument, can be derived from observable data, or supported by observable levels at which transactions are executed in the marketplace.

Level 3: Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e., supported by little or no market activity).

Financial assets and liabilities are classified based on the lowest level of input that is significant to the 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.

The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2021 (in thousands):

	Fair Value Measurements at March 31, 2021			
	Active Markets for Identical Assets (Level 1)	**Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Fair Value**
Other liabilities				
Warrant	$ —	$ (6,210)	$ —	$ (6,210)
Total	$ —	$ (6,210)	$ —	$ (6,210)

The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2020 (in thousands):

	Fair Value Measurements at December 31, 2020			
	Active Markets for Identical Assets (Level 1)	**Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Fair Value**
Other liabilities				
Warrant	—	(1,418)	—	(1,418)
Total	$ —	$ (1,418)	$ —	$ (1,418)

As of March 31, 2021and December 31, 2020, the estimated fair value of cash and cash equivalents, accounts receivable, other current assets and current liabilities approximated their carrying value due to their short-term nature.

Fair Value on a Non-Recurring Basis

The Partnership follows the provisions of Topic 820-10, “Fair Value Measurement,” for nonfinancial assets and liabilities measured at fair value on a non-recurring basis. The fair value measurements of assets acquired and liabilities assumed are based on inputs that are not observable in the market and therefore represent Level 3 inputs under the fair value hierarchy. We periodically review oil and natural gas properties and related equipment for impairment when facts and circumstances indicate that their carrying values may not be recoverable.

A reconciliation of the beginning and ending balances of the Partnership’s asset retirement obligations is presented in Note 8 “Asset Retirement Obligation.”

The following table summarizes the non-recurring fair value measurements of our production assets as of December 31, 2020 (in thousands):

	Fair Value Measurements at December 31, 2020		
	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Impairment[(a)]	$ —	$ —	$ 12,884
Total net assets	$ —	$ —	$ 12,884

(a) During the year ended December 31, 2020, we recorded a non-cash impairment charge of $23.4 million to impair our producing oil and natural gas properties and $0.9 million to impair the Seco Pipeline. The carrying values of the impaired properties were reduced to a fair value of $12.9 million, estimated using inputs characteristic of a Level 3 fair value measurement.

The fair values of oil and natural gas properties and related equipment were measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation of oil and natural gas properties and related equipment include estimates of: (i) reserves; (ii) future operating and development costs; (iii) future commodity prices; (iv) estimated future cash flows; (v) estimated throughput; and (vi) a market-based weighted average cost of capital rate of 15%. These inputs require significant judgments and estimates by the Partnership's management at the time of the valuation and are the most sensitive and subject to change.

Seco Pipeline – We own and operate a 30-mile natural gas pipeline with 400 MMcf/d capacity that is designed to transport dry gas to multiple markets in South Texas (the "Seco Pipeline"). As of December 31, 2020, we recorded a non-cash impairment charge of $0.9 million to impair the Seco Pipeline. The carrying value of the Seco Pipeline was reduced to a fair value of zero, estimated based on inputs characteristic of a Level 3 fair value measurement.

The fair value of the Seco Pipeline was measured using probabilistic valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation of the Seco Pipeline include estimates of: (i) future operating and development costs; (ii) estimated future cash flows; and (iii) a market-based weighted average cost of capital rate. These inputs require significant judgments and estimates by the Partnership's management at the time of the valuation and are the most sensitive and subject to change.

Fair Value of Financial Instruments

The estimated fair value amounts of financial instruments have been determined using available market information and valuation methodologies described below. We prioritize the use of the highest level inputs available in determining fair value such that fair value measurements are determined using the highest and best use as determined by market participants and the assumptions that they would use in determining fair value.

Credit Agreement – We believe that the carrying value of our Credit Agreement (as defined in Note 6 "Debt") approximates its fair value because the interest rates on the debt approximate market interest rates for debt with similar terms. The debt is classified as a Level 2 input in the fair value hierarchy and represents the amount at which the instrument could be valued in an exchange during a current transaction between willing parties. The Credit Agreement is discussed further in Note 6 "Debt."

Warrant – As part of the Exchange, the Partnership issued to Stonepeak the Warrant which entitles the holder to receive junior securities representing ten percent of junior securities deemed outstanding when exercised. The Warrant is valued using ten percent of the junior securities deemed outstanding and the common unit price as of the balance sheet date. We have therefore classified the fair value measurements of the Warrant as Level 2 and is presented within other liabilities on the condensed consolidated balance sheets.

Earnout Derivative – As part of the Carnero Gathering Transaction (as defined in Note 10 "Investments"), we are required to pay Mesquite an earnout based on natural gas received above a threshold volume and tariff at designated delivery points from Mesquite and other producers. The earnout derivative was valued through the use of a Monte Carlo simulation model which utilized observable inputs such as the earnout price and volume commitment, as well as unobservable inputs related to the weighted probabilities of various throughput scenarios. We have therefore classified the fair value measurements of the earnout derivative as Level 3 inputs. As of March 31, 2021 and December 31, 2020, the fair value of the earnout was determined to be zero.

5. DERIVATIVE AND FINANCIAL INSTRUMENTS

To reduce the impact of fluctuations in oil and natural gas prices on our revenues, we periodically enter into derivative contracts with respect to a portion of our projected oil and natural gas production through various transactions that fix or modify the future prices to be realized. These hedging activities are intended to support oil and natural gas prices at targeted levels and to manage exposure to oil and natural gas price fluctuations. It is never our intention to enter into derivative contracts for speculative trading purposes.

Under Topic 815, "Derivatives and Hedging," all derivative instruments are recorded on the condensed consolidated balance sheets at fair value as either short-term or long-term assets or liabilities based on their anticipated settlement date. We will net derivative assets and liabilities for counterparties where we have a legal right of offset. Changes in the derivatives' fair values are recognized currently in earnings unless specific hedge accounting criteria are met. We have not elected to designate any of our current derivative contracts as hedges; however, changes in the fair value of all of our derivative instruments are recognized in earnings and included in natural gas sales and oil sales in the condensed consolidated statements of operations. We do not have derivative contracts related to production in 2021 and beyond.

The following table sets forth a reconciliation of the changes in fair value of the Partnership's commodity derivatives for the year ended December 31, 2020 (in thousands):

	Year Ended December 31, 2020
Beginning fair value of commodity derivatives	$ (759)
Net gains (losses) on crude oil derivatives	3,814
Net gains on natural gas derivatives	87
Net settlements received on derivative contracts:	
Oil	(2,829)
Natural gas	(313)
Ending fair value of commodity derivatives	$ —

The effect of derivative instruments on our condensed consolidated statements of operations was as follows (in thousands):

Derivative Type	Location of Gain (Loss) in Income	Three Months Ended March 31, 2020
Commodity – Mark-to-Market	Oil sales	$ 4,826
Commodity – Mark-to-Market	Natural gas sales	122
		$ 4,948

Earnout Derivative

Refer to Note 4 "Fair Value Measurements."

6. DEBT

Credit Agreement

We have entered into a credit facility with Royal Bank of Canada, as administrative agent and collateral agent, and the lenders party thereto, as amended by the Ninth Amendment to Third Amended and Restated Credit Agreement, dated as of November 22, 2019 (the "Credit Agreement"). The Credit Agreement provides a quarterly amortizing term loan of $155.0 million (the "Term Loan") and a maximum revolving credit amount of $17.5 million, which was reduced to the lesser of (i) $15.0 million through May 14, 2021 and (ii) from and after May 15, 2021, the positive difference of the Borrowing Base minus the aggregate outstanding principal amount of the Term Loan (the "Revolving Loan"). The Credit Agreement is a current liability that matures on September 30, 2021. We expect to refinance or extend the maturity of the Credit Agreement prior to its maturity date. However, we may not be able to refinance or extend the maturity of the Credit Agreement or, if we are able to refinance or extend the maturity, we may not be able to do so with borrowing and debt issue costs, terms, covenants, restrictions, commitment amount or a borrowing base favorable to us. Borrowings under the Credit Agreement are secured by various mortgages of both midstream and upstream properties that we own as well as various security and pledge agreements among us, certain of our subsidiaries and the administrative agent.

On November 6, 2020, the Partnership, as borrower, entered into that certain Tenth Amendment to the Third Amended and Restated Credit Agreement with the guarantors party thereto, Royal Bank of Canada, as administrative agent and collateral agent (the "Agent") and the lenders party thereto (each a "Lender") (the "Credit Agreement Amendment" and the Third Amended and Restated Credit Agreement, as amended by the Tenth Amendment, the "Amended Credit Agreement"). Pursuant to the Credit Agreement Amendment, the parties thereto agreed to, among other things: (a) amend the initial aggregate commitment amount under the first lien revolving credit facility to reduce such amount to $17.5 million, which was reduced to the lesser of (i) $15.0 million through May 14, 2021 and (ii) from and after May 15, 2021, the positive difference of the Borrowing Base minus the aggregate outstanding principal amount of the Term Loan; (b) amend the conditions precedent to the obligations of any Lender to make a Loan (as defined in the Amended Credit Agreement) to provide that through May 14, 2021, a Borrowing Base Deficiency (as defined in the Amended Credit Agreement) may exist; (c) amend the annual financial statements and annual budget affirmative covenant to provide that the Partnership's audited annual financial statements as reported on by the Partnership's independent public accountants may be delivered with a "going concern" or like qualification or exception, if such qualification or exception results from (i) any actual or prospective breach of the financial covenants set forth in Section 9.01 of the Amended Credit Agreement or (ii) the fact that the final maturity date of any Debt (as defined in the Amended Credit Agreement) is less than one year after the date of such report, and does not otherwise include any qualification or exception as to the scope of such audit; and (d) include a new post-closing covenant requiring the Partnership to either engage an Advisory Firm (as defined in the Credit Agreement Amendment) or certify that the Partnership has taken material steps, in either case, to implement a strategic transaction generating net cash proceeds reasonably expected to be greater than an amount that will allow the Partnership to repay in full all outstanding obligations under the Loan Documents (as defined in the Amended Credit Agreement) that is anticipated to close by August 31, 2021.

Borrowings under the Credit Agreement are available for limited direct investment in oil and natural gas properties, midstream properties, acquisitions, and working capital and general business purposes. The Credit Agreement has a sub-limit of up to $2.5 million which may be used for the issuance of letters of credit. Pursuant to the Credit Agreement, the initial aggregate commitment amount under the Term Loan is $155.0 million, subject to quarterly $10.0 million principal and other mandatory prepayments. The initial borrowing base under the Credit Agreement was $235.5 million. The borrowing base is equal to the sum of the rolling four quarter EBITDA of our midstream operations and the amount of distributions received from the Carnero JV multiplied by 4.5 or a lower number dependent upon natural gas volumes flowing through Western Catarina Midstream. Outstanding borrowings in excess of our borrowing base must be repaid within 45 days. As of March 31, 2021, the borrowing base under the Credit Agreement was $113.7 million and we had $104.5 million of debt outstanding, consisting of $95.0 million under the Term Loan and $9.5 million under the Revolving Loan. We are required to make mandatory amortizing payments of outstanding principal on the Term Loan of $10.0 million per fiscal quarter. The maximum revolving credit amount is $15.0 million leaving us with $5.5 million in unused borrowing capacity. There were no letters of credit outstanding under our Credit Agreement as of March 31, 2021.

At our election, interest for borrowings under the Credit Agreement are determined by reference to (i) the LIBOR plus an applicable margin between 2.50% and 3.00% per annum based on net debt to EBITDA or (ii) a domestic bank rate ("ABR") plus an applicable margin between 1.50% and 2.00% per annum based on net debt to EBITDA plus (iii) a commitment fee of 0.500% per annum based on the unutilized maximum revolving credit. Interest on the borrowings for ABR loans and the commitment fee are generally payable quarterly. Interest on the borrowings for LIBOR loans are generally payable at the applicable maturity date.

The Credit Agreement contains various covenants that limit, among other things, our ability to incur certain indebtedness, grant certain liens, merge or consolidate, sell all or substantially all of our assets, make certain loans, acquisitions, capital expenditures and investments, and pay distributions to unitholders.

In addition, we are required to maintain the following financial covenants:

- current assets to current liabilities, excluding any current maturities of debt, of at least 1.0 to 1.0 at all times; and
- senior secured net debt to consolidated adjusted EBITDA for the last twelve months, as of the last day of any fiscal quarter, of not greater than 3.5 to 1.0.

The Credit Agreement also includes customary events of default, including events of default relating to non-payment of principal, interest or fees, inaccuracy of representations and warranties when made or when deemed made, violation of covenants, cross-defaults, bankruptcy and insolvency events, certain unsatisfied judgments, loan documents not being valid and a change in control. A change in control is generally defined as the occurrence of one of the following events: (i) our existing general partner ceases to be our sole general partner or (ii) certain specified persons shall cease to own more than 50% of the equity interests of our general partner or shall cease to control our general partner. If an event of default occurs, the lenders will be able to accelerate the maturity of the Credit Agreement and exercise other rights and remedies.

At March 31, 2021, we were in compliance with the financial covenants contained in the Credit Agreement. We monitor compliance on an ongoing basis. If we are unable to remain in compliance with the financial covenants contained in our Credit Agreement or maintain the required ratios discussed above, the lenders could call an event of default and accelerate the outstanding debt under the terms of the Credit Agreement, such that our outstanding debt could become then due and payable. We may request waivers of compliance from the violated financial covenants from the lenders, but there is no assurance that such waivers would be granted.

Debt Issuance Costs

As of March 31, 2021 and December 31, 2020, our unamortized debt issuance costs were approximately $0.6 million and $0.8 million, respectively. These costs are amortized to interest expense in our condensed consolidated statements of operations over the life of our Credit Agreement. Amortization of debt issuance costs recorded during the three months ended March 31, 2021 and 2020 was approximately $0.2 million and $0.2 million, respectively.

7. OIL AND NATURAL GAS PROPERTIES AND RELATED EQUIPMENT

Gathering and transportation assets consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Gathering and transportation assets		
Midstream assets	$ 187,977	$ 187,977
Less: Accumulated depreciation, amortization and impairment	(84,491)	(82,710)
Total gathering and transportation assets, net	$ 103,486	$ 105,267

Oil and natural gas properties and related equipment consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Oil and natural gas properties and related equipment		
Proved property	$ 112,471	$ 112,471
Less: Accumulated depreciation, depletion, amortization and impairments	(95,158)	(94,843)
Total oil and natural gas properties and equipment, net	$ 17,313	$ 17,628

Oil and Natural Gas Properties. We follow the successful efforts method of accounting for our oil and natural gas production activities. Under this method of accounting, costs relating to leasehold acquisition, property acquisition and the development of proved areas are capitalized when incurred. If proved reserves are found on an undeveloped property, leasehold cost is transferred to proved properties.

Depreciation, Depletion and Amortization. Depreciation and depletion of producing oil and natural gas properties is recorded at the field level, based on the units-of-production method. Unit rates are computed for unamortized drilling and development costs using proved developed reserves and for unamortized leasehold and proved property acquisition costs using all proved reserves. Acquisition costs of proved properties are amortized on the basis of all proved reserves, developed and undeveloped, and capitalized development costs (including wells and related equipment and facilities) are amortized on the basis of proved developed reserves.

All other properties, including the gathering and transportation assets, are stated at historical acquisition cost, net of any impairments, and are depreciated using the straight-line method over the useful lives of the assets, which range from three to 15 years for furniture and equipment, up to 36 years for gathering facilities, and up to 40 years for transportation assets.

Depreciation, depletion and amortization consisted of the following (in thousands):

	Three Months Ended March 31,	
	2021	2020
Depreciation, depletion and amortization of oil and natural gas-related assets	$ 317	$ 772
Depreciation and amortization of gathering and transportation related assets	1,781	1,779
Amortization of intangible assets	3,363	3,364
Total depreciation, depletion and amortization	$ 5,461	$ 5,915

Impairment of Oil and Natural Gas Properties and Other Non-Current Assets. Oil and natural gas properties are reviewed for impairment on a field-by-field basis when facts and circumstances indicate that their carrying value may not be recoverable. We assess impairment of capitalized costs of proved oil and natural gas properties by comparing net capitalized costs to estimated undiscounted future net cash flows using expected prices. If net capitalized costs exceed estimated undiscounted future net cash flows, the measurement of impairment is based on estimated fair value, which would consider estimated future discounted cash flows. The cash flow estimates are based upon third-party reserve reports using future expected oil and natural gas prices adjusted for basis differentials.

Other inputs, besides reserves, used to determine the fair values of proved properties include estimates of: (i) future operating and development costs; (ii) future commodity prices; and (iii) a market-based weighted average cost of capital rate. Cash flow estimates for impairment testing exclude derivative instruments.

The recoverability of gathering and transportation assets is evaluated when facts or circumstances indicate that their carrying value may not be recoverable. Asset recoverability is measured by comparing the carrying value of the asset or asset group with its expected future pre-tax undiscounted cash flows. These cash flow estimates require us to make projections and assumptions for many years into the future for pricing, demand, competition, operating cost and other factors. If the carrying amount exceeds the expected future undiscounted cash flows, we recognize an impairment equal to the excess of net book value over fair value. The determination of the fair value using present value techniques requires us to make projections and assumptions regarding the probability of a range of outcomes and the rates of interest used in the present value calculations. Any changes we make to these projections and assumptions could result in significant revisions to our evaluation of recoverability of our gathering and transportation assets and the recognition of additional impairments. Upon disposition or retirement of gathering and transportation assets, any gain or loss is recorded to operations.

At year end December 31, 2020, we recorded non-cash impairment charges of $23.4 million to impair our producing oil and natural gas properties.

8. ASSET RETIREMENT OBLIGATION

We recognize the fair value of a liability for an asset retirement obligation (“ARO”) in the period in which it is incurred if a reasonable estimate of fair value can be made. Each period, we accrete the ARO to its then present value. The associated asset retirement cost (“ARC”) is capitalized as part of the carrying amount of our oil and natural gas properties, equipment and facilities or gathering and transportation assets. Subsequently, the ARC is depreciated using the units-of-production method for production assets and the straight-line method for midstream assets. The AROs recorded by us relate to the plugging and abandonment of oil and natural gas wells and decommissioning of oil and natural gas gathering and other facilities.

Inherent in the fair value calculation of AROs are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions result in adjustments to the recorded fair value of the existing ARO, a corresponding adjustment is made to the ARC capitalized as part of the oil and natural gas properties, equipment and facilities or gathering and transportation assets.

The following table is a reconciliation of changes in ARO for the three months ended March 31, 2021 and the year ended December 31, 2020 (in thousands):

	Three Months Ended March 31, 2021	Year Ended December 31, 2020
Asset retirement obligation, beginning balance	$ 7,465	$ 6,898
Accretion expense	148	567
Asset retirement obligation, ending balance	$ 7,613	$ 7,465

Additional AROs increase the liability associated with new oil and natural gas wells and other facilities as these obligations are incurred. Abandonments of oil and natural gas wells and other facilities reduce the liability for AROs. During the three months ended March 31, 2021 and the year ended December 31, 2020, there were no significant expenditures for abandonments and there were no assets legally restricted for purposes of settling existing AROs.

9. INTANGIBLE ASSETS

Intangible assets are comprised of customer and marketing contracts. The intangible assets balance as of March 31, 2021 is related to the Gathering Agreement with Mesquite that was entered into as part of the acquisition of the Western Catarina gathering system. The Western Catarina gathering system (“Western Catarina Midstream”) is located on the western portion of Mesquite’s acreage position in Dimmit, La Salle and Webb counties, Texas (the western portion of such acreage, “Western Catarina”). Pursuant to the 15-year agreement, Mesquite tenders all of its crude oil, natural gas and other hydrocarbon-based product volumes produced in the Western Catarina of the Eagle Ford Shale in Texas for processing and transportation through Western Catarina Midstream, with a right to tender additional volumes outside of the dedicated acreage. These intangible assets are being amortized using the straight-line method over the 15-year life of the agreement.

Amortization expense for each of the three months ended March 31, 2021 and 2020 was approximately $3.4 million. These costs are amortized to depreciation, depletion, and amortization expense in our condensed consolidated statements of operations. The following table is a reconciliation of changes in intangible assets (in thousands):

	March 31, 2021	December 31, 2020
Beginning balance	$ 131,786	$ 145,246
Amortization	(3,363)	(13,460)
Ending balance	$ 128,423	$ 131,786

10. INVESTMENTS

In July 2016, we completed a transaction pursuant to which we acquired from Mesquite a 50% interest in Carnero Gathering, LLC ("Carnero Gathering"), a joint venture that was 50% owned and operated by Targa Resources Corp. (NYSE: TRGP) ("Targa"), for an initial payment of approximately $37.0 million and the assumption of remaining capital commitments to Carnero Gathering, estimated at approximately $7.4 million as of the acquisition date (the "Carnero Gathering Transaction"). The fair value of the intangible asset for the contractual customer relationship related to Carnero Gathering was valued at approximately $13.0 million. This amount is being amortized over a contract term of 15 years and decreases earnings from equity investments in our condensed consolidated statements of operations. As part of the Carnero Gathering Transaction, we are required to pay Mesquite an earnout based on natural gas received above a threshold volume and tariff at designated delivery points from Mesquite and other producers. See Note 4 "Fair Value Measurements" for further discussion of the earnout derivative.

In November 2016, we completed a transaction pursuant to which we acquired from Mesquite a 50% interest in Carnero Processing, LLC ("Carnero Processing"), a joint venture that was 50% owned and operated by Targa, for aggregate cash consideration of approximately $55.5 million and the assumption of remaining capital contribution commitments to Carnero Processing, estimated at approximately $24.5 million as of the date of acquisition (the "Carnero Processing Transaction").

In May 2018, we executed a series of agreements with Targa and other parties pursuant to which, among other things: (1) the parties merged their respective 50% interests in Carnero Gathering and Carnero Processing (the "Carnero JV Transaction") to form an expanded 50 / 50 joint venture in South Texas, within Carnero G&P, LLC (the "Carnero JV"), (2) Targa contributed 100% of the equity interest in the Silver Oak II Gas Processing Plant ("Silver Oak II"), located in Bee County, Texas, to the Carnero JV, which expands the processing capacity of the Carnero JV from 260 MMcf/d to 460 MMcf/d, (3) Targa contributed certain capacity in the 45 miles of high pressure natural gas gathering pipelines owned by Carnero Gathering that connect Western Catarina Midstream to nearby pipelines and the Raptor Gas Processing Facility (the "Carnero Gathering Line") to the Carnero JV resulting in the Carnero JV owning all of the capacity in the Carnero Gathering Line, which has a design limit (without compression) of 400 MMcf/d, (4) the Carnero JV received a new dedication from Mesquite and its working interest partners of over 315,000 acres located in the Western Eagle Ford on Mesquite's acreage in Dimmit, Webb, La Salle, Zavala and Maverick counties, Texas (such acreage is collectively referred to as Mesquite's "Comanche Asset") pursuant to a new long-term firm gas gathering and processing agreement. The agreement with Mesquite, which was approved by all of the unaffiliated Comanche Asset working interest partners, establishes commercial terms for the gathering of gas on the Carnero Gathering Line and processing at the Raptor Gas Processing Facility and Silver Oak II. Prior to execution of the agreement, Comanche volumes were gathered and processed on an interruptible basis, with the processing capabilities of the Carnero JV limited by the capacity of the Raptor Gas Processing Facility. As a result of the Carnero JV Transaction, we now record our share of earnings and losses from the Carnero JV using the Hypothetical Liquidation at Book Value ("HLBV") method of accounting. The HLBV is a balance-sheet approach that calculates the amount we would have received if the Carnero JV were liquidated at book value at the end of each measurement period. The change in our allocated amount during the period is recognized in our condensed consolidated statements of operations. In the event of liquidation of the Carnero JV, available proceeds are first distributed to any priority return and unpaid capital associated with Silver Oak II, and then to members in accordance with their capital accounts.

As of March 31, 2021 the Partnership had paid approximately $124.2 million for its investment in the Carnero JV related to the initial payments and contributed capital. The Partnership has accounted for this investment using the equity method. Targa is the operator of the Carnero JV and has significant influence with respect to the normal day-to-day capital and operating decisions. We have included the investment balance in the equity investments caption on the condensed consolidated balance sheets. For the three months ended March 31, 2021, the Partnership recorded earnings of approximately $0.9 million in equity investments from the Carnero JV, which was partially offset by approximately $0.3 million related to the amortization of the contractual customer intangible asset. We have included these equity method earnings in the earnings from equity investments line within the condensed consolidated statements of operations. Cash distributions of approximately $2.6 million were received during the three months ended March 31, 2021.

Summarized financial information of unconsolidated entities is as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Sales	$ 22,829	$ 14,252
Total expenses	19,578	14,606
Net income	$ 3,251	$ (354)

11. COMMITMENTS AND CONTINGENCIES

As part of the Carnero Gathering Transaction, we are required to pay Mesquite an earnout based on natural gas received above a threshold volume and tariff at designated delivery points from Mesquite and other producers. This earnout has an approximate value of zero as of March 31, 2021. For the three months ended March 31, 2021, we made no payments to Mesquite related to the earnout.

12. RELATED PARTY TRANSACTIONS

Please read the disclosure under the headings "Relationship with Stonepeak," "Relationship with Mesquite," "Relationship with SP Holdings" and "Shared Services Agreement" in Note 13 "Related Party Transactions" of our Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2020 for a more complete description of certain related party transactions that were entered into prior to 2021.

13. UNIT-BASED COMPENSATION

The Sanchez Production Partners LP Long-Term Incentive Plan (the "LTIP") allows for grants of restricted common units. Restricted common unit activity under the LTIP during the period is presented in the following table:

	Number of Restricted Units	Weighted Average Grant Date Fair Value Per Unit
Outstanding at December 31, 2020	683,171	$ 2.68
Granted	1,651,785	1.12
Returned/Cancelled	(140,647)	2.37
Outstanding at March 31, 2021	2,194,309	$ 1.53

In April 2019, the Partnership issued 137,613 restricted common units pursuant to the LTIP to certain directors of the Partnership's general partner that vested immediately on the date of grant. In March 2019, the Partnership issued 991,560 restricted common units pursuant to the LTIP to certain officers and directors of the Partnership's general partner that vest over three years from the date of grant. The unit-based compensation expense for the awards was based on the fair value on the day before the grant date.

As of March 31, 2021, 1,577,847 common units remained available for future issuance to participants under the LTIP.

14. DISTRIBUTIONS TO UNITHOLDERS

The table below reflects the payment of distributions on Class C Preferred Units related to the periods indicated.

Three Months Ended	Class C Preferred PIK Distribution	Date of Declaration	Date of Record	Date of Distribution
June 30, 2019	939,327	August 8, 2019	August 20, 2019	August 30, 2019
September 30, 2019	1,007,820	October 30, 2019	November 29, 2019	November 20, 2019
December 31, 2019	1,039,314	February 13, 2020	February 28, 2020	February 20, 2020
March 31, 2020	1,071,793	April 29, 2020	May 20, 2020	May 29, 2020
June 30, 2020	1,105,286	July 31, 2020	August 20, 2020	August 31, 2020

On November 16, 2020, the Partnership and Stonepeak entered into a letter agreement (the "Stonepeak Letter Agreement") wherein the parties agreed that the distribution on the Class C Preferred Units for the three months ended September 30, 2020 would be paid in common units instead of Class C Preferred PIK Units, cash or a combination thereof. The aggregate distribution of 22,274,869 common units was made payable to Stonepeak on February 1, 2021.

The Stonepeak Letter Agreement also provides that Stonepeak will be able to elect to receive distributions on the Class C Preferred Units in common units for any quarter following the third quarter of 2020 by providing written notice to the Partnership no later than the last day of the calendar month following the end of such quarter.

In accordance with the Stonepeak Letter Agreement, on January 28, 2021, the Partnership received written notice of Stonepeak's election to receive distributions on the Class C Preferred Units for the quarter ended December 31, 2020 in common units. The aggregate distribution of 12,445,491 common units was paid to Stonepeak on February 25, 2021.

In accordance with the Stonepeak Letter Agreement, on April 30, 2021, the Partnership received written notice of Stonepeak's election to receive distributions on the Class C Preferred Units for the quarter ended March 31, 2021 in common units. The aggregate distribution of 13,763,249 common units will be paid to Stonepeak on May 20, 2021.

15. PARTNERS' CAPITAL

Outstanding Units

As of March 31, 2021, we had 36,474,436 Class C Preferred Units outstanding and 56,185,378 common units outstanding which included 2,194,309 unvested restricted common units issued under the LTIP.

Common Unit Issuances

We entered into a letter agreement with SP Holdings providing that during the period beginning with the fiscal quarter ended September 30, 2019 and continuing until the end of the fiscal quarter after the fiscal quarter in which we redeem all of our issued and outstanding Class C Preferred Units, SP Holdings agrees to delay receipt of its fees, not including reimbursement of costs, as a result, we have not issued any common units to SP Holdings in connection with providing services under the Shared Services Agreement for any quarter following the quarter ended June 30, 2019. As of March 31, 2021, the number of units to be issued under the Shared Services Agreement is 15,294,741.

Class C Preferred Units

On August 2, 2019, Stonepeak exchanged all of their current equity ownership for newly issued Class C Preferred Units and a warrant exercisable for junior securities (the "Warrant") in a private placement transaction (the "Exchange").

The holders of the Class C Preferred Units receive a quarterly distribution of 12.5% per annum payable in cash. To the extent that Available Cash (as defined in the Third Amended and Restated Agreement of Limited Partnership of the Partnership (the "Amended Partnership Agreement")) is insufficient to pay the distribution in cash, all or a portion of the distribution may be paid in Class C Preferred PIK Units. Commencing with the quarter ending March 31, 2022, the distribution rate will increase to 14% per annum. Distributions are to be paid on or about the last day of each of February, May, August and November following the end of each quarter and are charged to interest expense in our condensed consolidated statements of operations.

The Class C Preferred Units are accounted for as a liability on our condensed consolidated balance sheet consisting of the following (in thousands):

	March 31, 2021	December 31, 2020
Class C Preferred Units, beginning balance	$ 345,205	$ 281,688
Accretion of discount	11,650	38,938
Distribution accrual	—	24,579
Class C Preferred Units, ending balance	$ 356,855	$ 345,205

Warrant

On August 2, 2019, in connection with the Exchange, the Partnership issued to Stonepeak the Warrant, which entitles the holder to receive junior securities representing ten percent of junior securities deemed outstanding when exercised. The Warrant expires on the later of August 2, 2026 or 30 days following the full redemption of the Class C Preferred Units. There is no strike price associated with the exercise of the Warrant. The Warrant is accounted for as a liability in accordance with ASC 480 and is presented within other liabilities on the condensed consolidated balance sheet. Changes in the fair value of the Warrant are charged to interest expense in our condensed consolidated statements of operations.

Earnings per Unit

Net income (loss) per common unit for the period is based on any distributions that are made to the unitholders (common units) plus an allocation of undistributed net income (loss) based on provisions of the Amended Partnership Agreement, divided by the weighted average number of common units outstanding. The two-class method dictates that net income (loss) for a period be reduced by the amount of distributions and that any residual amount representing undistributed net income (loss) be allocated to common unitholders and other participating unitholders to the extent that each unit may share in net income (loss) as if all of the net income for the period had been distributed in accordance with the Amended Partnership Agreement. Unit-based awards granted but unvested are eligible to receive distributions. The underlying unvested restricted unit awards are considered participating securities for purposes of determining net income (loss) per unit. Undistributed income is allocated to participating securities based on the proportional relationship of the weighted average number of common units and unit-based awards outstanding. Undistributed losses (including those resulting from distributions in excess of net income) are allocated to common units based on provisions of the Amended Partnership Agreement. Undistributed losses are not allocated to unvested restricted unit awards as they do not participate in net losses. Distributions declared and paid in the period are treated as distributed earnings in the computation of earnings per common unit even though cash distributions are not necessarily derived from current or prior period earnings.

The Partnership’s general partner does not have an economic interest in the Partnership and, therefore, does not participate in the Partnership’s net income.

16. REPORTING SEGMENTS

“Midstream” and “Production” best describe the operating segments of the businesses that we separately report. The factors used to identify these reporting segments are based on the nature of the operations that are undertaken by each segment. The Midstream segment operates the gathering, processing and transportation of natural gas, NGLs and crude oil. The Production segment operates to produce crude oil and natural gas. These segments are broadly understood across the petroleum and petrochemical industries.

These functions have been defined as the operating segments of the Partnership because they are the segments (1) that engage in business activities from which revenues are earned and expenses are incurred; (2) whose operating results are regularly reviewed by the Partnership’s chief operating decision maker (“CODM”) to make decisions about resources to be allocated to the segment and to assess its performance; and (3) for which discrete financial information is available. Operating segments are evaluated for their contribution to the Partnership’s consolidated results based on operating income, which is defined as segment operating revenues less expenses.

The following tables present financial information for each operating segment for the periods indicated based on our operating segments (in thousands):

	Three Months Ended March 31,			
	2021		2020	
	Production	Midstream	Production	Midstream
Segment revenues				
Natural gas sales	$ 75	$ —	$ 234	$ —
Oil sales	2,306	—	7,187	—
Natural gas liquid sales	135	—	31	—
Gathering and transportation sales	—	—	—	785
Gathering and transportation lease revenues	—	9,294	—	12,606
Total segment revenues	2,516	9,294	7,452	13,391
Segment operating costs				
Lease operating expenses	1,483	357	1,858	51
Transportation operating expenses	—	1,903	—	2,558
Production taxes	105	—	106	—
Depreciation, depletion and amortization	317	5,144	772	5,143
Asset impairments	—	—	23,247	—
Accretion expense	55	93	52	86
Total segment operating costs	1,960	7,497	26,035	7,838
Segment other income				
Earnings from equity investments	—	599	—	(1,202)
Total segment other income	—	599	—	(1,202)
Segment operating income	$ 556	$ 2,396	$ (18,583)	$ 4,351

	Three Months Ended March 31,	
	2021	2020
Reconciliation of segment operating income (loss) to net loss		
Total midstream operating income	$ 2,396	$ 4,351
Total production operating income (loss)	556	(18,583)
Total segment operating income (loss)	2,952	(14,232)
General and administrative expenses	(6,933)	(3,775)
Unit-based compensation expense	(337)	(398)
Interest expense, net	(30,447)	(23,009)
Income tax expense	(40)	73
Net loss	$ (34,805)	$ (41,341)

The following table summarizes the total assets by operating segment as of March 31, 2021 and December 31, 2020 and total capital expenditures for the three months ended March 31, 2021 and the year ended December 31, 2020 (in thousands):

	March 31, 2021			
	Production	Midstream	Corporate [(a)]	Total
Other financial information				
Total assets	$ 16,852	$ 327,645	$ 2,558	$ 347,055
Capital expenditures[(b)]	$ —	$ —	$ —	$ —

	December 31, 2020			
	Production	Midstream	Corporate [(a)]	Total
Other financial information				
Total assets	$ 19,242	$ 331,926	$ 2,260	$ 353,428
Capital expenditures[(b)]	$ (5)	$ 1,943	$ —	$ 1,938

(a) Corporate assets not reviewed by the CODM on a segment basis consists of cash, certain prepaid expenses, office furniture, and other assets.
(b) Inclusive of capital contributions made to equity method investments.

17. VARIABLE INTEREST ENTITIES

The Partnership's investment in the Carnero JV represents a variable interest entity ("VIE") that could expose the Partnership to losses. The amount of losses the Partnership could be exposed to from the Carnero JV is limited to the capital investment of approximately $87.7 million.

As of March 31, 2021, the Partnership had invested approximately $124.2 million in the Carnero JV and no debt has been incurred by the Carnero JV. We have included this VIE in other assets, equity investments on our condensed consolidated balance sheet.

Below is a tabular comparison of the carrying amounts of the assets and liabilities of the VIE and the Partnership's maximum exposure to loss as of March 31, 2021 and December 31, 2020 (in thousands):

	March 31, 2021	December 31, 2020
Acquisitions, earnout and capital investments	$ 128,251	$ 128,251
Earnings in equity investments	31,054	30,455
Distributions received	(71,635)	(69,071)
Maximum exposure to loss	$ 87,670	$ 89,635

18. SUBSEQUENT EVENTS

Palmetto Divestiture

On April 30, 2021, but effective March 1, 2021 (the "Palmetto Effective Time"), SEP Holdings IV, LLC ("SEP IV"), a wholly-owned subsidiary of the Partnership entered into a purchase agreement (the "Palmetto PSA") with Westhoff Palmetto LP ("Palmetto Buyer"), pursuant to which SEP IV sold to Palmetto Buyer specified wellbores and other associated assets located in Gonzales and Dewitt Counties, Texas (the "Palmetto Assets") for a base purchase price of approximately $11.5 million, which remains subject to customary post-closing adjustments (the "Palmetto Divestiture"). Pursuant to the Palmetto PSA, other than a limited amount of retained obligations, Palmetto Buyer has agreed to assume all obligations relating to the Palmetto Assets that arose on or after the Palmetto Effective Time. The Palmetto PSA contains customary representations and warranties by SEP IV and Palmetto Buyer, and SEP IV and Palmetto Buyer have agreed to customary indemnities relating to breaches of representations, warranties and covenants and the payment of assumed and excluded obligations. The transaction contemplated by the Palmetto PSA closed simultaneously with the execution of the Palmetto PSA.

Maverick Divestiture

On April 30, 2021, but effective March 1, 2021 (the "Maverick Effective Time"), SEP IV entered into a purchase agreement (the "Maverick PSA") with Bayshore Energy TX LLC ("Maverick Buyer"), pursuant to which SEP IV sold to Maverick Buyer specified wellbores and other associated assets located in Zavala County, Texas (the "Maverick 1 Assets") for a base purchase price of approximately $2.8 million, which remains subject to customary post-closing adjustments (the "Maverick 1 Divestiture"). Pursuant to the Maverick PSA, other than a limited amount of retained obligations, Maverick Buyer has agreed to assume all obligations relating to the Maverick 1 Assets that arose on or after the Maverick Effective Time. The Maverick PSA contains customary representations and warranties by SEP IV and Maverick Buyer, and SEP IV and Maverick Buyer have agreed to customary indemnities relating to breaches of representations, warranties and covenants and the payment of assumed and excluded obligations. The Maverick 1 Divestiture closed simultaneously with the execution of the Maverick PSA.

Also on April 30, 2021, SEP IV entered into a letter agreement with Maverick Buyer pursuant to which SEP IV has agreed to sell additional other specified wellbores and other associated assets located in Zavala and Dimmit Counties, Texas (the "Maverick 2 Assets") for a base purchase price of approximately $1.4 million, which will also be subject to customary post-closing adjustments (the "Maverick 2 Divestiture"). The closing of the Maverick 2 Divestiture is conditioned upon SEP IV obtaining certain consents and complying with other preferential rights related to the Maverick 2 Assets. Once the Partnership has satisfied such conditions, SEP IV and Maverick Buyer will enter in a purchase agreement with respect to the Maverick 2 Assets. The Maverick 2 Divestiture is expected to close in the second quarter of 2021.

Stonepeak Letter Agreement Election

On April 30, 2021, the Partnership received written notice of Stonepeak's election to receive distributions on the Class C Preferred Units for the quarter ended March 31, 2021, in common units. In accordance with the Stonepeak Letter Agreement, the Partnership will issue 13,763,249 common units to Stonepeak on May 20, 2021.

NYSE American Update

On April 29, 2021, the Partnership received notice (the "2021 Notice") from NYSE American LLC ("NYSE American") that the Partnership was not in compliance with the continued listing standards set forth in Section 1003(a)(ii) of the NYSE American Company Guide (the "Company Guide"). Section 1003(a)(ii) applies if a listed company has stockholders' equity of less than U.S. $4.0 million and has reported losses from continuing operations and/or net losses in three of its four most recent fiscal years. The Partnership can regain compliance under Section 1003(a)(ii) of the Company Guide, as well as under Section 1003(a)(i), as previously disclosed, under the compliance plan approved by the NYSE American on June 25, 2020, which granted the Partnership a plan period through October 3, 2021. The Partnership is not required to submit an additional plan to NYSE American with respect to Section 1003(a)(ii). Receipt of the 2021 Notice does not affect the Partnership's business, operations, financial or liquidity condition, or reporting requirements with the SEC.

Gas Lift Agreement

On April 21, 2021, but effective January 1, 2021, Catarina Midstream, LLC, a wholly-owned subsidiary of the Partnership, entered into a Gas Lift Agreement (the "Gas Lift Agreement") with SN Catarina, LLC, a subsidiary of Mesquite. Pursuant to the Gas Lift Agreement, (i) Catarina Midstream LLC will provide certain gas lift services ancillary to Mesquite's oil and gas operations on the Piloncillo Ranch in South Texas, and (ii) Mesquite will pay a per-Mcf gas lift fee based on the volume of Catrina Midstream, LLC's compressed gas delivered to Mesquite in connection with the provision of such gas lift services. The initial term of the Gas Lift Agreement is one year and it will continue on a year-to-year basis thereafter unless terminated by either party at least 60 days prior to the expiration of the initial term or any successive one-year term. Under the terms of the Gas Lift Agreement, each of the parties provided general representations and warranties and indemnification to the other party.

ATM Program

On April 20, 2021 the Partnership entered into an ATM Sales Agreement (the "Sales Agreement") with Virtu Americas LLC ("Virtu"). Pursuant to the to the terms of the Sales Agreement, the Partnership may sell from time to time through Virtu, as the Partnership's sales agent or principal, common units having an aggregate offering price of up to $7,000,000 (the "ATM Units"). Sales of the ATM Units can be made by any method permitted that is deemed an "at the market offering" as defined in Rule 415 under the Securities Act of 1933. The Partnership will use the net proceeds from any sales pursuant to the Sales Agreement, after deducting offering expenses and Virtu's commissions, for general partnership purposes, which may include repaying or refinancing a portion of the Partnership's outstanding indebtedness and funding capital expenditures or working capital.

Amended and Restated Executive Services Agreement for Realignment

On April 15, 2021, the Partnership and our general partner entered into that certain Amended and Restated Executive Services Agreement for Realignment (the "Amended Agreement") with Gerald F. Willinger, a current member of the Board, and the Chief Executive Officer of our general partner. The Amended Agreement amends and restates that certain Executive Services Agreement, dated August 2, 2019, by and between Mr. Willinger, our general partner and the Partnership. The Amended Agreement is entered into in connection with the Partnership's go-forward strategy to acquire, develop and own infrastructure critical to the transition of energy supply to lower carbon sources.

Pursuant to the terms of the Amended Agreement, for a period from April 15, 2021 through December 31, 2021, Mr. Willinger will continue to serve in his role as Chief Executive Officer of the General Partner and will cooperate with the Board in connection with the Board's realignment and transition of his roles and responsibilities to other members of the management team for our general partner and the Partnership. The Amended Agreement includes a customary general release of claims and certain covenants and agreements from Mr. Willinger related to confidential information, cooperation following termination or expiration of the Amended Agreement, non-solicitation of customers and non-competition.

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

The following discussion and analysis should be read in conjunction with the financial statements and the summary of significant accounting policies and notes included herein and in our most recent Annual Report on Form 10-K. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, forecasts, guidance, beliefs and expected performance. The "forward-looking statements" are dependent upon events, risks and uncertainties that may be outside our control. Our actual results could differ materially from those discussed in these "forward-looking statements." Please read "Cautionary Note Regarding Forward-Looking Statements."

Overview

We are a publicly-traded limited partnership formed in 2005 focused on the acquisition, development, ownership and operation of infrastructure critical to the transition of energy supply to lower carbon sources. We own natural gas gathering systems, pipelines and processing facilities in South Texas and continue to pursue energy transition infrastructure opportunities. Our common units are currently listed on the NYSE American under the symbol "SNMP."

On February 26, 2021, in connection with our management team's focus on expanding our business strategy to focus on the ongoing energy transition in the industries in which we operate, we changed our name to Evolve Transition Infrastructure LP and our general partner changed its name to Evolve Transition Infrastructure GP LLC.

Recent Developments

Board Committee and Compensation Changes

On March 31, 2021, Alan S. Bigman resigned from the Board. Mr. Bigman served as the chair of the audit committee and as a member of the conflicts committee. Mr. Bigman was also designated as the audit committee financial expert. In response to Mr. Bigman's resignation, on March 31, 2021, the Board (i) designated Richard S. Langdon as the audit committee financial expert and appointed Mr. Langdon as chairman of the audit committee; and (ii) appointed Steven E. Meisel to serve as a member of the audit committee and to replace Mr. Langdon as chairman of the conflicts committee. Mr. Langdon continues to serve as a member of the conflicts committee.

On March 31, 2021, the Board reviewed the compensation of the independent members of the Board and determined that in consideration of the current composition of the Board and the current strategies and goals of the Partnership, a simplified compensation structure without the opportunity for equity compensation is desirable. Effective as of April 1, 2021, the compensation of the independent members of the Board consists of a monthly $12,500 retainer, payable on the last day of each calendar month, with the first such payment occurring on April 30, 2021.

How We Evaluate Our Operations

We evaluate our business on the basis of the following key measures:

- our throughput volumes on gathering systems upon acquiring those assets;
- our operating expenses; and
- our Adjusted EBITDA, a non-GAAP financial measure (for a reconciliation of Adjusted EBITDA to the most comparable GAAP financial measure please read "–Non-GAAP Financial Measures–Adjusted EBITDA").

Throughput Volumes

Our management analyzes our performance based on the aggregate amount of throughput volumes on the gathering system. We must connect additional wells or well pads within Mesquite's Catarina Asset, which is in Dimmit, La Salle and Webb counties in Texas, in order to maintain or increase throughput volumes on Western Catarina Midstream. Our success in connecting additional wells is impacted by successful drilling activity by Mesquite on the acreage dedicated to Western Catarina Midstream, our ability to secure volumes from Mesquite or third parties from new wells drilled on non-dedicated acreage, our ability to attract hydrocarbon volumes currently gathered by our competitors and our ability to cost-effectively construct or acquire new infrastructure. Construction of the Seco Pipeline was completed in August 2017, however, Mesquite does not currently transport any volumes on the Seco Pipeline following termination of the Seco Pipeline Transportation Agreement effective February 12, 2020. Future throughput volumes on the pipeline are dependent on execution of a new transportation agreement with Mesquite or execution of an agreement with a third party.

Operating Expenses

Our management seeks to maximize Adjusted EBITDA, a non-GAAP financial measure, in part by minimizing operating expenses. These expenses are or will be comprised primarily of field operating costs (which generally consists of lease operating expenses, labor, vehicles, supervision, transportation, minor maintenance, tools and supplies expenses, among other items), compression expense, ad valorem taxes and other operating costs, some of which will be independent of our oil and natural gas production or the throughput volumes on the midstream gathering system but fluctuate depending on the scale of our operations during a specific period.

Non-GAAP Financial Measures—Adjusted EBITDA

To supplement our financial results and guidance presented in accordance with GAAP, we use Adjusted EBITDA, a non-GAAP financial measure, in this Form 10-Q. We believe that non-GAAP financial measures are helpful in understanding our past financial performance and potential future results, particularly in light of the effect of various transactions effected by us. We define Adjusted EBITDA as net income (loss) adjusted by: (i) interest (income) expense, net, which includes interest expense, interest expense net (gain) loss on interest rate derivative contracts, and interest (income); (ii) income tax expense (benefit); (iii) depreciation, depletion and amortization; (iv) asset impairments; (v) accretion expense; (vi) (gain) loss on sale of assets; (vii) unit-based compensation expense; (viii) unit-based asset management fees; (ix) distributions in excess of equity earnings; (x) (gain) loss on mark-to-market activities; (xi) commodity derivatives settled early; (xii) (gain) loss on embedded derivatives; and (xiii) acquisition and divestiture costs.

Adjusted EBITDA is used as a quantitative standard by our management and by external users of our financial statements such as investors, research analysts, our lenders and others to assess: (i) the financial performance of our assets without regard to financing methods, capital structure or historical cost basis; (ii) the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness; and (iii) our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure.

We believe that the presentation of Adjusted EBITDA provides useful information to investors in assessing our financial condition and results of operations. The GAAP measure most directly comparable to Adjusted EBITDA is net income (loss). Our non-GAAP financial measure of Adjusted EBITDA should not be considered as an alternative to GAAP net income (loss). Adjusted EBITDA has important limitations as an analytical tool because it excludes some but not all items that affect net income (loss). Adjusted EBITDA should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Because Adjusted EBITDA may be defined differently by other companies in our industry, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies, thereby diminishing its utility.

The following table sets forth a reconciliation of Adjusted EBITDA to net loss, its most directly comparable GAAP performance measure, for each of the periods presented (in thousands):

	Three Months Ended March 31,	
	2021	2020
Net loss	$ (34,805)	$ (41,341)
Adjusted by:		
Interest expense, net	30,447	23,009
Income tax expense	40	(73)
Depreciation, depletion and amortization	5,461	5,915
Asset impairments	—	23,247
Accretion expense	148	138
Unit-based compensation expense	337	398
Unit-based asset management fees	4,447	1,155
Distributions in excess of equity earnings	1,011	4,821
(Gain) loss on mark-to-market activities	—	(4,473)
Adjusted EBITDA	$ 7,086	$ 12,796

Significant Operational Factors

Throughput. The following table sets forth selected throughput data pertaining to the Midstream segment for the periods indicated:

	Three Months Ended March 31,	
	2021	2020
Western Catarina Midstream:		
Oil (MBbls/d)	6.1	8.0
Natural gas (MMcf/d)	78.9	99.8
Water (MBbls/d)	2.4	3.0
Seco Pipeline:		
Natural gas (MMcf/d)	—	0.3

Production. Our production for the three months ended March 31, 2021, was 52 MBoe, or an average of 571 Boe/d, compared to approximately 60 MBoe, or an average of 659 Boe/d, for the three months ended March 31, 2020.

Subsequent Events

Palmetto Divestiture

On April 30, 2021, but effective March 1, 2021 (the "Palmetto Effective Time"), SEP Holdings IV, LLC ("SEP IV"), a wholly-owned subsidiary of the Partnership entered into a purchase agreement (the "Palmetto PSA") with Westhoff Palmetto LP ("Palmetto Buyer"), pursuant to which SEP IV sold to Palmetto Buyer specified wellbores and other associated assets located in Gonzales and Dewitt Counties, Texas (the "Palmetto Assets") for a base purchase price of approximately $11.5 million, which remains subject to customary post-closing adjustments (the "Palmetto Divestiture"). Pursuant to the Palmetto PSA, other than a limited amount of retained obligations, Palmetto Buyer has agreed to assume all obligations relating to the Palmetto Assets that arose on or after the Palmetto Effective Time. The Palmetto PSA contains customary representations and warranties by SEP IV and Palmetto Buyer, and SEP IV and Palmetto Buyer have agreed to customary indemnities relating to breaches of representations, warranties and covenants and the payment of assumed and excluded obligations. The transaction contemplated by the Palmetto PSA closed simultaneously with the execution of the Palmetto PSA.

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On April 30, 2021, but effective March 1, 2021 (the "Maverick Effective Time"), SEP IV entered into a purchase agreement (the "Maverick PSA") with Bayshore Energy TX LLC ("Maverick Buyer"), pursuant to which SEP IV sold to Maverick Buyer specified wellbores and other associated assets located in Zavala County, Texas (the "Maverick 1 Assets") for a base purchase price of approximately $2.8 million, which remains subject to customary post-closing adjustments (the "Maverick 1 Divestiture"). Pursuant to the Maverick PSA, other than a limited amount of retained obligations, Maverick Buyer has agreed to assume all obligations relating to the Maverick 1 Assets that arose on or after the Maverick Effective Time. The Maverick PSA contains customary representations and warranties by SEP IV and Maverick Buyer, and SEP IV and Maverick Buyer have agreed to customary indemnities relating to breaches of representations, warranties and covenants and the payment of assumed and excluded obligations. The Maverick 1 Divestiture closed simultaneously with the execution of the Maverick PSA.

Also on April 30, 2021, SEP IV entered into a letter agreement with Maverick Buyer pursuant to which SEP IV has agreed to sell additional other specified wellbores and other associated assets located in Zavala and Dimmit Counties, Texas (the "Maverick 2 Assets") for a base purchase price of approximately $1.4 million, which will also be subject to customary post-closing adjustments (the "Maverick 2 Divestiture"). The closing of the Maverick 2 Divestiture is conditioned upon SEP IV obtaining certain consents and complying with other preferential rights related to the Maverick 2 Assets. Once the Partnership has satisfied such conditions, SEP IV and Maverick Buyer will enter in a purchase agreement with respect to the Maverick 2 Assets. The Maverick 2 Divestiture is expected to close in the second quarter of 2021.

NYSE American Update

On April 29, 2021, the Partnership received notice (the "2021 Notice") from NYSE American LLC ("NYSE American") that the Partnership was not in compliance with the continued listing standards set forth in Section 1003(a)(ii) of the NYSE American Company Guide (the "Company Guide"). That section applies if a listed company has stockholders' equity of less than U.S. $4.0 million and has reported losses from continuing operations and/or net losses in three of its four most recent fiscal years. The Partnership can regain compliance under Section 1003(a)(ii) of the Company Guide, as well as under Section 1003(a)(i), as previously disclosed, under the compliance plan approved by the NYSE American on June 25, 2020, which granted the Partnership a plan period through October 3, 2021. The Partnership is not required to submit an additional plan to NYSE American with respect to Section 1003(a)(ii). Receipt of the 2021 Notice does not affect the Partnership's business, operations, financial or liquidity condition, or reporting requirements with the SEC.

Gas Lift Agreement

On April 21, 2021, but effective January 1, 2021, Catarina Midstream, LLC, a wholly-owned subsidiary of the Partnership, entered into a Gas Lift Agreement (the "Gas Lift Agreement") with SN Catarina, LLC, a subsidiary of Mesquite. Pursuant to the Gas Lift Agreement, (i) Catarina Midstream LLC will provide certain gas lift services ancillary to Mesquite's oil and gas operations on the Piloncillo Ranch in South Texas, and (ii) Mesquite will pay a per-Mcf gas lift fee based on the volume of Catrina Midstream, LLC's compressed gas delivered to Mesquite in connection with the provision of such gas lift services. The initial term of the Gas Lift Agreement is one year and it will continue on a year-to-year basis thereafter unless terminated by either party at least 60 days prior to the expiration of the initial term or any successive one-year term. Under the terms of the Gas Lift Agreement, each of the parties provided general representations and warranties and indemnification to the other party.

ATM Program

On April 20, 2021 the Partnership entered into an ATM Sales Agreement (the "Sales Agreement") with Virtu Americas LLC ("Virtu"). Pursuant to the to the terms of the Sales Agreement, the Partnership may sell from time to time through Virtu, as the Partnership's sales agent or principal, common units having an aggregate offering price of up to $7,000,000 (the "ATM Units"). Sales of the ATM Units can be made by any method permitted that is deemed an "at the market offering" as defined in Rule 415 under the Securities Act of 1933. The Partnership will use the net proceeds from any sales pursuant to the Sales Agreement, after deducting offering expenses and Virtu's commissions, for general partnership purposes, which may include repaying or refinancing a portion of the Partnership's outstanding indebtedness and funding capital expenditures or working capital.

Amended and Restated Executive Services Agreement for Realignment

On April 15, 2021, the Partnership and our general partner entered into that certain Amended and Restated Executive Services Agreement for Realignment (the "Amended Agreement") with Gerald F. Willinger, a current member of the Board, and the Chief Executive Officer of our general partner. The Amended Agreement amends and restates that certain Executive Services Agreement, dated August 2, 2019, by and between Mr. Willinger, our general partner and the Partnership. The Amended Agreement is entered into in connection with the Partnership's go-forward strategy to acquire, develop and own infrastructure critical to the transition of energy supply to lower carbon sources.

Pursuant to the terms of the Amended Agreement, for a period from April 15, 2021 through December 31, 2021, Mr. Willinger will continue to serve in his role as Chief Executive Officer of the General Partner and will cooperate with the Board in connection with the Board's realignment and transition of his roles and responsibilities to other members of the management team for our general partner and the Partnership. The Amended Agreement includes a customary general release of claims and certain covenants and agreements from Mr. Willinger related to confidential information, cooperation following termination or expiration of the Amended Agreement, non-solicitation of customers and non-competition.

Results of Operations by Segment

Three months ended March 31, 2021 compared to three months ended March 31, 2020

Midstream Operating Results

The following table sets forth the selected financial and operating data pertaining to the Midstream segment for the periods indicated (in thousands):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Variance	
Revenues:				
Gathering and transportation sales	$ —	$ 785	$ (785)	(100)%
Gathering and transportation lease revenues	9,294	12,606	(3,312)	(26)%
Total gathering and transportation sales	9,294	13,391	(4,097)	(31)%
Operating expenses:				
Lease operating expenses	357	51	306	NM [(a)]
Transportation operating expenses	1,903	2,558	(655)	(26)%
Depreciation and amortization	5,144	5,143	1	0%
Accretion expense	93	86	7	8%
Total operating expenses	7,497	7,838	(341)	(4)%
Other income:				
Earnings (loss) from equity investments	599	(1,202)	1,801	(150)%
Operating income	$ 2,396	$ 4,351	$ (1,955)	(45)%

(a) Variances deemed to be Not Meaningful "NM."

Gathering and transportation sales. Gathering and transportation sales decreased approximately $0.8 million, or 100%, to zero for the three months ended March 31, 2021, compared to approximately $0.8 million for the same period in 2020. This decrease was the result of the termination of the Seco Pipeline Transportation Agreement, which was effective through February 12, 2020.

Gathering and transportation lease revenues. Gathering and transportation lease revenues decreased approximately $3.3 million, or 26%, to approximately $9.3 million for the three months ended March 31, 2021, compared to approximately $12.6 million for the same period in 2020. This decrease was primarily the result of a decrease in overall volumes being transported through Western Catarina Midstream under the Gathering Agreement.

Lease operating expenses. Lease operating expenses, which include ad valorem taxes, increased approximately $0.3 million, or 600%, to approximately $0.4 million for the three months ended March 31, 2021, compared to approximately less than $0.1 million during the same period in 2020.

Transportation operating expenses. Our transportation operating expenses generally consist of equipment rentals, chemicals, treating, metering fees, permit and regulatory fees, labor, minor maintenance, tools, supplies and pipeline integrity management expenses. Our transportation operating expenses decreased by approximately $0.7 million, or 26%, to approximately $1.9 million for the three months ended March 31, 2021 compared to approximately $2.6 million for the same period in 2020. This decrease was due to the nature of operating expenses being dependent on throughput.

Depreciation and amortization expense. Gathering and transportation assets are stated at historical acquisition cost, net of any impairments, and are depreciated using the straight-line method over the useful lives of the assets, which range from five to 15 years for equipment and up to 36 years for gathering facilities. Our depreciation and amortization expense was consistent for the three months ended March 31, 2021 compared to the same period in 2020.

Earnings from equity investments. Earnings from equity investments increased approximately $1.8 million, or 150%, to earnings of approximately $0.6 million for the three months ended March 31, 2021, compared to a loss of approximately $1.2 million for the same period in 2020. This increase was primarily the result of higher throughput during the three months ended March 31, 2021.

Production Operating Results

The following tables set forth the selected financial and operating data pertaining to the Production segment for the periods indicated (in thousands, except net production and average sales and average unit costs):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Variance	
Revenues:				
Natural gas sales at market price	$ 75	$ 112	$ (37)	(33)%
Natural gas hedge settlements	—	94	(94)	(100)%
Natural gas mark-to-market activities	—	28	(28)	(100)%
Natural gas total	75	234	(159)	(68)%
Oil sales at market price	2,306	2,361	(55)	(2)%
Oil hedge settlements	—	381	(381)	(100)%
Oil mark-to-market activities	—	4,445	(4,445)	(100)%
Oil total	2,306	7,187	(4,881)	(68)%
NGL sales	135	31	104	NM (a)
Total revenues	2,516	7,452	(4,936)	(66)%
Operating expenses:				
Lease operating expenses	1,483	1,858	(375)	(20)%
Production taxes	105	106	(1)	(1)%
Depreciation, depletion and amortization	317	772	(455)	(59)%
Asset impairments	—	23,247	(23,247)	(100)%
Accretion expense	55	52	3	6%
Total operating expenses	1,960	26,035	(24,075)	(92)%
Operating income	$ 556	$ (18,583)	$ 19,139	(103)%

(a) Variances deemed to be Not Meaningful "NM."

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Variance	
Net production:				
Natural gas (MMcf)	30	42	(12)	(29)%
Oil production (MBbl)	41	48	(7)	(15)%
NGLs (MBbl)	6	5	1	20%
Total production (MBoe)	52	60	(8)	(13)%
Average daily production (Boe/d)	578	659	(81)	(12)%
Average sales prices:				
Natural gas price per Mcf with hedge settlements	$ 2.50	$ 4.90	$ (2.40)	(49)%
Natural gas price per Mcf without hedge settlements	$ 2.50	$ 2.67	$ (0.17)	(6)%
Oil price per Bbl with hedge settlements	$ 56.24	$ 57.13	$ (0.89)	(2)%
Oil price per Bbl without hedge settlements	$ 56.24	$ 49.19	$ 7.05	14%
NGL price per Bbl without hedge settlements	$ 22.50	$ 6.20	$ 16.30	263%
Total price per Boe with hedge settlements	$ 48.38	$ 49.65	$ (1.27)	(3)%
Total price per Boe without hedge settlements	$ 48.38	$ 41.73	$ 6.65	16%
Average unit costs per Boe:				
Field operating expenses [a]	$ 30.54	$ 32.73	$ (2.19)	(7)%
Lease operating expenses	$ 28.52	$ 30.97	$ (2.45)	(8)%
Production taxes	$ 2.02	$ 1.77	$ 0.25	14%
Depreciation, depletion and amortization	$ 6.10	$ 12.87	$ (6.77)	(53)%

(a) Field operating expenses include lease operating expenses and production taxes.

Production. For the three months ended March 31, 2021, 79% of our production was oil, 12% was NGLs and 10% was natural gas as compared to the three months ended March 31, 2020, when 80% of our production was oil, 8% was NGLs and 12% was natural gas. The production mix between the periods has remained largely consistent. Combined production decreased by 8 MBoe for the three months ended March 31, 2021. This decrease was due to weather related issues in South Texas causing certain wells to temporarily cease production.

Sales of natural gas, NGLs and oil. Unhedged oil, NGL and unhedged natural gas sales remained relatively consistent for the three months ended March 31, 2021, with no material change when compared to the same period in 2020. Oil and natural gas sales were impacted by a slight decrease in production as noted above which was offset by increased oil and NGL prices.

Our total production-related revenue decreased approximately $4.9 million for the three months ended March 31, 2021, compared to the same period in 2020. This decrease was primarily the result of an approximately $4.9 million gain on oil and natural gas hedging activities during the three months ended March 31, 2020 compared to no activity during the same period in 2021 due to production being unhedged for 2021.

The following tables provide an analysis of the impacts of changes in average realized prices and production volumes between the periods on our unhedged revenues from the three months ended March 31, 2020 compared to the three months ended March 31, 2021 (dollars in thousands, except average sales prices):

	Q1 2021 Production Volume	Q1 2020 Production Volume	Production Volume Difference	Q1 2020 Average Sales Price	Revenue Decrease due to Production
Natural gas (MMcf)	30	42	(12)	$ 2.67	$ (32)
Oil (MBbl)	41	48	(7)	$ 49.19	$ (344)
NGLs (MBbl)	6	5	1	$ 6.20	$ 6
Total oil equivalent (MBoe)	52	60	(8)	$ 41.73	$ (370)

	Q1 2021 Average Sales Price	Q1 2020 Average Sales Price	Average Sales Price Difference	Q1 2021 Volume	Revenue Decrease due to Price
Natural gas (MMcf)	$ 2.50	$ 2.67	$ (0.17)	30	$ (5)
Oil (MBbl)	$ 56.24	$ 49.19	$ 7.05	41	$ 289
NGLs (MBbl)	$ 22.50	$ 6.20	$ 16.30	6	$ 98
Total oil equivalent (MBoe)	$ 48.38	$ 41.73	$ 6.65	52	$ 382

A 10% increase or decrease in our average realized sales prices, excluding the impact of derivatives, would have increased or decreased our revenues for the three months ended March 31, 2021 by approximately $0.3 million.

Hedging and mark-to-market activities. We apply mark-to-market accounting to our derivative contracts and the full volatility of the non-cash change in fair value of our outstanding contracts is reflected in oil and natural gas sales. We do not have derivative contracts related to production in 2021 and beyond. As a result, there are no hedging and mark-to-market activities or related cash settlements for the three months ended March 31, 2021. For the three months ended March 31, 2020, we had a non-cash mark-to-market gain of approximately $4.5 million. Cash settlements received for our commodity derivative contracts were approximately $0.5 million for the three months ended March 31, 2020.

Field operating expenses. Our field operating expenses generally consist of lease operating expenses, labor, vehicles, supervision, transportation, minor maintenance, tools and supplies expenses, as well as production and ad valorem taxes.

Lease operating expense. Lease operating expenses, which includes ad valorem taxes, decreased approximately $0.4 million, or 20%, to approximately $1.5 million for the three months ended March 31, 2021, compared to approximately $1.9 million for the same period in 2020. This decrease was primarily the result of reduced workover activity during the three months ended March 31, 2021 compared to the same period in 2020.

Depreciation, depletion and amortization expense. Depreciation, depletion and amortization expense includes the depreciation, depletion and amortization of acquisition costs and equipment costs. Depletion is calculated using units-of-production under the successful efforts method of accounting. Assuming other variables remain constant, as oil, natural gas and NGL production increases or decreases, our depletion expense would increase or decrease as well.

Our depreciation, depletion and amortization expense for the three months ended March 31, 2021 decreased approximately $0.5 million, or 59%, to approximately $0.3 million, compared to approximately $0.8 million for the same period in 2020. This decrease is primarily the result of reduced depletion from the $23.2 million proved property impairment charges taken in the first quarter 2020.

Impairment expense. We did not record impairment charges for the three months ended March 31, 2021, compared to approximately $23.2 million for the same period in 2020.

Consolidated Earnings Results

The following table sets forth the reconciliation of segment operating income to net loss for periods indicated (in thousands):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Variance	
Reconciliation of segment operating income to net loss				
Total production operating income	$ 556	$ (18,583)	$ 19,139	NM (a)
Total midstream operating income	2,396	4,351	(1,955)	(45)%
Total segment operating income	2,952	(14,232)	17,184	NM (a)
General and administrative expenses	(6,933)	(3,775)	(3,158)	84%
Unit-based compensation expense	(337)	(398)	61	(15)%
Interest expense, net	(30,447)	(23,009)	(7,438)	32%
Income tax expense	(40)	73	(113)	(155)%
Net loss	$ (34,805)	$ (41,341)	$ 6,536	(16)%

(a) Variances deemed to be Not Meaningful "NM."

General and administrative expenses. General and administrative expenses include indirect costs billed by SP Holdings in connection with the Shared Services Agreement, field office expenses, professional fees and other costs not directly associated with field operations. General and administrative expenses increased by approximately $3.2 million, or 84%, to approximately $6.9 million for the three months ended March 31, 2021 compared to approximately $3.8 million for the same period in 2020. The increase was primarily the result of an increase in the market-to-market impact to the asset management fee as a result of the increase in the market price of our common units during the period.

Unit-based compensation expense. Unit-based compensation expense decreased approximately $0.1 million, or 15%, to approximately $0.3 million for the three months ended March 31, 2021, compared to approximately $0.4 million for the same period in 2020.

Interest expense, net. Interest expense consists of distributions on the Class C Preferred Units, non-cash accretion of the discount on the Class C Preferred Units, the non-cash change in fair value of the Warrant and cash interest expense from borrowings under the Credit Agreement. Interest expense increased approximately $7.6 million, or 33%, to approximately $30.7 million for the three months ended March 31, 2021 compared to approximately $23.0 million for the same period in 2020. This increase was the result of higher distributions on the Class C Preferred Units and an increase in common unit price causing the Warrant value to increase. Cash interest expense for the three months ended March 31, 2021 was approximately $0.9 million compared to approximately $1.8 million for the same period in 2020. The decrease in cash interest expense was primarily the result of the decrease in the outstanding Credit Agreement debt balance between the periods.

Income tax expense. Income tax expense was approximately $40.0 thousand for the three months ended March 31, 2021, compared to a benefit of approximately $73.0 thousand for the same period in 2020. The increase resulted from income taxes on gross margin within the state of Texas, which was primarily driven by an increase in deferred taxes over the comparable periods.

Liquidity and Capital Resources

As of March 31, 2021, we had approximately $1.6 million in cash and cash equivalents and $5.5 million available for borrowing under the Credit Agreement, as discussed further below.

During the three months ended March 31, 2021, we paid approximately $0.8 million in cash for interest on borrowings under our Credit Agreement, of which approximately $12.5 thousand was related to the fee on undrawn commitments.

Our capital expenditures during the three months ended March 31, 2021 were funded with cash on hand. In the future, capital and liquidity are anticipated to be provided by operating cash flows, borrowings under our Credit Agreement and proceeds from the issuance of additional debt, additional common units or other limited partner interests. We expect that the combination of these capital resources will be adequate to meet our short-term working capital requirements, long-term capital expenditures program and quarterly cash distributions, if any. However, there can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain our current debt level, planned levels of capital expenditures, operating expenses or any cash distributions that we may make to unitholders.

We expect that our future cash requirements relating to working capital, maintenance capital expenditures and quarterly cash distributions, if any to our partners will be funded from cash flows internally generated from our operations. Our expansion capital expenditures will be funded by borrowings under our Credit Agreement or from potential capital market transactions. However, there can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain our current debt level, planned levels of capital expenditures, operating expenses or any cash distributions that we may make to unitholders.

Credit Agreement

We have entered into a credit facility with Royal Bank of Canada, as administrative agent and collateral agent, and the lenders party thereto as amended by the Credit Agreement Amendment (the "Credit Agreement"). The Credit Agreement provides a quarterly amortizing term loan of $155.0 million (the "Term Loan") and a maximum revolving credit amount of $17.5 million, which was reduced to the lesser of (i) $15.0 million through May 14, 2021 and (ii) from and after May 15, 2021, the positive difference of the Borrowing Base minus the aggregate outstanding principal amount of the Term Loan (the "Revolving Loan"). The Term Loan and Revolving Loan both have a maturity date of September 30, 2021. Borrowings under the Credit Agreement are secured by various mortgages of both midstream and upstream properties that we own as well as various security and pledge agreements among us, certain of our subsidiaries and the administrative agent.

The Credit Agreement is a current liability that matures on September 30, 2021. We expect to refinance or extend the maturity of the Credit Agreement prior to its maturity date. However, we may not be able to refinance or extend the maturity of the Credit Agreement or, if we are able to refinance or extend the maturity, we may not be able to do so with borrowing and debt issue costs, terms, covenants, restrictions, commitment amount or a borrowing base favorable to us.

Borrowings under the Credit Agreement are available for limited direct investment in oil and natural gas properties, midstream properties, acquisitions, and working capital and general business purposes. The Credit Agreement has a sub-limit of up to $2.5 million which may be used for the issuance of letters of credit. Pursuant to the Credit Agreement, the initial aggregate commitment amount under the Term Loan is $155.0 million, subject to quarterly $10.0 million principal and other mandatory prepayments. The borrowing base is equal to the sum of the rolling four quarter EBITDA of our midstream operations and the amount of distributions received from the Carnero JV multiplied by 4.5 or a lower number dependent upon natural gas volumes flowing through Western Catarina Midstream. Outstanding borrowings in excess of our borrowing base must be repaid within 45 days. As of March 31, 2021, the borrowing base under the Credit Agreement was $113.7 million and we had $104.5 million of debt outstanding, consisting of $95.0 million under the Term Loan and $9.5 million under the Revolving Loan. We are required to make mandatory payments of outstanding principal on the Term Loan of $10.0 million per fiscal quarter. The maximum revolving credit amount is $15.0 million which left us with $5.5 million in unused borrowing capacity at March 31, 2021. There were no letters of credit outstanding under our Credit Agreement as of March 31, 2021.

At our election, interest for borrowings under the Credit Agreement are determined by reference to (i) the London interbank offered rate ("LIBOR") plus an applicable margin between 2.50% and 3.00% per annum based on net debt to EBITDA or (ii) a domestic bank rate ("ABR") plus an applicable margin between 1.50% and 2.00% per annum based on net debt to EBITDA plus (iii) a commitment fee of 0.500% per annum based on the unutilized maximum revolving credit. Interest on the borrowings for ABR loans and the commitment fee are generally payable quarterly. Interest on the borrowings for LIBOR loans are generally payable at the applicable maturity date.

The Credit Agreement contains various covenants that limit, among other things, our ability to incur certain indebtedness, grant certain liens, merge or consolidate, sell all or substantially all of our assets, make certain loans, acquisitions, capital expenditures and investments, and pay distributions.

In addition, we are required to maintain the following financial covenants:

- current assets to current liabilities excluding any current maturities of debt, of at least 1.0 to 1.0 at all times; and
- senior secured net debt to consolidated adjusted EBITDA for the last twelve months, as of the last day of any fiscal quarter, of not greater than 3.5 to 1.0.

The Credit Agreement also includes customary events of default, including events of default relating to non-payment of principal, interest or fees, inaccuracy of representations and warranties when made or when deemed made, violation of covenants, cross-defaults, bankruptcy and insolvency events, certain unsatisfied judgments, loan documents not being valid and a change in control. A change in control is generally defined as the occurrence of one of the following events: (i) our existing general partner ceases to be our sole general partner or (ii) certain specified persons shall cease to own more than 50% of the equity interests of our general partner or shall cease to control our general partner. If an event of default occurs, the lenders will be able to accelerate the maturity of the Credit Agreement and exercise other rights and remedies.

Our partnership agreement prohibits us from paying any distributions on our common units until we have redeemed all of the Class C Preferred Units. Following such redemption, the Credit Agreement further limits our ability to pay distributions to unitholders.

The Partnership's inability to generate sufficient liquidity to meet future debt obligations raises substantial doubt regarding our ability to continue as a going concern. The Credit Agreement matures September 30, 2021 and our ability to continue as a going concern is dependent upon our ability to either (i) refinance or extend the maturity of the Credit Agreement, or (ii) obtain adequate new debt or equity financing to repay the Credit Agreement in full at maturity. The Tenth Amendment provides that the Partnership's audited annual financial statements may be delivered with a "going concern" or like qualification or exception, if such qualification or exception results from the fact that the final maturity date of the Amended Credit Agreement is less than one year after the date of such report, and does not otherwise include any qualification or exception as to the scope of such audit.

The Tenth Amendment contains a new covenant (the "Transaction Covenant"), which provides that we must either (i) engage an Advisory Firm to advise us with respect to a Qualifying Transaction, or, (ii) without an Advisory Firm, take material steps towards engaging in a Qualifying Transaction. If we engage an Advisory Firm, then the target closing date for a Qualifying Transaction must be no later than August 31, 2021. If we take material steps on our own, then the target closing date for a Qualifying Transaction must be on or before June 30, 2021 or we must hire an Advisory Firm. In either event, the net cash proceeds must be reasonably expected to be greater than the full amount due under the Credit Agreement on the maturity date. If we are unable to comply with the Transaction Covenant it will be deemed an immediate event of default under the Credit Agreement, which could cause all of our existing indebtedness to become immediately due and payable. Please read "Item 1A. Risk Factors—Our Credit Agreement has substantial prepayment requirements, other restrictions and financial covenants and requires periodic borrowing base redeterminations."

At March 31, 2021, we were in compliance with the financial covenants contained in the Credit Agreement. We monitor compliance on an ongoing basis. If we are unable to remain in compliance with the financial covenants contained in our Credit Agreement or maintain the required ratios discussed above, the lenders could call an event of default and accelerate the outstanding debt under the terms of the Credit Agreement, such that our outstanding debt could become then due and payable. We may request waivers of compliance from the violated financial covenants from the lenders, but there is no assurance that such waivers would be granted.

Sources of Debt and Equity Financing

As of March 31, 2021, we had $9.5 million of debt outstanding under the Revolving Loan, leaving us with $5.5 million in unused borrowing capacity. There were no letters of credit outstanding under our Credit Agreement as of March 31, 2021. Our Credit Agreement matures on September 30, 2021.

Operating Cash Flows

We had net cash flows provided by operating activities for the three months ended March 31, 2021 of approximately $6.4 million, compared to net cash flows provided by operating activities of approximately $6.5 million for the same period in 2020.

Our operating cash flows are subject to many variables, the most significant of which is the volume of oil and natural gas transported through our midstream assets, volatility of oil and natural gas prices and our level of production of oil and natural gas. Oil and natural gas prices are determined primarily by prevailing market conditions, which are dependent on regional and worldwide economic activity, weather and other factors beyond our control. Our future operating cash flows will depend on oil and natural gas transported through our midstream assets, as well as the market prices of oil and natural gas and our hedging program.

Investing Activities

We had zero net cash flows used in investing activities for the three months ended March 31, 2021 compared to net cash flows used in investing activities of approximately $0.1 million for the same period in 2020, substantially all of which were related to midstream activities.

Financing Activities

Net cash flows used in financing activities was approximately $6.5 million for the three months ended March 31, 2021. During the three months ended March 31, 2021, we repaid borrowings of $6.5 million under our Credit Agreement.

Net cash flows used in financing activities was approximately $10.1 million for the three months ended March 31, 2020. During the three months ended March 31, 2020, we repaid borrowings of $10.0 million under our Credit Agreement.

Going Concern

Our historical consolidated financial statements have been prepared under the assumption that we will continue as a going concern. The report on our audited consolidated financial statements for the year ended December 31, 2020, issued by our independent registered public accounting firm and included in our Annual Report on Form 10-K for the year ended December 31, 2020 (“2020 10-K”), includes an explanatory paragraph referring to our inability to generate sufficient liquidity to meet future debt obligations which raises substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to either (i) refinance or extend the maturity of the Credit Agreement, or (ii) obtain adequate new debt or equity financing to repay the Credit Agreement in full at maturity. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The outcome of these matters cannot be predicted with any certainty at this time and raise doubt that we will be able to continue as a going concern. Our consolidated financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern.

Off-Balance Sheet Arrangements

As of March 31, 2021, we had no off-balance sheet arrangements with third parties, and we maintain no debt obligations that contained provisions requiring accelerated payment of the related obligations in the event of specified levels of declines in credit ratings.

Credit Markets and Counterparty Risk

We actively monitor the credit exposure and risks associated with our counterparties. Additionally, we continue to monitor global credit markets to limit our potential exposure to credit risk where possible. Our primary credit exposures result from the generation of substantially all of our midstream business segment revenues from a single customer, Mesquite, the sale of oil and natural gas and our use of derivatives.

On August 11, 2019, the SN Debtors filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy code in the Bankruptcy Court, jointly administered under Case No. 19-34508 (the “Mesquite Chapter 11 Case”). On January 13, 2020, we received written notice of termination from Mesquite terminating the Seco Pipeline Transportation Agreement, effective February 12, 2020. On June 30, 2020, the SN Debtors emerged from the Mesquite Chapter 11 Case, with Mesquite Company becoming a privately held corporation. Given our midstream focus, our primary credit exposure relates to the creditworthiness of the counterparties under our gathering and processing agreements including, among other counterparties, Mesquite.

On June 6, 2020 the Partnership, our general partner and certain of our subsidiaries entered into the Settlement Agreement. On June 30, 2020, the Bankruptcy Court entered an order approving the Settlement Agreement and the parties to the Settlement Agreement entered into or amended certain commercial contracts, which will become effective only upon satisfaction of certain closing conditions described in the Settlement Agreement unless terminated earlier.

On June 23, 2020, certain affiliates of each Occidental Petroleum Corp., The Blackstone Group and GSO Capital Partners filed the Rejection Lawsuits against Mesquite and certain of its subsidiaries requesting, among other things, that the Bankruptcy Court not approve the rejection of certain commercial agreements, as set forth in the Settlement Agreement, in connection with Mesquite’s Comanche Asset. The commercial agreements contemplated by the Settlement Agreement that the Partnership and its subsidiaries entered into on June 30, 2020 will not become effective until, among other things, the Rejection Lawsuits have been resolved in favor of the SN Debtors and the Bankruptcy Court has approved the rejection of the certain commercial agreements underlying the Rejection Lawsuits. The Rejection Lawsuits were not resolved by October 1, 2020, and as a result the parties to the Settlement Agreement may terminate the Settlement Agreement at any time pursuant to its terms. To date, none of the parties of the Settlement Agreement have provided notice of termination.

Any development that materially and adversely affects Mesquite’s operations or financial condition, including the failure to favorably resolve the Rejections Lawsuits or termination of the Settlement Agreement, could have a material adverse impact on us, including but not limited to impairment losses on fixed assets. For additional information on the risks associated with our relationships with Mesquite, please read “Part I, Item 1A. Risk Factors” in our 2020 10-K.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil and natural gas reserves and related cash flow estimates used in the calculation of depletion and impairment of oil and natural gas properties, the fair value of commodity derivative contracts and asset retirement obligations, accrued oil and natural gas revenues and expenses and the allocation of general and administrative expenses. Actual results could differ materially from those estimates.

As of March 31, 2021, there were no changes with regard to the critical accounting policies disclosed in our 2020 10-K. The policies disclosed included the accounting for oil and natural gas properties, oil and natural gas reserve quantities, revenue recognition and hedging activities. Please read "Part I, Item 1. Note 2 Basis of Presentation and Summary of Significant Accounting Policies" to our condensed consolidated financial statements for a discussion of additional accounting policies and estimates made by management.

New Accounting Pronouncements

See "Part I, Item 1. Note 2 Basis of Presentation and Summary of Significant Accounting Policies" to our condensed consolidated financial statements included in this report for information on new accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and are not required to provide the information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Principal Executive Officer and the Principal Financial Officer of the general partner of SNMP have evaluated the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of March 31, 2021 (the "Evaluation Date"). Based on such evaluation, the Principal Executive Officer and the Principal Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including the Principal Executive Officer and the Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II—Other Information

Item 1. Legal Proceedings

From time to time we may be the subject of lawsuits and claims arising in the ordinary course of business. Management cannot predict the ultimate outcome of such lawsuits or claims. Management does not currently expect the outcome of any of the known claims or proceedings to individually or in the aggregate have a material adverse effect on our results of operations or financial condition.

To date, no claims relating to the Mesquite Chapter 11 Case have been filed against us. However, on March 13, 2020, the official committee of unsecured creditors in the Mesquite Chapter 11 Case (the "Committee") filed the *Motion of the Official Committee of Unsecured Creditors for Leave, Standing, and Authority to Prosecute Claims on Behalf of the Debtors' Estate and for Related Relief* (the "Standing Motion"). In its Standing Motion, the Committee sought, in relevant part, authority from the Court to prosecute certain identified claims against the Partnership, the general partner and Catarina Midstream, LLC (collectively, the "Evolve Parties" and the claims, the "Claims") that, if valid, belong to Mesquite.

On June 30, 2020, the SN Debtors emerged from the Mesquite Chapter 11 Case, with Mesquite becoming a privately held corporation. Upon emergence, the Claims re-vested, and are owned by, the Reorganized Debtors (as defined in the Plan). Accordingly, the Committee was dissolved and no longer retains the authority to bring all or a portion of the Claims against the Evolve Parties. Further, the Settlement Agreement contemplates, in relevant part, the settlement of the Claims between the Reorganized Debtors and the Evolve Parties. On May 6, 2021, the Bankruptcy Court entered an order approving the rejection of three of the contracts at issue in the Rejection Lawsuit filed by certain affiliates of Occidental Petroleum Corp. In the Bankruptcy Court's accompanying opinion, the Bankruptcy Court found the contracts were executory and could be rejected by the SN Debtors despite containing covenants running with the land, but all real property rights conveyed by the SN Debtors under such contracts remained with their contract counterparties. Based on the Bankruptcy Court's rationale, we anticipate that the Court will also approve the rejection of the contracts relevant to the Settlement Agreement, but a formal court order to that effect is necessary for the Settlement Agreement to close. However, the Rejection Lawsuits were not resolved as of October 1, 2020, and as a result the parties to the Settlement Agreement may terminate the Settlement Agreement at any time pursuant to its terms. To date, none of the parties to the Settlement Agreement have provided notice of termination. The settlement of the Claims in accordance with the terms of the Settlement Agreement may be adversely impacted if the Bankruptcy Court does not rule in favor of the SN Debtors in the Rejection Lawsuits as anticipated above.

Item 1A. Risk Factors

Carefully consider the risk factors under "Part I, Item 1A. Risk Factors" in our 2020 10-K. There have been no significant changes except as follows:

You will not receive cash distributions on your common units until we are able to redeem 100% of the outstanding Class C Preferred Units, as a result, you are unlikely to receive cash distributions on your common units for the foreseeable future.

Our partnership agreement prohibits us from declaring or making any distributions, redemptions or repurchases in respect of any junior securities or any parity securities until the first quarter in which no Class C Preferred Units remain outstanding. This means that you will not receive any cash distributions on your common units until such time as we are able to redeem all of the outstanding Class C Preferred Units. We currently have the right to redeem 100% of the outstanding Class C Preferred Units for cash at the greater of the current market price or the liquidation preference for the Class C Preferred Units. As of May 12, 2021, the liquidation preference for the Class C Preferred Units was approximately $413.5 million. Our total revenues for the three months ended March 31, 2021 were approximately $11.8 million. As a result, you are unlikely to receive cash distributions on your common units for the foreseeable future.

Stonepeak and its affiliates may sell common units in the public or private markets, and such sales could have an adverse impact on the trading price of the common units.

As of May 12, 2021, Stonepeak and its affiliates owned (i) 39,623,443 common units, representing approximately 72.7% of our outstanding common units, and (ii) a warrant exercisable for junior securities that entitles Stonepeak Catarina to receive junior securities of the Partnership (including common units) representing 10% of all junior securities deemed outstanding when exercised. Additionally, we have agreed to provide Stonepeak Catarina with certain registration rights under applicable securities laws. The sale of these common units in the public or private markets could have an adverse impact on the price of the common units or on the trading market for our common units.

If we are unable to continue as a going concern, you may lose some or all of your investment in us.

Our credit agreement matures September 30, 2021 and our ability to continue as a going concern is contingent upon our ability to either (i) refinance or extend the maturity of our credit agreement, or (ii) obtain adequate new debt or equity financing to repay our credit agreement in full at maturity. We intend to refinance or extend the maturity of our credit agreement prior to its maturity date. However, we may not be able to refinance or extend the maturity of our credit agreement or, if we are able to refinance or extend the maturity, we may not be able to do so with borrowing and debt issue costs, terms, covenants, restrictions, commitment amount or a borrowing base favorable to us. The consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020, have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The consolidated financial statements do not include any adjustments that might result from the outcome of substantial doubt as to our ability to continue as a going concern. If we cannot continue as a going concern, you may lose some or all of your investment in us.

You may experience substantial future dilution.

On November 16, 2020, we entered into a letter agreement with Stonepeak Catarina (the "Stonepeak Letter Agreement") wherein we agreed with Stonepeak Catarina that the distribution on their Class C Preferred Units for the three months ended September 30, 2020 would be paid in common units instead of Class C Preferred PIK Units, cash or a combination thereof. The Stonepeak Letter Agreement also provides Stonepeak Catarina with the ability to elect to receive distributions on the Class C Preferred Units in common units for any quarter following the third quarter of 2020 by providing written notice to us no later than the last day of the calendar month following the end of such quarter. The transactions under the Stonepeak Letter Agreement were approved by the conflicts committee of the board of directors of our general partner. As a result of the Stonepeak Letter Agreement, aggregate distributions of 22,274,869 common units and 12,445,491 common units were made to Stonepeak Catarina on February 1, 2021 and February 25, 2021, respectively, representing distributions for the third quarter of 2020 and the fourth quarter of 2021, respectively. In accordance with the Stonepeak Letter Agreement, on April 30, 2021, the Partnership received written notice of Stonepeak's election to receive distributions on the Class C Preferred Units for the quarter ended March 31, 2021 in common units. The aggregate distribution of 13,763,249 common units will be paid to Stonepeak on May 20, 2021. Stonepeak Catarina may elect to receive future distributions on their Class C Preferred Units in common units instead of Class C Preferred PIK Units and, as a result, you may experience substantial future dilution.

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

No common units were purchased during the three months ended March 31, 2021.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits required to be filed pursuant to the requirements of Item 601 of Regulation S-K are set forth in the exhibit index below and are incorporated herein by reference.

EXHIBIT INDEX

Exhibit Number	Description
3.1	Certificate of Amendment to Certificate of Limited Partnership of Sanchez Midstream Partners LP, effective February 26, 2021 (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Evolve Transition Infrastructure LP on February 26, 2021, File No. 001-33147).
3.2	Amendment No. 1 to the Third Amended and Restated Agreement of Limited Partnership of Sanchez Midstream Partners LP, effective February 26, 2021 (incorporated herein by reference to Exhibit 3.2 to the Current Report on Form 8-K filed by Evolve Transition Infrastructure LP on February 26, 2021, File No. 001-33147).
3.3	Certificate of Amendment to Certificate of Formation of Sanchez Midstream Partners GP LLC, effective February 26, 2021 (incorporated herein by reference to Exhibit 3.3 to the Current Report on Form 8-K filed by Evolve Transition Infrastructure LP on February 26, 2021, File No. 001-33147).
3.4	Amendment No. 5 to the Limited Liability Company Agreement of Sanchez Midstream Partners GP LLC, effective February 26, 2021 (incorporated herein by reference to Exhibit 3.4 to the Current Report on Form 8-K filed by Evolve Transition Infrastructure LP on February 26, 2021, File No. 001-33147).
10.1	Amendment No. 1 to Warrant Exercisable for Junior Securities, dated February 24, 2021, by and between Sanchez Midstream Partners LP and Stonepeak Catarina Holdings LLC (incorporated herein by reference to 10.30 to the Annual Report on Form 10-K filed by Evolve Transition Infrastructure LP on March 16, 2021, File No. 001-33147).
10.2	Form of Award Agreement Relating to Restricted Units (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Evolve Transition Infrastructure LP on March 23, 2021, File No. 001-33147).
10.3	Award Agreement Relating to Restricted Units, dated March 18, 2021, between Evolve Transition Infrastructure LP and Gerald F. Willinger (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by Evolve Transition Infrastructure LP on March 23, 2021, File No. 001-33147).
10.4	Award Agreement Relating to Restricted Units, dated March 18, 2021, between Evolve Transition Infrastructure LP and Charles C. Ward (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by Evolve Transition Infrastructure LP on March 23, 2021, File No. 001-33147).
10.5	Summary Compensation of Independent Directors of Evolve Transition Infrastructure GP LLC (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Evolve Transition Infrastructure LP on March 31, 2021, File No. 001-33147).
31.1**	Certification of Principal Executive Officer of Evolve Transition Infrastructure GP LLC pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Principal Financial Officer of Evolve Transition Infrastructure GP LLC pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of Principal Executive Officer of Evolve Transition Infrastructure GP LLC pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2***	Certification of Principal Financial Officer of Evolve Transition Infrastructure GP LLC pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	Inline XBRL Instance Document
101.SCH**	Inline XBRL Schema Document
101.CAL**	Inline XBRL Calculation Linkbase Document
101.LAB**	Inline XBRL Label Linkbase Document
101.PRE**	Inline XBRL Presentation Linkbase Document
101.DEF**	Inline XBRL Definition Linkbase Document

** Filed herewith.

*** Furnished herewith.

SIGNATURES

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

Evolve Transition Infrastructure LP

By: Evolve Transition Infrastructure GP LLC, its general partner

Date: May 13, 2021	By	/s/ Charles C. Ward
		Charles C. Ward Chief Financial Officer and Secretary (Duly Authorized Officer and Principal Financial Officer)

Exhibit 31.1

EVOLVE TRANSITION INFRASTRUCTURE LP
CERTIFICATION

I, Gerald F. Willinger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Evolve Transition Infrastructure LP;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2021

/s/ Gerald F. Willinger

Gerald F. Willinger
Chief Executive Officer
Evolve Transition Infrastructure GP, LLC, as general partner of Evolve Transition Infrastructure LP
(Principal Executive Officer)

Exhibit 31.2

EVOLVE TRANSITION INFRASTRUCTURE LP
CERTIFICATION

I, Charles C. Ward, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Evolve Transition Infrastructure LP;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2021

/s/ Charles C. Ward

Charles C. Ward

Chief Financial Officer and Secretary

Evolve Transition Infrastructure GP, LLC, as general partner of Evolve Transition Infrastructure LP
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gerald F. Willinger, Chief Executive Officer of Evolve Transition Infrastructure GP, LLC, as general partner of Evolve Transition Infrastructure LP, certify pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to my knowledge:

(i) The accompanying Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Evolve Transition Infrastructure LP.

/s/ Gerald F. Willinger

Gerald F. Willinger
Chief Executive Officer

Date: May 13, 2021

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles C. Ward, Chief Financial Officer and Secretary of Evolve Transition Infrastructure GP, LLC, as general partner of Evolve Transition Infrastructure LP, certify pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to my knowledge:

(i) The accompanying Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Evolve Transition Infrastructure LP.

/s/ Charles C. Ward

Charles C. Ward
Chief Financial Officer and Secretary
Evolve Transition Infrastructure GP, LLC, as general partner of Evolve Transition Infrastructure LP
(Principal Financial Officer)

Date: May 13, 2021