

DEVON ENERGY CORP/DE  
Form 10-Q  
August 01, 2018  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-32318

DEVON ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

incorporation or organization)

73-1567067  
(I.R.S. Employer

identification No.)

333 West Sheridan Avenue, Oklahoma City, Oklahoma  
(Address of principal executive offices)

73102-5015  
(Zip code)

Registrant's telephone number, including area code: (405) 235-3611

Former name, address and former fiscal year, if changed from last report: Not applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

On July 18, 2018, 508.8 million shares of common stock were outstanding.

Table of Contents

DEVON ENERGY CORPORATION

FORM 10-Q

TABLE OF CONTENTS

Part I. Financial Information

|         |                                                                                              |    |
|---------|----------------------------------------------------------------------------------------------|----|
| Item 1. | <u>Financial Statements</u>                                                                  | 6  |
|         | <u>Consolidated Comprehensive Statements of Earnings</u>                                     | 6  |
|         | <u>Consolidated Statements of Cash Flows</u>                                                 | 7  |
|         | <u>Consolidated Balance Sheets</u>                                                           | 8  |
|         | <u>Consolidated Statements of Equity</u>                                                     | 9  |
|         | <u>Notes to Consolidated Financial Statements</u>                                            | 10 |
|         | <u>Note 1 – Summary of Significant Accounting Policies</u>                                   | 10 |
|         | <u>Note 2 – Revenue Recognition</u>                                                          | 11 |
|         | <u>Note 3 – Divestitures</u>                                                                 | 14 |
|         | <u>Note 4 – Derivative Financial Instruments</u>                                             | 14 |
|         | <u>Note 5 – Share-Based Compensation</u>                                                     | 17 |
|         | <u>Note 6 – Asset Impairments</u>                                                            | 18 |
|         | <u>Note 7 – Restructuring and Transaction Costs and Other Expenses</u>                       | 18 |
|         | <u>Note 8 – Income Taxes</u>                                                                 | 19 |
|         | <u>Note 9 – Net Earnings (Loss) Per Share From Continuing Operations</u>                     | 20 |
|         | <u>Note 10 – Other Comprehensive Earnings</u>                                                | 20 |
|         | <u>Note 11 – Supplemental Information to Statements of Cash Flows</u>                        | 21 |
|         | <u>Note 12 – Accounts Receivable</u>                                                         | 21 |
|         | <u>Note 13 – Property, Plant and Equipment</u>                                               | 21 |
|         | <u>Note 14 – Other Current Liabilities</u>                                                   | 22 |
|         | <u>Note 15 – Debt and Related Expenses</u>                                                   | 22 |
|         | <u>Note 16 – Asset Retirement Obligations</u>                                                | 23 |
|         | <u>Note 17 – Retirement Plans</u>                                                            | 23 |
|         | <u>Note 18 – Stockholders’ Equity</u>                                                        | 24 |
|         | <u>Note 19 – Discontinued Operations</u>                                                     | 24 |
|         | <u>Note 20 – Commitments and Contingencies</u>                                               | 25 |
|         | <u>Note 21 – Fair Value Measurements</u>                                                     | 26 |
|         | <u>Note 22 – Segment Information</u>                                                         | 27 |
| Item 2. | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 29 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 44 |
| Item 4. | <u>Controls and Procedures</u>                                                               | 44 |

Part II. Other Information

|          |                                                                    |    |
|----------|--------------------------------------------------------------------|----|
| Item 1.  | <u>Legal Proceedings</u>                                           | 45 |
| Item 1A. | <u>Risk Factors</u>                                                | 45 |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 45 |
| Item 3.  | <u>Defaults Upon Senior Securities</u>                             | 45 |
| Item 4.  | <u>Mine Safety Disclosures</u>                                     | 45 |
| Item 5.  | <u>Other Information</u>                                           | 45 |
| Item 6.  | <u>Exhibits</u>                                                    | 46 |

Signatures

47

2

---

Table of Contents

DEFINITIONS

Unless the context otherwise indicates, references to “us,” “we,” “our,” “ours,” “Devon” and the “Company” refer to Devon Energy Corporation and its consolidated subsidiaries. All monetary values, other than per unit and per share amounts, are stated in millions of U.S. dollars unless otherwise specified. In addition, the following are other abbreviations and definitions of certain terms used within this Quarterly Report on Form 10-Q:

“ASC” means Accounting Standards Codification.

“ASU” means Accounting Standards Update.

“Bbl” or “Bbls” means barrel or barrels.

“Boe” means barrel of oil equivalent. Gas proved reserves and production are converted to Boe, at the pressure and temperature base standard of each respective state in which the gas is produced, at the rate of six Mcf of gas per Bbl of oil, based upon the approximate relative energy content of gas and oil. Bitumen and NGL proved reserves and production are converted to Boe on a one-to-one basis with oil.

“Btu” means British thermal units, a measure of heating value.

“Canada” means the division of Devon encompassing oil and gas properties located in Canada. All dollar amounts associated with Canada are in U.S. dollars, unless stated otherwise.

“Canadian Plan” means Devon Canada Corporation Incentive Savings Plan.

“DD&A” means depreciation, depletion and amortization expenses.

“Devon Plan” means Devon Energy Corporation Incentive Savings Plan.

“E&P” means exploration and production activities.

“EnLink” means EnLink Midstream Partners, LP, a master limited partnership.

“FASB” means Financial Accounting Standards Board.

“G&A” means general and administrative expenses.

“GAAP” means U.S. generally accepted accounting principles.

“General Partner” means EnLink Midstream, LLC, the indirect general partner of EnLink, and, unless the context otherwise indicates, EnLink Midstream Manager, LLC, the managing member of EnLink Midstream, LLC.

“Inside FERC” refers to the publication Inside FERC’s Gas Market Report.

“LIBOR” means London Interbank Offered Rate.

“LOE” means lease operating expenses.

“MBbls” means thousand barrels.

“MBoe” means thousand Boe.

“Mcf” means thousand cubic feet.

“MMBtu” means million Btu.

3

---

Table of Contents

“MMcf” means million cubic feet.

“M&M operations” means marketing revenues minus marketing expenses.

“N/M” means not meaningful.

“NGL” or “NGLs” means natural gas liquids.

“NYMEX” means New York Mercantile Exchange.

“OPIS” means Oil Price Information Service.

“SEC” means United States Securities and Exchange Commission.

“Senior Credit Facility” means Devon’s syndicated unsecured revolving line of credit.

“Tax Reform Legislation” means Tax Cuts and Jobs Act.

“TSR” means total shareholder return.

“Upstream operations” means upstream revenues minus production expenses.

“U.S.” means United States of America.

“WTI” means West Texas Intermediate.

“/Bbl” means per barrel.

“/d” means per day.

“/MMBtu” means per MMBtu.

Table of Contents

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” as defined by the SEC. Such statements include those concerning strategic plans, our expectations and objectives for future operations, as well as other future events or conditions, and are often identified by use of the words “expects,” “believes,” “will,” “would,” “could,” “forecasts,” “projections,” “estimates,” “expectations,” “targets,” “opportunities,” “potential,” “anticipates,” “outlook” and other similar terminology. Such forward-looking statements are based on our examination of historical operating trends, the information used to prepare our December 31, 2017 reserve reports and other data in our possession or available from third parties. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. Consequently, actual future results could differ materially from our expectations due to a number of factors, including, but not limited to:

- the volatility of oil, gas and NGL prices;
- uncertainties inherent in estimating oil, gas and NGL reserves;
- the extent to which we are successful in acquiring and discovering additional reserves;
- the uncertainties, costs and risks involved in oil and gas operations;
  - regulatory restrictions, compliance costs and other risks relating to governmental regulation, including with respect to environmental matters;
- risks related to our hedging activities;
- counterparty credit risks;
- risks relating to our indebtedness;
- cyberattack risks;
- our limited control over third parties who operate some of our oil and gas properties;
- midstream capacity constraints and potential interruptions in production;
- the extent to which insurance covers any losses we may experience;
- competition for leases, materials, people and capital;
- our ability to successfully complete mergers, acquisitions and divestitures; and
- any of the other risks and uncertainties discussed in this report, our 2017 Annual Report on Form 10-K and our other filings with the SEC.

All subsequent written and oral forward-looking statements attributable to Devon, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements above. We assume no duty to update or revise our forward-looking statements based on new information, future events or otherwise.



Table of Contents

## Part I. Financial Information

## Item 1. Financial Statements

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED COMPREHENSIVE STATEMENTS OF EARNINGS

|                                                                      | Three Months<br>Ended June 30,<br>2018    2017<br>(Unaudited) |         | Six Months<br>Ended June 30,<br>2018    2017 |         |
|----------------------------------------------------------------------|---------------------------------------------------------------|---------|----------------------------------------------|---------|
| Upstream revenues                                                    | \$1,069                                                       | \$1,332 | \$2,388                                      | \$2,873 |
| Marketing revenues                                                   | 1,180                                                         | 833     | 2,059                                        | 1,692   |
| Total revenues                                                       | 2,249                                                         | 2,165   | 4,447                                        | 4,565   |
| Production expenses                                                  | 572                                                           | 455     | 1,115                                        | 912     |
| Exploration expenses                                                 | 68                                                            | 57      | 101                                          | 152     |
| Marketing expenses                                                   | 1,160                                                         | 849     | 2,033                                        | 1,728   |
| Depreciation, depletion and amortization                             | 420                                                           | 369     | 819                                          | 769     |
| Asset impairments                                                    | 154                                                           | —       | 154                                          | —       |
| Asset dispositions                                                   | 23                                                            | (22 )   | 11                                           | (30 )   |
| General and administrative expenses                                  | 153                                                           | 181     | 352                                          | 376     |
| Financing costs, net                                                 | 62                                                            | 77      | 449                                          | 160     |
| Restructuring and transaction costs                                  | 94                                                            | —       | 94                                           | —       |
| Other expenses                                                       | 24                                                            | (8 )    | 45                                           | (22 )   |
| Total expenses                                                       | 2,730                                                         | 1,958   | 5,173                                        | 4,045   |
| Earnings (loss) from continuing operations before income taxes       | (481 )                                                        | 207     | (726 )                                       | 520     |
| Income tax benefit                                                   | (7 )                                                          | (5 )    | (41 )                                        | —       |
| Net earnings (loss) from continuing operations                       | (474 )                                                        | 212     | (685 )                                       | 520     |
| Net earnings from discontinued operations, net of income tax expense | 139                                                           | 33      | 197                                          | 42      |
| Net earnings (loss)                                                  | (335 )                                                        | 245     | (488 )                                       | 562     |
| Net earnings attributable to noncontrolling interests                | 90                                                            | 26      | 134                                          | 40      |
| Net earnings (loss) attributable to Devon                            | \$(425 )                                                      | \$219   | \$(622 )                                     | \$522   |
| Basic net earnings (loss) per share:                                 |                                                               |         |                                              |         |
| Basic earnings (loss) from continuing operations per share           | \$(0.92 )                                                     | \$0.40  | \$(1.33 )                                    | \$0.99  |
| Basic earnings from discontinued operations per share                | 0.09                                                          | 0.01    | 0.13                                         | —       |
| Basic net earnings (loss) per share                                  | \$(0.83 )                                                     | \$0.41  | \$(1.20 )                                    | \$0.99  |
| Diluted net earnings (loss) per share:                               |                                                               |         |                                              |         |
| Diluted earnings (loss) from continuing operations per share         | \$(0.92 )                                                     | \$0.40  | \$(1.33 )                                    | \$0.99  |
| Diluted earnings from discontinued operations per share              | 0.09                                                          | 0.01    | 0.13                                         | —       |
| Diluted net earnings (loss) per share                                | \$(0.83 )                                                     | \$0.41  | \$(1.20 )                                    | \$0.99  |
| Comprehensive earnings (loss):                                       |                                                               |         |                                              |         |
| Net earnings (loss)                                                  | \$(335 )                                                      | \$245   | \$(488 )                                     | \$562   |
| Other comprehensive earnings (loss), net of tax:                     |                                                               |         |                                              |         |
| Foreign currency translation                                         | (34 )                                                         | 28      | (82 )                                        | 36      |
| Pension and postretirement plans                                     | 3                                                             | 4       | 7                                            | 9       |
| Other comprehensive earnings (loss), net of tax                      | (31 )                                                         | 32      | (75 )                                        | 45      |

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q

|                                                     |          |       |          |       |
|-----------------------------------------------------|----------|-------|----------|-------|
| Comprehensive earnings (loss)                       | (366 )   | 277   | (563 )   | 607   |
| Comprehensive earnings attributable to              |          |       |          |       |
| noncontrolling interests                            | 90       | 26    | 134      | 40    |
| Comprehensive earnings (loss) attributable to Devon | \$(456 ) | \$251 | \$(697 ) | \$567 |

See accompanying notes to consolidated financial statements

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                       | Three Months<br>Ended June 30,<br>2018 |        | Six Months<br>Ended June 30,<br>2017 |        |
|-----------------------------------------------------------------------|----------------------------------------|--------|--------------------------------------|--------|
|                                                                       | 2018                                   | 2017   | 2018                                 | 2017   |
|                                                                       | (Unaudited)                            |        |                                      |        |
| Cash flows from operating activities:                                 |                                        |        |                                      |        |
| Net earnings (loss)                                                   | \$(335 )                               | \$245  | \$(488 )                             | \$562  |
| Adjustments to reconcile net earnings to net cash                     |                                        |        |                                      |        |
| from operating activities:                                            |                                        |        |                                      |        |
| Earnings from discontinued operations, net of tax                     | (139 )                                 | (33 )  | (197 )                               | (42 )  |
| Depreciation, depletion and amortization                              | 420                                    | 369    | 819                                  | 769    |
| Asset impairments                                                     | 154                                    | —      | 154                                  | —      |
| Leasehold impairments                                                 | 53                                     | 22     | 61                                   | 64     |
| Accretion on discounted liabilities                                   | 15                                     | 15     | 31                                   | 32     |
| Total (gains) losses on commodity derivatives                         | 497                                    | (126 ) | 538                                  | (358 ) |
| Cash settlements on commodity derivatives                             | (131 )                                 | 11     | (120 )                               | 19     |
| (Gains) losses on asset dispositions                                  | 23                                     | (22 )  | 11                                   | (30 )  |
| Deferred income tax expense (benefit)                                 | 20                                     | (17 )  | (18 )                                | (32 )  |
| Share-based compensation                                              | 58                                     | 45     | 96                                   | 81     |
| Early retirement of debt                                              | —                                      | —      | 312                                  | —      |
| Total (gains) losses on foreign exchange                              | 31                                     | (49 )  | 81                                   | (64 )  |
| Settlements of intercompany foreign denominated assets/liabilities    | (244 )                                 | 1      | (243 )                               | 10     |
| Other                                                                 | (20 )                                  | 23     | (50 )                                | 11     |
| Changes in assets and liabilities, net                                | (133 )                                 | 102    | (108 )                               | 133    |
| Net cash from operating activities - continuing operations            | 269                                    | 586    | 879                                  | 1,155  |
| Cash flows from investing activities:                                 |                                        |        |                                      |        |
| Capital expenditures                                                  | (602 )                                 | (434 ) | (1,253)                              | (831 ) |
| Acquisitions of property and equipment                                | (10 )                                  | (13 )  | (16 )                                | (33 )  |
| Divestitures of property and equipment                                | 560                                    | 75     | 607                                  | 107    |
| Net cash from investing activities - continuing operations            | (52 )                                  | (372 ) | (662 )                               | (757 ) |
| Cash flows from financing activities:                                 |                                        |        |                                      |        |
| Repayments of long-term debt principal                                | —                                      | —      | (807 )                               | —      |
| Early retirement of debt                                              | —                                      | —      | (304 )                               | —      |
| Repurchases of common stock                                           | (428 )                                 | —      | (499 )                               | —      |
| Dividends paid on common stock                                        | (42 )                                  | (33 )  | (74 )                                | (65 )  |
| Shares exchanged for tax withholdings                                 | (6 )                                   | (3 )   | (44 )                                | (56 )  |
| Net cash from financing activities - continuing operations            | (476 )                                 | (36 )  | (1,728)                              | (121 ) |
| Effect of exchange rate changes on cash:                              |                                        |        |                                      |        |
| Settlements of intercompany foreign denominated assets/liabilities    | 244                                    | (1 )   | 243                                  | (10 )  |
| Other                                                                 | (17 )                                  | 9      | (31 )                                | 10     |
| Total effect of exchange rate changes on cash - continuing operations | 227                                    | 8      | 212                                  | —      |
| Net change in cash, cash equivalents and restricted cash of           |                                        |        |                                      |        |
| continuing operations                                                 | (32 )                                  | 186    | (1,299)                              | 277    |
| Cash flows from discontinued operations:                              |                                        |        |                                      |        |

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q

|                                                                    |         |         |         |         |
|--------------------------------------------------------------------|---------|---------|---------|---------|
| Operating activities                                               | 236     | 151     | 430     | 328     |
| Investing activities                                               | (222 )  | (215 )  | (402 )  | (284 )  |
| Financing activities                                               | 73      | 128     | 112     | 89      |
| Net change in cash, cash equivalents and restricted cash of        |         |         |         |         |
| discontinued operations                                            | 87      | 64      | 140     | 133     |
| Net change in cash, cash equivalents and restricted cash           | 55      | 250     | (1,159) | 410     |
| Cash, cash equivalents and restricted cash at beginning of period  | 1,470   | 2,119   | 2,684   | 1,959   |
| Cash, cash equivalents and restricted cash at end of period        | \$1,525 | \$2,369 | \$1,525 | \$2,369 |
| Reconciliation of cash, cash equivalents and restricted cash:      |         |         |         |         |
| Cash and cash equivalents                                          | \$1,460 | \$2,358 | \$1,460 | \$2,358 |
| Restricted cash included in other current assets                   | 28      | —       | 28      | —       |
| Cash and cash equivalents included in current assets held for sale | 37      | 11      | 37      | 11      |
| Total cash, cash equivalents and restricted cash                   | \$1,525 | \$2,369 | \$1,525 | \$2,369 |

See accompanying notes to consolidated financial statements

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

|                                                                       | June 30,<br>2018<br>(Unaudited) | December<br>31, 2017 |
|-----------------------------------------------------------------------|---------------------------------|----------------------|
| <b>ASSETS</b>                                                         |                                 |                      |
| Current assets:                                                       |                                 |                      |
| Cash and cash equivalents                                             | \$ 1,460                        | \$ 2,642             |
| Accounts receivable                                                   | 1,141                           | 989                  |
| Current assets held for sale                                          | 10,764                          | 760                  |
| Other current assets                                                  | 455                             | 400                  |
| Total current assets                                                  | 13,820                          | 4,791                |
| Oil and gas property and equipment, based on successful efforts       |                                 |                      |
| accounting, net                                                       | 12,957                          | 13,318               |
| Other property and equipment, net                                     | 1,164                           | 1,266                |
| Total property and equipment, net                                     | 14,121                          | 14,584               |
| Goodwill                                                              | 841                             | 841                  |
| Other long-term assets                                                | 377                             | 296                  |
| Long-term assets held for sale                                        | —                               | 9,729                |
| Total assets                                                          | \$ 29,159                       | \$ 30,241            |
| <b>LIABILITIES AND EQUITY</b>                                         |                                 |                      |
| Current liabilities:                                                  |                                 |                      |
| Accounts payable                                                      | \$ 771                          | \$ 633               |
| Revenues and royalties payable                                        | 959                             | 748                  |
| Short-term debt                                                       | 277                             | 115                  |
| Current liabilities held for sale                                     | 5,291                           | 991                  |
| Other current liabilities                                             | 1,079                           | 828                  |
| Total current liabilities                                             | 8,377                           | 3,315                |
| Long-term debt                                                        | 5,790                           | 6,749                |
| Asset retirement obligations                                          | 1,088                           | 1,099                |
| Other long-term liabilities                                           | 624                             | 549                  |
| Long-term liabilities held for sale                                   | —                               | 3,936                |
| Deferred income taxes                                                 | 432                             | 489                  |
| Equity:                                                               |                                 |                      |
| Common stock, \$0.10 par value. Authorized 1.0 billion shares; issued |                                 |                      |
| 515 million and 525 million shares in 2018 and 2017, respectively     | 51                              | 53                   |
| Additional paid-in capital                                            | 6,888                           | 7,333                |
| Retained earnings                                                     | 6                               | 702                  |
| Accumulated other comprehensive earnings                              | 1,091                           | 1,166                |
| Treasury stock, at cost, 0.5 million shares in 2018                   | (22 )                           | —                    |
| Total stockholders' equity attributable to Devon                      | 8,014                           | 9,254                |
| Noncontrolling interests                                              | 4,834                           | 4,850                |
| Total equity                                                          | 12,848                          | 14,104               |

|                              |           |           |
|------------------------------|-----------|-----------|
| Total liabilities and equity | \$ 29,159 | \$ 30,241 |
|------------------------------|-----------|-----------|

See accompanying notes to consolidated financial statements

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EQUITY

|                                       | Common<br>Stock<br>Shares<br>(Unaudited) | Amount | Paid-In<br>Capital | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Accumulated<br>Other<br>Comprehensive<br>Earnings | Treasury<br>Stock | Noncontrolling<br>Interests | Total<br>Equity |
|---------------------------------------|------------------------------------------|--------|--------------------|--------------------------------------------------|---------------------------------------------------|-------------------|-----------------------------|-----------------|
| <b>Six Months Ended June 30, 2018</b> |                                          |        |                    |                                                  |                                                   |                   |                             |                 |
| Balance as of December 31, 2017       | 525                                      | \$ 53  | \$ 7,333           | \$ 702                                           | \$ 1,166                                          | \$ —              | \$ 4,850                    | \$14,104        |
| Net earnings (loss)                   | —                                        | —      | —                  | (622 )                                           | —                                                 | —                 | 134                         | (488 )          |
| Other comprehensive loss, net of tax  | —                                        | —      | —                  | —                                                | (75 )                                             | —                 | —                           | (75 )           |
| Restricted stock grants, net of       |                                          |        |                    |                                                  |                                                   |                   |                             |                 |
| cancellations                         | 3                                        | —      | —                  | —                                                | —                                                 | —                 | —                           | —               |
| Common stock repurchased              | —                                        | (1 )   | —                  | —                                                | —                                                 | (555 )            | —                           | (556 )          |
| Common stock retired                  | (14 )                                    | (1 )   | (532 )             | —                                                | —                                                 | 533               | —                           | —               |
| Common stock dividends                | —                                        | —      | —                  | (74 )                                            | —                                                 | —                 | —                           | (74 )           |
| Share-based compensation              | 1                                        | —      | 89                 | —                                                | —                                                 | —                 | —                           | 89              |
| Subsidiary equity transactions        | —                                        | —      | (2 )               | —                                                | —                                                 | —                 | 69                          | 67              |
| Distributions to noncontrolling       |                                          |        |                    |                                                  |                                                   |                   |                             |                 |
| interests                             | —                                        | —      | —                  | —                                                | —                                                 | —                 | (219 )                      | (219 )          |
| Balance as of June 30, 2018           | 515                                      | \$ 51  | \$ 6,888           | \$ 6                                             | \$ 1,091                                          | \$ (22 )          | \$ 4,834                    | \$12,848        |
| <b>Six Months Ended June 30, 2017</b> |                                          |        |                    |                                                  |                                                   |                   |                             |                 |
| Balance as of December 31, 2016       | 523                                      | \$ 52  | \$ 7,237           | \$ (69 )                                         | \$ 1,054                                          | \$ —              | \$ 4,448                    | \$12,722        |
| Net earnings                          | —                                        | —      | —                  | 522                                              | —                                                 | —                 | 40                          | 562             |
| Other comprehensive earnings, net     |                                          |        |                    |                                                  |                                                   |                   |                             |                 |
| of tax                                | —                                        | —      | —                  | —                                                | 45                                                | —                 | —                           | 45              |
| Restricted stock grants, net of       |                                          |        |                    |                                                  |                                                   |                   |                             |                 |
| cancellations                         | 2                                        | 1      | —                  | —                                                | —                                                 | —                 | —                           | 1               |

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q

|                                           |     |       |          |        |          |       |          |          |
|-------------------------------------------|-----|-------|----------|--------|----------|-------|----------|----------|
| Common stock repurchased                  | —   | —     | —        | —      | —        | (41 ) | —        | (41 )    |
| Common stock retired                      | —   | —     | (41 )    | —      | —        | 41    | —        | —        |
| Common stock dividends                    | —   | —     | —        | (65 )  | —        | —     | —        | (65 )    |
| Share-based compensation                  | 1   | —     | 69       | —      | —        | —     | —        | 69       |
| Subsidiary equity transactions            | —   | —     | 11       | —      | —        | —     | 106      | 117      |
| Distributions to noncontrolling interests | —   | —     | —        | —      | —        | —     | (163 )   | (163 )   |
| Balance as of June 30, 2017               | 526 | \$ 53 | \$ 7,276 | \$ 388 | \$ 1,099 | \$ —  | \$ 4,431 | \$13,247 |

See accompanying notes to consolidated financial statements



Table of Contents

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies

The accompanying unaudited interim financial statements and notes of Devon have been prepared pursuant to the rules and regulations of the SEC. Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted. The accompanying unaudited interim financial statements and notes should be read in conjunction with the financial statements and notes included in Devon's 2017 Annual Report on Form 10-K.

The accompanying unaudited interim financial statements in this report reflect all adjustments that are, in the opinion of management, necessary for a fair statement of Devon's results of operations and cash flows for the three-month and six-month periods ended June 30, 2018 and 2017 and Devon's financial position as of June 30, 2018. As further discussed in Note 3, during the second quarter of 2018, Devon announced the sale of its interests in the General Partner and EnLink, which closed on July 18, 2018. Activity relating to the General Partner and EnLink have now been classified as discontinued operations within Devon's consolidated comprehensive statements of earnings and consolidated statements of cash flows. The associated assets and liabilities of EnLink and the General Partner are presented as assets and liabilities held for sale on the consolidated balance sheets.

Recently Adopted Accounting Standards

In January 2018, Devon adopted ASU 2014-09, Revenue from Contracts with Customers (ASC 606), using the modified retrospective method. See Note 2 for further discussion regarding Devon's adoption of the revenue recognition standard.

In January 2018, Devon adopted ASU 2017-07, Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires entities to present the service cost component of net periodic benefit cost in the same line item as other employee compensation costs. Only the service cost component of net periodic benefit cost is eligible for capitalization. As a result of the adoption of this ASU, consolidated statement of earnings presentation changes were applied retrospectively, while service cost component capitalization was applied prospectively.

In January 2018, Devon adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU requires an entity to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents on the statement of cash flows and to provide a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet when the cash, cash equivalents, restricted cash, and restricted cash equivalents are presented in more than one line item on the balance sheet. As a result of the adoption of this ASU, Devon made changes to the statement of cash flows to include the required presentation and reconciliation of cash,

cash equivalents, restricted cash and restricted cash equivalents retrospectively. Other than presentation, adoption of this ASU did not have a material impact on Devon's consolidated statement of cash flows.

#### Issued Accounting Standards Not Yet Adopted

The FASB issued ASU 2016-02, Leases (Topic 842). This ASU will supersede the lease requirements in Topic 840, Leases. Its objective is to increase transparency and comparability among organizations. This ASU provides guidance requiring lessees to recognize most leases on their balance sheet. Lessor accounting does not significantly change, except for some changes made to align with new revenue recognition requirements. This ASU is effective for Devon beginning January 1, 2019. Early adoption is permitted, but Devon does not plan to early adopt. Currently the guidance would be applied using a modified retrospective transition method, which requires applying the new guidance to leases that exist or are entered into after the beginning of the earliest period in the financial statements. However, the FASB recently issued Proposed ASU No. 2018-200, Leases (Topic 842), Targeted Improvements which would allow entities to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in the consolidated financial statements. The proposed ASU will allow entities to continue to apply the legacy guidance in Topic 840, including its disclosure requirements, in the comparative periods presented in the year the new leases standard is adopted. Entities that elect this option would still adopt the new leases standard using a modified retrospective transition method, but would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The FASB issued ASU No. 2018-01, Leases (Topic 842), Land Easement Practical Expedient for Transition to Topic 842. This ASU would permit an entity not to apply Topic 842 to land easements and rights-of-way that exist or expired before the effective date of Topic 842 and that were not previously assessed under Topic 840. An entity would

Table of Contents

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

continue to apply its current accounting policy for accounting for land easements that existed before the effective date of Topic 842. Once an entity adopts Topic 842, it would apply that Topic prospectively to all new (or modified) land easements and rights-of-way to determine whether the arrangement should be accounted for as a lease. For Devon, these easement and right-of-way contracts represent a relatively small percentage of the aggregate value of contracts being evaluated but represent a significant number of contracts.

Devon has determined its portfolio of leased assets and is reviewing all related contracts to determine the impact the adoption will have on its consolidated financial statements and related disclosures. Devon anticipates the adoption of this standard will significantly impact its consolidated financial statements, systems, processes and controls. Devon is in the process of designing processes and controls and has implemented a technology solution needed to comply with the requirements of this ASU. While Devon cannot currently estimate the quantitative effect that ASU 2016-02 will have on its consolidated financial statements, the adoption will increase asset and liability balances on the consolidated balance sheets due to the required recognition of right-of-use assets and corresponding lease liabilities.

The FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU will expand hedge accounting for nonfinancial and financial risk components and amend measurement methodologies to more closely align hedge accounting with a company's risk management activities. The guidance also eliminates the requirement to separately measure and report hedge ineffectiveness. This ASU only applies to entities that elect hedge accounting, which Devon has not for derivative financial instruments. This ASU is effective for annual and interim periods beginning January 1, 2019, with early adoption permitted in 2018. The ASU is required to be adopted using a cumulative effect (modified retrospective) transition method, which utilizes a cumulative-effect adjustment to retained earnings in the period of adoption to account for prior period effects rather than restating previously reported results. Devon is currently evaluating the provisions of this ASU and assessing the impact it may have on its consolidated financial statements if hedge accounting were elected by Devon in the future.

The FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220). This ASU allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Reform Legislation. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and allows for early adoption in any interim period after issuance of the update. Devon is currently assessing the impact this ASU will have on its consolidated financial statements.

2. Revenue Recognition

Impact of ASC 606 Adoption

In January 2018, Devon adopted ASC 606 – Revenue from Contracts with Customers (ASC 606) using the modified retrospective method and has applied the standard to all existing contracts. ASC 606 supersedes previous revenue recognition requirements in ASC 605 and includes a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration in exchange for those goods or services.

The impact of adoption in the current period results is as follows:

|                                 | Three Months Ended June 30, 2018 |               |                      | Six Months Ended June 30, 2018 |               |                      |
|---------------------------------|----------------------------------|---------------|----------------------|--------------------------------|---------------|----------------------|
|                                 | Under ASC 606                    | Under ASC 605 | Increase/ (Decrease) | Under ASC 606                  | Under ASC 605 | Increase/ (Decrease) |
| Upstream revenues               | \$1,069                          | \$1,004       | \$ 65                | \$2,388                        | \$2,261       | \$ 127               |
| Marketing revenues              | 1,180                            | 1,180         | —                    | 2,059                          | 2,059         | —                    |
| Total impacted revenues         | \$2,249                          | \$2,184       | \$ 65                | \$4,447                        | \$4,320       | \$ 127               |
| Production expenses             | \$572                            | \$507         | \$ 65                | \$1,115                        | \$988         | \$ 127               |
| Marketing expenses              | 1,160                            | 1,160         | —                    | 2,033                          | 2,033         | —                    |
| Total impacted expenses         | \$1,732                          | \$1,667       | \$ 65                | \$3,148                        | \$3,021       | \$ 127               |
| Loss from continuing operations |                                  |               |                      |                                |               |                      |
| before income taxes             | \$(481 )                         | \$(481 )      | \$ —                 | \$(726 )                       | \$(726 )      | \$ —                 |

Table of Contents

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Changes to upstream revenues and production expenses are due to the conclusion that Devon represents the principal and controls a promised product before transferring it to the ultimate third party customer in accordance with the control model in ASC 606. This is a change from previous conclusions reached for these agreements utilizing the principal versus agent indicators under ASC 605 where the assessment was focused on Devon passing title and not control to the processing entity and Devon ultimately receiving a net price from the third-party end customer. As a result, Devon has changed the presentation of revenues and expenses for these agreements. Revenues related to these agreements are now presented on a gross basis for amounts expected to be received from third-party customers through the marketing process. Gathering, processing and transportation expenses related to these agreements, incurred prior to the transfer of control to the customer at the tailgate of the natural gas processing facilities, are now presented as production expenses.

Upstream Revenues

Upstream revenues include the sale of oil, gas and NGL production. Oil, gas and NGL sales are recognized when production is sold to a purchaser at a fixed or determinable price, delivery has occurred, control has transferred and collectability of the revenue is probable. Devon's performance obligations are satisfied at a point in time. This occurs when control is transferred to the purchaser upon delivery of contract specified production volumes at a specified point. The transaction price used to recognize revenue is a function of the contract billing terms. Revenue is invoiced, if required, by calendar month based on volumes at contractually based rates with payment typically received within 30 days of the end of the production month. Taxes assessed by governmental authorities on oil, gas and NGL sales are presented separately from such revenues in the accompanying consolidated comprehensive statements of earnings.

Natural gas and NGL sales

Under Devon's natural gas processing contracts, natural gas is delivered to a midstream processing entity at the wellhead or the inlet of the midstream processing entity's system. The midstream processing entity gathers and processes the natural gas and remits proceeds for the resulting sales of NGLs and residue gas. In these scenarios, Devon evaluates whether it is the principal or the agent in the transaction. Devon has concluded it is the principal under these contracts and the ultimate third party is the customer. Revenue is recognized on a gross basis, with gathering, processing and transportation fees presented as a component of production expenses in the consolidated comprehensive statement of earnings.

In certain natural gas processing agreements, Devon may elect to take residue gas and/or NGLs in-kind at the tailgate of the midstream entity's processing plant and subsequently market the product. Through the marketing process, the product is delivered to the ultimate third-party purchaser at a contractually agreed-upon delivery point, and Devon receives a specified index price from the purchaser. In this scenario, revenue is recognized when control transfers to the purchaser at the delivery point based on the index price received from the purchaser. The gathering, processing and compression fees attributable to the gas processing contract, as well as any transportation fees incurred to deliver the product to the purchaser, are presented as gathering, processing and transportation expense as a component of production expenses in the consolidated comprehensive statement of earnings.

Oil sales

Devon's oil sales contracts are generally structured in one of two ways. First, production is sold at the wellhead at an agreed-upon index price, net of pricing differentials. In this scenario, revenue is recognized when control transfers to the purchaser at the wellhead at the net price received. Alternatively, production is delivered to the purchaser at a contractually agreed-upon delivery point at which the purchaser takes custody, title and risk of loss of the product. Under this arrangement, a third party is paid to transport the product and Devon receives a specified index price from the purchaser with no transportation deduction. In this scenario, revenue is recognized when control transfers to the purchaser at the delivery point based on the price received from the purchaser. The third-party costs are recorded as gathering, processing and transportation expense as a component of production expenses in the consolidated comprehensive statement of earnings.

#### Marketing Revenues

Marketing revenues are generated primarily as a result of Devon selling commodities purchased from third parties. Marketing revenues are recognized when performance obligations are satisfied. This occurs at the time contract specified products are sold to third parties at a contractually fixed or determinable price, delivery occurs at a specified point or performance has occurred, control has transferred and collectability of the revenue is probable. The transaction price used to recognize revenue and invoice customers is based on a contractually stated fee or on a third party published index price plus or minus a known differential. Devon typically

Table of Contents

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

receives payment for invoiced amounts within 30 days. Marketing revenues and expenses attributable to oil, gas and NGL purchases are reported on a gross basis when Devon takes control of the products and has risks and rewards of ownership.

Satisfaction of Performance Obligations and Revenue Recognitions

Since Devon has a right to consideration from its customers in amounts that correspond directly to the value that the customer receives from the performance completed on each contract, Devon applies the practical expedient in ASC 606 that allows recognition of revenue in the amount to which there is a right to invoice and prevents the need to estimate a transaction price for each contract and allocating that transaction price to the performance obligations within each contract. Devon recognizes revenue for sales at the time the natural gas, NGLs or crude oil are delivered at a fixed or determinable price.

Transaction Price Allocated to Remaining Performance Obligations

Most of Devon's contracts are short-term in nature with a contract term of one year or less. Devon applies the practical expedient in ASC 606 exempting the disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less. For contracts with terms greater than one year, Devon applies the practical expedient in ASC 606 exempting the disclosure of the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under Devon's contracts, each unit of product typically represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

Contract Balances

Cash received relating to future performance obligations are deferred and recognized when all revenue recognition criteria are met. Contract liabilities generated from such deferred revenue are not considered material as of June 30, 2018. Devon's product sales and marketing contracts do not give rise to contract assets under ASC 606.

Disaggregation of Revenue

Revenue from oil, gas and NGL sales and marketing revenues represent revenue from contracts with customers. The following table presents revenue from contracts with customers that are disaggregated based on the type of good. The difference between revenue from external customers in Note 22 and the totals listed below represents the net impact from commodity derivatives.

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q

|                                    | Three Months Ended<br>June 30, 2018 |        |         | Six Months Ended June<br>30, 2018 |        |         |
|------------------------------------|-------------------------------------|--------|---------|-----------------------------------|--------|---------|
|                                    | U.S.                                | Canada | Total   | U.S.                              | Canada | Total   |
| Revenues from contracts with       |                                     |        |         |                                   |        |         |
| customers:                         |                                     |        |         |                                   |        |         |
| Oil                                | \$808                               | \$ 313 | \$1,121 | \$1,485                           | \$ 543 | \$2,028 |
| Gas                                | 207                                 | —      | 207     | 462                               | —      | 462     |
| NGL                                | 238                                 | —      | 238     | 436                               | —      | 436     |
| Oil, gas and NGL sales             | 1,253                               | 313    | 1,566   | 2,383                             | 543    | 2,926   |
| Oil                                | 766                                 | 24     | 790     | 1,297                             | 41     | 1,338   |
| Gas                                | 160                                 | —      | 160     | 315                               | —      | 315     |
| NGL                                | 230                                 | —      | 230     | 406                               | —      | 406     |
| Total marketing revenues           | 1,156                               | 24     | 1,180   | 2,018                             | 41     | 2,059   |
| Total revenues from contracts with |                                     |        |         |                                   |        |         |
| customers                          | \$2,409                             | \$ 337 | \$2,746 | \$4,401                           | \$ 584 | \$4,985 |



Table of Contents

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

3. Divestitures

During the second quarter of 2018, Devon sold a portion of its Barnett Shale assets, primarily located in Johnson County for \$553 million (\$481 million after customary purchase price adjustments). Estimated proved reserves associated with these assets are approximately 10% of total proved reserves. The transaction resulted in an adjustment to Devon's capitalized costs with no gain recognized in the consolidated statement of earnings. In conjunction with the divestiture, Devon settled certain gas processing contracts and recognized an approximately \$40 million settlement expense, which is included in asset dispositions within the consolidated statement of earnings.

In June 2018, Devon announced the sale of its aggregate ownership interests in EnLink and the General Partner for approximately \$3.1 billion. The proceeds from the sale will be utilized to increase Devon's share repurchase program to \$4.0 billion, which is discussed further in Note 18. Devon completed the sale of its interests in EnLink and the General Partner in July 2018 and expects to recognize a gain of approximately \$2.5 billion in the third quarter. Additional information on these discontinued operations can be found in Note 19.

4. Derivative Financial Instruments  
Objectives and Strategies

Devon enters into derivative financial instruments with respect to a portion of its oil, gas and NGL production to hedge future prices received. Additionally, Devon periodically enters into derivative financial instruments with respect to a portion of its oil, gas and NGL marketing activities. These commodity derivative financial instruments include financial price swaps, basis swaps and costless price collars. Devon periodically enters into interest rate swaps to manage its exposure to interest rate volatility and foreign exchange forward contracts to manage its exposure to fluctuations in the U.S. and Canadian dollar exchange rates. As of June 30, 2018, Devon did not have any open foreign exchange contracts.

Devon does not intend to hold or issue derivative financial instruments for speculative trading purposes and has elected not to designate any of its derivative instruments for hedge accounting treatment.

Counterparty Credit Risk

By using derivative financial instruments, Devon is exposed to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. To mitigate this risk, the hedging instruments are placed with a number of counterparties whom Devon believes are acceptable credit risks. It is Devon's policy to enter into derivative contracts only with investment-grade rated counterparties deemed by management to be competent and competitive market makers. Additionally, Devon's derivative contracts generally contain provisions that provide for collateral payments if Devon's or its counterparty's credit rating falls below certain credit rating levels.

Commodity Derivatives

As of June 30, 2018, Devon had the following open oil derivative positions. The first table presents Devon's oil derivatives that settle against the average of the prompt month NYMEX WTI futures price. The second table presents

Devon's oil derivatives that settle against the respective indices noted within the table.

| Period     | Price Swaps |                | Price Collars |                | Weighted      |
|------------|-------------|----------------|---------------|----------------|---------------|
|            | Weighted    |                | Weighted      |                | Average       |
|            | Volume      | Average        | Volume        | Average Floor  | Ceiling Price |
|            | (Bbls/d)    | Price (\$/Bbl) | (Bbls/d)      | Price (\$/Bbl) | (\$/Bbl)      |
| Q3-Q4 2018 | 89,300      | \$ 57.96       | 100,200       | \$ 52.23       | \$ 62.83      |
| Q1-Q4 2019 | 50,130      | \$ 58.95       | 65,790        | \$ 52.60       | \$ 62.60      |

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

| Oil Basis Swaps  |                         |                    |                                 | Oil Basis Collars  |                                 |                                 |
|------------------|-------------------------|--------------------|---------------------------------|--------------------|---------------------------------|---------------------------------|
| Weighted Average |                         |                    |                                 | Weighted           | Weighted                        |                                 |
|                  |                         |                    |                                 | Average Floor      | Average Ceiling                 |                                 |
| Period           | Index                   | Volume<br>(Bbls/d) | Differential to WTI<br>(\$/Bbl) | Volume<br>(Bbls/d) | Differential to WTI<br>(\$/Bbl) | Differential to WTI<br>(\$/Bbl) |
| Q3-Q4 2018       | Midland Sweet           | 23,000             | \$ (1.02 )                      | —                  | \$ —                            | \$ —                            |
| Q3-Q4 2018       | Argus LLS               | 12,000             | \$ 3.95                         | —                  | \$ —                            | \$ —                            |
| Q3-Q4 2018       | Argus MEH               | 15,832             | \$ 2.82                         | —                  | \$ —                            | \$ —                            |
| Q3-Q4 2018       | NYMEX Roll              | 19,989             | \$ 0.60                         | —                  | \$ —                            | \$ —                            |
| Q3-Q4 2018       | Western Canadian Select | 64,859             | \$ (14.91 )                     | 1,663              | \$ (15.50 )                     | \$ (13.93 )                     |
| Q1-Q4 2019       | Midland Sweet           | 28,000             | \$ (0.46 )                      | —                  | \$ —                            | \$ —                            |
| Q1-Q4 2019       | Argus LLS               | 1,000              | \$ 4.60                         | —                  | \$ —                            | \$ —                            |
| Q1-Q4 2019       | Argus MEH               | 16,000             | \$ 2.84                         | —                  | \$ —                            | \$ —                            |
| Q1-Q4 2019       | NYMEX Roll              | 22,000             | \$ 0.53                         | —                  | \$ —                            | \$ —                            |
| Q1-Q4 2020       | NYMEX Roll              | 22,000             | \$ 0.32                         | —                  | \$ —                            | \$ —                            |

As of June 30, 2018, Devon had the following open natural gas derivative positions. The first table presents Devon's natural gas derivatives that settle against the Inside FERC first of the month Henry Hub index. The second table presents Devon's natural gas derivatives that settle against the respective indices noted within the table.

| Price Swaps |                     |                             | Price Collars       |                     |                             |
|-------------|---------------------|-----------------------------|---------------------|---------------------|-----------------------------|
| Weighted    |                     |                             | Weighted            |                     |                             |
|             |                     |                             | Average Floor       |                     |                             |
| Period      | Volume<br>(MMBtu/d) | Average Price<br>(\$/MMBtu) | Volume<br>(MMBtu/d) | Price<br>(\$/MMBtu) | Ceiling Price<br>(\$/MMBtu) |
| Q3-Q4 2018  | 273,750             | \$ 2.91                     | 242,250             | \$ 2.76             | \$ 3.09                     |
| Q1-Q4 2019  | 181,122             | \$ 2.81                     | 146,810             | \$ 2.65             | \$ 3.04                     |

| Natural Gas Basis Swaps |       |           |                  |
|-------------------------|-------|-----------|------------------|
| Period                  | Index | Volume    | Weighted Average |
|                         |       | (MMBtu/d) | Differential to  |
|                         |       | Henry Hub |                  |

|            |                             |         | (\$/MMBtu) |   |
|------------|-----------------------------|---------|------------|---|
| Q3-Q4 2018 | Panhandle Eastern Pipe Line | 120,000 | \$ (0.51   | ) |
| Q3-Q4 2018 | El Paso Natural Gas         | 100,000 | \$ (1.25   | ) |
| Q3-Q4 2018 | Houston Ship Channel        | 115,000 | \$ 0.01    |   |
| Q3-Q4 2018 | Transco Zone 4              | 15,000  | \$ (0.03   | ) |
| Q1-Q4 2019 | Panhandle Eastern Pipe Line | 54,548  | \$ (0.78   | ) |
| Q1-Q4 2019 | El Paso Natural Gas         | 110,000 | \$ (1.50   | ) |
| Q1-Q4 2019 | Houston Ship Channel        | 92,500  | \$ (0.01   | ) |
| Q1-Q4 2019 | Transco Zone 4              | 7,397   | \$ (0.03   | ) |

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

As of June 30, 2018, Devon had the following open NGL derivative positions. Devon's NGL positions settle against the average of the prompt month OPIS Mont Belvieu, Texas index.

| Period     | Product          | Volume<br>(Bbls/d) | Price Swaps                              |
|------------|------------------|--------------------|------------------------------------------|
|            |                  |                    | Weighted<br>Average<br>Price<br>(\$/Bbl) |
| Q3-Q4 2018 | Ethane           | 6,000              | \$ 11.73                                 |
| Q3-Q4 2018 | Natural Gasoline | 6,500              | \$ 56.13                                 |
| Q3-Q4 2018 | Normal Butane    | 7,000              | \$ 38.69                                 |
| Q3-Q4 2018 | Propane          | 12,000             | \$ 33.72                                 |
| Q1-Q4 2019 | Ethane           | 1,000              | \$ 11.55                                 |
| Q1-Q4 2019 | Natural Gasoline | 4,500              | \$ 55.93                                 |
| Q1-Q4 2019 | Normal Butane    | 4,000              | \$ 33.69                                 |
| Q1-Q4 2019 | Propane          | 8,500              | \$ 30.01                                 |

## Interest Rate Derivatives

As of June 30, 2018, Devon had the following open interest rate derivative position:

| Notional | Rate Received | Rate Paid         | Expiration   |
|----------|---------------|-------------------|--------------|
| \$ 100   | 1.76%         | Three Month LIBOR | January 2019 |

## Financial Statement Presentation

The following table presents the net gains and losses by derivative financial instrument type followed by the corresponding individual consolidated comprehensive statements of earnings caption.

|                        | Three<br>Months           |        | Six Months                |        |
|------------------------|---------------------------|--------|---------------------------|--------|
|                        | Ended June<br>30,<br>2018 | 2017   | Ended June<br>30,<br>2018 | 2017   |
| Commodity derivatives: |                           |        |                           |        |
| Upstream revenues      | \$(497)                   | \$ 126 | \$(538)                   | \$ 358 |

|                               |         |       |         |       |
|-------------------------------|---------|-------|---------|-------|
| Marketing revenues            | (1 )    | 2     | (1 )    | 3     |
| Interest rate derivatives:    |         |       |         |       |
| Other expenses                | 19      | (20 ) | 65      | (15 ) |
| Net gains (losses) recognized | \$(479) | \$108 | \$(474) | \$346 |

The following table presents the derivative fair values by derivative financial instrument type followed by the corresponding individual consolidated balance sheet caption.

|                                       | June<br>30,<br>2018 | December<br>31, 2017 |
|---------------------------------------|---------------------|----------------------|
| Commodity derivative assets:          |                     |                      |
| Other current assets                  | \$ 213              | \$ 203               |
| Other long-term assets                | 27                  | 2                    |
| Interest rate derivative assets:      |                     |                      |
| Other current assets                  | 1                   | 1                    |
| Total derivative assets               | \$ 241              | \$ 206               |
| Commodity derivative liabilities:     |                     |                      |
| Other current liabilities             | \$ 647              | \$ 259               |
| Other long-term liabilities           | 93                  | 27                   |
| Interest rate derivative liabilities: |                     |                      |
| Other current liabilities             | 1                   | 64                   |
| Total derivative liabilities          | \$ 741              | \$ 350               |

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

## 5. Share-Based Compensation

The table below presents the share-based compensation expense included in Devon's accompanying consolidated comprehensive statements of earnings. The vesting for certain share-based awards was accelerated in the second quarter of 2018 in conjunction with the reduction of workforce described in Note 7 and is included in restructuring and transaction costs in the accompanying consolidated comprehensive statement of earnings.

|                                     | Six<br>Months<br>Ended<br>June 30,<br>2018 2017 |      |
|-------------------------------------|-------------------------------------------------|------|
| G&A                                 | \$68                                            | \$75 |
| Exploration expenses                | 2                                               | 4    |
| Restructuring and transaction costs | 26                                              | —    |
| Total                               | \$96                                            | \$79 |
| Related income tax benefit          | \$3                                             | \$3  |

Under its approved long-term incentive plan, Devon granted share-based awards to certain employees in the first six months of 2018. The following table presents a summary of Devon's unvested restricted stock awards and units, performance-based restricted stock awards and performance share units granted under the plan.

|                                     | Restricted Stock<br>Awards and Units<br>Weighted<br>Average<br>Grant-Date |            | Performance-Based<br>Restricted Stock Awards<br>Weighted<br>Average<br>Grant-Date |            | Performance<br>Share Units<br>Weighted<br>Average<br>Grant-Date |            |
|-------------------------------------|---------------------------------------------------------------------------|------------|-----------------------------------------------------------------------------------|------------|-----------------------------------------------------------------|------------|
|                                     | Units                                                                     | Fair Value | Awards                                                                            | Fair Value | Units                                                           | Fair Value |
| (Thousands, except fair value data) |                                                                           |            |                                                                                   |            |                                                                 |            |
| Unvested at 12/31/17                | 6,328                                                                     | \$ 36.81   | 575                                                                               | \$ 38.92   | 2,758                                                           | \$ 41.21   |
| Granted                             | 3,501                                                                     | \$ 35.89   | —                                                                                 | \$ —       | 845                                                             | \$ 37.40   |
| Vested                              | (2,843)                                                                   | \$ 38.83   | (231 )                                                                            | \$ 43.05   | (571 )                                                          | \$ 84.22   |
| Forfeited                           | (551 )                                                                    | \$ 35.54   | —                                                                                 | \$ —       | (91 )                                                           | \$ 33.37   |
| Unvested at 6/30/18                 | 6,435                                                                     | \$ 35.52   | 344                                                                               | \$ 36.14   | 2,941 <sup>(1)</sup>                                            | \$ 30.25   |

(1) A maximum of 5.9 million common shares could be awarded based upon Devon's final TSR ranking relative to Devon's peer group established under applicable award agreements.

The following table presents the assumptions related to the performance share units granted in 2018, as indicated in the previous summary table.

|                          | 2018             |
|--------------------------|------------------|
| Grant-date fair value    | \$36.23 –\$37.88 |
| Risk-free interest rate  | 2.28%            |
| Volatility factor        | 45.8%            |
| Contractual term (years) | 2.89             |

The following table presents a summary of the unrecognized compensation cost and the related weighted average recognition period associated with unvested awards and units as of June 30, 2018.

|                                                 | Restricted Stock<br>Awards and Units | Performance-Based<br>Restricted Stock<br>Awards | Performance<br>Share Units |
|-------------------------------------------------|--------------------------------------|-------------------------------------------------|----------------------------|
| Unrecognized compensation cost                  | \$ 161                               | \$ 2                                            | \$ 39                      |
| Weighted average period for recognition (years) | 2.7                                  | 1.4                                             | 2.0                        |



Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

## 6. Asset Impairments

## Unproved Impairments

During the first six months of 2018 and 2017, Devon impaired certain non-core acreage in the U.S. that it no longer intends to pursue for exploration opportunities, resulting in unproved impairments of \$61 million and \$62 million, respectively. Unproved impairments are included in exploration expenses in the consolidated comprehensive statements of earnings.

## Asset Impairments

During the second quarter of 2018, Devon recognized \$109 million of proved asset impairments relating to U.S. non-core assets no longer in its development plans and approximately \$45 million of non-oil and gas asset impairments.

## 7. Restructuring and Transaction Costs and Other Expenses

## Restructuring and transaction costs

In April 2018, Devon announced workforce reductions and other initiatives designed to enhance its operational focus and cost structure. As a result, Devon recognized \$94 million in personnel related restructuring expenses during the second quarter of 2018. Of these expenses, \$26 million resulted from accelerated vesting of share-based grants, which are noncash charges. Additionally, \$15 million resulted from estimated settlements of defined retirement benefits.

The following table summarizes Devon's restructuring liabilities.

|                                                | Other<br>Current<br>Liabilities | Other<br>Long-term<br>Liabilities | Total |
|------------------------------------------------|---------------------------------|-----------------------------------|-------|
| Balance as of December 31, 2017                | \$ 19                           | \$ 31                             | \$50  |
| Changes related to 2018 workforce reductions   | 48                              | —                                 | 48    |
| Changes related to prior years' restructurings | (1 )                            | (8 )                              | (9 )  |
| Balance as of June 30, 2018                    | \$ 66                           | \$ 23                             | \$89  |
| Balance as of December 31, 2016                | \$ 48                           | \$ 62                             | \$110 |
| Changes related to prior years' restructurings | (17 )                           | (12 )                             | (29 ) |
| Balance as of June 30, 2017                    | \$ 31                           | \$ 50                             | \$81  |

## Other Expenses

The following table summarizes Devon's other expenses presented in the accompanying consolidated comprehensive statement of earnings.

|                                       | Three<br>Months<br>Ended June<br>30, |        | Six Months<br>Ended June<br>30, |        |
|---------------------------------------|--------------------------------------|--------|---------------------------------|--------|
|                                       | 2018                                 | 2017   | 2018                            | 2017   |
| Foreign exchange (gain) loss, net     | \$31                                 | \$(49) | \$81                            | \$(64) |
| Asset retirement obligation accretion | 14                                   | 14     | 30                              | 31     |
| Other, net                            | (21)                                 | 27     | (66)                            | 11     |
| Total                                 | \$24                                 | \$(8 ) | \$45                            | \$(22) |

Foreign exchange (gain) loss, net

The U.S. dollar is the functional currency for Devon's consolidated operations except its Canadian subsidiaries, which use the Canadian dollar as the functional currency. The amounts in the table above includes both unrealized and realized foreign exchange impacts of foreign currency denominated monetary assets and liabilities, including intercompany loans between subsidiaries with different functional currencies. Unrealized gains and losses arise from the remeasurement of these foreign currency denominated

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

monetary assets and liabilities and intercompany loans. Realized gains and losses arise when there are settlements of these foreign currency denominated monetary assets and liabilities and intercompany loans.

Foreign currency denominated intercompany loan activity in the second quarter of 2018 resulted in a realized loss of \$244 million as a result of the strengthening of the U.S. dollar in relation to the Canadian dollar. This loss was offset by reversing \$254 million of previously recognized unrealized losses on intercompany loan activity.

## 8. Income Taxes

The following table presents Devon's total income tax expense (benefit) and a reconciliation of its effective income tax rate to the U.S. statutory income tax rate.

|                                        | Three Months<br>Ended June<br>30,<br>2018 |        | Six Months<br>Ended June<br>30,<br>2017 |        |
|----------------------------------------|-------------------------------------------|--------|-----------------------------------------|--------|
|                                        | 2018                                      | 2017   | 2018                                    | 2017   |
| Current income tax expense (benefit)   | \$(27)                                    | \$12   | \$(23)                                  | \$32   |
| Deferred income tax expense (benefit)  | 20                                        | (17)   | (18)                                    | (32)   |
| Total income tax benefit               | \$(7 )                                    | \$(5 ) | \$(41)                                  | \$—    |
| U.S. statutory income tax rate         | 21 %                                      | 35 %   | 21 %                                    | 35 %   |
| State income taxes                     | (1 %)                                     | 0 %    | (0 %)                                   | 2 %    |
| Audit settlements                      | 3 %                                       | 0 %    | 2 %                                     | 0 %    |
| Other                                  | (11 %)                                    | (7 %)  | (9 %)                                   | (3 %)  |
| Deferred tax asset valuation allowance | (11 %)                                    | (30 %) | (8 %)                                   | (34 %) |
| Effective income tax rate              | 1 %                                       | (2 %)  | 6 %                                     | 0 %    |

Devon estimates its annual effective income tax rate in recording its quarterly provision for income taxes in the various jurisdictions in which it operates. Statutory tax rate changes and other significant or unusual items are recognized as discrete items in the quarter in which they occur. Under the Tax Reform Legislation, the U.S. corporate income tax rate was reduced to 21% effective January 1, 2018.

In the table above, the "other" effect is primarily composed of permanent differences for which dollar amounts do not increase or decrease in relation to the change in pre-tax earnings. Generally, such items have an insignificant impact on Devon's effective income tax rate. However, these items have a more noticeable impact to the rate in the first six months of 2018 due to lower relative earnings during the period.

Devon is under audit in the U.S. and various foreign jurisdictions as part of its normal course of business. In the second quarter of 2018, Devon realized \$14 million of income tax benefits in conjunction with favorable tax settlements as a result of these audits. Devon believes that within the next 12 months it is reasonably possible that certain tax examinations will be resolved by settlement with the taxing authorities.

During the first quarter of 2018, Devon repatriated approximately \$92 million from certain international entities. This repatriation had no tax impact.

Throughout 2017 and through the first six months of 2018, Devon continued to maintain a 100% valuation allowance against its U.S. deferred tax assets resulting from prior year cumulative financial losses largely due to oil and gas impairments and significant net operating losses for U.S. federal and state income tax. Devon provided an additional \$129 million to its U.S. segment valuation allowance in the first six months of 2018 based on the financial losses recorded during the period. Upon closing of the EnLink divestiture in the third quarter of 2018, Devon expects to record a gain of approximately \$2.5 billion. This gain is expected to significantly reduce Devon's U.S. deferred tax valuation allowance and Devon will further evaluate its position in the third quarter of 2018. Furthermore, a partial allowance continues to be held against certain Canadian segment deferred tax assets. During the second quarter of 2018, the Canadian segment reduced its valuation allowance by approximately \$74 million.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allows Devon to record provisional amounts during a measurement period not to extend beyond one year after the enactment date. As the Tax Reform Legislation was passed late in the fourth quarter of 2017 and ongoing guidance

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

and interpretations are expected over the next 12 months, Devon considers the accounting of the transition tax, deferred tax remeasurements and other items to be incomplete due to the forthcoming guidance and ongoing analysis of Devon's tax positions. This analysis will be materially complete upon the filing of the 2017 U.S. tax return in the fourth quarter of 2018. Devon expects to complete its analysis within the measurement period in accordance with SAB 118. No material changes to the provisional amounts recorded in the fourth quarter of 2017 have been made during the first six months of 2018.

## 9. Net Earnings (Loss) Per Share from Continuing Operations

The following table reconciles net earnings (loss) from continuing operations and weighted-average common shares outstanding used in the calculations of basic and diluted net earnings (loss) per share from continuing operations.

|                                                              | Three Months<br>Ended June<br>30,<br>2018 |        | Six Months<br>Ended June<br>30,<br>2017 |        |
|--------------------------------------------------------------|-------------------------------------------|--------|-----------------------------------------|--------|
| Net earnings (loss) from continuing operations:              |                                           |        |                                         |        |
| Net earnings (loss) from continuing operations               | \$(474 )                                  | \$212  | \$(685 )                                | \$520  |
| Attributable to participating securities                     | (1 )                                      | (3 )   | (1 )                                    | (6 )   |
| Basic and diluted earnings (loss) from continuing operations | \$(475 )                                  | \$209  | \$(686 )                                | \$514  |
| Common shares:                                               |                                           |        |                                         |        |
| Common shares outstanding - total                            | 521                                       | 526    | 524                                     | 525    |
| Attributable to participating securities                     | (6 )                                      | (6 )   | (6 )                                    | (6 )   |
| Common shares outstanding - basic                            | 515                                       | 520    | 518                                     | 519    |
| Dilutive effect of potential common shares issuable          | —                                         | 3      | —                                       | 3      |
| Common shares outstanding - diluted                          | 515                                       | 523    | 518                                     | 522    |
| Net earnings (loss) per share from continuing operations:    |                                           |        |                                         |        |
| Basic                                                        | \$(0.92)                                  | \$0.40 | \$(1.33)                                | \$0.99 |
| Diluted                                                      | \$(0.92)                                  | \$0.40 | \$(1.33)                                | \$0.99 |
| Antidilutive options <sup>(1)</sup>                          | 2                                         | 2      | 2                                       | 2      |

(1) Amounts represent options to purchase shares of Devon's common stock that are excluded from the diluted net earnings per share calculations because the options are antidilutive.

## 10. Other Comprehensive Earnings

Components of other comprehensive earnings consist of the following:

|                                                                                     | Three Months<br>Ended June 30, |         | Six Months<br>Ended June 30, |         |
|-------------------------------------------------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                                                                     | 2018                           | 2017    | 2018                         | 2017    |
| Foreign currency translation:                                                       |                                |         |                              |         |
| Beginning accumulated foreign currency translation                                  | \$1,261                        | \$1,234 | \$1,309                      | \$1,226 |
| Change in cumulative translation adjustment                                         | (36 )                          | 39      | (96 )                        | 50      |
| Income tax benefit (expense)                                                        | 2                              | (11 )   | 14                           | (14 )   |
| Ending accumulated foreign currency translation                                     | 1,227                          | 1,262   | 1,227                        | 1,262   |
| Pension and postretirement benefit plans:                                           |                                |         |                              |         |
| Beginning accumulated pension and postretirement benefits                           | (139 )                         | (167 )  | (143 )                       | (172 )  |
| Recognition of net actuarial loss and prior service cost in earnings <sup>(1)</sup> | 3                              | 4       | 7                            | 9       |
| Ending accumulated pension and postretirement benefits                              | (136 )                         | (163 )  | (136 )                       | (163 )  |
| Accumulated other comprehensive earnings, net of tax                                | \$1,091                        | \$1,099 | \$1,091                      | \$1,099 |

(1) These accumulated other comprehensive earnings components are included in the computation of net periodic benefit cost, which is a component of other expenses in the accompanying consolidated comprehensive statements of earnings. See Note 17 for additional details.

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

## 11. Supplemental Information to Statements of Cash Flows

|                                                  | Three<br>Months<br>Ended June<br>30, |        | Six Months<br>Ended June<br>30, |        |
|--------------------------------------------------|--------------------------------------|--------|---------------------------------|--------|
|                                                  | 2018                                 | 2017   | 2018                            | 2017   |
| Changes in assets and liabilities, net           |                                      |        |                                 |        |
| Accounts receivable                              | \$(188)                              | \$46   | \$(151)                         | \$74   |
| Other current assets                             | (7 )                                 | 11     | (95 )                           | (13 )  |
| Other long-term assets                           | (28 )                                | 9      | (81 )                           | 10     |
| Accounts payable                                 | 78                                   | 51     | 82                              | 68     |
| Revenues and royalties payable                   | 146                                  | (45 )  | 212                             | 51     |
| Other current liabilities                        | (127)                                | 34     | (63 )                           | (52 )  |
| Other long-term liabilities                      | (7 )                                 | (4 )   | (12 )                           | (5 )   |
| Total                                            | \$(133)                              | \$102  | \$(108)                         | \$133  |
| Supplementary cash flow data - total operations: |                                      |        |                                 |        |
| Interest paid (net of capitalized interest)      | \$138                                | \$144  | \$214                           | \$236  |
| Income taxes received                            | \$(7 )                               | \$(4 ) | \$(6 )                          | \$(1 ) |

## 12. Accounts Receivable

Components of accounts receivable include the following:

|                                 | June 30, 2018 | December<br>31, 2017 |
|---------------------------------|---------------|----------------------|
| Oil, gas and NGL sales          | \$ 597        | \$ 559               |
| Joint interest billings         | 165           | 134                  |
| Marketing revenues              | 357           | 278                  |
| Other                           | 32            | 29                   |
| Gross accounts receivable       | 1,151         | 1,000                |
| Allowance for doubtful accounts | (10 )         | (11 )                |
| Net accounts receivable         | \$ 1,141      | \$ 989               |

## 13. Property, Plant and Equipment

The following table presents the aggregate capitalized costs related to Devon's oil and gas and non-oil and gas activities.

|                                           | June<br>30, 2018 | December 31, 2017 |
|-------------------------------------------|------------------|-------------------|
| Property and equipment, at cost:          |                  |                   |
| Proved                                    | \$47,350         | \$ 47,295         |
| Unproved and properties under development | 2,425            | 2,457             |
| Total oil and gas                         | 49,775           | 49,752            |
| Less accumulated DD&A                     | (36,818 )        | (36,434 )         |
| Oil and gas property and equipment, net   | 12,957           | 13,318            |
| Other property and equipment              | 1,883            | 1,955             |
| Less accumulated DD&A                     | (719 )           | (689 )            |
| Other property and equipment, net         | 1,164            | 1,266             |
| Property and equipment, net               | \$14,121         | \$ 14,584         |



Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

## 14. Other Current Liabilities

Components of other current liabilities include the following:

|                           | June<br>30, 2018 | December 31, 2017 |
|---------------------------|------------------|-------------------|
| Derivative liabilities    | \$ 648           | \$ 323            |
| Income taxes payable      | 45               | 144               |
| Accrued interest payable  | 81               | 96                |
| Restructuring liabilities | 66               | 19                |
| Other                     | 239              | 246               |
| Other current liabilities | \$ 1,079         | \$ 828            |

## 15. Debt and Related Expenses

A summary of debt is as follows:

|                                                          | June 30,<br>2018 | December 31, 2017 |
|----------------------------------------------------------|------------------|-------------------|
| 8.25% due July 1, 2018                                   | \$ 20            | \$ 20             |
| 2.25% due December 15, 2018                              | 95               | 95                |
| 6.30% due January 15, 2019                               | 162              | 162               |
| 4.00% due July 15, 2021                                  | 500              | 500               |
| 3.25% due May 15, 2022                                   | 1,000            | 1,000             |
| 5.85% due December 15, 2025                              | 485              | 485               |
| 7.50% due September 15, 2027                             | 73               | 73                |
| 7.875% due September 30, 2031 <sup>(1)</sup>             | 675              | 1,059             |
| 7.95% due April 15, 2032 <sup>(1)</sup>                  | 366              | 789               |
| 5.60% due July 15, 2041                                  | 1,250            | 1,250             |
| 4.75% due May 15, 2042                                   | 750              | 750               |
| 5.00% due June 15, 2045                                  | 750              | 750               |
| Net discount on debentures and notes                     | (25 )            | (30 )             |
| Debt issuance costs                                      | (34 )            | (39 )             |
| Total debt                                               | 6,067            | 6,864             |
| Less amount classified as short-term debt <sup>(2)</sup> | 277              | 115               |
| Total long-term debt                                     | \$ 5,790         | \$ 6,749          |

(1) These senior notes were included in the 2018 tender offer repurchases discussed below.

(2) Short-term debt as of June 30, 2018 consists of Devon's \$20 million of 8.25% senior notes due July 1, 2018, \$95 million of 2.25% senior notes due December 15, 2018 and \$162 million of 6.30% senior notes due January 15, 2019.

## Credit Lines

Devon has a \$3.0 billion Senior Credit Facility. As of June 30, 2018, Devon had \$51 million in outstanding letters of credit under the Senior Credit Facility. There were no outstanding borrowings under the Senior Credit Facility at June 30, 2018. The Senior Credit Facility contains only one material financial covenant. This covenant requires Devon's ratio of total funded debt to total capitalization, as defined in the credit agreement, to be no greater than 65%. Under the terms of the credit agreement, total capitalization is adjusted to add back noncash financial write-downs such as impairments. As of June 30, 2018, Devon was in compliance with this covenant with a debt-to-capitalization ratio of 26.1%.

## Retirement of Senior Notes

In the first quarter of 2018, Devon completed tender offers to repurchase \$807 million in aggregate principal amount of debt securities, using cash on hand. This included \$384 million of the 7.875% senior notes due September 30, 2031 and \$423 million of the 7.95% senior notes due April 15, 2032. Devon recognized a \$312 million loss on early retirement of debt, consisting of \$304 million in cash retirement costs and \$8 million of noncash charges. These costs, along with other charges associated with retiring the debt, are included in net financing costs in the consolidated comprehensive statements of earnings.

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

In July 2018, Devon repaid the \$20 million of 8.25% Senior Notes at maturity.

## Net Financing Costs

The following schedule includes the components of net financing costs.

|                                    | Three<br>Months<br>Ended June<br>30,<br>2018 |      | Six Months<br>Ended June<br>30,<br>2017 |       |
|------------------------------------|----------------------------------------------|------|-----------------------------------------|-------|
|                                    | 2018                                         | 2017 | 2018                                    | 2017  |
| Interest based on debt outstanding | \$81                                         | \$98 | \$177                                   | \$195 |
| Early retirement of debt           | —                                            | —    | 312                                     | —     |
| Capitalized interest               | (17)                                         | (16) | (35 )                                   | (32 ) |
| Other                              | (2 )                                         | (5 ) | (5 )                                    | (3 )  |
| Total net financing costs          | \$62                                         | \$77 | \$449                                   | \$160 |

## 16. Asset Retirement Obligations

The following table presents the changes in Devon's asset retirement obligations.

|                                                        | Six Months<br>Ended June 30,<br>2018 |         | 2017 |
|--------------------------------------------------------|--------------------------------------|---------|------|
| Asset retirement obligations as of beginning of period | \$1,138                              | \$1,258 |      |
| Liabilities incurred and assumed through acquisitions  | 22                                   | 15      |      |
| Liabilities settled and divested                       | (64 )                                | (26 )   |      |
| Revision of estimated obligation                       | 23                                   | (184 )  |      |
| Accretion expense on discounted obligation             | 30                                   | 31      |      |
| Foreign currency translation adjustment                | (22 )                                | 14      |      |
| Asset retirement obligations as of end of period       | 1,127                                | 1,108   |      |
| Less current portion                                   | 39                                   | 44      |      |
| Asset retirement obligations, long-term                | \$1,088                              | \$1,064 |      |

During the second quarter of 2018, Devon reduced its asset retirement obligation by \$34 million for those obligations that were assumed by purchasers of certain Barnett Shale assets. For additional information, see [Note 3](#).

During the first quarter of 2017, Devon reduced its estimated asset retirement obligations by \$184 million, primarily due to changes in the assumed inflation rate and retirement dates for its oil and gas assets.

#### 17. Retirement Plans

The following table presents the components of net periodic benefit cost for Devon's pension and postretirement benefit plans.

|                                                   | Pension Benefits   |               |                  |               | Postretirement Benefits |               |                  |               |
|---------------------------------------------------|--------------------|---------------|------------------|---------------|-------------------------|---------------|------------------|---------------|
|                                                   | Three Months Ended |               | Six Months Ended |               | Three Months Ended      |               | Six Months Ended |               |
|                                                   | June 30, 2018      | June 30, 2017 | June 30, 2018    | June 30, 2017 | June 30, 2018           | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| Service cost                                      | \$3                | \$4           | \$6              | \$8           | \$—                     | \$—           | \$—              | \$—           |
| Interest cost                                     | 10                 | 11            | 20               | 21            | —                       | —             | —                | —             |
| Expected return on plan assets                    | (14)               | (14)          | (28)             | (27)          | —                       | —             | —                | —             |
| Amortization of prior service cost <sup>(1)</sup> | 1                  | —             | 1                | 1             | (1)                     | (1)           | (1)              | (1)           |
| Net actuarial loss <sup>(1)</sup>                 | 3                  | 5             | 7                | 9             | —                       | —             | —                | —             |
| Net periodic benefit cost <sup>(2)</sup>          | \$3                | \$6           | \$6              | \$12          | \$(1)                   | \$(1)         | \$(1)            | \$(1)         |

(1) These net periodic benefit costs were reclassified out of other comprehensive earnings.

(2) The service cost component of net periodic benefit cost is included in G&A expense and the remaining components of net periodic benefit costs are included in other expenses in the accompanying consolidated comprehensive statements of earnings.

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

18. Stockholders' Equity  
Share Repurchase Program

In March 2018, Devon announced a share repurchase program to buy up to \$1 billion of shares of common stock. In June 2018, in conjunction with the divestiture of its investment in EnLink and the General Partner, Devon announced the expansion of the share repurchase by an additional \$3 billion, bringing the total repurchase program to \$4 billion. The share repurchase program expires December 31, 2019. During the first six months of 2018, Devon repurchased 13.7 million shares of common stock for \$521 million, or \$38.01 per share, under this program.

## Dividends

The table below summarizes the dividends Devon paid on its common stock.

|                     | Amounts | Rate<br>Per<br>Share |
|---------------------|---------|----------------------|
| Quarter Ended 2018: |         |                      |
| First quarter 2018  | \$ 32   | \$0.06               |
| Second quarter 2018 | 42      | \$0.08               |
| Total year-to-date  | \$ 74   |                      |
| Quarter Ended 2017: |         |                      |
| First quarter 2017  | \$ 32   | \$0.06               |
| Second quarter 2017 | 33      | \$0.06               |
| Total year-to-date  | \$ 65   |                      |

Devon increased the quarterly dividend by 33% to \$0.08 per share in the second quarter of 2018.

## 19. Discontinued Operations

On June 6, 2018, Devon announced it had entered into an agreement to sell its aggregate ownership interests in EnLink and the General Partner for approximately \$3.1 billion. On July 18, 2018, Devon completed the sale and expects to recognize a gain of approximately \$2.5 billion in the third quarter of 2018. As part of the agreement, Devon extended its fixed-fee gathering and processing contracts with respect to the Bridgeport and Cana plants with EnLink through 2029.

Upon entering into the agreement to sell its ownership interest in June 2018, Devon concluded that the transaction was a strategic shift and met the requirements of assets held for sale and discontinued operations. As part of its assessment,

Devon considered the following: 1) Devon is exiting its entire midstream business ownership; 2) EnLink and the General Partner is a separate reportable segment and is a component of Devon's business; and 3) the transaction resulted in a material reduction in total assets, debt, revenues, net earnings and operating cash flows. As a result, Devon classified the results of operations and cash flows related to EnLink and the General Partner as discontinued operations on its consolidated financial statements. Additionally, Devon ceased depreciation and amortization for all plant, property and equipment and intangible assets classified as assets held for sale on the date the sales agreement was signed.

As of June 30, 2018, Devon's ownership interest in EnLink was 23%, excluding the interest held by the General Partner. Devon's controlling ownership interest in the General Partner as of June 30, 2018 was 64%.

The following table presents the amounts reported in the consolidated comprehensive statements of earnings as discontinued operations.

24

---

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

|                                                        | Three Months<br>Ended June 30, |         | Six Months<br>Ended June 30, |         |
|--------------------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                                        | 2018                           | 2017    | 2018                         | 2017    |
| Marketing and midstream revenues                       | \$1,595                        | \$1,094 | \$3,207                      | \$2,245 |
| Marketing and midstream expenses                       | 1,269                          | 865     | 2,610                        | 1,800   |
| Depreciation, depletion and amortization               | 106                            | 137     | 244                          | 265     |
| General and administrative expenses                    | 31                             | 31      | 58                           | 67      |
| Financing costs, net                                   | 45                             | 39      | 89                           | 84      |
| Other expenses                                         | (5 )                           | (15 )   | (7 )                         | (20 )   |
| Total expenses                                         | 1,446                          | 1,057   | 2,994                        | 2,196   |
| Earnings from discontinued operations before           |                                |         |                              |         |
| income taxes                                           | 149                            | 37      | 213                          | 49      |
| Income tax expense                                     | 10                             | 4       | 16                           | 7       |
| Net earnings from discontinued operations, net of      |                                |         |                              |         |
| income tax expense                                     | 139                            | 33      | 197                          | 42      |
| Net earnings attributable to noncontrolling interests  | 90                             | 26      | 134                          | 40      |
| Net earnings from discontinued operations attributable |                                |         |                              |         |
| to Devon                                               | \$49                           | \$7     | \$63                         | \$2     |

The following table presents the carrying amounts of the assets and liabilities classified as held for sale on the consolidated balance sheets.

|                                                                | June 30,<br>2018 | December<br>31, 2017 |
|----------------------------------------------------------------|------------------|----------------------|
| Cash and cash equivalents                                      | \$37             | \$ 31                |
| Accounts receivable                                            | 733              | 681                  |
| Other current assets                                           | 1,658            | 48                   |
| Midstream and other property and equipment, net <sup>(1)</sup> | 6,794            | 6,587                |
| Goodwill <sup>(1)</sup>                                        | 1,542            | 1,542                |
| Other long-term assets <sup>(1)</sup>                          | —                | 1,600                |
| Total assets held for sale                                     | \$10,764         | \$ 10,489            |
| Accounts payable                                               | \$213            | \$ 186               |
| Revenues and royalties payable                                 | 473              | 432                  |
| Other current liabilities                                      | 655              | 373                  |
| Long-term debt <sup>(1)</sup>                                  | 3,590            | 3,542                |
| Deferred income taxes <sup>(1)</sup>                           | 360              | 346                  |
| Other long-term liabilities <sup>(1)</sup>                     | —                | 48                   |
| Total liabilities held for sale                                | \$5,291          | \$ 4,927             |

(1) These amounts were reclassified to respective current assets and current liabilities held for sale as of June 30, 2018 with the sale of Devon's interests in EnLink and the General Partner closing in July 2018.

#### 20. Commitments and Contingencies

Devon is party to various legal actions arising in the normal course of business. Matters that are probable of unfavorable outcome to Devon and which can be reasonably estimated are accrued. Such accruals are based on information known about the matters, Devon's estimates of the outcomes of such matters and its experience in contesting, litigating and settling similar matters. None of the actions are believed by management to involve future amounts that would be material to Devon's financial position or results of operations after consideration of recorded accruals. Actual amounts could differ materially from management's estimates.

#### Royalty Matters

Numerous oil and natural gas producers and related parties, including Devon, have been named in various lawsuits alleging royalty underpayments. Devon is currently named as a defendant in a number of such lawsuits, including some lawsuits in which the plaintiffs seek to certify classes of similarly situated plaintiffs. Among the allegations typically asserted in these suits are claims that Devon used below-market prices, made improper deductions, used improper measurement techniques and entered into gas purchase



Table of Contents

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

and processing arrangements with affiliates that resulted in underpayment of royalties in connection with oil, natural gas and NGLs produced and sold. Devon is also involved in governmental agency proceedings and royalty audits and is subject to related contracts and regulatory controls in the ordinary course of business, some that may lead to additional royalty claims. Devon does not currently believe that it is subject to material exposure with respect to such royalty matters.

Environmental Matters

Devon is subject to certain environmental, health and safety laws and regulations, including with respect to environmental remediation activities associated with past operations, such as the Comprehensive Environmental Response, Compensation, and Liability Act and similar state statutes. In response to liabilities associated with these activities, loss accruals primarily consist of estimated uninsured remediation costs. Devon's monetary exposure for environmental matters is not expected to be material.

Other Matters

Devon is involved in other various legal proceedings incidental to its business. However, to Devon's knowledge, there were no other material pending legal proceedings to which Devon is a party or to which any of its property is subject.

21. Fair Value Measurements

The following table provides carrying value and fair value measurement information for certain of Devon's financial assets and liabilities. None of the items below are measured using Level 3 inputs. The carrying values of cash, accounts receivable, other current receivables, accounts payable, other current payables and accrued expenses included in the accompanying consolidated balance sheets approximated fair value at June 30, 2018 and December 31, 2017. Therefore, such financial assets and liabilities are not presented in the following table. Additionally, the fair values of oil and gas assets and goodwill and related impairments are measured as of the impairment date using Level 3 inputs. More information on these items is provided in Note 6.

As discussed further in Note 19, Devon's announcement of the sale of its aggregate ownership interests in EnLink and the General Partner resulted in Devon reclassifying the related assets and liabilities to held for sale on the consolidated balance sheets.

Fair Value  
Measurements  
Using:

|                                         | Carrying<br>Amount | Total<br>Fair<br>Value | Level<br>1<br>Inputs | Level 2<br>Inputs |
|-----------------------------------------|--------------------|------------------------|----------------------|-------------------|
| June 30, 2018 assets (liabilities):     |                    |                        |                      |                   |
| Cash equivalents                        | \$ 321             | \$321                  | \$321                | \$—               |
| Commodity derivatives                   | \$ 240             | \$240                  | \$—                  | \$240             |
| Commodity derivatives                   | \$(740 )           | \$(740 )               | \$—                  | \$(740 )          |
| Interest rate derivatives               | \$ 1               | \$1                    | \$—                  | \$1               |
| Interest rate derivatives               | \$(1 )             | \$(1 )                 | \$—                  | \$(1 )            |
| Debt                                    | \$(6,067 )         | \$(6,572)              | \$—                  | \$(6,572)         |
| December 31, 2017 assets (liabilities): |                    |                        |                      |                   |
| Cash equivalents                        | \$ 1,533           | \$1,533                | \$1,454              | \$79              |
| Commodity derivatives                   | \$ 205             | \$205                  | \$—                  | \$205             |
| Commodity derivatives                   | \$(286 )           | \$(286 )               | \$—                  | \$(286 )          |
| Interest rate derivatives               | \$ 1               | \$1                    | \$—                  | \$1               |
| Interest rate derivatives               | \$(64 )            | \$(64 )                | \$—                  | \$(64 )           |
| Debt                                    | \$(6,864 )         | \$(8,131)              | \$—                  | \$(8,131)         |

Table of Contents

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

The following methods and assumptions were used to estimate the fair values in the table above.

Level 1 Fair Value Measurements

Cash equivalents – Amounts consist primarily of money market investments and the fair value approximates the carrying value.

Level 2 Fair Value Measurements

Cash equivalents – Amounts primarily consist of commercial paper and the fair value approximates the carrying value.

Commodity and interest rate derivatives – The fair values of commodity and interest rate derivatives are estimated using internal discounted cash flow calculations based upon forward curves and data obtained from independent third parties for contracts with similar terms or data obtained from counterparties to the agreements.

Debt – Devon's debt instruments do not actively trade in an established market. The fair values of its debt are estimated based on rates available for debt with similar terms and maturity.

22. Segment Information

Devon manages its operations through distinct operating segments, which are defined primarily by geographic areas. For financial reporting purposes, Devon aggregates its U.S. operating segments into one reporting segment due to the similar nature of the businesses. However, Devon's Canadian E&P operating segment is reported as a separate reporting segment primarily due to the significant differences between the U.S. and Canadian regulatory environments. Devon's U.S. and Canadian segments are both primarily engaged in oil and gas E&P activities.

Devon considers EnLink, combined with the General Partner, to be a segment that is distinct from the U.S. and Canadian operating segments. EnLink's operations consist of midstream assets and operations located in the U.S. Additionally, EnLink has a management team that is primarily responsible for capital and resource allocation decisions. However, with Devon's recent divestiture announcement, activity related to the General Partner and EnLink have now been classified as discontinued operations within Devon's consolidated comprehensive statements of earnings and consolidated statements of cash flows, and the associated assets and liabilities of EnLink and the General Partner are presented as assets and liabilities held for sale on the consolidated balance sheets. Additional information can be found in Note 19.

Table of Contents

## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

|                                                                | U.S.     | Canada  | Total    |
|----------------------------------------------------------------|----------|---------|----------|
| Three Months Ended June 30, 2018:                              |          |         |          |
| Revenues from external customers                               | \$1,922  | \$327   | \$2,249  |
| Depreciation, depletion and amortization                       | \$342    | \$78    | \$420    |
| Interest expense                                               | \$72     | \$(3)   | \$69     |
| Asset impairments                                              | \$154    | \$—     | \$154    |
| Asset dispositions                                             | \$23     | \$—     | \$23     |
| Restructuring and transaction costs                            | \$85     | \$9     | \$94     |
| Loss from continuing operations before income taxes            | \$(471)  | \$(10)  | \$(481)  |
| Income tax expense (benefit)                                   | \$13     | \$(20)  | \$(7)    |
| Net earnings (loss) from continuing operations                 | \$(484)  | \$10    | \$(474)  |
| Capital expenditures, including acquisitions                   | \$585    | \$60    | \$645    |
| Three Months Ended June 30, 2017:                              |          |         |          |
| Revenues from external customers                               | \$1,891  | \$274   | \$2,165  |
| Depreciation, depletion and amortization                       | \$283    | \$86    | \$369    |
| Interest expense                                               | \$81     | \$—     | \$81     |
| Asset dispositions                                             | \$(22)   | \$—     | \$(22)   |
| Earnings (loss) from continuing operations before income taxes | \$213    | \$(6)   | \$207    |
| Income tax expense (benefit)                                   | \$2      | \$(7)   | \$(5)    |
| Net earnings from continuing operations                        | \$211    | \$1     | \$212    |
| Capital expenditures, including acquisitions                   | \$385    | \$71    | \$456    |
| Six Months Ended June 30, 2018:                                |          |         |          |
| Revenues from external customers                               | \$3,801  | \$646   | \$4,447  |
| Depreciation, depletion and amortization                       | \$647    | \$172   | \$819    |
| Interest expense                                               | \$319    | \$145   | \$464    |
| Asset impairments                                              | \$154    | \$—     | \$154    |
| Asset dispositions                                             | \$11     | \$—     | \$11     |
| Restructuring and transaction costs                            | \$85     | \$9     | \$94     |
| Loss from continuing operations before income taxes            | \$(587)  | \$(139) | \$(726)  |
| Income tax expense (benefit)                                   | \$14     | \$(55)  | \$(41)   |
| Net loss from continuing operations                            | \$(601)  | \$(84)  | \$(685)  |
| Property and equipment, net                                    | \$10,031 | \$4,090 | \$14,121 |
| Total continuing assets (1)                                    | \$13,247 | \$5,148 | \$18,395 |
| Capital expenditures, including acquisitions                   | \$1,197  | \$149   | \$1,346  |
| Six Months Ended June 30, 2017:                                |          |         |          |
| Revenues from external customers                               | \$3,972  | \$593   | \$4,565  |
| Depreciation, depletion and amortization                       | \$585    | \$184   | \$769    |
| Interest expense                                               | \$161    | \$5     | \$166    |
| Asset dispositions                                             | \$(29)   | \$(1)   | \$(30)   |
| Earnings (loss) from continuing operations before income taxes | \$523    | \$(3)   | \$520    |
| Income tax expense (benefit)                                   | \$5      | \$(5)   | \$—      |

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q

|                                              |          |         |          |
|----------------------------------------------|----------|---------|----------|
| Net earnings from continuing operations      | \$518    | \$2     | \$520    |
| Property and equipment, net                  | \$10,051 | \$4,166 | \$14,217 |
| Total continuing assets (1)                  | \$13,907 | \$5,020 | \$18,927 |
| Capital expenditures, including acquisitions | \$731    | \$153   | \$884    |

(1) Total assets in the table above do not include assets held for sale related to Devon's discontinued operations, which totaled \$10.8 billion and \$10.2 billion on June 30, 2018 and June 30, 2017, respectively.

Table of Contents

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis addresses material changes in our results of operations for the three-month and six-month periods ended June 30, 2018 compared to previous periods and in our financial condition and liquidity since December 31, 2017. For information regarding our critical accounting policies and estimates, see our 2017 Annual Report on Form 10-K under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Overview of 2018 Results

Key components of our financial performance as compared to prior quarter are summarized below.

|                                                                                   | Q2<br>2018<br>(3) | Q1<br>2018<br>(3) | Change  |
|-----------------------------------------------------------------------------------|-------------------|-------------------|---------|
| Net loss from continuing operations                                               | \$(474 )          | \$(211 )          | - 125 % |
| Net loss per diluted share from continuing operations                             | \$(0.92 )         | \$(0.41 )         | - 123 % |
| Net earnings attributable to Devon from discontinued operations                   | \$49              | \$14              | +259 %  |
| Net earnings per diluted share attributable to Devon from discontinued operations | \$0.09            | \$0.03            | +243 %  |
| Net loss attributable to Devon                                                    | \$(425 )          | \$(197 )          | - 116 % |
| Net loss per diluted share attributable to Devon                                  | \$(0.83 )         | \$(0.38 )         | - 120 % |
| Core earnings attributable to Devon <sup>(1)</sup>                                | \$177             | \$108             | +65 %   |
| Core earnings attributable to Devon per diluted share <sup>(1)</sup>              | \$0.34            | \$0.20            | +75 %   |
| Retained production (MBoe/d)                                                      | 520               | 511               | +2 %    |
| Total production (MBoe/d)                                                         | 541               | 544               | - 1 %   |
| Realized price per Boe <sup>(2)</sup>                                             | \$31.81           | \$27.75           | +15 %   |
| Operating cash flow from continuing operations                                    | \$269             | \$610             | - 56 %  |
| Capitalized expenditures, including acquisitions                                  | \$645             | \$701             | - 8 %   |
| Cash and cash equivalents                                                         | \$1,460           | \$1,407           | +4 %    |
| Total debt                                                                        | \$6,067           | \$6,066           | +0 %    |

(1)Core earnings and core earnings per diluted share attributable to Devon are financial measures not prepared in accordance with GAAP. For a description of core earnings and core earnings per diluted share attributable to Devon, as well as reconciliations to the comparable GAAP measures, see "Non-GAAP Measures" in this Item 2.

(2)Excludes any impact of oil, gas and NGL derivatives.

(3)Except for balance sheet amounts, which are presented as of period end.

During the first six months of 2018, we generated solid operating results with our three-fold strategy of operating in North America's best resource plays, delivering superior execution and maintaining a high degree of financial strength. Led by our development in the STACK and Delaware Basin, we continued to improve our 90-day initial production rates. With investments in proprietary data tools, predictive analytics and artificial intelligence, we are delivering industry-leading, initial-rate well productivity performance and improving the performance of our established wells.

We continue to focus on our "2020 Vision," which is our plan through the end of the decade intended to optimize returns and deliver top-tier, capital-efficient cash flow growth. Our 2020 Vision is focused on the following strategic

priorities:

- ❖ Maximize cash flow by optimizing base production and reducing per-unit cash costs;
- ❖ Improve capital efficiency with a concentration of investment on highest-returning development projects in the Delaware Basin and STACK;
- ❖ Simplify our portfolio by monetizing non-core assets;
- ❖ Improve financial strength by reducing debt; and
- ❖ Return cash to shareholders.

During the first six months of 2018, we made significant progress toward achieving our 2020 Vision. Specifically, we had several key achievements:

- ❖ Executed on portfolio simplification with the recent monetization of EnLink and the General Partner and the closing of the Johnson County divestiture (our asset sales have now reached approximately \$4.2 billion).
- ❖ Reduced long-term debt by approximately \$800 million using cash on hand.
- ❖ Increased our quarterly common stock dividend 33% to \$0.08 per share beginning in the second quarter of 2018.

29

---

## Table of Contents

- Completed a workforce reduction and continue other cost reduction initiatives expected to generate \$110 million of annualized savings.
- Authorized and began executing a \$4.0 billion share repurchase program.
- Increased STACK and Delaware Basin production 30% in the first half of 2018 compared to the first half of 2017.

We exited the second quarter of 2018 with liquidity comprised of \$1.5 billion of cash and \$2.9 billion of available credit under our Senior Credit Facility. We have no significant debt maturities until 2021. We currently have approximately 50% of our expected oil and gas production protected for the remainder of 2018. These contracts consist of collars and swaps based off the WTI oil benchmark and the Henry Hub natural gas index. Additionally, we have entered into regional basis swaps in an effort to protect price realizations across our portfolio in the U.S. and Canada, including Western Canadian Select and Midland Sweet basis oil hedges. We are building our 2019 and 2020 hedge positions at market prices.

## Results of Operations – Q2 2018 vs. Q1 2018

The following graphs, discussion and analysis are intended to provide an understanding of our results of operations and current financial condition. Due to the nature of our business, including an inherently volatile commodity price environment, we have provided a sequential quarter analysis in order to facilitate the review of our operational results and provide further transparency of our business. Specifically, the graph below shows the change in net earnings from the three months ended March 31, 2018 to the three months ended June 30, 2018. The material changes are further discussed by category on the following pages. To facilitate the review, these numbers are being presented before consideration of earnings attributable to noncontrolling interests.

The graph below presents the drivers of the upstream operations change presented above, with additional details and discussion of the drivers following the graph.



Table of ContentsUpstream Operations  
Production Volumes

|                           | Q2<br>2018 | % of<br>Total |  | Q1<br>2018 | Change |   |
|---------------------------|------------|---------------|--|------------|--------|---|
| Oil and bitumen (MBbls/d) |            |               |  |            |        |   |
| STACK                     | 35         | 14 %          |  | 35         | - 1    | % |
| Delaware Basin            | 46         | 19 %          |  | 36         | +29    | % |
| Rockies Oil               | 16         | 7 %           |  | 18         | - 10   | % |
| Heavy Oil                 | 17         | 7 %           |  | 18         | - 5    | % |
| Eagle Ford                | 28         | 11 %          |  | 23         | +25    | % |
| Barnett Shale             | 1          | 0 %           |  | 1          | - 10   | % |
| Other                     | 10         | 4 %           |  | 9          | +14    | % |
| Retained assets           | 153        | 62 %          |  | 140        | +9     | % |
| Divested assets           | —          | 0 %           |  | —          | N/M    |   |
| Total Oil                 | 153        | 62 %          |  | 140        | +9     | % |
| Bitumen                   | 92         | 38 %          |  | 111        | - 17   | % |
| Total Oil and bitumen     | 245        |               |  | 251        | - 3    | % |

|                 | Q2<br>2018 | % of<br>Total |  | Q1<br>2018 | Change |   |
|-----------------|------------|---------------|--|------------|--------|---|
| Gas (MMcf/d)    |            |               |  |            |        |   |
| STACK           | 352        | 31 %          |  | 344        | +3     | % |
| Delaware Basin  | 100        | 9 %           |  | 97         | +3     | % |
| Rockies Oil     | 18         | 1 %           |  | 18         | - 2    | % |
| Heavy Oil       | 12         | 1 %           |  | 12         | - 4    | % |
| Eagle Ford      | 74         | 7 %           |  | 63         | +17    | % |
| Barnett Shale   | 460        | 41 %          |  | 470        | - 2    | % |
| Other           | 9          | 1 %           |  | 10         | - 7    | % |
| Retained assets | 1,025      | 91 %          |  | 1,014      | +1     | % |
| Divested assets | 103        | 9 %           |  | 163        | - 37   | % |
| Total           | 1,128      |               |  | 1,177      | - 4    | % |

|                | Q2<br>2018 | % of<br>Total |  | Q1<br>2018 | Change |   |
|----------------|------------|---------------|--|------------|--------|---|
| NGLs (MBbls/d) |            |               |  |            |        |   |
| STACK          | 38         | 35 %          |  | 37         | +5     | % |

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q

|                 |     |    |   |    |      |   |
|-----------------|-----|----|---|----|------|---|
| Delaware Basin  | 16  | 14 | % | 11 | +37  | % |
| Rockies Oil     | 2   | 2  | % | 2  | +45  | % |
| Eagle Ford      | 13  | 12 | % | 8  | +67  | % |
| Barnett Shale   | 34  | 31 | % | 31 | +10  | % |
| Other           | 2   | 2  | % | 2  | +5   | % |
| Retained assets | 105 | 96 | % | 91 | +15  | % |
| Divested assets | 4   | 4  | % | 6  | - 32 | % |
| Total           | 109 |    |   | 97 | +12  | % |

|                   | Q2<br>2018 | % of<br>Total |   | Q1<br>2018 | Change |   |
|-------------------|------------|---------------|---|------------|--------|---|
| Combined (MBoe/d) |            |               |   |            |        |   |
| STACK             | 132        | 25            | % | 129        | +2     | % |
| Delaware Basin    | 79         | 15            | % | 64         | +24    | % |
| Rockies Oil       | 21         | 4             | % | 23         | - 9    | % |
| Heavy Oil         | 111        | 20            | % | 131        | - 16   | % |
| Eagle Ford        | 54         | 10            | % | 41         | +31    | % |
| Barnett Shale     | 111        | 20            | % | 110        | +0     | % |
| Other             | 12         | 2             | % | 13         | - 5    | % |
| Retained assets   | 520        | 96            | % | 511        | +2     | % |
| Divested assets   | 21         | 4             | % | 33         | - 35   | % |
| Total             | 541        |               |   | 544        | - 1    | % |

Strong performance in the Delaware Basin and Eagle Ford drove retained asset production growth during the second quarter of 2018. These production gains were offset by lower production volumes from our heavy oil operations due to a scheduled turnaround at Jackfish 1 as well as by lower production resulting from our Johnson County divestiture.

Field Prices

|                             | Q2<br>2018 | Realization | Q1<br>2018 | Change |   |
|-----------------------------|------------|-------------|------------|--------|---|
| Oil and bitumen (per Bbl)   |            |             |            |        |   |
| WTI index                   | \$67.83    |             | \$62.93    | +8     | % |
| Access Western Blend index  | \$45.56    |             | \$35.44    | +29    | % |
| U.S.                        | \$65.41    | 96%         | \$61.79    | +6     | % |
| Canada                      | \$31.70    | 47%         | \$19.74    | +61    | % |
| Realized price, unhedged    | \$50.43    | 74%         | \$40.15    | +26    | % |
| Cash settlements            | \$(5.80 )  |             | \$(0.10 )  |        |   |
| Realized price, with hedges | \$44.63    | 66%         | \$40.05    | +11    | % |

|                             | Q2<br>2018 | Realization | Q1<br>2018 | Change |   |
|-----------------------------|------------|-------------|------------|--------|---|
| Gas (per Mcf)               |            |             |            |        |   |
| Henry Hub index             | \$2.80     |             | \$3.01     | - 7    | % |
| Realized price, unhedged    | \$2.01     | 72%         | \$2.41     | - 17   | % |
| Cash settlements            | \$0.13     |             | \$0.17     |        |   |
| Realized price, with hedges | \$2.14     | 77%         | \$2.58     | - 17   | % |

|                                           | Q2        |             | Q1        |        |   |
|-------------------------------------------|-----------|-------------|-----------|--------|---|
|                                           | 2018      | Realization | 2018      | Change |   |
| NGLs (per Bbl)                            |           |             |           |        |   |
| Mont Belvieu blended index <sup>(1)</sup> | \$28.05   |             | \$25.88   | +8     | % |
| Realized price, unhedged                  | \$24.10   | 86%         | \$22.56   | +7     | % |
| Cash settlements                          | \$(1.66 ) |             | \$(0.53 ) |        |   |
| Realized price, with hedges               | \$22.44   | 80%         | \$22.03   | +2     | % |

(1) Based upon composition of our NGL barrel.

Table of Contents

|                             | Q2<br>2018 | Q1<br>2018 | Change |   |
|-----------------------------|------------|------------|--------|---|
| Combined (per Boe)          |            |            |        |   |
| U.S.                        | \$31.97    | \$30.39    | +5     | % |
| Canada                      | \$31.17    | \$19.45    | +60    | % |
| Realized price, unhedged    | \$31.81    | \$27.75    | +15    | % |
| Cash settlements            | \$(2.68 )  | \$0.23     |        |   |
| Realized price, with hedges | \$29.13    | \$27.98    | +4     | % |

Oil, gas and NGL sales increased \$206 million primarily as a result of higher WTI and Mont Belvieu index prices as well as a significant increase in the average Canadian realizations due to industry plant turnarounds and seasonal lower blending requirements. These increases were slightly offset by lower realized gas prices as a result of lower Henry Hub index prices as well as natural gas transportation constraints.

## Hedging

|                        | Q2<br>2018 | Q1<br>2018 | Change |   |
|------------------------|------------|------------|--------|---|
| Oil                    | \$(129)    | \$(2 )     | N/M    |   |
| Natural gas            | 14         | 18         | - 22   | % |
| NGL                    | (16 )      | (5 )       | N/M    |   |
| Total cash settlements | (131)      | 11         | N/M    |   |
| Valuation changes      | (366)      | (52 )      | N/M    |   |
| Total                  | \$(497)    | \$(41 )    | N/M    |   |

Cash settlements as presented in the tables above represent realized gains or losses related to the instruments described in Note 4 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

In addition to cash settlements, we also recognize fair value changes on our oil, gas and NGL derivative instruments in each reporting period. The changes in fair value resulted from new positions and settlements that occurred during each period, as well as the relationship between contract prices and the associated forward curves.

## Production Expenses

|  | Q2<br>2018 | Q1<br>2018 | Change |
|--|------------|------------|--------|
|--|------------|------------|--------|

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q

|                                        |        |        |      |   |
|----------------------------------------|--------|--------|------|---|
| LOE                                    | \$269  | \$241  | +12  | % |
| Gathering, processing & transportation | 224    | 228    | - 2  | % |
| Production taxes                       | 67     | 59     | +14  | % |
| Property taxes                         | 12     | 15     | - 20 | % |
| Total                                  | \$572  | \$543  | +5   | % |
| Per Boe:                               |        |        |      |   |
| LOE                                    | \$5.45 | \$4.91 | +11  | % |
| Gathering, processing &                |        |        |      |   |
| transportation                         | \$4.55 | \$4.65 | - 2  | % |
| Percent of oil, gas and NGL sales:     |        |        |      |   |
| Production taxes                       | 4.2%   | 4.4%   | - 3  | % |

Production expenses increased \$29 million primarily due to scheduled turnaround expenses incurred at our Jackfish 1 facility. Production taxes also increased on an absolute dollar basis primarily due to the increase in our U.S. upstream revenues, on which the majority of our production taxes are assessed.

Exploration Expenses

|                                | Q2<br>2018 | Q1<br>2018 | Change |   |
|--------------------------------|------------|------------|--------|---|
| Unproved impairments           | \$ 53      | \$ 8       | +563   | % |
| Geological and geophysical     | 6          | 10         | - 40   | % |
| Exploration overhead and other | 9          | 15         | - 40   | % |
| Total                          | \$ 68      | \$ 33      | +106   | % |

Unproved impairments primarily relate to certain non-core acreage in the U.S. that we no longer intend to pursue for exploration opportunities.

Depreciation, Depletion and Amortization

|                     | Q2<br>2018 | Q1<br>2018 | Change |   |
|---------------------|------------|------------|--------|---|
| Oil and gas per Boe | \$8.00     | \$7.63     | +5     | % |
| Oil and gas         | \$395      | \$374      | +6     | % |
| Other assets        | 25         | 25         | - 1    | % |
| Total               | \$420      | \$399      | +5     | % |

Our oil and gas DD&A increased during the second quarter primarily due to the change in production mix from our asset portfolio.

Financing Costs, net

During the first quarter of 2018, we incurred a \$312 million loss on early retirement of debt. Additionally, interest expense was lower in the second quarter of 2018 due to the debt repayments. See Note 15 in “Part I. Financial Information – Item 1. Financial Statements” in this report for additional information.

#### Other

|                                     | Q2<br>2018 | Q1<br>2018 | Change |   |
|-------------------------------------|------------|------------|--------|---|
| Asset impairments                   | \$ 154     | \$ —       | N/M    |   |
| Asset dispositions                  | 23         | (12 )      | +292   | % |
| Restructuring and transaction costs | 94         | —          | N/M    |   |
| Other                               | 24         | 21         | +14    | % |
| Total                               | \$ 295     | \$ 9       | +3178  | % |

During the second quarter of 2018, we recognized \$109 million of proved asset impairments relating to U.S. non-core assets no longer in our development plans and \$45 million of non-oil and gas asset impairments. See Note 6 in “Part I. Financial Information – Item 1. Financial Statements” in this report for additional information.

We recognized personnel related restructuring charges during the second quarter of 2018 relating to workforce reductions. See Note 7 in “Part I. Financial Information – Item 1. Financial Statements” in this report for additional information.

Table of Contents

## Income Taxes

|                            | Q2       | Q1       |
|----------------------------|----------|----------|
|                            | 2018     | 2018     |
| Current expense (benefit)  | \$ (27 ) | \$ 4     |
| Deferred expense (benefit) | 20       | (38 )    |
| Total benefit              | \$ (7 )  | \$ (34 ) |
| Effective income tax rate  | 1 %      | 14 %     |

For discussion on income taxes, see Note 8 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

## Discontinued Operations

For discussion on discontinued operations, see Note 19 in “Part I. Financial Information – Item 1. Financial Statements” in this report. Discontinued operations net earnings increased primarily due to higher revenues and lower DD&A expense due to ceasing depreciation and amortization for all plant, property and equipment and intangible assets classified as assets held for sale on the date the agreement regarding the sale of our investment in EnLink and the General Partner was signed.

Table of Contents

Results of Operations – 2018 vs. 2017

The following graphs, discussion and analysis are intended to provide an understanding of our results of operations and current financial condition. To facilitate the review, these numbers are being presented before consideration of earnings attributable to noncontrolling interests.

Q2 2018 vs. Q2 2017

The graph below shows the change in net earnings from the three months ended June 30, 2017 to the three months ended June 30, 2018. The material changes are further discussed by category below. Further analysis of the upstream operations change has been provided within a supplemental section to our results of operations beginning on page 36.

\* Other includes asset impairments, asset dispositions, restructuring and transaction costs and other expenses.

Net earnings decreased \$580 million during the second quarter of 2018 compared to the second quarter of 2017. The decrease primarily related to a \$380 million decrease in upstream operations and a \$325 million increase in other. These changes were partially offset by a \$106 million increase in earnings from discontinued operations. Upstream operations decreased primarily due to \$623 million of valuation changes and cash settlements for commodity derivatives and a \$117 million increase in production expenses, partially offset by the \$317 million effect of higher field prices primarily related to our oil and NGL production. Other increased primarily due to \$154 million of asset impairments and \$94 million of restructuring charges recognized in the second quarter of 2018. Discontinued operations net earnings increased primarily due to higher revenues and lower DD&A expense.



Table of Contents

June 30, 2018 YTD vs. June 30, 2017 YTD

The graph below shows the change in net earnings from the six months ended June 30, 2017 to the six months ended June 30, 2018. The material changes are further discussed by category below. Further analysis of the upstream operations change has been provided within a supplemental section to our results of operations beginning on page 36.

\*Other includes asset impairments, asset dispositions, restructuring and transaction costs and other expenses.

Net earnings decreased approximately \$1 billion during the six months ended 2018 compared to the same period in 2017. The decrease primarily related to a \$688 million decrease in upstream operations, a \$356 million increase in other and a \$289 million increase in financing costs, net. These changes were partially offset by a \$155 million increase in discontinued operations. Upstream revenues decreased primarily due to \$896 million of valuation changes and cash settlements for commodity derivatives and a \$203 million increase in production expenses, partially offset by the \$403 million effect of higher field prices primarily related to our oil and NGL production. Other increased primarily due to \$154 million of asset impairments and \$94 million of restructuring charges during the second quarter of 2018. Financing costs, net increased \$289 million primarily from \$312 million of early retirement costs associated with our \$800 million debt retirement in 2018. As a result of this early retirement of debt, we estimate that total cash interest expense has been reduced by approximately \$64 million on an annualized basis. Discontinued operations net earnings increased primarily due to higher revenues and lower DD&A expense.

Upstream Operations

The supplemental graphs and charts below present the drivers and details of the upstream operations changes discussed in the previous section.

Q2 2018 vs. Q2 2017

Table of Contents

June 30, 2018 YTD vs. June 30, 2017 YTD

36

---

Table of Contents

## Production Volumes

|                           | Three Months Ended June 30, |               |       |        |  | Six Months Ended June 30, |               |       |         |  |
|---------------------------|-----------------------------|---------------|-------|--------|--|---------------------------|---------------|-------|---------|--|
|                           | 2018                        | % of<br>Total | 2017  | Change |  | 2018                      | % of<br>Total | 2017  | Change  |  |
| Oil and bitumen (MBbls/d) |                             |               |       |        |  |                           |               |       |         |  |
| STACK                     | 35                          | 14 %          | 25    | +41 %  |  | 35                        | 14 %          | 23    | +54 %   |  |
| Delaware Basin            | 46                          | 19 %          | 30    | +54 %  |  | 41                        | 17 %          | 30    | +38 %   |  |
| Rockies Oil               | 16                          | 7 %           | 13    | +22 %  |  | 17                        | 7 %           | 13    | +30 %   |  |
| Heavy Oil                 | 17                          | 7 %           | 17    | +1 %   |  | 18                        | 7 %           | 18    | +0 %    |  |
| Eagle Ford                | 28                          | 11 %          | 34    | - 17 % |  | 26                        | 10 %          | 40    | - 36 %  |  |
| Barnett Shale             | 1                           | 0 %           | 1     | - 9 %  |  | 1                         | 0 %           | 1     | - 16 %  |  |
| Other                     | 10                          | 4 %           | 10    | +0 %   |  | 9                         | 4 %           | 10    | - 11 %  |  |
| Retained assets           | 153                         | 62 %          | 130   | +17 %  |  | 147                       | 59 %          | 135   | +9 %    |  |
| Divested assets           | —                           | 0 %           | 3     | - 99 % |  | —                         | 0 %           | 2     | - 100 % |  |
| Total Oil                 | 153                         | 62 %          | 133   | +15 %  |  | 147                       | 59 %          | 137   | +7 %    |  |
| Bitumen                   | 92                          | 38 %          | 105   | - 12 % |  | 101                       | 41 %          | 112   | - 10 %  |  |
| Total Oil and bitumen     | 245                         | 100 %         | 238   | +3 %   |  | 248                       | 100 %         | 249   | - 1 %   |  |
| Gas (MMcf/d)              |                             |               |       |        |  |                           |               |       |         |  |
| STACK                     | 352                         | 31 %          | 298   | +18 %  |  | 348                       | 30 %          | 293   | +19 %   |  |
| Delaware Basin            | 100                         | 9 %           | 94    | +6 %   |  | 98                        | 8 %           | 91    | +7 %    |  |
| Rockies Oil               | 18                          | 1 %           | 17    | +6 %   |  | 18                        | 2 %           | 16    | +14 %   |  |
| Heavy Oil                 | 12                          | 1 %           | 14    | - 13 % |  | 12                        | 1 %           | 18    | - 34 %  |  |
| Eagle Ford                | 74                          | 7 %           | 92    | - 19 % |  | 69                        | 6 %           | 103   | - 33 %  |  |
| Barnett Shale             | 460                         | 41 %          | 496   | - 7 %  |  | 465                       | 40 %          | 497   | - 6 %   |  |
| Other                     | 9                           | 1 %           | 13    | - 32 % |  | 9                         | 1 %           | 12    | - 23 %  |  |
| Retained assets           | 1,025                       | 91 %          | 1,024 | +0 %   |  | 1,019                     | 88 %          | 1,030 | - 1 %   |  |
| Divested assets           | 103                         | 9 %           | 184   | - 44 % |  | 133                       | 12 %          | 188   | - 29 %  |  |
| Total                     | 1,128                       | 100 %         | 1,208 | - 7 %  |  | 1,152                     | 100 %         | 1,218 | - 5 %   |  |
| NGLs (MBbls/d)            |                             |               |       |        |  |                           |               |       |         |  |
| STACK                     | 38                          | 35 %          | 31    | +25 %  |  | 38                        | 37 %          | 28    | +32 %   |  |
| Delaware Basin            | 16                          | 14 %          | 10    | +65 %  |  | 14                        | 13 %          | 10    | +43 %   |  |
| Rockies Oil               | 2                           | 2 %           | 1     | +104 % |  | 2                         | 2 %           | 1     | +44 %   |  |
| Eagle Ford                | 13                          | 12 %          | 10    | +26 %  |  | 10                        | 9 %           | 13    | - 24 %  |  |
| Barnett Shale             | 34                          | 31 %          | 35    | - 2 %  |  | 32                        | 32 %          | 35    | - 9 %   |  |
| Other                     | 2                           | 2 %           | 3     | - 36 % |  | 2                         | 2 %           | 2     | - 12 %  |  |
| Retained assets           | 105                         | 96 %          | 90    | +17 %  |  | 98                        | 95 %          | 89    | +11 %   |  |
| Divested assets           | 4                           | 4 %           | 7     | - 44 % |  | 5                         | 5 %           | 8     | - 34 %  |  |
| Total                     | 109                         | 100 %         | 97    | +12 %  |  | 103                       | 100 %         | 97    | +6 %    |  |
| Combined (MBoe/d)         |                             |               |       |        |  |                           |               |       |         |  |
| STACK                     | 132                         | 25 %          | 105   | +26 %  |  | 131                       | 24 %          | 100   | +31 %   |  |
| Delaware Basin            | 79                          | 15 %          | 55    | +42 %  |  | 71                        | 13 %          | 54    | +30 %   |  |
| Rockies Oil               | 21                          | 4 %           | 17    | +19 %  |  | 22                        | 4 %           | 17    | +28 %   |  |
| Heavy Oil                 | 111                         | 20 %          | 124   | - 11 % |  | 121                       | 22 %          | 133   | - 9 %   |  |
| Eagle Ford                | 54                          | 10 %          | 60    | - 10 % |  | 48                        | 9 %           | 70    | - 32 %  |  |
| Barnett Shale             | 111                         | 20 %          | 118   | - 7 %  |  | 110                       | 20 %          | 119   | - 8 %   |  |
| Other                     | 12                          | 2 %           | 16    | - 24 % |  | 13                        | 3 %           | 15    | - 14 %  |  |

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q

|                 |     |     |   |     |      |   |     |     |   |     |      |   |
|-----------------|-----|-----|---|-----|------|---|-----|-----|---|-----|------|---|
| Retained assets | 520 | 96  | % | 495 | +5   | % | 516 | 95  | % | 508 | +2   | % |
| Divested assets | 21  | 4   | % | 41  | - 47 | % | 27  | 5   | % | 42  | - 36 | % |
| Total           | 541 | 100 | % | 536 | +1   | % | 543 | 100 | % | 550 | - 1  | % |

Focused development activities in the STACK, Delaware Basin and Rockies resulted in an approximate 30% increase in production compared to the three and six months ended 2017. This strong performance led to the overall growth in our retained assets as compared to 2017. Production increases from our capital focused assets were partially offset by production decreases related to natural production declines in the Barnett Shale, operational issues at Jackfish as well as volumes associated with divested assets.

Table of Contents

## Field Prices

|                                           | Three Months Ended June 30, |             |           |        | Six Months Ended June 30, |             |           |        |
|-------------------------------------------|-----------------------------|-------------|-----------|--------|---------------------------|-------------|-----------|--------|
|                                           | 2018                        | Realization | 2017      | Change | 2018                      | Realization | 2017      | Change |
| <b>Oil and bitumen (per Bbl)</b>          |                             |             |           |        |                           |             |           |        |
| WTI index                                 | \$67.83                     |             | \$48.32   | +40 %  | \$65.38                   |             | \$50.16   | +30 %  |
| Access Western Blend index                | \$45.56                     |             | \$35.23   | +29 %  | \$40.50                   |             | \$35.20   | +15 %  |
| U.S.                                      | \$65.41                     | 96%         | \$46.65   | +40 %  | \$63.71                   | 97%         | \$48.18   | +32 %  |
| Canada                                    | \$31.70                     | 47%         | \$29.05   | +9 %   | \$25.24                   | 39%         | \$27.60   | - 9 %  |
| Realized price, unhedged                  | \$50.43                     | 74%         | \$37.63   | +34 %  | \$45.25                   | 69%         | \$37.48   | +21 %  |
| Cash settlements                          | \$(5.80 )                   |             | \$0.29    |        | \$(2.93 )                 |             | \$0.39    |        |
| Realized price, with hedges               | \$44.63                     | 66%         | \$37.92   | +18 %  | \$42.32                   | 65%         | \$37.87   | +12 %  |
| <b>Gas (per Mcf)</b>                      |                             |             |           |        |                           |             |           |        |
| Henry Hub index                           | \$2.80                      |             | \$3.19    | - 12 % | \$2.90                    |             | \$3.25    | - 10 % |
| Realized price, unhedged                  | \$2.01                      | 72%         | \$2.50    | - 20 % | \$2.21                    | 76%         | \$2.59    | - 15 % |
| Cash settlements                          | \$0.13                      |             | \$0.04    |        | \$0.16                    |             | \$—       |        |
| Realized price, with hedges               | \$2.14                      | 77%         | \$2.54    | - 16 % | \$2.37                    | 82%         | \$2.59    | - 9 %  |
| <b>NGLs (per Bbl)</b>                     |                             |             |           |        |                           |             |           |        |
| Mont Belvieu blended index <sup>(1)</sup> | \$28.05                     |             | \$21.78   | +29 %  | \$26.97                   |             | \$22.86   | +18 %  |
| Realized price, unhedged                  | \$24.10                     | 86%         | \$13.26   | +82 %  | \$23.38                   | 87%         | \$14.36   | +63 %  |
| Cash settlements                          | \$(1.66 )                   |             | \$(0.03 ) |        | \$(1.13 )                 |             | \$(0.02 ) |        |
| Realized price, with hedges               | \$22.44                     | 80%         | \$13.23   | +70 %  | \$22.25                   | 82%         | \$14.34   | +55 %  |
| <b>Combined (per Boe)</b>                 |                             |             |           |        |                           |             |           |        |
| U.S.                                      | \$31.97                     |             | \$23.58   | +36 %  | \$31.20                   |             | \$24.72   | +26 %  |
| Canada                                    | \$31.17                     |             | \$28.50   | +9 %   | \$24.84                   |             | \$27.03   | - 8 %  |
| Realized price, unhedged                  | \$31.81                     |             | \$24.72   | +29 %  | \$29.79                   |             | \$25.28   | +18 %  |
| Cash settlements                          | \$(2.68 )                   |             | \$0.22    |        | \$(1.23 )                 |             | \$0.19    |        |
| Total                                     | \$29.13                     |             | \$24.94   | +17 %  | \$28.56                   |             | \$25.47   | +12 %  |

(1)Based upon composition of our NGL barrel.

## Hedging

|                              | Three Months Ended June 30, |       |        | Six Months Ended June 30, |       |        |
|------------------------------|-----------------------------|-------|--------|---------------------------|-------|--------|
|                              | 2018                        | 2017  | Change | 2018                      | 2017  | Change |
| <b>Cash settlements:</b>     |                             |       |        |                           |       |        |
| Oil derivatives              | \$(129)                     | \$6   | N/M    | \$(131)                   | \$18  | N/M    |
| Gas derivatives              | 14                          | 4     | N/M    | 32                        | 1     | N/M    |
| NGL derivatives              | (16 )                       | 1     | N/M    | (21 )                     | —     | N/M    |
| Total cash settlements       | (131)                       | 11    | N/M    | (120)                     | 19    | N/M    |
| Valuation changes            | (366)                       | 115   | N/M    | (418)                     | 339   | N/M    |
| Oil, gas and NGL derivatives | \$(497)                     | \$126 | N/M    | \$(538)                   | \$358 | N/M    |

## Production Expenses

Three Months Ended June 30,

Six Months Ended June 30,

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q

|                                        | 2018   | 2017   | Change |   | 2018    | 2017   | Change |   |
|----------------------------------------|--------|--------|--------|---|---------|--------|--------|---|
| LOE                                    | \$269  | \$239  | +12    | % | \$510   | \$462  | +10    | % |
| Gathering, processing & transportation | 224    | 160    | +40    | % | 452     | 323    | +40    | % |
| Production taxes                       | 67     | 41     | +63    | % | 126     | 96     | +32    | % |
| Property taxes                         | 12     | 15     | - 18   | % | 27      | 31     | - 11   | % |
| Total                                  | \$572  | \$455  | +26    | % | \$1,115 | \$912  | +22    | % |
| Per Boe:                               |        |        |        |   |         |        |        |   |
| LOE                                    | \$5.45 | \$4.90 | +11    | % | \$5.18  | \$4.65 | +11    | % |
| Gathering, processing & transportation | \$4.55 | \$3.28 | +39    | % | \$4.60  | \$3.24 | +42    | % |
| Percent of oil, gas and NGL sales:     |        |        |        |   |         |        |        |   |
| Production taxes                       | 4.2    | %      | 3.4    | % | +26     | %      | 4.3    | % |
|                                        |        |        |        |   |         |        | 3.8    | % |
|                                        |        |        |        |   |         |        | +13    | % |

Table of Contents

As further discussed in Note 2 in “Part I. Financial Information – Item 1. Financial Statements” in this report, in 2018 the presentation of certain processing arrangements changed from a net to a gross presentation. The change resulted in an increase to our upstream revenues and production expenses by \$65 million and \$127 million, respectively, during the three months and six months ended 2018 with no impact to net earnings.

## Capital Resources, Uses and Liquidity

## Sources and Uses of Cash

The following table presents the major changes in cash and cash equivalents for the six months ended June 30, 2018 and 2017.

|                                                             | Three months<br>ended June 30, |         | Six months<br>ended June 30, |         |
|-------------------------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                                             | 2018                           | 2017    | 2018                         | 2017    |
| Operating cash flow from continuing operations              | \$269                          | \$586   | \$879                        | \$1,155 |
| Effect of exchange rate and other                           | 221                            | 5       | 168                          | (56 )   |
| Divestitures of property and equipment                      | 560                            | 75      | 607                          | 107     |
| Capital expenditures                                        | (602 )                         | (434 )  | (1,253)                      | (831 )  |
| Acquisitions of property and equipment                      | (10 )                          | (13 )   | (16 )                        | (33 )   |
| Debt activity, net                                          | —                              | —       | (1,111)                      | —       |
| Common stock dividends                                      | (42 )                          | (33 )   | (74 )                        | (65 )   |
| Repurchases of common stock                                 | (428 )                         | —       | (499 )                       | —       |
| Net change in cash, cash equivalents and restricted cash    |                                |         |                              |         |
| from discontinued operations                                | 87                             | 64      | 140                          | 133     |
| Net change in cash, cash equivalents and restricted cash    | \$55                           | \$250   | \$(1,159)                    | \$410   |
| Cash, cash equivalents and restricted cash at end of period | \$1,525                        | \$2,369 | \$1,525                      | \$2,369 |

## Operating Cash Flow

Net cash provided by operating activities decreased 24% as compared to the first six months of 2017.

The three months and six months ended June 30, 2018 operating cash flows included a realized foreign exchange loss of \$244 million relating to foreign currency denominated intercompany loan activity as described in Note 7 in “Part I. Financial Information – Item 1. Financial Statements” in this report. There was an offset due to the effect of exchange rate and other line in the above table, resulting in no impact to the net change in cash, cash equivalents and restricted cash.

## Divestitures of Property and Equipment

During the first six months of 2018, we sold non-core U.S. assets, including certain Barnett Shale assets, for \$607 million. For additional information, please see Note 3 in “Part I. Financial Information – Item 1. Financial Statements” in this report. During the first six months of 2017, we sold non-core U.S. assets for \$107 million.

#### Capital Expenditures and Acquisitions of Property and Equipment

The amounts in the table below reflect cash payments for capital expenditures, including cash paid for capital expenditures incurred in prior periods.

|                            | Three months ended June 30, |       | Six months ended June 30, |       |
|----------------------------|-----------------------------|-------|---------------------------|-------|
|                            | 2018                        | 2017  | 2018                      | 2017  |
| Oil and gas                | \$599                       | \$414 | \$1,225                   | \$797 |
| Corporate and other        | 3                           | 20    | 28                        | 34    |
| Total capital expenditures | \$602                       | \$434 | \$1,253                   | \$831 |
| Acquisitions               | \$10                        | \$13  | \$16                      | \$33  |

Capital expenditures consist of amounts related to our oil and gas exploration and development operations and other corporate activities. Devon’s 2018 objectives are to concentrate capital spend in the STACK and Delaware Basin, while investing within cash flow and maintaining significant flexibility. Our capital investment program is driven by a disciplined allocation process focused on returns. Our capital expenditures are higher in 2018 due to our continued development in the STACK and Delaware Basin.



Table of Contents

## Debt Activity

During the first six months of 2018, our debt decreased approximately \$800 million due to completed tender offers of certain long-term debt. In conjunction with the tender offers, we recognized a \$312 million loss on the early retirement of debt, including \$304 million of cash retirement costs and fees. For additional information, see Note 15 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

## Shareholder Distributions and Stock Activity

The following table summarizes our common stock dividends during the first six months of 2018 and 2017. In the second quarter of 2018, we increased the quarterly dividend to \$0.08 per share.

|                         | Amounts | Rate<br>Per<br>Share |
|-------------------------|---------|----------------------|
| Quarter Ended 2018:     |         |                      |
| First quarter 2018      | \$ 32   | \$0.06               |
| Second quarter 2018     | 42      | \$0.08               |
| Total year-to-date 2018 | \$ 74   |                      |
| Quarter Ended 2017:     |         |                      |
| First quarter 2017      | \$ 32   | \$0.06               |
| Second quarter 2017     | 33      | \$0.06               |
| Total year-to-date 2017 | \$ 65   |                      |

In March 2018, we announced a share repurchase program to buy up to \$1.0 billion of shares of common stock. In June 2018, in conjunction with the announcement of the divestiture of our investment in EnLink and the General Partner, we announced the expansion of the authorized share repurchase by an additional \$3.0 billion, bringing the total to \$4.0 billion. The share repurchase program expires December 31, 2019. Including unsettled shares, we repurchased 13.7 million shares of common stock for \$521 million, or \$38.01 per share, under this program through June 30, 2018.

## Cash Flows from Discontinued Operations

|                                             | Three months<br>ended June<br>30,<br>2018 |       | Six months<br>ended June<br>30,<br>2017 |       |
|---------------------------------------------|-------------------------------------------|-------|-----------------------------------------|-------|
| Cash flows from discontinued operations:    |                                           |       |                                         |       |
| Operating activities                        | \$236                                     | \$151 | \$430                                   | \$328 |
| Investing activities                        | (222)                                     | (215) | (402)                                   | (284) |
| Financing activities                        | 73                                        | 128   | 112                                     | 89    |
| Net change in cash, cash equivalents and    |                                           |       |                                         |       |
| restricted cash of discontinued operations: | \$87                                      | \$64  | \$140                                   | \$133 |

Cash flows from discontinued operations relate to operating activities of EnLink and the General Partner. EnLink's operating cash flow from the first six months of 2018 has increased \$102 million from the first six months of 2017 as a result of its continued development activities.

Capital expenditures for EnLink's midstream operations are primarily for the construction and expansion of oil and gas gathering facilities and pipelines. During the first six months of 2017, EnLink divested its ownership interest in Howard Energy Partners for approximately \$190 million, resulting in lower net investing cash outflows as compared to the first six months of 2018.

Devon received \$134 million and \$133 million in distributions from EnLink and the General Partner during the first six months of 2018 and 2017, respectively. During the first six months of 2017, EnLink issued and sold 4 million common units and generated \$72 million in net proceeds, through its "at the market" programs.

### Liquidity

Our primary sources of capital and liquidity are our operating cash flow, asset divestiture proceeds and cash on hand. Additionally, we maintain a commercial paper program, supported by our revolving line of credit, which can be accessed as needed to

## Table of Contents

supplement operating cash flow and cash balances. Available sources of capital and liquidity also include, among other things, debt and equity securities that can be issued pursuant to our shelf registration statement filed with the SEC. Additionally, the sale of our aggregate ownership interest in EnLink and the General Partner significantly increased our liquidity in the third quarter and will fund our remaining share repurchase program. We estimate the combination of these sources of capital will continue to be adequate to fund our planned capital expenditures, future debt repayments, share repurchases and other contractual commitments as discussed in this section.

### Operating Cash Flow

Our operating cash flow is sensitive to many variables, the most volatile of which are the prices of the oil, bitumen, gas and NGLs we produce and sell. We expect operating cash flow to continue to be a key source of liquidity as we adjust our capital program to invest within our operating cash flow. Furthermore, proceeds from non-core asset divestitures will provide additional liquidity as needed.

To mitigate some of the risk inherent in prices, we utilize various derivative financial instruments to protect a portion of our production against downside price risk. We target hedging approximately 50% of our production in a manner that systematically places hedges for several quarters in advance, allowing us to maintain a disciplined risk management program as it relates to commodity price volatility. We supplement the systematic hedging program with discretionary hedges that take advantage of favorable market conditions. For additional information on our derivative positions in place at June 30, 2018, see Note 4 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

### Divestitures of Property and Equipment

To further focus our resource-rich portfolio, we are targeting \$5 billion of asset divestiture proceeds. As noted below, we made significant progress to achieving this goal during the first six months of 2018.

In May 2018, we completed the sale of our Johnson County asset in the southern part of the Barnett Shale position for \$553 million (\$481 million after customary purchase price adjustments).

In a separate transaction within the Barnett, we formed a partnership in April 2018 under which we will monetize half our working interest across 116 gross undrilled locations for an approximate \$75 million payment spread over the next five years. With this agreement, we will also drill and operate up to 24 wells per year, with volumes dedicated to the EnLink gathering and processing infrastructure.

In June 2018, we entered into an agreement to sell our aggregate ownership interests in EnLink and the General Partner for approximately \$3.1 billion. This transaction closed on July 18, 2018.

Overall, the transactions noted above, combined with other previously disclosed asset sales, generated approximately \$4.2 billion of total divestiture proceeds. We are also marketing approximately \$1 billion of additional non-core assets across our U.S. portfolio as we progress toward the \$5 billion target.

### Capital Expenditures

The following table below presents our expected 2018 capital expenditures.

|                            | Q3 2018 -<br>Q4 2018<br>(Billions) |        | Full Year<br>2018 |        |
|----------------------------|------------------------------------|--------|-------------------|--------|
| Exploration and production | \$0.9                              | —\$1.1 | \$2.2             | —\$2.4 |
| Total                      | \$1.0                              | —\$1.3 | \$2.3             | —\$2.6 |

#### Credit Availability

We have a \$3.0 billion Senior Credit Facility. As of June 30, 2018, we had approximately \$2.9 billion available under this facility, net of \$51 million in outstanding letters of credit, and were in compliance with the facility's financial covenant. This credit facility supports our \$3.0 billion of short-term credit under our commercial paper program. At June 30, 2018, there were no borrowings under our commercial paper program.

## Table of Contents

### Debt Ratings

We receive debt ratings from the major ratings agencies in the U.S. In determining our debt ratings, the agencies consider a number of qualitative and quantitative items, including, but not limited to, commodity pricing levels, our liquidity, asset quality, reserve mix, debt levels, cost structure, planned asset sales and near-term and long-term production growth opportunities. Our credit rating from Standard and Poor's Financial Services is BBB with a stable outlook. Our credit rating from Fitch is BBB+ with a stable outlook. Our credit rating from Moody's Investor Service is Ba1 with a stable outlook. Any rating downgrades may result in additional letters of credit or cash collateral being posted under certain contractual arrangements.

### Share Repurchase Program

During March 2018, our Board of Directors authorized a \$1.0 billion share repurchase program of our common stock. In June 2018, in conjunction with the announcement of the divestiture of our investment in EnLink and the General Partner, we announced the expansion of the authorized share repurchase by an additional \$3.0 billion, bringing the total to \$4.0 billion. The share repurchase program expires December 31, 2019. Through July 27, 2018, we had repurchased 23.2 million common shares for \$942 million, or \$40.65 per share. We expect to complete the \$4 billion share repurchase program by the first half of 2019.

### Critical Accounting Estimates

#### Income Taxes

As discussed in our 2017 Annual Report on Form 10-K, in December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allows us to record provisional amounts during a measurement period not to extend beyond one year after the enactment date. As the Tax Reform Legislation was passed late in the fourth quarter of 2017 and ongoing guidance and accounting interpretation are expected over the next 12 months, we consider the accounting of the transition tax, deferred tax remeasurements, and other items to be incomplete due to the forthcoming guidance and our ongoing analysis of final year-end data and tax positions. We expect to complete our analysis within the measurement period in accordance with SAB 118.

Absent unexpected events and unexpected effects of the Tax Reform Legislation, Devon expects a positive impact on its future after-tax earnings, primarily due to the lower federal statutory tax rate.

#### Non-GAAP Measures

We make reference to "core earnings (loss) attributable to Devon" and "core earnings (loss) per share attributable to Devon" in "Overview of 2018 Results" in this Item 2 that are not required by or presented in accordance with GAAP. These non-GAAP measures are not alternatives to GAAP measures and should not be considered in isolation or as a substitute for analysis of our results reported under GAAP. Core earnings (loss) attributable to Devon, as well as the per share amount, represent net earnings excluding certain noncash and other items that are typically excluded by securities analysts in their published estimates of our financial results. Additionally, we've presented our discontinued operations associated with the sale of our aggregate interests in EnLink and the General Partner, separately, to show our results on a go-forward basis. For more information on the results of operations for EnLink and the General

Partner, see Note 19 in “Part I. Financial Information – Item 1. Financial Statements”. Our non-GAAP measures are typically used as a quarterly performance measure. Amounts excluded relate to asset dispositions, noncash asset impairments (including noncash unproved asset impairments), deferred tax asset valuation allowance, costs associated with early retirement of debt, fair value changes in derivative financial instruments and foreign currency, restructuring and transaction costs associated with the 2018 workforce reduction and settlements relating to minimum volume contract commitments.

We believe these non-GAAP measures facilitate comparisons of our performance to earnings estimates published by securities analysts. We also believe these non-GAAP measures can facilitate comparisons of our performance between periods and to the performance of our peers.

Table of Contents

Below are reconciliations of our core earnings and core earnings per share attributable to Devon to their comparable GAAP measures.

|                                                | Three Months Ended June 30, |              |                                      |                         | Six Months Ended June 30, |              |                                      |                         |
|------------------------------------------------|-----------------------------|--------------|--------------------------------------|-------------------------|---------------------------|--------------|--------------------------------------|-------------------------|
|                                                | Before<br>tax               | After<br>tax | After<br>Noncontrolling<br>Interests | Per<br>Diluted<br>Share | Before<br>tax             | After<br>tax | After<br>Noncontrolling<br>Interests | Per<br>Diluted<br>Share |
| <b>2018</b>                                    |                             |              |                                      |                         |                           |              |                                      |                         |
| Continuing Operations                          |                             |              |                                      |                         |                           |              |                                      |                         |
| Loss attributable to Devon (GAAP)              | \$(481)                     | \$(474)      | \$ (474 )                            | \$ (0.92 )              | \$(726 )                  | \$(685)      | \$ (685 )                            | \$ (1.33 )              |
| Adjustments:                                   |                             |              |                                      |                         |                           |              |                                      |                         |
| Asset dispositions                             | 23                          | 18           | 18                                   | 0.03                    | 11                        | 9            | 9                                    | 0.02                    |
| Asset and exploration impairments              | 207                         | 159          | 159                                  | 0.31                    | 217                       | 166          | 166                                  | 0.32                    |
| Deferred tax asset valuation allowance         | —                           | 73           | 73                                   | 0.14                    | —                         | 79           | 79                                   | 0.15                    |
| Early retirement of debt                       | —                           | —            | —                                    | —                       | 312                       | 240          | 240                                  | 0.46                    |
| Fair value changes in financial                |                             |              |                                      |                         |                           |              |                                      |                         |
| instruments and foreign currency               | 376                         | 291          | 291                                  | 0.56                    | 437                       | 351          | 351                                  | 0.68                    |
| Restructuring and transaction costs            | 94                          | 72           | 72                                   | 0.14                    | 94                        | 72           | 72                                   | 0.14                    |
| Core earnings attributable to                  |                             |              |                                      |                         |                           |              |                                      |                         |
| Devon (Non-GAAP)                               | \$219                       | \$139        | \$ 139                               | \$ 0.26                 | \$345                     | \$232        | \$ 232                               | \$ 0.44                 |
| Discontinued Operations                        |                             |              |                                      |                         |                           |              |                                      |                         |
| Earnings attributable to Devon (GAAP)          | \$149                       | \$139        | \$ 49                                | \$ 0.09                 | \$213                     | \$197        | \$ 63                                | \$ 0.13                 |
| Adjustments:                                   |                             |              |                                      |                         |                           |              |                                      |                         |
| Fair value changes and minimum                 |                             |              |                                      |                         |                           |              |                                      |                         |
| volume commitment settlement                   | (36 )                       | (30 )        | (11 )                                | (0.01 )                 | (34 )                     | (28 )        | (10 )                                | (0.03 )                 |
| Core earnings attributable to                  |                             |              |                                      |                         |                           |              |                                      |                         |
| Devon (Non-GAAP)                               | \$113                       | \$109        | \$ 38                                | \$ 0.08                 | \$179                     | \$169        | \$ 53                                | \$ 0.10                 |
| <b>Total</b>                                   |                             |              |                                      |                         |                           |              |                                      |                         |
| Loss attributable to Devon (GAAP)              | \$(332)                     | \$(335)      | \$ (425 )                            | \$ (0.83 )              | \$(513 )                  | \$(488)      | \$ (622 )                            | \$ (1.20 )              |
| Adjustments:                                   |                             |              |                                      |                         |                           |              |                                      |                         |
| Continuing Operations                          | 700                         | 613          | 613                                  | 1.18                    | 1,071                     | 917          | 917                                  | 1.77                    |
| Discontinued Operations                        | (36 )                       | (30 )        | (11 )                                | (0.01 )                 | (34 )                     | (28 )        | (10 )                                | (0.03 )                 |
| Core earnings attributable to Devon (Non-GAAP) |                             |              |                                      |                         |                           |              |                                      |                         |
|                                                | \$332                       | \$248        | \$ 177                               | \$ 0.34                 | \$524                     | \$401        | \$ 285                               | \$ 0.54                 |
| <b>2017</b>                                    |                             |              |                                      |                         |                           |              |                                      |                         |
| Continuing Operations                          |                             |              |                                      |                         |                           |              |                                      |                         |
| Earnings attributable to Devon (GAAP)          | \$207                       | \$212        | \$ 212                               | \$ 0.40                 | \$520                     | \$520        | \$ 520                               | \$ 0.99                 |
| Adjustments:                                   |                             |              |                                      |                         |                           |              |                                      |                         |
| Asset dispositions                             | (22 )                       | (13 )        | (13 )                                | (0.03 )                 | (30 )                     | (19 )        | (19 )                                | (0.04 )                 |
| Asset and exploration impairments              | 21                          | 13           | 13                                   | 0.02                    | 62                        | 39           | 39                                   | 0.08                    |
|                                                | —                           | (54 )        | (54 )                                | (0.10 )                 | —                         | (155)        | (155 )                               | (0.30 )                 |

Deferred tax asset valuation  
allowance

Fair value changes in financial

|                                  |       |       |       |   |        |       |       |       |   |        |
|----------------------------------|-------|-------|-------|---|--------|-------|-------|-------|---|--------|
| instruments and foreign currency | (144) | (109) | (109) | ) | (0.20) | (389) | (266) | (266) | ) | (0.51) |
|----------------------------------|-------|-------|-------|---|--------|-------|-------|-------|---|--------|

Core earnings attributable to

|                  |      |      |       |  |         |       |       |        |  |        |
|------------------|------|------|-------|--|---------|-------|-------|--------|--|--------|
| Devon (Non-GAAP) | \$62 | \$49 | \$ 49 |  | \$ 0.09 | \$163 | \$119 | \$ 119 |  | \$0.22 |
|------------------|------|------|-------|--|---------|-------|-------|--------|--|--------|

Discontinued Operations

Earnings attributable to Devon

|        |      |      |      |  |         |      |      |      |  |        |
|--------|------|------|------|--|---------|------|------|------|--|--------|
| (GAAP) | \$37 | \$33 | \$ 7 |  | \$ 0.01 | \$49 | \$42 | \$ 2 |  | \$0.00 |
|--------|------|------|------|--|---------|------|------|------|--|--------|

Adjustments:

Asset dispositions, impairments, fair  
value

|                                         |      |      |     |   |           |      |     |     |   |        |
|-----------------------------------------|------|------|-----|---|-----------|------|-----|-----|---|--------|
| changes and early retirement of<br>debt | (17) | (13) | (8) | ) | \$ (0.01) | (11) | (8) | (5) | ) | \$0.00 |
|-----------------------------------------|------|------|-----|---|-----------|------|-----|-----|---|--------|

Core earnings (loss) attributable to

|                  |      |      |        |   |         |      |      |        |   |        |
|------------------|------|------|--------|---|---------|------|------|--------|---|--------|
| Devon (Non-GAAP) | \$20 | \$20 | \$ (1) | ) | \$ 0.00 | \$38 | \$34 | \$ (3) | ) | \$0.00 |
|------------------|------|------|--------|---|---------|------|------|--------|---|--------|

Total

Earnings attributable to Devon

|        |       |       |        |  |         |       |       |        |  |        |
|--------|-------|-------|--------|--|---------|-------|-------|--------|--|--------|
| (GAAP) | \$244 | \$245 | \$ 219 |  | \$ 0.41 | \$569 | \$562 | \$ 522 |  | \$0.99 |
|--------|-------|-------|--------|--|---------|-------|-------|--------|--|--------|

Adjustments:

|                       |       |       |       |   |        |       |       |       |   |        |
|-----------------------|-------|-------|-------|---|--------|-------|-------|-------|---|--------|
| Continuing Operations | (145) | (163) | (163) | ) | (0.31) | (357) | (401) | (401) | ) | (0.77) |
|-----------------------|-------|-------|-------|---|--------|-------|-------|-------|---|--------|

|                         |      |      |     |   |        |      |     |     |   |      |
|-------------------------|------|------|-----|---|--------|------|-----|-----|---|------|
| Discontinued Operations | (17) | (13) | (8) | ) | (0.01) | (11) | (8) | (5) | ) | 0.00 |
|-------------------------|------|------|-----|---|--------|------|-----|-----|---|------|

Core earnings attributable to

|                  |      |      |       |  |         |       |       |        |  |        |
|------------------|------|------|-------|--|---------|-------|-------|--------|--|--------|
| Devon (Non-GAAP) | \$82 | \$69 | \$ 48 |  | \$ 0.09 | \$201 | \$153 | \$ 116 |  | \$0.22 |
|------------------|------|------|-------|--|---------|-------|-------|--------|--|--------|



## Table of Contents

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Commodity Price Risk

As of June 30, 2018, we have commodity derivatives that pertain to a portion of our production for the last six months of 2018, as well as 2019 and 2020. The key terms to our open oil, gas and NGL derivative financial instruments are presented in Note 4 in “Part I. Financial Information – Item 1. Financial Statements” in this report.

The fair values of our commodity derivatives are largely determined by the forward curves of the relevant price indices. At June 30, 2018, a 10% change in the forward curves associated with our commodity derivative instruments would have changed our net positions by approximately \$522 million.

#### Interest Rate Risk

As of June 30, 2018, we had total debt of \$6.1 billion. All of our debt is based on fixed interest rates averaging 5.4%.

As of June 30, 2018, we had an open interest rate swap position that is presented in Note 4 in “Part I. Financial Information – Item 1. Financial Statements” in this report. The fair value of our interest rate swap is largely determined by estimates of the forward curves of the 3-month LIBOR rate. A 10% change in these forward curves would not have materially impacted our balance sheet at June 30, 2018.

#### Foreign Currency Risk

Our net assets, net earnings and cash flows from our Canadian subsidiaries are based on the U.S. dollar equivalent of such amounts measured in the Canadian dollar functional currency. Assets and liabilities of the Canadian subsidiaries are translated to U.S. dollars using the applicable exchange rate as of the end of a reporting period. Revenues, expenses and cash flow are translated using an average exchange rate during the reporting period. A 10% unfavorable change in the Canadian-to-U.S. dollar exchange rate would not have materially impacted our June 30, 2018 balance sheet.

Devon engages in intercompany loan activity between subsidiaries with different functional currencies. The value of these foreign currency denominated intercompany loans increases or decreases from the remeasurement into the subsidiaries’ functional currency. Based on the amount of the intercompany loans as of June 30, 2018, a 10% change in the foreign currency exchange rates would not have materially impacted our balance sheet.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to Devon, including its consolidated subsidiaries, is made known to the officers who certify Devon’s financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective as of June 30, 2018 to ensure that the information required to be disclosed by Devon in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II. Other Information

## Item 1. Legal Proceedings

We are involved in various legal proceedings incidental to our business. However, to our knowledge as of the date of this report, there were no material pending legal proceedings to which we are a party or to which any of our property is subject.

Please see our 2017 Annual Report on Form 10-K for additional information.

## Item 1A. Risk Factors

There have been no material changes to the information included in Item 1A. “Risk Factors” in our 2017 Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding purchases of our common stock that were made by us during the second quarter of 2018 (shares in thousands).

| Period             | Total Number of<br>Shares Purchased <sup>(1)</sup> | Average Price Paid<br>per Share | Total<br>Number of<br>Shares<br>Purchased<br>As Part of<br>Publicly<br>Announced<br>Plans or<br>Programs <sup>(2)</sup> | Maximum<br>Dollar Value<br>of Shares<br>that May Yet<br>Be<br>Purchased<br>Under the<br>Plans or<br>Programs <sup>(2)</sup> |
|--------------------|----------------------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| April 1 - April 30 | 3,641                                              | \$ 33.59                        | 3,626                                                                                                                   | \$ 796                                                                                                                      |
| May 1 - May 31     | 490                                                | \$ 38.22                        | 396                                                                                                                     | \$ 781                                                                                                                      |
| June 1 - June 30   | 7,172                                              | \$ 42.39                        | 7,132                                                                                                                   | \$ 3,479                                                                                                                    |
| Total              | 11,303                                             | \$ 39.37                        | 11,154                                                                                                                  |                                                                                                                             |

(1) In addition to shares purchased under the share repurchases program described above, these amounts also included 149,000 shares received by us from employees for the payment of personal income tax withholding on vesting transactions.

(2) On March 7, 2018, we announced a \$1.0 billion share repurchase program. On June 6, 2018, we announced the expansion of this program to \$4 billion with a December 31, 2019 expiration date. The expansion and extension were contingent upon the closing of the sale of our interests in EnLink and the General Partner, which occurred in July 2018. As of June 30, 2018, we had repurchased 13.7 million common shares for \$521 million, or \$38.01 per share, under this program. Future purchases under the program will be made in open market or private transactions, or through the use of accelerated share repurchase programs.

Under the Devon Plan, eligible employees may purchase shares of our common stock through an investment in the Devon Stock Fund, which is administered by an independent trustee. Eligible employees purchased approximately

9,800 shares of our common stock in the second quarter of 2018, at then-prevailing stock prices, that they held through their ownership in the Stock Fund. We acquired the shares of our common stock sold under the Devon Plan through open-market purchases.

Similarly, eligible Canadian employees may purchase shares of our common stock through an investment in the Canadian Plan, which is administered by an independent trustee, Sun Life Assurance Company of Canada. Shares sold under the Canadian Plan were acquired through open-market purchases. These shares and any interest in the Canadian Plan were offered and sold in reliance on the exemptions for offers and sales of securities made outside of the U.S., including under Regulation S for offers and sales of securities to employees pursuant to an employee benefit plan established and administered in accordance with the law of a country other than the U.S. In the second quarter of 2018, there were no shares purchased by Canadian employees.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Table of Contents

Item 6. Exhibits

Exhibit

Number Description

- 2.1 Purchase Agreement, dated June 5, 2018, by and among Devon Gas Services, L.P., Southwestern Gas Pipeline, L.L.C., EnLink Midstream Manager, LLC, GIP III Stetson I, L.P., GIP III Stetson II, L.P. and, solely for certain purposes described therein, Devon Energy Corporation (incorporated by reference to Exhibit 2.1 to Devon Energy Corporation's Current Report on Form 8-K filed on June 7, 2018).
- 31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DEVON ENERGY CORPORATION

|                      |                                                    |
|----------------------|----------------------------------------------------|
| Date: August 1, 2018 | /s/ Jeremy D. Humphers                             |
|                      | Jeremy D. Humphers                                 |
|                      | Senior Vice President and Chief Accounting Officer |