

EP ENERGY LLC
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**As of March 31, 2021 and December 31, 2020 and
for the quarterly periods ended March 31, 2021 and March 31, 2020**

EP ENERGY LLC**TABLE OF CONTENTS**

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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
Boe	=	barrel of oil equivalent
Gal	=	gallons
HH	=	Henry Hub
LLS	=	light Louisiana sweet crude oil
MBoe	=	thousand barrels of oil equivalent
MBbls	=	thousand barrels
Mcf	=	thousand cubic feet
MMBtu	=	million British thermal units
MMBbls	=	million barrels
MMcf	=	million cubic feet
MMGal	=	million gallons
Mt. Belvieu	=	Mont Belvieu natural gas liquids pricing index
NGLs	=	natural gas liquids
NYMEX	=	New York Mercantile Exchange
TBtu	=	trillion British thermal units
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. In calculating equivalents, we use a generally recognized standard in which one Bbl of oil and/or NGLs is equal to six Mcf of natural gas. Also, when we refer to cubic feet measurements, all measurements are at a pressure of 14.7 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.

EP ENERGY LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions)
(Unaudited)

	Successor	Predecessor
	Quarter ended March 31, 2021	Quarter ended March 31, 2020
Operating revenues		
Oil	\$ 132	\$ 129
Natural gas	33	8
NGLs	8	5
Financial derivatives	(113)	233
Total operating revenues	<u>60</u>	<u>375</u>
Operating expenses		
Transportation costs	6	14
Lease operating expense	18	26
General and administrative	20	20
Depreciation, depletion and amortization	27	95
Gain on sale of assets	—	—
Impairment charges	—	1,757
Exploration and other expense	—	—
Taxes, other than income taxes	11	10
Total operating expenses	<u>82</u>	<u>1,922</u>
Operating loss	(22)	(1,547)
Other income	—	1
Interest expense, net of capitalized interest	(4)	(30)
Reorganization items, net	(1)	(87)
Loss from continuing operations before income taxes	(27)	(1,663)
Income tax benefit (expense)	—	—
Loss from continuing operations	(27)	\$ (1,663)
Loss from discontinued operations, before income taxes	(12)	(572)
Income tax (expense) benefit - discontinued operations	—	—
Loss from discontinued operations, net of income taxes	(12)	(572)
Net loss	<u>\$ (39)</u>	<u>\$ (2,235)</u>

See accompanying notes.

EP ENERGY LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 38	\$ 25
Restricted cash		—
Accounts receivable		
Customer, net of allowance of less than \$1 in 2021 and 2020	90	73
Other, net of allowance of \$1 in 2021 and 2020	13	10
Materials and supplies	32	32
Derivative instruments	—	—
Other	14	10
Current assets associated with discontinued operations	11	296
Total current assets	198	446
Property, plant and equipment, at cost		
Oil and natural gas properties	812	684
Other property, plant and equipment	45	44
	857	728
Less accumulated depreciation, depletion and amortization	55	29
Total property, plant and equipment, net	802	699
Other assets		
Unamortized debt issue costs	2	2
Other	2	6
	4	8
Total assets	\$ 1,004	\$ 1,153

See accompanying notes.

EP ENERGY LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	March 31, 2021	December 31, 2020
LIABILITIES AND EQUITY		
Current liabilities		
Owner and royalties payable	\$ 46	\$ 34
Accounts payable and accrued expenses	103	53
Derivative instruments	94	25
Accrued interest	1	1
Accrued legal and other reserves	13	13
Other current liabilities	—	23
Current liabilities associated with discontinued operations	4	34
Total current liabilities	261	183
Long-term debt, net of debt issue costs		
	121	336
Other long-term liabilities		
Derivative instruments	38	13
Asset retirement obligations	44	43
Other	1	1
Total non-current liabilities	204	393
Liabilities subject to compromise		
		—
Commitments and contingencies (Note 7)		
Common Stock / APIC - Successor	578	580
Accumulated deficit - Successor	(39)	(3)
Member's equity	539	577
Total liabilities and equity	\$ 1,004	\$ 1,153

See accompanying notes.

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

	Successor	Predecessor
	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash flows from operating activities		
Net loss	\$ (39)	\$ (2,235)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation, depletion and amortization	27	116
Impairment charges	—	2,324
Reorganization items, net	—	97
Other non-cash income items	1	2
Asset and liability changes		
Accounts receivable	(3)	50
Owner and royalties payable	6	(32)
Accounts payable and accrued expenses	57	(4)
Derivative instruments	94	(203)
Accrued interest	—	(25)
Other asset changes	6	27
Other liability changes	(30)	(32)
Net cash provided by operating activities	<u>119</u>	<u>85</u>
Cash flows from investing activities		
Cash paid for capital expenditures	(73)	(104)
Proceeds from the sale of assets	211	—
Cash paid for acquisitions	(41)	(1)
Net cash used in investing activities	<u>97</u>	<u>(105)</u>
Cash flows from financing activities		
Proceeds from borrowings	30	60
Repayment of borrowings	(245)	(58)
Net cash provided by financing activities	<u>(215)</u>	<u>2</u>
Change in cash, cash equivalents and restricted cash	1	(18)
Cash, cash equivalents and restricted cash - beginning of period	37	33
Cash, cash equivalents and restricted cash - end of period	<u>\$ 38</u>	<u>\$ 15</u>

See accompanying notes.

EP ENERGY LLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In millions)
(Unaudited)

	Total Member's Equity
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
Share-based compensation	1
Net loss	(39)
Balance at March 31, 2021 (Successor)	539

See accompanying notes.

EP ENERGY LLC
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 Amended 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 2021 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. For private companies, this standard is effective beginning for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021, 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.

2. Emergence from Voluntary Reorganization under 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 (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 (the "Plan") and an updated Disclosure Statement for Fourth Amended Joint Chapter 11 Plan of Reorganization of EP Energy Corporation and its Affiliated Debtors (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 (the "Amended Plan"), 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. For the quarters end March 31, 2021 and 2020, reorganization items, \$1 million and \$87 million.

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.

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 March 31, 2021. At December 31, 2020, 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 March 31, 2021.

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 Amended 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 Amended 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

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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 Amended 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 Amended 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 Amended 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:

	<u>(in millions)</u>
Enterprise Value	\$ 977
Add: Cash and cash equivalents	\$ 38
Less: Interest bearing liabilities	\$ (436)
Equity value of Successor's units	<u>\$ 579</u>

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

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

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. 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.

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:

	Three months ended March 31, 2021	Three months ended March 31, 2020
	(in millions)	(in millions)
Revenue	\$ 20	\$ 27
Transportation cost	1	2
Lease operating expense	2	7
General and administrative	—	—
Depreciation, depletion and amortization	—	21
Impairment charges	—	566
Loss on sale of assets	27	—
Taxes other than income	2	3
Total pretax loss from discontinued operations	(12)	(572)
Income tax benefit/(expense) – discontinued operations	—	—
Total loss from discontinued operations	<u>\$ (12)</u>	<u>\$ (572)</u>

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

	Three months ended March 31, 2021	Three months ended December 31, 2020
	(in millions)	(in millions)
Carrying amounts of major classes of assets included as discontinued		
Assets		
Accounts & notes receivable	\$ 9	\$ 26
Inventory	2	5
Restricted cash-current	—	12
Total current assets associated with discontinued operations	<u>11</u>	<u>43</u>
Property, plant, and equipment		
Oil and natural gas properties	—	247
Other property, plant and equipment	—	9
	<u>—</u>	<u>256</u>
Less accumulated depreciation, depletion and amortization	—	5
Total property, plant and equipment, net	<u>—</u>	<u>251</u>
Other assets	—	2
Total assets associated with discontinued operations	<u>\$ 11</u>	<u>\$ 296</u>

	Three months ended March 31, 2021	Three months ended December 31, 2020
	(in millions)	(in millions)
Carrying amounts of major classes of assets included as discontinued		
Liabilities		
Owner and royalties payable	\$ 2	\$ 10
Accounts payable and accrued expenses	2	2
Reserves current	—	1
Other current liabilities	—	2
Current liabilities associated with discontinued operations	<u>4</u>	<u>15</u>
Asset retirement obligations	—	19
Other	—	0
Total non-current liabilities	<u>—</u>	<u>19</u>
Total liabilities associated with discontinued operations	<u>\$ 4</u>	<u>\$ 34</u>

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 all 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.

6. Property, Plant and Equipment

Oil and Natural Gas Properties. As of March 31, 2021 and December 31, 2020, we had approximately \$0.8 billion and \$0.7 billion, respectively, of total property, plant, and equipment, net of accumulated depreciation, depletion and amortization on our consolidated 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:

	March 31, 2021	December 31, 2020
	(in millions)	
Proved		
Eagle Ford	\$ 492	\$ 417
Northeastern Utah	310	267
Total Proved	802	684
Less accumulated depletion	(37)	(25)
Net capitalized costs for oil and natural gas properties	<u>\$ 765</u>	<u>\$ 659</u>

As of March 31, 2021 and December 31, 2020, we did not have any suspended wells.

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 11 and 8 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

	2021
	(in millions)
Net asset retirement liability at January 1	\$ 48
Liabilities settled	(1)
Accretion expense	1
Changes in estimate	1
Net asset retirement liability at March 31	<u>\$ 49</u>

Capitalized Interest. Interest expense is reflected in our consolidated 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. Capitalized interest for the periods ending March 31, 2021 and 2020 was less than \$1 million and \$1 million, respectively.

7. Debt

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

	<u>Interest Rate</u>	<u>March 31, 2021</u>	<u>December 31, 2020</u>
		(in millions)	
Exit RBL credit facility - due October 1, 2023	Variable	\$ 121	\$ 336
Unamortized discount and debt issue costs		(2)	(2)
Total debt		119	334

Exit Facility. 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 March 31, 2021, we had \$439 million capacity remaining with approximately \$15 million of letters of credit issued and \$121 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 March 31, 2021 and December 31, 2020, 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:

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
	<u>Carrying Amount</u>	<u>Carrying Amount</u>
	(in millions)	
Debt obligations:		
Exit RBL credit facility	\$ 121	\$ 336
Derivative instruments	\$ (132)	\$ (39)

As of March 31, 2021 and December 31, 2020, the carrying amount of cash and cash equivalents, accounts receivable, owner and royalties payable, and accounts payable represent fair value because of the short-term nature of these instruments. Our debt obligations (see Note 5) 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, Natural Gas and NGLs 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 March 31, 2021, we had derivative contracts in the form of fixed price swaps and collars on 13 MMBbls of oil, fixed price swaps on 14 TBtu of natural gas and fixed price swaps on 23 MMGal ethane and propane. As of December 31, 2020, we had derivative contracts for 15 MMBbls of oil and fixed price swaps on 18 TBtu of natural gas. 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.

The following table presents the fair value associated with our derivative financial instruments as of March 31, 2021 and December 31, 2020. 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		Gross Fair Value	Impact of Netting	Balance Sheet Location	
			Current	Non-current			Current	Non-current
(in millions)				(in millions)				
March 31, 2021								
Derivative instruments	\$ 3	\$ (3)	\$ —	\$ —	\$ (135)	\$ 3	\$ (94)	\$ (38)
December 31, 2020								
Derivative instruments	\$ 8	\$ (8)	\$ —	\$ —	\$ (47)	\$ 8	\$ (25)	\$ (14)

For the quarters ended March 31, 2021 and 2020, we recorded derivative losses of \$113 million and derivative gains of \$233 million, respectively. Derivative gains and losses on our oil, natural gas and NGLs financial derivative instruments are recorded in operating revenues in our consolidated income statements.

Other Fair Value Considerations. During the three months ended March 31, 2020, we recorded non-cash impairment charges on our proved properties in Eagle Ford, NEU and Permian. 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. 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. See Note 5 for a further discussion of our impairment charge.

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.

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 March 31, 2021, we do not have any legal accruals.

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. On April 6, 2020, the Bankruptcy Court granted summary judgment in favor of EP Energy. On April 20, 2020, MSB filed a motion to reconsider. On May 10, 2021, the Bankruptcy Court denied MSB's motion to reconsider and entered a final judgment reiterating that MSB does not hold a valid judgment lien on any of the assets of EP Energy.

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.

Environmental Matters

We are subject to existing federal, state and local laws and regulations governing environmental quality, pollution control and greenhouse gas (GHG) emissions. Numerous governmental agencies, such as the Environmental Protection Agency (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 March 31, 2021, we had approximately \$14 million accrued (in other accrued liabilities in our consolidated balance sheet) 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 capital lease contracts during first quarter 2020.

A summary of Lease expenses is listed below:

	Successor	Predecessor
	Three months ended March 31, 2021	Three months ended March 31, 2020
	(in millions)	
Operating Leases		
Operating costs	\$ 1	\$ 3
Cash payments	\$ 1	\$ 3
Variable costs	\$ —	\$ 1
Short-term Lease costs	\$ 5	\$ 4

Supplemental balance sheet information related to leases was as follows:

	March 31, 2021	December 31, 2020
	(in millions)	
Operating lease - assets ⁽¹⁾	\$ 3	\$ 6
Operating leases - current liabilities ⁽¹⁾	\$ 3	\$ 6
Weighted average remaining lease term		
Operating leases	1 years	1 years
Weighted average discount rate		
Operating leases	4 %	4 %

(1) Operating lease assets and liabilities are reflected in *Other* in our consolidated balance sheet as of March 31, 2021 and December 31, 2020..

Future minimum annual rental commitments under non-cancelable future operating and finance lease commitments at March 31, 2021, were as follows:

	Operating Leases
	(in millions)
2020	\$ 3
2021 ⁽¹⁾	—
Total	\$ 3
Less: imputed interest ⁽¹⁾	—
Present value of operating and finance lease obligations	\$ 3

(1) The amount associated with 2021 and the imputed interest is less than \$1 million.

11. Incentive Compensation

Long-term 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 an approximate 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. In March 2021, the Compensation Committee of the Board of Directors authorized the issuance of an addition 73,482 of PSUs and 48,988 of RSUs as employee incentive grants to certain non-officer employees of the Company.

We record stock-based compensation expense as general and administrative expense over the requisite service period. As of March 31, 2021, we had unrecognized compensation expense of \$13 million related to our outstanding RSUs.

A summary of pre-tax Long-term incentive compensation expense is listed below:

	Successor	Predecessor
	Three months ended March 31, 2021	Three months ended March 31, 2020
Long-term incentive compensation expense	\$ 1	\$ 2

Restricted Stock. A summary of the changes in our parent’s non-vested restricted shares for the three months ended March 31, 2021 is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Non-vested at December 31, 2020	430,643	\$ 35.03
Granted	48,988	45.00
Vested	—	—
Non-vested at March 31, 2021	479,631	\$ 36.05

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 quarter ended March 31, 2020, we recorded approximately \$5 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. We contributed \$1 million for the periods ending March 31, 2021 and 2020, 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

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.

Effective Tax Rate. Interim period income taxes are computed by applying an anticipated annual effective tax rate to year-to-date income or loss, except for significant, unusual or infrequently occurring items, which income tax effects are recorded in the period in which they occur. Changes in tax laws or rates are recorded in the period they are enacted.

For the quarters and ended March 31, 2021 and 2020, our effective tax rates were 0%. Our effective tax rates in 2021 and 2020 differed from the statutory rate of 21% primarily as a result of our recognition of a full valuation allowance on our net deferred tax assets. In addition, we recorded adjustments to the valuation allowance on our net deferred tax assets, which offset deferred income tax benefits by \$9 million and \$493 million, for the quarters ended March 31, 2021 and 2020, respectively.

We evaluate the realization of our deferred tax assets and record any associated valuation allowance after considering 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. Based upon the evaluation of the available evidence, we maintained a valuation allowance against our net deferred tax assets of \$1,307 million as of March 31, 2021.

13. Related Party Transactions

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 March 31, 2021 and December 31, 2020, we had no state income tax payable due to our parent.

14. Subsequent Events

The Company performed evaluation of subsequent events through the date that the financial statements were issued or were available to be issued, May 28, 2021, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements.

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 this report. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in our 2020 Financial Report. Actual results may differ materially from those contained in any forward-looking statements. 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 areas: the Eagle Ford Shale in South Texas and Northeastern Utah (NEU) in the Uinta basin. We previously operated in the Permian basin in West Texas, but exited the basin in February 2021.

Chapter 11 Cases. On October 3, 2019, the Debtors 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 *Liquidity and Capital Resources* and Notes 2, 5 and 7 of the included financial statements. On October 1, 2020, the Debtors emerged from Chapter 11.

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 long-term profitability will 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 future 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 sheet. 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 as reflected by the \$2,324 million impairment recorded during the quarter ended March 31, 2020 on all of our properties.

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 commodities and (ii) other contractual pricing adjustments contained in our

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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 or 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 March 31, 2021.

	2021		2022		2023	
	Volumes ⁽¹⁾	Average Price ⁽¹⁾	Volumes ⁽¹⁾	Average Price ⁽¹⁾	Volumes ⁽¹⁾	Average Price ⁽¹⁾
<i>Oil</i>						
Fixed Price Swaps - WTI	4,031	\$ 42.59	1,460	\$ 42.56	730	\$ 42.86
<i>Collars</i>						
Ceiling - WTI	2,996	\$ 51.36	3,005	\$ 50.86	1,095	\$ 47.73
Floors - WTI	2,996	\$ 36.23	3,005	\$ 38.18	1,095	\$ 36.67
<i>Basis Swaps</i>						
Magellan East Houston vs. Cushing ⁽²⁾	825	\$ 1.42	—	\$ —	—	\$ —
NYMEX Roll ⁽³⁾	2,750	\$ 0.21	—	\$ —	—	\$ —
<i>Natural Gas</i>						
Fixed Price Swaps - HH	14	\$ 2.93	—	\$ —	—	\$ —
<i>Basis Swaps</i>						
WAHA vs. Henry Hub ⁽⁴⁾	3	\$ (0.30)	—	\$ —	—	\$ —
<i>NGLs</i>						
Fixed Price Swaps - Ethane	11.6	\$ 0.22	—	\$ —	—	\$ —
Fixed Price Swaps - Propane	11.6	\$ 0.81	—	\$ —	—	\$ —

(1) Volumes in oil are presented in MBbls and price per Bbl, natural gas volumes are presented in TBtu and prices per MMBtu.

(2) EP Energy receives Cushing plus the basis spread listed and pays Magellan East Houston.

(3) 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").

(4) EP Energy receives Henry Hub plus the basis spread listed and pays Waha.

During the quarter ended March 31, 2021, we settled commodity index hedges on 88% of our oil production at average floor prices of \$43.22 per barrel of oil.

Liquidity and Capital Resources

Overview. As of March 31, 2021, our primary sources of liquidity are cash generated by our operations and borrowings under our debtor-in-possession facility (“DIP 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 March 31, 2021:

	March 31, 2021
	(in millions)
Cash and cash equivalents	\$ 38
Availability under DIP Facility	439
Total available liquidity	\$ 477

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 (the “Amended Plan”) 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 also 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 (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 (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 includes a letter of credit sublimit of \$50 million. As of March 31, 2021, we had \$439 million capacity remaining with approximately \$15 million of letters of credit issued and \$0 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, 2019.

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 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. At October 31, 2020 the company had \$395 million drawn and \$17 million of letters of credit issued under the Exit Facility. Total available liquidity including cash on hand was \$242 million.

At the end of May 2021, the company had \$95 million drawn and \$15 million of letters of credit issued under the Exit Facility. Total available liquidity, including cash on hand, was \$480 million and debt, net of cash on hand, was approximately \$80 million.

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

2021 OPERATING PLAN AND GUIDANCE

- Price Deck: \$55 WTI & \$2.75 Henry Hub
- Production: 46,000-51,000 Boe/d (64% oil)
- Capital Expenditures excluding Acquisitions and Capitalized G&A: \$335MM - \$370MM
 - o Drilling and Completion capital 90%
 - o Based on approximately two rigs running in Northeast Utah and one-half rig in Eagle Ford
- Unhedged Adjusted EBITDAX excluding G&A of \$495MM - \$555MM
- Unhedged Free Cash Flow excluding G&A & Interest of \$160MM - \$190MM
- Year-end 2021 Expected Net Debt of \$65MM - \$95MM

Overview of Cash Flow Activities. Our cash flows are summarized as follows (in millions):

	Successor	Predecessor
	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash Inflows		
<i>Operating activities</i>		
Net loss	\$ (39)	\$ (2,235)
Impairment charges	—	2,324
Reorganization items, net	—	97
Other income adjustments	28	118
Changes in assets and liabilities	130	(219)
Total cash flow from operations	119	85
<i>Investing activities</i>		
Proceeds from the sale of assets	211	—
Cash inflows from investing activities	211	—
<i>Financing activities</i>		
Proceeds from issuance of long-term debt	—	—
Proceeds from borrowings	30	60
Cash inflows from financing activities	30	60
Total cash inflows	\$ 360	\$ 145
Cash Outflows		
<i>Investing activities</i>		
Capital expenditures	\$ 73	\$ 104
Cash paid for acquisitions	41	1
Cash outflows from investing activities	114	105
<i>Financing activities</i>		
Repayments and repurchases of long-term debt	—	—
Repayment of borrowings	245	58
Cash outflows from financing activities	245	58
Total cash outflows	\$ 359	\$ 163
Net change in cash, cash equivalents and restricted cash	\$ 1	\$ (18)

Production Volumes and Drilling Summary

Production Volumes. Below is an analysis of our production volumes for the three months ended March 31:

	Successor 2021	Predecessor 2020
<i>Equivalent Volumes (MBoe/d)</i>		
Eagle Ford	24.7	31.6
Northeastern Utah	17.5	17.9
Total - continuing operations	42.2	49.5
Total - discontinued operations	10.1	20.4
<i>Oil (MBbls/d)</i>		
Eagle Ford	15.8	20.5
Northeastern Utah	11.3	12.1
Total	27.1	32.6
<i>Natural Gas (MMcf/d)</i>		
Eagle Ford ⁽¹⁾	27	34
Northeastern Utah	37	35
Total	64	69
<i>NGLs (MBbls/d)</i>		
Eagle Ford	4.4	5.4
Northeastern Utah	—	—
Total	4.4	5.4

(1) Production volume excludes 2 MMcf/d of reinjected gas volumes used in operations during the three months ended March 31, 2021.

Production Summary. For the three months ended March 31, 2021, compared to the same period in 2020, (i) Eagle Ford equivalent volumes decreased 6.9 MBoe/d or (approximately 22%) due to limited development and marketing constraints from Winter Storm Uri, (ii) NEU equivalent volumes decreased 0.4 MBoe/d or (approximately 2%) due to decreased drilling activity.

Drilling Summary. During the three months ended March 31, 2021, we (i) frac'd (wells fracture stimulated) 11 gross wells in the Eagle Ford, 8 of which came online for a total of 864 net operated wells, and (ii) frac'd 5 gross wells in NEU, all of which came online for a total of 352 net operated wells. As of March 31, 2021, we also had a total of 17 gross wells in progress, all of which were drilled, but not completed across our programs.

Capital Expenditures. Our capital expenditures and average drilling rigs by area for the three months ended March 31, 2021 were:

	Capital Expenditures ⁽¹⁾ (in millions)	Average Drilling Rigs
Eagle Ford Shale	\$ 45	0.3
Northeastern Utah	44	1.0
Total - continuing operations	\$ 89	1.3
Acquisition capital	\$ 41	
Total discontinued operations	\$ —	
Total capital expenditures	\$ 130	

(1) Represents accrual-based capital expenditures.

Results of Operations

The information in the table below provides a summary of our financial results.

	Successor	Predecessor
	Quarter ended March 31, 2021	Quarter ended March 31, 2020
(in millions)		
Operating revenues		
Oil	\$ 132	\$ 129
Natural gas	33	8
NGLs	8	5
Total physical sales	173	142
Financial derivatives	(113)	233
Total operating revenues	60	375
Operating expenses		
Transportation costs	6	14
Lease operating expense	18	26
General and administrative	20	20
Depreciation, depletion and amortization	27	95
Impairment charges	—	1,757
Exploration and other expense	—	—
Taxes, other than income taxes	11	10
Total operating expenses	82	1,922
Operating loss	(22)	(1,547)
Other income	—	1
Interest expense, net of capitalized interest	(4)	(30)
Reorganization items, net	(1)	(87)
Loss from continuing operations before income taxes	(27)	(1,663)
Income tax benefit (expense)	—	—
Loss from continuing operations	(27)	(1,663)
Loss from discontinued operations, before income taxes	(12)	(572)
Income tax (expense) benefit - discontinued operations	—	—
Loss from discontinued operations, net of income taxes	(12)	(572)
Net loss	\$ (39)	\$ (2,235)

Operating Revenues

The table below provides our operating revenues, volumes and prices per unit for the quarter and three months ended March 31, 2021 and 2020. 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
	Quarter ended March 31, 2021	Quarter ended March 31, 2020
(in millions)		
Operating revenues:		
Oil	\$ 132	\$ 129
Natural gas	33	8
NGLs	8	5
Total physical sales	173	142
Financial derivatives	(113)	233
Total operating revenues	<u>\$ 60</u>	<u>\$ 375</u>
Volumes:		
Oil (MBbls)	2,442	2,971
Natural gas (MMcf)	5,712	6,305
NGLs (MBbls)	401	487
Equivalent volumes (MBoe)	3,795	4,509
Total MBoe/d	<u>42.2</u>	<u>49.5</u>
Prices per unit - continuing operations:		
Oil		
Average realized price on physical sales (\$/Bbl) ⁽¹⁾	\$ 53.94	\$ 43.40
Average realized price, including financial derivatives (\$/Bbl) ⁽¹⁾⁽²⁾	\$ 45.69	\$ 53.39
Natural gas		
Average realized price on physical sales (\$/Mcf) ⁽¹⁾	\$ 5.76	\$ 1.29
Average realized price, including financial derivatives (\$/Mcf) ⁽¹⁾⁽²⁾	\$ 5.35	\$ 1.29
NGLs		
Average realized price on physical sales (\$/Bbl)	\$ 20.71	\$ 10.52
Average realized price, including financial derivatives (\$/Bbl) ⁽²⁾	\$ 20.71	\$ 10.52

(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 quarters ended March 31, 2021 and 2020, include cash paid of approximately \$20 million and cash received of \$30 million, respectively, for the settlement of crude oil derivative contracts and approximately \$1 million of cash received for the settlement of natural gas financial derivatives for the quarter ended March 31, 2021.

Physical sales. Physical sales represent accrual-based commodity sales transactions with customers. The table below displays the price and volume variances on our physical sales when comparing the quarter ended March 31, 2021 and 2020.

	Quarter ended			
	Oil	Natural gas	NGLs	Total
	(in millions)			
March 31, 2020 sales	\$ 129	\$ 8	\$ 5	\$ 142
Change due to prices	26	26	4	56
Change due to volumes	(23)	(1)	(1)	(25)
March 31, 2021 sales	\$ 132	\$ 33	\$ 8	\$ 173

Oil sales for the quarter ended March 31, 2021, compared to the same period in 2020, increased by \$3 million (2%) due primarily to higher oil realized prices in all areas, partially offset by lower production in the Eagle Ford and NEU.

Natural gas sales were higher by \$25 million (313%) for the quarter ended March 31, 2021, compared to the same period in 2020, due to significantly higher spot natural gas prices in the wake of Winter Storm Uri.

Our oil, natural gas and NGLs are sold at index prices (WTI, 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 regional basis differentials, 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	
	Quarter ended March 31, 2021		Quarter ended March 31, 2020	
	Oil (Bbl)	Natural gas (MMBtu)	Oil (Bbl)	Natural gas (MMBtu)
Differentials and deducts	\$ (3.87)	\$ 3.09	\$ (2.74)	\$ (0.77)
NYMEX	\$ 57.84	\$ 2.69	\$ 46.17	\$ 1.95
Net back realization %	93.3 %	214.9 %	94.1 %	60.5 %

The oil realization percentages for the quarter ended March 31, 2021, were lower as compared to the same period in 2020 primarily as a result of the weaker Magellan East Houston basis premium and slightly weaker physical sales contracts relative to lower NYMEX WTI pricing. The higher natural gas realization percentage for the quarter ended March 31, 2021 was primarily due to significantly higher spot natural gas prices in the wake of Winter Storm Uri.

NGLs sales increased by \$3 million (60%) for the quarter ended March 31, 2021, compared with the same period in 2020. The increase is due to higher average realized prices in the Eagle Ford.

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

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 quarters ended March 31, 2021 and 2020, we recorded \$113 million and \$233 million of derivative gains, respectively.

Operating Expenses

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

	Successor		Predecessor	
	Quarter ended March 31, 2021		Quarter ended March 31, 2020	
	Total	Per Unit ⁽¹⁾	Total	Per Unit ⁽¹⁾
	(in millions, except per unit costs)			
Operating expenses - continuing operations:				
Transportation costs	6	1.58	14	3.08
Lease operating expense	18	4.86	26	5.75
General and administrative ⁽²⁾	20	5.23	20	4.39
Depreciation, depletion and amortization	27	7.05	95	21.02
Impairment charges	—	—	1,757	389.68
Exploration and other expense	—	—	—	—
Taxes, other than income taxes	11	2.96	10	2.35
Total operating expenses	\$ 82	\$ 21.68	\$ 1,922	\$ 426.27
Total equivalent volumes (MBoe)	3,795		4,509	

(1) Per unit costs are based on actual amounts rather than the rounded totals presented.

(2) For the quarter ended March 31, 2021, amount includes approximately \$1.1 million or \$0.28 per Boe of noncash compensation expense, and \$9.1 million or \$2.39 per Boe of transition, severance and other costs. For the quarter ended March 31, 2020, amount includes approximately \$4.0 million or \$1.02 per Boe of noncash compensation expense.

Transportation costs. Transportation costs for the quarter ended March 31, 2021, decreased by \$8 million compared to the same period in 2020 primarily as a result of the rejection and renegotiation of certain transportation contracts in conjunction with our Chapter 11 Cases.

Lease operating expense. Lease operating expense for the quarter ended March 31, 2021, decreased by \$8 million compared to the same period in 2020. The decrease for the quarter ended March 31, 2021, compared to the same periods in 2020 is due primarily to lower maintenance cost and power and fuel in both areas, lower compression in Eagle Ford and billed out less to partners due to lower cost and increased working interest.

General and administrative expenses. General and administrative expenses for the quarter ended March 31, 2021, were flat compared to the same period in 2020. Labor costs were \$7 million lower due to lower headcount from the reduction in force, professional and legal expenses were lower \$1 million, as well as lower rent for \$1 million. These lower costs were offset by higher employee severance expenses for \$9 million.

Depreciation, depletion and amortization expense. Depreciation, depletion and amortization expense decreased for the quarter ended March 31, 2021, when compared to the same period in 2020 primarily due to a decrease in the depletion rate as a result of an impairment recorded during the quarter ended March 31, 2020, on all of our properties, as well as fresh start adjustments which reduced our property carrying values. 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 quarter ended March 31 were:

	Successor	Predecessor
	Quarter ended March 31, 2021	Quarter ended March 31, 2020
Depreciation, depletion and amortization (\$/Boe)	\$ 7.05	\$ 21.02

Impairment charges. For the quarter ended March 31, 2020, we recorded a non-cash impairment charge of approximately \$2,324 million on our Eagle Ford, NEU and Permian proved properties 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 quarter ended March 31, 2021, there was no impairment charge. See Note 5 in the included financial statements for more information on impairment.

Other Income Statement Items.

Interest expense. Interest expense for the quarter ended March 31, 2021, decreased by \$26 million compared to the same periods in 2020. 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. Reorganization items, net were \$1 million for the quarter ended March 31, 2021. The reorganization items for the quarter ended March 31, 2021, consisted of \$1 million in professional fees associated with the Chapter 11 Cases.

Income taxes. For the quarters ended March 31, 2021 and 2020, our effective tax rates were 0%. Our effective tax rates in 2021 and 2020 differed from the statutory rate of 21% primarily as a result of our recognition of a full valuation allowance on our net deferred tax assets. In addition, we recorded adjustments to the valuation allowance on our net deferred tax assets, which offset deferred income tax benefits by \$9 million and \$493 million, for the quarters ended March 31, 2021 and 2020, respectively.

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, management and other fees paid to Sponsors, legacy litigation settlements, reorganization items, gains and losses on extinguishment 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 income (loss) to EBITDAX and Adjusted EBITDAX:

	Successor	Predecessor
	Quarter ended March 31, 2021	Quarter ended March 31, 2020
	(in millions)	
Net loss - continuing operations	\$ (27)	\$ (1,663)
Income tax benefit		
Interest expense, net of capitalized interest	4	31
Depreciation, depletion and amortization	27	95
Exploration expense	—	—
EBITDAX	4	(1,537)
Mark-to-market on financial derivatives ⁽¹⁾	113	(233)
Cash settlements and cash premiums on financial derivatives ⁽²⁾	(19)	30
Incentive compensation expense	1	4
Transition, severance and other costs	9	—
Reorganization items, net ⁽³⁾	1	87
Impairment charges	—	1,757
Adjusted EBITDAX - continuing operations	109	108
Adjusted EBITDAX - discontinued operations	15	16
Adjusted EBITDAX	<u>\$ 124</u>	<u>\$ 124</u>

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

(2) Represents actual cash settlements related to financial derivatives. No cash premiums were received or paid for the quarters ended March 31, 2021 and 2020.

(3) Includes professional fees and amounts recorded associated with the rejection of executory contracts approved by the Bankruptcy Court that are a direct result of the Chapter 11 Cases and certain other items as further described in Note 2 in the included financial statements.