EP ENERGY LLC

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2020 and December 31, 2019 and
for the quarterly periods ended March 31, 2020 and March 31, 2019

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
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
MMBbls	=	million barrels
MMcf	=	million cubic feet
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 14.73 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.

EP ENERGY LLC (DEBTOR IN POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions)
(Unaudited)

	Quarter ended March 31, 2020	Quarter ended March 31, 2019
Operating revenues		
Oil	$ 151	$ 193
Natural gas	8	18
NGLs	11	18
Financial derivatives	233	(95)
Total operating revenues	403	134
Operating expenses		
Transportation costs	16	25
Lease operating expense	33	37
General and administrative	19	21
Depreciation, depletion and amortization	116	94
Impairment charges	2,324	—
Exploration and other expense	—	1
Taxes, other than income taxes	13	11
Total operating expenses	2,521	189
Operating loss	(2,118)	(55)
Other income	1	—
Gain on extinguishment/modification of debt	—	10
Interest expense	(30)	(95)
Reorganization items, net	(88)	—
Loss before income taxes	(2,235)	(140)
Income tax benefit	—	—
Net loss	$ (2,235)	$ (140)

See accompanying notes.

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

	March 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 14	$ 32
Restricted cash	1	1
Accounts receivable		
Customer, net of allowance of less than $1 in 2020 and 2019	80	127
Other, net of allowance of $1 in 2020 and 2019	13	16
Materials and supplies	37	42
Derivative instruments	212	9
Other	16	27
Total current assets	373	254
Property, plant and equipment, at cost		
Oil and natural gas properties	5,178	7,388
Other property, plant and equipment	61	73
	5,239	7,461
Less accumulated depreciation, depletion and amortization	4,132	4,026
Total property, plant and equipment, net	1,107	3,435
Other assets		
Operating lease assets and other	10	21
	10	21
Total assets	$ 1,490	$ 3,710

See accompanying notes.

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

	March 31, 2020	December 31, 2019
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term debt	$ 315	$ 1,815
Debtor-in-possession financing	150	148
Owner and royalties payable	40	72
Accounts payable and accrued expenses	141	139
Accrued interest	1	40
Accrued legal and other reserves	12	12
Other current liabilities	10	22
Total current liabilities	669	2,248
Long-term debt, net of debt issue costs	—	—
Other long-term liabilities		
Asset retirement obligations	43	43
Other	1	20
Total non-current liabilities	44	63
Liabilities subject to compromise	4,543	2,932
Commitments and contingencies (Note 7)		
Member’s equity	(3,766)	(1,533)
Total liabilities and equity	$ 1,490	$ 3,710

See accompanying notes.

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

	Three months ended March 31, 2020	2019
Cash flows from operating activities		
Net loss	$ (2,235)	$ (140)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation, depletion and amortization	116	94
Impairment charges	2,324	—
Gain on extinguishment of debt	—	(10)
Reorganization items, net	97	—
Other non-cash income items	2	8
Asset and liability changes		
Accounts receivable	50	52
Owner and royalties payable	(32)	(31)
Accounts payable and accrued expenses	(4)	—
Derivative instruments	(203)	103
Accrued interest	(25)	40
Other asset changes	27	(7)
Other liability changes	(32)	(37)
Net cash provided by operating activities	85	72
Cash flows from investing activities		
Cash paid for capital expenditures	(104)	(125)
Cash paid for acquisitions	(1)	(3)
Net cash used in investing activities	(105)	(128)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	—	270
Repayments and repurchases of long-term debt	—	(230)
Proceeds from borrowing under DIP Facility	60	—
Repayment of borrowings from DIP Facility	(58)	—
Other	—	(1)
Net cash provided by financing activities	2	39
Change in cash, cash equivalents and restricted cash	(18)	(17)
Cash, cash equivalents and restricted cash - beginning of period	33	27
Cash, cash equivalents and restricted cash - end of period	$ 15	$ 10

See accompanying notes.

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

	Total Member's Equity
Balance at December 31, 2018	$ (599)
Share-based compensation	3
Net loss	(140)
Balance at March 31, 2019	$ (736)
Share-based compensation	1
Net loss	(50)
Balance at June 30, 2019	$ (785)
Share-based compensation	3
Net loss	(620)
Balance at September 30, 2019	$ (1,402)
Share-based compensation	2
Net loss	(133)
Balance at December 31, 2019	$ (1,533)
Share-based compensation	2
Net loss	(2,235)
Balance at March 31, 2020	$ (3,766)

See accompanying notes.

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

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) as it applies to interim financial statements. Because this is an interim period report presented using a condensed format, it does not include all of the disclosures required by U.S. GAAP and should be read along with our 2019 Annual Report on Form 10-K ("2019 Form 10-K") filed with the Securities and Exchange Commission. The condensed consolidated financial statements as of March 31, 2020 and 2019 are unaudited. The consolidated balance sheet as of December 31, 2019 has been derived from the audited consolidated balance sheet included in our 2019 Form 10-K. In our opinion, all adjustments which are of a normal, recurring nature are reflected to fairly present these interim period results. The results for any interim period are not necessarily indicative of the expected results for the entire year.

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 consolidated financial statements included herein have been prepared as if we were a going concern and in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 852, *Reorganizations*. For a further discussion of our Chapter 11 filing, see Note 1A.

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.

1A. Voluntary Reorganization under Chapter 11 Cases

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 are not affiliated with the 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.

Covenant Violations, Forbearance, and Chapter 11 Cases 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 (the "2025 1.5 Lien Notes"). 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 (the "2022 Unsecured Notes"). Our failure to make these interest payments within thirty days after they were due and payable resulted in an event of default under the respective indentures governing the 2025 1.5 Lien Notes and 2022 Unsecured Notes. Each event of default under the indentures noted above also resulted in a cross-default under the Reserve-Based Facility ("RBL Facility").

On September 14, 2019, we entered into forbearance agreements, extending through October 3, 2019, with (i) certain beneficial owners and/or investment advisors or managers of discretionary accounts for the beneficial owners of greater than 70% of the aggregate principal amount of the outstanding 2025 1.5 Lien Notes (collectively, the "Noteholders") and (ii) certain lenders holding greater than a majority of the revolving commitments under our RBL Facility and the administrative agent and collateral agent under the RBL Facility (collectively, the "RBL Forbearing Parties") pursuant to which each Noteholder and RBL Forbearing Party temporarily agreed to forbear from exercising any rights or remedies they may have occurred in respect of the failure to make the $40 million cash interest payment.

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 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. Commodity prices for oil, natural gas and NGLs historically have been volatile and may continue to be volatile in the future, especially given current global geopolitical and economic conditions. As a result of a decrease in global demand for oil and natural gas due to the recent coronavirus outbreaks, in March 2020, members of the Organization of the Petroleum Exporting Countries ("OPEC") and Russia considered extending their agreed oil production cuts and making additional oil production cuts. However, negotiations to date have been unsuccessful. Saudi Arabia announced a significant increase in its maximum crude oil production capacity, targeting to supply 12.3 million barrels per day, an increase of 2.5 million barrels per day, effective immediately, and Russia announced that all agreed oil production cuts between members of OPEC and Russia will expire on April 1, 2020. Following these announcements, within one day, global oil prices declined to their lowest levels since 2016 and partially recovered, but may continue to decline. In addition, coronavirus outbreaks have resulted in delays, supply chain disruptions and travel restrictions that have impacted the oil and gas industry.

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"). Among other things, the Stipulation provides that (i) the PSA and BCA are terminated consensually by the parties pursuant to Section 9.1 of the BCA and Section 7(f) of the PSA, (ii) the Termination Fee (as defined in the BCA) shall not be payable to the Commitment Parties, (iii) the Debtors will reimburse all fees, costs and expenses of the Supporting Noteholders, and the Commitment Parties through the date on which the Bankruptcy Court approves the Stipulation, and (iv) through November 25, 2020 the Supporting Noteholders and Commitment Parties will not interfere, directly or indirectly, with any further restructuring of the Debtors, that treats their applicable claims no less favorably than other similarly situated claims. 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. The Debtors are working with their constituents to explore various alternatives.

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 are 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 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, 2020, we had $148 million capacity remaining with approximately $17 million of letters of credit issued and $150 million outstanding under the DIP Facility. For a further discussion of the additional terms of the DIP Facility, see Note 7.

EP Energy LLC will use the proceeds of the DIP Facility for, among other things, (i) the acquisition, development and exploration of oil and gas properties, for working capital and general corporate purposes, (ii) the payment of professional fees as provided for in the DIP Order, (iii) the payment of expenses incurred in the administration of the Chapter 11 Cases or as permitted by the certain orders and (iv) payments due thereunder or under the DIP Order. The maturity date of the DIP Facility is the earlier of (a) November 25, 2020, (b) the effective date of an "Acceptable Plan of Reorganization" (as defined in the DIP Credit Agreement), (c) the closing of a sale of substantially all of the equity or assets of EP Energy LLC (unless consummated pursuant to an Acceptable Plan of Reorganization), or (d) the termination of the DIP Facility during the continuation of an event of default.

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. 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 $629 million exit senior secured reserve-based revolving credit facility (the "Exit Facility") subject to certain conditions set forth therein, which will 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").

Ability to Continue as a Going Concern. The significant risks and uncertainties related to the Company's liquidity and the Chapter 11 Cases described above raise substantial doubt about the Company's ability to continue as a going concern. Our operations and our ability to develop and execute our business plan are subject to a high degree of risks and uncertainty associated with the Chapter 11 Cases which are dependent upon factors that are outside of the Company's control, including actions of the Bankruptcy Court and the Company's creditors. Further, completion of a plan of reorganization could materially change the amounts and classifications of assets and liabilities reported in the consolidated financial statements. The accompanying consolidated financial statements have (i) been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and other commitments in the normal course of business and (ii) do not include any adjustments to reflect the possible future effects of this uncertainty on the recoverability or classification of recorded asset amounts or the amounts or classifications of liabilities.

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 quarter ended March 31, 2020, reorganization items, net were $88 million and consisted of:

	Quarter ended March 31, 2020	Quarter ended March 31, 2019
	(in millions)	
Professional fees	$ 37	$ —
Rejection of executory contracts approved by Bankruptcy Court	96	—
Elimination of accrued interest on 1.125/1.25 Lien Notes(1)	(45)	—
Total reorganization items, net	$ 88	$ —

(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.

Liabilities subject to compromise. Prepetition unsecured and under-secured obligations that may be impacted by the Chapter 11 Cases have been classified as liabilities subject to compromise on our consolidated balance sheet. 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. Differences between estimated liabilities recorded and claims filed, or to be filed, will be evaluated and resolved in connection with the claims resolution process and adjusted as necessary, and such adjustments may be material.

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. Additional amounts may be included in liabilities subject to compromise in future periods if additional executory contracts and certain unexpired leases are rejected prior to emerging from bankruptcy. Based on the nature of potential allowed claims, future adjustments to amounts recorded as liabilities subject to compromise may be material.

As of March 31, 2020 and December 31, 2019, liabilities subject to compromise were $4,543 million and $2,932 million, respectively, and consisted of:

	March 31, 2020	December 31, 2019
	(in millions)	
Senior secured notes	$ 3,592	$ 2,092
Senior unsecured notes	688	688
Prepetition accrued interest on senior secured lien notes and unsecured notes	131	117
Allowed claims, prepetition accounts payable and other	132	35
Total liabilities subject to compromise	$ 4,543	$ 2,932

As a result of the termination of the PSA and BCA on March 18, 2020 related to the Chapter 11 cases, we reclassified the principal balance of $1,500 million on the 1.125 Lien Note and 1.25 Lien Note as of March 31, 2020 as liabilities subject to compromise. 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 has also been reclassified from accrued liabilities to liabilities subject to compromise as of March 31, 2020 as no interest payments have been made since the commencement of the Chapter 11 Cases or will be made in the future on these notes.

2. 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 recent months, there has been a material reduction in the demand for oil as a result of the recent 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 has significantly decreased during the first quarter of 2020. Due to these recent events, we performed an impairment assessment of our asset groups under ASC 360. 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, $394 million and $566 million for the quarter ended March 31, 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 three areas to the estimated fair value.

3. 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 both the quarters ended March 31, 2020 and 2019, our effective tax rates were 0%. Our effective tax rates in 2020 and 2019 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 benefit by $493 million and $30 million, for the quarters ended March 31, 2020 and 2019, 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 $1,289 million as of March 31, 2020.

Unrecognized Tax Benefits. At March 31, 2020, the total amount of unrecognized tax benefits was $46 million. The $46 million recorded as of March 31, 2020 relates to tax positions taken in the prior year and reflects 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) during the quarters ended March 31, 2020 or 2019, nor do we have any accrued interest and penalties associated with income taxes in our consolidated balance sheets as of March 31, 2020 and 2019. The Company's and certain subsidiaries' income tax years after 2015 remain open and subject to examination by both federal and state tax authorities.

4. 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, 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:

	March 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Debt obligations:				
Debtor-in-possession credit facility	$ 150	$ 150	$ 148	$ 148
Liabilities subject to compromise[(1)]	$ 4,280	$ 141	$ 2,780	$ 53
Current portion of long-term debt	$ 315	$ 315	$ 1,815	$ 1,285
Derivative instruments	$ 212	$ 212	$ 9	$ 9

(1) Amount includes the principal balance on the 1.125 lien, 1.25 lien, 1.5 lien notes and senior unsecured notes totaling $4,280 million reflected as liabilities subject to compromise as of March 31, 2020 and the principal balance of $2,780 million on the 1.5 lien notes and senior unsecured notes reclassified as liabilities subject to compromise as of December 31, 2019.

As of March 31, 2020 and December 31, 2019, 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 6) 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, 2020, we had derivative contracts in the form of fixed price swaps and three-way collars on 12 MMBbls of oil (11 MMBbls in 2020 and 1 MMBbls in 2021). 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.

The following table presents the fair value associated with our derivative financial instruments as of March 31, 2020 and December 31, 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			
			Balance Sheet Location				Balance Sheet Location	
	Gross Fair Value	Impact of Netting	Current	Non-current	Gross Fair Value	Impact of Netting	Current	Non-current
	(in millions)				(in millions)			
March 31, 2020								
Derivative instruments	$ 21	$ —	$ 212	$ —	$ —	$ —	$ —	$ —
December 31, 2019								
Derivative instruments	$ 14	$ (5)	$ 9	$ —	$ (5)	$ 5	$ —	$ —

For the quarters ended March 31, 2020 and 2019, we recorded derivative gains and losses of $233 million and $95 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 quarter 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 2 for a further discussion of our impairment charge.

5. Property, Plant and Equipment

Oil and Natural Gas Properties. As of March 31, 2020 and December 31, 2019, we had approximately $1.1 billion and $3.4 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, 2020	December 31, 2019
	(in millions)	
Proved		
Eagle Ford	$ 2,950	$ 4,266
Permian	1,231	1,791
Northeastern Utah	997	1,331
Total Proved	5,178	7,388
Less accumulated depletion	(4,101)	(3,990)
Net capitalized costs for oil and natural gas properties	$ 1,077	$ 3,398

As of March 31, 2020 and December 31, 2019, 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.

Changes in estimates 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 as of March 31, 2020 on our consolidated balance sheet in other current and non-current liabilities and the changes in the net liability from January 1 through March 31, 2020 were as follows:

	2020
	(in millions)
Net asset retirement liability at January 1	$ 45
Liabilities settled	(1)
Accretion expense	1
Net asset retirement liability at March 31	$ 45

6. Debt

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

	Interest Rate	March 31, 2020	December 31, 2019
		(in millions)	
Prepetition RBL credit facility - due November 23, 2021[1]	Variable	$ 315	$ 315
Senior secured notes:			
1.5 Lien due May 1, 2024	9.375%	1,092	1,092
1.25 Lien due November 29, 2024	8.000%	500	500
1.5 Lien due February 15, 2025	8.000%	1,000	1,000
1.125 Lien due May 15, 2026	7.750%	1,000	1,000
Senior unsecured notes:			
Due May 1, 2020	9.375%	182	182
Due September 1, 2022	7.75%	182	182
Due June 15, 2023	6.375%	324	324
Total debt		4,595	4,595
Current portion of long-term debt		(315)	(1,815)
Amounts reclassified as liabilities subject to compromise[2]		(4,280)	(2,780)
Total long-term debt		$ —	$ —
Debtor-in-possession facility	Variable	$ 150	$ 148

(1) 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.

(2) As a result of the Chapter 11 Cases, the principal balance on the 1.125 lien, 1.25 lien, 1.5 lien notes and senior unsecured notes totaling $4,280 million is reflected as liabilities subject to compromise as of March 31, 2020 and the principal balance of $2,780 million on the 1.5 lien notes and senior unsecured notes was reclassified as liabilities subject to compromise as of December 31, 2019 In addition, accrued and unpaid interest of approximately $14 million related to the 1.125 and 1.25 lien notes has been reclassified from accrued liabilities to liabilities subject to compromise as of March 31, 2020. For a further discussion of the Chapter 11 Cases, see Note 1A.

Guarantees. Our obligations under the RBL Facility, DIP Facility, secured notes and unsecured notes are fully and unconditionally guaranteed, jointly and severally, by the Company's present and future direct and indirect wholly owned material domestic subsidiaries. EP Energy LLC has no independent assets or operations. Any subsidiaries of EP Energy LLC, other than the subsidiary guarantors, are minor. The subsidiary guarantees are subject to certain automatic customary releases, including the sale or disposition of the capital stock or substantially all of the assets of a subsidiary guarantor, exercise of legal defeasance or covenant defeasance, or designation of a subsidiary guarantor as unrestricted in accordance with the applicable indenture. There are no significant restrictions on the ability of the Company or any guarantor to obtain funds from its subsidiaries by dividend or loan.

Covenant Violations, Forbearance, and Chapter 11 Proceedings. On August 15, 2019, we did not make the approximately $40 million cash interest payment due with respect to the 2025 1.5 Lien Senior Secured Notes. On September 3, 2019, we did not make the approximately $7 million cash interest payment due with respect to the 2022 Unsecured Notes. Our failure to make these interest payments within thirty days after they were due and payable resulted in an event of default under the respective indentures governing the 2025 1.5 Lien Notes and 2022 Unsecured Notes. Each event of default under the indentures noted above also resulted in a cross-default under the RBL Facility.

On September 14, 2019, we entered into forbearance agreements, extending through October 3, 2019, with the Noteholders and the RBL Forbearing Parties, pursuant to which each Noteholder and RBL Forbearing Party temporarily agreed, subject to certain terms and conditions, to forbear from exercising any rights or remedies they may have in respect of the failure to make the approximately $40 million cash interest payment.

On October 3, 2019, the Debtors filed the Chapter 11 Cases in the Bankruptcy Court seeking relief under the Bankruptcy Code. 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 the RBL Facility and indentures governing 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. For a further discussion of the Chapter 11 Cases, see Note 1A.

Debtor-in-possession financing. As noted in Note 1A, 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. As of March 31, 2020, we had $148 million capacity remaining with approximately $17 million of letters of credit issued and $150 million outstanding under the DIP Facility.

EP Energy LLC will use the proceeds of the DIP Facility for, among other things, (i) the acquisition, development and exploration of oil and gas properties, for working capital and general corporate purposes, (ii) the payment of professional fees as provided for in the DIP Order, (iii) the payment of expenses incurred in the administration of the Chapter 11 Cases or as permitted by the certain orders and (iv) payments due thereunder or under the DIP Order. The maturity date of the DIP Facility is the earlier of (a) November 25, 2020, (b) the effective date of an "Acceptable Plan of Reorganization" (as defined in the DIP Credit Agreement), (c) the closing of a sale of substantially all of the equity or assets of EP Energy LLC (unless consummated pursuant to an Acceptable Plan of Reorganization), or (d) the termination of the DIP Facility during the continuation of an event of default thereunder.

The DIP Loans bear interest at a rate per annum equal to (i) adjusted LIBOR plus an applicable margin of 3.50% or (ii) an alternative base rate plus an applicable margin of 2.50%, in each case, as selected by EP Energy LLC. Any unused revolving commitments will be subject to a commitment fee at a rate per annum equal to 0.50% on the Available Commitment (as defined in the DIP Credit Agreement) in effect on such day. The DIP Facility is secured by a senior secured superpriority perfected security interest on substantially all assets of EP Energy LLC and any subsidiary guarantors. The security interests and liens are further subject to certain carve-outs and permitted liens, as set forth in the DIP Credit Agreement and the DIP Order.

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. 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 $629 million exit senior secured reserve-based revolving credit facility (the "Exit Facility") subject to certain conditions set forth therein, which will 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.

Interest Expense/Other. Contractual interest expense on all debt amounts listed above totaled $88 million for the quarter ended March 31, 2020 compared to interest expense recorded in our consolidated statements of income for the quarter ended March 31, 2020 of $30 million due to ceasing to record interest on certain debt obligations subject to compromise once it has been determined that interest is no longer probable of being paid on those obligations.

In the first quarter of 2019, we paid approximately $40 million in cash to repurchase a total of $50 million in aggregate principal amount of our senior unsecured notes due 2020. In connection with these repurchases, we recorded a gain on extinguishment of debt of approximately $10 million.

7. 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. We expect to continue operations in the normal course during the pendency of the Chapter 11 Cases. In addition, commencement of the Chapter 11 Cases automatically stayed all of the proceedings and actions against the Company, including those noted below. For a further discussion of the Chapter 11 Cases, see Note 1A. Any claims filed, or to be filed in relation to the Chapter 11 Cases, will be investigated and addressed in connection with the claims resolution process. The Company will continue to evaluate these liabilities throughout the Chapter 11 process and adjust amounts as necessary.

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, 2020, we had approximately $26 million accrued for all outstanding legal matters, which also represents our best estimate of the allowed claims for these legal matters which have been reclassified as liabilities subject to compromise on our balance sheet at March 31, 2020.

FairfieldNodal v. EP Energy E&P Company, *L.P.* On March 3, 2014, Fairfield filed suit against one of our subsidiaries in the 157th District Court of Harris County, Texas, claiming we were contractually obligated to pay a transfer fee of approximately $21 million for seismic licensing, triggered by a change in control with the Sponsors' (affiliates of Apollo, Riverstone Holdings LLC, Access and Korea National Oil Corporation, collectively, the Sponsors) acquisition of our predecessor entity in 2012. Prior to the change in control, we had unilaterally terminated the seismic licensing agreements, and we returned the applicable seismic data. Fairfield also claimed EP Energy did not properly maintain the confidentiality of the seismic data and interpretations made from it. In April 2015, the district court granted summary judgment to EP Energy, and Fairfield then appealed. On July 6, 2017, an intermediate court of appeals in Texas reversed the judgment related to the transfer fee and denied rehearing on October 5, 2017. We filed a petition for review in the Texas Supreme Court, which denied review in June 2019. We filed a motion for rehearing in the Texas Supreme Court on July 31, 2019. If denied, the case will be remanded to the trial court for further proceedings. As of March 31, 2020, we had accrued $21 million related to this matter.

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 leases. After investigation, EP Energy agreed that the MFN clause had been triggered 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. EP Energy filed an appeal to the Fourth Circuit Court of Appeals in San Antonio on July 17, 2019 and intends to pursue fully its appeal. As of March 31, 2020, EP Energy's accrual of $4 million related to this matter reflects the amount tendered to MSB with the lease amendment noted above, which EP Energy believes is the appropriate amount of increased bonus due to MSB.

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. Our management believes 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. For additional details on certain environmental matters, including matters related to climate change, air quality and other emissions, hydraulic fracturing regulations and waste handling, refer to the Risk Factors section of our 2019 Form 10-K.

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, 2020, we had approximately $12 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.

Lease Obligations

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. For the quarter ended March 31, 2020, both interest and depreciation expense associated with our finance leases were less than $1 million and there were no related cash payments. For the quarter ended March 31, 2019, interest and depreciation expense associated with our finance leases were approximately $1 million and related cash payments were approximately $2 million.

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. For the quarter ended March 31, 2020, both operating lease costs and related cash payments were approximately $3 million and for the quarter ended March 31, 2019, both operating lease costs and related cash payments were approximately $2 million. These were primarily capitalized as part of our oil and natural gas properties. Variable lease costs (amounts incurred beyond minimum lease payments such as utilities, usage, maintenance, mobilization fees, etc.) are recognized in the period incurred. For both the quarters ended March 31, 2020 and 2019, variable lease costs were approximately $1 million.

Short-term lease costs for the quarters ended March 31, 2020 and 2019 were approximately $4 million and $9 million, respectively, and were primarily capitalized as part of our oil and natural gas properties.

Supplemental balance sheet information related to leases was as follows:

	March 31, 2020	December 31, 2019
	(in millions)	
Operating lease assets[1]	$ 7	$ 18
Finance lease assets[2]	—	10
Total lease assets	$ 7	$ 28
Operating leases[3]		
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	10.75 %	9.06 %
Finance leases		26.53 %

(1) Operating lease assets are reflected in *Operating lease assets and other* in our consolidated balance sheet as of March 31, 2020.
(2) Finance lease assets are reflected in *Other property, plant and equipment* in our consolidated balance sheet as of March 31, 2020.
(3) Current and noncurrent operating and finance lease liabilities are reflected in *Other current liabilities* and *Other*, respectively, in our consolidated balance sheet as of March 31, 2020.

In conjunction with our Chapter 11 Cases as further described in Note 1A, during the quarter ended March 31, 2020, we received court approval related to the rejection of certain of our operating and financing lease contracts and accordingly removed the associated lease assets and lease liabilities from our balance sheet. For the quarter ended March 31, 2020, we did not record additional operating leases.

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

	Operating Leases	Finance Leases
	(in millions)	
2020	$ 6	$ —
2021	1	—
Total	$ 7	$ —
Less: imputed interest	(1)	—
Present value of operating and finance lease obligations	$ 6	$ —

8. Incentive Compensation

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 are subject to certain termination provisions through June 30, 2020 which would result in the repayment of the award in full.

During the quarter ended March 31, 2020, we recorded approximately $5 million in expense related to the KERP. As of March 31, 2020, our consolidated balance sheet reflects a remaining deferred charge in the amount of $5 million related to the KERP which will be amortized over the remaining term of the KERP agreement through June 30, 2020.

Long-term Incentive Compensation

Our parent's long-term incentive (LTI) programs consist primarily of restricted stock, performance share units awards and certain cash-based incentives. Refer to our 2019 Form 10-K for further information regarding the terms and details of these awards. We record compensation expense on all of our parent's LTI awards as general and administrative expense over the requisite service period. Pre-tax compensation expense related to all of our parent's LTI awards (both equity and liability based), net of the impact of forfeitures, was approximately $2 million and $4 million for the quarters ended March 31, 2020 and 2019, respectively. As of March 31, 2020, we had unrecognized compensation expense of $9 million of which we will recognize $4 million during the remainder of 2020 and $5 million thereafter.

Restricted Stock. A summary of the changes in our parent's non-vested restricted shares for the quarter ended March 31, 2020 is presented below:

	Number of Shares		Weighted Average Grant Date Fair Value per Share
Non-vested at December 31, 2019	3,514,535	$	2.30
Granted	—	$	—
Vested	(488,693)	$	4.45
Forfeited	(7,500)	$	1.84
Non-vested at March 31, 2020	3,018,342	$	1.96

Performance Share Units. As of March 31, 2020, we had a total of 1,478,100 PSUs outstanding. PSUs will vest over a weighted average period of two years and earned only upon the achievement of specified stock price goals. Our PSUs are treated as an equity award with the expense recognized on an accelerated basis over the life of the award.

9. Related Party Transactions

Joint Venture. We are party to a drilling joint venture to fund future oil and natural gas development with Wolfcamp Drillco Operating L.P. (the Investor, which is managed and controlled by an affiliate of Apollo) and indirectly through Access (through an indirect minority ownership interest in the Investor). At March 31, 2020 and December 31, 2019, we had accounts receivable of $1 million and $24 million, respectively, and payables to our owner of $3 million and $15 million, respectively, associated with our Investor reflected in our consolidated balance sheets. Refer to our 2019 Annual Report on Form 10-K for further information on the joint venture agreement.

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, 2020 and December 31, 2019, we had no state income tax payable due to our parent.

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 the "Risk Factors" section of our 2019 Form 10-K. 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 three areas: the Eagle Ford Shale in South Texas, Northeastern Utah (NEU) in the Uinta basin, and the Permian basin in West Texas.

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 1A, 6 and 7 of the included financial statements.

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 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, 2020.

	2020		2021	
	Volumes(1)	Average Price(1)	Volumes(1)	Average Price(1)
Oil				
Fixed Price Swaps				
WTI	4,825	$ 58.49	180	$ 55.29
Three Way Collars				
Ceiling - WTI	5,775	$ 65.19	900	$ 60.51
Floors - WTI	5,775	$ 56.37	900	$ 55.00
Sub-Floor - WTI	5,775	$ 45.00	900	$ 45.00
Basis Swaps				
Midland vs. Cushing(2)	1,100	$ 0.46	—	$ —

(1) Volumes presented are MBbls for oil and prices presented are per Bbl of oil.
(2) EP Energy receives Cushing plus the basis spread listed and pays Midland.

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 $11.37 in 2020 and $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 March 31, 2020, the average forward price of oil was $30.10 per barrel of oil for the remainder of 2020 and $35.21 per barrel of oil for 2021.

During the quarter ended March 31, 2020, we settled commodity index hedges on approximately 90% of our oil production and 90% of our total liquids production at average floor prices of $57.56 per barrel of oil. As of March 31, 2020, approximately 54% of our 2020 future crude oil contracts allow for upside participation (to a weighted average price of approximately $62.14 per barrel for 2020) while containing certain sub-floor prices (weighted average prices of $45.00 per barrel) that limit the amount of our derivative settlements under these three-way contracts should prices drop below the sub-floor prices. To the extent our oil, natural gas and NGLs production is unhedged, either from a commodity index or locational price perspective, our operating revenues will be impacted from period to period.

For the period from April 1, 2020 through May 11, 2020, we entered into Magellan East Houston vs. Cushing basis swaps on 458 MBoe at a price of $(0.18) per barrel of oil.

Liquidity and Capital Resources

Overview. As of March 31, 2020, 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, 2020:

	March 31, 2020 (in millions)
Cash and cash equivalents	$ 14
Availability under DIP Facility	148
Total available liquidity	$ 162

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. The Debtors are working with their constituents to explore various alternatives.

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 includes a letter of credit sublimit of $50 million. As of March 31, 2020, we had $148 million capacity remaining with approximately $17 million of letters of credit issued and $150 million outstanding under the DIP Facility. For a further discussion of the additional terms of the DIP Facility, see Note 1A in the included financial statements.

EP Energy LLC will use the proceeds of the DIP Facility for, among other things, (i) the acquisition, development and exploration of oil and gas properties, for working capital and general corporate purposes, (ii) the payment of professional fees as provided for in the DIP Order, (iii) the payment of expenses incurred in the administration of the Chapter 11 Cases or as permitted by the certain orders and (iv) payments due thereunder or under the DIP Order. The maturity date of the DIP Facility is the earlier of (a) November 25, 2020, (b) the effective date of an "Acceptable Plan of Reorganization" (as defined in the DIP Credit Agreement), (c) the closing of a sale of substantially all of the equity or assets of EP Energy LLC (unless consummated pursuant to an Acceptable Plan of Reorganization), or (d) the termination of the DIP Facility during the continuation of an event of default thereunder.

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. 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 $629 million exit senior secured reserve-based revolving credit facility (the "Exit Facility") subject to certain conditions set forth therein, which will 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.

Ability to Continue as a Going Concern. The significant risks and uncertainties related to the Company's liquidity and Chapter 11 Cases described above raise substantial doubt about the Company's ability to continue as a going concern. Our operations and our ability to develop and execute our business plan are subject to a high degree of risks and uncertainty associated with the Chapter 11 Cases which are dependent upon factors that are outside of the Company's control, including actions of the Bankruptcy Court and the Company's creditors. Any plan of reorganization could materially change the amounts and classifications of assets and liabilities reported in the consolidated financial statements.

For a further discussion of all Chapter 11 related matters, see Note 1A in the included financial statements.

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
Cash Inflows		
Operating activities		
Net loss	$ (2,235)	$ (140)
Impairment charges	2,324	—
Gain on extinguishment of debt	—	(10)
Reorganization items, net	97	—
Other income adjustments	118	102
Changes in assets and liabilities	(219)	120
Total cash flow from operations	85	72
Financing activities		
Proceeds from issuance of long-term debt	—	270
Proceeds from borrowing under DIP Facility	60	—
Cash inflows from financing activities	60	270
Total cash inflows	$ 145	$ 342
Cash Outflows		
Investing activities		
Capital expenditures	$ 104	$ 125
Cash paid for acquisitions	1	3
Cash outflows from investing activities	105	128
Financing activities		
Repayments and repurchases of long-term debt	—	230
Repayment of borrowings from DIP Facility	58	—
Other	—	1
Cash outflows from financing activities	58	231
Total cash outflows	$ 163	$ 359
Net change in cash, cash equivalents and restricted cash	$ (18)	$ (17)

Production Volumes and Drilling Summary

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

	2020	2019
Equivalent Volumes (MBoe/d)		
Eagle Ford	31.6	33.0
Northeastern Utah	17.9	15.5
Permian	20.4	24.7
Total	69.9	73.2
Oil (MBbls/d)		
Eagle Ford	20.5	22.2
Northeastern Utah	12.1	10.0
Permian	5.1	7.2
Total	37.7	39.4
Natural Gas (MMcf/d)		
Eagle Ford[(1)]	34	33
Northeastern Utah	35	33
Permian	51	58
Total	120	124
NGLs (MBbls/d)		
Eagle Ford	5.4	5.3
Northeastern Utah	—	—
Permian	6.8	7.8
Total	12.2	13.1

(1) Production volume excludes 8 MMcf/d of reinjected gas volumes used in operations during the quarter ended March 31, 2020.

Production Summary. For the quarter ended March 31, 2020 compared to the same period in 2019, (i) Eagle Ford equivalent volumes decreased 1.4 MBoe/d or (approximately 4%) due to fewer wells placed on production in 2019 and through 2020, (ii) NEU equivalent volumes increased 2.4 MBoe/d or (approximately 15%) due to increased drilling activity and horizontal development in 2020, and (iii) Permian equivalent volumes decreased 4.3 MBoe/d or (approximately 17%) reflecting the slower pace of development due to a significant reduction in capital allocated to the Permian. In Permian, our 2020 production volumes were also negatively impacted by more reinjected gas as compared to the same period in 2019.

Subsequent to March 31, 2020, the pandemic caused by the novel coronavirus (COVID-19) has severely disrupted economies resulting in a historic drop in daily oil demand, a worldwide glut in oil supply, and rapidly filling oil storage. As a result, buyers of oil produced from the Eagle Ford basin have curtailed (and in some cases canceled) their purchases for April as well as through May 2020. Accordingly, we have curtailed production in this area until the current unprecedented situation changes and the market for oil recovers. We cannot say with certainty when the impacts to Eagle Ford production of these circumstances will stop, but we will continue to monitor this extremely dynamic situation as it evolves.

Drilling Summary. During the quarter ended March 31, 2020, we (i) frac'd (wells fracture stimulated) 14 gross wells in the Eagle Ford, all of which came online for a total of 861 net operated wells, and (ii) frac'd 4 gross wells in NEU, all of which came online for a total of 347 net operated wells. We did not frac any wells in the Permian during the quarter ended March 31, 2020, and currently operate 353 net wells in the area. As of March 31, 2020, we also had a total of 37 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 quarter ended March 31, 2020 were:

	Capital Expenditures[1] (in millions)	Average Drilling Rigs
Eagle Ford Shale	$ 50	1.0
Northeastern Utah	62	2.0
Permian	6	—
Total	$ 118	3.0
Acquisition capital	$ 1	
Total Capital Expenditures	$ 119	

(1) Represents accrual-based capital expenditures.

Results of Operations

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

	Quarter ended March 31, 2020	Quarter ended March 31, 2019
	(in millions)	
Operating revenues		
Oil	$ 151	$ 193
Natural gas	8	18
NGLs	11	18
Total physical sales	170	229
Financial derivatives	233	(95)
Total operating revenues	403	134
Operating expenses		
Transportation costs	16	25
Lease operating expense	33	37
General and administrative	19	21
Depreciation, depletion and amortization	116	94
Impairment charges	2,324	—
Exploration and other expense	—	1
Taxes, other than income taxes	13	11
Total operating expenses	2,521	189
Operating loss	(2,118)	(55)
Other income	1	—
Gain on extinguishment of debt	—	10
Interest expense	(30)	(95)
Reorganization items, net	(88)	—
Loss before income taxes	(2,235)	(140)
Income tax benefit	—	—
Net loss	$ (2,235)	$ (140)

Operating Revenues

The table below provides our operating revenues, volumes and prices per unit for the quarter ended March 31, 2020 and 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.

	Quarter ended March 31,	
	2020	**2019**
	(in millions)	
Operating revenues:		
Oil	$ 151	$ 193
Natural gas	8	18
NGLs	11	18
Total physical sales	170	229
Financial derivatives	233	(95)
Total operating revenues	$ 403	$ 134
Volumes:		
Oil (MBbls)	3,431	3,546
Natural gas (MMcf)	10,931	11,156
NGLs (MBbls)	1,110	1,183
Equivalent volumes (MBoe)	6,363	6,588
Total MBoe/d	69.9	73.2
Prices per unit[(1)]:		
Oil		
Average realized price on physical sales ($/Bbl)[(2)]	$ 43.84	$ 54.32
Average realized price, including financial derivatives ($/Bbl)[(2)(3)]	$ 52.50	$ 56.01
Natural gas		
Average realized price on physical sales ($/Mcf)[(2)]	$ 0.75	$ 1.58
Average realized price, including financial derivatives ($/Mcf)[(2)(3)]	$ 0.75	$ 1.76
NGLs		
Average realized price on physical sales ($/Bbl)	$ 9.80	$ 15.64
Average realized price, including financial derivatives ($/Bbl)[(3)]	$ 9.80	$ 15.64

(1) For the quarters ended March 31, 2020 and 2019, there were no oil or natural gas purchases associated with managing our physical oil and natural gas sales.

(2) 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.

(3) The quarters ended March 31, 2020 and 2019, include cash received of approximately $30 million and $6 million, respectively, for the settlement of crude oil derivative contracts and approximately $2 million of cash received for the settlement of natural gas financial derivatives for the quarter ended March 31, 2019.

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, 2020 and 2019.

	Quarter ended			
	Oil	Natural gas	NGLs	Total
	(in millions)			
March 31, 2019 sales	$ 193	$ 18	$ 18	$ 229
Change due to prices	(36)	(9)	(6)	(51)
Change due to volumes	(7)	(1)	(1)	(9)
March 31, 2020 sales	$ 150	$ 8	$ 11	$ 169

Oil sales for the quarter ended March 31, 2020, compared to the same period in 2019, decreased by $43 million (22%) due primarily to lower oil prices in all areas and lower production primarily in the Eagle Ford and Permian.

Natural gas sales decreased by $10 million (56%) for the quarter ended March 31, 2020 compared to the same period in 2019 primarily due to lower natural gas prices in all areas and lower production in the Permian.

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. In the Permian, physical barrels are generally sold at the WTI Midland Index, which trades at a spread to WTI Cushing. 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.

	Quarter ended March 31,			
	2020		2019	
	Oil (Bbl)	Natural gas (MMBtu)	Oil (Bbl)	Natural gas (MMBtu)
Differentials and deducts	$ (2.33)	$ (1.18)	$ (1.11)	$ (1.52)
NYMEX	$ 46.17	$ 1.95	$ 54.90	$ 3.15
Net back realization %	95.0 %	39.5 %	98.0 %	51.7 %

The oil realization percentages for the quarter ended March 31, 2020 were lower as compared to the same period in 2019 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 lower natural gas realization percentage for the quarter ended March 31, 2020 were primarily a result of weaker Permian basin natural gas pricing.

NGLs sales decreased by $7 million (39%) for the quarter ended March 31, 2020 compared with the same period in 2019 as a result of lower average realized prices in the Eagle Ford and Permian.

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, 2020 and 2019, we recorded $233 million and $95 million of derivative gains and losses, respectively.

Operating Expenses

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

	Quarter ended March 31,			
	2020		2019	
	Total	Per Unit(1)	Total	Per Unit(1)
	(in millions, except per unit costs)			
Operating expenses				
Transportation costs	16	2.54	25	3.74
Lease operating expense	33	5.19	37	5.55
General and administrative(2)	19	3.07	21	3.16
Depreciation, depletion and amortization	116	18.17	94	14.34
Impairment charges	2,324	365.21	—	—
Exploration and other expense	—	—	1	0.08
Taxes, other than income taxes	13	1.99	11	1.73
Total operating expenses	$ 2,521	$ 396.17	$ 189	$ 28.60
Total equivalent volumes (MBoe)	6,363		6,588	

(1) Per unit costs are based on actual amounts rather than the rounded totals presented.
(2) For the quarter ended March 31, 2020, amount includes approximately $5 million or $0.73 per Boe of incentive compensation expense. For the quarter ended March 31, 2019, amount includes approximately $4 million or $0.57 per Boe of incentive compensation expense. The quarter ended March 31, 2019 also includes approximately $1 million or $0.09 per Boe of transition and severance costs related to workforce reductions.

Transportation costs. Transportation costs for the quarter ended March 31, 2020 decreased by $9 million compared to the same period in 2019 primarily as a result of the rejection of certain transportation contracts during the fourth quarter of 2019 and first quarter of 2020 in conjunction with our Chapter 11 Cases and lower fees associated with revised transportation agreements in the Eagle Ford in the first quarter of 2020 and Permian beginning in the second quarter of 2019.

Lease operating expense. Lease operating expense decreased by $4 million for the quarter ended March 31, 2020 compared to the same period in 2019. The decrease for the quarter ended March 31, 2020 compared to 2019 is due primarily to lower disposal costs in the Eagle Ford and Permian as well as lower maintenance and flowback costs in the Eagle Ford.

General and administrative expenses. General and administrative expenses for the quarter ended March 31, 2020 decreased by $2 million compared to the same period in 2019. Lower costs during the quarter ended March 31, 2020 compared to the same period in 2019 were primarily due to lower professional and legal fees.

Depreciation, depletion and amortization expense. Depreciation, depletion and amortization expense increased for the quarter ended March 31, 2020 when compared to the same period in 2019 primarily due to an increase in the depletion rate as a result of not recognizing proved undeveloped reserves due to uncertainty regarding the Company's availability of capital prior to emerging from bankruptcy that would be required to develop our PUD reserves. 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:

	Quarter ended March 31,	
	2020	2019
Depreciation, depletion and amortization ($/Boe)	$ 18.17	$ 14.34

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. See Note 2 in the included financial statements for more information on impairment.

Other Income Statement Items.

Gain on extinguishment of debt. During the quarter ended March 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 for the quarter ended March 31, 2020 decreased by $65 million compared to the same period in 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 1A and 6 in the included financial statements). We continue to accrue and pay interest our Prepetition RBL and DIP Facility.

Reorganization items, net. Reorganization items, net were $88 million for the quarter ended March 31, 2020. The reorganization items primarily consisted of $37 million in professional fees during the quarter associated with the Chapter 11 Cases, $96 million associated with the rejection of executory contracts approved by the Bankruptcy Court during the first quarter 2020 as a direct result of the Chapter 11 Cases, and ($45) million for the elimination of accrued interest on the 1.125 lien and 1.25 lien notes in conjunction with terminating the PSA and BCA in March 2020 associated with our Chapter 11 Cases as further described in Note 1A in the financial statements.

Income taxes. For both the quarters ended March 31, 2020 and 2019, our effective tax rates were 0%. Our effective tax rates in 2020 and 2019 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 benefit by $493 million and $30 million, for the quarters ended March 31, 2020 and 2019, 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, 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:

	Quarter ended March 31,	
	2020	2019
	(in millions)	
Net loss	$ (2,235)	$ (140)
Income tax benefit	—	—
Interest expense, net of capitalized interest	30	95
Depreciation, depletion and amortization	116	94
Exploration expense	—	1
EBITDAX	(2,089)	50
Mark-to-market on financial derivatives(1)	(233)	95
Cash settlements and cash premiums on financial derivatives(2)	29	8
Incentive compensation expense(3)	5	4
Transition, severance and other costs	—	1
Reorganization items, net(4)	88	—
Gain on extinguishment of debt	—	(10)
Impairment charges	2,324	—
Adjusted EBITDAX	$ 124	$ 148

(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, 2020 and 2019.
(3) For the quarter ended March 31, 2020, incentive compensation expense includes $3 million in amounts under the Key Employee Retention Program, "KERP", in lieu of long-term incentive compensation. For additional details on the KERP, see Note 8 in the included financial statements.
(4) 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 1A in the included financial statements.

Qualitative, Quantitative and Disclosures About Market Risk

This information updates, and should be read in conjunction with the information disclosed in our 2019 Form 10-K, in addition to the information presented elsewhere in this report. There have been no material changes in our quantitative and qualitative disclosures about market risks from those reported in our 2019 Form 10-K, except as presented below:

Commodity Price Risk

The table below presents the change in fair value of our commodity-based derivatives due to hypothetical changes in oil and natural gas prices, discount rates and credit rates at March 31, 2020:

		Oil, Natural Gas and NGLs Derivatives			
		10 Percent Increase		10 Percent Decrease	
	Fair Value	Fair Value	Change	Fair Value	Change
			(in millions)		
Price impact[1]	$ 212	$ 193	$ (19)	$ 229	$ 17

		Oil, Natural Gas and NGLs Derivatives			
		1 Percent Increase		1 Percent Decrease	
	Fair Value	Fair Value	Change	Fair Value	Change
			(in millions)		
Discount rate[2]	$ 212	$ 211	$ (1)	$ 213	$ 1
Credit rate[3]	$ 212	$ 210	$ (2)	$ 213	$ 1

(1) Presents the hypothetical sensitivity of our commodity-based derivatives to changes in fair values arising from changes in oil, natural gas and NGLs prices.
(2) Presents the hypothetical sensitivity of our commodity-based derivatives to changes in the discount rates we used to determine the fair value of our derivatives.
(3) Presents the hypothetical sensitivity of our commodity-based derivatives to changes in credit risk of our counterparties.