EP ENERGY LLC
CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

This report is being furnished with respect to the Stockholders Agreement, dated as of October 1, 2020, by and among EP Energy Corporation and the stockholders listed therein.

EP ENERGY LLC

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Below is a list of terms that are common to our industry and used throughout this document:

/d	=	per day
Bbl	=	barrel
Bcf	=	billion cubic feet
Boe	=	barrel of oil equivalent
LLS	=	light Louisiana sweet crude oil
MBoe	=	thousand barrels of oil equivalent
MBbls	=	thousand barrels
Mcf	=	thousand cubic feet
MMBtu	=	million British thermal units
MMBoe	=	million barrels of oil equivalent
MMBbls	=	million barrels
MMcf	=	million cubic feet
Mt. Belvieu	=	natural gas liquids pricing index at the processing and storage hub in Mont Belvieu, TX
NGLs	=	natural gas liquids
NYMEX	=	New York Mercantile Exchange
TBtu	=	trillion British thermal units
Waha	=	natural gas pricing index at the Waha header system/vicinity in the Permian basin in West Texas
WTI	=	West Texas intermediate

When we refer to oil and natural gas in “equivalents,” we are doing so to compare quantities of oil with quantities of natural gas or to express these different commodities in a common unit. Equivalent volumes are computed with natural gas converted to barrels at a ratio of six Mcf to one Bbl. Also, when we refer to cubic feet measurements, all measurements are at a pressure of 14.73 pounds per square inch.

When we refer to “us”, “we”, “our”, “ours”, “the Company”, or “EP Energy”, we are describing EP Energy LLC and/or its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve risks and uncertainties, many of which are beyond our control. These forward-looking statements are based on assumptions or beliefs that we believe to be reasonable; however, assumed facts almost always vary from the actual results and such variances can be material. Where we express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis. We cannot assure you, however, that the stated expectation or belief will occur. The words “believe”, “expect”, “estimate”, “anticipate”, "plan", “intend”, "could" and “should” and similar expressions will generally identify forward-looking statements. All of our forward-looking statements are expressly qualified by these and the other cautionary statements in this Annual Report. Important factors that could cause our actual results to differ materially from the expectations reflected in our forward-looking statements include, among others:

- the volatility of and potential for sustained low oil, natural gas, and NGLs prices;
- the supply and demand for oil, natural gas and NGLs;
- risks related to epidemics, outbreaks or other public health events, such as the Coronavirus Disease 2019 (or COVID-19);
- changes in commodity prices and basis differentials for oil and natural gas;
- our ability to meet production volume targets;
- the uncertainty of estimating proved reserves and unproved resources;
- our ability to develop proved undeveloped reserves;
- the future level of operating and capital costs;
- the availability and cost of financing to fund future exploration and production operations;
- the success of drilling programs with regard to proved undeveloped reserves and unproved resources;
- our ability to comply with the covenants in various financing documents or to obtain any necessary consents, waivers or forbearance thereunder;
- our ability to generate sufficient cash flow to meet our debt obligations and commitments;
- our ability to obtain necessary governmental approvals for proposed exploration and production projects and to successfully construct and operate such projects;
- credit and performance risks of our lenders, trading counterparties, customers, vendors, suppliers and third party operators;
- general economic and weather conditions in geographic regions or markets we serve, or where operations are located, including the risk of a global recession and negative impact on demand for oil and/or natural gas;
- the uncertainties associated with governmental regulation, including any potential changes in federal and state tax and environmental laws and regulations; and
- competition.

In light of these risks, uncertainties and assumptions, the events anticipated by these forward-looking statements may not occur, and, if any of such events do occur, we may not have anticipated the timing of their occurrence or the extent of their impact on our actual results. Accordingly, you should not place any undue reliance on any of these forward-looking statements. These forward-looking statements speak only as of the date made, and we undertake no obligation, other than as required by applicable law, to update or revise its forward-looking statements, whether as a result of new information, subsequent events, anticipated or unanticipated circumstances or otherwise.

EXPLANATORY NOTE

EP Energy LLC is a wholly-owned subsidiary of EP Energy Corporation. EP Energy Corporation has no material assets or liabilities outside of its interest in EP Energy LLC.

ITEM 1. BUSINESS

Overview

EP Energy LLC (EP Energy), a wholly-owned subsidiary of EP Energy Corporation, is a Delaware limited liability company formed in 2012. Our strategy is to invest in opportunities that provide the highest return across our asset base, continually seek out operating and capital efficiencies, effectively manage costs, and identify accretive acquisition opportunities and divestitures, all with the objective of enhancing our portfolio, growing asset value, improving cash flow and increasing financial flexibility.

We operate through a diverse base of producing assets and are focused on the development of our drilling inventory located in two core areas: the Eagle Ford Shale in South Texas and Northeastern Utah ("NEU") in the Uinta basin. As of December 31, 2020, excluding our Permian asset which we divested in February 2021, we had proved reserves of 175 MMBoe (65% oil) and for the year ended December 31, 2020, we had average net daily production of 45,200 Boe/d (65% oil).

Each of our areas is characterized by a long-lived reserve base and high drilling success rates. We have established significant contiguous leasehold positions in each area, representing approximately 270,000 net (410,000 gross) acres in total, excluding the Permian.

In addition to opportunities in our current portfolio, strategic acquisitions of leasehold acreage or acquisitions of producing assets can allow us to leverage existing expertise in our operating areas, balance our exposure to regions, basins and commodities, help us achieve or enhance risk-adjusted returns competitive with those available in our existing programs and increase our reserves. We also continuously evaluate our asset portfolio and will sell oil and natural gas properties if they no longer meet our long-term objectives.

Reorganization and Exit from Chapter 11

Formation of Special Committee. In the second quarter 2019, our Board of Directors (the "Board") appointed a special committee (the "Special Committee") of three independent directors that were not affiliated with our former Sponsors (affiliates of Apollo Global Management, Inc. ("Apollo"), Riverstone Holdings LLC, Access Industries, Inc. ("Access") and Korea National Oil Corporation, collectively, the "Sponsors"), and we engaged financial and legal advisors to consider a number of potential actions and evaluate certain strategic alternatives to address our liquidity and balance sheet issues.

On October 3, 2019, we and certain of our direct and indirect subsidiaries (collectively with the Company, the "Debtors") filed voluntary petitions (the "Chapter 11 Cases") in the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court") seeking relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). To ensure ordinary course operations, the Debtors obtained approval from the Bankruptcy Court for a variety of "first day" motions, including motions to obtain customary relief intended to assure our ability to continue our ordinary course operations after the filing date. In addition, the Debtors received authority to use cash collateral of the lenders under the RBL Facility.

The commencement of the Chapter 11 Cases constituted an immediate event of default, and caused the automatic and immediate acceleration of all debt outstanding under or in respect of a number of our instruments and agreements relating to our direct financial obligations, including our RBL Facility and indentures governing the 2025 1.5 Lien Notes, 7.750% Senior Secured Notes due 2026, 8.000% Senior Secured Notes due 2024 (the "2024 1.25 Lien Notes"), 9.375% Senior Secured Notes due 2024 (the "2024 1.5 Lien Notes"), 9.375% Senior Notes due 2020, 2022 Unsecured Notes and 6.375% Senior Notes due 2023 (collectively, the "Senior Notes"). Any efforts to enforce such payment obligations were automatically stayed as a result of the filing of the Chapter 11 Cases and the creditors' rights of enforcement in respect of the Senior Notes and the RBL Facility are subject to the applicable provisions of the Bankruptcy Code.

Plan Support Agreement and Backstop Commitment Agreement. On October 18, 2019, the Debtors entered into a plan support agreement (the "PSA") to support a restructuring on the terms of a chapter 11 plan of reorganization (as defined below, the "Plan") with holders of approximately 52.0% of the 2024 1.25 Lien Notes and approximately 79.3% of the 2024 1.5 Lien Notes and the 2025 1.5 Lien Notes issued, in each case, by EP Energy LLC and Everest Acquisition Finance Inc. The holders of these notes included affiliates of, or funds managed by, Elliott Management Corporation ("Elliott"), Apollo (together with Elliott, the "Initial Supporting Noteholders"), Access, and Avenue Capital Group (collectively, with the Initial Supporting Noteholders and Access, the "Supporting Noteholders"), to support a restructuring on the terms of a chapter 11 plan described therein. On October 18, 2019, the Debtors also entered into a backstop commitment agreement (the "BCA") with the Supporting Noteholders, pursuant to which the Supporting Noteholders agreed to backstop $463 million (to consist of $325 million in cash and $138 million in exchanged reinstated 1.25L Notes) of the Rights Offering. For additional information, see *Termination of Plan Support Agreement and Backstop Commitment Agreement* below.

Plan of Reorganization. On November 18, 2019, the Debtors filed a proposed Joint Chapter 11 Plan and a proposed Disclosure Statement for Joint Chapter 11 Plan of Reorganization describing the Plan and the solicitation of votes to approve the same from certain of the Debtors' creditors with respect to the Chapter 11 Cases. The Debtors subsequently filed various amendments to the Plan and Disclosure Statement and on January 13, 2020, filed an updated Fourth Amended Joint Chapter 11 Plan of EP Energy Corporation and its Affiliated Debtors (as amended from time to time, the "Plan") and an updated Disclosure Statement (as amended from time to time, the "Disclosure Statement"). On March 6, 2020, after a hearing to confirm the Plan, the Bankruptcy Court stated that it would confirm the Plan. On March 12, 2020, pursuant to its ruling on March 6, 2020, the Bankruptcy Court entered an order confirming the Plan (ECF No. 1049).

Termination of Plan Support Agreement and Backstop Commitment Agreement. In March 2020, as a result of a decrease in global demand for oil and natural gas due to the recent coronavirus outbreaks and disagreements between Russia and OPEC members on production cuts, global oil prices declined to their lowest levels since 2016.

Subsequent to these events, on March 18, 2020, the Debtors and the Supporting Noteholders under the PSA and in their capacities as the Commitment Parties under the BCA, mutually agreed to amend and terminate the PSA and the BCA pursuant to the terms of a Stipulation of Settlement Regarding Backstop Agreement and Plan Support Agreement (as may be amended or modified from time to time, the "Stipulation"). On March 23, 2020, the Bankruptcy Court approved the Stipulation.

Debtor-in-Possession Agreement. On November 25, 2019, EPE Acquisition, LLC and EP Energy LLC entered into a Senior Secured Superpriority Debtor-In-Possession Credit Agreement (as amended or modified from time to time, the "DIP Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent, collateral agent and an issuing bank (the "DIP Agent") and the RBL Lenders which were party thereto as lenders (in such capacity, the "DIP Lenders"). Under the DIP Credit Agreement and the order of the Bankruptcy Court entered on November 25, 2019 (the "DIP Order"), a portion of the RBL Facility was converted into revolving commitments under the DIP Credit Agreement which provided for an approximately $315 million debtor-in-possession senior secured superpriority revolving credit facility (the "DIP Facility", and the loans thereunder, the "DIP Loans"), and which included a letter of credit sublimit of $50 million. As of December 31, 2019, we had $150 million capacity remaining with approximately $17 million of letters of credit issued and $148 million outstanding under the DIP Facility. For a further discussion of the additional terms of the DIP Facility, see Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations— Liquidity and Capital Resources" and Item 3. "Financial Statements"

Exit Facility. The Debtors received an underwritten commitment from the DIP Lenders to convert their DIP Loans and their remaining claims under the RBL Facility into an approximately $629 million exit senior secured reserve-based revolving credit facility (the "Exit Facility") subject to certain conditions set forth therein, to be evidenced by a senior secured revolving credit agreement, by and among EP Energy LLC, as borrower, EPE Acquisition, LLC, as holdings, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent, collateral agent and an issuing bank (the "Exit Credit Agreement").

Amended Plan of Reorganization. On July 13, 2020, the Debtors filed an amended Plan of Reorganization and amended Disclosure Statement. Under the amended Plan of Reorganization, holders of allowed 1.125L notes claims were entitled to receive 100% of the new common shares of the reorganized company, subject to dilution by the Company's Employee Incentive Plan. On July 20, 2020, the Southern District Court of Texas conditionally approved the amended Disclosure Statement. On August 12, 2020, the Debtors filed a supplement to the Disclosure Statement that included governance and employee related term sheet agreements.

Confirmation of Amended Plan of Reorganization. On August 27, 2020, the company received approval of the amended Plan by the Southern District Court of Texas. In accordance with ASC 852, "Reorganizations", the Successor Company was required to apply fresh-start accounting upon its emergence from bankruptcy. The Successor Company evaluated transaction activity between September 30, 2020 and the Effective Date and concluded that an accounting convenience date of September 30, 2020 (the "Convenience Date") was appropriate for the adoption of fresh-start accounting which resulted in the Successor Company becoming a new entity for financial reporting purposes as of the Convenience Date. There were no material events or transactions that occurred on October 1, 2020. The Company emerged from Chapter 11 on October 1, 2020 (the Effective Date).

Summary of Reorganization Plan

- $629MM 3-Year Exit Facility supported by the company's oil and gas reserves. The initial borrowing base value is $650MM. The borrowing base will be subject to semi-annual redeterminations in April and November, starting in April 2021.

- Pro-rata distribution of $300,000 cash to holders of parent's prior Class A common shares.

- Cancellation of 100% of parent's prior Class A and Class B common shares.

- 11,000,000 new common shares issued to holders of the 1.125L claims.

- 1,222,222 additional shares reserved for issuance under the Employee Incentive Plan, which was adopted upon the Company's emergence from Chapter 11.

- 5 member board of directors, including the CEO.

For a further discussion of the Chapter 11 Cases and related matters, see Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" and Item 3. "Financial Statements", Notes 2, 7 and 8.

Sale of Permian Assets

On December 10, 2020, a subsidiary of EP Energy Corporation entered into a Purchase and Sale Agreement (the "Purchase and Sale Agreement") with an unaffiliated third-party buyer (the "Buyer"). Pursuant to the Purchase and Sale Agreement, the company agreed to sell to the Buyer substantially all of its assets located in the Southern Midland Basin for $240,550,000 in cash, subject to customary adjustments for this type of transaction. The Buyer delivered into escrow a deposit of $12,027,500 in connection with the execution of the Purchase and Sale Agreement. On February 23, 2021, the disposition was completed. The Purchase and Sale Agreement contains representations, warranties, covenants and indemnification customary for this type of transaction. The transaction had an effective time of October 1, 2020.

The financial and operating results of the Permian asset for 2019 and 2020 are presented under Discontinued Operations in this report.

Engagement of Financial Advisors to Explore Strategic Alternatives

On March 12, 2021, the Company announced it had engaged Credit Suisse Securities (USA) LLC and Jefferies LLC as financial advisors to assist in evaluating a range of strategic alternative to maximize shareholder value, including without limitation, a corporate sale, merger, or any other business combination.

Reserves Summary - Excluding Permian

The following table provides a summary of oil, natural gas and NGLs reserves as of December 31, 2020 for each of our areas of operation excluding the Permian.

		Estimated Proved Reserves[(1)]			
		Oil (MMBbls)	NGLs (MMBbls)	Natural Gas (Bcf)	Total (MMBoe)
Eagle Ford Shale	Developed producing	42.5	12.0	68.2	65.9
	Undeveloped	5.1	2.2	12.5	9.4
	Total	47.6	14.2	80.7	75.3
Northeastern Utah	Developed Producing	19.8	—	80.9	33.1
	Non-producing	2.1	—	4.9	3.0
	Undeveloped	43.7	—	121.4	64.0
	Total	65.6	—	207.2	100.1
Total		**113.2**	**14.2**	**287.9**	**175.4**

(1) Proved reserves were evaluated based on the average first day of the month spot price for the preceding 12-month period of $39.57 per Bbl (WTI), $1.99 per MMBtu (Henry Hub) and $9.89 per Bbl of NGLs.

Approximately 99 MMBoe, or 56%, of our total proved reserves are proved developed producing assets, which generated average production of 45 MBoe/d in 2020 from approximately 1,386 wells. As of December 31, 2020, we had approximately 113 MMBbls of proved oil reserves, 14 MMBbls of proved NGLs reserves and 288 Bcf of proved natural gas reserves, representing 65%, 8% and 27%, respectively, of our total proved reserves. For the year ended December 31, 2020, 73% of our production was related to Oil and NGLs.

As of December 31, 2020, we operated 91% of our producing wells. This control provides us with flexibility around the amount and timing of capital spending and has allowed us to improve our capital and operating efficiencies. We also employ a function-based organizational structure to accelerate knowledge sharing, innovation, evaluation and target efficiencies across our drilling, completion and operating activities across our operating areas. In 2020, we completed 29 wells and as of December 31, 2020, we had a total of 26 wells drilled, but not completed across our programs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the financial statements and the accompanying notes presented in Item 3 of this Annual Report. Actual results may differ materially from those contained in any forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Statements" in the front of this report. Unless otherwise indicated or the context otherwise requires, references in this MD&A section to "we", "our", "us" and "the Company" refer to EP Energy LLC and each of its consolidated subsidiaries.

Our Business

Overview. We are an independent exploration and production company engaged in the acquisition and development of unconventional onshore oil and natural gas properties in the United States. We operate through a diverse base of producing assets through the development of our drilling inventory located in two core areas: the Eagle Ford Shale in South Texas, Northeastern Utah (NEU) in the Uinta basin. In February 2021 we sold our asset in the Permian Basin. Below are summary descriptions of each of our programs:

- ***Eagle Ford Shale.*** The Eagle Ford Shale continues to provide attractive oil-weighted production and economic inventory. We expect to run one-half rig in this area in 2021.
- ***Northeastern Utah.*** In NEU, we are gaining operational efficiencies as we develop this oil field. Our acreage in this area is largely held-by-production. We are currently running two rigs in this program.

Chapter 11 Cases. On October 3, 2019, we and certain of our direct and indirect subsidiaries filed voluntary petitions in the United States Bankruptcy Court for the Southern District of Texas seeking relief under chapter 11 of title 11 of the United States Code as further described in Item 1. "Business" and *Liquidity and Capital Resources* below. We exited Chapter 11 in October 2020.

Strategy. Our strategy is to invest in opportunities that provide the highest return across our asset base, continually seek out operating and capital efficiencies, effectively manage costs, and identify accretive acquisition opportunities and divestitures, all with the objective of enhancing our portfolio, growing asset value, improving cash flow and increasing financial flexibility. We evaluate opportunities in our portfolio that are aligned with this strategy and our core competencies and that offer a competitive advantage. In addition to opportunities in our current portfolio, strategic acquisitions of leasehold acreage or acquisitions of producing assets allow us to leverage existing expertise in our areas, balance our exposure to regions, basins and commodities, help us to achieve or enhance risk-adjusted returns competitive with those available in our existing programs and increase our reserves. We also continuously evaluate our asset portfolio and will sell oil and natural gas properties if they no longer meet our long-term objectives.

Factors Influencing Our Profitability. Our profitability is dependent on the prices we receive for our oil and natural gas, the costs to explore, develop, and produce our oil and natural gas, and the volumes we are able to produce, among other factors. Our profitability is and will continue to be influenced primarily by:

- growing our proved reserve base and production volumes through the successful execution of our drilling programs or through acquisitions;
- finding and producing oil and natural gas at reasonable costs;
- managing operating and capital costs;
- managing commodity price risks on our oil and natural gas production; and
- managing debt levels and related interest costs.

In addition to these factors, our profitability and performance is affected by volatility in the financial and commodity markets. Commodity price changes may affect our future capital spending levels, production rates and/or related operating revenues (net of any associated royalties), levels of proved reserves and development plans, all of which impact performance and profitability.

Forward commodity prices play a significant role in determining the recoverability of proved property costs on our balance sheets. Future price declines, along with changes to our future capital spending levels, production rates, levels of proved reserves and development plans may result in an impairment of the carrying value of our proved properties in the future, and such charges could be significant.

Derivative Instruments. Our realized prices from the sale of our oil, natural gas and NGLs are affected by (i) commodity price movements, including locational or basis price differences that exist between the commodity index price (e.g., WTI) and the actual price at which we sell our commodity and (ii) other contractual pricing adjustments contained in our underlying sales contracts. In order to stabilize cash flows and protect the economic assumptions associated with our capital investment programs, we enter into financial derivative contracts to reduce the financial impact of downward commodity price movements and unfavorable movements in locational prices. Adjustments to our strategy and the decision to enter into new contracts or positions to alter existing contracts or positions are made based on the goals of the overall company. Because we apply mark-to-market accounting on our derivative contracts, our reported results of operations and financial position can be impacted significantly by commodity price movements from period to period.

The following table and discussion reflects the contracted volumes and the prices we will receive under derivative contracts we held as of December 31, 2020.

	2021		2022		2023	
	Volumes[(1)]	Average Price[(1)]	Volumes[(1)]	Average Price[(1)]	Volumes[(1)]	Average Price[(1)]
Oil						
Fixed Price Swaps						
WTI	5,291	$ 43.74	1,460	$ 42.56	730	$ 42.86
Collars						
Ceiling - WTI	3,650	$ 49.89	2,555	$ 50.03	1,095	$ 47.73
Floors - WTI	3,650	$ 35.00	2,555	$ 37.86	1,095	$ 36.67
Three Way Collars						
Ceiling - WTI	180	$ 59.65	—	$ —	—	$ —
Floors - WTI	180	$ 55.00	—	$ —	—	$ —
Sub-Floor - WTI	180	$ 45.00	—	$ —	—	$ —
Basis Swaps						
Roll[(2)]	1,825	$ 0.03	—	$ —	—	$ —
Natural Gas						
Fixed Price Swaps	18	$ 2.93	—	$ —	—	$ —
Basis Swaps						
WAHA vs Henry Hub[(3)]	4	$ 0.30	—	$ —	—	$ —

(1) Volumes presented are MBbls for oil and TBtu for natural gas. Prices presented are per Bbl of oil and MMBtu of natural gas.
(2) These positions hedge the timing risk associated with our physical sales. We generally sell oil for the delivery month at a sales price based on the average NYMEX WTI price during that month, plus an adjustment calculated as a spread between the weighted average prices of the delivery month, the next month and the following month during the period when the delivery month is prompt (the "trade month roll").
(3) EP Energy receives Henry Hub plus the basis spread listed and pays Waha.

For our three-way collar contracts in the tables above, the sub-floor prices represent the price below which we receive WTI plus a weighted average spread of $10.00 in 2021 on the indicated volumes. If WTI is above our sub-floor prices, we receive the noted floor price until WTI exceeds that floor price. Above the floor price, we receive WTI until prices exceed the noted ceiling price in our three-way collars, at which time we receive the fixed ceiling price. As of December 31, 2020, the average forward price of oil was $48.24 per barrel of oil for 2021.

During 2020, we settled commodity index hedges on over 100% of our oil production and 82% of our total liquids production at average floor prices of $56.92 per barrel of oil.

For the period from January 1, 2021 through April 15, 2021, we entered into the following positions:

	2021		2022	
	Volumes[(1)]	Average Price[(1)]	Volumes[(1)]	Average Price[(1)]
Oil				
Collars				
Ceiling - WTI	246	$ 67.84	450	$ 55.61
Floors - WTI	246	$ 50.00	450	$ 40.00
Basis Swaps				
Roll	1,530	$ 0.38	—	$ —
Magellan East Houston vs. Cushing[(2)]	1,002	$ 1.42	—	$ —
NGLs				
Fixed Price Swaps				
Ethane	12	$ 0.22	—	$ —
Propane	12	$ 0.81	—	$ —

(1) Volumes presented are MBbls for oil and MMGal for NGLs. Prices presented are per Bbl of oil and Gal for NGLs.
(2) EP Energy receives Cushing plus the basis spread listed and pays Magellan East Houston.

Liquidity and Capital Resources

Overview. As of December 31, 2020, our primary sources of liquidity are cash generated by our operations and borrowings under our RBL Facility. Our primary uses of cash are capital expenditures, debt service, including interest, and working capital requirements. The following table provides a summary of our total available liquidity as of December 31, 2020:

	Year Ended December 31, 2020
	(in millions)
Cash and cash equivalents	$ 25
Availability under RBL Facility	288
Total available liquidity	$ 313

Chapter 11 Cases. In the second quarter 2019, our Board of Directors appointed a Special Committee which engaged financial and legal advisors to consider a number of potential actions and evaluate certain strategic alternatives to address our liquidity and balance sheet issues. On August 15, 2019, we did not make the approximately $40 million cash interest payment due and payable with respect to the 8.000% Senior Secured Notes due 2025. On September 3, 2019, we did not make the approximately $7 million cash interest payment due and payable with respect to the 7.750% Senior Notes due 2022.

On October 3, 2019, we and certain of our direct and indirect subsidiaries (collectively with the Company, the "Debtors") filed the Chapter 11 Cases in the United States Bankruptcy Court for the Southern District of Texas seeking relief under chapter 11 of title 11 of the United States Code. To ensure ordinary course operations, the Debtors obtained approval from the Bankruptcy Court for a variety of "first day" motions, including motions to obtain customary relief intended to assure our ability to continue our ordinary course operations after the filing date. In addition, the Debtors received authority to use cash collateral of the lenders under the Reserve-Based Facility ("RBL Facility").

The commencement of the Chapter 11 Cases constituted an immediate event of default, and caused the automatic and immediate acceleration of all debt outstanding under or in respect of a number of our instruments and agreements relating to our direct financial obligations, including our RBL Facility and indentures governing the 8.000% Senior Secured Notes due 2025, 7.750% Senior Secured Notes due 2026, 8.000% Senior Secured Notes due 2024, 9.375% Senior Secured Notes due 2024, 9.375% Senior Notes due 2020, 7.750% Senior Notes due 2022 and 6.375% Senior Notes due 2023 (collectively, the "Senior Notes"). Any efforts to enforce such payment obligations were automatically stayed as a result of the filing of the Chapter 11 Cases and the creditors' rights of enforcement in respect of the Senior Notes and the RBL Facility are subject to the applicable provisions of the Bankruptcy Code.

On October 18, 2019, the Debtors entered into the PSA with the Supporting Noteholders to support a restructuring on the terms of a chapter 11 plan described therein (the "Plan"). On October 18, 2019, the Debtors also entered into the BCA with the Supporting Noteholders, pursuant to which the Supporting Noteholders agreed to backstop $463 million (to consist of $325 million in cash and $138 million in exchanged reinstated 1.25L Notes) of the Rights Offering. On March 6, 2020, after a hearing to confirm the Plan, the Bankruptcy Court stated that it would confirm the Plan. On March 12, 2020, pursuant to its ruling on March 6, 2020, the Bankruptcy Court entered an order confirming the Plan (ECF No. 1049).

On March 18, 2020, the Debtors and the Supporting Noteholders under the PSA and in their capacities as the Commitment Parties under the BCA, mutually agreed to amend and terminate the PSA and the BCA pursuant the terms of a Stipulation of Settlement Regarding Backstop Agreement and Plan Support Agreement (the "Stipulation"). On March 23, 2020, the Bankruptcy Court approved the Stipulation.

Amended Plan of Reorganization. On July 13, 2020, the Debtors filed an amended Plan of Reorganization and amended Disclosure Statement. Under the amended Plan of Reorganization, holders of allowed 1.125L notes claims were entitled to receive 100% of the new common shares of the reorganized company, subject to dilution by the Company's Employee Incentive Plan. On July 20, 2020, the Southern District Court of Texas conditionally approved the amended Disclosure Statement. On August 12, 2020, the Debtors filed a supplement to the Disclosure Statement that included governance and employee related term sheet agreements.

Confirmation of Amended Plan of Reorganization. On August 27, 2020, the company received approval of the amended Plan by the Southern District Court of Texas. The Company emerged from Chapter 11 on October 1, 2020.

Debtor-in-Possession Agreement. On November 25, 2019, EPE Acquisition, LLC and EP Energy LLC entered into a Senior Secured Superpriority Debtor-In-Possession Credit Agreement (as amended or modified from time to time, the “DIP Credit Agreement) with JPMorgan Chase Bank, N.A., as administrative agent, collateral agent and an issuing bank and the RBL Lenders which are party thereto as lenders (in such capacity, the “DIP Lenders”). Under the DIP Credit Agreement and the DIP Order, a portion of the RBL Facility was converted into revolving commitments under the DIP Credit Agreement which provides for an approximately $315 million debtor-in-possession senior secured superpriority revolving credit facility (the “DIP Facility”, and the loans thereunder, the “DIP Loans”), and which included a letter of credit sublimit of $50 million. As of December 31, 2019, we had $150 million capacity remaining with approximately $17 million of letters of credit issued and $148 million outstanding under the DIP Facility. For a further discussion of the additional terms of the DIP Facility, see Note 2 in the included financial statements. The DIP facility rolled into the Exit Facility in conjunction with our emergence from Chapter 11.

On March 12, 2020, EP Energy LLC, EPE Acquisition, LLC, the agent and certain of the lenders under the RBL Facility, the DIP Agent and certain of the DIP Lenders entered into that certain Waiver of Credit Agreements which waived the occurrence of any event of default triggered under the RBL Credit Agreement and the DIP Credit Agreement as a result of a going concern or like qualification or exception to the audited financials for the year ending December 31, 2020.

Exit Facility. In October 2019, the Debtors received an underwritten commitment from the DIP Lenders to convert their DIP Loans and their remaining claims under the RBL Facility into an approximately $629 million exit senior secured reserve-based revolving credit facility (the “Exit Facility”). In July 2020, the Debtors agreed with the DIP Lenders to revise terms and conditions under the Exit Facility. The company grew the commitments to $639 million in November 2020. The Exit Facility is subject to certain conditions set forth in the senior secured revolving credit agreement, by and among EP Energy LLC, as borrower, EPE Acquisition, LLC, as holdings, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent, collateral agent and an issuing bank. The Exit Facility carries interest at a specified margin over LIBOR of 3.50% to 4.50%, based on borrowing utilization and 0.5% commitment fee on unused capacity. Such margins will fluctuate based on the utilization of the facility. The Exit RBL includes financial covenants and restrictions that are customary for RBL credit facilities, including a total leverage ratio covenant no greater than 3.0x and current ratio greater than 1.0x. The Company was in compliance with these covenants for the reporting period.

In February 2021 the borrowing base under the Exit Facility was reduced to $575 million due to the Permian divestiture. The Company used the proceeds from the Permian divestiture to reduce RBL borrowings. At March 31, 2021 the Company had $121 million drawn and $15 million of letters of credit issued under the Exit Facility. Total available liquidity including cash on hand was approximately $475 million and debt net of cash on hand was approximately $85 million.

For a further discussion of all Chapter 11 related matters, see Note 2 in the included financial statements.

Overview of Cash Flow Activities. Our cash flows are summarized as follows:

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
	(in millions)	(in millions)	
Cash Inflows			
Operating activities			
Net loss	$ (3)	$ 1,531	$ (943)
Impairment charges	—	2,324	458
Gain on extinguishment/modification of debt	—	—	(10)
Write-off of debt discount and deferred issue costs	—	—	90
Reorganization items, net	—	(3,871)	24
Other income adjustments	28	196	441
Change in assets and liabilities	85	73	167
Total cash flow from operations	$ 110	$ 253	$ 227
Investing activities			
Proceeds from the sale of assets	$ 10	$ —	$ —
Cash inflows from investing activities	$ 10	$ —	$ —
Financing activities			
Proceeds from issuance of long-term debt	$ —	$ 436	$ 923
Proceeds from borrowings	10	175	298
Cash inflows from financing activities	$ 10	$ 611	$ 1,221
Total cash inflows	$ 130	$ 864	$ 1,448
Cash Outflows			
Investing activities			
Cash paid for capital expenditures	21	218	497
Cash paid for acquisitions	—	2	21
Cash outflows from investing activities	$ 21	$ 220	$ 518
Financing activities			
Repayments and repurchases of long-term debt	$ —	$ —	$ 765
Repayments and repurchases of short-term debt	—	436	—
Repayment of borrowings	110	203	150
DIP Facility costs	—	—	6
Other debt issue costs	—	—	2
Other	—	—	1
Cash outflows from financing activities	$ 110	$ 639	$ 924
Total cash outflows	$ 131	$ 859	$ 1,442
Net change in cash, cash equivalents and restricted cash	$ (1)	$ 5	$ 6

Production Volumes and Drilling Summary

Production Volumes.

	Successor	Combined Successor and Predecessor[1]	Predecessor	
	Three months ended December 31, 2020	Year ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
Equivalent Volumes (MBoe/d)				
Eagle Ford Shale	25.7	26.9	27.3	33.8
Northeastern Utah	18.3	18.3	18.3	15.7
Total - continuing operations	44.0	45.2	45.6	49.5
Total - discontinued operations	20.2	20.1	20.0	21.4
Oil (MBbls/d)				
Eagle Ford Shale	16.0	17.2	17.6	22.2
Northeastern Utah	12.0	12.3	12.3	10.2
Total	28.0	29.5	29.9	32.4
Natural Gas (MMcf/d)				
Eagle Ford Shale[2]	27	28	28	34
Northeastern Utah	38	36	36	33
Total	65	64	64	67
NGLs (MBbls/d)				
Eagle Ford Shale	5.2	5.0	5.0	5.9
Northeastern Utah	—	—	—	—
Total	5.2	5.0	5.0	5.9

(1) The combined year ended December 31, 2020 information is provided for comparative purposes only and is a non-GAAP presentation.
(2) Production volume excludes 3 MMcf/d of reinjected gas volumes - continuing operations used in operations during the year ended December 31, 2020.

Production Summary. Equivalent volumes per day decreased to approximately 45.2 MBoe/d for the year ended December 31, 2020, from approximately 49.5 Mboe/d for the year ended December 31, 2019. Eagle Ford equivalent volumes decreased 6.9 MBoe/d or (approximately 20%) for the year ended December 31, 2020 from the year ended December 31, 2019 due to limited development and marketing constraints, and NEU equivalent volumes increased 2.6 MBoe/d or (approximately 17%) for the year ended December 31, 2020 from the year ended December 31, 2019 due to increased drilling activity and horizontal development in 2020.

Drilling Summary. During 2020, we (i) frac'd (wells fracture stimulated) 17 gross wells in Eagle Ford, all of which came online for a total of 828 net operated wells, and (ii) frac'd 12 gross wells in NEU, all of which came online for a total of 355 net operated wells. As of December 31, 2020, we also had a total of 26 gross wells in progress, all of which were drilled, but not completed across our programs.

Capital Expenditures. Our capital expenditures and average drilling rigs for the three months ended December 31, 2020 were:

	Capital Expenditures[(1)] (in millions)		Average Drilling Rigs
	Successor		Successor
Eagle Ford Shale	$	15	0.3
Northeastern Utah		15	1.0
Total - continuing operations	$	30	1.3
Acquisition capital	$	—	
Total - discontinued operations	$	1	
Total capital expenditures	$	31	

(1) Represents accrual-based capital expenditures.

Results of Operations

The information below reflects financial results for EP Energy LLC for the three months ended December 31, 2020, the nine months ended September 30, 2020, and the year ended December 31, 2019.

	Successor	Combined Successor and Predecessor[(1)]	Predecessor	
	Three months ended December 31, 2020	Year ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
Operating revenues:				
Oil	$ 99	$ 394	$ 295	$ 665
Natural gas	10	28	18	38
NGLs	6	19	13	28
Total physical sales	115	441	326	731
Financial derivatives	(53)	149	202	(81)
Total operating revenues	62	590	528	650
Operating expenses:				
Transportation costs	7	34	27	84
Lease operating expense	20	79	59	106
General and administrative	13	69	56	122
Depreciation, depletion and amortization	21	181	160	343
Gain on sale of assets	—	1	1	—
Impairment charges	—	1,757	1,757	458
Exploration and other expense	2	9	7	2
Taxes, other than income taxes	10	37	27	43
Total operating expenses	73	2,167	2,094	1,158
Operating loss	(11)	(1,577)	(1,566)	(508)
Other income	—	2	2	4
Gain on extinguishment/modification of debt	—	—	—	10
Interest expense	(6)	(44)	(38)	(419)
Reorganization items, net	(4)	3,545	3,549	(65)
(Loss) income from continuing operations before income taxes	(21)	1,926	1,947	(978)
Income tax benefit (expense)	4	4	—	7
(Loss) income from continuing operations	$ (17)	$ 1,930	$ 1,947	$ (971)
Income (loss) from discontinued operations, before income taxes	$ 18	$ (398)	$ (416)	$ 35
Income tax (expense) benefit - discontinued operations	$ (4)	$ (4)	$ —	$ (7)
Income (loss) from discontinued operations, net of income taxes	$ 14	$ (402)	$ (416)	$ 28
Net (loss) income	$ (3)	$ 1,528	$ 1,531	$ (943)

(1) The combined year ended December 31, 2020 information is provided for comparative purposes only and is a non-GAAP presentation.

Operating Revenues

The table below provides our operating revenues, volumes and prices per unit for the three months ended December 31, 2020, the nine months ended September 30, 2020, and the year ended December 31, 2019. We present (i) average realized prices based on physical sales of oil, natural gas and NGLs as well as (ii) average realized prices inclusive of the impacts of financial derivative settlements and premiums which reflect cash received or paid during the respective period.

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
(in millions)			
Operating revenues (continuing operations):			
Oil	$ 99	$ 295	$ 665
Natural gas	10	18	38
NGLs	6	13	28
Total physical sales	115	326	731
Financial derivatives	(53)	202	(81)
Total operating revenues	$ 62	$ 528	$ 650
Volumes (continuing operations):			
Oil (MBbls)	2,583	8,210	11,837
Natural gas (MMcf)	5,955	17,441	24,392
NGLs (MBbls)	475	1,370	2,147
Equivalent volumes (MBoe)	4,051	12,487	18,049
Total MBoe/d	44.0	45.6	49.5
Prices per unit (continuing operations)			
Oil			
Average realized price on physical sales ($/Bbl)[1]	$ 38.44	$ 35.91	$ 56.08
Average realized price, including financial derivatives ($/Bbl)[1][2]	$ 55.20	$ 54.54	$ 56.67
Natural gas			
Average realized price on physical sales ($/Mcf)[2]	$ 1.67	$ 1.05	$ 1.16
Average realized price, including financial derivatives ($/Mcf)[1][2]	$ 1.67	$ 1.05	$ 1.56
NGLs			
Average realized price on physical sales ($/Bbl)	$ 13.16	$ 9.47	$ 13.02
Average realized price, including financial derivatives ($/Bbl)[2]	$ 13.16	$ 9.47	$ 13.02

(1) Changes in realized oil and natural gas prices reflect the effects of unhedged locational or basis differentials, unhedged volumes and contractual deductions between the commodity price index and the actual price at which we sold our oil and natural gas.

(2) The three months ended December 31, 2020, the nine months ended September 30, 2020, and the year ended December 31, 2019 include approximately $43 million, $153 million, and $8 million of cash received, respectively, for the settlement of crude oil derivative contracts. The year ended December 31, 2019 includes approximately $17 million of cash received for the settlement of natural gas financial derivatives.

Physical sales. Physical sales represent accrual-based commodity sales transactions with customers. The tables below display the price and volume variances on our physical sales for continuing operations when comparing year ended December 31, 2020 with the year ended December 31, 2019:

	Oil	Natural gas	NGLs	Total
		(in millions)		
December 31, 2019 sales - Predecessor	$ 665	$ 38	$ 28	$ 731
Change due to prices	(212)	(8)	(5)	(225)
Change due to volumes	(59)	(2)	(4)	(65)
December 31, 2020 sales - Predecessor & Successor Combined(1)	$ 394	$ 28	$ 19	$ 441

(1) The combined year ended December 31, 2020 information is provided for comparative purposes only and is a non-GAAP presentation.

Oil sales decreased by approximately $271 million to $394 million for the combined 2020 periods from approximately $665 million for the year ended December 31, 2019, due primarily to lower oil prices and lower production in all areas reflecting lower capital spending in 2020. Eagle Ford oil production volumes for the combined 2020 periods decreased by 23% (5.0 MBbls/d) while NEU oil production volumes for the combined 2020 periods increased by 21% (2.1 MBbls/d) compared with the year ended December 31, 2019.

Natural gas sales decreased by approximately $10 million to $28 million for the combined 2020 periods from approximately $38 million for the year ended December 31, 2019, due primarily to lower production in all areas reflecting lower capital spending in 2020. Eagle Ford gas volumes for the combined 2020 periods decreased by 18% (6 MMcf/d) while NEU gas volumes for the combined 2020 periods increased by 9% (3 MMcf/d) compared with the year ended December 31, 2019.

Our oil, natural gas and NGLs are sold at index prices (WTI, Brent, LLS, Henry Hub and Mt. Belvieu) or refiners' posted prices at various delivery points across our producing basins. Realized prices received (not considering the effects of hedges) are generally less than the stated index price as a result of fixed or variable contractual deductions, differentials from the index to the delivery point, adjustments for time, and/or discounts for quality or grade.

In the Eagle Ford, our oil is sold at prices tied primarily to benchmark Magellan East Houston crude oil. In NEU, market pricing of our oil is based upon NYMEX based agreements which reflect a locational difference at the wellhead. Across all regions, natural gas realized pricing is influenced by factors such as excess royalties paid on flared gas and the percentage of proceeds retained under processing contracts, in addition to the normal seasonal supply and demand influences and those factors discussed above. The table below displays the weighted average differentials and deducts on our oil and natural gas sales on an average NYMEX price.

	Successor		Predecessor			
	Three months ended December 31, 2020		Nine months ended September 30, 2020		Year ended December 31, 2019	
	Oil (Bbl)	Natural gas (MMBtu)	Oil (Bbl)	Natural gas (MMBtu)	Oil (Bbl)	Natural gas (MMBtu)
Differentials and deducts	$ (4.28)	$ (1.03)	$ (2.45)	$ (0.88)	$ (0.62)	$ (1.06)
NYMEX	$ 42.66	$ 2.66	$ 38.32	$ 1.88	$ 57.03	$ 2.63
Net back realization %	90.0 %	61.3 %	93.6 %	53.2 %	98.9 %	59.7 %

The oil realization percentage in the three months ended December 31, 2020 was lower as compared to 2019 primarily as a result of lower Magellan East Houston basis premiums and the impact of fixed contract deducts in Eagle Ford applied to lower overall NYMEX pricing. The higher natural gas realization percentage in the three months ended December 31, 2020 was primarily a result of stronger Eagle Ford basin natural gas pricing.

NGL sales decreased by approximately $9 million to $19 million for the combined 2020 periods from approximately $28 million for the year ended December 31, 2019, due primarily to lower average realized prices due to lower pricing on all liquid components.

Future growth in our overall oil, natural gas and NGLs sales (including the impact of financial derivatives) will largely be impacted by commodity pricing, our level of hedging, our ability to maintain or grow oil volumes and by the location of our production and the nature of our sales contracts. For further discussion on our derivative instruments, see *Our Business* and *Liquidity and Capital Resources*.

Gains or losses on financial derivatives. We record gains or losses due to changes in the fair value of our derivative contracts based on forward commodity prices relative to the prices in the underlying contracts. We realize such gains or losses when we settle the derivative position. During the three months ended December 31, 2020, the nine months ended September 30, 2020 and the year ended December 31, 2019, we recorded a derivative loss of $53 million, a derivative gain of $202 million, and a derivative loss of $81 million, respectively.

Operating Expenses

The tables below provide our operating expenses, volumes and operating expenses per unit for each of the periods presented:

	Successor		Combined Successor and Predecessor(3)	Predecessor			
	Three months ended December 31, 2020		Year ended December 31, 2020	Nine months ended September 30, 2020		Year ended December 31, 2019	
(in millions, except per unit costs)	Total	Per Unit(1)	Total	Total	Per Unit(1)	Total	Per Unit(1)
Operating expenses							
Oil and natural gas purchases	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Transportation costs	7	1.70	34	27	2.16	84	4.63
Lease operating expense	20	4.88	79	59	4.72	106	5.90
General and administrative(2)	13	3.27	69	56	4.52	122	6.76
Depreciation, depletion and amortization	21	5.18	181	160	12.84	343	19.03
Gain on sale of assets	—	—	1	1	0.04	—	—
Impairment charges	—	—	1,757	1,757	140.73	458	25.36
Exploration and other expense	2	0.48	9	7	0.54	2	0.12
Taxes, other than income taxes	10	2.42	37	27	2.19	43	2.37
Total operating expenses	$ 73	$ 17.93	$ 2,167	$ 2,094	$ 167.74	$ 1,158	$ 64.17
Total equivalent volumes (MBoe)	4,051		16,538	12,487		18,049	

(1) Per unit costs are based on actual amounts rather than the rounded totals presented.
(2) For the three months ended December 31, 2020, amount includes approximately $1 million or $0.34 per Boe of incentive compensation expense. For the nine months ended September 30, 2020, amount includes approximately $5 million or $0.43 per Boe of transition, severance and other costs, $13 million or $1.01 per Boe of incentive compensation expense, and $1 million or $0.11 per Boe of legacy litigation accruals or settlements. For the year ended December 31, 2019, amount includes approximately $19 million or $1.07 per Boe of transition, severance, and other costs, $18 million or $1.02 per Boe of incentive compensation expense, $1 million or $0.02 per Boe of fees paid to Sponsors, and $24 million or $1.35 per Boe of legacy litigation accruals or settlements.
(3) The combined year ended December 31, 2020 information is provided for comparative purposes only and is a non-GAAP presentation.

Transportation costs. Transportation costs decreased by approximately $50 million to $34 million for the combined 2020 periods from approximately $84 million for the year ended December 31, 2019. The decrease was primarily due to lower transportation cost associated with the rejection and renegotiation of certain transportation contracts during the fourth quarter of 2019 in conjunction with our Chapter 11 Cases.

Lease operating expense. Lease operating expense decreased by approximately $27 million to $79 million for the combined 2020 periods from approximately $106 million for the year ended December 31, 2019. The decrease is primarily due to lower subsurface work in all areas and shut in field during May in the Eagle Ford.

General and administrative expenses. General and administrative expenses decreased by approximately $53 million to $69 million for the combined 2020 periods from approximately $122 million for the year ended December 31, 2019. Lower costs for the combined 2020 periods compared to the year ended December 31, 2019, were primarily due to a $21 million legacy legal matter accrual recorded in the second quarter of 2019, lower professional and legal fees of $24 million primarily related to bankruptcy related matters, lower labor expense of $9 million due to lower headcount from the May 2020 reduction in force, lower long-term incentive expense due to only accruing LTI for one-half of the year as the KERP program expired in June of 2020, and also lower 401K/savings expense due to the six month suspension of the employer 401K match in 2020. The favorable variance was partially offset by higher employee severance costs of $4 million related to the May 2020 reduction in force.

Depreciation, depletion and amortization expense. Depreciation, depletion and amortization expense decreased by approximately $162 million to $181 million for the combined 2020 periods from approximately $343 million for the year ended December 31, 2019. The decrease is primarily due to non-cash impairment charges recorded in the first quarter of 2020 on our proved properties in the Eagle Ford and NEU, decreased capital spending and lower production volumes. Our depreciation, depletion and amortization rate in the future will be impacted by the level, the location, and timing of capital spending, the overall cost of capital and the level and type of reserves recorded on completed projects. Our average depreciation, depletion and amortization costs per unit for the periods were:

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
Depreciation, depletion and amortization ($/Boe)	5.18	12.84	19.03

Impairment charges. For the nine months ended September 30, 2020, we recorded a non-cash impairment charge of approximately $1,364 million and $393 million on our Eagle Ford and NEU proved properties, respectively, as a result of a material reduction in the demand for oil as a result of the COVID-19 outbreak as well as an oversupply of oil due to the failure of OPEC and Russia to reach an agreement with respect to production levels. For the year ended December 31, 2019, we recorded a non-cash impairment charge of $458 million on our NEU proved properties due to reduction in activity associated with our Chapter 11 filing.

Taxes, other than income taxes. Taxes, other than income taxes decreased by approximately $6 million to $37 million for the combined 2020 periods from approximately $43 million for the year ended December 31, 2019. The decrease is primarily due to a decrease in severance taxes as a result of lower commodity prices and the realization of severance tax credits.

Other Income Statement Items.

Gain (loss) on extinguishment/modification of debt. During the year ended December 31, 2019, we recorded a total gain on extinguishment of debt of $10 million as a result of our repurchase of approximately $50 million in aggregate principal amount of our senior unsecured notes due 2020.

Interest expense. Interest expense decreased by approximately $375 million to $44 million for the combined 2020 periods from approximately $419 million for the year ended December 31, 2019. As a result of filing the Chapter 11 Cases on October 3, 2019 we were required to assess our debt obligations subject to compromise where interest was no longer probable of being paid. Accordingly, we discontinued the accrual of interest associated with the 1.5 lien notes and senior unsecured notes on filing our petition on October 3, 2019 upon reclassifying those notes as liabilities subject to compromise and discontinued the accrual of interest associated with the 1.125 and 1.25 lien notes upon termination of our PSA and BCA (see Notes 2 and 7 in the included financial statements).

Reorganization items, net. During the combined 2020 periods and the year ended December 31, 2019, we recorded a gain of $3,545 million and a loss of $65 million, respectively, on reorganization items. The reorganization items primarily consisted of expenses and gains/(losses) realized or incurred subsequent to our bankruptcy filing petition date and that are a direct result of the Chapter 11 Cases. These costs include professional fees incurred subsequent to the filing of the date of the Chapter 11 Cases, amounts recorded associated with the rejection of executory contracts approved by the Bankruptcy Court and DIP Facility costs.

Income taxes. Our effective tax rate for both the years ended December 31, 2020 and 2019 was 0%, which differed from the statutory rate of 21% primarily due to recording a full valuation allowance on our net deferred tax assets and non-deductible compensation expenses. Changes in our deferred taxes from year to year are offset by changes to our related valuation allowance and thus have the effect of eliminating the impact of federal taxes on our income. For additional details on our income taxes, see Item 3. "Financial Statements and Supplementary Data", Note 12.

Supplemental Non-GAAP Measures

We use the non-GAAP measures "EBITDAX" and "Adjusted EBITDAX" as supplemental measures. We believe these supplemental measures provide meaningful information to our investors. We define EBITDAX as net income (loss) plus interest and debt expense, income taxes, depreciation, depletion and amortization and exploration expense. Adjusted EBITDAX is defined as EBITDAX, adjusted as applicable in the relevant period for the net change in the fair value of derivatives (mark-to-market effects of financial derivatives, net of cash settlements and cash premiums related to these derivatives), incentive compensation expense (which represents non-cash compensation expense under long-term incentive programs), transition, severance and other costs that affect comparability, reorganization items, fees paid to the prior Sponsors, legacy litigation settlements, gains and losses on sale of assets, gains and losses on extinguishment/modification of debt and impairment charges.

We believe that the presentation of EBITDAX and Adjusted EBITDAX is important to provide management and investors with additional information (i) to evaluate our ability to service debt, adjusting for items required or permitted in calculating covenant compliance under our debt agreements, (ii) to provide an important supplemental indicator of the operational performance of our business without regard to financing methods and capital structure, (iii) for evaluating our performance relative to our peers, (iv) to measure our liquidity (before cash capital requirements and working capital needs) and (v) to provide supplemental information about certain material non-cash and/or other items that may not continue at the same level in the future. EBITDAX and Adjusted EBITDAX have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP or as an alternative to net income (loss), operating income (loss), operating cash flows or other measures of financial performance or liquidity presented in accordance with GAAP.

Below is a reconciliation of our consolidated net (loss) income to EBITDAX and Adjusted EBITDAX:

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
(in millions)			
Net (loss) income - continuing operations	$ (17)	$ 1,947	$ (971)
Income tax (benefit) expense	(4)	—	(7)
Interest expense, net of capitalized interest(1)	6	38	419
Depreciation, depletion and amortization	21	160	343
Exploration expense	1	4	2
EBITDAX	7	2,149	(214)
Mark-to-market on financial derivatives(2)	53	(202)	81
Cash settlements and cash premiums on financial derivatives(3)	44	153	25
Incentive compensation expense(4)	1	13	18
Transition, severance and other costs	—	5	19
Reorganization items, net(5)	4	(3,549)	65
Fees paid to Sponsors	—	—	1
Legacy litigation settlements(6)	—	1	24
Gain on sale of assets	—	1	—
Gain on extinguishment/modification of debt	—	—	(10)
Impairment charges	—	1,757	458
Adjusted EBITDAX - continuing operations	$ 109	$ 328	$ 467
Adjusted EBITDAX - discontinued operations	$ 21	$ 43	$ 113
Adjusted EBITDAX	$ 130	$ 371	$ 580

(1) Includes approximately $90 million at December 31, 2019 related to the write-off of unamortized debt discount and debt issue costs during the third quarter 2019 due to reclassifying our debt as current as a result of uncertainties regarding default, event of default and cross-default provisions under our indentures and RBL Facility as of September 30, 2019. Amounts written off are included in interest expense in the consolidated statement of operations.

(2) Represents the income statement impact of financial derivatives.

(3) Represents actual cash settlements related to financial derivatives. No cash premiums were received or paid for in 2020 or 2019.

(4) For the nine months ended September 30, 2020 and year ended December 31, 2019, incentive compensation expense includes $6 million and $10 million, respectively, in amounts under the Key Employee Retention Program, "KERP", in lieu of long-term incentive compensation. For additional details on the KERP, see Item 3. "Financial Statements", Note 11.

(5) Includes expenses and gains/(losses) realized or incurred subsequent to our bankruptcy filing petition date and that are a direct result of the Chapter 11 Cases. These costs include professional fees incurred subsequent to the filing date of the Chapter 11 Cases, amounts recorded associated with the rejection of executory contracts approved by the Bankruptcy Court and DIP Facility costs. For additional details on reorganization items, see Item 3. "Financial Statements, Note 2.

(6) Reflects amounts accrued primarily related to our Fairfield legal case. For additional details on our legacy legal matters, see Item 3. "Financial Statements", Note 9.

Commitments and Contingencies

For a further discussion of our commitments and contingencies, see Item 3. “Financial Statements”, Note 9.

Off-Balance Sheet Arrangements

We have no investments in unconsolidated entities or persons that could materially affect our liquidity or the availability of capital resources. We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on our financial condition or results of operations.

Critical Accounting Estimates

Our significant accounting policies are described in Item 3. “Financial Statements”, Note 1 of our consolidated financial statements included elsewhere in this Annual Report. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expense and the disclosures of contingent assets and liabilities. We consider our critical accounting estimates to be those estimates that require complex or subjective judgment in the application of the accounting policy and that could significantly impact our financial results based on changes in those judgments. Changes in facts and circumstances may result in revised estimates and actual results may differ materially from those estimates. Our management has identified the following critical accounting estimates:

Accounting for Oil and Natural Gas Producing Activities. We apply the successful efforts method of accounting for our oil and natural gas exploration and development activities. Under this method, non-drilling exploratory costs and costs of carrying and retaining undeveloped properties are charged to expense as incurred while acquisition costs, development costs and the costs of drilling and completing wells are capitalized. If a well is exploratory in nature, such costs are capitalized, pending the determination of proved oil and natural gas reserves. As a result, at any point in time, we may have capitalized costs on our consolidated balance sheets associated with exploratory wells that may be charged to exploration expense in a future period. Costs of drilling exploratory wells that do not result in proved reserves are expensed. Under the successful efforts method, we also capitalize salaries and benefits that we determine are directly attributable to our oil and natural gas activities. Depreciation, depletion, amortization and the impairment of oil and natural gas properties is calculated on a depletable unit basis based on estimates of proved quantities of proved oil and natural gas reserves. Revisions to these estimates can alter our depletion rates in the future and affect our future depletion expense or assessment of impairment.

We evaluate capitalized costs related to proved properties at least annually or upon a triggering event (such as a significant decline in forward commodity prices or change in development plans, among other items) to determine if impairment of such properties has occurred. Our evaluation of whether costs are recoverable is made based on common geological structure or stratigraphic conditions (for example, we evaluate proved property for impairment separately for each of our operating areas), and the evaluation considers estimated future cash flows for all proved developed (producing and non-producing), proved undeveloped reserves and risk-weighted non-proved reserves in comparison to the carrying amount of the proved properties. Important assumptions in the determination of these cash flows are estimates of future oil and gas production, estimated forward commodity prices as of the date of the estimate, adjusted for geographical location and contractual and quality differentials and estimates of future operating and development costs. If the carrying amount of a property exceeds the estimated undiscounted future cash flows of its reserves, the carrying amount is reduced to estimated fair value through a charge to income. Fair value is calculated by discounting those estimated future cash flows using a risk-adjusted discount rate. The discount rate is based on rates utilized by market participants that are commensurate with the risks inherent in the development and production of the underlying crude oil and natural gas. Each of these estimates involves a high degree of judgment.

Capitalized costs associated with unproved properties (e.g., leasehold acquisition costs associated with non-producing areas) are also assessed for impairment based on estimated drilling plans and capital expenditures, which may also change relative to forward commodity prices and/or potential lease expirations. Generally, economic recovery of unproved reserves in non-producing areas are not yet supported by actual production or conclusive formation tests, but must be confirmed by continued exploration and development activities. Our allocation of capital to the development of unproved properties may be influenced by changes in commodity prices (e.g., a low oil price environment), the availability of oilfield services and the relative returns of our unproved property development in comparison to the use of capital for other strategic objectives.

During the nine months ended September 30, 2020, we recorded non-cash impairment charges of approximately $1,364 million, $393 million, and $566 million on our Eagle Ford, NEU, and Permian proved properties, respectively, as a result of the COVID-19 outbreak and the impact on oil price volatility. The Permian assets were classified as discontinued operations in the Company’s consolidated financial statements for all periods presented. See Note 4 for a further discussion of our discontinued operations. For the year ended December 31, 2019, we recorded a non-cash impairment charge of $458 million on our NEU proved properties. As of December 31, 2020, our remaining net capitalized costs related to proved properties were approximately $397 million in Eagle Ford and $262 million in NEU.

The proved oil and gas reserve estimates as of December 31, 2020 have been prepared by Ryder Scott Company, L.P. ("Ryder Scott"), our independent third party reserve engineers. Estimates of proved reserves reflect quantities of oil, natural gas and NGLs, which geological and engineering data demonstrate, with reasonable certainty, will be recoverable in future years from known reservoirs under existing economic conditions. These estimates of proved oil and natural gas reserves primarily impact our property, plant and equipment amounts on our balance sheets and the depreciation, depletion and amortization amounts, including any impairment charges, on our consolidated income statements, among other items. The process of estimating oil and natural gas reserves is complex and requires significant judgment to evaluate all available geological, geophysical engineering and economic data. Significant assumptions used in the proved oil and gas reserve estimates are assessed by both Ryder Scott and our internal reserve team. All reserve reports prepared by Ryder Scott were reviewed by our internal reserve and management teams. Because these estimates depend on many assumptions, any or all of which may differ substantially from actual results, reserve estimates may be different from the quantities of oil and natural gas that are ultimately recovered.

As of December 31, 2020, 56% of our total proved reserves were proved developed reserves. The data for a given field may change substantially over time as a result of numerous factors, including additional development activity, evolving production history and a continual reassessment of the viability of production under changing economic conditions. In addition, the subjective decisions and variances in available data for various fields increase the likelihood of significant changes in these estimates. As a result, material revisions to existing reserve estimates occur from time to time. For example, in 2018 we adjusted our PUD booking methodology from a five-year to a three-year timeframe and in 2019, we recorded no PUD reserves due to uncertainty regarding the Company's availability of capital prior to emerging from bankruptcy that would be required to develop the PUD reserves (see Item 3. "Financial Statements", Note 2).

Deferred Taxes and Valuation Allowances. We record deferred income tax assets and liabilities reflecting the tax consequences of differences between the financial statement carrying value of assets and liabilities and the tax basis of those assets and liabilities. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Our deferred tax assets and liabilities reflect our conclusions about which positions are more likely than not to be sustained if they are audited by taxing authorities.

We assess the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets. When it is more likely than not that we will not be able to realize all or a portion of such asset, we record a valuation allowance. Based upon the evaluation of the available evidence, we maintained a valuation allowance against our net deferred tax assets of $375 million as of December 31, 2020. We evaluate our valuation allowances each reporting period and the level of such allowance will change as our deferred tax balances change. Key estimates and assumptions include expectations of future taxable income and the ability and our intent to undertake transactions that will allow us to realize the asset, all of which involve judgment. Changes in these estimates or assumptions can have a significant effect on our operating results.

ITEM 3. FINANCIAL STATEMENTS

Index

Below is an index to the items contained in Item 3, Financial Statements

Report of Independent Auditors

To the Stockholders and the Board of Directors of
EP Energy Corporation

We have audited the accompanying consolidated financial statements of EP Energy LLC (the "Company"), which comprise the consolidated balance sheet as of December 31, 2020 (Successor), and the related consolidated statements of income, changes in equity and cash flows for the period from October 1, 2020 through December 31, 2020 (Successor) and from January 1, 2020 through September 30, 2020 (Predecessor), and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of EP Energy LLC at December 31, 2020 (Successor), and the consolidated results of its operations and its cash flows for the period from October 1, 2020 through December 31, 2020 (Successor) and from January 1, 2020 through September 30, 2020 (Predecessor) in conformity with U.S. generally accepted accounting principles.

Company Reorganization

As discussed in Note 2 to the consolidated financial statements, on August 27, 2020, the Bankruptcy Court entered an order confirming the plan of reorganization, which became effective on October 1, 2020. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with Accounting Standards Codification 852-10, Reorganizations, for the Successor Company as a new entity with assets, liabilities and a capital structure having carrying amounts not comparable with prior periods as described in Note 3.

/s/ Ernst & Young LLP

April 15, 2021

Report of Independent Registered Public Accounting Firm

To the Board of Directors of
EP Energy Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of EP Energy LLC (the "Company") as of December 31, 2019, the related consolidated statements of income, cash flows, and changes in equity for the year ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2006.

Houston, Texas
March 25, 2020, except as it relates to the effects of discontinued operations described in Note 4, as to which the date is April 15, 2021

EP ENERGY LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions)

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
Operating revenues			
Oil	$ 99	$ 295	$ 665
Natural gas	10	18	38
NGLs	6	13	28
Financial derivatives	(53)	202	(81)
Total operating revenues	62	528	650
Operating expenses			
Transportation costs	7	27	84
Lease operating expense	20	59	106
General and administrative	13	56	122
Depreciation, depletion and amortization	21	160	343
Gain on sale of assets	—	1	—
Impairment charges	—	1,757	458
Exploration and other expense	2	7	2
Taxes, other than income taxes	10	27	43
Total operating expenses	73	2,094	1,158
Operating loss	(11)	(1,566)	(508)
Other income	—	2	4
Gain on extinguishment/modification of debt	—	—	10
Interest expense, net of capitalized interest	(6)	(38)	(419)
Reorganization items, net	(4)	3,549	(65)
(Loss) income from continuing operations before income taxes	(21)	1,947	(978)
Income tax benefit (expense)	4	—	7
(Loss) income from continuing operations	(17)	1,947	(971)
Income (loss) from discontinued operations, before income taxes	18	(416)	35
Income tax (expense) benefit - discontinued operations	(4)	—	(7)
Income (loss) from discontinued operations, net of income taxes	14	(416)	28
Net (loss) income	$ (3)	$ 1,531	$ (943)

See accompanying notes.

EP ENERGY LLC
CONSOLIDATED BALANCE SHEETS
(In millions)

	Successor December 31, 2020	Predecessor December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 25	$ 32
Restricted cash	—	1
Accounts receivable		
Customer, net of allowance of less than $1 in 2020 and 2019	73	99
Other, net of allowance of $1 in 2020 and 2019	10	12
Materials and supplies	32	37
Derivative instruments	—	9
Other	10	27
Current assets associated with discontinued operations	296	37
Total current assets	446	254
Property, plant and equipment, at cost		
Oil and natural gas properties	684	5,600
Other property, plant and equipment	44	64
	728	5,664
Less accumulated depreciation, depletion and amortization	29	2,948
Total property, plant and equipment, net	699	2,716
Other assets		
Unamortized debt issue costs	2	2
Operating lease assets and other	6	18
Noncurrent assets associated with discontinued operations	—	720
	8	740
Total assets	$ 1,153	$ 3,710

See accompanying notes.

EP ENERGY LLC
CONSOLIDATED BALANCE SHEETS
(In millions)

	Successor December 31, 2020	Predecessor December 31, 2019
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term debt	$ —	$ 1,815
Debtor-in-possession financing	—	148
Owner and royalties payable	34	56
Accounts payable and accrued expenses	53	124
Derivative instruments	25	—
Accrued interest	1	40
Accrued legal and other reserves	13	11
Other current liabilities	23	21
Current liabilities associated with discontinued operations	34	33
Total current liabilities	183	2,248
Long-term debt, net of debt issue costs	336	—
Other long-term liabilities		
Derivative instruments	13	—
Asset retirement obligations	43	31
Other	1	20
Noncurrent liabilities associated with discontinued operations	—	12
Total non-current liabilities	393	63
Liabilities subject to compromise	—	2,932
Commitments and contingencies (Note 9)		
Additional Paid in Capital - Predecessor	—	3,408
Accumulated Deficit - Predecessor	—	(4,941)
Common Stock / APIC - Successor	580	—
Accumulated deficit - Successor	(3)	—
Member's equity	577	(1,533)
Total liabilities and equity	$ 1,153	$ 3,710

See accompanying notes.

EP ENERGY LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
Cash flows from operating activities			
Net (loss) income	$ (3)	$ 1,531	$ (943)
Adjustments to reconcile net (loss) income to net cash provided by operating activities			
Depreciation, depletion and amortization	27	189	418
Impairment charges	—	2,324	458
Gain on extinguishment/modification of debt	—	—	(10)
Write-off of debt discount and deferred issue costs	—	—	90
Reorganization items, net	—	(3,871)	24
Other non-cash income items	1	7	23
Asset and liability changes			
Accounts receivable	(9)	44	85
Owner and royalties payable	(4)	(26)	(72)
Accounts payable and accrued expenses	(9)	108	21
Derivative instruments	97	(50)	105
Accrued interest	1	(26)	86
Other asset changes	—	32	(37)
Other liability changes	9	(9)	(21)
Net cash provided by operating activities	110	253	227
Cash flows from investing activities			
Cash paid for capital expenditures	(21)	(218)	(497)
Proceeds from the sale of assets	10	—	—
Cash paid for acquisitions	—	(2)	(21)
Net cash used in investing activities	(11)	(220)	(518)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	—	436	923
Repayments and repurchases of long-term debt	—	—	(765)
Repayment of short-term debt	—	(436)	—
Proceeds from borrowings	10	175	298
Repayment of borrowings	(110)	(203)	(150)
DIP Facility costs	—	—	(6)
Other debt issue costs	—	—	(2)
Other	—	—	(1)
Net cash provided by (used in) financing activities	(100)	(28)	297
Change in cash, cash equivalents and restricted cash	(1)	5	6
Cash, cash equivalents and restricted cash - beginning of period	38	33	27
Cash, cash equivalents and restricted cash - end of period	$ 37	$ 38	$ 33
Supplemental cash flow information			
Interest paid, net of amounts capitalized	$ 5	$ 18	$ 226

See accompanying notes.

EP ENERGY LLC
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In millions)

		Total Member's Equity
Balance at December 31, 2018 (Predecessor)	$	(599)
Share-based compensation		9
Net loss		(943)
Balance at December 31, 2019 (Predecessor)	$	(1,533)
Share-based compensation		7
Net income		1,531
Cancellation of Predecessor equity		(5)
Balance at September 30, 2020 (Predecessor)	$	—
Issuance of Successor equity		579
Share-based compensation		1
Net loss		(3)
Balance at December 31, 2020 (Successor)	$	577

See accompanying notes.

EP ENERGY LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Consolidation

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and include the accounts of all consolidated subsidiaries after the elimination of all significant intercompany accounts and transactions.

We consolidate entities when we have the ability to control the operating and financial decisions of the entity or when we have a significant interest in the entity that gives us the ability to direct the activities that are significant to that entity. The determination of our ability to control, direct or exert significant influence over an entity involves the use of judgment.

We are engaged in the exploration for and the acquisition, development, and production of oil, natural gas and NGLs in the United States. Our oil and natural gas properties are managed as a single operating segment rather than through discrete operating segments or business units. We track basic operational data by area and allocate capital resources on a project-by-project basis across our entire asset base without regard to individual areas. We assess financial performance as a single enterprise and not on a geographical area basis.

Voluntary Chapter 11 Reorganization

On October 3, 2019, we and certain of our direct and indirect subsidiaries (collectively with the Company, the "Debtors") filed voluntary petitions in the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court") seeking relief under chapter 11 of title 11 (the "Chapter 11 cases") of the United States Code. On October 18, 2019, the Debtors entered into a plan support agreement (the "PSA") with certain holders of the 2024 1.25 Lien and 1.5 Lien Notes (the "Supporting Noteholders"). On March 18, 2020, due to the sharp reduction in oil prices driven by the global pandemic, the Debtors and the Supporting Noteholders agreed to amend and terminate the PSA and related agreements. On July 13, 2020, the Debtors filed an amended Plan of Reorganization (the "Amended Plan") and amended Disclosure Statement. On August 27, 2020, the Debtors received approval of the Amended Plan by the Southern District Court of Texas. In accordance with ASC 852 "Reorganizations" (ASC 852), the Successor Company was required to apply fresh-start accounting upon its emergence from bankruptcy. The Successor Company evaluated transaction activity between September 30, 2020 and the Effective Date and concluded that an accounting convenience date of September 30, 2020 (the "Convenience Date") was appropriate for the adoption of fresh-start accounting which resulted in the Successor Company becoming a new entity for financial reporting purposes as of the Convenience Date. There were no material events or transactions that occurred on October 1, 2020. On October 1, 2020, the Amended Plan became effective (the Effective Date) and the Debtors emerged from chapter 11 bankruptcy. Although the Company is no longer a debtor-in-possession, the Company was a debtor-in-possession through October 1, 2020. See Note 2,"Reorganization under Chapter 11 Cases," for further details on the Company's chapter 11 bankruptcy and the Plan.

Upon emergence from Chapter 11, the Company adopted fresh start accounting and became a new entity for financial reporting purposes. As a result of the application of fresh start accounting and the effects of the implementation of the Plan, the Company's consolidated financial statements on or after October 1, 2020, are not comparable with the financial statements prior to October 1, 2020. The Company's consolidated financial statements and related footnotes are presented with a black line division which delineates the lack of comparability between amounts presented after September 30, 2020 and dates prior thereto. See Note 3 - Fresh start Accounting for additional discussion. All expenses, gains and losses directly associated with the reorganization are reported as reorganization items, net in the accompanying consolidated statements of operations.

Upon the adoption of fresh start accounting, the Company's assets and liabilities were recorded at their fair values as of the fresh start reporting date.

References to "Successor" or "Successor Company" relate to the financial position and results of operations of the reorganized Company on or subsequent to September 30, 2020. References to "Predecessor" or "Predecessor Company" relate to the financial position and results of operations of the Company prior to September 30, 2020.

Discontinued Operations

Due to the sale of the Company's Permian asset in February 2021, the financial and operating results of the Permian asset for 2019 and 2020 are presented under Discontinued Operations in this report.

New Accounting Pronouncements Issued But Not Yet Adopted

Income Taxes. In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes by eliminating certain exceptions within ASC 740, Income Taxes, and clarifying certain aspects of the current guidance. This standard is effective beginning for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is in the process of assessing the impact the adoption of this guidance may have on our consolidated financial statements.

Significant Accounting Policies

Use of Estimates

The preparation of our financial statements requires the use of estimates and assumptions that affect the amounts we report as assets, liabilities, revenues and expenses and our disclosures in these financial statements. Actual results can, and often do, differ from those estimates.

Revenue Recognition

Our revenues are generated primarily through the physical sale of oil, natural gas and NGLs to third party customers at spot or market prices under both short and long-term contracts. We recognize revenue upon satisfaction of our contractual performance obligation requiring us to deliver oil, natural gas and NGLs to a delivery point. Our performance obligation is satisfied upon transfer of control of the commodity to the customer. Transfer of control varies depending on the product and delivery method, but typically occurs when delivery and passage of title and risk of loss have occurred at a pipeline or gathering line delivery point interconnect when delivered via pipeline or at the wellhead or tank battery to purchasers who transport the oil via truck. Realized prices for each barrel of oil, MMcf of natural gas or MMBtu of NGLs are based upon index prices (WTI, LLS, Henry Hub and Mt. Belvieu) or refiners' posted prices at various delivery points across our producing basins. Realized transaction prices received (not considering the effects of hedges) are generally less than the stated index price as a result of contractual deductions, differentials from the index to the delivery point, adjustments for time, and/or discounts for quality or grade.

Revenue is recorded net of any royalty interests or other profit interests in the produced product. Revenues related to products delivered, but not yet billed, are estimated each month. These estimates are based on contract data, commodity prices and preliminary throughput and allocation measurements. When actual sales volumes exceed our entitled share of sales volumes, an overproduced imbalance occurs. To the extent the overproduced imbalance exceeds our share of the remaining estimated proved natural gas reserves for a given property, we record a liability.

Costs associated with the transportation and delivery of production between the wellhead and its intended sale location are generally included in transportation costs. We also purchase and sell oil and natural gas on a monthly basis to manage our overall oil and natural gas production and sales. These transactions are undertaken to optimize prices we receive for our oil and natural gas, to physically move oil and gas to its intended sales point, or to manage firm transportation agreements. Revenue related to these transactions are recorded in oil and natural gas sales in operating revenues and associated purchases reflected in oil and natural gas purchases in operating expenses in our consolidated income statements.

For both the years ended December 31, 2020 and 2019, we had two customers that individually accounted for 10 percent or more of our total revenues. The loss of any one customer would not have an adverse effect on our ability to sell our oil, natural gas and NGLs production.

While most of our physical production is priced off of market indices, we actively manage the volatility of market pricing through our risk management program whereby we enter into financial derivatives contracts. All of our derivatives are marked-to-market each period. The change in the fair value of our commodity-based derivatives, as well as any realized amounts, are reflected in operating revenues as financial derivative revenues (see *Derivatives* below and Note 5).

Cash and Cash Equivalents and Restricted Cash

We consider short-term investments with an original maturity of less than three months to be cash equivalents. As of December 31, 2020, we had no restricted cash. As of December 31, 2019, we had $1 million in restricted cash.

Allowance for Doubtful Accounts

We establish provisions for losses on accounts receivable and for natural gas imbalances with other parties if we determine that we will not collect all or part of the outstanding balance. We regularly review collectability and establish or adjust our allowance as necessary using the specific identification method.

Oil and Natural Gas Properties

We account for oil and natural gas properties in accordance with the successful efforts method of accounting for oil and natural gas exploration and development activities.

Under the successful efforts method, we capitalize (i) lease acquisition costs, all development costs and exploratory drilling costs until results are determined, (ii) certain internal costs directly identified with the acquisition, successful drilling of exploratory wells and development activities, and (iii) interest costs related to financing oil and natural gas projects actively being developed until the projects are evaluated or substantially complete and ready for their intended use if the projects were evaluated as successful. Non-drilling exploratory costs, including certain geological and geophysical costs such as seismic costs and delay rentals, are expensed as incurred.

We provide for depreciation, depletion, and amortization on the basis of common geological structure or stratigraphic conditions applied to total capitalized costs, plus future abandonment costs, net of salvage value, using the unit of production method. Lease acquisition costs are amortized over total proved reserves, while other exploratory drilling and all developmental costs are amortized over total proved developed reserves.

We evaluate capitalized costs related to proved properties upon a triggering event to determine if impairment of such properties is necessary. Our evaluation of recoverability is made on the basis of common geological structure or stratigraphic conditions and considers estimated future cash flows primarily from all proved developed (producing and non-producing) and proved undeveloped reserves in comparison to the carrying amount of the proved properties. Estimated future cash flows are determined based on estimates of future oil and gas production, estimated or published commodity prices as of the date of the estimate, adjusted for geographical location, contractual and quality price differentials, and estimates of future operating and development costs. If the carrying amount of a property exceeds these estimated undiscounted future cash flows, the carrying amount is reduced to its estimated fair value through a charge to income. Fair value is calculated by discounting the estimated future cash flows using a risk-adjusted discount rate. This discount rate is based on rates utilized by market participants that are commensurate with the risks inherent in the development and production of the underlying crude oil and natural gas. Leasehold acquisition costs associated with non-producing areas are also assessed for impairment based on our estimated drilling plans and anticipated capital expenditures related to potential lease expirations.

Property, Plant and Equipment (Other than Oil and Natural Gas Properties)

Our property, plant and equipment, other than our assets accounted for under the successful efforts method, are recorded at their original cost of construction or, upon acquisition, at the fair value of the assets acquired. We capitalize the major units of property replacements or improvements and expense minor items. We depreciate our non-oil and natural gas property, plant and equipment using the straight-line method over the useful lives of the assets which range from four to seven years.

Accounting for Asset Retirement Obligations

We record a liability for legal obligations associated with the replacement, removal or retirement of our long-lived assets in the period the obligation is incurred and is estimable. Our asset retirement liabilities are initially recorded at their estimated fair value with a corresponding increase to property, plant and equipment. This increase in property, plant and equipment is then depreciated over the useful life of the asset to which that liability relates. An ongoing expense is recognized for changes in the value of the liability as a result of the passage of time, which we record as depreciation, depletion and amortization expense in our consolidated income statements.

Accounting for Long-Term Incentive Compensation

We measure the cost of long-term incentive compensation based on the fair value of the award on the day it is granted. Awards issued under our incentive compensation programs are recognized as either equity awards or liability awards based on their characteristics. Expense is recognized in our consolidated financial statements as general and administrative expense over the period of service required by the award. See Note 11 for further discussion of our long-term incentive compensation.

Environmental Costs, Legal and Other Contingencies

Environmental Costs. We record environmental liabilities at their undiscounted amounts on our consolidated balance sheets in other current and long-term liabilities when we assess that remediation efforts are probable and the costs can be reasonably estimated. Estimates of our environmental liabilities are based on current available facts, existing technology and presently enacted laws and regulations, taking into consideration the likely effects of other societal and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediating contaminated sites, other companies' clean-up experience and data released by the Environmental Protection Agency (EPA) or other organizations. Our estimates are subject to revision in future periods based on actual costs or new circumstances. We capitalize costs that benefit future periods and expense costs that do not in general and administrative expense.

We evaluate any amounts paid directly or reimbursed by government sponsored programs and potential recoveries or reimbursements of remediation costs from third parties, including insurance coverage, separately from our liability. Recovery is evaluated based on the creditworthiness or solvency of the third party, among other factors. When recovery is assured, we record and report an asset separately from the associated liability on our consolidated balance sheets.

Legal and Other Contingencies. We recognize liabilities for legal and other contingencies when we have an exposure that indicates it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Where the most likely outcome of a contingency can be reasonably estimated, we accrue a liability for that amount. Where the most likely outcome cannot be estimated, a range of potential losses is established and if no one amount in that range is more likely than any other to occur, the low end of the range is accrued.

Derivatives

We enter into derivative contracts on our oil and natural gas products primarily to stabilize cash flows and reduce the risk and financial impact of downward commodity price movements on commodity sales. Derivative instruments are reflected on our consolidated balance sheets at their fair value as assets and liabilities. We classify our derivatives as either current or non-current based on their anticipated settlement date. We net derivative assets and liabilities with counterparties where we have a legal right of offset.

All of our derivatives are marked-to-market each period and changes in the fair value of our commodity based derivatives, as well as any realized amounts, are reflected as operating revenues. We classify cash flows related to derivative contracts based on the nature and purpose of the derivative. As the derivative cash flows are considered an integral part of our oil and natural gas operations, they are classified as cash flows from operating activities. In our consolidated balance sheets, receivables and payables resulting from the settlement of our derivative instruments are reported as trade receivables and payables. See Note 5 for a further discussion of our derivatives.

Income Taxes

Our taxable income or loss is included in our parent's (EP Energy Corporation) U.S. federal and certain state returns. EP Energy Corporation pays all consolidated U.S. federal and state income tax directly to the appropriate taxing jurisdictions. We record income taxes on a separate return basis in our financial statements as if we had filed separate income tax returns under our existing structure. In certain states, we also file and pay directly to the state taxing authorities. Changes in tax laws are recorded in the period they are enacted. We classify all deferred tax assets and liabilities, along with any related valuation allowance, as non-current on the consolidated balance sheets. We account for tax credits under the flow-through method, which reduces the provision for income taxes in the year the tax credits first become available.

The realization of our deferred tax assets depends on recognition of sufficient future taxable income during periods in which those temporary differences are deductible. We record a valuation allowance against deferred tax assets when, based on our estimates, it is more likely than not that a portion of those assets will not be realized in a future period. The estimates utilized in recognition of deferred tax assets are subject to revision, either up or down, in future periods based on new facts or circumstances. In evaluating our valuation allowances, we consider cumulative book losses, the reversal of existing temporary differences, the existence of taxable income in carryback years, tax planning strategies and future taxable income for each of our taxable jurisdictions, the latter two of which involve the exercise of significant judgment. Changes to our valuation allowances could materially impact our results of operations.

2. Emergence from Voluntary Reorganization under Chapter 11 Cases

On October 3, 2019, we and certain of our direct and indirect subsidiaries (collectively with the Company, the "Debtors") filed voluntary petitions (the "Chapter 11 Cases") in the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court") seeking relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). To ensure ordinary course operations, the Debtors obtained approval from the Bankruptcy Court for a variety of "first day" motions, including motions to obtain customary relief intended to assure our ability to continue our ordinary course operations after the filing date. In addition, the Debtors received authority to use cash collateral of the lenders under the RBL Facility.

Plan Support Agreement and Backstop Commitment Agreement. On October 18, 2019, the Debtors entered into a plan support agreement (the "PSA") to support a restructuring on the terms of a chapter 11 plan of reorganization (as defined below, the "Plan") with holders of approximately 52.0% of the 2024 1.25 Lien Notes and approximately 79.3% of the 2024 1.5 Lien Notes and the 2025 1.5 Lien Notes issued, in each case, by EP Energy LLC and Everest Acquisition Finance Inc. The holders of these notes included affiliates of, or funds managed by, Elliott Management Corporation ("Elliott"), Apollo (together with Elliott, the "Initial Supporting Noteholders"), Access, and Avenue Capital Group (collectively, with the Initial Supporting Noteholders and Access, the "Supporting Noteholders"), to support a restructuring on the terms of a chapter 11 plan described therein. On October 18, 2019, the Debtors also entered into a backstop commitment agreement (the "BCA") with the Supporting Noteholders, pursuant to which the Supporting Noteholders agreed to backstop $463 million (to consist of $325 million in cash and $138 million in exchanged reinstated 1.25L Notes) of the Rights Offering. For additional information, see *Termination of Plan Support Agreement and Backstop Commitment Agreement* below.

Plan of Reorganization. On November 18, 2019, the Debtors filed a proposed Joint Chapter 11 Plan and a proposed Disclosure Statement for Joint Chapter 11 Plan of Reorganization describing the Plan and the solicitation of votes to approve the same from certain of the Debtors' creditors with respect to the Chapter 11 Cases. The Debtors subsequently filed various amendments to the Plan and Disclosure Statement and on January 13, 2020, filed an updated Fourth Amended Joint Chapter 11 Plan of EP Energy Corporation and its Affiliated Debtors (as further amended from time to time, the "Plan") and an updated Disclosure Statement for Fourth Amended Joint Chapter 11 Plan of Reorganization of EP Energy Corporation and its Affiliated Debtors (as further amended from time to time, the "Disclosure Statement"). On March 6, 2020, after a hearing to confirm the Plan, the Bankruptcy Court stated that it would confirm the Plan. On March 12, 2020, pursuant to its ruling on March 6, 2020, the Bankruptcy Court entered an order confirming the Plan (ECF No. 1049).

Termination of Plan Support Agreement and Backstop Commitment Agreement. On March 18, 2020, due to the sharp reduction in oil prices driven by the global pandemic, the Debtors and the Supporting Noteholders under the PSA and in their capacities as the Commitment Parties under the BCA, mutually agreed to amend and terminate the PSA and the BCA pursuant to the terms of a Stipulation of Settlement Regarding Backstop Agreement and Plan Support Agreement (the "Stipulation"). The Debtors and the Supporting Noteholders and Commitment Parties also agreed to mutual waivers and releases of certain claims relating to, or arising from, the Chapter 11 Cases, the BCA, the PSA, and the termination of the BCA and the PSA, against the other as described in the Stipulation. On March 23, 2020, the Bankruptcy Court approved the Stipulation.

Amended Plan of Reorganization. On July 13, 2020, the Debtors filed an amended Plan of Reorganization and amended Disclosure Statement. Under the amended Plan of Reorganization, holders of allowed 1.125L notes claims were entitled to receive 100% of the new common shares of the reorganized company, subject to dilution by the Company's Employee Incentive Plan. On July 20, 2020, the Southern District Court of Texas conditionally approved the amended Disclosure Statement. On August 12, 2020, the Debtors filed a supplement to the Disclosure Statement that included governance and employee related term sheet agreements.

Exit Facility. In July 2020, the Debtors agreed with the DIP Lenders to revise terms and conditions under the Exit Facility. The Exit Facility is subject to certain conditions set forth therein, which is evidenced by a senior secured revolving credit agreement, by and among EP Energy LLC, as borrower, EPE Acquisition, LLC, as holdings, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent, collateral agent and an issuing bank.

Confirmation of Amended Plan of Reorganization. On August 27, 2020, the Debtors received approval of the amended Plan by the Southern District Court of Texas. On October 1, 2020, the Amended Plan became effective and the Debtors emerged from Chapter 11.

Reorganization Items, Net. Expenses and gains/(losses) realized or incurred subsequent to our bankruptcy filing petition date and that are a direct result of the Chapter 11 Cases have been expensed as incurred as reorganization items in our consolidated statements of income. The following tables summarize the components of reorganization items included on the consolidated statements of operations:

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
	(in millions)	(in millions)	(in millions)
Professional fees	$ 1	$ 65	$ 44
Gain from reorganization items	—	(3,987)	—
Fresh Start valuation adjustments	—	160	—
Rejection of executory contracts and other	1	121	21
Elimination of accrued interest on 1.125/1.25 Lien Notes(1)	—	(45)	—
Total reorganization items, net(2)	$ 2	$ (3,686)	$ 65

(1) In March 2020, we terminated the PSA and BCA associated with our Chapter 11 Cases and reclassified our 1.125 lien and 1.25 lien notes to liabilities subject to compromise. Accordingly, we eliminated the associated liability for accrued interest on these notes that we previously intended to pay pursuant to the agreements and plan of reorganization in place at the time.

(2) The difference between the total reorganization items amount in the table above $(3,686) and the Consolidated Statement of Operations amount for total reorganization items of $(3,549) is the amount associated with discontinued operations for $(137), see Footnote 4 Assets Held for Sale and Discontinued Operations.

The following table summarizes the components of Gain from reorganization items:

	(in millions)
Senior secured notes	$ (3,592)
Senior unsecured notes	(688)
Prepetition accrued interest on notes	(130)
Rejection of executory contracts, legal liabilities and other	(153)
Total liabilities subjection to compromise	$ (4,563)
Deferred Stock Compensation expense and Funding of the general unsecured claims cash distribution pool	(3)
Issuance of stockholders equity to creditors	579
Gain from reorganization items	$ (3,987)

Liabilities subject to compromise. These amounts represent liabilities that were allowed claims by the Bankruptcy Court in the chapter 11 proceedings. These amounts represent the Company's obligations that were adjudicated in connection with the chapter 11 proceedings. These liabilities are reported at the amounts expected to be allowed as claims by the Bankruptcy Court, although they may be settled for less or adjusted depending on Bankruptcy Court actions, further developments with respect to disputed claims, determination of secured status of certain claims, the determination as to the value of any collateral securing claims, proof of claims or other events.

Liabilities subject to compromise includes allowed claims, prepetition accounts payable and other amounts related to the rejection of executory contracts approved by the Bankruptcy Court.

At September 30, 2020 and December 31, 2019, liabilities subject to compromise were $4,563 million and $2,932 million, respectively, and consisted of:

	Predecessor	
	September 30, 2020	December 31, 2019
	(in millions)	
Senior secured notes	$ 3,592	$ 2,092
Senior unsecured notes	688	688
Prepetition accrued interest on notes	130	117
Allowed claims, prepetition accounts payable and other	153	35
Total liabilities subject to compromise	$ 4,563	$ 2,932

At the effective date, all outstanding liabilities subject to compromise amounts were cancelled pursuant to the terms of the Plan. As a result of the termination of the PSA and BCA on March 18, 2020 related to the Chapter 11 cases, the principal balance of $1,500 million on the 1.125 Lien Note and 1.25 Lien Note was reclassified as liabilities subject to compromise as of September 30, 2020. At December 31, 2019, the principal balance on the 1.5 lien notes and senior unsecured notes of $2,092 million and $688 million, respectively, were reclassified as liabilities subject to compromise. Additionally, any prepetition accrued interest on the senior secured 1.5 lien, 1.125 lien and 1.25 lien notes and senior unsecured notes were also reclassified from accrued liabilities to liabilities subject to compromise as of September 30, 2020.

3. Fresh Start Accounting

Upon the Company's emergence from Chapter 11 bankruptcy, it adopted fresh start accounting in accordance with the provisions of ASC 852 and applied the provisions thereof to its financial statements. In accordance with ASC 852, the Company was required to adopt fresh start accounting upon its emergence from Chapter 11 because (i) the holders of existing voting ownership interests of the Predecessor received less than 50% of the voting shares of the Successor and (ii) the reorganization value of the Company's assets immediately prior to confirmation of the Plan was less than the total of all post-petition liabilities and allowed claims.

The Company applied fresh start accounting as of October 1, 2020, when it emerged from bankruptcy protection. Adopting fresh start accounting results in a new reporting entity for financial reporting purposes with no beginning retained earnings or deficit as of the fresh start reporting date. The cancellation of all existing shares outstanding on the Effective Date and issuance of new units of the Successor Company caused a related change of control of the Company under ASC 852.

Reorganization Value.

Upon adoption of fresh start accounting, the reorganization value derived from the enterprise value as disclosed in the Plan was allocated to the Company's assets and liabilities based on their fair values (except for deferred income taxes) in accordance with Topic 820 – Fair Value Measurement ("ASC 820") and ASC 805 "Business Combinations" ("ASC 805"). Under ASC 852, the Successor Company must determine a value to be assigned to the equity of the emerging company as of the date of adoption of fresh start accounting. The Company's principal assets are its oil and natural gas properties. The fair values of oil and natural gas properties were estimated using a discounted cash flow ("DCF") analysis under the income approach. The Company also considered the guideline public company and guideline transactions methods under the market approach as reasonableness checks to the indications from the income approach. To estimate enterprise value utilizing the DCF method, the Company established an estimate of future cash flows discounted the estimated future cash flows to present value. The expected cash flows were based on the financial projections and assumptions utilized in the disclosure statement. Significant inputs used to determine the fair values of oil and gas properties include estimates of: (i) estimated production of proved oil and gas reserves; (ii) future operating and development costs; (iii) future crude oil and natural gas prices; and (iv) a market-based weighted average cost of capital rate, which is applied to the undiscounted cash flow estimate to value the Company's principal asset groups. See further discussion below in "Fresh Start Accounting Adjustments." The amount of deferred income taxes recorded was determined in accordance with ASC 740 "Income Taxes" ("ASC 740"). The Effective Date fair values of the Company's assets and liabilities differed materially from their recorded values as reflected on the historical balance sheet. The effects of the Plan and the application of fresh start accounting were reflected on the consolidated balance sheet as of September 30, 2020, and the related adjustments thereto were recorded on the consolidated statement of operations at September 30, 2020.

Under ASC 852, the Successor determined a value to be assigned to the equity of the emerging entity as of the date of adoption of fresh start accounting. The Plan confirmed by the Bankruptcy Court estimated a range of enterprise values between $750 million and $1 billion, with a midpoint of $875 million. The Company deemed it appropriate to use the high end of the range to determine the final enterprise value of $977 million utilized for fresh start accounting due to improved strip pricing, inclusion of real and personal property and working capital improvements. The Plan enterprise value was derived from an independent valuation using net value approach to derive the fair value of the Company's assets as of Emergence Date, as discussed further below. The enterprise value was then adjusted to determine the equity value of the Successor of approximately $579 million, after taking into account liabilities at emergence.

The following table reconciles the enterprise value to the implied fair value of Successor Company's units as of the Effective Date:

		(in millions)
Enterprise Value	$	977
Add: Cash and cash equivalents	$	38
Less: Interest bearing liabilities	$	(436)
Reorganization value of Successor assets	$	579

The following table reconciles the Company's enterprise value to its reorganization value as of the Effective Date:

		(in millions)
Enterprise Value	$	977
Add:		
Cash and cash equivalents		38
Other working capital liabilities		129
Other long-term liabilities		66
Reorganization value of Successor assets	$	1,210

Although the Company believes the assumptions and estimates used to develop enterprise value and reorganization value are reasonable and appropriate, different assumptions and estimates could materially impact the analysis and resulting conclusions. The assumptions used in estimating these values are inherently uncertain and require judgment. See below under the caption "Fresh Start Adjustments" for additional information regarding assumptions used in the valuation of the Company's significant assets and liabilities.

Consolidated Balance Sheet

The following four-column Consolidated Balance Sheet table identifies the adjustments to the Predecessor's September 30, 2020 balance sheet as a result of implementing the Plan and applying fresh-start accounting as if the Plan had been effective on that date:

	Predecessor	Reorganization Adjustments	Fresh Start Adjustments	Successor
	(in millions)			
ASSETS				
Current assets				
Cash and cash equivalents	$ 56	$ (28) [(a)]	$ —	$ 28
Restricted cash	10	—	—	10
Accounts receivable	100	—	—	100
Materials and supplies	37	—	—	37
Derivative instruments	57	—	—	57
Other	10	—	—	10
Total current assets	270	(28)	—	242
Property, plant and equipment, at cost				
Oil and natural gas properties	5,226	—	(4,324) [(g)]	902
Other property, plant and equipment	73	—	(19) [(g)]	54
	5,299	—	(4,343)	956
Less accumulated depreciation, depletion and amortization	(4,202)	—	4,202 [(g)]	—
Total property, plant and equipment, net	1,097	—	(141)	956
Other assets				
Derivative instruments	1	—	—	1
Unamortized debt issue costs	2	—	—	2
Operating lease assets and other	9	—	—	9
Total noncurrent assets	1,109	—	(141)	968
Total assets	$ 1,379	$ (28)	$ (141)	$ 1,210

	Predecessor		Reorganization Adjustments		Fresh Start Adjustments		Successor
			(in millions)				
LIABILITIES AND EQUITY							
Current liabilities							
Current portion of long-term debt	$ 315		$ (315)	(b)	$ —		$ —
Debtor in possession financing	120		(120)	(b)	—		—
Owner and royalties payable	46		—		—		46
Accounts payable and accrued expenses	67		(8)	(c)	—		59
Accrued interest	1		(1)	(b)	—		—
Accrued legal and other reserves	14		—		—		14
Other current liabilities	9		—		—		9
Total current liabilities	572		(444)		—		128
Long-term debt	—		436	(b)	—		436
Other long-term liabilities							
Asset retirement obligations	45		—		19	(h)	64
Lease obligations and other	2		—		—		2
Other	1		—		—		1
Total non-current liabilities	48		436		19		503
Liabilities subject to compromise	4,563		(4,563)	(d)	—		—
Additional Paid in Capital - Predecessor	3,553		(3,553)	(e)(f)	—		—
Accumulated Deficit - Predecessor	(7,357)		7,517	(e)	(160)	(i)	—
Common Stock / APIC - Successor	—		579	(e)(f)	—		579
Member's Equity	(3,804)		4,543		(160)		579
Total liabilities and equity	$ 1,379		$ (28)		$ (141)		$ 1,210

Effects of Plan Adjustments.

(a) This adjustment reflects the net effect of the reorganization. The table below provides a summary of the adjustments:

	(in millions)
Payment of indenture trustee fees	$ (1)
Payment of escrow professional fees	(6)
Payment for cure amounts	(1)
Payment for success fees	(19)
Other Payments[1]	(1)
Net decrease in cash	$ (28)

(1) Includes payments for 1) secured, administrative, and priority claims, 2) pre-emergence equity holders and 3) convenience class.

(b) This adjustment reflects the draw on the New RBL facility which was used to pay down the balance of the Prepetition RBL facility plus accrued interest.

		(in millions)
Repayment of DIP borrowings	$	120
Convert prepetition RBL borrowings		315
Other		1
Post-petition RBL	$	436

(c) The adjustment to accounts payable reflects (i) an accrual for amounts due Bankruptcy Trustees; (ii) an accrual for amounts due related to Professional Fees; (iii), which is offset by payments to Indenture Trustees and for Professional Fees that have been incurred as of the date of emergence.

(d) The table below provides a summary of the adjustments to liabilities subject to compromise:

		(in millions)
Payment for cure amounts	$	(1)
Debt principal of 1.125 Lien Notes in exchange for New Equity		(1,000)
Contract rejection liabilities		(104)
Debt principal of 1.5 Lien Notes, 1.25 Lien Notes, and unsecured loans		(3,280)
Accrued interest on outstanding debt claims		(130)
Litigation liabilities		(43)
Convenience class liabilities		(2)
General unsecured liabilities		(3)
Net decrease in liabilities subject to compromise	$	(4,563)

(e) The table below provides a summary of the adjustments to the Company’s equity:

		(in millions)
Predecessor additional paid-in capital	$	3,553
Predecessor accumulated deficit		(7,517)
Successor common stock and additional paid-in capital		(579)
Net decrease in total equity	$	(4,543)

(f) Pursuant to the Plan, the Company issued approximately 11 million shares of common stock with a par value of $0.01 to the holders of the 1.125 Lien Notes. The value of the common stock can be derived by the enterprise value of the Company, less the amount of debt incurred as part of the emergence plus any cash the Company has on hand.

Fresh-Start Adjustments

(g) A total adjustment of $141 million was recorded to adjust the Company’s property, plant and equipment to fair value. The Company obtained the assistance of an independent third-party valuation specialist to determine the fair value of the property, plant and equipment which used a discounted cash flow (“DCF”) analysis to determine the present value of the Company’s assets. Equipment other than compressors and vehicles were valued using the indirect cost approach. The Company determined the fair value of their compressors and vehicles utilizing a direct cost and market comparison approach respectively.

(h) Upon application of fresh start accounting, the Company revalued it asset retirement obligations using a credit-adjusted risk-free rate based upon a yield analysis performed by the Company's independent third-party valuation specialist in accordance with ASC 410 - Asset Retirement and Environmental Obligations. fresh-start adjustments to record asset retirement obligations at fair value.

(i) Reflects fresh-start adjustments for property, plant and equipment and asset retirement obligations at fair value.

	(in millions)
Property, plant and equipment (net) fair value adjustments	$ (141)
Asset retirement obligations fair value adjustments	(19)
Loss on fresh-start adjustment for revaluation of assets and liabilities	$ (160)

4. Assets Held for Sale and Discontinued Operations

Sale of Permian Assets

On December 10, 2020, a subsidiary of EP Energy Corporation entered into a Purchase and Sale Agreement (the "Purchase and Sale Agreement") with an unaffiliated third-party buyer (the "Buyer"). Pursuant to the Purchase and Sale Agreement, the company agreed to sell to the Buyer substantially all of its assets located in the Southern Midland Basin for $240,550,000 in cash, subject to customary adjustments for this type of transaction. The Buyer delivered into escrow a deposit of $12,027,500 in connection with the execution of the Purchase and Sale Agreement. On February 23, 2021, the disposition was completed. The Purchase and Sale Agreement contains representations, warranties, covenants and indemnification customary for this type of transaction. The transaction had an effective date of October 1, 2020. As a result of entering into the Purchase and Sale Agreement, the assets located in the Southern Midland Basin met the criteria to be classified as assets held for sale as of December 31, 2020. Assets held for sale are initially measured at the lower of their carrying amount or fair value less cost to sell. No loss was recognized upon initial measurement.

Discontinued Operations

As a result of the sale, the Company has effectively exited its operations in the Southern Midland Basin, and the results of operations for the divested assets are reflected as discontinued operations in the Company's consolidated financial statements for all periods presented. A summary of financial information related to our discontinued operations is as follows:

Reconciliation of the Line Items Constituting Pretax Income (Loss) from Discontinued Operations to the After-Tax Income (Loss) from Discontinued Operations:

	Successor	**Predecessor**	
	Three months ended December 31, 2020	**Nine months ended September 30, 2020**	**Year ended December 31, 2019**
	(in millions)	**(in millions)**	**(in millions)**
Revenue	$ 31	$ 72	$ 170
Transportation cost	2	6	9
Lease operating expense	5	16	32
General and administrative	—	—	1
Depreciation, depletion and amortization	5	29	74
Impairment charges	—	566	—
Exploration and other expenses	—	1	2
Other terminations	—	—	3
Taxes other than income	3	7	14
Reorganization items, net	(2)	(137)	—
Total pretax income (loss) from discontinued operations	18	(416)	35
Income tax benefit/(expense) – discontinued operations	(4)	—	(7)
Total income (loss) from discontinued operations	$ 14	$ (416)	$ 28

Reconciliation of Major Classes of Assets and Liabilities of the Discontinued Operations to Amounts Presented Separately in the Statement of Financial Position:

	Successor	Predecessor
	Three months ended December 31, 2020	Year ended December 31, 2019
	(in millions)	(in millions)
Carrying amounts of major classes of assets included as discontinued		
Assets		
Accounts & notes receivable	$ 26	$ 32
Inventory	5	5
Restricted cash-current	12	—
Total current assets associated with discontinued operations	43	37
Property, plant, and equipment		
Oil and natural gas properties	247	1,791
Other property, plant and equipment	9	5
	256	1,796
Less accumulated depreciation, depletion and amortization	5	1,077
Total property, plant and equipment, net	251	719
Other assets	2	1
Total assets associated with discontinued operations	$ 296	$ 757

	Successor	Predecessor
	Three months ended December 31, 2020	Year ended December 31, 2019
	(in millions)	(in millions)
Carrying amounts of major classes of assets included as discontinued		
Liabilities		
Accounts Payable	$ 10	$ 24
Accrued tax other than income	2	7
Reserves current	1	1
Other current liabilities	2	1
Current liabilities associated with discontinued operations	15	33
Asset retirement obligations	19	11
Other	0	1
Total non-current liabilities	19	12
Total liabilities associated with discontinued operations	$ 34	$ 45

5. Impairment Charges

We evaluate capitalized costs related to proved properties upon a triggering event (e.g., a significant continued decline in forward commodity prices or significant reduction to development capital) to determine if an impairment of such properties has occurred. Commodity price declines may cause changes to our capital spending levels, production rates, levels of proved reserves and development plans, which may result in an impairment of the carrying value of our proved properties in the future.

In the first quarter of 2020, there was a material reduction in the demand for oil as a result of the COVID-19 outbreak as well as an oversupply of oil due to the failure of OPEC and Russia to reach an agreement with respect to production levels. Accordingly, the price of oil significantly decreased during the first quarter of 2020. Due to these events, we performed an impairment assessment of our asset groups under ASC 360 in the first quarter of 2020. As a result, the undiscounted future cash flows related to our Eagle Ford, Northeastern Utah (NEU), and Permian proved properties were not in excess of the related carrying value of the asset. Accordingly, we recorded non-cash impairment charges of approximately $1,364 million,$393 million, and $566 million during the first quarter of 2020 related to our Eagle Ford, NEU, and Permian asset groups, respectively, reflecting a reduction in the net book value of the proved property in both areas to the estimated fair value. The Permian assets were classified as discontinued operations in the Company's consolidated financial statements for all periods presented. See Note 4 for a further discussion of our discontinued operations. For the year ended December 31, 2019, we recorded a non-cash impairment charge of $458 million on our NEU proved properties due to reduction in activity associated with our Chapter 11 filing.

6. Property, Plant and Equipment

Oil and Natural Gas Properties. As of December 31, 2020 and 2019, we had approximately $0.7 billion and $2.7 billion, respectively, of total property, plant, and equipment, net of accumulated depreciation, depletion, and amortization on our balance sheets, substantially all of which relates to proved oil and natural gas properties.

Our capitalized costs related to proved oil and natural gas properties by area were as follows:

	Successor	Predecessor
	December 31, 2020	December 31, 2019
	(in millions)	(in millions)
Proved		
Eagle Ford	$ 417	$ 4,266
Northeastern Utah	267	1,331
Total Proved - continuing operations	684	5,597
Less accumulated depletion	(25)	(2,915)
Net capitalized costs for oil and natural gas properties	$ 659	$ 2,682

As of December 31, 2020, we did not have any suspended wells and as of December 31, 2019, suspended well costs were not material.

Asset Retirement Obligations. We have legal asset retirement obligations associated with the retirement of our oil and natural gas wells and related infrastructure. We settle these obligations when production on those wells is exhausted, when we no longer plan to use them or when we abandon them. We accrue these obligations when we can estimate the timing and amount of their settlement.

In estimating the liability associated with our asset retirement obligations, we utilize several assumptions, including a credit-adjusted risk-free rate between 9 percent on our obligations and a projected inflation rate of 2.5 percent. Changes in estimates in the table below represent changes to the expected amount and timing of payments to settle our asset retirement obligations. Typically, these changes primarily result from obtaining new information about the timing of our obligations to plug and abandon oil and natural gas wells and the costs to do so, or reassessing our assumptions in light of changing market conditions. The net asset retirement liability on our consolidated balance sheets in other current and non-current liabilities and the changes in the net asset retirement liability are presented in the table below:

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
	(in millions)	(in millions)	
Net asset retirement liability at beginning of period	$ 48	$ 33	$ 32
Liabilities incurred	—	—	—
Liabilities settled	—	(1)	(1)
Accretion expense	1	2	2
Changes in estimate	—	1	—
Divestiture	(1)	—	—
Fresh Start adjustment	—	13	—
Net asset retirement liability at December 31	$ 48	$ 48	$ 33

Capitalized Interest. Interest expense is reflected in our financial statements net of capitalized interest. We capitalize interest primarily on the costs associated with drilling and completing wells until production begins using a weighted average interest rate on our outstanding borrowings. For the Predecessor period capitalized interest was $2 million and $5 million for the nine months ended September 30, 2020, and for the year ended December 31, 2019, respectively. For the Successor period capitalized interest was less than $1 million for the three months ended December 31, 2020.

7. Debt

Listed below are our debt obligations as of the periods presented:

	Interest Rate	Successor December 31, 2020	Predecessor December 31, 2019
		(in millions)	
Exit RBL credit facility - due October 1, 2023(1)	Variable	$ 336	$ —
Prepetition RBL credit facility - due November 23, 2021(2)	Variable	$ —	$ 315
Senior secured notes:			
1.5 Lien due May 1, 2024	9.375 %	$ —	1,092
1.25 Lien due November 29, 2024	8.00 %	$ —	500
1.5 Lien due February 15, 2025	8.00 %	$ —	1,000
1.125 Lien due May 15, 2026	7.75 %	$ —	1,000
Senior unsecured notes:			
Due May 1, 2020	9.375 %	$ —	182
Due September 1, 2022	7.75 %	$ —	182
Due June 15, 2023	6.375 %	$ —	324
Unamortized discount and debt issue costs(3)		(2)	—
Total debt		334	4,595
Current portion of long-term debt(5)		—	(1,815)
Amounts reclassified as liabilities subject to compromise(4)		—	(2,780)
Total long-term debt		$ 334	$ —
Debtor-in-possession facility(6)	Variable	$ —	$ 148

(1) Carries interest at a specified margin over LIBOR of 3.50% to 4.50%, based on borrowing utilization and 0.5% commitment fee on unused capacity. Such margins will fluctuate based on the utilization of the facility.

(2) Carries interest at a specified margin over LIBOR of 2.50% to 3.50%, based on borrowing utilization and 0.375% commitment fee on unused capacity. Such margins will fluctuate based on the utilization of the facility.

(3) Due to uncertainties at September 30, 2019 regarding default, event of default and cross-default provisions under our indentures and RBL Facility, we reclassified our debt as current and wrote off approximately $90 million in unamortized debt discount and debt issue costs in the third quarter 2019. Amounts written-off are included in interest expense in the consolidated statement of operations.

(4) As a result of the Chapter 11 Cases, the principal balance on the 1.5 lien notes and senior unsecured notes of approximately $2,092 million and $688 million, respectively, was reclassified as liabilities subject to compromise as of December 31, 2019. In addition, accrued and unpaid interest of approximately $117 million related to the 1.5 lien notes and senior unsecured notes has been reclassified from accrued liabilities to liabilities subject to compromise as of December 31, 2019. For a further discussion of the Chapter 11 Cases, see Note 2.

(5) As a result of the Chapter 11 Cases, the principal balance on the 1.125 lien and 1.25 lien notes of approximately $1,000 million and $500 million, respectively, was reclassified as liabilities subject to compromise as of March 31, 2020. For a further discussion of the Chapter 11 Cases, see Note 2.

(6) Carries interest at a specified margin over LIBOR of 2.50% to 3.50%, based on borrowing utilization and 0.5% commitment fee on unused capacity. Such margins will fluctuate based on the utilization of the facility.

The principal balance on the 1.5 lien notes and senior unsecured notes of $2,092 million and $688 million, respectively, were reclassified as liabilities subject to compromise due to declaring bankruptcy. Additionally, any prepetition accrued interest on the senior secured 1.5 lien, 1.125 lien and 1.25 lien notes and senior unsecured notes were also reclassified from accrued liabilities to liabilities subject to compromise during the 4th quarter of 2019. As a result of the termination of the PSA and BCA on March 18, 2020 related to the Chapter 11 cases, the principal balance of $1,500 million on the 1.125 Lien Note and 1.25 Lien Note was reclassified as liabilities subject to compromise. As of December 31, 2020, all outstanding liabilities subject to compromise amounts were cancelled pursuant to the terms of the Plan.

Debtor-in-possession financing. On November 25, 2019, EPE Acquisition, LLC and EP Energy LLC entered into a Senior Secured Superpriority Debtor-In-Possession Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent, collateral agent and an issuing bank and the RBL Lenders which are party thereto as lenders (as amended or modified from time to time, the “DIP Credit Agreement”). Under the DIP Credit Agreement and the order of the Bankruptcy Court entered on November 25, 2019 (the “DIP Order”), a portion of the RBL Facility was converted into commitments under the DIP Credit Agreement which provides for an approximately $315 million debtor-in-possession senior secured superpriority revolving credit facility, and which includes a letter of credit sublimit of $50 million.

Exit Facility. The Debtors have received an underwritten commitment from the DIP Lenders to convert their DIP Loans and their remaining claims under the RBL Facility into an approximately $639 million exit senior secured reserve-based revolving credit facility (the "Exit Facility") subject to certain conditions set forth therein, which is evidenced by a senior secured revolving credit agreement, by and among EP Energy LLC, as borrower, EPE Acquisition, LLC, as holdings, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent, collateral agent and an issuing bank. The Exit Facility carries interest at a specified margin over LIBOR of 3.50% to 4.50%, based on borrowing utilization and 0.5% commitment fee on unused capacity. Such margins will fluctuate based on the utilization of the facility. The Exit RBL includes financial covenants and restrictions that are customary for RBL credit facilities, including a total leverage ratio covenant no greater than 3.0x and current ratio greater than 1.0x. The Company was in compliance with these covenants for the reporting period. As of December 31, 2020, we had $288 million capacity remaining with approximately $15 million of letters of credit issued and $336 million outstanding under the RBL Facility.

8. Fair Value Measurements

We use various methods to determine the fair values of our financial instruments. The fair value of a financial instrument depends on a number of factors, including the availability of observable market data over the contractual term of the underlying instrument. We separate the fair value of our financial instruments into three levels (Levels 1, 2 and 3) based on our assessment of the availability of observable market data and the significance of non-observable data used to determine fair value. As of December 31, 2020 and December 31, 2019, all of our derivative financial instruments were classified as Level 2. Our assessment of the level of an instrument can change over time based on the maturity or liquidity of the instrument.

The following table presents the carrying amounts and estimated fair values of our financial instruments:

	Successor	Predecessor
	December 31, 2020	December 31, 2019
	Carrying Amount	Carrying Amount
	(in millions)	(in millions)
Debt obligations:		
Debtor-in-possession credit facility	$ —	$ 148
Liabilities subject to compromise	$ —	$ 2,780
Current portion of long-term debt	$ —	$ 1,815
Exit RBL credit facility	$ 336	$ —
Derivative instruments	$ 39	$ 9

For the years ended December 31, 2020 and 2019, the carrying amount of cash and cash equivalents, accounts receivable and accounts payable represent fair value because of the short-term nature of these instruments. Our debt obligations (see Note 7) have various terms, and we estimated the fair value of debt (representing a Level 2 fair value measurement) primarily based on quoted market prices for the same or similar issuances, considering our credit risk.

Oil and Natural Gas Derivative Instruments. We attempt to mitigate a portion of our commodity price risk and stabilize cash flows associated with forecasted sales of oil, natural gas and NGLs through the use of financial derivatives. As of December 31, 2020, we had derivatives contracts in the form of fixed price swaps, three-way collars and collars on 15 MMBbls of oil and fixed price swaps on 18 TBtu of natural gas. As of December 31, 2019, we had derivative contracts for 14 MMBbls of oil. In addition to the contracts above, we have derivative contracts related to locational basis differences on our oil production. None of our derivative contracts are designated as accounting hedges.

As of December 31, 2020 and 2019, all derivative financial instruments were classified as Level 2. Our assessment of the level of an instrument can change over time based on the maturity or liquidity of the instrument, which can result in a change in the classification level of the financial instrument.

The following table presents the fair value associated with our derivative financial instruments as of December 31, 2020 and 2019. All of our derivative instruments are subject to master netting arrangements which provide for the unconditional right of offset for all derivative assets and liabilities with a given counterparty in the event of default. We present assets and liabilities related to these instruments in our consolidated balance sheets as either current or non-current assets or liabilities based on their anticipated settlement date, net of the impact of master netting agreements. On derivative contracts recorded as assets in the table below, we are exposed to the risk that our counterparties may not perform.

	Level 2							
	Derivative Assets				Derivative Liabilities			
	Gross Fair Value	Impact of Netting	Balance Sheet Location: Current	Balance Sheet Location: Non-current	Gross Fair Value	Impact of Netting	Balance Sheet Location: Current	Balance Sheet Location: Non-current
	(in millions)				(in millions)			
December 31, 2020								
Derivative instruments	$ 8	$ (8)	$ —	$ —	$ (47)	$ 8	$ (25)	$ (14)
December 31, 2019								
Derivative instruments	$ 14	$ (5)	$ 9	$ —	$ (5)	$ 5	$ —	$ —

For the Predecessor periods we recorded derivative gains of $203 million and losses of $81 million for the nine months ended September 30, 2020, and for the year ended December 31, 2019, respectively. For the Successor period we recorded derivative losses of $53 million for the three months ended December 31, 2020. Derivative gains and losses on our oil, natural gas and NGLs financial derivative instruments are recorded in operating revenues in our consolidated income statements.

Credit Risk. We are subject to a risk of loss on our derivative instruments that could occur if our counterparties do not perform pursuant to the terms of their contractual obligations. We maintain credit policies with regard to our counterparties to minimize our overall credit risk. These policies require that we (i) evaluate potential counterparties' financial condition to determine their credit worthiness; (ii) monitor our oil, natural gas and NGLs counterparties' credit exposures; (iii) review significant counterparties' credit from physical and financial transactions on an ongoing basis; (iv) use contractual language that affords us netting or set-off opportunities to mitigate risk; and (v) when appropriate, require counterparties to post cash collateral, parent guarantees or letters of credit to minimize credit risk. Our assets related to derivatives as of December 31, 2020 represent financial instruments from three counterparties, all of which are lenders associated with our RBL Facility with an "investment grade" (minimum Standard & Poor's rating of BBB+ or better) credit rating. Subject to the terms of our RBL Facility, collateral or other securities are not exchanged in relation to derivatives activities with the parties in the RBL Facility.

Other Fair Value Considerations. During the years ended December 31, 2020 and 2019, we recorded non-cash impairment charges on our proved properties in Eagle Ford, NEU and Permian (which is a discontinued segment) and proved properties in NEU, respectively. The estimate of fair value of our proved oil and natural gas properties used to determine the impairment was estimated using a discounted cash flow model and other relevant financial and transactional market participant data. The Company discounts the resulting future cash flows using a discount rate believed to be consistent with those applied by market participants. These estimates represented a Level 3 fair value measurement. Significant Level 3 inputs associated with the calculation of discounted cash flows used in the impairment analysis include management's estimate of future crude oil and natural gas prices, production costs, development expenditures, anticipated production of proved reserves, appropriate risk-adjusted discount rates and other relevant data. An 11 percent discount rate, based on a market-based weighted-average cost of capital estimate, was applied to the undiscounted cash flow estimate to value all of the Company's asset groups that were subject to impairment charges in 2020. Similar assumptions were applied to the impairment recorded in 2019. See Notes 1 and 5 for a further discussion of our impairment charges.

9. Commitments and Contingencies

Chapter 11 Proceedings

On October 3, 2019, the Debtors filed the Chapter 11 Cases in the Bankruptcy Code seeking relief under the Bankruptcy Code. The commencement of the Chapter 11 Cases automatically stayed all of the proceedings and actions against the Company, including those noted below. On October 1, 2020, the Debtors emerged from Chapter 11. For a further discussion of the Chapter 11 Cases, see Note 2. All claims filed in relation to the Chapter 11 Cases, including the legal matters summarized below, will be addressed in connection with the claims resolution process, unless otherwise noted below.

Legal Matters

We and our subsidiaries and affiliates are parties to various legal actions and claims that arise in the ordinary course of our business. For each matter, we evaluate the merits of the case or claim, our exposure to the matter, possible legal or settlement strategies and the likelihood of an unfavorable outcome. If we determine that an unfavorable outcome is probable and can be estimated, we establish the necessary accruals. While the outcome of our current matters cannot be predicted with certainty and there are still uncertainties related to the costs we may incur, based upon our evaluation and experience to date, we believe we have established appropriate reserves for these matters. It is possible, however, that new information or future developments could require us to reassess our potential exposure and adjust our accruals accordingly, and these adjustments could be material. As of December 31, 2020, we had approximately $2 million accrued for all outstanding legal matters, which also represents our best estimate of the allowed claims for these legal matters on our balance sheet at December 31, 2020.

MFN Lawsuit; Storey Minerals, Ltd., et al. v. EP Energy E&P Company, L.P. On May 29, 2018, Storey Minerals, Ltd., Maltsberger/ Storey Ranch, LLC, and Rene R. Barrientos, Ltd. (collectively, "MSB") filed suit against EP Energy in the 81st Judicial District Court of La Salle County, Texas. MSB alleged that by acquiring certain oil and gas leases within the perimeter of the Storey Altito Ranch, EP Energy triggered the most favored nation clause ("MFN clause") in the MSB 'A'

Leases (the “MFN Lawsuit”). After investigation, EP Energy agreed that the MFN clause had been triggered as to the MSB ‘A’ Leases and tendered a lease amendment with a check for $4 million for increased lease bonus. EP Energy's calculation confirmed that no delay rentals were due. MSB, however, did not accept the tender and asserts that the MFN clause operates retroactively to the date of the lease and applies to all of the acreage leased at that time. EP Energy maintains that the unambiguous language in the MFN clause operates prospectively and supports its tendered amendment and calculation. The parties filed cross-motions for summary judgment. In June 2019, the court entered an order agreeing with EP Energy on delay rentals, but with MSB on lease bonus. The court entered a final judgment in July 2019 ordering EP Energy to pay MSB $43.8 million in increased lease bonus, attorney’s fees, expenses and interest to date. Both Parties appealed the judgment to the Fourth Court of Appeals in San Antonio. MSB has since abandoned its cross-appeal on delay rentals. The briefing concluded on December 15, 2020. On February 19, 2021, the Fourth Court of Appeals took the case under submission without oral argument. EP intends to pursue fully its appeal. Resolution of this matter will be made pursuant to the Amended Plan and claims reconciliation process.

Lien Invalidation Lawsuit; EP Energy filed an adversary proceeding in October 2019 requesting a declaratory judgment that MSB does not hold a judgment lien with respect to a currently-on-appeal final judgment entered in the MFN Lawsuit (the “Lien Invalidation Lawsuit”). On April 6, 2020, the Bankruptcy Court granted summary judgment in favor of EP Energy and held that MSB does not hold a valid judgment lien on any of the assets of EP Energy (the “Lien Invalidation Judgment”). On April 20, 2020, MSB filed a motion to reconsider the Lien Invalidation Lawsuit. On December 8, 2020, EP Energy filed a response to MSB’s motion to reconsider. The Bankruptcy Court has taken the motion under advisement. EP Energy believes the Bankruptcy Court’s Lien Invalidation Judgment is correct under Texas law and that it is unlikely that the Bankruptcy Court will grant MSB’s motion to reconsider.

MSB Administrative Expense Claims. On October 30, 2020, MSB filed an Application for the Allowance of Administrative Expense Claims pursuant to 11 U.S.C. § 503 in the Debtors’ Chapter 11 Cases. MSB asserted various administrative expense claims. EP does not believe that any of MSB’s administrative expense claims has merit and EP will vigorously defend against all of them. While a number of such claims have been abated or otherwise resolved, the primary administrative expense claim asserts that all of the MSB Leases (the ‘A,’ ‘B,’ ‘C,’ ‘D,’ ‘E,’ and ‘Maltsberger’ Leases) terminated as a result of the Company’s decision in spring 2020 to temporarily stop producing wells on the MSB Leases to limit the amount of oil sold at unprecedented and historically low prices during the beginning of the coronavirus pandemic (the “Temporary Cessation Claim”). EP does not believe that the Temporary Cessation Claim has merit and will vigorously defend against it.

Resolution of MSB’s administrative expense claims will be made pursuant to the Amended Plan of Reorganization and the claims reconciliation process, or as otherwise ordered by the Bankruptcy Court.

Environmental Matters

We are subject to existing federal, state and local laws and regulations governing environmental quality, pollution control and greenhouse gas emissions. Numerous governmental agencies, such as the EPA, issue regulations which often require difficult and costly compliance measures that carry substantial administrative, civil and criminal penalties and may result in injunctive obligations for non-compliance. We believe that we are in substantial compliance with applicable environmental laws and regulations and we have not experienced any material adverse effect from compliance with these environmental requirements.

While our reserves for environmental matters are currently not material, there are still uncertainties related to the ultimate costs we may incur in the future in order to comply with increasingly strict environmental laws, regulations, and orders of regulatory agencies, as well as claims for damages to property and the environment or injuries to employees and other persons resulting from our current or past operations. Based upon our evaluation and experience to date, however, we believe our accruals for these matters are adequate. It is possible that new information or future developments could result in substantial additional costs and liabilities which could require us to reassess our potential exposure related to these matters and to adjust our accruals accordingly, and these adjustments could be material.

Other Matters

As of December 31, 2020 and 2019, we had approximately $12 million accrued (in other accrued liabilities in our consolidated balance sheets) related to other contingent matters including, but not limited to, a number of examinations by taxing authorities on non-income matters and indemnifications that we periodically enter into as part of the divestiture of assets or businesses. These arrangements include, but are not limited to, indemnifications for income taxes, the resolution of existing disputes and other contingent matters. In addition, the decline in commodity prices has created an environment where there is an increased risk that owners and/or operators of assets previously purchased from us may no longer be able to satisfy plugging and abandonment obligations that attach to such assets. In that event, under various laws or regulations, we could be required to assume all, or a portion of the plugging or abandonment obligations on assets we no longer own or operate.

10. Leases

Lease Obligations

Our noncancellable leases classified as operating leases and capitalized upon commencement of the lease term for accounting purposes include those for office space, drilling rigs and field equipment. The discount rate used for our operating leases is either the discount rate implicit in the contract, or the applicable interest rate on a collateralized basis if not determinable. Operating lease costs for minimum lease payments are recognized as capital or expense on a straight-line basis over the lease term depending on the nature of the payment.

Our noncancellable leases classified as finance leases for accounting purposes include certain compressors under long-term arrangements which were capitalized upon commencement of the lease term at the fair value of the leased asset, which was lower than the present value of the minimum lease payments. The discount rate used for our finance leases was the incremental borrowing rate adjusted so that the present value of the corresponding lease payments did not exceed the fair value of the leased asset. As part of the chapter 11 proceeding we exited our finance lease contracts during first quarter 2020.

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
	(in millions)	(in millions)	
Operating Leases			
Operating costs	$ 1	$ 6	$ 11
Cash payments	$ 1	$ 7	$ 10
Variable costs	$ —	$ 1	$ 3
Finance Leases			
Interest expense	$ —	$ —	$ 4
Depreciation expense	$ —	$ —	$ 3
Cash payments	$ —	$ —	$ 4
Short-term Lease cost	$ —	$ 6	$ 20

Supplemental balance sheet information related to leases was as follows:

	Successor	Predecessor
	December 31, 2020	December 31, 2019
	(in millions)	(in millions)
Operating lease assets[(1)(4)]	$ 6	$ 18
Finance lease assets[(2)]	—	10
Total lease assets	$ 6	$ 28
Operating leases[(3)(4)]		
Current liability	$ 6	$ 9
Noncurrent liability	—	9
Total operating lease liability	$ 6	$ 18
Finance leases[(3)]		
Current liability	$ —	$ 2
Noncurrent liability	—	9
Total finance lease liability	$ —	$ 11
Weighted average remaining lease term		
Operating leases	1 year	3 years
Finance leases	—	4 years
Weighted average discount rate		
Operating leases	4 %	9 %
Finance leases	— %	27 %

(1) Operating lease assets are reflected in *Operating lease assets and other* in our consolidated balance sheet as of December 31, 2020 and December 31, 2019
(2) Finance lease assets are reflected in *Other property, plant and equipment* in our consolidated balance sheet as of December 31, 2019
(3) Current and noncurrent operating and finance lease liabilities are reflected in *Other current liabilities* and *Lease obligations and other,* respectively, in our consolidated balance sheet as of December 31, 2020 and December 2019.
(4) Upon adoption of ASU 2016-02 effective January 1, 2019, we recognized operating leases of approximately $10 million. For the year ended December 31, 2019, we also recorded an additional $16 million of operating leases.

Future minimum annual rental commitments under non-cancelable future operating lease commitments at December 31, 2020, were as follows:

Year Ending December 31,	Operating Leases
	(in millions)
2021	$ 6
2022	—
Total	$ 6
Less: imputed interest	—
Present value of operating and finance lease obligations	$ 6

Other Commercial Commitments

At December 31, 2020, we have various commercial commitments totaling $70 million primarily related to commitments and contracts associated with volume and transportation, completion activities and seismic activities. Our annual obligations under these arrangements are $25 million in 2021, $11 million in 2022, $9 million in 2023, $7 million in 2024 and $18 million thereafter.

11. Incentive Compensation

All equity compensation associated with the Predecessor was eliminated in connection with our emergence from Chapter 11; see Note 2, "Reorganization under Chapter 11 Cases", awards included restricted stock awards and performance share units. After emergence from bankruptcy, the Compensation Committee of the Board of Directors authorized the issuance of 550,250 performance-vested restricted stock units ("PSUs") and 430,643 time-vested restricted stock units ("RSUs") under our Employee Incentive Plan to certain officers, employees and non-employee directors. The PSUs, which are valued at a $43.53 per unit, will be recognized when a Change In Control (CIC) of the company occurs. The number of vesting PSUs depends on the IRR earned by the Common shareholders from October 1, 2020 to the Change In Control date. To address this dynamic, a Monte Carlo Simulation was used to value the PSUs. The PSUs were viewed as having a likely CIC event within two and one half years from their issuance. The simulated total equity value was allocated among the number of Common Shares, RSUs and PSUs to determine a value per share of each. A 25% discount for lack of marketability was applied to the RSUs and PSUs. The RSUs, which are valued at $35.03 per unit, are amortized over a four year period from the grant date of October 15th, 2020. The RSUs have a four year ratable service vesting condition. Their costs are amortized straight line because they have only the service vesting condition. The RSUs were similarly valued using a Monte Carlo Simulation with a 25% discount for lack of marketability.

We record stock-based compensation expense as general and administrative expense over the requisite service period. As of December 31, 2020, we had unrecognized compensation expense of $14 million related to our outstanding RSUs.

A summary of pre-tax shared-based compensation expense is listed below:

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
	(in millions)	(in millions)	
Total share-based compensation expenses	$ 1	$ 8	$ 9

The following summarizes the Company's Predecessor Restricted Stock activity:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Non-vested at December 31, 2019	3,514,535	$ 2.30
Granted	—	$ —
Vested	(511,182)	$ 4.38
Forfeited	(471,103)	$ 1.89
Non-vested at September 30, 2020	2,532,250	$ 1.96

The following summarizes the Company's Successor RSUs activity:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Non-vested October 1, 2020 (Successor)	—	$ —
Granted	430,643	$ 35.03
Vested	—	$ —
Non-vested at Non-vested at December 31, 2020 (Successor)	430,643	$ 35.03

Key Employee Retention Program

On May 29, 2019, the Compensation Committee of the Board of Directors of the Company approved the implementation of a Key Employee Retention Program (a "KERP") for all employees of the Company. KERP payments totaling approximately $21 million were made in July 2019 and were comprised of approximately $10 million in lieu of target bonus amounts for 2019 performance, which were already being accrued during the year, plus an incremental amount of approximately $11 million in lieu of long-term incentive compensation for 2019. KERP payments were subject to certain termination provisions through June 30, 2020 which required repayment of the award in full in the event of a voluntary termination.

During the period from January 1, 2020 to October 1, 2020, we recorded $6 million in expense related to the KERP. During
twelve months ended December 31, 2019, we recorded $10 million in expense related to the KERP.

401(k) Retirement Plan. We sponsor a tax-qualified defined contribution retirement plan for a broad-based group of employees. We make matching contributions (dollar for dollar up to 6% of eligible compensation) and non-elective employer contributions (5% of eligible compensation) to the plan, and individual employees are also eligible to contribute to the defined contribution plan. During 2020 and 2019, we contributed $3 million and $5 million, respectively, of matching and non-elective employer contributions. From April 1, 2020 through September 30, 2020 the Company temporarily suspended matching contributions under the plan to preserve liquidity during the Reorganization under Chapter 11.

12. Income Taxes

General. Our taxable income or loss is included in our parent's (EP Energy Corporation) U.S. federal and certain state returns. EP Energy Corporation pays all consolidated U.S. federal and state income tax directly to the appropriate taxing jurisdictions. We record income taxes on a separate return basis in our financial statements as if we had filed separate income tax returns under our existing structure. In certain states, we also file and pay directly to the state taxing authorities.

Pretax Income (Loss) and Income Tax (Expense) Benefit. The tables below show the pretax loss and the components of income tax expense for continuing operations for the following periods:

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
	(in millions)	(in millions)	
Pretax income (loss) - continuing operations	$ (21)	$ 1,947	$ (978)
Components of Income Tax Expense			
Current			
Federal	$ —	$ —	$ —
State	—	—	—
	$ —	$ —	$ —
Deferred			
Federal	$ 4	$ —	$ 7
State	—	—	—
	4	—	7
Total income tax benefit	$ 4	$ —	$ 7

Effective Tax Rate Reconciliation. Our income taxes included in net income differ from continuing operations from the amount computed by applying the statutory federal income tax rate of 21% for the following reasons:

	Successor	Predecessor	
	Three months ended December 31, 2020	Nine months ended September 30, 2020	Year ended December 31, 2019
	(in millions)	(in millions)	
Income tax benefit (expense) at the statutory federal rate - continuing operations	$ 4	$ (409)	$ 205
Increase (decrease)			
State income taxes, net of federal income tax effect	(2)	(18)	11
Change in valuation allowance	2	453	(207)
Other	—	(26)	(2)
Income tax benefit - continuing operations	$ 4	$ —	$ 7

The effective tax rate for both the years ended December 31, 2020 and 2019 was 0%. Our effective tax rate differed from the statutory rate of 21% primarily due to the change in our valuation allowance on our net deferred tax assets and state impacts. Changes in our deferred taxes from year to year are offset by changes to our related valuation allowance and thus have the effect of eliminating the impact of federal taxes on our income.

Deferred Tax Assets and Liabilities. The following are the components of net deferred tax assets and liabilities:

	December 31, 2020	December 31, 2019
Deferred tax assets		
Property, plant and equipment	$ 328	$ 238
Net operating loss carryovers	—	321
Employee benefits	2	1
Lease obligations	1	4
Legal and other reserves	15	17
Asset retirement obligations	15	10
Interest deduction limitation	3	125
Financial derivatives	8	—
Transaction costs	4	33
Total deferred tax assets	376	749
Valuation allowance	(375)	(743)
Net deferred tax assets	1	6
Deferred tax liabilities		
Operating lease assets	1	4
Financial derivatives	—	2
Total deferred tax liabilities	1	6
Net deferred tax liabilities	$ —	$ —

Attribute Reduction. For tax purposes, cancellation of debt is not income due to our bankruptcy. First, tax net operating loss carryovers are reduced. To the extent net operating losses were not sufficient to offset the cancellation of debt amount, the company reduced its tax basis in property, plant and equipment.

Unrecognized Tax Benefits. At December 31, 2020 and 2019, the total amount of unrecognized tax benefits was $0 million and $46 million, respectively. The $46 million recorded in 2019 related to tax positions taken in that year and prior and reflected the potential impact on the classification of certain tax attributes recorded within the components of net deferred assets and liabilities. We do not expect the settlement of the unrecognized tax benefit to have an impact on the Company's earnings or liquidity.

We did not recognize any interest and penalties related to unrecognized tax benefits (classified as income taxes in our consolidated income statement) in 2020 or 2019, nor do we have any accrued interest and penalties associated with income taxes in our consolidated balance sheets as of December 31, 2020 and 2019. The Company's and certain subsidiaries' income tax years after 2016 remain open and subject to examination by both federal and state tax authorities.

Net Operating Loss and Tax Credit Carryovers.

The NOLs were reduced due to cancellation of debt income.

Valuation Allowances. As of December 31, 2020 and 2019, we have a valuation allowance on our deferred tax assets of $375 million and $743 million, respectively. These amounts are recorded based on our evaluation of whether it was more likely than not that our deferred tax assets would be realized. Our evaluations considered cumulative book losses, the reversal of existing temporary differences, the existence of taxable income in prior carryback years, tax planning strategies and future taxable income for each of our taxable jurisdictions.

13. Related Party Transactions

Joint Venture. At December 31, 2019, we were party to a drilling joint venture to fund future oil and natural gas development with Wolfcamp Drillco Operating L.P. (the Investor, which was managed and controlled by an affiliate of Apollo) and indirectly through Access (through an indirect minority ownership interest in the Investor). At December 31, 2019, we had accounts receivable of $3 million from our Investor and accounts payable of $7 million to our Investor reflected in our consolidated balance sheet. As of February 25, 2021, we are no longer party to the drilling joint venture with Wolfcamp Drillco Operating L.P. For a further discussion on the drilling joint venture, see Note 14 in the included financial statements.

Related Party. JP Morgan Chase Bank, N.A., acts as the Administrative Agent, Collateral Agent, Swingline Lender and an Issuing Bank to EP Energy LLC for its Senior Secured Credit Agreement (RBL). The bank's Commitment Percentage to the line of credit is 13.5%. Investment affiliates of JP Morgan Chase Bank, N.A., collectively own approximately 19.9% of the common stock of EP Energy Corporation.

Taxes. We are party to a tax accrual policy with our parent whereby our parent files U.S. and certain state tax returns on our behalf. As of December 31, 2020 and 2019, we had no state income tax payable due to our parent.

14. Subsequent Events

Sale of Permian Assets

On December 10, 2020, a subsidiary of EP Energy Corporation entered into a Purchase and Sale Agreement (the "Purchase and Sale Agreement") with an unaffiliated third-party buyer (the "Buyer"). Pursuant to the Purchase and Sale Agreement, the company agreed to sell to the Buyer substantially all of its assets located in the Southern Midland Basin for $240,550,000 in cash, subject to customary adjustments for this type of transaction. The Buyer delivered into escrow a deposit of $12,027,500 in connection with the execution of the Purchase and Sale Agreement. On February 23, 2021, the disposition was completed. The Purchase and Sale Agreement contains representations, warranties, covenants and indemnification customary for this type of transaction. The transaction had an effective time of October 1, 2020.

The financial and operating results of the Permian asset for 2019 and 2020 are presented under Discontinued Operations in this report.

Engagement of Financial Advisors to Explore Strategic Alternatives

On March 12, 2021, the Company announced it had engaged Credit Suisse Securities (USA) LLC and Jefferies LLC as financial advisors to assist in evaluating a range of strategic alternative to maximize shareholder value, including without limitation, a corporate sale, merger, or any other business combination.

Acquisitions

On February 25, 2021, a subsidiary of EP Energy Corporation entered into a Purchase and Sale Agreement (the "Purchase Agreement"), with Wolfcamp DrillCo Operating L.P. (the "Seller"), a company managed and controlled by an affiliate of Apollo Global Management, LLC. Pursuant to the Purchase Agreement, on the same day, the Company purchased from the Seller certain oil and gas assets located in the Eagle Ford for total consideration of $40 million in cash, subject to customary adjustments for this type of transaction. The Purchase Agreement contains representations, warranties, covenants and indemnification customary for this type of transaction. The transaction had an effective date of February 1, 2021.

As previously reported on our Current Report on Form 8-K dated January 26, 2017, in January 2017 the Company entered into a Participation and Development Agreement (the "PDA") with the Seller to fund future oil and natural gas development in the Permian basin. As previously reported on our Current Report on Form 8-K dated April 27, 2018, on that date, the Company and the Seller amended the PDA (the "Amended PDA") to direct the development area for the second tranche from the Permian to the Eagle Ford, under the same economic terms under the PDA.

As a result of the purchase of the assets under the Purchase Agreement, the Company no longer is party to nor has any rights or obligations under the Amended PDA.

The Company performed evaluation of subsequent events through the date that the financial statements were issued or were available to be issued, April 15, 2021.