Transaction costs

During the year ended December 31, 2020, we recorded transaction costs primarily due to legal, consulting and other fees of approximately $1.0 million related to the business combination which was consummated on January 7, 2021 and $0.3 million related to other potential transactions, offset by net reimbursements of $0.7 million related to the business combination (the "Bold Transaction") pursuant to the Bold Contribution Agreement (as defined below) which closed on May 9, 2017. During the year ended December 31, 2019, the Company recorded transaction costs totaling approximately $1.1 million primarily due to the Bold Transaction.

Gain on sale of oil and gas properties, net

During the years ended December 31, 2020 and 2019, we sold certain oil and gas properties located in the Midland Basin, recording gains totaling $0.2 million and $3.6 million, respectively. See *Note 3. Acquisitions and Divestitures* in the Notes to Consolidated Financial Statements.

Interest expense, net

Interest expense includes commitment fees, amortization of deferred financing costs, and interest on outstanding indebtedness. Interest expense decreased from $6.6 million for the year ended December 31, 2019, to $5.2 million for the year ended December 31, 2020 primarily due to lower effective interest rates, as well as lower outstanding borrowings compared to the prior year. See *Note 13. Long-Term Debt* in the Notes to Consolidated Financial Statements.

Write-off of deferred financing costs

During the year ended December 31, 2019, in connection with the termination of the prior credit agreement, $1.2 million of remaining unamortized deferred financing costs were expensed and included in Write-off of deferred financing costs in the Consolidated Statements of Operations. See *Note 13. Long-Term Debt* in the Notes to Consolidated Financial Statements.

Gain (loss) on derivative contracts, net

For the year ended December 31, 2020, we recorded a net gain on derivative contracts of $59.9 million, consisting of net realized gains on settlements of $56.0 million and unrealized mark-to-market gains of $3.9 million. For the year ended December 31, 2019, we recorded a net loss on derivative contracts of $44.0 million, consisting of unrealized mark-to-market losses of $59.8 million, partially offset by net realized gains on settlements of $15.9 million.

Income tax benefit (expense)

During the year ended December 31, 2020, the Company recorded total income tax benefit of $0.11 million which included (1) deferred income tax expense for Lynden US of $0.15 million as a result of its share of the distributable income from EEH, (2) deferred income tax benefit for Earthstone of $0.61 million as a result of its share of the distributable loss from EEH, which was offset by a valuation allowance as future realization of the net deferred tax asset cannot be assured and (3) current income tax expense of $0.55 million, offset by deferred income tax benefit of $0.51 million related to the Texas Margin Tax. Lynden Corp incurred no material income or loss, or related income tax expense or benefit, for the year ended December 31, 2020.

During the year ended December 31, 2019, the Company recorded a total income tax expense of $1.7 million which included (1) deferred income tax expense for Lynden US of $0.1 million as a result of its share of the distributable income from EEH, (2) deferred income tax expense for Earthstone of $0.4 million as a result of its share of the distributable income from EEH, which was used to reduce the valuation allowance recorded against its deferred tax asset as future realization of the net deferred tax asset cannot be assured and (3) deferred income tax expense of $1.6 million related to the Texas Margin Tax. Lynden Corp incurred no material income or loss, or related income tax expense or benefit, for the year ended December 31, 2019.

Liquidity and Capital Resources

We have significant undeveloped acreage and future drilling locations. Drilling horizontal wells, generally consisting of 7,500 to 12,000-foot lateral lengths, in the Midland Basin is capital intensive. As of December 31, 2020, we had $1.5 million in cash and $115 million of long-term debt outstanding under our Credit Agreement with a borrowing base of $240 million. With the $125 million of undrawn borrowing base capacity and $1.5 million in cash, we had total liquidity of approximately $126.5 million. Subsequent to year-end, Earthstone closed on its previously announced acquisition of IRM and amended the Credit Agreement. As of March 1, 2021, we had $10.1 million in cash and $227.5 million of long-term debt outstanding under our Credit Agreement, as amended, with a borrowing base of $360 million. With the $132.5 million of undrawn borrowing base capacity and $10.1 million in cash, we had total liquidity of approximately $142.6 million.