Form 10-Q

For the quarterly period ended March 31, 2019

BRAZOS VALLEY LONGHORN, L.L.C.

(Exact name as specified in its Charter)

Delaware	83-3294278
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6100 N. Western Avenue, Oklahoma City, OK	73118
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (405) 848-8000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Brazos Valley Longhorn, L.L.C. (the "Company") is a wholly owned subsidiary of Chesapeake Energy Corporation ("Chesapeake") and meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore furnishing this Form with the reduced disclosure format as permitted by Instruction H(2).

As of May 10, 2019, Chesapeake owns 100% of the outstanding LLC units of the Company.

BRAZOS VALLEY LONGHORN, L.L.C.
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FORWARD–LOOKING STATEMENTS

This Quarterly Report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical fact included in this Quarterly Report, regarding our strategy, future operations, including matters relating to the merger of WildHorse with and into the Company (the "Merger"), financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on management's current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should carefully consider the risk factors and other cautionary statements described under "Part I—Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018 ("2018 Form 10-K") and "Part II—Item 1A. Risk Factors" appearing within this Quarterly Report and elsewhere in this Quarterly Report.

Forward-looking statements may include statements about:

- the effects of the Merger;
- our business strategy;
- our estimated reserves;
- our drilling prospects, inventories, projects and programs;
- our ability to replace the reserves we produce through drilling and property acquisitions;
- our financial strategy, liquidity and capital required for our development program;
- our realized oil, natural gas and NGL prices;
- the timing and amount of our future production of oil, natural gas and NGLs;
- our hedging strategy and results;
- our future drilling plans;
- competition;
- government laws, rules and regulations;
- our ability to obtain permits and governmental approvals;
- pending legal or environmental matters;
- our marketing of oil, natural gas and NGLs;
- our leasehold or business acquisitions;
- costs of developing our properties;
- general economic conditions;
- credit markets;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this Quarterly Report that are not historical.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties incident to the development, production, gathering and sale of oil and natural gas, most of which are difficult to predict and many of which are beyond our control. These risks include, but are not limited to, commodity price volatility, inflation, lack of availability of drilling and production equipment and services, environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating reserves and in projecting future rates of production, cash flow and access to capital, the timing of development expenditures and the other risks described under "Part II—Item 1A. Risk Factors" of this Quarterly Report and "Part I—Item 1A. Risk Factors" of our 2018 Form 10-K.

Reserves engineering is a process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reserves engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions could change the timing and execution of our production and development program. Accordingly, reserve estimates may differ significantly from the quantities of oil and natural gas that are ultimately recovered.

Should one or more of the risks or uncertainties described in this Quarterly Report materialize, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this Quarterly Report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BRAZOS VALLEY LONGHORN, L.L.C.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except outstanding shares)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,843	$ 14,947
Accounts receivable, net	86,309	91,558
Derivative instruments	10	54,131
Prepaid expenses and other current assets	17,837	6,028
Total current assets	108,999	166,664
Property and equipment:		
Oil and gas properties	3,624,837	3,457,897
Other property and equipment	111,028	107,279
Accumulated depreciation, depletion and amortization	(603,471)	(518,054)
Total property and equipment, net	3,132,394	3,047,122
Other noncurrent assets:		
Derivative instruments	407	18,579
Debt issuance costs	5,500	5,415
Other	54,677	17,250
Total assets	$ 3,301,977	$ 3,255,030
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 57,195	$ 76,189
Accrued liabilities	117,939	124,633
Derivative instruments	40,705	508
Total current liabilities	215,839	201,330
Noncurrent liabilities:		
Long-term debt	1,375,794	1,191,376
Asset retirement obligations	8,451	8,226
Deferred tax liabilities	108,506	112,731
Derivative instruments	14,790	—
Other	15,030	2,233
Total noncurrent liabilities	1,522,571	1,314,566
Total liabilities	1,738,410	1,515,896
Commitments and contingencies (Note 14)		
Preferred Stock, $0.01 par value: 50,000,000 shares authorized		
Series A perpetual convertible preferred stock, $0.01 par value: 500,000 shares authorized; 0 and 435,000 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively (involuntary liquidation preference of $450,389 at December 31, 2018)	—	447,726
Member's and Stockholders' equity:		
Common stock	—	1,018
Additional paid-in capital	—	1,153,617
Member's equity	1,627,187	—
Accumulated surplus (deficit)	(63,620)	136,773
Total member's and stockholders' equity	1,563,567	1,291,408
Total liabilities and equity	$ 3,301,977	$ 3,255,030

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

BRAZOS VALLEY LONGHORN, L.L.C.
UNAUDITED STATEMENTS OF CONDENSED CONSOLIDATED OPERATIONS
(In thousands)

	For the Three Months Ended March 31, 2019	For the Three Months Ended March 31, 2018
Revenues:		
Oil sales	$ 182,699	$ 182,379
Natural gas sales	8,115	27,630
NGL sales	4,864	7,448
Loss on derivative instruments	(128,996)	(40,370)
Other revenues	709	1,300
Total revenues	67,391	178,387
Operating expenses:		
Lease operating expenses	19,513	16,427
Gathering, processing and transportation	4,491	1,352
Taxes other than income tax	10,895	11,781
Depreciation, depletion and amortization	87,736	59,883
Impairment of NLA Disposal Group	—	214,274
General and administrative expenses	75,746	12,727
Exploration expense	3,531	1,708
Other operating expense	37,834	658
Total operating expense	239,746	318,810
Loss from operations	(172,355)	(140,423)
Other income (expense):		
Interest expense, net	(19,475)	(13,307)
Other expense	(610)	(137)
Total other income (expense)	(20,085)	(13,444)
Loss before income taxes	(192,440)	(153,867)
Income tax benefit	4,224	38,093
Net loss	$ (188,216)	$ (115,774)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

BRAZOS VALLEY LONGHORN. L.L.C.
UNAUDITED STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS
(In thousands)

	For the Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net loss	$ (188,216)	$ (115,774)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	87,736	59,883
Impairments of unproved properties	2,462	1,507
Impairment of NLA Disposal Group	—	214,274
Amortization of debt issuance cost	892	653
Accretion of senior notes discount	24	140
Loss on derivative instruments	128,996	40,370
Cash settlements on derivative instruments	(686)	(20,546)
Deferred income tax benefit	(4,224)	(38,125)
Amortization of equity awards	24,832	3,156
Loss on sale of properties	107	—
Loss on equity investment	573	—
Consideration paid to customers, net of amortization	(569)	(424)
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	7,930	(13,595)
Increase in prepaid expenses	(7,128)	(368)
Decrease (increase) in inventories	(4,684)	169
Decrease in accounts payable and accrued liabilities	(40,565)	(13,351)
Net cash flow provided by operating activities	7,480	117,969
Cash flows from investing activities:		
Acquisitions of oil and gas properties	(37)	(19,716)
Additions to oil and gas properties	(167,574)	(297,939)
Additions to and acquisitions of other property and equipment	(8,989)	(12,896)
Contribution to equity method investee	(7,740)	—
Construction deposits	—	(8,738)
Proceeds from NLA Divestiture	—	206,406
Net cash used in investing activities	(184,340)	(132,883)
Cash flows from financing activities:		
Advances on revolving credit facility	294,000	308,000
Payments on revolving credit facility	(110,000)	(285,353)
Debt issuance costs	(583)	(873)
Preferred stock dividends	(6,831)	—
Repurchase of vested restricted stock	(9,830)	(69)
Net cash provided by financing activities	166,756	21,705
Net change in cash and cash equivalents	(10,104)	6,791
Cash and cash equivalents, beginning of period	14,947	226
Cash and cash equivalents, end of period	$ 4,843	$ 7,017

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

BRAZOS VALLEY LONGHORN, L.L.C.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands)

	Common Stock	Additional Paid in Capital	Accumulated Surplus (Deficit)	Member's Equity	Total Member's Equity
December 31, 2018	$ 1,018	$ 1,153,617	$ 136,773	$ —	$ 1,291,408
Net loss	—	—	(188,216)	—	(188,216)
Accrued preferred stock dividend	—	—	(2,352)	—	(2,352)
2016 LTIP early vesting	—	24,832	—	—	24,832
Repurchase of vested restricted common stock to cover individuals' tax withholding	(6)	—	(9,825)	—	(9,831)
Preferred stock converted to common stock	324	447,402	—	—	447,726
Common stock canceled [1]	(1,336)	(1,625,851)	—	1,627,187	—
March 31, 2019	$ —	$ —	$ (63,620)	$ 1,627,187	$ 1,563,567

[1] See "Note 1—Organization and Basis of Presentation" for information regarding cancellation of WildHorse common stock in connection with the Merger.

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

BRAZOS VALLEY LONGHORN, L.L.C.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Basis of Presentation

WildHorse Merger with Chesapeake Energy Corporation

On February 1, 2019, WildHorse was acquired by Chesapeake for approximately 717.4 million shares of Chesapeake common stock and $381.1 million in cash. Immediately following the completion of the acquisition, WildHorse merged with and into the Company, a newly formed Delaware limited liability company and wholly owned subsidiary of Chesapeake. Following the completion of the Merger, all WildHorse common stock was canceled and Chesapeake, as sole member of the Company, was issued all one thousand units of the Company.

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the SEC. Pursuant to such rules and regulations, certain disclosures have been condensed or omitted.

This Quarterly Report should be read in conjunction with our 2018 Form 10-K. The accompanying condensed consolidated financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of our condensed consolidated financial statements and accompanying notes and include the accounts of our direct and indirect wholly owned subsidiaries and entities in which we have a controlling financial interest. Intercompany accounts and balances have been eliminated.

Investment in Unconsolidated Affiliate

We have a 50% interest in JWH Midstream LLC ("JWH"). JWH used capital contributions from us and our joint venture partner to finance the acquisition of a holding company from a third party that had an existing lease with the Port of Corpus Christi Authority for approximately 55 acres of land on the north side of the Corpus Christi Ship Chanel in the Inner Harbor. The carrying amount of our investment in JWH, which is accounted for as an equity method investment, was approximately $17 million as of March 31, 2019.

Supplemental Cash Flow Information

Supplemental cash flow for the periods presented (in thousands):

	For the Three Months Ended March 31,	
	2019	**2018**
Supplemental cash flows:		
Cash paid for interest, net of capitalized interest	$ 30,370	$ 21,312
Noncash investing activities:		
Decrease in capital expenditures in accounts payables and accrued liabilities	(2,110)	(34,893)
Decrease in accounts receivable related to capital expenditures and acquisitions	756	4,229
Operating lease obligations recognized	34,012	—

Recently Issued Accounting Standards

Leases

In February 2016, the FASB issued a revision to its lease accounting guidance. The FASB retained a dual model, which requires classification of leases as finance or operating. The revised guidance requires lessees to recognize a right-of-use asset and a lease liability for all leasing transactions regardless of classification. The new standard is effective for financial statements issued for annual periods beginning after December 15, 2018 and interim periods within those fiscal years. The Company adopted the standard using the effective date method on January 1, 2019.

Upon adoption we made certain elections permitting us to not reassess: (1) whether any expired or existing contracts contained leases, (2) the lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases.

BRAZOS VALLEY LONGHORN, L.L.C.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Short-term leases will not be recognized on the balance sheet as an asset or a liability, and the related rental expense will be expensed as incurred. We have short-term lease agreements related to all of our drilling rig arrangements, some of our hydraulic fracturing agreements and most of our compressor rental arrangements.

Upon adoption on January 1, 2019, we recognized a right-of-use asset of $41.2 million and a lease liability of $43.6 million. The discount rate used to determine the present value is the rate implicit in the lease unless that rate cannot be determined, in which case the incremental borrowing rate is used. See "Note 13—Leases" for further information.

Note 2. Acquisitions and Divestitures

Acquisitions

There have been no acquisitions in 2019.

Lee County Acquisition. On March 1, 2018, we acquired certain acreage and associated production in Lee County, Texas for approximately $18.6 million from an undisclosed seller. This was accounted for as an asset acquisition since substantially all the fair value was concentrated in a group of similar assets. As such, $0.4 million of acquisition costs were capitalized as part of the acquisition. We assigned $16.9 million to unproved oil and natural gas properties.

Sand Mine Acquisition. On January 4, 2018, we acquired surface and sand rights on approximately 727 acres in Burleson County, Texas for approximately $9.0 million to construct and operate an in-field sand mine. As of March 31, 2019, we have capitalized approximately $71.8 million in development and construction costs. The sand mine commenced operations in February 2019.

Divestitures

There have been no divestitures in 2019.

NLA Assets Divestiture. On February 12, 2018, we entered into a Purchase and Sale Agreement for the sale of all of our producing and non-producing oil and natural gas properties primarily located in Webster, Claiborne, Lincoln, Jackson and Ouachita Parishes, Louisiana (“NLA Assets”). On March 29, 2018, we completed the sale of the NLA Assets for a total net sales price of approximately $206.4 million.

We recorded an impairment charge of $214.3 million during the first quarter of 2018 to adjust the carrying amount of the disposal group (“NLA Disposal Group”) to its estimated fair value less costs to sell. The impairment is reflected on our Unaudited Statements of Condensed Consolidated Operations as “Impairment of NLA Disposal Group.”

Note 3. Fair Value Measurements of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a specified measurement date. Fair value estimates are based on either (i) actual market data or (ii) assumptions that other market participants would use in pricing an asset or liability, including estimates of risk. A three-tier hierarchy has been established that classifies fair value amounts recognized or disclosed in the financial statements. The hierarchy considers fair value amounts based on observable inputs (Levels 1 and 2) to be more reliable and predictable than those based primarily on unobservable inputs (Level 3).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair market values of the derivative financial instruments reflected on the balance sheets as of March 31, 2019 and December 31, 2018 were based on estimated forward commodity prices (including nonperformance risk). Nonperformance risk is the risk that the obligation related to the derivative instrument will not be fulfilled. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement in its entirety. The significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following table presents the derivative assets and liabilities that are measured at fair value on a recurring basis at March 31, 2019 and December 31, 2018 for each of the fair value hierarchy levels:

BRAZOS VALLEY LONGHORN, L.L.C.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Fair Value Measurements at March 31, 2019			
	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(In thousands)			
Assets:				
Commodity derivatives	$ —	$ 417	$ —	$ 417
Liabilities:				
Commodity derivatives	$ —	$ 55,495	$ —	$ 55,495

	Fair Value Measurements at December 31, 2018			
	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(In thousands)			
Assets:				
Commodity derivatives	$ —	$ 72,710	$ —	$ 72,710
Liabilities:				
Commodity derivatives	$ —	$ 508	$ —	$ 508

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are reported at fair value on a nonrecurring basis as reflected on the balance sheets. The following methods and assumptions are used to estimate the fair values:

- The initial fair value of asset retirement obligations ("AROs") is based on discounted cash flow projections using estimates, assumptions, and judgments regarding such factors as the existence of a legal obligation for an ARO; amounts and timing of settlements; the credit-adjusted risk-free rate; and inflation rates. The initial fair value estimates are based on unobservable market data and are classified within Level 3 of the fair value hierarchy.

- The fair values of proved and unproved properties acquired in business combinations or asset acquisitions are prepared by utilizing estimates of discounted cash flow projections. The factors used to determine fair value include, but are not limited to, estimates of: (i) economic reserves; (ii) future operating and development costs; (iii) future commodity prices; and (iv) a market-based weighted average cost of capital. To compensate for the inherent risk of estimating and valuing unproved properties, the discounted future net revenues of probable and possible reserves are reduced by additional risk-weighting factors.

- Proved oil and natural gas properties are reviewed for impairment when events and circumstances indicate the carrying value of such properties may not be recoverable. The factors used to determine fair value include, but are not limited to, estimates of proved reserves, future commodity prices, the timing of future production and capital expenditures and a commensurate risk-adjusted discount rate. We did not record impairments to proved oil and natural gas properties during the three months ended March 31, 2019 or 2018.

- Unproved oil and natural gas properties are reviewed for impairment based on passage of time or geologic factors. Information such as remaining lease terms, drilling results, reservoir performance, seismic interpretation or future plans to develop acreage is also considered. When unproved properties are deemed to be impaired, the expense is recorded as a component of exploration expense. For the three months ended March 31, 2019 and March 31, 2018, we recorded $2.5 million and $1.5 million of impairments of unproved properties, respectively.

BRAZOS VALLEY LONGHORN, L.L.C.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Risk Management and Derivative Instruments

We have entered into certain derivative arrangements to reduce our revenue and cash flow sensitivity to volatile commodity prices. We believe that these derivative arrangements, although not free of risk, allow us to achieve more predictable cash flows and to reduce exposure to commodity price fluctuations. Such arrangements may expose us to risk of financial loss in certain circumstances. We continuously reevaluate our risk management program in light of changes in forecasted production, market conditions, commodity price forecasts, capital spending, interest rate forecasts and debt service requirements. None of our derivative instruments are designated as cash flow hedges.

Commodity Derivatives

We have fixed price swap contracts and put options to accomplish our hedging strategy. We recognize all derivative instruments at fair value with changes in fair value recognized in revenue.

Derivative instruments are netted when the right to net exists under a master netting agreement, future liabilities and assets correspond to the same commodity type and future cash flows have the same current or non-current balance sheet classification. We have exposure to financial institutions in the form of derivative transactions. These transactions are with counterparties in the financial services industry, all of which are also lenders under our Credit Agreement, which could expose us to credit risk in the event of default of our counterparties. We have master netting agreements for our derivative transactions with our counterparties and although we do not require collateral, we believe our counterparty risk is low because of the creditworthiness of our counterparties. Master netting agreements are used to mitigate risk of loss due to default with counterparties on derivative instruments by providing us and each of our counterparties with rights of set-off upon the occurrence of defined events of default by either us or our counterparty to a derivative or other financial instrument, whereby the party not in default may set-off all liabilities owed to the defaulting party against all net derivative and other financial asset receivables from the defaulting party. At March 31, 2019 we had net derivative liabilities of $55.1 million.

The following derivative contracts were in place at March 31, 2019:

	Remainder 2019	2020
Crude Oil Derivative Contracts:		
Fixed price swap contracts:		
Volume (Bbls)	4,777,470	4,511,681
Weighted-average fixed price	$ 54.39	$ 53.49
Put options:		
Volume (Bbls)	1,639,957	—
Weighted-average floor price	$ 54.08	$ —
Weighted-average put premium	$ (5.40)	$ —
Natural Gas Derivative Contracts:		
Fixed price swap contracts:		
Volume (MMBtu)	4,621,680	4,846,020
Weighted-average fixed price	$ 2.79	$ 2.76

BRAZOS VALLEY LONGHORN, L.L.C.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Balance Sheet Presentation

The following table summarizes both: (i) the gross fair value of derivative instruments by the appropriate balance sheet classification even when the derivative instruments are subject to netting arrangements and qualify for net presentation in the balance sheet and (ii) the net recorded fair value as reflected on the balance sheet at March 31, 2019 and December 31, 2018. There was no cash collateral received or pledged associated with our derivative instruments since the counterparties to our derivative contracts are lenders under our Credit Agreement.

		Asset Derivatives (in thousands)		Liability Derivatives (in thousands)	
Type	**Balance Sheet Location**	**March 31, 2019**	**December 31, 2018**	**March 31, 2019**	**December 31, 2018**
Commodity contracts	Short-term derivative instruments	$ 163	$ 54,131	$ (40,858)	$ (508)
Netting arrangements	Short-term derivative instruments	(153)	—	153	—
Net recorded fair value		$ 10	$ 54,131	$ (40,705)	$ (508)
Commodity contracts	Long-term derivative instruments	$ 432	$ 18,579	$ (14,815)	$ —
Netting arrangements	Long-term derivative instruments	(25)	—	25	—
Net recorded fair value		$ 407	$ 18,579	$ (14,790)	$ —

Note 5. Accounts Receivable

Accounts receivable consist of the following at the periods indicated (in thousands):

	March 31, 2019	December 31, 2018
Oil, natural gas and NGL sales	$ 68,298	$ 70,900
Joint interest billings	17,997	17,491
Severance tax	304	1,352
Derivative receivables	—	308
Environmental remediation	—	1,511
Other current receivables	35	196
Allowance for doubtful accounts	(325)	(200)
Total	$ 86,309	$ 91,558

BRAZOS VALLEY LONGHORN, L.L.C.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Accrued Liabilities

Accrued liabilities consist of the following at the periods indicated (in thousands):

	March 31, 2019	December 31, 2018
Capital expenditures	$ 73,722	$ 80,897
Preferred stock cash dividends	—	4,479
Lease operating expense	7,646	6,604
General and administrative	779	4,335
Severance and ad valorem taxes	5,871	5,283
Interest expense	8,312	20,122
Derivative payables	2,467	1,746
Short-term operating lease liability [1]	18,934	—
Asset retirement obligation - current portion	90	90
Other accrued liabilities	118	1,077
Total	$ 117,939	$ 124,633

(1) Short-term operating lease liability recorded in January 2019 upon adoption of ASC 842. See "Note 13—Leases".

Note 7. Long Term Debt

Our debt obligations consisted of the following at the dates indicated (in thousands):

Debt Obligation	March 31, 2019	December 31, 2018
Revolving credit facility	$ 688,000	$ 504,000
2025 Senior Notes (as defined below) [1]	700,000	700,000
Unamortized net discounts - 2025 Senior Notes	(758)	(782)
Unamortized debt issuance costs - 2025 Senior Notes	(11,448)	(11,842)
Total long-term debt	$ 1,375,794	$ 1,191,376

(1) The estimated fair value of this fixed-rate debt was $703.2 million and $661.5 million at March 31, 2019 and December 31, 2018, respectively. The estimated fair values are based on quoted market prices and are classified as Level 1 within the fair value hierarchy.

Revolving Credit Facility

Our revolving credit facility is reserve-based, and thus our borrowing base is primarily based on the estimated value of our oil and natural gas properties and our commodity derivative contracts as determined by our lenders in their sole discretion consistent with their normal and customary oil and gas lending practices semi-annually (in the case of scheduled redeterminations), from time to time at our election in connection with material acquisitions, or no more frequently than twice in any fiscal year at the request of the required lenders or us (in the case of interim redeterminations).

Borrowings under our revolving credit facility are secured by liens on substantially all of our properties, but in any event, not less than 85% of the total value, as determined by the administrative agent, of the proved reserves attributable to our oil and natural gas properties using a discount rate of 9%, all of our equity interests in any future guarantor subsidiaries and all of our other assets including personal property but excluding equity interests in and assets of unrestricted subsidiaries.

The Credit Agreement requires us to maintain (x) a ratio of total debt to EBITDAX (as defined under our revolving credit facility) of not more than 4.00 to 1.00 and (y) a ratio of current assets (including availability under the facility) to current liabilities of not less than 1.00 to 1.00. As of March 31, 2019, we were in compliance with all applicable financial covenants.

Additionally, the Credit Agreement contains various covenants and restrictive provisions that, among other things, limit our ability to incur additional debt, guarantees or liens; consolidate, merge or transfer all or substantially all of our assets; make certain investments, acquisitions or other restricted payments; modify certain material agreements; engage in certain types of transactions with affiliates; dispose of assets; incur commodity hedges exceeding a certain percentage of our production; and prepay certain indebtedness.

On February 1, 2019, we entered into a Sixth Amendment (the "Sixth Amendment") to the Credit Agreement. The Sixth Amendment, among other things, (i) amended the merger covenant and the definition of change of control to permit the Merger, and (ii) permits borrowings under the revolving credit facility to be used to redeem or repurchase the 2025 Senior Notes so long as certain conditions are met.

As of March 31, 2019, our borrowing base under the revolving credit facility is $1.30 billion and we had outstanding borrowings of $688.0 million and had used $47.5 million of the revolving credit facility for various letters of credit. Our next borrowing base redetermination will be in the second quarter of 2019.

2025 Senior Notes

On February 1, 2017, we completed a private placement of $350.0 million aggregate principal amount of 6.875% senior unsecured notes due 2025 (the "2025 Senior Notes"). The 2025 Senior Notes were issued at a price of 99.244% of par and resulted in net proceeds of approximately $338.6 million. On September 19, 2017, we completed a private placement of $150.0 million aggregate principal amount of the 2025 Senior Notes issued at 98.26% of par, which resulted in net proceeds of approximately $144.7 million. Additionally, on April 20, 2018, we completed a private placement of $200.0 million aggregate principal amount of our 2025 Senior Notes (the "April Notes") issued at 102.00% of par, which resulted in net proceeds of approximately $201.0 million.

The indenture governing the 2025 Senior Notes (the "2025 Indenture") contains customary reporting covenants (including furnishing quarterly and annual reports to the holders of the 2025 Senior Notes) and restrictive covenants that, among other things, limit the ability of the Company and its subsidiaries to: (i) pay dividends on, purchase or redeem the Company's equity interests or purchase or redeem subordinated debt, unless such distributions, purchases or redemptions are permitted by certain exceptions, including for amounts based on the Company's operating results, subject to the satisfaction of certain conditions, and a $25 million basket; (ii) make certain investments; (iii) incur or guarantee additional indebtedness or issue certain types of equity securities; (iv) create or incur certain secured debt; (v) sell assets; (vi) consolidate, merge or transfer all or substantially all of the Company's assets; (vii) enter into agreements that restrict distributions or other payments from the Company's restricted subsidiaries to the Company; (viii) engage in transactions with affiliates, including Chesapeake and its other subsidiaries; and (ix) create unrestricted subsidiaries. These covenants are subject to a number of important qualifications and limitations. In addition, most of the covenants will be terminated before the 2025 Senior Notes mature if at any time no default or event of default exists under the 2025 Indenture and the 2025 Senior Notes receive an investment grade rating from both of two specified ratings agencies. The 2025 Indenture also contains customary events of default.

Pursuant to the registration rights agreements entered into in connection with the 2025 Senior Notes, we agreed to file a registration statement with the SEC so that holders of the 2025 Senior Notes could exchange the unregistered 2025 Senior Notes for registered notes with substantially identical terms. In addition, we agreed to exchange the unregistered guarantees related to the 2025 Senior Notes for registered guarantees with substantially identical terms. Substantially all of the outstanding 2025 Senior Notes were exchanged for an equal principal amount of registered 6.875% senior notes due 2025 pursuant to an effective registration statement on Form S-4.

We may redeem all or any part of the 2025 Senior Notes at a "make-whole" redemption price, plus accrued and unpaid interest, at any time before February 1, 2020. We may also redeem up to 35% of the aggregate principal amount of the 2025 Senior Notes prior to February 1, 2020 in an amount not greater than the net cash proceeds from one or more equity offerings at a redemption price of 106.875% of the principal amount of the 2025 Senior Notes, plus accrued and unpaid interest.

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Weighted-Average Interest Rates

The following table presents the weighted-average interest rates paid on our consolidated variable-rate debt obligations for the periods presented:

	For the Three Months Ended March 31,	
	2019	2018
Revolving credit facility	4.51 %	4.04 %

Unamortized Debt Issuance Costs

Unamortized deferred financing costs associated with our consolidated debt obligations were as follows at the dates indicated (in thousands):

	March 31, 2019	December 31, 2018
Revolving credit facility	$ 5,500	$ 5,415
6.875% senior unsecured notes, due February 2025	11,448	11,842
Total	$ 16,948	$ 17,257

Deferred financing costs associated with our revolving credit facility are recorded on the condensed consolidated balance sheet in other noncurrent assets. Deferred financing costs associated with our senior notes are recorded as a reduction to long-term debt on the condensed consolidated balance sheet.

Note 8. Revenue from Contracts with Customers and Other Revenues

Our revenues are primarily derived through the sale of oil, natural gas and NGLs.

Revenue from the sale of oil, natural gas and NGLs is recognized upon the transfer of control of the products, which is typically when the products are delivered to customers. Revenue is recognized net of royalties and working interest due to third parties in an amount that reflects the consideration we expect to receive in exchange for those products. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 days. There are no significant judgments that significantly affect the amount or timing of revenue from contracts with customers.

Disaggregation of revenue

We operate in one reportable segment engaged in the acquisition, exploration, development and production of oil, natural gas and NGL resources primarily in the Eagle Ford Shale and the Austin Chalk Trend. We disaggregate our revenue by commodity type. Our sand mine and water assets are vertical integration services in support of our exploration and production activities, and to a lesser extent we recognize other revenue when we make sales to third parties.

Other sources of revenue from derivative instruments

We use commodity derivatives to mitigate a portion of our exposure to price fluctuations in oil and natural gas prices. Gains and losses from commodity derivative contracts are reflected in revenues. See “Note 4—Risk Management and Derivative Instruments” for more information on our commodity derivatives.

Note 9. Preferred Stock

On January 31, 2019, an aggregate quarterly cash dividend of $6.831 million was paid to preferred stockholders of record as of January 15, 2019 for the period from November 1, 2018 to February 1, 2019. In connection with the Merger all of WildHorse's preferred stock was converted into WildHorse common stock prior to the effective time of the Merger.

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Note 10. Equity

On February 1, 2019 in connection with the Merger, all outstanding shares of WildHorse common stock were exchanged for shares of Chesapeake common stock and cash. Immediately following the completion of the acquisition, WildHorse merged with and into the Company. Chesapeake is the sole member of the Company and was issued all one thousand units of the Company on January 15, 2019.

Note 11. Long Term Incentive Plans

In January 2019, all outstanding shares granted under the Company's 2016 Long-Term Incentive Plan (or "2016 LTIP") were vested in connection with the Merger.

For the three months ended March 31, 2019 and 2018, we recorded $24.8 million and $3.2 million of compensation expense, respectively, associated with these awards.

Note 12. Income Taxes

For periods beginning after February 1, 2019, we are not a separate taxable entity for federal and certain state income tax purposes. Our results of operations for periods beginning after February 1, 2019, are included in the consolidated federal and certain state income tax returns of Chesapeake and its affiliates. However, for purposes of this report, the provision for income taxes is calculated on a separate return basis for the entire three-month period ended March 31, 2019.

Under the separate return method, we determine our income tax provision for interim periods using an estimated annual effective tax rate. The tax effects of statutory rate changes, significant unusual or infrequent items, and certain changes in the assessment of the realizability of deferred tax assets are excluded from the determination of the estimated annual effective tax rate as such items are recognized as discrete items in the quarter in which they occur.

We recorded an income tax benefit of $4.2 million and $38.1 million for the three months ended March 31, 2019 and 2018, respectively. The change is primarily due to a lower estimated annual effective tax rate for the three-month period ended March 31, 2019 as compared to the prior period. The effective tax rate for the three months ended March 31, 2019 and 2018 was 2.2% and 24.8%, respectively. The decrease in the effective tax rate in 2019 was primarily due to greater non-deductible permanent items relating to transaction costs and employee compensation costs.

We experienced an ownership change under Section 382 of the Internal Revenue Code of 1986, as amended, as a result of the Merger. The utilization by Chesapeake of our net operating loss carryforwards and certain other tax attributes generated prior to the Merger will be subject to an annual limitation of approximately $61 million. This annual limitation may be increased by certain recognized built-in gains occurring within a five-year recognition period.

We have not recognized a liability for unrecognized tax benefits as of March 31, 2019 and expect no significant change to the unrecognized tax benefits in the next twelve months.

Note 13. Leases

Lease Obligations

We lease compressors, office space, hydraulic fracturing equipment and other equipment used in our sand mine. These leases have a remaining lease term of one month to 7.8 years as of March 31, 2019. Certain lease agreements include options to renew the lease, early terminate the lease or purchase the underlying asset at the end of the lease. We determine the lease term at the lease commencement date as the non-cancelable period of the lease, including options to extend or terminate the lease which the option is reasonably certain to be exercised.

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Lease liabilities and right-of-use assets recorded upon adoption of ASC 842 are as follows (in thousands):

	As of January 1, 2019	
	Operating Lease Liability	Right-of-Use Asset
Frac fleet	$ 20,636	$ 20,636
Office space [1]	15,273	12,865
Sand mine equipment	7,649	7,649
	$ 43,558	$ 41,150

[1] The recognized operating lease liability and right-of-use asset for our leased office space differ due to lease incentive options included in the lease agreement. The $2.4 million difference will be recognized as leasehold improvements in other fixed assets and will be depreciated over the life of the lease.

Amounts related to these lease liabilities and right-of-use assets recognized in the accompanying unaudited condensed consolidated financial statements as of March 31, 2019, are as follows (in thousands):

Lease Activity	Balance Sheet Location	March 31, 2019
Right-of-use assets	Other noncurrent assets - Other	$ 31,643
Short-term lease liability	Accrued liabilities	$ 18,934
Long-term lease liability	Noncurrent liabilities - Other	$ 15,078

Additional information for the Company's operating and finance leases is presented below:

	For the Three Months Ended March 31, 2019
Lease cost:	
Operating lease cost	$ 10,019
Short-term lease cost	8,234
Total lease cost [a]	$ 18,253
Other information:	
Operating cash outflows from operating leases	$ 2,655
Investing cash outflows from operating leases	$ 15,598
Weighted-average remaining lease term - operating leases	3.81 years
Weighted-average discount rate - operating leases	5.09%

[a] Includes $15.6 million of capitalized lease cost

Maturity analysis of finance and operating lease liabilities (in thousands):

Fiscal year	As of March 31, 2019
2019 - Remaining period	$ 17,593
2020	5,871
2021	2,398
2022	2,216
2023	2,251
Thereafter	6,970
Total lease payments	37,299
Less imputed interest	(3,287)
Present value of lease liabilities	34,012
Less current maturities	(18,934)
Present value of lease liabilities, less current maturities	$ 15,078

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The aggregated undiscounted minimum future lease payments under the previous lease accounting standard, ASC 840, are presented below (in thousands):

Fiscal year	As of December 31, 2018
2019	$ 32,597
2020	9,862
2021	6,257
2022	4,940
2023	3,153
Thereafter	6,970
Total minimum lease payments	$ 63,779

Note 14. Commitments and Contingencies

Litigation & Environmental

We are party to various ongoing and potential legal actions relating to our entitled ownership interests in certain properties. We evaluate the merits of existing and potential claims and accrue a liability for any that meet the recognition criteria and can be reasonably estimated. We have not recognized any liability as of March 31, 2019 and December 31, 2018. Our estimates are based on information known about the matters and the input of attorneys experienced in contesting, litigating, and settling similar matters. Actual amounts could differ from our estimates and other claims could be asserted.

In January 2019, putative class action lawsuits in U.S. District Court for the Southern District of New York were filed against us and other defendants. The lawsuits generally allege various violations of the Exchange Act of in connection with the disclosure contained in the joint proxy statement/prospectus filed in connection with the Merger. The lawsuits seek rescission of the Merger or rescissory damages and, in each case, attorney's fees, costs and interest. We intend to vigorously defend these claims.

Klein v. Graham, et al.: On August 2, 2018, James M. Klein filed a derivative action in the Delaware Court of Chancery against seven of the Company's then directors and one of its former directors (the "Director Defendants"), NGP Energy Capital Management, LLC, CP VI Eagle Holdings, L.P. (the "Carlyle Investor"), and (as a nominal defendant only) the Company. The complaint asserts claims relating to the Company's entry into a Preferred Stock Purchase Agreement with the Carlyle Investor, dated May 10, 2017. The lawsuit seeks monetary damages and attorneys' fees. We continue to vigorously defend these claims. On October 2, 2018, a stipulation of dismissal without prejudice was granted as it relates to two of the Director Defendants, Messrs. Clarkson and Sims.

From time to time, we could be liable for environmental claims arising in the ordinary course of business. We did not record environmental obligations at March 31, 2019 and December 31, 2018.

Management Service Agreement

Subsequent to the Merger we agreed to pay Chesapeake a monthly management fee for professional services rendered. As all administrative functions will be handled by Chesapeake going forward, this fee replaces our previous general and administrative expenditures related to non-field employees. We paid $12 million in management fees for the quarter ended March 31, 2019, and in April 2019 we committed to pay $8 million per month going forward.

Note 15. Subsequent Events

On April 10, 2019, Chesapeake Energy entered into a sublease agreement as the lessor to sublease a portion of an office building located in Houston, Texas. Brazos Valley Longhorn is the current tenant of the primary lease agreement of this building. Chesapeake Energy will receive approximately $1.3 million in rental payments annually commencing in the fourth quarter of 2019 as part of the sublease agreement.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and related notes in "Item 1. Financial Statements" contained herein and our 2018 Form 10-K filed with the SEC on March 4, 2019. The following discussion contains forward-looking statements that reflect our future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside our control. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, market prices for oil, natural gas and NGLs, production volumes, estimates of proved reserves, capital expenditures, economic and competitive conditions, drilling results, regulatory changes and other uncertainties, as well as those factors discussed in "Part I—Item 1A. Risk Factors" of our 2018 Form 10-K, "Part II—Item 1A. Risk Factors" contained in this Quarterly Report and "Cautionary Statement Regarding Forward-Looking Statements" in the front of this Quarterly Report. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

Overview

In February 2019, WildHorse was acquired by Chesapeake for approximately 717.4 million shares of Chesapeake common stock and $381.1 million in cash. Immediately following the completion of the merger, WildHorse merged with and into the Company.

Information About Us

We make available, free of charge on our website at www.chk.com (formerly www.wildhorserd.com), the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable. From time to time, we also post announcements, updates, events, investor information and presentations on our website in addition to copies of all recent news releases. Documents and information on our website are not incorporated by reference herein.

Sources of Our Revenues

Our revenues are primarily derived from the sale of our oil, natural gas and NGL production.

Critical Accounting Policies and Estimates

A discussion of our critical accounting policies and estimates is included in our 2018 Form 10-K. There have been no significant changes to our critical accounting policies and estimates.

Results of Operations

The table below summarizes the results of operations and period-to-period comparisons for the periods indicated.

	For the Three Months Ended March 31,	
	2019	2018
Oil, natural gas, and NGL revenue:		
Crude oil	$ 182,699	$ 182,379
Natural gas	8,115	27,630
NGLs	4,864	7,448
Total oil, natural gas and NGL revenue	$ 195,678	$ 217,457
Total revenues:		
Oil, natural gas, and NGL revenue	195,678	217,457
Loss on derivative instruments	(128,996)	(40,370)
Other revenues	709	1,300
Total revenues	67,391	178,387
Operating expenses:		
Lease operating expenses	19,513	16,427
Gathering, processing and transportation	4,491	1,352
Taxes other than income tax	10,895	11,781
Depreciation, depletion and amortization	87,736	59,883
Impairment of NLA Disposal Group	—	214,274
General and administrative expenses	75,746	12,727
Exploration expense	3,531	1,708
Other operating expense	37,834	658
Total operating expenses	239,746	318,810
Loss from operations	(172,355)	(140,423)
Other income (expense):		
Interest expense	(19,475)	(13,307)
Other expense	(610)	(137)
Total other expense	(20,085)	(13,444)
Loss before income taxes	(192,440)	(153,867)
Income tax benefit	4,224	38,093
Net loss	$ (188,216)	$ (115,774)
Production volumes:		
Oil (MBbls)	3,177	2,817
Natural gas (MMcf)	3,441	8,796
NGLs (MBbls)	472	432
Total (MBoe)	4,223	4,715
Average daily production volumes:		
Oil (MBbls/d)	35.3	31.3
Natural gas (MMcf/d)	38.2	97.7
NGLs (MBbls/d)	5.2	4.8
Average net production (MBoe/d)	46.9	52.4
Average sales price:		
Oil (per Bbl)	$ 57.51	$ 64.75
Natural gas (per Mcf)	$ 2.36	$ 3.14
NGLs (per Bbl)	$ 10.30	$ 17.24
Total (per Boe)	$ 46.34	$ 46.12
Average unit costs per Boe:		
Lease operating expenses	$ 4.62	$ 3.48
Gathering, processing and transportation	$ 1.06	$ 0.29
Taxes other than income tax	$ 2.58	$ 2.50
General and administrative expenses	$ 17.94	$ 2.70
Depletion, depreciation and amortization	$ 20.78	$ 12.70

Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

For purposes of the following discussion, references to 2019 and 2018 refer to the three months ended March 31, 2019 and the three months ended March 31, 2018, respectively, unless otherwise indicated.

- Oil, natural gas and NGL sales were $195.7 million for 2019 compared to $217.5 million for 2018, a decrease of $21.8 million (or 10%). Total production decreased 492 MBoe (or 10%) primarily due to a decrease in natural gas production as a result of our divestiture of our NLA Assets in March 2018, which primarily produced natural gas. Our average realized sales price per Boe remained flat quarter over quarter as a result of lower overall commodity prices but a higher percentage of oil in the production mix. Oil revenues increased $0.3 million over the prior year quarter, due to a 13% increase in production volumes offset by an 11% decrease in realized sales prices. Natural gas revenues decreased $19.5 million, or 71%, due to a 61% decrease in production volumes as a result of our divestiture of our NLA Assets, coupled with a 25% decrease in realized sales prices. NGL revenues decreased $2.6 million, or 35%, which was primarily due to a 40% decrease in realized sales prices partially offset by a 9% increase in production volumes and lower average sales prices for NGLs.

- Net losses on derivative instruments of $129.0 million were recognized during 2019, which consisted of a $127.3 million decrease in the fair value of open positions and $1.7 million of cash settlements paid or accrued. Net losses on derivative instruments of $40.4 million were recognized during 2018, which consisted of a $17.5 million decrease in the fair value of open positions and $22.9 million of cash settlements paid or accrued.

- Lease operating expense was $19.5 million and $16.4 million for 2019 and 2018, respectively. On a per Boe basis, total LOE was $4.62 and $3.48 for 2019 and 2018, respectively. The increase in LOE on a per unit basis is largely attributable to increases in workover and water disposal expenses in 2019. We recorded $4.3 million of workover expenses in 2019 in comparison to $2.0 million in 2018 to increase efficiency on legacy wells. Net production in 2019 consisted of 75% oil compared to 60% oil in 2018, an increase of 15% due primarily to the 2018 divestiture of our NLA Assets.

- Gathering, processing and transportation expenses were $4.5 million and $1.4 million for 2019 and 2018, respectively. On a per Boe basis, GP&T expenses were $1.06 and $0.29 for 2019 and 2018, respectively. The 266% increase in GP&T expenses on a per Boe basis was primarily attributable to an increase in production from our drilling activities in the Eagle Ford Shale resulting in increased transportation costs to truck oil volumes to delivery points. The increase was partially offset by the divestiture of our NLA Assets in March 2018.

- Taxes other than income tax were $10.9 million and $11.8 million for 2019 and 2018, respectively; a decrease of $0.9 million (or 8%). On a per Boe basis, taxes other than income tax were $2.58 and $2.50 for 2019 and 2018, respectively. The $0.9 million decrease was primarily due to a decrease in production taxes of $0.7 million and a decrease in franchise taxes of $0.2 million. Production taxes decreased primarily as a result of a decrease in production volumes and average sales prices.

- Depreciation, depletion and amortization expense for 2019 was $87.7 million compared to $59.9 million for 2018, a $27.8 million increase (or 46%) primarily due to an increase in the DD&A rate per Boe. The DD&A rate increase is primarily due to a decrease in proved reserves as a result of an updated five year development plan and assumptions, as BVL transitioned from a stand-alone entity to part of the Chesapeake portfolio.

- Impairment of the NLA Disposal Group was $214.3 million in 2018. We did not have any additional impairment expense in 2019.

- General and administrative expenses were $75.7 million and $12.7 million for 2019 and 2018, respectively. The $63.0 million increase was primarily due to $27.3 million in non-recurring expenses incurred in conjunction with the Merger, the accelerated vesting of all outstanding restricted stock awards upon the Merger, which resulted in $24.8 million of G&A expense in the first quarter of 2019, and $12.0 million in management fees paid to Chesapeake.

- Exploration expense was $3.5 million and $1.7 million for 2019 and 2018, respectively. The $1.8 million increase in exploration expense in 2019 was largely due to a $1.0 million increase in abandonment costs and a $1.0 million increase in seismic expense.

- Other operating expense was $37.8 million and $0.7 million in 2019 and 2018, respectively. In 2019, as a result of the Merger, most WildHorse executives and employees were terminated. These executives and employees were entitled to severance benefits of approximately $37.6 million in accordance with certain provisions of existing employment agreements that were triggered by the change in control.

- Interest expense was $19.5 million and $13.3 million for 2019 and 2018, respectively. The $6.2 million increase (approximately 47%) was due to an increase in the average debt outstanding as a result of the issuance of the additional 2025 Senior Notes in April 2018 and increased borrowings under our revolving credit facility.

- Income tax benefit for the three-month periods ended March 31, 2019 and 2018 was $4.2 million and $38.1 million, respectively. The change is primarily due to a lower estimated annual effective tax rate for the three-month period ended March 31, 2019 as compared to the prior period. The effective tax rates for the three months ended March 31, 2019 and 2018, respectively, were 2.2% and 24.8%. Our effective tax rate can fluctuate as a result of the impact of discrete items, state income taxes and permanent differences. The decrease in the effective tax rate from 24.8% to 2.2% was primarily due to greater non-deductible permanent items relating to transaction costs and employee compensation reflected in the calculation of the 2019 estimated annual effective tax rate than in the calculation of the 2018 rate.

Liquidity and Capital Resources

Our development and acquisition activities require us to make significant operating and capital expenditures. Our primary use of capital has been the acquisition and development of oil, natural gas and NGL properties and facilities.

Based on our current oil and natural gas price expectations, we believe our cash flows from operating activities and availability under our revolving credit facility will provide us with sufficient financial flexibility and wherewithal to meet our cash requirements, including normal operating needs and interest expense, and pursue our currently planned development drilling activities over the next twelve months. However, future cash flows are subject to a number of variables, including the level of our oil and natural gas production and the prices we receive for our oil and natural gas production, and significant additional capital expenditures will be required to more fully develop our properties and acquire additional properties. We are also an unrestricted subsidiary of Chesapeake and as such, are limited in our ability to receive investments from, and transact with, Chesapeake.

As of March 31, 2019, we had $4.8 million of cash and cash equivalents and $564.5 million of availability under our revolving credit facility, including outstanding borrowings and letter of credit. As of March 31, 2019, we had a working capital deficit of $106.8 million primarily due to the accrual of capital expenditures and short-term derivative liabilities.

Revolving Credit Facility

On October 15, 2018, the Company, each of the Company’s wholly owned subsidiaries (each as a guarantor), the Administrative Agent, and the lenders party thereto entered into the Fifth Amendment to the Credit Agreement, which, among other things, increased the borrowing base from $1.05 billion to $1.30 billion. On February 1, 2019, the Company, each of the Company's wholly owned subsidiaries (each as a guarantor), the Administrative Agent, and the lenders party thereto entered into the Sixth Amendment to the Credit Agreement, which, among other things, (i) amended the merger covenant and the definition of change of control to permit the Merger, and (ii) permits borrowings under the Credit Agreement to be used to redeem or repurchase the Senior Notes so long as certain conditions are met.

Our revolving credit facility is reserve-based, and thus our borrowing base is primarily based on the estimated value of our oil and natural gas properties and our commodity derivative contracts as determined by our lenders in their sole discretion consistent with their normal and customary oil and gas lending practices semi-annually (in the case of scheduled redeterminations), from time to time at our election in connection with material acquisitions, or no more frequently than twice in any fiscal year at the request of the required lenders or us (in the case of interim redeterminations), in each case based on engineering reports with respect to our estimated oil, NGL and natural gas reserves, and our commodity derivative contracts. Unanimous approval by the lenders is required for any increase to the borrowing base pursuant to a redetermination, while only required lender approval is required to maintain or decrease the borrowing base pursuant to a redetermination. The borrowing base may also automatically decrease upon the issuance of certain debt, including senior notes, the sale or other disposition of certain assets and the early termination of certain swap agreements. In the future, we may be unable to access sufficient capital under the Credit Agreement as a result of (i) a decrease in our borrowing base due to a borrowing base redetermination or (ii) an unwillingness or inability on the part of our lenders to meet their funding obligations.

The Credit Agreement requires us to maintain (x) a ratio of total debt to EBITDAX (as defined under the Credit Agreement) of not more than 4.00 to 1.00 and (y) a ratio of current assets (including availability under the facility) to current liabilities of not less than 1.00 to 1.00. As of March 31, 2019, we were in compliance with all applicable financial covenants under the Credit Agreement and we were able to borrow up to the full availability under the revolving credit facility. Our ratio of net debt to EBITDAX was 2.40 to 1.00 and our ratio of current assets to current liabilities was 3.85 to 1.00 as of March 31, 2019.

2025 Senior Notes

In February 2017, we completed a private placement of $350.0 million of the 2025 Senior Notes, issued at 99.244% of par and resulted in net proceeds of $338.6 million. In September 2017, we completed another private placement of $150.0 million aggregate principal amount of the 2025 Senior Notes issued at 98.26% of par, which resulted in net proceeds of approximately $144.7 million. In April 2018, we completed the private placement of the April Notes. The April Notes are treated as a single class of debt securities with the other outstanding 2025 Senior Notes. The April Notes were issued at a price of 102% of par. This issuance resulted in net proceeds of approximately $201.0 million, after deducting the initial purchaser's discount and commissions and estimated offering expenses and excluding accrued interest.

The 2025 Senior Notes are governed by an indenture dated as of February 1, 2017, mature on February 1, 2025 and are fully and unconditionally guaranteed on a joint and several basis by all of our existing and certain future subsidiaries (subject to customary release provisions). We have no material assets or operations that are independent of our existing subsidiaries. There are no restrictions on the ability of the Company to obtain funds from its subsidiaries through dividends or loans. The 2025 Senior Notes accrue interest at 6.875% per annum and payable semi-annually in arrears on February 1 and August 1 of each year. In the first quarter of 2019 we made a $24.1 million interest payment on the 2025 Senior Notes. As of September 24, 2018, all of the 2025 Senior Notes had been exchanged for an equal principal amount of registered 6.875% senior notes due 2025 pursuant to an effective registration statement on Form S-4.

Capital Expenditures Budget

We established a 2019 capital expenditure budget of $725 million to $745 million, including expenditures associated with our sand mine. For the three months ended March 31, 2019, our drilling and completion expenditures were approximately $161.1 million primarily related to the development of our Eagle Ford properties and our sand mine capital expenditures were approximately $5.7 million related to the development of our in-field sand mine.

Commodity Derivative Contracts

Our hedging policy is designed to reduce the impact to our cash flows from commodity price volatility.

For additional information regarding the volumes of our production covered by commodity derivative contracts and the average prices at which production is hedged as of March 31, 2019, see "Note 4—Risk Management and Derivative Instruments" of the Notes to Unaudited Condensed Consolidated Financial Statements included under "Item 1. Financial Statements" of this Quarterly Report.

Cash Flows from Operating, Investing and Financing Activities

The following table summarizes our cash flows from operating, investing and financing activities for the periods indicated. The cash flows for the three months ended March 31, 2019 and 2018 have been derived from our consolidated financial statements. For information regarding the individual components of our cash flow amounts, see the Unaudited Statements of Condensed Consolidated Cash Flows included under "Item 1. Financial Statements" contained herein.

	For the Three Months Ended March 31,			
	2019		2018	
Net cash provided by operating activities	$	7,480	$	117,969
Net cash used in investing activities	$	(184,340)	$	(132,883)
Net cash provided by financing activities	$	166,756	$	21,705

Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

For purposes of the following discussion, references to 2019 and 2018 refer to the three months ended March 31, 2019 and the three months ended March 31, 2018, respectively, unless otherwise indicated.

Operating Activities. Net cash provided by operating activities was $7.5 million for 2019 compared to $118.0 million for 2018. Production decreased 492 MBoe (approximately 10%) while average realized sales prices increased slightly to $46.34 per Boe for 2019 compared to $46.12 per Boe during 2018. This resulted in a $21.8 million decrease in oil, natural gas and NGL sales revenue. The overall period-to-period decrease in net cash provided by operating activities was also impacted by higher G&A and other expenses due the Merger with Chesapeake, as previously discussed above under "Results of Operations." For detailed information regarding the individual components of our operating cash flows, see the Unaudited Statements of Condensed Consolidated Cash Flows included under "Item 1. Financial Statements" contained herein.

Investing Activities. During 2019 and 2018, cash flows used in investing activities were $184.3 million and $132.9 million, respectively. Additions to oil and gas properties were $167.6 million and $297.9 million during 2019 and 2018, respectively, related to our drilling and completion activities and land leasing activities in the Eagle Ford and Austin Chalk Trend. Acquisitions of oil and gas properties were less than $0.1 million and $19.7 million during 2019 and 2018, respectively. Additions to and acquisitions of other property and equipment were $9.0 million and $12.9 million during 2019 and 2018, respectively. Approximately $5.7 million of the $9.0 million in additions to and acquisitions of other property and equipment during 2019 was related to the development of our in-field sand mine. In 2019, we also recorded an additional $7.7 million contribution related to our equity method investee, JWH Midstream LLC. In 2018, we recorded $206.4 million of proceeds on the sale of our NLA Assets.

Financing Activities. Net cash provided by financing activities during 2019 of $166.8 million was primarily attributable to net advances of approximately $184.0 million associated with our revolving credit facility, partially offset by our repurchase of $9.8 million of vested restricted stock and the payment of $6.8 million in preferred stock dividends. Net cash provided by financing activities during 2018 of $21.7 million was primarily attributable to net advances of approximately $22.6 million associated with our revolving credit facility.

Contractual Obligations

During the three months ended March 31, 2019, there were no significant changes in our consolidated contractual obligations from those reported in our 2018 Form 10-K except that indebtedness under our revolving credit facility increased from $504 million at December 31, 2018 to $688 million at March 31, 2019.

Off–Balance Sheet Arrangements

As of March 31, 2019, we had no off–balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by Item 3 is omitted pursuant to Instruction H(2) to Form 10-Q (Omission of Information by Certain Wholly-Owned Subsidiaries).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2019. Based on that evaluation, the Company's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2019.

Changes in Internal Controls Over Financial Reporting

In February 2019, WildHorse was acquired by Chesapeake. As a result of the merger, many processes and controls are now performed by Chesapeake personnel, and certain processes and controls are being integrated with Chesapeake's existing processes and information systems. During this transition, we are performing an updated risk assessment and ensuring appropriate control activities are in place to address and mitigate identified risks.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As part of our normal business activities, we may be named as defendants in litigation and legal proceedings, including those arising from regulatory and environmental matters. If we determine that a negative outcome is possible and the amount of loss is reasonably estimable, we accrue the estimated amount. We are not aware of any litigation, pending or threatened, that we believe will have a material adverse effect on our financial position, results of operations or cash flows. No amounts have been accrued at March 31, 2019. For additional discussion of current legal proceedings, please see "Note 14—Commitments and Contingencies" of the Notes to Unaudited Condensed Consolidated Financial Statements included under "Item 1. Financial Statements" of this Quarterly Report.

ITEM 1A. RISK FACTORS

In addition to the information set forth in this report, you should carefully consider the factors discussed in Part I—Item IA. "Risk Factors" of our 2018 Form 10-K, which could materially affect our business, financial condition or future results. There have been no material changes with respect to the risk factors since those disclosed in our 2018 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The information called for by Item 2 is omitted pursuant to Instruction H(2) to Form 10-Q (Omission of Information by Certain Wholly-Owned Subsidiaries).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The information called for by Item 3 is omitted pursuant to Instruction H(2) to Form 10-Q (Omission of Information by Certain Wholly-Owned Subsidiaries).

ITEM 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations and other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 to this Quarterly Report.

ITEM 5. EXHIBITS

The following exhibit is filed as a part of this report.

Exhibit Number	Exhibit Description
95.1	Mine Safety Disclosure Exhibit

SIGNATURES

The company has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

BRAZOS VALLEY LONGHORN, L.L.C.

Signature	Capacity	Date
/s/ Robert D. Lawler **Robert D. Lawler**	President and Chief Executive Officer (Principal Executive Officer)	May 10, 2019
/s/ Domenic J. Dell'Osso, Jr. **Domenic J. Dell'Osso, Jr.**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	May 10, 2019
/s/ William M. Buergler **William M. Buergler**	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	May 10, 2019
/s/ Robert D. Lawler **Chesapeake Energy Corporation**	Sole Member	May 10, 2019

By: Robert D. Lawler
Its: President and Chief Executive Officer

Exhibit 95.1

Mine Safety Disclosure

Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") and Item 104 of Regulation S-K, requires certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate mines regulated under the Federal Mine Safety and Health Act of 1977 (the "Mine Act").

Burleson Sand LLC (“Burleson Sand”) is a wholly owned subsidiary of Brazos Valley Longhorn, L.L.C. (“BVL”). On January 4, 2018, Burleson Sand acquired surface and sand rights on approximately 727 acres in Burleson County, Texas to construct and operate an in-field sand mine to support BVL's exploration and development operations. Burleson Sand began operations in September 2018 and is subject to regulation by the federal Mine Safety and Health Administration (“MSHA”) under the Mine Act. The MSHA inspects mining facilities on a regular basis and issues citations and orders when it believes a violation has occurred under the Mine Act.

The MSHA, upon determination that a violation of the Mine Act has occurred, may issue a citation or an order which generally proposes civil penalties or fines upon the mine operator. Citations and orders may be appealed with the potential of reduced or dismissed penalties.

During the three months ended March 31, 2019, Burleson Sand did not receive any of the following from MSHA: (i) a citation for a violation of a mandatory health or safety standard that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard under Section 104 of the Mine Act; (ii) an order issued under Section 104(b) of the Mine Act; (iii) a citation or order for unwarrantable failure to comply with mandatory health or safety standards under Section 104(d) of the Mine Act; (iv) written notice of a flagrant violation under Section 110(b)(2) of the Mine Act; (v) an imminent danger order issued under Section 107(a) of the Mine Act; (vi) any proposed assessments under the Mine Act; (vii) written notice of a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of mine health or safety hazards under Section 104(e) of the Mine Act; or (viii) written notice of the potential to have such a pattern. Moreover, during the three months ended March 31, 2019, Burleson Sand did not experience a mining-related fatality or have any pending legal action before the Federal Mine Safety and Health Review Commission.